# Fras-le S.A.

# Financial statements
# December 31, 2015 and 2014

(A free translation of the original report in Portuguese as published
in Brazil containing financial statements prepared in accordance
with accounting practices adopted in Brazil)

# Contents

# Independent auditors' report on the financial statements

To the Board Members and Directors of
Fras-le S.A.
Caxias do Sul - RS

We have audited individual and consolidated financial statements of Fras-le S.A. (“Company”), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2015 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as the summary of the significant accounting practices and other explanatory notes.

**Management’s responsibility for the financial statements**

Management is responsible for the preparation and adequate presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with international financial reporting standards (IFRS) issued by International Accounting Standards Board - IASB for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 our 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, we consider internal control relevant to the entity’s preparation and adequate presentation of the financial statements of the Company, 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 on the financial statements**

In our opinion, the individual and consolidated aforementioned financial statements present adequately, in all material respects, the financial position individual and consolidated of Fras-le S.A. as of December 31, 2015, the performance of its operations and its cash flows, individual and consolidated for the year then ended, in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board (IASB).

***Statements of added value***

We have also examined the individual and consolidated statements of value added (DVA) for the year ended December 31, 2015, prepared under responsibility of Company's management, whose presentation is required by Brazilian Corporate Law for publicly-held companies and as supplementary information under IFRS that do not require the presentation of a statement of value added. These statements were submitted to the same audit procedures previously described and, in our opinion, these supplementary statements are adequately presented, in all material respects, in relation to the basic financial statements taken as a whole.

Porto Alegre, March 15, 2016

KPMG Auditores Independentes
CRC SP-014428/F-7
*(Original report in Portuguese signed by)*
Wladimir Omiechuk
Accountant CRC RS-041241/O-2

# Fras-le S.A.

## Balance sheets
## December 31, 2015 and 2014
### (In thousands of Reais)

| | Note | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 5 | **119,656** | 155,219 | **161,895** | 176,237 |
| Marketable securities | 6 | **55,008** | 77,817 | **55,008** | 77,817 |
| Trade accounts receivable | 7 | **173,686** | 99,718 | **75,507** | 76,543 |
| Inventories | 8 | **94,929** | 73,040 | **187,280** | 156,917 |
| Recoverable taxes and contributions | 9 | **10,666** | 14,103 | **16,732** | 17,896 |
| Other current assets | | **5,676** | 3,851 | **16,090** | 9,567 |
| | | **459,620** | 423,748 | **512,512** | 514,977 |
| Non-current assets | | | | | |
| Long-term assets | | | | | |
| Recoverable taxes and contributions | 9 | **5,839** | 7,799 | **7,242** | 12,752 |
| Judicial deposits | 15 | **6,458** | 6,707 | **6,835** | 6,978 |
| Pension plans and post-employment benefits for employees | 11 | **-** | 29 | **-** | 29 |
| Taxes on deferred income | 20 | **-** | - | **30,613** | 13,428 |
| Dividends receivable | 10 | **840** | 947 | **-** | - |
| Other non-current assets | | **-** | 1,002 | **56** | 53 |
| | | **13,137** | 16,484 | **44,746** | 33,240 |
| Investments | 12 | **104,253** | 102,541 | **761** | 796 |
| Property, plant and equipment | 13 | **283,045** | 287,193 | **398,914** | 376,939 |
| Intangible assets | 14 | **12,747** | 15,429 | **14,026** | 16,457 |
| | | **413,182** | 421,647 | **458,447** | 427,432 |
| Total assets | | **872,802** | 845,395 | **458,447** | 942,409 |

See the accompanying notes to the financial statements.

# Fras-le S.A.

## Balance sheets
## December 31, 2015 and 2014
**(In thousands of Reais)**

| | Note | Parent company 2015 | Parent company 2014 | Consolidated 2015 | Consolidated 2014 |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Loans and financing | 16 | **124,154** | 73,968 | **150,882** | 109,409 |
| Suppliers | | **28,133** | 25,147 | **42,960** | 40,481 |
| Derivative financial instruments | 26 | **429** | 144 | **429** | 144 |
| Taxes and contributions | | **17,019** | 15,637 | **21,599** | 18,385 |
| Salaries and payroll charges | | **11,948** | 11,209 | **14,595** | 13,622 |
| Advances from clients | | **3,197** | 3,145 | **3,658** | 2,815 |
| Dividends payable | 18 | **1,434** | 253 | **1,434** | 253 |
| Interest on own capital | 18 | **5,339** | 4,179 | **5,339** | 4,179 |
| Profit sharing and Management | | **6,042** | 5,441 | **6,042** | 5,441 |
| Commissions | | **3,374** | 3,172 | **1,331** | 1,090 |
| Other current liabilities | | **5,454** | 8,736 | **18,531** | 10,737 |
| | | **206,523** | 151,031 | **266,800** | 206,556 |
| Non-current liabilities | | | | | |
| Loans and financing | 16 | **200,741** | 253,732 | **231,276** | 292,741 |
| Taxes on deferred income | 20 | **11,368** | 21,801 | **23,949** | 21,944 |
| Provision for litigation | 15 | **4,578** | 3,141 | **6,401** | 3,748 |
| Provision for investments losses | 13 | **8,220** | - | **-** | - |
| Other non-current liabilities | | **9,230** | 7,630 | **9,280** | 8,453 |
| | | **234,137** | 286,304 | **270,906** | 326,886 |
| Total liabilities | | **440,660** | 437,335 | **537,706** | 533,442 |
| Shareholders' equity | | | | | |
| Capital | 17 | **300,000** | 300,000 | **300,000** | 300,000 |
| Treasury stocks | | **(13,352)** | (13,352) | **(13,352)** | (13,352) |
| Profit reserves | 17 | **117,457** | 66,594 | **117,457** | 66,594 |
| Other comprehensive income | 17 | **28,037** | 41,466 | **28,037** | 41,466 |
| Total interest of controlling shareholders | | **432,142** | 408,060 | **432,142** | 408,060 |
| Interest of non-controlling shareholders | | **-** | - | 1,111 | 907 |
| Total shareholders' equity | | **432,142** | 408,060 | **433,253** | 408,967 |
| Total liabilities and shareholders' equity | | **872,802** | 845,395 | **970,959** | 942,409 |

See the accompanying notes to the financial statements.

# Fras-le S.A.

## Statements of income
## Years ended December 31, 2015 and 2014
### (In thousands of Reais, except earnings per share)

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2015 | 2014 | 2015 | 2014 |
| Revenue | 21 | **541,725** | 545,483 | **875,026** | 764,677 |
| Cost of goods sold and services provided | 22 | **(361,191)** | (390,667) | **(619,441)** | (560,041) |
| Gross income | | **180,534** | 154,816 | **255,585** | 204,636 |
| Operating income (expenses) | 22 | | | | |
| Sales | | **(55,530)** | (55,192) | **(88.188)** | (69,878) |
| Administrative and general | | **(39,442)** | (35,170) | **(65.426)** | (52,387) |
| Management remuneration | | **(3,702)** | (3,428) | **(3.702)** | (3,428) |
| Equity in income of subsidiaries and associated companies | 12 | **(3,575)** | 1,572 | **-** | - |
| Other operating income and expenses | | **(11,823)** | (10,318) | **(17.401)** | (12,316) |
| Income before financial income and expenses | | **66,462** | 52,280 | **80,868** | 66,627 |
| Financial expenses | 25 | **(134,897)** | (64,506) | **(151,551)** | (78,309) |
| Financial income (loss) | 25 | **135,673** | 67,933 | **138,019** | 69,399 |
| Income before income taxes | | **67,238** | 55,707 | **67,336** | 57,717 |
| Income and social contribution taxes | 20 | **(15,085)** | (10,705) | **(14,874)** | (12,606) |
| Net income for the year | | **52,153** | 45,002 | **52,462** | 45,111 |
| Attributable to non-controlling shareholders | | **-** | - | **309** | 109 |
| Attributable to controlling shareholders | | **52,153** | 45,002 | **52,153** | 45,002 |
| Basic and diluted earnings per share attributable to controlling shareholders holding common shares | 19 | **0.43** | 0.36 | **0.43** | 0.36 |

See the accompanying notes to the financial statements.

# Fras-le S.A.

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

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2015 | 2014 | 2015 | 2014 |
| Net income for the year | | **52,153** | 45,002 | **52,462** | 45,111 |
| Other comprehensive income: | | | | | |
| Accumulated translation adjustments | 12 | **15,091** | 2,788 | **15,091** | 2,681 |
| Actuarial loss - Randonprev | 11 | **(871)** | (229) | **(871)** | (229) |
| Income and social contribution taxes - Randoprev | 20 | **296** | 78 | **296** | 78 |
| Actuarial loss, net | | **(575)** | (151) | **(575)** | (151) |
| Derivatives - Cash flow hedge | 26 | **(26,834)** | (7,697) | **(26,834)** | (7,697) |
| Income and social contribution taxes - hedge | 20 | **1,601** | 264 | **1,601** | 264 |
| Derivatives - Cash flow hedge, net | | **(25,233)** | (7,433) | **(25,233)** | (7,433) |
| Comprehensive income for the year, net of taxes | | **41,436** | 40,206 | **41,745** | 40,208 |
| Attributable to: | | | | | |
| Controlling shareholders | | | | **41,436** | 40,206 |
| Non-controlling shareholders | | | | **309** | 2 |
| | | | | **41,745** | 40,208 |

See the accompanying notes to the financial statements.

# Fras-le S.A.
## Statements of changes in shareholders' equity
## Years ended December 31, 2015 and 2014
### (In thousands of Reais)

| | Allocated to controlling shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Profit reserves | | | | | | | |
| | Capital | Treasury shares | Legal reserve | General profit reserve | Other comprehensive income and Equity evaluation adjustments | Retained earnings | Total interest of controlling shareholders | Interest of non-controlling shareholders | Total shareholders' equity |
| **Balances at December 31, 2013** | 170,000 | - | 25,102 | 150,657 | 49,184 | - | 394,943 | 905 | 395,848 |
| Net income for the year | - | | - | - | - | 45,002 | 45,002 | 109 | 45,111 |
| Effect of non-controlling shareholders on consolidated companies | - | - | - | - | - | - | - | (107) | |
| Accumulated translation adjustments | - | - | - | - | 2,788 | - | 2,788 | - | 2,681 |
| Actuarial evaluation | - | - | - | - | (151) | - | (151) | - | (151) |
| Hedge accounting | - | - | - | - | (7,433) | - | (7,433) | - | (7,433) |
| Treasury shares | - | (13,352) | - | - | - | | (13,352) | - | (13,352) |
| Realization of depreciation of the deemed cost | - | - | - | - | (2,922) | 2,922 | - | - | - |
| Payment of dividends | - | - | - | | - | - | | - | |
| Proposed allocations: | | | | | | | | | |
| Legal reserve | - | - | 2,396 | - | - | (2,396) | - | - | - |
| General profit reserve | - | - | - | 32,181 | - | (32,181) | - | - | - |
| Dividends | | | | (390) | | (247) | (637) | | (637) |
| Capital increase | 130,000 | | | (130,000) | | | | | |
| Interest on own capital — Law 9,249/95 | - | - | - | - | - | (13,100) | (13,100) | - | (13,100) |
| **Balances at December 31, 2014** | 300,000 | (13,352) | 27,498 | 52,448 | 41,466 | - | 408,060 | 907 | 408,967 |
| Net income for the year | - | - | - | - | - | 52,153 | 52,153 | 309 | 52,462 |
| Effect of non-controlling shareholders on consolidated companies | | | | | | | | (105) | (105) |
| Accumulated translation adjustments | - | - | - | - | 15,091 | - | 15,091 | | 15,091 |
| Actuarial evaluation | - | - | - | - | (575) | - | (575) | - | (575) |
| Hedge accounting | - | - | - | - | (25,233) | - | (25,233) | - | (25,233) |
| Treasury shares | - | | - | - | | - | | - | |
| Realization of depreciation of the deemed cost | - | - | - | - | (2,712) | 2,712 | - | - | - |
| Proposed allocations: | | | | | | | | | |
| Legal reserve | - | - | 2,743 | - | - | (2,743) | - | - | - |
| General profit reserve | - | - | - | 37,044 | - | (37,044) | - | - | - |
| Dividends | - | - | - | (2,276) | - | (1,429) | (3,705) | - | (3,705) |
| Interest on own capital - Law 9,249/95 | - | - | - | - | - | 13,649 | 13,649- | - | 13,649 |
| **Balances at December 31, 2015** | **300,000** | **(13,352)** | **30,241** | **87,216** | **28,037** | **-** | **432,142** | **1,111** | **433,253** |

See the accompanying notes to the financial statements.

# Fras-le S.A.

## Statements of cash flows
## Years ended December 31, 2015 and 2014
**(In thousands of Reais)**

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Cash flows from operating activities | | | | |
| Net income for the year | **52,153** | 45,002 | **52,462** | 45,002 |
| Adjustments to reconcile income to net cash generated by (used in) operational activities | | | | |
| Provision for current and deferred income tax and social contribution | **15,085** | 10,705 | **14.874** | 12,606 |
| Depreciation and amortization | **27,456** | 26,640 | **41.585** | 38,004 |
| Provision for litigation | **1,437** | 222 | **2.653** | (1,229) |
| Allowance for doubtful accounts | **5,257** | (1,723) | **9.447** | (1,699) |
| Provision for obsolete inventories | **(664)** | 896 | **1.515** | 2,360 |
| Other provisions | **803** | (776) | **842** | (790) |
| Residual cost of permanent assets written-off and sold | **6,880** | 258 | **1.758** | 572 |
| Equity in net income of subsidiaries | **3,575** | (1,572) | **-** | - |
| Non-controlling interest | **-** | - | **-** | 2 |
| Foreign exchange rate and interest on loans | **65,936** | 31,403 | **87.034** | 44,769 |
| Changes in derivatives | **285** | (803) | **285** | (803) |
| Working capital adjustment | | | | |
| Trade accounts receivable | **(79,239)** | (25,914) | **(8.425)** | 4,496 |
| Marketable securities | **22,809** | (7,519) | **22.809** | (7,519) |
| Judicial deposits | **249** | 6,805 | **143** | 6,683 |
| Other accounts receivable | **(562)** | (3,796) | **(16.959)** | (3,604) |
| Inventories | **(21,225)** | 3,129 | **(31.878)** | (17,742) |
| Vendors | **2,986** | 1,744 | **2.479** | (5,032) |
| Other accounts payable | **12,728** | (15,657) | **32.246** | (20,382) |
| Income and social contribution taxes paid | **(16,265)** | (1,163) | **(18.299)** | (1,181) |
| Net cash flow from operating activities | **99,684** | 67,881 | **194,571** | 94,513 |
| | | | | |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant and equipment and intangible assets | **(27,506)** | (28,868) | **(62,887)** | (38,520) |
| Acquisition of investment | **-** | - | **-** | - |
| Paid-up capital in subsidiary | **-** | - | **-** | - |
| Net cash flow invested in investing activities | **(27,506)** | (28,868) | **(62,887)** | (38,520) |
| | | | | |
| Cash flows from financing activities | | | | |
| Payment of interest on own capital and dividends | **(13,767)** | (13,404) | **(13,767)** | (13,404) |
| Loans | **38,454** | 21,964 | **104,130** | 72,875 |
| Payment of loans | **(112,990)** | (32,024) | **(216,416)** | (93,701) |
| Interest paid on loans | **(19,438)** | (8,367) | **(19,973)** | (11,565) |
| Net cash flow invested in financing activities | **(107,741)** | (31,831) | **(146,026)** | (45,795) |
| Increase in cash and cash equivalents | **(35.563)** | 7,182 | **(14,342)** | 10,198 |
| | | | | |
| Statement of changes in cash and cash equivalents | | | | |
| At beginning of year (note 5) | **155,219** | 148,037 | **176,237** | 166,039 |
| At end of year (note 5) | **119,656** | 155,219 | **161,895** | 176,237 |
| Increase in cash and cash equivalents | **(35.563)** | 7,182 | **(14,342)** | 10,198 |

See the accompanying notes to the financial statements.

# Fras-le S.A.
## Statements of added value
## Years ended December 31, 2015 and 2014
**(In thousands of Reais)**

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Income | | | | |
| Sales of products and services, (-) returns | **717,173** | 728,414 | **1,087,791** | 982,882 |
| Other income | **2,105** | 367 | **2,135** | 2,467 |
| Revenue from the construction of assets | **22,546** | - | **22,546** | - |
| Provision for bad debts | **(5,257)** | 1,723 | **(5,233)** | 1,782 |
| | **736,567** | 730,504 | **1,107,239** | 987,131 |
| Inputs acquired from third parties (includes: ICMS, IPI, PIS, and COFINS) | | | | |
| Raw materials used | **(234,816)** | (267,195) | **(272,676)** | (297,833) |
| Materials, energy, outsourced services and other operating expenses | **(130,470)** | (138,392) | **(345,017)** | (262,669) |
| | **(365,286)** | (405,587) | **(617,693)** | (560,502) |
| Retentions | | | | |
| Depreciation and amortization | **(27,456)** | (26,640) | **(41,585)** | (38,004) |
| Net added value generated by the Company | **343,825** | 298,277 | **447,961** | 388,625 |
| Added value received as transfer | | | | |
| Equity in income of subsidiaries | **(3,575)** | 1,572 | **-** | - |
| Rents and Royalties | **1,560** | 639 | **1,560** | 639 |
| Financial income (loss) | **135,673** | 67,933 | **138,019** | 69,399 |
| | **133,658** | 70,144 | **139,579** | 70,038 |
| Total added value payable | **477,483** | 368,421 | **587,540** | 458,663 |
| Distribution of added value | | | | |
| Personnel | | | | |
| Direct remuneration | **104,135** | 103,679 | **153,171** | 145,061 |
| Benefits | **17,417** | 18,761 | **30,970** | 24,202 |
| SEVERANCE PAY FUND (FGTS) | **12,221** | 11,803 | **13,937** | 13,428 |
| Management fees and profit sharing | **4,611** | 3,825 | **4,611** | 3,825 |
| Employees' profit sharing | **8,029** | 6,818 | **8,029** | 6,818 |
| Retirement plan | **979** | 938 | **983** | 1,041 |
| | **147,392** | 145,824 | **211,701** | 194,375 |
| Taxes | | | | |
| Federal | **80,108** | 61,600 | **93,165** | 77,333 |
| State | **58,110** | 47,632 | **72,142** | 59,591 |
| Municipal | **324** | 444 | **497** | 531 |
| | **138,542** | 109,676 | **165,804** | 137,455 |
| Lenders | | | | |
| Interest and financial expenses | **134,897** | 64,506 | **151,551** | 78,309 |
| Rents | **4,499** | 3,413 | **6,022** | 3,413 |
| | **139,396** | 67,919 | **157,573** | 81,722 |
| Remuneration of own capital | | | | |
| Interest on own capital | **15,077** | 13,100 | **15,077** | 13,100 |
| Interest of non-controlling shareholders in retained earnings | **-** | - | **309** | 109 |
| Retained earnings for the year | **37.076** | 31,902 | **37,076** | 31,902 |
| Total added value paid | **477.483** | 368,421 | **587,540** | 458,663 |

See the accompanying notes to the financial statements.

# Notes to the financial statements

***(In thousands of Reais, except otherwise indicated)***

## 1 Company Information

Fras-le S.A. (the “Company”), established as a publicly-held corporation domiciled in Brazil with shares traded at BM&F Bovespa (“FRAS3”), is engaged in manufacturing, trading and importing components for brake, coupling, transmission, friction materials, products made of resin, auto-parts, plastic devices and by-products, as well as providing technical assistance, and holding interest in other organizations’ capital. The Company, headquartered in Rodovia RS 122, Km 66,1, nº10.945 - Caxias do Sul, also maintains operations through subsidiaries headquartered in Brazil, Argentina, United States, Chile, Mexico, China, Germany, South Africa and United Arab Emirates.

## 2 Preparation basis

### 2.1 Statement of compliance

The consolidated and individual financial statements were prepared in accordance with the International Financial Reporting System (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil (BRGAAP).

The individual and consolidated financial statement of the Company for the year ended December 31, 2015 were authorized in a meeting of the Executive Board held on February 24, 2016.

The Company’s Management claims that all relevant information from its own financial statements, and only it, are being highlighted, and which, correspond to those used by it in its management.

### 2.2 Functional currency and presentation currency

These individual and consolidated financial statements are being presented in Reais, functional currency of the Company. All balances have been rounded to the nearest value, except otherwise indicated.

### 2.3 Basis of consolidation

The Company applied the accounting policies described below consistently to all the years presented in these individual and consolidated financial statements.

#### a. *Subsidiaries*

The Company controls an entity when it is exposed to, or has a right over the variable returns arising from its involvement with the entity and has the ability to affect those returns exerting its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements as from the date they start to be controlled by the Company until the date such control ceases.
In the parent company's individual financial statements, the financial information of subsidiaries or joint subsidiaries and affiliated companies are recorded in the equity method of accounting.

**b.** ***Transactions eliminated in the consolidation***

Intragroup balances and transactions, and any unrealized income or expenses derived from intragroup transactions, are eliminated. Unrealized gains originating from transactions with investees recorded using the equity method are eliminated against the investment in the proportion of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

The consolidated financial statements comprise the consolidated financial statements of Fras-le S.A. and its subsidiaries as of December 31, 2015, presented below:

| | Business purpose | Host country | 2015 % | 2014 % |
|---|---|---|---|---|
| Fras-le Argentina S.A. (a) | Representation and trading of auto parts. | Argentina | 94.00 | 94.00 |
| Fras-le North America, Inc. (a) | Manufacturing and trading of auto parts. | United States of America | 100.00 | 100.00 |
| Fras-le Andina Com. Y Repres. Ltda. (a) | Representation and trading of auto parts. | Chile | 99.00 | 99.00 |
| Fras-le México S de RL de CV (a) | Representation and trading of auto parts. | Mexico | 99.66 | 99.66 |
| Fras-le Friction Material Pinghu Co Ltd *(a)* | Manufacturing and trading of auto parts. | China | 100.00 | 100.00 |
| Fras-le Europe (a) | Representation and trading of auto parts. | Germany | 100.00 | 100.00 |
| Fras-le Africa Automotive (Pty) Limited *(a)* | Representation and trading of auto parts. | South Africa | 100.00 | 100.00 |
| Fras-Le Middle East *(a)* | Representation and trading of auto parts. | United Arab Emirates | 100.00 | 100.00 |
| Freios Controil Ltda. (b) | Manufacturing of parts and accessories for motor vehicles. | Brazil | 99.99 | 99.99 |

(a) Foreign subsidiaries.
(b) Subsidiary in the country.

### 2.4 Measuring basis

The individual and consolidated financial statements were prepared based on the historical cost, except for the derivative financial instruments measured at fair value.

## 3 Accounting Policies

### 3.1 Revenue recognition

Revenue is recognized to the extent it is likely that economic benefits will be generated for the Company and when it can be measured reliably. The income is measured based on the fair value of the consideration received, excluding discounts, rebates, taxes or charges over sales. Also, the following specific criteria shall be addressed before the income recognition:

#### *a. Sale of products*

Revenue due to sale of products is recognized when the most significant risks and benefits of ownership of the products are transferred to the buyer, which generally occurs upon their delivery.

#### *b. Rendering of services*

Revenue due to services of maintenance and advisory is recognized based on the service provided.

#### *c. Interest income*

For all financial instruments evaluated at amortized cost and financial assets that provide interest, financial income or expense is accounted for at the effective interest rate that discounts exactly future estimated cash payments or receipts over estimated life of the financial instrument or over a shorter period, when applicable, , recorded net of financial asset or liability.
The Interest income is included in "financial income" in the statement of income.

## 3.2 Transactions denominated in foreign currency

Each subsidiary of the Company determines its own functional currency, and those whose functional currencies are different from the Brazilian real (BRL), the financial statements are translated into BRL on the financial closing date.

Functional currencies of each entity are as follows:

| Subsidiaries | Functional currency |
|---|---|
| Fras-le Argentina S.A. | Argentine Peso |
| Fras-le North America, Inc. | US dollar |
| Fras-le Andina Com. Y Repres. Ltda. | Chilean Peso |
| Fras-le México S de RL de CV | Mexican Peso |
| Fras-le Friction Material Pinghu Co Ltd | Iuan |
| Fras-le Europe | Euro |
| Fras-le Africa Automotive (Pty) Limited | Rande |
| Fras-le Middle East | Dhiram |
| Freios Controil Ltda | Real |

### *a. Transactions and balances*

Transactions in foreign currency are initially recorded at the exchange rate of the functional currency in force on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are reconverted at the foreign exchange rate of the functional currency in force on the balance sheet date. All differences are recorded in the statement of income.

### *b. Transactions and balances with subsidiaries*

The assets and liabilities of foreign subsidiaries are translated into Reais at the exchange rate on the balance sheet date, and the corresponding statements of income are translated at the average monthly rates for the year. Exchange rate differences resulting from such translation are recognized separately in the shareholders' equity.

## 3.3 Financial instruments

*(a) Non-derivative financial assets*

The Company initially recognizes the loans, receivables on the date that they are originated. All other financial assets are initially recognized on the date of the negotiation under which the Company becomes a party to the contractual provisions of the instrument.

The Company fails recorded a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the rights to reception of the contractual cash flows on a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company records the non-derivative financial assets in the following categories: financial assets measured at fair value through profit or loss, investments held to maturity, loans and receivables and financial assets available for sale.

*(b) Financial assets measured at fair value through profit or loss*

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are stated at fair value through profit or loss if the Company manages these investments and makes decisions on investment and redemption based on fair value according to the risk management and strategy of investment documented by the Company. The transaction costs are recognized in income (loss) as incurred. Financial assets recorded at fair value through profit or loss are measured at fair value and changes in the fair value of such assets, including gains with interest and dividends, are recognized in the income for the year.

*(c) Cash and cash equivalents*

Cash and cash equivalents includes cash, bank deposits, other high-liquidity short-term investments, maturing originally after three months or less and subject to an insignificant risk of change in fair value, and used by the Company to management the short-term obligations.

*(d) Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments, but not quoted on any active market. Such assets are initially recognized at fair value plus any transaction costs assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade accounts receivable and other receivables.

*(e) Non-derivative financial liabilities*

The Company recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized on the negotiation date in which the Company and its subsidiaries become part of the contractual arrangements of the instrument. The Company does not recognize a financial liability when its contractual obligations are with drawn canceled or expired.

The Company records non-derivative financial liabilities in the category of other financial liabilities. Such financial liabilities are recognized at fair value less any transaction costs directly assignable. After their initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Non-derivative financial liabilities comprise loans and financing, debt securities issued including some preferred shares, unsecured bank balances, suppliers, and other accounts payable.

Overdraft bank balances that have to be paid when required and that are part of the Company’s cash management are included as a component of cash and cash equivalents for statement of cash flows purpose.

*(f) Derivative financial instruments, including hedge accounting*

The Company and its subsidiaries hold derivative financial instruments to hedge its exposure to foreign currency and interest rate changes. Embedded derivatives are separated from the host contracts and separately recorded when certain criteria are met.

Derivatives are initially recognized at their fair value; any attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

***Cash flow hedge***

When a derivative is designated as a hedge instrument to hedge cash flow variability, the effective portion of variation in the derivative's fair value is recognized in other comprehensive income and disclosed in “equity evaluation adjustments” caption in shareholders' equity. Any non-effective portion of the variations in the fair value of the derivative is recognized immediately in net income.

Accumulated value held under valuation adjustments to equity is reclassified to income for the same period in which hedged item affects income.

If the hedge instrument no longer satisfies the hedge accounting criteria, expires or is sold, wound up, exercised or has its designation revoked, then the hedge accounting is discontinued prospectively. If there are no more expectations regarding the occurrence of the planned transaction, then the balance in other comprehensive income is recognized to income (loss).

## 3.4 Impairment

*(a) Non-derivative financial assets*

Financial assets not classified as financial assets at fair value through income, including investments accounted for under the equity method, are evaluated at each balance sheet date to determine if there are objective impairment evidence.

Objective evidences of financial assets’ impairment include: debtor’s default or delays;

- restructuring of an amount owed to the Company on terms not considered normal conditions;
- indications that the debtor or issuer will face bankruptcy;
- negative changes in payment situation of debtors or issuers;
- the disappearance of an active market for an instrument; or
- observable data indicating that expected cash flow measurement of a group of financial assets decreased.

*(b) Financial assets measured at amortized cost*

The Company considers as evidence of impairment of assets measured by amortized cost both individually and on an aggregate basis. All individually significant receivables are assessed for impairment. Those non-impaired on an individual basis are collectively assessed for any impairment loss that may have occurred, though not yet identified. Assets that are not individually significant are assessed on an aggregate basis in relation to impairment by grouping the assets with similar risk characteristics.

When assessing impairment on an aggregate basis the Company makes use of historical trends of the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment if the current economic and credit conditions are such that the actual losses will probably be higher or lower than those suggested by historical trends.

Impairment is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in income and reflected in an account for allowance for losses. When the Company considers that it is not possible to reasonably expect recovery, amounts are written-off. When a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

*(c) Investees recorded under the equity method of accounting*

A loss by impairment referring to an investee valued under the equity method is measured by comparing the investment's recoverable value to its book value. An impairment loss is recognized in the statement of income and it is reversed when a favorable change in the estimates used to determine the recoverable value occurs.

*(d) Non-financial assets*

The carrying amounts of the non-financial assets of the Company, except for inventories and deferred income and social contribution tax assets are reviewed at each reporting date for indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

Impairment losses are recognized in profit or loss. Recognized losses referring to Cash Generating Units (CGUs) are initially allocated to reduce any goodwill allocated to that CGU (or CGU group) and then to reduce the book value of other assets of that CGU (or CGU group) on a pro rata basis.

Impairment loss related to goodwill are not reversed.  Regarding other assets, impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

### 3.5 Financial investment not immediately redeemable

The classification of investments depends on the purpose for which the investments were made and adjusted to fair value, according to the category. When applicable, costs directly attributable to a financial asset acquisition are directly added to originally recognized amount.

### 3.6 Trade accounts receivable

Trade accounts receivable correspond to the amounts receivable from clients for sales of products and for services provided in the normal course of the activities of the Company. If the payment term is equivalent to one year or less (or any other term that is in conformity with the Company's operation normal cycle), accounts receivable are recorded in current assets. Otherwise, they are presented in non-current assets.

The trade accounts receivable are initially recognized at fair value and, subsequently, measured at amortized cost using the effective interest rate method less allowance for impairment.

### 3.7 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, as well as other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

The net realizable value is the estimated price at which inventories can be realized in the normal course of business, less the estimated completion costs and selling expenses.

### 3.8 Investments

Investments in subsidiaries are determined by the equity method of accounting, according to CPC18 (R2), for the purpose of the parent company's financial statements.

Other investments that do not fit into the category above are stated at cost of acquisition, less the provision for devaluation, when applicable.

### 3.9 Property, plant and equipment

*Recognition and measurement*

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the Company itself include:

- The cost of materials and direct labor;

- Any other costs attributable to the assets to place them and conditions required for proper operation as intended by the Management;

- The costs for dismantling and restoration of the site where these assets are located; and

- Borrowing costs on qualifying assets.

When parts of a property, plant and equipment item have different useful lives, they are accounted for as separate items (major components) of PP&E.

Any gains and losses on disposal a property, plant and equipment item are recognized in income (loss).

*Reclassification for investment property*
When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain on remeasurement is recognized in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognized as other comprehensive income in shareholders' equity in equity evaluation adjustment reserve. Any loss is immediately recognized in income (loss).

*Subsequent costs*
Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be provided to the Company. Maintenance expenses and recurring repairs are recorded in the income.

*Depreciation*
Fixed assets items are depreciated using the straight-line method in the income for the year based on the estimated economic useful life of each component. Leased assets are depreciated over the shorter of the estimated useful life of the asset and the contractual term, unless it is certain that the Company will become the owner of the asset at the end of the lease term. Land is not depreciated.

Property, plant and equipment items are depreciated from the date they are installed and become available for use, and, in case of internal constructions, from the date the construction has been completed and the asset is available for use.

The useful lives estimated for the current and comparative year are as follows:

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **Average useful life** | **% year** | **Average useful** | **% year** |
| Buildings | 49 years | 2.0 | 43 years | 2.3 |
| Machinery and equipment | 15 years | 6.7 | 14 years | 7.1 |
| Molds | 8 years | 12.5 | 9 years | 11.1 |
| Vehicles | 10 years | 10.0 | 8 years | 12.5 |
| Furniture and fixtures | 13 years | 7.7 | 13 years | 7.7 |
| IT equipment | 4 years | 25.0 | 6 years | 16.7 |
| Usage right substation | - | - | 24 years | 4.2 |

Residual values and the useful lives of material assets are reviewed and adjusted, if adequate, at the end of each year.

## 3.10 Intangible assets

(a) Software

Acquired software licenses are recorded based on the costs incurred to acquire the software and prepare it for use. These costs are amortized over their useful life estimated up to 5 years.

Software maintenance costs are recognized as an expense, as incurred. Development costs that are directly attributable to software product design and testing, and are identifiable and exclusive, controlled by the Company, are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software to make it available for use;
- Management intends to complete the software and either use it or sell it;
- the software can be sold or used.
- the software will probability future benefits that can be demonstrated;
- technical, financial and other proper resources are available to conclude its development and to use the software, and
- the expenditure attributable to the software in the course of its development can be reliably measured.

The directly attributable costs, which are capitalized as part of the software product, include costs on employees allocated to the software development and an adequate portion of the direct relevant expenses. The costs also include financing costs related to software acquisition.

Other development expenditures not meeting those criteria are expensed as incurred. Development costs previously expensed are not recognized as asset in a subsequent period.

Software development costs recognized as assets are amortized through the estimated useful life of the software, not longer than 8 years.

(b) Other intangible assets

Other intangible assets acquired by the Company with finite useful lives are measured at cost, less accumulated amortization and accumulated impairment losses.

(c) Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally-generated goodwill and trademarks and patents, are recognized in profit or loss as incurred.

(d) Amortization

Amortization is calculated to amortize the cost of items of intangible assets, net of their estimated residual values, using the straight-line method based on estimated useful lives of such items. Amortization is usually recognized in income (loss).

### 3.11 Adjustment to present value of assets and liabilities

Monetary assets and liabilities are adjusted by their present value when the effect is considered material in relation to the financial statements taken as a whole. The calculation of the adjustment to present value is carried out based on interest rate that reflects the term and risk of each transaction. For forward transactions, the Company and its subsidiaries use the variation of the Interbank Certificate of Deposit (CDI) rate, as this is the reference rate used in forward transactions.

The adjustment to present value of accounts receivable is done in counterpart to gross income in profit or loss, and the difference between the present value of a transaction and the face value of the billing is considered financial income and will be appropriated based on the measurement of amortized cost and the effective rate over the transaction maturity period.

The adjustment to present value of purchases is recorded in accounts of vendors and costs, and realization thereof is done with the financial expenses account as a counterpart, according to payment terms of its vendors.

On December 31, 2015, we identified no other transactions that were considered relevant to the financial statements taken as a whole.

## 3.12 Income tax and social contribution

The income and social contribution taxes of the year, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income.

The income and social contribution tax expense comprises current and deferred taxes on income. Current taxes and deferred taxes are recognized in profit or loss unless they are related to the business combination, or items directly recognized in shareholders' equity or other comprehensive income.

*(a) Current tax*

Current taxes are the taxes payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years. It is measured based on rates enacted or substantively enacted at the balance sheet date. Current tax also includes any tax liability arising from the declaration of dividends.

The current tax assets and liabilities are offset only if certain criteria are met.

*(b) Deferred tax*

Deferred taxes are recognized in relation to the temporary differences between the book values of assets and liabilities for financial statement purpose and the related amounts used for taxation purposes. Deferred taxes are not recognized for:

• Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination, and does not affect neither taxable nor accounting, income or loss;

• Temporary differences related to investments in subsidiaries, associated companies and interest in joint ventures to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future, and;

• Taxable temporary differences arising from the initial recognition of goodwill.

A deferred income and social contribution tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred income and social contribution tax assets are reviewed at each balance sheet date and reduced when their realization is no longer probable.

Deferred taxes are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates enacted or substantively decreed up to the date of balance sheet.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to recover or settle the book value of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### 3.13 Pension plan and post-employment benefits

The Company is a sponsor of a supplementary pension plan, based on defined contribution with guaranteed minimum benefit, which aims to supplement the benefits assured and provided by social security to its employees. The plan includes the following benefits: regular retirement, early retirement, retirement due to disability, pension in the event of death, proportional benefit and minimum guaranteed benefits.

The Company recognizes its obligations related to employee benefit plans and related costs, net of the plan’s assets, adopting the following practices:

(a) The cost of pension and other post-employment benefits acquired by employees is actuarially determined using the projected unit credit method and Management's best estimate of the expected performance of plan investments for funds, salary growth, retirement age of employees, and expected costs on health care. The discount rate utilized to determine the obligations of future benefit is an estimate of the current interest rate on the balance sheet date;

(b) The assets of the pension plan are valued at market value;

(c) The costs of past service arising from plan adjustments are amortized over the average remaining period of service of active employees in the adjustment date;

(d) Actuarial gains and losses are recognized immediately in other comprehensive income for the financial year;

(e) Reductions in the plan result from significant changes in the expected time of service of active employees. A net loss with curtailment is recognized when the event is probable and can be estimated, while a net gain with curtailment is deferred until it is realized.

When calculating pension and post-employment benefits, several statistical and other factors are used, in an attempt to anticipate future events in calculating the expense and obligations relating to the plans. These factors include assumptions of discount rate, expected return on the plan's assets, future increases in the cost of healthcare, and rate of future increases of remuneration.

Additionally, actuarial consultants also use subjective factors, such as severance rates, employee turnover rates, and mortality rates to estimate these factors. The actuarial assumptions used by the Company may be materially different from the real results, due to changes in the economic or market conditions, as also regulatory events, Court decisions, higher or lower dropout rates or shorter or longer life spans of the Participants.

## 3.14 Other employee benefits

Other benefits granted to employees and managers of the Company include, in addition to a fixed compensation (salary and contributions to social security - Brazilian Social Security Agency - INSS, paid vacation, 13th monthly salary), variable compensation such as profit sharing and private pension plan - defined contribution, (Note 12). These benefits are recorded in income for the year when the Company has an obligation on the accrual basis, as they are incurred.

## 3.15 Earnings per share

The Company calculated earnings per thousand shares, basic and diluted - using the weighted average number of total outstanding common and preferred shares during the financial year corresponding to P/L, in accordance to CPC 41 (R1) (IAS 33).

## 3.16 Treasury shares

When shares recognized as shareholder equity are repurchased, the value of the consideration paid, which includes any directly attributable costs, net of any tax effects, is recognized as a deduction from shareholder equity. The repurchased shares are classified as treasury stock and presented as a deduction from shareholders' equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in shareholder equity, and the gain or loss resulting from the transaction is reported as a capital reserve.

### 3.17 Government subsidies

Government subsidies are recognized whenever there is reasonable certainty that the benefit will be received and all corresponding conditions will be met. When the benefit is related to an expense item it is recognized as income (loss) for the period the benefit was granted, on a systematic basis in relation to the costs offset by such benefit. When the benefit is related to an asset, it is recognized as deferred income and recorded in the statement of income at equal amounts throughout the estimated useful life of the corresponding asset.

### 3.18 Statement of added value

The Company prepared individual and consolidated statements of added value in accordance with the rules of technical pronouncement CPC 09 - Statement of Added Value, which are presented as an integral part of the financial statements under BRGAAP applicable to listed companies, whereas under IFRS they represent additional financial information.

### 3.19 Presentation of segment information

The operating segment information is shown consistently with the internal report supplied to the main operating decision maker. The main operating decision maker, in charge of allocating funds and evaluating performance of operating segments is the Company's Board of Directors, also in charge of the Company's strategic decision making.

## 4 Significant judgments, estimates and assumptions

In the preparation of these individual and consolidated financial statements, management used judgments, estimates and assumptions that affect the Company’s application of accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and assumptions are reviewed on a continuous basis. Reviews of estimates are recognized on a prospective basis.

*(i) Judgments*

Information about judgment referring to the adoption of accounting policies which impact significantly the amounts recognized in the individual and consolidated financial statements are included in the following note:
- Note 16 - Contingent liabilities

*(ii) Uncertainties on assumptions and estimates*

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the year to end at December 31, 2015 are included in the following notes:
- Note 12 - Pension plans
- Note 27 - Objectives and policies for financial risk management

The main assumptions regarding sources of uncertainties in estimates for the future and other significant uncertainties related to the estimates in the balance sheet date, involving the risk of requiring significant adjustments in the book value of assets and liabilities in the next year are highlighted as follows:

*Taxes*

There are uncertainties in relation to the interpretation of complex tax regulations and the amount and timing of future taxable income. Considering the many issues involved in international business relationships, as well as the long-term nature and the complexity of existing contractual instruments, differences between actual income and the adopted assumptions, or future changes in those assumptions, may lead to the necessity of future adjustments in recorded tax expenses and income. The Company recognizes provisions based on reliable estimates of possible consequences from any inspections by tax authorities of jurisdictions in which they operate. The amount of those provisions is based on various factors, such as experience of prior inspections and deferring depredations of tax regulations by the Company and by the responsible tax authority. Those interpretation differences may arise in a great variety of matters, depending on the conditions prevailing in the company’s domicile.

The deferred tax asset is recognized for all tax loss carryforwards not utilized to the extent that it is probable that there will be future taxable income against which they can be offset. Substantial judgment from Management is required to determine the amount of the deferred income tax and social contribution asset that can be recognized, based on the probable term and amount of future taxable income, with tax planning strategies. For further details on deferred taxes, see note 21.

*Retirement benefits*

The current value of obligations of pension plans depends on a number of factors that are determined using actuarial valuation methods. The actuarial valuation involves the use of assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future increases in retirement benefits and pensions. The obligation of the defined benefit is highly sensitive to changes in these assumptions. The mortality rate is based on mortality tables available in the Brazil. Future increases in wages and retirement/pension benefits are based on expected future inflation rates for Brazil.

For more details on the assumptions used, see Note 12.

*Fair value of financial instruments*

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. The data for these methods are based on those adopted by the market, when possible. However, when such data are not available, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the data utilized, such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors can affect the fair value presented for the financial instruments.

*Provisions for tax, civil and labor risks*

The Company recognizes provision for tax, civil and labor claims. Determination of the probability of loss includes determination of evidences available, hierarchy of laws, jurisprudence available, more recent court decisions and relevance thereof in legal system, as well as evaluation of external attorneys. Provisions are reviewed and adjusted to take into account changes in circumstances, such as statute of limitations applicable, tax inspection conclusions or additional exposures identified based on new matters or court decisions.

# 5 Standards, amendments and interpretations of standards

The standards and interpretations issued by the IASB, but not yet adopted by the date of issuance of the Company's financial statements, are presented below. The Company intends to adopt these standards, where applicable, when they enter into force, provided they are implemented in Brazil by the CPC and approved by CVM and the CFC.

*IFRS 9*, Financial instruments **-** In July 2014, the IASB issued the statement IFRS 9 **-** Financial instruments, which deals with the recognition and measurement of financial assets and liabilities, as well as contracts for purchase and sale of non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption will be required starting January 1, 2018, and the Company is analyzing potential impacts related to this statement on its financial statements.

*IFRS 15*, Income from Contracts with Clients - In May 2014, the IASB issued the statement IFRS 15 - Income from Contracts with Clients, which deals with the recognition of income from client contracts (except for contracts that are within the scope of the rules on lease agreements, insurance contracts and financial instruments), and replaces the current statements IAS 18 - Income, and IAS 11 - Construction contracts and interpretations related to income recognition. The principle of this basis for revenue recognition is to describe the transfer, to clients, of goods or services at values that reflect the payment to which one is entitled in exchange for such goods or services. The adoption will be required starting January 1, 2018, and the Company is analyzing potential impacts related to this statement on its financial statements.

*IFRS 16*, Lessees – In January 2016, the IASB issued the statement IFRS 16 – Lessees, which deals with the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the costumer ('lessee') and the supplier ('lessor'). Applying that model, a lessee is required to recognise assests and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 is effective from 1 January 2019. The Company is analyzing potential impacts related to this statement on its financial statements.

There are no other IFRS statements or IFRIC interpretation that have not entered into force that could have significant impact on the Company's statements.

# 6 Cash and cash equivalents

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Cash and banks | **482** | 554 | **24,320** | 21,021 |
| Cash in transit (a) | **17,613** | 14,897 | **18,356** | 15,266 |
| Interest earning bank deposits (b) | **101,561** | 139,768 | **119,219** | 139,950 |
| | **119,656** | 155,219 | **161,895** | 176,237 |

(a) Liquid funds in transit refer to receipts of exports kept at a financial institution overseas, pending the closing of foreign exchange contracts on the closing date of the financial statements.

(b) Interest earning bank deposits are highly liquid and short term and promptly convertible into a known sum of cash and subject to an insignificant risk of change of value. Interest earning bank deposits are substantially referred to Bank Deposit Certificates (CDB) and fixed-income funds, remunerated at rates ranging between 75% and 104% as of December 31, 2015 (90% to 105% on December 31, 2014) of the Interbank Certificate of Deposit (CDI).

Exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

# 7 Marketable securities

Refer to investments in bank certificates of deposit (CDs) and in foreign currency (USD) with top-tier banks as shown below:

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Application** | **Remuneration** | **2015** | **2014** | **2015** | **2014** |
| CDB | 100% to 105% of CDI | **55,008** | 77,817 | **55,008** | 77,817 |
| | | **55,008** | 77,817 | **55,008** | 77,817 |

# 8 Trade accounts receivable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Current: | | | | |
| Domestic | **7,352** | 7,713 | **11,352** | 11,226 |
| Third parties | **4,631** | 4,995 | **8,181** | 8,649 |
| Related party | **566** | 549 | **593** | 119 |
| Vendor | **2,155** | 2,169 | **2,578** | 2,458 |
| External | **175,018** | 94,767 | **77,110** | 68,144 |
| Third parties | **44,028** | 29,771 | **77,110** | 68,144 |
| Related party | **130,990** | 64,996 | **-** | - |
| | **182,370** | 102,480 | **88,462** | 79,370 |
| Less: | | | | |
| Adjustment to present value | **(1,362)** | (697) | **(1,402)** | (721) |
| Allowance for doubtful accounts | **(7,322)** | (2,065) | **(11,553)** | (2,106) |
| | **173,686** | 99,718 | **75,507** | 76,543 |

On December 31, 2015 and 2014, the average maturities of receipts for the domestic market are 10 and 6 days, respectively, for the external market, 70 and 96 days, respectively.

Changes in the allowance for doubtful accounts are as follow:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Balance at the beginning of the year | **(2,065)** | (3,788) | **(2,106)** | (3,805) |
| Additions | **(6,181)** | (424) | **(10,459)** | (575) |
| Write-offs/realizations | **924** | 2,147 | **1,012** | 2,274 |
| Balance at the end of the year | **(7,322)** | (2,065) | **(11,553)** | (2,106) |

On December 31, 2015 and December 31, 2014, the analysis of the balances of trade accounts receivable is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | BRGAAP | | IFRS | |
| | **2015** | **2014** | **2015** | **2014** |
| Falling due | **97,946** | 92,565 | **56,220** | 46,367 |
| From 1 to 30 days | **21,672** | 5,713 | **16,247** | 26,910 |
| From 31 to 60 days | **13,977** | 2,029 | **6,815** | 2,886 |
| From 61 to 90 days | **5,605** | 818 | **4,144** | 959 |
| From 91 to 180 days | **17,578** | 235 | **2,913** | 383 |
| Over 181 days | **25,592** | 1,120 | **2,123** | 1,865 |
| Total | **182,370** | 102,480 | **88,462** | 79,370 |

The Company does not require guarantees on credit sales. In the Holding, the trade accounts receivable overdue above 181 days are represented, mainly, by product sales for the subsidiaries. (According to Note 11)

Exposure to credit risk and currency related to accounts receivable are disclosed in Note 27.

# 9 Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Finished goods | **53,343** | 36,917 | **121,891** | 90,769 |
| Work in process | **7,629** | 7,706 | **14,068** | 14,808 |
| Raw materials | **25,181** | 23,913 | **40,610** | 40,745 |
| Auxiliary and maintenance materials | **2,310** | 1,554 | **7,180** | 8,160 |
| Advances to suppliers | **3,284** | 1,946 | **4,289** | 3,192 |
| Imports in transit | **7,276** | 5,762 | **7,276** | 5,762 |
| Provision for inventory losses | **(4,094)** | (4,758) | **(8,034)** | (6,519) |
| | **94,929** | 73,040 | **187,280** | 156,917 |

Changes in the provision for losses in inventories are as follow:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Balance at the beginning of the year | **(4,758)** | (3,862) | **(6,519)** | (4,159) |
| Additions | **(1,139)** | (2,884) | **(4,422)** | (4,880) |
| Write-offs/ realizations | **1,803** | 1,988 | **2,907** | 2,520 |
| Balance at the end of the year | **(4,094)** | (4,758) | **(8,034)** | (6,519) |

# 10 Recoverable taxes and contributions

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| ICMS (a) | **4,242** | 5,350 | **4,418** | 5,615 |
| IPI (b) | **93** | 27 | **113** | 27 |
| Income and social contribution taxes (c) | **3,328** | 6,586 | **3,435** | 6,643 |
| COFINS (d) | **3,710** | 4,105 | **3,710** | 4,108 |
| PIS (d) | **788** | 873 | **789** | 874 |
| Value Added Tax - VAT *(e)* | **-** | - | **4,631** | 8,141 |
| Reintegration (f) | **2,145** | 5,375 | **2,263** | 5,599 |
| Other | **2,199** | (414) | **4,615** | (359) |
| **Total** | **16,505** | 21,902 | **23,974** | 30,648 |
| (-) Current | **10,666** | 14,103 | **16,732** | 17,896 |
| Non-current | **5,839** | 7,799 | **7,242** | 12,752 |

## a) Value-added tax on sales and services (ICMS):

The balance is composed of credits calculated the commercial operations and acquisition of property goods comprising PP&E, generated at the Company's production and commercial units.

## b) Excise Tax - IPI:

The balance is substantially composed of amounts originating from commercial operations, and may be offset against taxes of the same nature.

## c) Income tax and social contribution:

Refers to withholding income tax on financial investments and income tax and social contribution prepayments through an offset against federal taxes and contributions due.

## d) PIS and COFINS:

Balance is comprised of credit amounts deriving from PIS and COFINS non-cumulative collection, ascertained mainly in operations acquisition of goods comprising fixed assets, which are offset in successive monthly installments, as determined by current legislation.

## e) Value Added Tax (VAT):

The balance is composed of tax credits on recoverable added value of the subsidiary Fras-le Argentina. The foregoing credits do not expire, and the Company expects to recover them within the next 18 months.

## f) Reintegration:

The Reintegration balance refers to a tax regime whereby the Company takes credit of federal taxes in the cases of exports of manufactured goods existing in its production chain. These credits are offset upon payment of any other federal tax.

# 11 Related parties

<u>Balances and transactions with related parties</u>

The main balances of assets and liabilities on December 31, 2015 and 2014, as well as the transactions that influenced net income for the year, relating to operations with related parties, result from transactions with the Company with its parent company and subsidiaries and its related parties which were not carried out under normal market conditions for the respective types of operation and specific conditions considering the transaction volumes and payment terms.

| | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|
| | Accounts receivable from sales | Dividends receivable | Loans receivable (short-term + long-term) | Accounts payable | Commissions payable | Loans payable |
| **Randon S.A. Implementos e Participações (b)** | | | | | | |
| **Balance at December 31, 2015** | **318** | **-** | **-** | **212** | **-** | **-** |
| Balance at December 31, 2014 | 149 | - | - | 152 | - | - |
| **Master Sistemas Automotivos Ltda (d)** | | | | | | |
| **Balance at December 31, 2015** | **104** | **-** | **-** | **198** | **-** | **-** |
| Balance at December 31, 2014 | 122 | - | - | 180 | - | - |
| **Castertech Fundição e Tecnologia Ltda (d)** | | | | | | |
| **Balance at December 31, 2015** | **143** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 278 | - | - | - | - | - |
| **Freios Controil Ltda. (d)** | | | | | | |
| **Balance at December 31, 2015** | **1** | **-** | **-** | **-** | **-** | **683** |
| Balance at December 31, 2014 | - | - | 1,002 | - | - | - |
| **Fras-le Argentina S.A. (c)** | | | | | | |
| **Balance at December 31, 2015** | **16,146** | **840** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 6,921 | 947 | - | - | - | - |
| **Fras-le North America, Inc (c)** | | | | | | |
| **Balance at December 31, 2015** | **113,134** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 56,715 | - | - | - | 2,038 | - |
| **Fras-le Friction Material Pinghu co Ltd (c)** | | | | | | |
| **Balance at December 31, 2015** | **107** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 97 | - | - | - | - | - |
| **Fras-le Europe (c)** | | | | | | |
| **Balance at December 31, 2015** | **1,603** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 1,263 | - | - | - | - | - |
| **Fras-le Middle East (c)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | 39 | - | - | - | 11 | - |
| **Fras-le África Aut (Pty) Limited** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance at December 31, 2014 | - | - | - | - | 32 | - |
| **Other related parties (a)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | **-** | **-** | **-** | **103** |
| Balance at December 31, 2014 | - | - | - | - | - | 252 |
| **Balance at December 31, 2015** | **131,556** | **840** | **-** | **896** | **-** | **786** |
| Balance at December 31, 2014 | 65,584 | 947 | 1,002 | 332 | 2,081 | 252 |

| | Transactions | | | | Average period | |
|---|---|---|---|---|---|---|
| | **Sale of products and services** | **Purchase of products and services** | **Other Revenue** | **Other expenses** | **Receipts** | **Payment** |
| **Jost Brasil Sistemas Automotivos Ltda. (d)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **22** | **618** | **-** | **-** | **-** |
| Balance at December 31, 2014 | - | - | 341 | 34 | 14 | |
| **Randon S.A. Implementos e Participações (b)** | | | | | | |
| **Balance at December 31, 2015** | **17,214** | **5,428** | **3,601** | **10,443** | **3** | **14** |
| Balance at December 31, 2014 | 15,082 | 4,042 | 3,107 | 10,569 | 35 | 28 |
| **Master Sistemas Automotivos Ltda (d)** | | | | | | |
| **Balance at December 31, 2015** | **14,931** | **847** | **1,261** | **-** | **10** | **62** |
| Balance at December 31, 2014 | 22,577 | - | 1,520 | 60 | 7 | 72 |
| **Castertech Fundição e Tecnologia Ltda (d)** | | | | | | |
| **Balance at December 31, 2015** | **1,357** | **-** | **-** | **44** | **66** | **-** |
| Balance at December 31, 2014 | 1,116 | - | 18 | 21 | 66 | - |
| **Freios Controil Ltda. (e)** | | | | | | |
| **Balance at December 31, 2015** | **60** | **-** | **-** | **-** | **53** | **-** |
| Balance at December 31, 2014 | 27 | - | - | - | 49 | - |
| **Randon Consórcios Ltda. (d)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | **3** | **-** | **53** | **-** |
| Balance at December 31, 2014 | - | - | **9** | **70** | 49 | - |
| **Banco Randon S.A. (d)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | **-** | **7,525** | **-** | **-** |
| Balance at December 31, 2014 | - | - | - | 6,179 | - | - |
| **Fras-le Argentina S.A. (c)** | | | | | | |
| **Balance at December 31, 2015** | **54,781** | **-** | **-** | **-** | **86** | **-** |
| Balance at December 31, 2014 | 18,645 | - | | - | 94 | - |
| **Fras-le North America, Inc (c)** | | | | | | |
| **Balance at December 31, 2015** | **99,600** | **20** | **-** | **1,464** | **442** | **-** |
| Balance at December 31, 2014 | 17,260 | - | - | 3,347 | 353 | 2 |
| **Fras-le Mexico S de RL de CV (c)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | | | | |
| Balance at December 31, 2014 | - | - | | 569 | - | - |
| **Fras-le Friction Material Pinghu co Ltd (c)** | | | | | | |
| **Balance at December 31, 2015** | | **-** | | **-** | | **-** |
| Balance at December 31, 2014 | 152 | - | | - | 160 | - |
| **Fras-le Europe (c)** | | | | | | |
| **Balance at December 31, 2015** | | **-** | | | | |
| Balance at December 31, 2014 | 2,391 | - | | 725 | 204 | 2 |
| **Fras-le Africa Aut (Pty) Limited (c)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | | **783** | **-** | **-** |
| Balance at December 31, 2014 | - | - | | 409 | - | 2 |
| **Fras-le Andina (c)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | | **254** | **-** | **-** |
| Balance at December 31, 2014 | - | - | | 145 | - | 2 |
| **Fras-le Middle East (c)** | | | | | | |
| **Balance at December 31, 2015** | **-** | **-** | | **822** | **202** | |
| Balance at December 31, 2014 | - | - | | 551 | - | 2 |
| **Balance at December 31, 2015** | **181,661** | **16,087** | **5,483** | **22,737** | | |
| Balance at December 31, 2014 | 77,116 | 4,042 | 4,995 | 22,265 | | |

(a) Loan balances payable to officers, Board of Directors' members and other related parties.
(b) The Company's direct parent company. The Company's final parent company is Dramd Participações e Administração Ltda.
(c) Foreign subsidiaries.
(d) Associates in Brazil.
(e) Subsidiaries in the country.

Sales transactions with related parties refer to sales of goods to supply the markets in which they are based, and sales of raw materials and supplies used in production. Purchase transactions carried out with related parties refer to the supply of materials used in the Company's production process.

The checking account balances, relating to loan agreements between the Company, subsidiaries and other related parties, have indeterminate maturity and are updated on a prorated basis by the “DI-Extra” rate, published by ANDIMA, with no interest.

Outstanding balances at the closing of the financial year are unsecured, are not subject to interest, and are settled in cash. There were no guarantees provided or received regarding any accounts receivable or payable involving related parties.

<u>Compensation of key management personnel of the Company and its subsidiaries</u>

Management defined the Board of Directors, statutory Executive Board, and the Supervisory Board as Management’s key personnel. The amounts related to the compensation of the key management personnel are represented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Short-term benefits (salaries, wages, profit sharing and expenses with health care plan) | **4,450** | 5,545 | **5,068** | 5,807 |
| Post-employment benefits - contributions to Randonprev | **213** | 202 | **213** | 202 |
| Total | **4,663** | 5,747 | **5,281** | 6,009 |

The Company did not pay key management personnel remuneration in other categories of i) long-term benefits, ii) severance benefits, and iii) share-based compensation.

## 12 Pension plans and post-employment benefits for employees

The Company is the sponsor of RANDONPREV - Pension Plan, which aims to supplement the benefits assured and provided by social security to its employees. The supplementary benefit plan is based on defined retirement contribution for its employees, with financial regime of capitalization.

The plan is evaluated actuarially at the end of each financial year, by an independent actuary, to check whether the contribution rates are sufficient for the formation of reserves required for current and future commitments

The fair value of the plan's assets was determined based on market parameters at the end of the year on December 31, 2015 or, when applicable, by the projection of the future benefits derived from the utilization of the asset, discounted at the present value. The actuarial liability at the end of the fiscal year was determined based on the calculations of the independent actuary using the projected unit credit method.

The Company offers a defined benefit plan that substantially covers all employees, and contributions are made in funds separate from the Company's own funds.

The following tables summarize the components of the net benefit expense recognized on the income statement, as well as of the status and of the amounts recognized on the balance sheet:

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net expense with benefit (recognized in sales cost) | **199** | 183 | **199** | 183 |
| Cost of *current* service | **301** | 297 | **301** | 297 |
| Income from interest on plan's assets | **(493)** | (415) | **(493)** | (415) |
| Interest on non-recoverable surplus | **176** | 80 | **176** | 80 |
| Cost of defined benefit in income | **183** | 145 | **183** | 145 |
| Real earnings from plan's assets | **(93)** | 720 | **(93)** | 720 |

## Benefit asset (liability)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Obligation with defined benefits | **(2,934)** | (2,641) | **(2,934)** | (2,641) |
| Fair value of the plan assets | **4.199** | 4,152 | **4.199** | 4,152 |
| Owed adjustment | **(1,265)** | (1,482) | **(1,265)** | (1,482) |
| Benefit asset | - | 29 | - | 29 |

## Changes in present value of obligation with defined benefit are as follows:

| | **Parent** | **Consolidated** |
|---|---|---|
| Obligation with defined benefit as of December 31, 2013 | (2,484) | (2,484) |
| Interest cost | (297) | (297) |
| Cost of current service | (183) | (183) |
| Benefits paid | 99 | 99 |
| Actuarial gains on obligations | 223 | 223 |
| Defined benefit obligation as of December 31, 2014 | (2,642) | (2,642) |
| Interest cost | **(301)** | **(301)** |
| Cost of current service | **(199)** | **(199)** |
| Benefits paid | **58** | **58** |
| Actuarial losses on obligations | **150** | **150** |
| Defined benefit obligation as of December 31, 2015 | **(2,934)** | **(2,934)** |

## Changes in fair value of plan's assets are as follows:

| | **Parent company** | **Consolidated** |
|---|---|---|
| Fair value of plan's assets of December 31, 2013 | 3,330 | 3,330 |
| Return over investment | 720 | 720 |
| Contribution of the employee | 202 | 202 |
| Benefits paid | (99) | (99) |
| Fair value of plan assets of December 31, 2014 | 4,153 | 4,153 |
| Return over investment | (93) | (93) |
| Contribution of the employee | 206 | 206 |
| Benefits paid | (58) | (58) |
| Amounts transferred | (9) | (9) |
| Fair value of plan assets of December 31, 2015 | 4,199 | 4,199 |

The Company expects to contribute R$1,570 to its defined benefit pension plans in 2016. Main categories of plan's assets with a percentage of fair value of total plan's assets are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Shares | **1,002** | 1,068 | **1,002** | 1,068 |
| Notes | **3,197** | 3,085 | **3,197** | 3,085 |
| | **4,199** | 4,153 | **4,199** | 4,153 |

Total expected rate of assets' earnings is calculated based on market expectations existing on that date, applicable to the year during which obligations must be settled. These expectations are reflected in main assumptions below.

| | **2015** | **2014** |
|---|---|---|
| Discount rate | **12.75%** | 11.85% |
| Rate of salary growth | **7.49%** | 7.83% |
| Benefit growth rate | **5.0%** | 5.20% |
| Life expectancy (in years) in private pension plans for 60- | | |
| Men | **24.59** | 24.59 |
| Women | **27.42** | 27.42 |

Estimated defined benefit estimates for next year are as follow:

| | Parent company | Consolidated |
|---|---|---|
| Expected contributions next year | | |
| Companies | 255 | 255 |
| Participants | | |
| | **255** | **255** |
| Maturity profile of defined benefit obligation | | |
| Expected benefit payments for year ending December 31, 2016 | 137 | 137 |
| Expected benefit payments for years ending from December 31, 2017 to December 31, 2025 | 3,723 | 3,723 |
| | 3,860 | 3,860 |
| Analysis of defined benefit obligation per member category | | |
| Active participants | 2,658 | 2,658 |
| BPDs | 276 | 276 |
| Retirees | | |
| | **2,934** | **2,934** |
| Equity Information | | |
| Total percentage for allocation at December 31, 2014 | 13% | 13% |
| Variable income | 77% | 77% |
| Fixed income | 1% | 1% |
| Other | 9% | 9% |
| | **100%** | **100%** |
| Income (loss) for the year | | |
| Cost of current service | 211 | 211 |
| Net interest on net liabilities /(assets) | (16) | (16) |
| | **195** | **195** |

The table below shows the sensitivity analysis for the present value of the obligation at December 31, 2015:

| **Sponsors** | **Present Value of the obligation (PVO) 2015** | **1% Increase – Effect at PVO** | **1% Decrease – Effect at PVO** |
|---|---|---|---|
| Fras-le S.A. | 2.934 | (244) | 284 |

According to statement CPC 33 – Item 145, and in agreement with the study results, the effect on the PVO value was calculated, considering one percent higher and lower in the discount rate, representing the sensitivity assessment of the discount rate. The 1 % increase represents a discount rate of 13,75% and the 1% reduction represent a discount rate of 11,75%. The evaluation of individual sensitivity by subsidiaries was performed having as paremeter the number of employees per company.

# 13 Investments

## Breakdown of balances

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Interest in subsidiaries | **121,038** | 109,522 | **-** | - |
| Other investments | **80** | 80 | **761** | 796 |
| Unearned income from inventories | **(25,085)** | (7,061) | **-** | - |
| | **96,033** | 102,541 | **761** | 796 |
| Non-current Assets - Investments | **104.253** | 102.541 | **761** | 796 |
| Non-current Liabilities- Provision for investments losses | **(8.220)** | - | **-** | - |
| Total net investments | **96.033** | 102.541 | **761** | 796 |

## Changes in balances

The changes in investments can be presented as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Balances at the beginning of the year | **102,541** | 98,510 | **796** | 891 |
| Additions | **-** | - | **-** | - |
| Foreign exchange rate of investees | **15,091** | 2,788 | **(35)** | (95) |
| Equity in net income of subsidiaries | **(3,575)** | 1,572 | **-** | - |
| Unearned income from inventories | **(18,024)** | (329) | **-** | - |
| Capital increase in subsidiaries | **-** | - | **-** | - |
| Balances at the end of the year | **96,033** | 102,541 | **761** | 796 |

Changes in subsidiaries' investments (Parent company):

| | **Fras-le North America** | **Fras-le Argentina** | **Fras-le Andina** | **Fras-le Mexico** | **Fras-le Friction** | **Fras-le Europe** | **Fras-le Africa** | **Fras-le Controil** | **Fras-le Middle** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2014 | 4,299 | 14,155 | 115 | 240 | 34,555 | 4,595 | 332 | 50,854 | 377 | **109,522** |
| - Equity in net income of subsidiaries and associated companies | (13,204) | 4,813 | 124 | 279 | 3,224 | 508 | 230 | 488 | (37) | **(3,575)** |
| - Accumulated translation adjustments | 685 | (1,667) | 47 | 65 | 14,221 | 1,550 | 18 | - | 172 | **15,091** |
| **Balances at December 31, 2015** | (8,220) | 17,301 | 286 | 584 | 52,000 | 6,653 | 580 | 51,342 | 512 | **121,038** |

## Information from investees

| | **Fras-le North America** | **Fras-le Argentina** | **Fras-le Andina** | **Fras-le Mexico** | **Fras-le Friction** | **Fras-le Europe** | **Fras-le Africa** | **Fras-le Controil** | **Fras-le Middle** | **Total 2015** | **Total 2014** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital | 21,793 | 6,622 | 24 | 2 | 25,120 | 2,133 | 55 | 55,000 | 64 | | |
| Number of shares (in thousands shares) | | | | | | | | | | | |
| - Common | 1 | 13,252 | - | - | - | - | - | - | - | | |
| - Quotas | - | | 1 | 1 | 1 | 1 | 1 | 54,998 | 1 | | |
| Participation in capital, in end of the year - % | 100 | 94 | 99 | 99,66 | 100 | 100 | 100 | 99,99 | 100 | | |
| Assets | 184,084 | 49,586 | 349 | 628 | 61,193 | 13,206 | 594 | 67,443 | 512 | | |
| Liabilities | 192,303 | 31,181 | 61 | 42 | 9,193 | 6,553 | 14 | 16,100 | - | | |
| Adjusted shareholders' equity | (8,220) | 18,405 | 288 | 586 | 52,000 | 6,653 | 580 | 51,343 | 512 | | |
| Net income (loss) for the period | (13,204) | 5,120 | 126 | 280 | 3,224 | 508 | 225 | 488 | (37) | | |
| Accumulated translation adjustments | 685 | 1,667 | 47 | 65 | 14,221 | 1,550 | 18 | 51,342 | 512 | **15,091** | 2,788 |
| Equity in income of subsidiaries and associated companies | (13,204) | 4,813 | 124 | 279 | 3,224 | 508 | 230 | 488 | (37) | **(3,575)** | 1,572 |
| Investment amount | **(8,220)** | **17,301** | **286** | **584** | **52,000** | **6,653** | **580** | **51,342** | **512** | **121,038** | **109,522** |

# 14 Property, plant and equipment

Parent company:

| **Cost of the gross fixed assets** | **Land and buildings** | **Machinery, equipment and molds** | **Furniture and fixtures** | **IT equipment** | **Vehicles** | **Constructions in progress** | **Advances to Suppliers and import in progress** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance at January 01, 2014 | 139,345 | 372,301 | 10,011 | 7,283 | 1,671 | 22,719 | 112 | 553,442 |
| Acquisitions | 1,250 | 16,435 | 36 | 403 | 267 | 8,893 | 174 | 27,458 |
| Write-offs | (54) | (1,557) | (15) | (28) | (403) | - | - | (2,057) |
| Transfers | 1,238 | 6,765 | 4 | - | - | (8,224) | - | (217) |
| **Balance at December 31, 2014** | **141,779** | **393,944** | **10,036** | **7,658** | **1,535** | **23,388** | **286** | **578,626** |
| Acquisitions | 322 | 11,250 | 9 | 250 | 5 | 13,601 | 1,779 | 27,216 |
| Write-offs | - | (8,573) | (21) | (309) | (109) | - | - | (9,012) |
| Transfers | 909 | 18,135 | 136 | 34 | - | (19,356) | - | (142) |
| **Balance at December 31, 2015** | **143,010** | **414,756** | **10,160** | **7,633** | **1,431** | **17,633** | **2,065** | **596,688** |
| **Depreciation and loss of value recoverable** | | | | | | | | |
| Balance at January 01, 2014 | (33,769) | (221,214) | (7,008) | (6,447) | (1,173) | - | - | (269,611) |
| Depreciation | (3,700) | (19,091) | (435) | (320) | (75) | - | - | (23,621) |
| Write-offs | 54 | 1,429 | 15 | 28 | 273 | - | - | 1,799 |
| **Balance at December 31, 2014** | **(37,415)** | **(238,876)** | **(7,428)** | **(6,739)** | **(975)** | **-** | **-** | **(291,433)** |
| Depreciation | (3,722) | (19,849) | (383) | (313) | (76) | - | - | (24,343) |
| Write-offs | - | 1,790 | 21 | 307 | 15 | - | - | 2,133 |
| **Balance at December 31, 2015** | **(41,137)** | **(256,935)** | **(7,790)** | **(6,745)** | **(1,036)** | **-** | **-** | **(313,643)** |
| **Net residual value** | | | | | | | | |
| Balance at January 01, 2014 | 105,576 | 151,087 | 3,003 | 836 | 498 | 22,719 | 112 | 283,831 |
| Balance at December 31, 2014 | 104,364 | 155,068 | 2,608 | 919 | 560 | 23,388 | 286 | 287,193 |
| Balance at December 31, 2015 | **101,873** | **157,821** | **2,370** | **888** | **395** | **17,633** | **2,065** | **283,045** |

Consolidated:

| **Cost of the gross fixed assets** | **Land and buildings** | **Machinery and equipment and molds** | **Furniture and fixtures** | **IT equipment** | **Vehicles** | **Constructions in progress** | **Advances to Suppliers and import in progress** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance at January 01, 2014 | 145,794 | 533,486 | 11,387 | 9,266 | 2,239 | 25,621 | 113 | 727,906 |
| Acquisitions | 1,499 | 18,043 | 248 | 280 | 298 | 9,826 | 174 | 30,368 |
| Write-offs | (54) | (2,017) | (22) | (31) | (666) | (82) | - | (2,872) |
| Transfers | 1,238 | 8,577 | 4 | - | - | (10,036) | - | (217) |
| Foreign exchange rate | 636 | 6,714 | 29 | 108 | (2) | 31 | - | 7,516 |
| **Balance at December 31, 2014** | **149,113** | **564,803** | **11,646** | **9,623** | **1,869** | **25,360** | **287** | **762,701** |
| Acquisitions | 553 | 17,788 | 90 | 474 | 344 | 17,797 | 1,778 | 38,824 |
| Write-offs | - | (4,544) | (23) | (358) | (263) | (763) | - | (5,951) |
| Transfers | 910 | 12,491 | 137 | 50 | - | (13,730) | - | (142) |
| Foreign exchange rate | 3,002 | 27,944 | 277 | 461 | 54 | 124 | - | 31,862 |
| **Balance at December 31, 2015** | **153,578** | **618,482** | **12,127** | **10,250** | **2,004** | **28,788** | **2,065** | **827,294** |
| **Depreciation and loss of value Recoverable** | | | | | | | | |
| Balance at January 01, 2014 | (35,138) | (299,432) | (8,086) | (7,709) | (1,582) | - | - | (351,947) |
| Acquisitions | (4,351) | (29,136) | (554) | (535) | (119) | - | - | (34,695) |
| Write-offs | 54 | 1,722 | 20 | 31 | 473 | - | - | 2,300 |
| Foreign exchange rate | (93) | (1,279) | 6 | (54) | - | - | - | (1,420) |
| **Balance at December 31, 2014** | **(39,528)** | **(328,125)** | **(8,614)** | **(8,267)** | **(1,228)** | **-** | **-** | **(385,762)** |
| Acquisitions | (4,740) | (32,078) | (544) | (566) | (172) | - | - | (38,100) |
| Write-offs | - | 3,839 | 22 | 355 | 17 | - | - | 4,233 |
| Foreign exchange rate | (792) | (7,475) | (140) | (310) | (34) | - | - | (8,751) |
| **Balance at December 31, 2015** | **(45,060)** | **(363,839)** | **(9,276)** | **(8,788)** | **(1,417)** | **-** | **-** | **(428,380)** |
| **Net residual value** | | | | | | | | |
| Balance at January 01, 2014 | 110,656 | 234,054 | 3,301 | 1,557 | 657 | 25,621 | 113 | 375,959 |
| Balance at December 31, 2014 | 109,585 | 236,678 | 3,032 | 1,356 | 641 | 25,360 | 287 | 376,939 |
| **Balance at December 31, 2015** | **108,518** | **254,643** | **2,851** | **1,462** | **587** | **28,788** | **2,065** | **398,914** |

Taking into consideration relevance of property, plant and equipment in relation to financial statements, the Company and its subsidiaries reviewed these assets' economic useful lives and concluded that there are no relevant adjustments or changes to be recognized as of December 31, 2015.

Constructions in progress

Property, plant and equipment in progress are substantially represented by expansion and optimization projects for industrial units, as listed below, and these projects are expected to be completed during 2016.

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Manufacturing of tools | **167** | 2,314 | **897** | 3,626 |
| Manufacturing and installation of machinery and equipment | **16,982** | 20,469 | **26,565** | 20,585 |
| Construction and leasehold improvements | **484** | 605 | **1,327** | 1,149 |
| | **17,633** | 23,388 | **28,789** | 25,360 |

Capitalized loan costs

Capitalized loan costs for the year ended December 31, 2015 was R$926 (R$1,453 as of December 31, 2014). Rate used to determine the amount of loan costs subject to capitalization was of 0.15% (0.17% p.m. as of December 31, 2014) representing the effective rate of specific loans.

# 15 Intangible assets

| | Software and licenses | |
|---|---|---|
| **Cost** | **Parent company** | **Consolidated** |
| Balance at January 01, 2014 | 27,953 | 31,917 |
| Acquisitions | 1,410 | 2,007 |
| Transfers | 217 | 217 |
| Foreign exchange rate | - | 98 |
| **Balance at December 31, 2014** | **29,580** | **34,239** |
| Acquisitions | 290 | 715 |
| Write-offs | (2) | (41) |
| Transfers | 142 | 142 |
| Foreign exchange rate | - | 454 |
| **Balance at December 31, 2015** | **30,010** | **35,509** |
| **Amortization and impairment** | | |
| Balance at January 01, 2014 | (11,132) | (14,424) |
| Amortization | (3,019) | (3,309) |
| Foreign exchange rate | - | (49) |
| **Balance at December 31, 2014** | **(14,151)** | **(17,782)** |
| Amortization | (3,113) | (3,485) |
| Write-offs | 1 | 1 |
| Foreign exchange rate | - | (217) |
| **Balance at December 31, 2015** | **(17,263)** | **(21,483)** |
| **Net residual value** | | |
| Balance at January 01, 2014 | 16,821 | 17,493 |
| Balance at December 31, 2014 | 15,429 | 16,457 |
| **Balance at December 31, 2015** | **12,747** | **14,026** |

Intangible assets refer to rights on software and licenses acquired from third parties, amortized over useful life estimated as eight years.

# 16 Provision for litigation

The Company is a party to lawsuits and administrative proceedings in several courts and government bodies as a result of its normal course of operations; these involve tax, labor, social security and civil issues. A provision was recorded in non-current liabilities for estimated loss, based on its legal advisors' opinion for cases in which loss is considered probable.

Contingent liabilities

Restated contingent risk (loss) estimated value as of December 2015 and 2014, according to its legal advisors' opinion, is as follows:

Parent company:

| Contingent liabilities | 2015 | | | 2014 | | | Judicial deposit | |
|---|---|---|---|---|---|---|---|---|
| | Probable | Possible | Remote | Probable | Possible | Remote | 2015 | 2014 |
| a) civil | - | 161 | - | - | 193 | - | - | - |
| b) tax | - | 21,319 | 12,710 | - | 18,476 | 107,890 | 5,146 | 5,146 |
| c) labor | 3,899 | 12,711 | 7 | 2,697 | 11,036 | 672 | 1,093 | 939 |
| d) social security | 679 | - | 1.603 | 444 | 177 | 1,524 | 219 | 622 |
| **Total** | 4,578 | 34,191 | 14,320 | 3,141 | 29,882 | 110,086 | 6,458 | 6,707 |

Consolidated:

| Contingent liabilities | 2015 | | | 2014 | | | Judicial deposit | |
|---|---|---|---|---|---|---|---|---|
| | Probable | Possible | Remote | Probable | Possible | Remote | 2015 | 2014 |
| a) civil | - | 6,850 | - | - | 6,390 | - | - | - |
| b) tax | 1,605 | 23,344 | 13,315 | 586 | 20,956 | 108,414 | 5,146 | 5,146 |
| c) labor | 4,116 | 14,989 | 159 | 2,718 | 13,140 | 883 | 1,470 | 1,210 |
| d) social security | 680 | - | 1.603 | 444 | 177 | 1,524 | 219 | 622 |
| **Total** | 6,401 | 45,183 | 15,077 | 3,748 | 40,663 | 110,821 | 6,835 | 6,978 |

Civil - Refers mainly to shares related to contracts for the provision of services and commercial representation whose object is to discuss contract obligations.

Tax - Represented by federal assessments that are in progress, partly in the administrative sphere and partly in the judicial sphere.

The Company is party to administrative proceedings in progress for which no provision for contingencies was recorded when there is possible or remote likelihood of loss, in accordance with accounting practices adopted in Brazil. Defenses were presented alleging that these tax assessments are groundless. Main lawsuits whose loss risks are possible and remote are as follows:

a) *Import Tax* - The Company was assessed for presumption of non-compliance with proportion - National Capital Assets x Capital Assets and resulting violation of provisions of Article 2, item II, of Law no. 9,449/97, and Article 6 of Decree no. 2,072/96, in the amount of R$7,826. The Company challenged it arguing that applied fine was expired. Also, in fact and in law errors existing in tax entries were presented and full cancellation of tax assessment notice was requested. On October 6, 2011, Voluntary Appeal presented by the Company was judged and request to cancel tax assessment notice was fully approved. In view of issued decision, a Special Appeal was presented by the National Treasury. The value of proceedings is R$8,658.

c) *Income Tax and Social Contribution* - The Company presented a Statement of Disagreement with Decision that did not homologate stated offset of credits related to negative basis of Corporate Income Tax declared in DIPJ 2005, base year 2004, on the basis that there was no confirmation of payments - retention - made abroad, IRPJ negative basis is not confirmed and that, due to this fact, there was no credit to offset. The value of proceedings is R$94.

d) *Income Tax and Social Contribution* - The Company presented a Statement of Disagreement with Decision that did not homologate stated offset of credits related to negative basis of Corporate Income Tax declared in DIPJ 2003, base year 2002, on the basis that there was no confirmation of payments - retention - made abroad, IRPJ negative basis is not confirmed and that, due to this fact, there was no credit to offset. The value of proceedings is R$2,392.

e) *Income Tax and Social Contribution* - The Company presented a Statement of Disagreement with the Decision that did not homologate stated credits offset related to Social contribution on Net Income negative balance presented in 2005 DIPJ (corporate income tax return), base-year 2004, with the justification that payments made abroad were not confirmed - retention - Social contribution on Net Income negative balance is not confirmed and, as a result, there is no credit to offset. The value of proceedings is R$260.

f) I*CMS* - The Company was assessed in 2011 by SEFAZ/RS (Assessment Notice no. 0024041297), with levy of ICMS, fine and interest due to disallowance by tax authorities of ICMS deemed credit on steel acquisitions' transportation costs. Currently, decision on appeal filed with the Administrative Court for Tax Appeals (R$2,065) is being awaited. As administrative process ended with loss, the Company filed a debt cancellation lawsuit on November 14, 2014. On November 17, 2014, a decision rejecting the statement of claim and, as a result, on December 17, 2014, the Company filed an appeal. The value of proceedings is R$2,065.

g) Social Contribution referring to profit sharing with managers and coordinators - It is an Action for the Annulment of the Request for a Temporary Restraining intended to cancel Tax Assessments no. 37.269.527-2 and 37.269.528-0, issued by the Federal Revenue Service against the Company due to alleged non-compliance with requirements of Law no. 10,101/2000, upon profit sharing with its managers and coordinators (R$ 4,988). Fras-le joined in October, 2015, PRORELIT (Tax Dispute Reduction Program) in accordance with articles 1º to 6º of Provisional Measure Nº 685/2015 and Portaria Conjunta PGFN/RFB nº 1.037/2016, to discharge this debt, using 70% of the debt with tax losses and negative base of social contribution of the subsidiary Freios Controil Ltda and 30% with payment in kind.

Labor - several labor lawsuits mostly linked to many indemnity claims.

Social Security - INSS tax assessments to be decided at TRF (federal regional court).

Contingent assets

As of December 31, 2015, the Company has contingent assets represented basically by federal lawsuits that are to be decided at the Superior Court of Justice (STJ) and the Federal Supreme Court (STF). The Company does not record in accounting books contingent gains because it only records them after final decision on lawsuits or after effective filing of appeals.

Statement as of December 31, 2015 containing information on asset contingencies (gains), according to legal advisors' opinion, is detailed below:

Parent company:

| **Assets** | | **2015** | | | **2014** | |
|---|---|---|---|---|---|---|
| **Contingent** | **Probable** | **Possible** | **Remote** | **Probable** | **Possible** | **Remote** |
| a) civil | **52** | **467** | **-** | 11 | 360 | - |
| (b) Tax | **22,558** | **11,731** | **30** | 21,464 | 14,350 | 29 |
| Total | **22,610** | **12,198** | **30** | 21,475 | 14,710 | 29 |

Consolidated:

| **Assets** | | **2015** | | | **2014** | |
|---|---|---|---|---|---|---|
| **Contingent** | **Probable** | **Possible** | **Remote** | **Probable** | **Possible** | **Remote** |
| a) civil | **52** | **467** | - | 11 | 360 | - |
| (b) Tax | **22,697** | **11,750** | **30** | 21,532 | 14,440 | 163 |
| Total | **22,749** | **12,217** | **30** | 21,543 | 14,800 | 163 |

a) Civil - addresses credit recovery actions (collection) for which a provision for accounting losses has already been recorded; however, lawsuits are still in progress in court and, in case the company is successful, this provision will be reversed.

b) Tax - basically represented by federal lawsuits that are being judged at STJ and STF.

Changes in the provision for litigation

Movement in lawsuits is as follows:

Parent company

| | Balance at 2014 | Addition | Realization/ Write-offs | Balance at 2015 |
|---|---|---|---|---|
| Labor | 2,697 | 1,667 | (465) | **3,899** |
| Tax | 0 | 500 | (500) | **-** |
| Social Security | 444 | 235 | - | **679** |
| | 3,141 | 2,402 | (965) | **4,578** |

Consolidated

| | Balance at 2014 | Addition | Realization/ Write-offs | Balance at 2015 |
|---|---|---|---|---|
| Labor | 2,718 | 1,881 | (483) | 4,116 |
| Tax | 586 | 1,519 | (500) | 1,605 |
| Social Security | 444 | 236 | - | 680 |
| | **3,748** | **3.636** | **(983)** | **6.401** |

# 17 Loans and financing

| | Index | Interest | Maturity | Parent company 2015 | Parent company 2014 | Consolidated 2015 | Consolidated 2014 |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Domestic currency: | | | | | | | |
| Bank loans - FINEP | TJLP* | 4% to 5% p.a. | 02/2020 | **3,800** | 4,530 | **3,800** | 4,530 |
| BNDES | TJLP | 1.97% to 3% p.a. | 11/2019 | **18,685** | 33,073 | **18,685** | 33,073 |
| EXIM | TJLP | 5,5% p.a. | 04/2016 | **50,576** | 576 | **50,576** | 576 |
| Tax incentive — Fundopem | IPCA | 3.0% p.a. | 05/2027 | **2,720** | 2,030 | **2,720** | 2,030 |
| Working capital loans | TJLP | 9.94% p.a. | 08/2018 | **-** | - | **2,674** | 3,737 |
| Vendor | Selic | 3% p.a. | 02/2016 | **2,155** | 2,169 | **2,578** | 2,459 |
| Leasing - Banco IBM | CDI | | 09/2017 | **335** | 335 | **335** | 335 |
| Foreign currency: | | | | | | | |
| Bank loans | Libor | 4% p.a. | 08/2018 | **-** | - | **15,873** | 16,980 |
| Bank loans | - | 20.6% p.a. | 08/2018 | **-** | - | **7,758** | 14,422 |
| Leasing | - | 2.8% p.m. | 08/2015 | **-** | - | **-** | 12 |
| BNDES | 5.6 + Spread | 1.97% p.a. | 01/2020 | **2,786** | 1,672 | **2,786** | 1,672 |
| IFC Financing of US$1,355 thousand | Variation Foreign exchange rate + Libor | 3% p.a. | 10/2017 | **5,268** | 3,600 | **5,268** | 3,600 |
| Resolution 2770 - NCE | Variation foreign exchange rate + Libor 6M | 4.5% p.a. | 03/2020 | **37,829** | 25,983 | **37,829** | 25,983 |
| | | | | **124,154** | 73,968 | **150,882** | 109,409 |
| **Non-current** | | | | | | | |
| Domestic currency: | | | | | | | |
| Bank loans - FINEP | TJLP* | 4% to 5% p.a. | 02/2020 | **11,943** | 15,715 | **11,943** | 15,715 |
| BNDES | TJLP | 1.97% to 3% p.a. | 11/2019 | **22,101** | 36,962 | **22,101** | 36,962 |
| EXIM | TJLP | 5.5% p.a. | 04/2016 | **-** | 50,000 | **-** | 50,000 |
| Tax incentive — Fundopem | IPCA | 3.0% p.a. | 07/2027 | **28,414** | 27,678 | **28,414** | 27,678 |
| Bank loans - working capital | TJLP | 9,94% p.a. | 08/2018 | **-** | - | **1,484** | 4,136 |
| Leasing - Banco IBM | | | 09/2017 | **335** | 669 | **335** | 669 |
| Foreign currency: | | | | | | | |
| Bank loans | Libor | 4% p.a. | 08/2018 | **-** | - | **28,398** | 30,115 |
| Bank loans | - | 20.6% p.a. | 08/2018 | **-** | - | **653** | 4,758 |
| BNDES | 5.6 + Spread | 1.97% p.a. | 01/2020 | **8,498** | 6,962 | **8,498** | 6,962 |
| IFC Financing of US$2,666 thousand | Variation Foreign exchange rate + Libor | 3% p.a. | 10/2017 | **5,206** | 7,083 | **5,206** | 7,083 |
| Resolution 2770 - NCE | Variation foreign exchange rate + Libor 6M | 4.5% p.a. | 03/2020 | **124,244** | 108,663 | **124,244** | 108,663 |
| | | | | **200,741** | 253,732 | **231,276** | 292,741 |
| **Total loans subject to interest** | | | | **324,895** | 327,700 | **382,158** | 402,150 |

Financing and loans are guaranteed by collateral signatures of Fras-le S.A. in the amount of R$271,495 (R$309,520 as of December 31, 2014).

Financing contracts with the International Finance Corporation (IFC) and contracts before BNDES contain covenants that include partial or total early maturity when certain financial indices (current liquidity, long-term indebtedness and debt coverage) are not reached. As of December 31, 2015, established indices were met the Company.

Fundopem/RS

In December 2006, the Company and its subsidiaries entered into a Term of Adjustment with Rio Grande do Sul State (RS) to adhere to Fundopem/RS (_Fundo Operação Empresa_ of Rio Grande do Sul State).

Tax incentive is the postponement of monthly-generated portion of ICMS debt payment, with grace period of 54 months and payment period of 54 months and payment of 96 months, adjusted at IPCA/IBGE and interest rate of 3% p.a. Debt portion with postponed payment is calculated based on increase in billings, increase in ICMS debt generation and job generation, as defined in the Adjustment Term Fundopem – RS.

To increase financed value, the Company and its subsidiaries comply with all requirements for obtaining this type of incentive, as follows:

a) Monthly incremental gross billing;
b) Monthly incremental ICMS;
c) Number of direct incremental employments.

_Vendor_

As of December 31, 2015, the Company has financial vendor transactions that are outstanding with its clients in the amounts of R$2,155 at parent company and R$2,578 at consolidated (R$2,169 at parent company and R$2,459 at consolidated as of December 31, 2014) in which the Company takes part in these transactions as intervening guarantor.

In these transactions, the Company settles outstanding transactions in case client in debt with accounts receivable linked to transactions does not pay the financial institution within the period agreed-upon by the parties.

Beginning as of March 2014, these transactions are guaranteed by Banco Randon S.A., and the latter assumes part of risks related to client’s default and/or payment after maturity.

Amount recognized as financial liability is a contra-entry to amounts advanced by the financial institution to the Company, whose original accounts receivable has not yet be derecognized, considering retention of risks by the Company in relation to client’s default and/or payment after maturity. These transactions’ average repayment term is 22 days.

# 18 Capital and reserves

Authorized shares

| | **2015** | **2014** |
|---|---|---|
| Common shares | 300,000 | 300,000 |

Issued and fully paid-up common shares

| | **In thousands** | **R$** |
|---|---|---|
| **As of December 31, 2015 and 2014** | 124,973 | 300,000 |

Profit reserves and retention

*Legal reserve*

The legal reserve is set up at the rate of 5% of the net income determined in each financial year, pursuant to article 193 of Law 6404/76 up to the limit of 20% of the capital.

*Reserve for investment and working capital*

It is intended to ensure investments in assets of fixed assets and increase working capital, including the amortization of Company debts, as well as the financing of subsidiaries. It is formed with the balance of income after it deducted the mandatory dividend and will limit the amount that can not exceed, with the legal reserve, the amount of share capital.

Other comprehensive income

Breakdown of Other comprehensive income in shareholders' equity is as follows:

| | | **Equity evaluation adjustment** | | |
|---|---|---|---|---|
| | **Foreign exchange rate of foreign investments** | **Hedge accounting** | **Actuarial evaluation** | **Total** |
| Balances at December 31, 2014 | 8,114 | (7,786) | 547 | 41,466 |
| Additions (write-offs) in the year | 15,091 | (25,233) | (575) | (10,717 ) |
| **Balances at December 31, 2015** | **23,205** | **(33,019)** | **(28)** | **(9,842)** |

*Cash flow hedge*
Contains effective portion of cash flow hedges up to balance sheet date. Effective portion of gains or losses on cash flow hedges, in the amount of R$25,233 (R$7,433 in 2014), which represents changes in cash flow hedges and effective portion of contracts, net of taxes, is also accounted for as a separate component.

*Reserve for foreign currency translation*
The reserve for translation into foreign currency is used to account for foreign exchange differences deriving from translation of foreign subsidiaries` financial statements, and is also used to account for hedge effect on net investments in foreign operations.

*Reserve for adjustment of deemed cost for property, plant and equipment*
Established as a result of evaluation at fair value of property, plant and equipment assets in accordance with accounting policies adopted in Brazil, which include rules of the Brazilian Securities and Exchange Commission (CVM) and pronouncements of the Accounting Pronouncements Committee (CPC), based on appraisal report prepared by a specialized company.

Deferred income tax and social contribution corresponding to property, plant and equipment deemed cost are accounted for in non-current liabilities.

The reserve for adjustment of property, plant and equipment deemed cost is being realized according to depreciation of evaluated assets recorded in the parent company against accumulated earnings, net of tax charges. The same effect is reflected in income for the year through depreciation at deemed cost of evaluates assets.

# 19 Dividends

Dividends

The Company's bylaws determine the distribution of a minimum dividend of 25% of net income, adjusted in accordance with Law Nº 6.404/76 as amended by Law Nº 10.303/2001.

| | 2015 | 2014 |
|---|---|---|
| Net income for the year | **52,153** | 45,002 |
| Adjustments due to impact from adoption of Law no. 11,638/2007 | **2,712** | 2,922 |
| Adjusted net income for the year | **54,865** | 47,924 |
| Legal Reserve (5%) | **(2,743)** | (2,396) |
| Base profit for distribution | **52,122** | 45,529 |
| Minimum compulsory dividend (25%) | **13,030** | 11,382 |
| Interest on own capital | **13,649** | 13,100 |
| Income tax (15%) | **(2,048)** | (1,965) |
| Complementary dividends | **1,429** | 247 |
| Total minimum dividends proposed by Management | **13,030** | 11,382 |

Interest on own capital -

In accordance with the option provided in Law 9249/95, the Company computed and paid/credited interest on shareholders' equity of R$13,649 (R$13,100 as of December 31, 2014) by using the benchmark interest rate (TJLP) in effect for the year. This interest was recorded under financial expenses, as required by tax legislation. For the purposes of these financial statements, this interest was eliminated from financial expenses for the year and was charged to retained earnings.

Income and social contribution taxes for the year decreased by
R$ 4,641 (R$4,454 as of December 31, 2014) as a result of the deduction of these taxes on interest on own capital credited to shareholders.

## 20 Earnings per share

In compliance with CPC 41 (IAS 33) (approved by CVM Resolution No. 636 - Earnings per share), the Company presents the following information on the earnings per share for the years ended December 31, 2015 and 2014.

Earnings per share are basically calculated by dividing net income for the period year attributed to holders of the parent company's common shares by the weighted average number of common shares available during the year.

Diluted earnings per share are calculated by dividing net income attributed to the Parent company's common shareholders by weighted average number of common shares available in the year plus weighted average number of common shares that would be issued upon conversion of all potentially diluting common shares into common shares. The table below shows data of income and shares used in calculating basic and diluted earnings per share:

| | **2015** | **2014** |
|---|---|---|
| | **Common** | **Common** |
| Net income for the year | **52,153** | 45,002 |
| Weighted average of shares issued (in thousands) | **121,974** | 121,974 |
| Basic and diluted earnings per share | **0.43** | 0.36 |

There were no other transactions involving common shares or potential common shares from balance sheet date to financial statements closing date.

## 21 Taxes on profits

Breakdown of income tax and social contribution expenses in years ended December 31, 2015 and 2014 is summarized as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Current income tax and social contribution:** | | | | |
| Current income tax and social contribution expenses | **(23,620)** | (6,026) | **(30,568)** | (8,826) |
| **Deferred income and social contribution taxes:** | | | | |
| Regarding the formation and reversal of temporary differences | **8,535** | (4,679) | **15,694** | (3,780) |
| **Income and social contribution tax expense presented in statement of income** | **(15,085)** | (10,705) | **(14,874)** | (12,606) |

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Consolidated statement of comprehensive income** | | | | |
| Deferred income and social contribution taxes related to items directly charged from or added to shareholders' equity during the year: | | | | |
| Actuarial Evaluation Adjustment - Randonprev | **(296)** | (78) | **(296)** | (78) |
| Equity evaluation adjustment - Hedge accounting | **(1,600)** | (142) | **(1,600)** | (142) |
| | **(1,896)** | (220) | **(1,896)** | (220) |

Reconciliation between tax expenses and result from multiplication of book income by local tax rate for years ended December 31, 2015 and 2014 is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Accounting profit before taxes | **67,239** | 55,707 | **67,337** | 57,717 |
| At tax rate of 34% | **22,861** | 18,940 | **22,895** | 19,624 |
| Benefitted expenses | **(4,011)** | (552) | **(4,011)** | (552) |
| Equity income (loss) | **1,215** | (534) | **-** | - |
| Interest on own capital | **(4,641)** | (4,454) | **(4,641)** | (4,454) |
| Derivative instruments | **(1,600)** | (142) | **(1,600)** | (142) |
| Other non-deductible expenses | **1,261** | (2,553) | **2,231** | (1,870) |
| | **15,085** | 10,705 | **14,874** | 12,606 |
| Effective rate | **22,43%** | 19.22% | **22,09%** | 21.84% |

## Deferred income and social contribution taxes

Deferred income and social contribution tax refers to:

Parent company:

| | Balance sheet | | Shareholders' equity | | Income (Loss) | |
|---|---|---|---|---|---|---|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| Provision for commissions and freights | **994** | 974 | **-** | - | **20** | (490) |
| Allowance for doubtful accounts | **2,490** | 702 | **-** | - | **1,788** | (586) |
| Provision for contingencies | **231** | 151 | **-** | - | **80** | (756) |
| Provision for obsolete inventories | **1,392** | 1,618 | **-** | - | **(226)** | 305 |
| Derivative operations | **1,117** | (2,752) | **(1,600)** | 142 | **3,867** | (2,890) |
| Adjustments from Laws 11,638/07 and 11,941/09 | **575** | 299 | **-** | - | **276** | (94) |
| Provision for termination of employees | **669** | 866 | **-** | - | **(197)** | 146 |
| Profit sharing with officers and employees | **2,054** | 1,850 | **-** | - | **204** | 191 |
| Sundry provisions and others | **2,339** | 2,691 | **-** | - | **(352)** | 1,411 |
| Randonprev - Actuarial evaluation | **(430)** | (198) | **(296)** | (78) | **(232)** | 309 |
| "Deemed value" adjustment of property, plant and equipment | **(19,514)** | (20,910) | **-** | - | **1,396** | 1,506 |
| Unearned income from inventories | **8,529** | 2,401 | **-** | - | **6,128** | 112 |
| Favorable purchase - Controil | **(650)** | (1,227) | **-** | - | **577** | 430 |
| Depreciation - useful life / tax | **(11,164)** | (8,266) | **-** | - | **(2,898)** | (4,337) |
| **Income (expense) from income tax (expense) and deferred social contribution** | | | | | **10,431** | (4,743) |
| **Deferred tax liabilities** | **(11,368)** | (21,801) | | | | |
| **Shareholders' equity** | | | (1,896) | 64 | | |

## Consolidated:

| | Balance sheet | | Shareholders' equity | | Income (Loss) | |
|---|---|---|---|---|---|---|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| Tax loss carryforwards | **32,389** | 22,206 | **2,411** | (2,471) | **10,184** | 5,445 |
| Provision for commissions and freights | **994** | 974 | **-** | - | **20** | (490) |
| Allowance for doubtful accounts | **2,512** | 716 | **-** | - | **1,796** | (572) |
| Provision for contingencies | **437** | 357 | **-** | - | **80** | (1,181) |
| Provision for obsolete inventories | **1,523** | 1,652 | **-** | - | **(129)** | 339 |
| Derivative operations | **1,117** | (2,752) | **(1,600)** | 142 | **3,867** | (2,890) |
| Adjustments from Laws no. 11,638/07 and no. 11,941/09 | **633** | 302 | **-** | - | **331** | (91) |
| Provision for termination of employees | **669** | 866 | **-** | - | **(197)** | 146 |
| Profit sharing with officers and employees | **2,054** | 1,850 | **-** | - | **204** | 191 |
| Sundry provisions | **2,361** | 2,845 | **-** | - | **(484)** | 1,565 |
| Randonprev - Actuarial evaluation | **(430)** | (198) | **(296)** | (78) | **(232)** | 309 |
| "Deemed value" adjustment of property, plant and equipment | **(23,828)** | (25,850) | **-** | - | **2,022** | 2,084 |
| Favorable purchase - Controil | **(650)** | (1,227) | **-** | - | **577** | 430 |
| Depreciation - useful life / tax | **(13,117)** | (10,257) | **-** | - | **(2,860)** | (6,328) |
| Other | **-** | - | **-** | - | | (330) |
| **Income from income tax and social contribution taxes** | | | | | **15,179** | (1,373) |
| **Deferred tax (liabilities)** | **(23,949)** | (21,944) | | | | |
| **Deferred tax assets** | **30,613** | 13,428 | | | | |
| **Shareholders' equity** | | | **515** | (2,407) | | |

# 22 Net sales

Breakdown of net income from sales is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Gross income from sales | **731,684** | 739,125 | **1,104,779** | 995,611 |
| Return of sales | **(1,437)** | (1,516) | **(3,250)** | (3,010) |
| Adjustment to present value | **(13,074)** | (9,195) | **(13,738)** | (9,719) |
| Taxes on sale | **(175,448)** | (182,931) | **(212,765)** | (218,205) |
| **Net operating income** | **541,725** | 545,483 | **875,026** | 764,677 |

# 23 Expenses per type

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Expenses by nature** | | | | |
| Cost of products sold and services rendered | **(361,191)** | (390,667) | **(619,441)** | (560,041) |
| Sales expenses | **(55,530)** | (55,192) | **(88,188)** | (69,878) |
| Administrative and general expenses | **(39,442)** | (35,170) | **(65,426)** | (52,387) |
| Management remuneration | **(3,702)** | (3,428) | **(3,702)** | (3,428) |
| Other operating expenses | **(23,742)** | (12,173) | **(29,476)** | (14,783) |
| | **(483.607)** | (496,630) | **(806,233)** | (700,517) |
| **Expenses per type** | | | | |
| Depreciation and amortization | **(27,456)** | (26,640) | **(41,585)** | (38,004) |
| Personnel expenses | **(148,077)** | (146,375) | **(213,910)** | (193,199) |
| Raw materials and use and consumption materials | **(176,191)** | (211,856) | **(366,209)** | (315,315) |
| Freight | **(18,081)** | (18,152) | **(26,322)** | (25,206) |
| Electric power | **(11,775)** | (9,533) | **(19,873)** | (16,061) |
| Commissions | **(5,772)** | (7,833) | **(8,372)** | (9,046) |
| Conservation and maintenance | **(14,035)** | (13,071) | **(29,949)** | (19,668) |
| Other expenses | **(82,220)** | (63,170) | **(100.013)** | (84,018) |
| | **(483,607)** | (496,630) | **(806.233)** | (700,517) |

## 24 Expenses with employees and profit sharing

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Salaries and wages | **120,966** | 119,307 | **161,336** | 160,690 |
| Social security costs | **3,004** | 2,902 | **7,728** | 6,616 |
| Costs related to retirement | **979** | 938 | **979** | 938 |
| | **124,949** | 123,147 | **170,043** | 168,244 |

The participation of employees was calculated as provided in the Profit Sharing Program approved in unions of categories in accordance with the provisions of Law No. 10,101 of December 19, 2000. The profit sharing amount as of December 31, 2015, was R$10,031 (R$ 7,215 as of December 31, 2014).

## 25 Research and development costs

The research and development costs entered as expenses in the income statement, in the line items for sales expenses and general and administrative expenses, during the year total R$5,607 (R$6,449 as of December 31, 2014).

## 26 Financial income (loss)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Financial income: | | | | |
| Foreign exchange rate | **94,409** | 32,749 | **95,207** | 33,231 |
| Interest on yields from interest earning bank deposits | **24,016** | 20,855 | **24,070** | 21,099 |
| Gains from other derivatives transactions | **3,814** | 2,362 | **3,814** | 2,362 |
| Adjustment to present value | **12,409** | 8,981 | **13,057** | 9,505 |
| Other financial income | **1,025** | 2,986 | **1,871** | 3,202 |
| | **135,673** | 67,933 | **138,019** | 69,399 |
| Financial expenses: | | | | |
| Foreign exchange rate | **(84,394)** | (30,336) | **(84,678)** | (30,640) |
| Interest on financing | **(17,876)** | (15,383) | **(31,919)** | (24,627) |
| Losses from other derivatives transactions | **(7,056)** | (1,267) | **(7,056)** | (1,267) |
| Adjustment to present value | **(2,343)** | (2,315) | **(3,141)** | (2,653) |
| Other financial expenses | **(23,228)** | (15,205) | **(24,757)** | (19,122) |
| | **(134,897)** | (64,506) | **(151,551)** | (78,309) |
| Financial income (loss) | **776** | 3,427 | **(13,532)** | (8,910) |

# 27 Objectives and policies for financial risk management

The Company and its subsidiaries are parties in transactions involving financial instruments, all recorded in assets and liabilities, which are designed to satisfy their needs, and to reduce exposure to financial risks, especially risks related to credits and funding, market risks (foreign exchange and interest) and liquidity risks, which the Company understands that is exposed, according to the business nature and operational structure.

A portion of the income of the Company and its subsidiaries are generated from trading products in the foreign market. Thus, exchange rate volatility is associated with the market risks to which the Company and its subsidiaries are exposed.

In addition, the Company and its subsidiaries contract financing transactions in the financial market at fixed or floating rates. Therefore, the Company is exposed to the of interest rate variation in indebtedness contracted at floating interest rates.

Fair values are determined based on market price quotations, when available, or, in their absence, on present value of expected cash flows. Fair values of cash and cash equivalents, trade accounts receivable, short-term debt and accounts payable to suppliers are equivalent to book values. Fair values of other long-term assets and liabilities do not significantly differ from their carrying amounts.

The management of these risks is performed by means of the definition of strategies prepared and approved by Company's Management, tied to establishment of control systems and determination of limits of positions.

The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

The Company's risks are as follows:

Market risk

The market risk is the risk that the fair value of future cash flows of a financial instrument will float due to variations in market prices. Market prices comprise three types of risk: interest rate risk, exchange risk, and price risk, that may be from commodities, shares, among others. Financial instruments affected by market risk include loans receivable and payable, deposits, financial instruments measured at fair value through profit or loss and derivative financial instruments.

We compare below a comparison by class of book value and fair value of financial instruments of the Company presented in the financial statements:

Parent company:

| | Note | Hierarchy | Book value 2015 | Book value 2014 | Fair value 2015 | Fair value 2014 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Fair value through profit or loss** | | | | | | |
| Cash and cash equivalents | 6 | (2) | **119,656** | 155,219 | **119,656** | 155,219 |
| **Loans and receivables** | | | | | | |
| Interest earning bank deposits | 7 | (2) | **55,008** | 77,817 | **55,003** | 77,596 |
| Trade accounts receivable | 8 | (2) | **173,686** | 99,718 | **173,686** | 99,718 |
| **Liabilities** | | | | | | |
| **Liabilities at the amortized cost** | | | | | | |
| Vendors | | (2) | **(28,133)** | (25,147) | **(28,133)** | (25,147) |
| Loans and financing | 17 | (2) | **(324,895)** | (327,700) | **(325,053)** | (327,530) |
| **Fair value through profit or loss** | | | | | | |
| Derivative financial instruments | 27 | (2) | **(429)** | (144) | **(429)** | (144) |
| Total | | | **(5,107)** | (20,489) | **(5,270)** | (20,540) |

Consolidated:

| | Note | Hierarchy | Book value 2015 | Book value 2014 | Fair value 2015 | Fair value 2014 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| | | | | | **161,895** | |
| **Fair value through profit or loss** | | | | | | |
| Cash and cash equivalents | 6 | (2) | **161,895** | 176,237 | | 176,237 |
| **Loans and receivables** | | | | | | |
| Interest earning bank deposits | 7 | (2) | **55,008** | 77,817 | **55,003** | 78,038 |
| Trade accounts receivable | 8 | (2) | **75,507** | 76,543 | **75,507** | 76,543 |
| **Liabilities** | | | | | | |
| **Liabilities at the amortized cost** | | | | | | |
| Vendors | | (2) | **(42,960)** | (40,481) | **(42,960)** | (40,481) |
| Loans and financing | 17 | (2) | **(382,158)** | (402,150) | **(382,316)** | (401,980) |
| **Fair value through profit or loss** | | | | | | |
| Financial instruments derivatives | 27 | (2) | **(429)** | (144) | **(429)** | (144) |
| Total | | | **(133,137)** | (112,430) | **(133,300)** | (112,039) |

Fair value hierarchy

The Company uses the following hierarchy to determine and disclose the fair value of financial instruments using the valuation technique:

Level 1: prices quoted (without adjustments) in active markets for identical assets and liabilities;

Level 2: other techniques for which all data that has significant effect on the recorded fair value is observable, either directly or indirectly;

Level 3: Techniques that use data that have significant effect on the recorded fair value that are not based on data observable in the market.

The Company only has derivative financial instruments valued at fair market value based on a Level 2 valuation technique. No transfers were made between levels 1, 2, and 3 during the year ended December 31, 2015.

Interest rate risk

Interest rate risk is the risk that fair values of a financial instrument future cash flows fluctuate due to variation in market interest rates.

The exposure to the risk of changes of the Company in market interest rates refer mainly to long-term obligations subject to variable interest rates.

The Company manages the interest rate risk by keeping a portfolio that is balanced between loans receivable and loans payable that are subject to fixed and variable rates. To mitigate these risks, the Company and its subsidiaries adopt a practice to diversify fund raisings in terms of pre-fixed or post-fixed rates, constantly analyze the risks for financial institutions and, under certain circumstances, evaluate the need for hiring hedge transactions to lock the financial cost of the operations.

The income from interest earning bank deposits, as well as financial expenses from the Company's loans and financings are affected by the variations in the interest rates, such as TJLP (Long-term interest rate), IPCA (Amplified Consumer Price Index), Libor, URTJ, US$ and CDI (Interbank Deposit Certificate).

Interest rate sensitivity

The table below shows the sensitivity to a possible change in the interest rates, keeping all the other variables constant in the Company's income before taxation (it is affected by the impact of the loans payable subject to variable rates).

Three scenarios were taken into account, and the one that was most likely to occur was adopted by the Company, plus two scenarios with 25% and 50% depreciation of the risk variable considered. These scenarios were defined based on the management's expectation on interest rate variations on the maturity dates of the respective contracts subject to these risks.

The sensibility analysis takes into account the open positions as of the base date of December 31, 2015, based on face values and interests of each instrument hired.

**DETERIORATION OF FINANCIAL INCOME**

| Operation | Currency | Scenario Probable | Scenario Possible | Scenario Remote |
|---|---|---|---|---|
| Interest earning bank deposits | R$ | 24.697 | 18.523 | 12.349 |

| | Rate appreciation | | 25% | 50% |
|---|---|---|---|---|
| **Reference for Financial Income** | | **Probable** | **Possible** | **Remote** |
| CDI % | | 14,1% | 10,6% | 7,1% |

**INCREASE IN FINANCIAL EXPENSES**

| | Currency | Scenario Probable | Scenario Possible | Scenario Remote |
|---|---|---|---|---|
| Financial institutions | R$ | 27.562 | 34.957 | 42.926 |

| | Rate appreciation | | 25% | 50% |
|---|---|---|---|---|
| **Reference for financial liabilities** | | **Probable** | **Possible** | **Remote** |
| TJLP | | 7% | 8,8% | 10,5% |
| URTJ | | 4,1% | 5,1% | 6,1% |
| US$ | | 3,97 | 4,97 | 5,96 |
| CDI | | 14,1% | 17,7% | 21,2% |
| LIBOR Semestral | | 0,8% | 1,1% | 1,3% |
| IPCA | | 10,7% | 13,3% | 16% |

Exchange risk

The Company adopts the hedge accounting method, pursuant to the market practices (CPC 38) and its internal regulation, for the purpose of eliminating foreign exchange rate volatility from the Company's income.

As from January 2014, the Company formally appointed, for cash flow hedge accounting, the derivatives instruments to cover their highly likely future exports, in dollars, with aims to reduce the volatility of export income as a result of changes to the exchange rate for Real.

The adoption is supported by the effectiveness of expectations of exports over time, when compared to the flow of maturities of the commitments subject to changes in foreign currency, mostly the US dollar, which are diluted in the long term.

This practice aims to more properly reflect the Company's income in terms of assets and liabilities that are exposed to foreign currency variation.

Hedge structure consists in covering a group of liabilities, steady commitments, transactions estimated as highly likely with risk characteristics that are similar to those of imports to be established in foreign currency (U.S. dollar - USD), against the exchange rate fluctuation risk in relation to reais - BRL, by adopting, as its current coverage instrument, non-derivative financial instruments (financings) with values and maturities that correspond to the budget for sale of manufactured products.

Foreign exchange risk is the risk that fair values of a financial instrument future cash flows fluctuate due to variations in foreign exchange rates. The Company's exposure to the exchange rate fluctuation risk is mainly due to the Company's operational activities (when income or expenses are shown in a currency other than its functional currency) and to the Company's net investments in its foreign subsidiaries.

The Company operates at an international level and is exposed to the exchange rate risk resulting from exposures of certain currencies, particularly in relation to the U.S. dollar, which, in the year ended on December 31, 2015, had a negative fluctuation of 47.01% (positive 13.38% as of December 31, 2014). The exchange rate risk is also a result of business and financial transactions, recognized assets and liabilities, and net investments abroad. The Company and its subsidiaries manage their exchange rate risk in relation to their functional currency. In addition to the accounts receivable arising from exports in Brazil and investments abroad which are classified as natural hedge, the Company constantly assesses its exchange rate exposure and, whenever necessary, hires a derivative financial instrument for protection purposes only (hedge).

Additionally, the Company designates "Financing" transactions with aims to protect the exposure of highly likely future sales in currencies other than its functional currency. These transactions are documented to be recorded using the hedge accounting methodology, in conformity with CPC 38 (R1). The Company records in a specific account of shareholders' equity unrealized effects of these instruments contracted for own transactions.

These transactions are directly carried out with financial institutions. The impact on the cash flow of the Company and its subsidiaries only occurs on the settlement date of the contracts. However, it should be considered that the settlement of these financial operations is associated with the receipt of sales, which are also associated with foreign exchange rate, hence offsetting any gains or losses in the hedging instruments due to variations in the foreign exchange.

**Financial instruments designated as hedge accounting:**

| Reference Year | Designated Value in USD (Hedge Instruments) | Reference Month | Designated Sales in USD (Hedge item) |
|---|---|---|---|
| 2016 | 5.454 | mar/16 | 5.454 |
| 2017 | 5.454 | set/16 | 5.454 |
| 2018 | 5.455 | mar/17 | 5.455 |
| 2019 | 2.728 | set/17 | 2.728 |
| **Total** | **19.091** | **Total** | **19.091** |

As of December 31, 2014 and December 31, 2013, the foreign exchange rate exposure of the Company and its subsidiaries for foreign currency transactions is as follows:

| | | US$ thousand | | | |
|---|---|---|---|---|---|
| | | Parent company | | Consolidated | |
| | | 2015 | 2014 | 2015 | 2014 |
| A. | Net assets in U.S. dollars | **63.900** | 62.598 | **17.583** | 32.372 |
| B. | Loans/financings in U.S. dollars | **47.078** | 57.964 | **60.570** | 82.919 |
| C. | Fair value of derivative financial instruments | **(110)** | (54) | **(110)** | (54) |
| D. | Future designated exports for Hedge Accounting – Revenue sales in foreing currency | **19.091** | 24.545 | **19.091** | 24.545 |
| E. | Surplus (Deficit) assessed (A-B+C) | **35.803** | 29.125 | **(24.006)** | (26.056) |

Sensitivity to foreign exchange rate

The table below shows sensitivity to a fair variation that may occur in Dollar exchange rate, remaining constant all other variables, and in the Company’s income before taxation (due to changes in the fair value of assets and monetary assets and liabilities) and Company’s shareholders’ equity. Three scenarios are also taken into account, and the one that is most likely to occur is adopted by the Company, plus two scenarios with 25% and 50% depreciation of the risk variable considered. These scenarios were defined based on the management's expectation on foreign exchange rates on the maturity dates of the respective contracts subject to these risks.

| | | Parent company | | |
|---|---|---|---|---|
| **Operation** | **Risk** | **Probable scenario** | **Possible scenario** | **Remote scenario** |
| Net instrument exposure financial | Appreciation of the USD | 139,803 | 174,754 | 209,705 |
| | Decrease of US$ | 139,803 | 104,852 | 69,902 |

| | | Consolidated | | |
|---|---|---|---|---|
| **Operation** | **Risk** | **Probable scenario** | **Possible scenario** | **Remote scenario** |
| Net instrument exposure financial | Appreciation of the USD | (93,738) | (117,172) | (140,606) |
| | Decrease of US$ | (93,738) | (70,303) | (46,869) |

The Company's Capital Management main objective is to ensure that the Company maintains a strong credit score and capital ratio free from problems in order to support businesses and maximize shareholders' value.

The Company administrates capital structure and adjusts it considering changes in economic conditions. The capital structure results from the choice between own capital (capital transfers and profit retention) and third party capital that the Company and its subsidiaries make to finance its operations. To mitigate liquidity risks and optimize capital weighted average cost, the Company and its subsidiaries permanently monitor indebtedness level in accordance with market standards and index compliance ("covenants") provided for in loan and financing contracts.

Capital structure risk

No change has occurred as regards goals, policies, or processes during the year ended December 31, 2015 and year ended December 31, 2014.

The Company includes in its net debt any loans and financings with yields, less cash flow and cash equivalents and interest earning bank deposits, as stated below.

| **Parent company** | **Note** | **2015** | **2014** |
|---|---|---|---|
| Loans and financing | 17 | 324,895 | 327,700 |
| (-) Cash and cash equivalents and interest earning bank deposits | 6 and 7 | (174,664) | (233,036) |
| Net debt | | 150,231 | 94,664 |
| Average | | 432,142 | 408,060 |
| Shareholders' equity and net debt | | 582,373 | 502,724 |
| Leverage ratio | | 26% | 19% |

| **Consolidated** | **Note** | **2015** | **2014** |
|---|---|---|---|
| Loans and financing | 17 | 382,158 | 402,150 |
| (-) Cash and cash equivalents and interest earning bank deposits | 6 and 7 | (216,903) | (254,054) |
| Net debt | | 165,255 | 148,096 |
| Average | | 432,142 | 408,060 |
| Shareholders' equity and net debt | | 597,397 | 556,156 |
| Leverage ratio | | 28% | 27% |

Guarantees

The Company has no financial assets pledged as collateral, at December 31, 2015 and 2014.

Credit risk

Credit risk is the risk of a business counterpart not complying with obligations provided in a financial instrument or contract with client, resulting in financial loss. The Company is exposed to credit risk during their operating and financing activities (mainly in relation to accounts receivable), including deposits in banks and financial institutions, foreign exchange transactions and other financial instruments.

Accounts receivable

The client's credit risk is managed by each business unit, subject to the procedures, controls and policies established by the Company in relation to this risk. Credit limits are established for all clients based on internal rating criteria. Client credit quality is evaluated based on an internal rating system and loss history. Client receivables outstanding are monitored frequently. As of December 31, 2015, the Company had approximately 32 customers that owed more than R$1,075 each (as of December 31, 2014, there were 14 customers owing R$1,050 each), and they are responsible for approximately 70% of all owed receivables. Other 30% were represented by 250 customers, which owed an average of approximately R$57 each. The need for a provision for impairment is analyzed on each closing on an individual basis for the main clients. Besides, a large number of accounts receivable with lower balances is grouped into homogeneous groups and, in those cases, the impairment is collectively assessed.

The calculation is based on actual historical data. The maximum exposure to credit risk at the base date is the amount recorded mentioned in Note 8.

Financial instruments and cash deposits

Balance credit risk in banks and financial institutions is administered by the Company’s treasury in accordance with the policy established. Any surplus funds are only invested in financial institutions that are authorized and approved by the Planning and Finances Committee, as guaranteed by the Executive Board, subject to defined credit limits, which are established so as to minimize risk concentration and thus mitigate any financial loss in case of potential bankruptcy of a counterparty.

Liquidity risk

The liquidity risk consists of the eventuality of the Company and its subsidiaries not having sufficient financial resources to honor their commitments on account of the different currencies and settlement terms of their rights and obligations.

The cash flow and liquidity control of the Company and its subsidiaries is monitored on a daily basis by Company management function, so as to ensure that cash operating generation and previous fund raising, as necessary, are sufficient to maintain payment schedule, thus not generating liquidity risk for the Company and its subsidiaries.

The table below summarizes the maturity profile of the financial liability of the Company and its subsidiaries as of December 31, 2015, based on contractual payments not discounted.

Parent company:

| **Year ended December 31, 2015** | **Less than3 months** | **3 to 12 months** | **1-5 years** | **Over5 years** | **Cash Flow** | **Book Value** |
|---|---|---|---|---|---|---|
| Loans and financing | 33,383 | 90,771 | 187,238 | 13,503 | 352,227 | 324,895 |
| Vendors | 25,820 | 2,313 | - | - | 28,133 | 28,133 |
| | **59,203** | **93,084** | **187,238** | **13,503** | **380,360** | **353,028** |

Consolidated:

| **Year ended December 31, 2015** | **Less than3 months** | **3 to 12 months** | **1-5 years** | **Over5 years** | **Cash Flow** | **Book Value** |
|---|---|---|---|---|---|---|
| Loans and financing | 48,677 | 102,205 | 217,773 | 13,503 | 413,863 | 382,158 |
| Vendors | 39,316 | 3,644 | - | - | 42,960 | 42,960 |
| | **87,993** | **105,849** | **217,773** | **13,503** | **456,823** | **425,118** |

<u>Derivative financial instruments</u>

The Company has the policy of making transactions with derivative financial instruments for the purpose of mitigating or eliminating risks inherent to its operations.

The management of the Company and its subsidiaries permanently monitors its derivative financial instruments through its internal controls.

Currently, the derivative financial instruments hired by the Company, all of which registered with CETIP, are a result of exchange rate risks, for the particular purpose of protecting its estimated exposure in a foreign currency.

Derivative instruments contracted by the Company derived substantially from NDF (Non Deliverable Forward) transactions intended to hedge expected future sales to and purchases from customers and suppliers abroad; the Company expects these transactions to be realized on a highly probable basis. In this transaction mode, the Company has duties and obligations based on a previously hired quote upon its expiration, that is, the futures contract entered by the Company have no fluctuation margins. Net income is recorded at the accrual basis in its financial statements.

In the chart below we present the positions of the Company, verified on December 31, 2015, with the nominal and fair values of each instrument contracted:

| | Reference value | | Reference value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notional - in thousands of US$ | | Notional - In thousands of R$ | | Fair value - in thousands of Brazilian Reais (R$) - (credit) / debit | | Accumulated effect as of December 31, 2014 - in thousands of Brazilian Reais (R$) (credit) / debit | | Accumulated effect as of December 31, 2013 - in thousands of Brazilian Reais (R$) (credit) / debit | |
| **Description / Counterparty** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **Amount Received** | **Amount paid** | **Amount received** | **Amount paid** |
| NDF (Non-deliverable forward) - Sale | **1,000** | 11,900 | **2,693** | 2,693 | **(429)** | (144) | **36** | (5,301) | **940** | (66) |
| Total | **1,000** | 11,900 | **2,693** | 2,693 | **(429)** | (144) | **36** | (5,301) | **940** | (66) |

In the chart below we present the opening of foreign exchange derivatives by counterparty:

| | Reference value (notional) | | | | Fair value | | |
|---|---|---|---|---|---|---|---|
| **Description** | **Description** | **Currency** | **2015** | **2014** | **Currency** | **2015** | **2014** |
| Santander | Sale | **USD** | **1,000** | - | **R$** | **(429)** | - |
| Banco do Brasil | Sale | **USD** | **-** | 500 | **R$** | **-** | 71 |
| ABC | Sale | **USD** | **-** | 500 | **R$** | **-** | 73 |
| **Total** | | | **1,000** | 1,000 | | **(429)** | (144) |

Below are summarized the maturities of these operations, in thousands of dollars:

| | 2015 | | | 2014 |
|---|---|---|---|---|
| **Description** | **30 days** | **31 to 180 days** | **Total net** | **Total net** |
| NDF | 500 | 500 | **1,000** | 1,000 |
| Total | 500 | 500 | **1,000** | 1,000 |

Below are shown, as per their fair value, the gains and losses in the years ended on December 31, 2015 and 2014, grouped by the main risk categories:

| | | Gains and losses recorded in income (loss) | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Assigned to Gross Revenues on** | | **Assigned to Financial Income on** | | **Gains and losses recorded in Shareholders' equity*** | |
| **Description** | **Currency** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| **Hedge operations** | | | | | | | |
| **Foreign exchange** | | | | | | | |
| NDF Contracts (*Non Deliverable forwards)* | | **(5,209)** | (2,767) | (4,193) | (951) | **4,843** | 135 |
| **TOTAL** | | **(5,209)** | **(2,767)** | **(4,193)** | **(951)** | **4,843** | **135** |

* Amount without the effects of taxes.

The following chart shows three scenarios, and the one that is likely to occur is adopted by the Company. These scenarios were defined based on the management's expectation on foreign exchange rates on the maturity dates of the respective contracts subject to these risks. In addition to this scenario, CVM through Instruction No. 475 determined that other two scenarios were presented with erosion of 25% and 50% of the variable of risk considered. These scenarios are being presented according to the CVM regulation.

| | | Parent company e Consolidated | | |
|---|---|---|---|---|
| **Operation** | **Risk** | **Probable scenario** | **Possible scenario** | **Remote scenario** |
| Non Deliverable Forward - NDF (sale) | Appreciation of the USD | (429) | (1,444) | (2,447) |

# 28 Commitments

Guarantees

As of December 31, 2015 and December 31, 2014, the Company had the following guarantee amounts represented by guarantees, sureties, fiduciary property, and mortgages:

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | **Type of guarantee** | **2015** | **2014** | **2015** | **2014** |
| Freios Controil Ltda | Surety | **3,958** | 6,750 | **3,958** | 6,750 |

# 29 Information per segment

For managing purposes, the Company is divided into business units, based on the products and services, with two operating segments that are subject to information disclosure and they are:

Assembling industry: refers to consolidated income for the years ended December 31, 2015 and 2014 of Fras-le S.A. for friction materials to the assembling market.

Replacement industry: refers to consolidated income for the years ended December 31, 2015 and 2014 of Fras-le S.A. for friction materials to the parts replacement market.

Management separately monitors operating income of its business units in order to make decisions on allocation of resources and performance evaluation. Segment performance is evaluated based on the operating income (loss), and the financings of the Company (including financing income and expenses) and any taxes on profit are managed by the Company as a whole, and are not assigned to the operating segments.

a) Information per business segment

| | Automobile manufacturers | | Replacement | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Net income to third parties | **131,038** | 132,446 | **743,988** | 632,231 | **875.026** | 764,677 |
| Cost of goods sold and of services rendered | **(101,281)** | (111,651) | **(518,160)** | (448,390) | **(619.441)** | (560,041) |
| **Gross income** | **29,757** | 20,795 | **225,828** | 183,841 | **255,585** | 204,636 |

| | 2015 | 2014 |
|---|---|---|
| Operating expenses | **(174.717)** | (138.009) |
| Net financial income (loss) | **(13.532)** | (8.910) |
| **Profit of the segment (before income tax)** | **67.336** | 57.717 |

Operating Expenses, Assets and Liabilities were not disclosed per industry, as these items are administrated in the ambit of the Company and are not informed separately to the person responsible for making decisions.

b) Net sales per geographic segments

| | Automobile manufacturers | | Replacement | | Total consolidated | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Region: | | | | | | |
| Domestic market | **78,538** | 86,710 | **350,347** | 319,916 | **428,885** | 406,626 |
| Nafta | **48,397** | 42,662 | **177,345** | 128,728 | **225,742** | 171,390 |
| Europe | **533** | 1,055 | **35,912** | 33,073 | **36,445** | 34,128 |
| Mercosul | **-** | - | **134,660** | 99,248 | **134,660** | 99,248 |
| Africa | **-** | - | **17,591** | 20,538 | **17,591** | 20,538 |
| Asia and Oceania | **3,570** | 2,019 | **9,691** | 10,054 | **13,261** | 12,073 |
| Other | **-** | - | **18,442** | 20,674 | **18,442** | 20,674 |
| Total | **131,038** | 132,446 | **743,988** | 632,231 | **875,026** | 764,677 |

The income-related information above has taken the client's location into account.

# 30 Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks for amounts considered to be sufficient to cover eventual claims, considering the nature of its activity.

The main insurance coverage as of December 31, 2015 and 2014:

| | | Consolidated | |
|---|---|---|---|
| | | Total Indemnity limit | |
| | **Risk covered** | **2015** | **2014** |
| Buildings, inventories, machinery and loss of profit | Fire, windstorm, electrical damage and general risks. | **431,650** | 692,091 |
| Export credit | Commercial and political | **72,239** | 4,151 |
| Automobiles | Collision and civil liability. | **428** | 580 |
| Civil liability | Manufacturing of products and Recall in country and abroad | **39,510** | 25,600 |
| Personal accidents | | **3,999** | 4,615 |
| | | **547,826** | 727,037 |