

Financial Statements

Sipcam Nichino Brasil S.A.

June 30, 2017

with Independent Auditor's Report

Sipcam Nichino Brasil S.A.

Financial statements

June 30, 2017

Contents

Independent auditor's report on financial statements	1
Audited financial statements	
Statements of financial position.....	4
Statements of profit or loss	6
Statements of comprehensive income (loss)	7
Statements of changes in equity	8
Statements of cash flows	9
Notes to financial statements	10

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

Independent auditor's report on financial statements

The
Shareholders, Board of Directors and Officers
Sipcam Nichino Brasil S.A.

Opinion

We have audited the accompanying financial statements of Sipcam Nichino Brasil S.A. (the "Company"), which comprise the balance sheet as of June 30, 2017 and the related statements of profit or loss, of comprehensive income (loss), of changes in equity and of cash flows for the six months period ended at June 30, 2017 and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sipcam Nichino Brasil S.A. as of June 30, 2017, its financial performance and its cash flows for the six months period ended at June 30, 2017, in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements defined in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other issues

Comparative balances

The amounts corresponding to the period from January 1 to June 30, 2016, presented for comparison purposes, were not audited by us nor by another independent auditor.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the overall financial statements are free from material misstatement, whether due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements may derive from fraud or error and are deemed material, individually or taken as a whole, whenever they can influence, within a reasonable perspective, the economic decisions of users made on the basis of referred to financial statements.

As part of the audit conducted in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Building a better
working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

São Paulo, September 27, 2017.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

A handwritten signature in black ink, appearing to read 'Fernando Próspero Neto', written over a light grey horizontal line.

Fernando Próspero Neto
Accountant CRC-1SP189791/O-0

Sipcam Nichino Brasil S.A.

Statements of financial position
 June 30, 2017 and 2016
 (In thousands of reais)

	Notes	06/30/2017	06/30/2016 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	3	65,125	48,382
Short-term investments	3	474	1,931
Trade accounts receivable	4	127,699	135,219
Inventories	5	55,421	46,074
Taxes recoverable	6	382	-
Derivative financial instruments	15	795	-
Other receivables		2,180	977
Total current assets		<u>252,076</u>	<u>232,583</u>
Noncurrent assets			
Trade accounts receivable	4	7,495	7,142
Taxes recoverable	6	45,478	57,577
Assets available for sale	7	6,976	677
Deferred income and social contribution taxes	8	29,799	38,133
Judicial deposits	13	971	978
Other accounts receivable from related parties	21	146	148
Investments		519	129
Property, plant and equipment	9	32,926	32,667
Intangible assets	10	26,182	25,116
Deferred assets	11	197	784
Total noncurrent assets		<u>150,689</u>	<u>163,351</u>
Total assets		<u>402,765</u>	<u>395,934</u>

	Notes	06/30/2017	06/30/2016 (unaudited)
Liabilities and equity			
Current liabilities			
Loans and financing	12	20,890	65,802
Domestic trade accounts payable		5,744	7,202
Foreign trade accounts payable - third parties		50,112	41,610
Foreign trade accounts payable - related parties	21	30,784	26,567
Payroll and related charges		3,005	3,220
Taxes payable		345	1,294
Derivative financial instruments	15	630	12,181
Other provisions		3,555	3,660
Total current liabilities		115,065	161,536
Noncurrent liabilities			
Loans and financing	12	111,488	61,668
Intercompany loans	21	58,004	60,680
Provision for contingencies	13	1,091	1,057
Total noncurrent liabilities		170,583	123,405
Equity			
Capital	14	223,897	223,897
Accumulated losses		(106,780)	(112,904)
Total equity		117,117	110,993
Total liabilities and equity		402,765	395,934

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of profit or loss

Periods from January 1, 2017 to June 30, 2017 and January 1, 2016 from June 30, 2016

(In thousands of reais, unless otherwise stated)

	Notes	06/30/2017	06/30/2016 (unaudited)
Net revenue	2.1	76,429	72,879
Cost of sales and services	16	(61,056)	(55,427)
Gross profit		15,373	17,452
Operating expenses			
Selling expenses	17.a	(6,661)	(6,829)
General and administrative expenses	17.a	(8,364)	(6,606)
Other operating expenses, net	17.b	(3,807)	(3,761)
		(18,832)	(17,196)
Income before finance income and costs and income and social contribution taxes		(3,459)	256
Finance costs	18	(50,318)	(103,732)
Finance income	18	40,500	90,837
		(9,818)	(12,895)
Loss before income and social contribution taxes		(13,277)	(12,639)
Income and social contribution taxes			
Current		-	(853)
Deferred		(4,035)	5,158
	8	(4,035)	4,305
Loss for the year		(17,312)	(8,334)
Number of shares	14	2,471,492,952	2,471,492,952
Loss per thousand shares - in reais		(7.00)	(3.37)

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of comprehensive income (loss)

Periods from January 1, 2017 to June 30, 2017 and January 1, 2016 from June 30, 2016

(In thousands of reais)

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Loss for the year	(17,312)	(8,334)
Other comprehensive income (loss)	-	-
Comprehensive income (loss)	<u>(17,312)</u>	<u>(8,334)</u>

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of changes in equity

Periods from January 1, 2017 to June 30, 2017 and January 1, 2016 from June 30, 2016
(In thousands of reais)

	Capital	Accumulated losses	Total
Balances at January 01, 2016 (unaudited)	223,897	(104,570)	119,327
Loss for the period	-	(8,334)	(8,335)
Balances at June 30, 2016 (unaudited)	223,897	(112,904)	110,993
Balances at January 01, 2017	223,897	(89,468)	134,429
Loss for the period	-	(17,312)	(17,312)
Balances at June 30, 2017	223,897	(106,780)	117,117

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of cash flows

Periods from January 1, 2017 to June 30, 2017 and January 1, 2016 from June 30, 2016
(In thousands of reais)

	06/30/2017	06/30/2016
		(unaudited)
Operating activities		
Loss before income and social contribution taxes	(13,277)	(12,639)
Noncash (income) expenses		
Write-off of property, plant and equipment and intangible assets	12	1
Increase in investments	(390)	-
Allowance for doubtful accounts	(102)	1,610
Provision for inventory obsolescence and realization	(3,651)	20
Depreciation and amortization	2,835	2,323
Deferred income - technological innovation benefit	(178)	-
Provision for losses on derivative financial instruments	(3,112)	11,939
Other provisions	853	283
Provision for contingencies	(47)	144
Interest on loans and financing	5,135	6,855
Monetary and exchange gains (losses), net	2,954	(6,960)
Decrease (increase) in operating assets		
Trade accounts receivable	58,256	51,501
Accounts receivable from related parties	-	2,572
Inventories	(15,263)	(10,527)
Taxes recoverable	4,215	(1,285)
Assets available for sale	(6,054)	60
Other accounts receivable from related parties	3	(10)
Derivative financial instruments	(795)	2,635
Other receivables	(562)	(278)
Increase (decrease) in operating liabilities		
Domestic trade accounts payable	(9,008)	(10,698)
Foreign trade accounts payable	(34,795)	(52,569)
Payroll and related charges	(982)	155
Taxes paid	(4,651)	(681)
Cash used in operating activities	(18,604)	(15,549)
Investing activities		
Increase in fixed assets and intangibles	(4,138)	(3,710)
Short-term investments	945	2,039
Cash used in investing activities	(3,193)	(1,671)
Financing activities		
New loans and financing	60,574	68,270
Loans and financing transaction cost	92	93
Repayment of loans and financing	(19,447)	(69,690)
Cash provided by (used in) financing activities	41,219	(1,327)
Net increase (decrease in) cash and cash equivalents	19,422	(18,547)
Cash and cash equivalents at beginning of year	45,703	66,929
Cash and cash equivalents at end of year	65,125	48,382
Net increase (decrease in) cash and cash equivalents	19,422	(18,547)

See accompanying notes.

Sipcam Nichino Brasil S.A.

Notes to financial statements

June 30, 2017

(In thousands of reais, unless otherwise stated)

1. Operations

Sipcam Nichino Brasil S.A., hereinafter referred to as the “Company” or “Sipcam-Nichino”, is mainly engaged in the production, formulation, repackaging, import, export, sale and distribution of agrochemicals, e.g. herbicides, insecticides, acaricides, fungicides, fertilizers, plant nutrition products and chemicals for agriculture in general.

Change in the fiscal year

Through the amendment to and consolidation of the bylaws entered into on April 26, 2017, the shareholders unanimously decided to amend the Company's bylaws, modifying the period related to the Company's fiscal year, now comprising July 1 to June 30 of each year.

2. Presentation of financial statements and summary of significant accounting practices

The Company's financial statements for the six months period ended June 30, 2017 were prepared in accordance with accounting practices adopted in Brazil.

The Company's management authorized the conclusion of the financial statements on September 27, 2017, considering the subsequent events that occurred to date, which had an effect on the financial statements.

The financial statements were prepared based on different measurement bases used to prepare accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, and in line with management's judgment for determination of appropriate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of the useful lives and recoverability of property, plant and equipment items, measurement of financial assets at fair value, credit risk analysis in determining the allowance for doubtful accounts as well as analysis of other risks in determining other provisions, including the provision for contingencies.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process.

The Company reviews its estimates and assumptions on an annual basis. See Note 2.12 for further details on estimates.

The financial statements were prepared based on the historical cost, unless otherwise stated, as described in the summary of significant accounting practices. The historical cost is generally based on the fair value of the considerations paid in exchange for assets.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.1. Determination of profit or loss

Profit or loss from transactions is recorded on an accrual basis. Revenue from sales is recognized net, i.e., less sales taxes and discounts, which are stated as a reduction thereof, as follows:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Gross revenue from sale of goods	77,801	78,153
Gross service revenue	3,986	3,727
Gross revenue	<u>81,787</u>	81,880
Sales taxes	<u>(2,546)</u>	(1,588)
Sales returns	<u>(2,812)</u>	(7,413)
Taxes on sales and services and sales returns	<u>(5,358)</u>	(9,001)
Net revenue	<u>76,429</u>	<u>72,879</u>

Sales revenue is recognized in the statement of profit or loss when its amount can be reliably measured, when all risks and rewards of ownership of the products are transferred to the buyer, when the Company no longer holds control over or responsibility for the goods sold and when economic benefits are likely to flow to the Company. Revenue is not recognized if there is a significant uncertainty about its realization. Interest income and expenses are recognized using the effective interest rate method in "Finance income (costs)".

2.2. Foreign currency-denominated transactions

Foreign currency-denominated monetary assets and liabilities are translated into the functional currency (Brazilian real) at the exchange rate prevailing at the corresponding statement of financial position date. Gains and losses arising from restatement of these assets and liabilities between the foreign exchange rate of the transaction dates and the reporting period closing dates are recognized in profit or loss as finance income or costs.

2.3. Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes. The Company considers cash and cash equivalents a short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Therefore, an investment normally qualifies as a cash equivalent when it has short-term maturity, for example, three months or less from the investment date.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Trade accounts receivable

These are stated at realizable values. An allowance was set up in an amount deemed sufficient by management to cover doubtful accounts.

2.5. Inventories

Inventories are carried at the average acquisition or production cost, not exceeding market value. Provisions for slow-moving or obsolete inventories are set up when deemed necessary by management.

2.6. Property, plant and equipment

These are recorded at acquisition cost. Depreciation is calculated on a straight-line basis at the rates mentioned in Note 9, which take into consideration the assets' estimated useful lives.

A property, plant and equipment item is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on derecognition of an asset (measured as the difference between the net disposal proceeds and the book value of the asset) are recognized in the statement of profit or loss for the year in which the asset is derecognized.

The net book value and useful lives of the assets and the depreciation methods are reviewed every year, and adjusted prospectively, when applicable.

2.7. Intangible assets

Intangible assets acquired separately are measured upon their initial recognition at acquisition cost and subsequently deducted from their accumulated amortization and impairment losses, where applicable.

Internally generated intangible assets, excluding capitalized amounts of product development costs, are recognized in profit or loss for the year in which they are generated. Intangible assets with finite useful lives are amortized according to their estimated economic useful lives and, when evidence of impairment losses is found, tested for impairment.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.8. Provision for impairment of nonfinancial assets

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment. When such evidence is identified, and net book value exceeds recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

The recoverable amount of an asset or a cash-generating unit is defined as the higher of value in use and fair value less costs to sell.

In determining the value in use of assets, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Net sales value is determined, where possible, based on firm sales agreements in a transaction carried out on an arm's length basis among knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset or, when there is no firm sales agreement, based on the market price in an active market or at the most recent transaction price with similar assets.

2.9. Other assets and liabilities

An asset is recognized in the statement of financial position when its future economic benefits are likely to flow to the Company, and its cost or value can be reliably measured.

Liabilities are recognized in the statement of financial position when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits.

2.10. Taxation

Sales and service revenues are subject to the taxes and contributions below, at the following statutory rates:

	State VAT	ICMS	Between 4% and 18%
Federal VAT		IPI	0%
Contribution Tax on Gross Revenue for Social Security Financing		COFINS	0%
Contribution Tax on Gross Revenue for Social Integration Program		PIS	0%

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.10. Taxation (Continued)

Pursuant to Decree No. 3777, dated March 23, 2001, amended by Decree No. 6006, of December 28, 2006, sales of agrochemicals are subject to IPI reduced to 0%.

The Company has been granted a 60% reduction in the ICMS base, as established by Agreement No. 100/97 and amended and extended by ICMS Agreement No. 049/2017 up to October 31, 2017. Some of its goods in accordance with Brazil's federal Senate Resolution 13 dated 2013 are taxed at the rate of 4%.

PIS and COFINS rates were reduced to 0%, pursuant to Law No. 10925/2004, and ratified by Decree No. 5630/2005.

Current income and social contribution taxes

Income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus a 10% surtax on taxable profit exceeding R\$240 over 12 months, whereas social contribution tax is computed at a rate of 9% on taxable profit, both recognized on an accrual basis; therefore, additions to book income deriving from temporarily nondeductible expenses or exclusions from temporarily nontaxable income upon determination of current taxable profit generate deferred tax assets or liabilities. Tax prepayments or taxes recoverable are stated as current and noncurrent assets, based on their expected realization.

Deferred income and social contribution taxes

Deferred taxes arise from temporary differences and income and social contribution tax losses at the statement of financial position date between the tax bases of assets and liabilities and their book value.

Deferred tax assets are recognized on all unused deductible differences, credits or tax losses to the extent that it is probable that taxable profits will be available to allow realization of temporarily deductible differences, as well as use of unused tax credits and tax losses.

The book value of deferred tax assets is reviewed at each reporting date and written off to the extent that taxable profits will not likely be available so that deferred tax assets can be used in total or in part. Deferred tax assets written off are reviewed at each statement of financial position date and recognized to the extent that future taxable profits are likely to allow deferred tax assets to be recovered.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.10. Taxation (Continued)

Deferred income and social contribution taxes (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates (and tax laws) in force at the statement of financial position date.

Deferred tax assets and liabilities are stated at net amount when the Company has a legal or constructive right to offset deferred tax assets against deferred tax liabilities and when deferred taxes refer to the same taxpayer and are subject to the same tax authorities.

2.11. Other employee benefits

Company's employee and management benefits include, in addition to fixed compensation (salaries and social security contributions (INSS), vacation pay and 13th monthly salary), variable compensation, such as profit sharing and bonuses. These benefits are recognized in profit or loss, under "Selling expenses" and "General and administrative expenses", as incurred.

2.12. Significant accounting judgments, estimates and assumptions

Judgments

Preparation of the financial statements by the Company requires that management make professional judgments, estimates and assumptions that impact disclosed revenues, expenses, assets and liabilities, in addition to disclosed contingent liabilities at the financial statement date. Uncertainties about such assumptions and estimates may lead to significant adjustments, in future periods, to the book value of the impacted asset or liability.

Accounting estimates and assumptions

Significant assumptions about sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the statement of financial position date, involving a significant risk of causing a material adjustment to the book value of the assets and liabilities in the next year, are discussed below:

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.12. Significant accounting judgments, estimates and assumptions (Continued)

Accounting estimates and assumptions (Continued)

Impairment of nonfinancial assets

Impairment loss exists when the book value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less costs to sell is based on information available on sales transactions of similar assets or market prices less additional costs for the disposal of the asset.

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment.

When such evidence is identified, and net book value exceeds recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

Taxes

There are uncertainties about the interpretation of complex tax regulations and the amount and timing of future taxable profit (loss). Given the extensive international trading relationships, in addition to the long-term nature and complexity of existing contractual instruments, the differences between actual results and the assumptions used, or future changes in such assumptions, could lead to future adjustments to tax revenues and expenses already recorded. The Company set up provisions considering reasonable estimates for possible consequences of tax audits by tax authorities to which it is subordinated. The provision amounts are based on various factors, such as experience with prior audits and diverging interpretations of tax legislation by the taxpayer and the appropriate tax authority. Such differences in interpretations may regard a number of matters, based on the conditions prevailing in the jurisdiction to which the Company is subject.

A significant level of professional judgment is expected from management in order to determine the deferred tax asset that may be recognized based on the probable term and level of future taxable profits, combined with future tax planning strategies.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.12. Significant accounting judgments, estimates and assumptions (Continued)

Accounting estimates and assumptions (Continued)

Taxes (Continued)

The Company recognizes a provision for civil and labor claims. Assessment of the likelihood of loss includes an evaluation of available evidence, hierarchy of laws, available case law, most recent court rulings and their relevance to the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted considering changes in circumstances, such as applicable statute of limitations, tax audit conclusions or additional exposures identified based on new matters or court decisions.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

2.13. Statements of cash flows

Statements of cash flows were prepared by using the indirect method and are presented in accordance with accounting pronouncement CPC 03 (R2) - Statements of Cash Flows, issued by the Brazilian FASB (CPC).

2.14. Financial instruments

a) Initial recognition and measurement

The Company's financial instruments are represented by cash and cash equivalents, trade accounts receivable, trade accounts payable, derivative financial instruments and loans and financing.

Financial instruments are initially recognized at their fair value plus costs directly attributable to their acquisition or issue, except for financial instruments at fair value through profit or loss, for which costs are recorded in profit or loss for the period.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.14. Financial instruments (Continued)

a) Initial recognition and measurement (Continued)

Major financial assets recognized by the Company are cash and cash equivalents, trade accounts receivable and derivative financial instruments.

Major financial liabilities recognized by the Company are trade accounts payable, loans and financing and derivative financial instruments.

b) Subsequent measurement

Measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss: these include financial liabilities for trading and financial liabilities initially stated at fair value through profit or loss.

Financial liabilities are classified as held for trading when acquired to be sold in the short term. This category includes derivative financial instruments taken out by the Company that do not meet the hedge accounting criteria, defined by CPC 38 (IAS 39). Derivatives, including embedded derivatives that are not closely related to the host contract and that must be separated, are also classified as held for trading, unless they are classified as effective hedge instruments.

Gains and losses on liabilities held for trading are recognized in the statement of profit or loss.

Loans and financing: these are recognized on the accrual basis, and interest is calculated at the contracted rate, without significant difference in relation to the effective rate.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. New or amended standards and interpretations not yet effective

Standards, amendments and interpretations issued but not yet adopted up to the issue of the Company's financial statements are listed below. The Company expects to adopt these standards, if applicable, when they become effective, as follows:

Standard	Requirement	Impact on financial statements
IFRS 9 - Financial Instruments	The ultimate objective is to supersede IAS 39. The main amendments expected are: (i) all financial assets must be initially recognized at fair value; (ii) the standard divides all financial assets into amortized cost and fair value; (iii) the concept of embedded derivatives was extinguished.	Company management has assessed IFRS 9 impacts and understands that its adoption will anticipate no material impact on its financial statements.
IFRS 15 - Revenue from Contracts with Customers	The main purpose is to provide clear principles to recognize revenue and to simplify the process of preparation of financial statements.	Company management has assessed IFRS 15 impacts to understand whether its adoption will anticipate no material impact on its financial statements.
IFRS 16 - Leases	IFRS 16 will replace CPC 06. The main purpose is to define the treatments for several leases, and eliminates the segregation between finance and operating leases currently in force.	Company management has assessed IFRS 16 impacts to understand whether its adoption will anticipate no material impact on its financial statements.
Amendments to IAS 16 and IAS 38 - Acceptable Methods of Depreciation and Amortization	Depreciation and amortization method should be based on economic benefits consumed through use of the asset.	Company management has assessed IAS 16 and 38 impacts and understands that their adoption will anticipate no material impact on its financial statements.

3. Cash and cash equivalents and short-term investments

	06/30/2017	06/30/2016 (unaudited)
Cash and banks	182	993
Short-term investments	64,862	47,190
Restricted deposits	81	199
Total cash and cash equivalents	<u>65,125</u>	<u>48,382</u>
Short-term investments	<u>474</u>	<u>1,931</u>

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

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

Type of short-term investments	Average yield rate	06/30/2017	06/30/2016
CDB - Floating	92.5% to 98.5% of CDI	51,687	47,190
CDB - Floating	92% to 94% of CDI	474	1,931
Automatic BB RF CP	3.74% p.a.	13,175	-
		<u>65,336</u>	<u>49,121</u>

3.1. Short-term investments classified as cash and cash equivalents

These refer to Bank Deposit Certificates (CDB), which reflect the usual market conditions, whose maturity at the statement of financial position date is within 90 days. These have immediate liquidity and no risk of significant changes due to interest rate fluctuation, bearing interest ranging from 92.5% to 98.5% of CDI in June 2017 (90% to 98.5% of CDI in June 2016) and measured at fair value in contra account of profit or loss.

3.2. Other short-term investments

These refer to the Bank Deposit Certificates (CDB), which reflect the usual market conditions at the statement of financial position dates, bearing interest ranging from 92% to 94% of CDI in June 2017 (92% to 94% of CDI in June 2016), and measured at fair value. Balance of R\$ 474 at June 30, 2017 (balance of R\$ 1,931 at June 30, 2016) as short-term investments given in guarantee of loans. Loans linked to these short-term investments are working capital loans. At June 30, 2017, there was the approval in the Banco do Brasil account of R\$15,000 referring to the working capital transaction, with R\$13,175 invested in Automatic BB RF CP, being used on the next business day.

4. Trade accounts receivable

	06/30/2017	06/30/2016 (unaudited)
Trade notes receivable		
Third parties	135,194	142,361
Current	<u>127,699</u>	<u>135,219</u>
Noncurrent	7,495	7,142

Trade accounts receivable are net of the allowance for doubtful accounts.

At June 30, 2017, trade notes receivable had also been offered as guarantee for loans and financing in the amount of R\$51,600 (R\$32,621 at June 30, 2016).

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

4. Trade accounts receivable

Allowance for doubtful accounts

Changes in the allowance for doubtful accounts are as follows:

	<u>06/30/2016</u> (unaudited)	Additions	<u>06/30/2017</u>
Allowance for doubtful accounts	12,095	288	12,383
Less current portion	(11,957)	193	(11,764)
Noncurrent assets	138	481	619

Management sets up allowance for doubtful accounts at an amount considered sufficient to cover possible accounts receivable realization risks, considering historical losses and collateral for amounts overdue.

5. Inventories

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Finished goods	25,180	21,066
Raw, packaging and auxiliary materials	13,190	7,097
Import in transit	17,051	17,911
	<u>55,421</u>	<u>46,074</u>

The Company records provisions for 100% of its inventories not moving for more than 360 days, in addition to carrying out an analysis of individual inventory items. The inventories are net of allowance for realization and obsolescence.

Changes in provisions are demonstrated below:

	<u>06/30/2016</u> (unaudited)	Additions	Reversals	<u>06/30/2017</u>
Provision for realization	1,486	286	(1,374)	398
Provision for obsolescence	1,285	2,279	(3,550)	14
	<u>2,771</u>	<u>2,565</u>	<u>(4,924)</u>	<u>412</u>

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

6. Taxes recoverable

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
State VAT (ICMS)	22,147	19,699
Federal VAT (IPI)	6,692	12,329
Contribution Taxes on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	9,375	16,425
Income and social contribution taxes	7,646	8,025
FINSOCIAL	-	1,099
	<u>45,860</u>	<u>57,577</u>
Current	(382)	-
Noncurrent	<u>45,478</u>	<u>57,577</u>

The Company intends to realize the ICMS, IPI, PIS and COFINS balances through its transactions and requests for tax refund. Income and social contribution taxes will be realized through generation of future taxable profits.

7. Assets available for sale

The group of assets available for sale is measured based on the lowest of book and fair value.

The amount of R\$6,976 at June 30, 2017 (R\$677 at June 30, 2016) refers to property received in payment for customer debts, which are under negotiation.

8. Current and deferred income and social contribution taxes

Deferred income and social contribution taxes were set up at the effective rates as under:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Deferred income tax assets on:		
Temporarily nondeductible provisions	4,287	8,147
Income and social contribution tax losses	47,969	43,809
Deferred social contribution tax assets on:		
Temporarily nondeductible provisions	1,543	2,933
Income and social contribution tax losses	16,583	15,086
	<u>70,382</u>	<u>69,975</u>
Less write-off due to no expectation of realization	(40,583)	(31,842)
Noncurrent assets	<u>29,799</u>	<u>38,133</u>

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

8. Current and deferred income and social contribution taxes (Continued)

Main provisions are as follows:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Allowance for doubtful accounts	12,383	12,095
Provision for customer discounts	1,306	1,632
Audit and advisory services	74	206
Sales commissions	441	350
Incineration	648	391
Legal proceedings	1,091	1,057
Inventory losses	412	2,771
Profit sharing and bonuses	88	606
Provision for freight	81	260
Provision for derivative losses	630	12,181
Unrealized gains – derivatives	(795)	-
Other	790	1,040
	<u>17,149</u>	<u>32,589</u>
Current rate of 25% for income tax	4,287	8,147
Current rate of 9% for social contribution tax	1,543	2,933
	<u>5,830</u>	<u>11,080</u>

Based on future taxable profit generation, determined in a technical study approved by the Board of Directors, the Company recognized tax credits on temporary differences and tax losses. The book value and the realization of tax credits are annually reviewed by the Company.

Based on this technical study of future taxable profit generation, the Company expects to recover these tax credits in the next 10 years.

The recovery of tax credits was estimated based on projections of taxable profit taking into consideration various financial and business assumptions for the period ended June 30, 2017. Consequently, these estimates may not materialize in the future considering uncertainties inherent in these forecasts.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

8. Current and deferred income and social contribution taxes (Continued)

Reconciliation of income and social contribution tax expenses

Reconciliation of the expense calculated by applying combined statutory tax rates and of the income and social contribution tax expense recorded in profit or loss is as follows:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Loss before taxes	(13,277)	(12,639)
Tax expenses at statutory rate of 34%	4,514	4,297
Effective rate adjustments:		
Limitation of deferred tax assets	(8,741)	-
Permanent differences and others	192	8
Net tax expenses per statement of profit or loss	(4,035)	4,305
Effective rate	30%	34%

The breakdown of accumulated income and social contribution tax losses is as follows:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Income tax losses	191,874	175,235
Social contribution tax losses	184,255	167,617

Income and social contribution tax losses may be carried indefinitely, however, their offset is limited to 30% of taxable profit each year.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

9. Property, plant and equipment

	06/30/2017									
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Construction in progress	Total
Acquisition cost										
Balance at beginning of period	1,375	18,023	26,838	170	17,562	4,454	82	1,527	229	70,260
Additions	-	-	-	-	-	13	-	19	3,841	3,873
Write-offs	-	-	-	-	-	(24)	-	(14)	(3)	(41)
Transfers	-	78	35	-	717	284	-	36	(1,198)	(48)
Balance at end of period	1,375	18,101	26,873	170	18,279	4,727	82	1,568	2,869	74,044
Depreciation										
Balance at beginning of period	-	(8,954)	(14,124)	(103)	(11,146)	(3,518)	(82)	(980)	-	(38,907)
Additions	-	(404)	(762)	(10)	(845)	(149)	-	(70)	-	(2,240)
Write-offs	-	-	-	-	-	23	-	6	-	29
Balance at end of period	-	(9,358)	(14,886)	(113)	(11,991)	(3,644)	(82)	(1,044)	-	(41,118)
Net balance	1,375	8,743	11,987	57	6,288	1,083	-	524	2,869	32,926
Average annual depreciation rates	-	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	-	

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

9. Property, plant and equipment (Continued)

	06/30/2016 (unaudited)									
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Construction in progress	Total
Acquisition cost										
Balance at beginning of period	1,375	17,203	25,723	122	16,237	4,239	82	1,185	894	67,060
Additions	-	-	-	-	-	15	-	-	2,384	2,399
Write-offs	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	161	10	918	2	-	-	(1,092)	(1)
Balance at end of period	1,375	17,203	25,884	132	17,155	4,256	82	1,185	2,186	69,458
Depreciation										
Balance at beginning of period	-	(8,249)	(12,672)	(89)	(9,572)	(3,251)	(82)	(928)	-	(34,843)
Additions	-	(341)	(703)	(4)	(742)	(133)	-	(25)	-	(1,948)
Write-offs	-	-	-	-	-	-	-	-	-	-
Balance at end of period	-	(8,590)	(13,375)	(93)	(10,314)	(3,384)	(82)	(953)	-	(36,791)
Net balance	1,375	8,613	12,509	39	6,841	872	-	232	2,186	32,667
Average annual depreciation rates	-	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	-	-

Depreciation is determined on a straight-line basis taking useful lives into consideration.

Sipcam Nichino Brasil S.A.

Notes to financial statements

June 30, 2017

(Valores expressos em milhares de reais, exceto quando indicado de outra forma)

10. Intangible assets

06/30/2017						
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of period	138	3,477	24,136	3,500	126	31,377
Additions	-	-	257	-	8	265
Write-offs	-	-	-	-	-	-
Transfers	-	71	(2,335)	2,335	(23)	48
Balance at end of period	<u>138</u>	<u>3,548</u>	<u>22,058</u>	<u>5,835</u>	<u>111</u>	<u>31,690</u>
Amortization						
Balance at beginning of period	-	(2,408)	-	(2,796)	-	(5,204)
Additions	-	(105)	-	(199)	-	(304)
Write-offs	-	-	-	-	-	-
Balance at end of period	<u>-</u>	<u>(2,513)</u>	<u>-</u>	<u>(2,995)</u>	<u>-</u>	<u>(5,508)</u>
Net balance	<u>138</u>	<u>1,035</u>	<u>22,058</u>	<u>2,840</u>	<u>111</u>	<u>26,182</u>
Average annual amortization rates	-	20%	-	20%	-	-
06/30/2016 (unaudited)						
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of period	138	3,023	22,737	2,886	202	28,986
Additions	-	-	1,134	-	61	1,195
Write-offs	-	-	-	-	-	-
Transfers	-	66	-	-	(66)	-
Balance at end of period	<u>138</u>	<u>3,089</u>	<u>23,871</u>	<u>2,886</u>	<u>197</u>	<u>30,181</u>
Amortization						
Balance at beginning of period	-	(2,262)	-	(2,723)	-	(4,985)
Additions	-	(62)	-	(21)	-	(83)
Write-offs	-	3	-	-	-	3
Balance at end of period	<u>-</u>	<u>(2,321)</u>	<u>-</u>	<u>(2,744)</u>	<u>-</u>	<u>(5,065)</u>
Net balance	<u>138</u>	<u>768</u>	<u>23,871</u>	<u>142</u>	<u>197</u>	<u>25,116</u>
Average annual amortization rates	-	20%	-	20%	-	-

Out of the total intangible assets at June 30, 2017, R\$22,058 refer to products under registration (R\$23,871 at June 30, 2016). Once these registrations are obtained from the relevant competent bodies, the products will start to be sold and the amounts recorded under intangible assets will be amortized over a period of 5 (five) years.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

11. Deferred

Pre-operating expenses	06/30/2017	06/30/2016 (unaudited)
Cost		
Balance at beginning and end of period	5,881	5,881
Amortization		
Balance at beginning of period	(5,393)	(4,805)
Additions	(291)	(292)
Balance at end of period	<u>(5,684)</u>	<u>(5,097)</u>
Net balance	<u>197</u>	<u>784</u>
Annual amortization	10%	10%

12. Loans and financing

	Interest rate	06/30/2017	06/30/2016 (unaudited)
Foreign currency			
Finimp (USD)	2.58% p.a.	-	23,476
Local currency			
Working capital	122% of CDI	2,374	38,729
Working capital	10.30% p.a.	50,352	-
Debentures - 2 nd issue	CDI + 2.00% p.a.	61,857	62,361
Debenture raising costs	-	(512)	(697)
Rural credit (a)	-	16,598	3,601
Funcafé	-	1,709	-
		<u>132,378</u>	<u>127,470</u>
Less portion classified under current liabilities		<u>(20,890)</u>	<u>(65,802)</u>
Noncurrent liabilities		<u>111,488</u>	<u>61,668</u>

(a) The credit line refers to financing operations related to rural activity.

Long-term loans mature as follows:

	06/30/2017	06/30/2016 (unaudited)
June 2017	-	2,365
June 2019	52,000	-
June 2020	59,488	59,303
	<u>111,488</u>	<u>61,668</u>

At June 30, 2017, the Company granted as guarantees for loans taken out trade notes receivable amounting to R\$51,600 (R\$32,621 at June 30, 2016) and short-term investments amounting to R\$474 (R\$1,931 at June 30, 2016).

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

12. Loans and financing (Continued)

Debentures

<u>Issue</u>	<u>Principal</u>	<u>Annual remuneration</u>	<u>Final maturity</u>	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
2 nd issue	60,000	100% of CDI + 2.00% p.a.	March 30, 2020	61,857	62,361
Less portion classified under current liabilities				(1,857)	(2,361)
Noncurrent liabilities				60,000	60,000

The Company obtained approval for the 2nd issue of unsecured nonconvertible debentures amounting to R\$60,000, in a single series maturing at March 30, 2020. Interest of this transaction has been paid for the year in which it is incurred. No guarantees were given.

13. Provision for contingencies

The Company is a party to tax, civil and labor claims arising from the ordinary course of business. Company management believes that the provision for contingencies set up is sufficient to cover adventitious losses from lawsuits. The provisions for contingencies were set up for proceedings whose likelihood of loss was assessed as probable, based on the opinion of lawyers and legal advisors. The unfavorable outcome of proceedings, whether individually or in aggregate, will not have a material adverse effect on the Company's financial position or business. Judicial deposits were made for some of these proceedings when required by the judicial branch.

Changes in provision for contingencies, by nature, are as follows:

	<u>06/30/2016</u> (unaudited)	<u>Restatements</u>	<u>Payments/ reversals</u>	<u>06/30/2017</u>
Tax	51	218	(175)	94
Civil	112	1	(24)	89
Labor	894	234	(220)	908
Total provision	1,057	453	(419)	1,091
Judicial deposits	(978)	-	7	(971)

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

13. Provision for contingencies (Continued)

Causes with chances of possible success:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
Tax	308	336
Civil	79	78
Labor	305	212
Total	<u>692</u>	<u>626</u>

14. Capital

At June 30, 2017 and 2016, the Company capital totals R\$223,897 and is represented by 2,471,492,952 common shares.

The Company's shareholding structure at June 30, 2017 and 2016 is as follows:

	<u>Number of shares</u>	<u>%</u>
Sipcam Nederland Holding N.V	150,127,424	6.08
Obras Latin América Participações Ltda.	518,134,294	20.96
Obras S.R.L	567,484,758	22.96
Nihon Nohyaku CO. Ltd.	1,235,746,476	50.00
	<u>2,471,492,952</u>	<u>100.00</u>

15. Risk considerations

a) Credit risk

The Company's sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This goal is achieved through the careful selection of customer portfolio that takes into consideration creditworthiness (credit rating) and the diversification of sales (risk dilution).

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

15. Risk considerations (Continued)

b) Liquidity risk

The Company prepares cash flow forecasts as a means to monitor its future needs in advance in order to ensure it has enough cash to meet the operational demands. The Company maintains excess cash, if any, in interest bearing short-term investments and by choosing instruments that provide liquidity adequate to its needs.

Below follows the Company's major financial liabilities (loans and financing) by maturity:

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
June 2016	-	54,796
June 2017	-	13,371
June 2018	20,890	-
June 2019	52,000	-
June 2020	59,488	59,303
	132,378	127,470

c) Interest rate risk

The Company's profit or loss is subject to losses arising from changes in floating interest rates, such as: CDI, Long-Term Interest Rate (TJLP) and changes in inflation indices, such as the Extended Consumer Price Index (IPCA), on its financial assets and liabilities. Amounts related to these operations are listed below:

Assets

<u>Type of short-term investments</u>	<u>Average yield rate</u>	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
CDB - Floating	92.5% to 98.5% of CDI	51,687	47,190
CDB - Floating	92% to 94% of CDI	474	1,931
Automatic BB RF CP	3.74% p.a.	13,175	-
		65,336	49,121

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

15. Risk considerations (Continued)

c) Interest rate risk (Continued)

Liabilities

	Interest rate	06/30/2017	06/30/2016
			(unaudited)
Foreign currency			
Finimp (USD)	2.58% p.a.	-	23,476
Local currency			
Working capital	122% of CDI	2,374	38,729
Working capital	10.30% p.a.	50,352	-
Debentures - 2 nd issue	CDI + 2.00% p.a.	61,857	62,361
Debenture raising costs	-	(512)	(697)
Rural credit	-	16,598	3,601
Funcafé	-	1,709	-
		132,378	127,470
Less portion classified under current liabilities		(20,890)	(65,802)
Noncurrent liabilities		111,488	61,668

d) Currency risk

The Company's income is subject to significant variations since part of its inputs used in the production process is impacted by the foreign exchange rate fluctuation, particularly the US dollar and Yen from the intercompany loan transaction.

To reduce certain effects of exchange rate fluctuation, the Company hedges against the effects of exchange rate devaluation of local currency on its financial assets and liabilities denominated in dollars and/or euros through Swap transactions and Non Deliverable Forwards - commitment to purchase US currency at previously agreed-upon rates - linked to US dollar fluctuation. Amounts related to such transactions are summarized below:

	06/30/2017	06/30/2016
		(unaudited)
Forward/swap contracts:		
Original amount contracted	US\$13,445	US\$21,778
Equivalent in local currency	thousand	thousand
Provision for loss on hedge transactions	44,276	79,081
	(630)	(12,181)
	JPY1,970,250	
Original amount contracted	thousand	-
Equivalent in local currency	58,635	-
Provision for gain on hedge transactions	795	-

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

16. Cost of goods sold and services rendered, by type

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
General Manufacturing Costs (GMC)		
Direct labor costs - own	1,877	1,622
Direct labor costs - third parties	66	19
Electricity	535	289
Depreciation and amortization	1,477	1,125
Maintenance of property, plant and equipment	369	323
Other direct costs	250	226
Indirect costs		
Indirect labor costs - own	2,949	2,829
Electricity	99	280
Depreciation and amortization	625	507
Maintenance of property, plant and equipment	157	149
Incineration	540	310
Other indirect costs	686	607
	<u>9,630</u>	<u>8,286</u>
Inputs		
Raw and packaging materials	29,464	35,933
Goods for resale	21,214	7,881
	<u>50,678</u>	<u>43,814</u>
Other costs		
Freight on sales	1,919	1,759
Insurance on sales	167	170
Storage	417	430
Inpev	403	669
Provisions for inventories	(3,651)	117
Equalization	808	-
Inventory write-off	543	-
Other	142	182
	<u>748</u>	<u>3,327</u>
	<u>61,056</u>	<u>55,427</u>

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

17. Operating income (expenses)

a) Selling, general and administrative expenses

	06/30/2017		06/30/2016 (unaudited)	
	Selling	General and administrative	Selling	General and administrative
Payroll and related charges	(3,984)	(3,677)	(3,267)	(3,381)
Fees and labor engaged	(110)	(1,179)	(85)	(934)
Travel	(280)	(108)	(223)	(86)
Vehicles	(532)	(59)	(513)	(30)
Meetings	(212)	(18)	(94)	(11)
Associations	(46)	(141)	(17)	(92)
Third-party services	(292)	(1,541)	(130)	(972)
Communication	(64)	(119)	(62)	(91)
Cleaning supplies	(8)	(249)	(15)	(217)
Insurance	(19)	(53)	(17)	(52)
Safety equipment	-	(78)	-	(58)
Product registration expenses	(530)	-	(458)	-
Amortization and depreciation	(220)	(368)	(25)	(245)
Allowance for doubtful accounts	102	-	(1,610)	-
Other	(466)	(774)	(313)	(437)
	(6,661)	(8,364)	(6,829)	(6,606)

b) Other operating income (expenses), net

	06/30/2017	06/30/2016 (unaudited)
General Manufacturing Costs	(3,110)	(2,600)
Depreciation	(950)	(762)
Maintenance of property, plant and equipment	(209)	(167)
Other production costs	(331)	(586)
Income from restatement of federal taxes	284	380
Labor contingencies	(145)	(180)
Technological innovation	407	-
Other revenue	247	154
	(3,807)	(3,761)

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)
June 30, 2017
(In thousands of reais, unless otherwise stated)

18. Finance income (costs)

	<u>06/30/2017</u>	<u>06/30/2016</u> (unaudited)
<u>Finance costs</u>		
Interest on financial transactions	(1,410)	(3,414)
Losses on financial instruments	(8,979)	(23,950)
Discounts given to customers	(2,574)	(2,383)
Exchange gains (losses)	(31,995)	(68,876)
Tax on Financial Transactions (IOF)	(1,103)	(307)
Interest on debentures	(4,030)	(4,658)
Other finance costs	(227)	(144)
	<u>(50,318)</u>	<u>(103,732)</u>
Gains on financial instruments	4,578	-
Exchange gains (losses)	29,502	87,805
Short-term investment yield	1,866	2,267
Interest income	4,216	759
Other finance income	338	6
	<u>40,500</u>	<u>90,837</u>

19. Key management personnel compensation

On April 20, 2017, the Annual and Special Shareholders' Meeting approved management compensation for the period of May 2016 to April 2017 amounting to R\$2,477 for fixed compensation. It also approved, for the period of May 2017 to April 2018, the amount of fixed and variable compensation of up to R\$3,500.

20. Insurance coverage

The Company maintains insurance coverage for operational risks and others to safeguard its property, plant and equipment and inventories.

At June 30, 2017, the amount of insurance taken out is deemed sufficient to cover any losses in the opinion of the Company's insurance advisors.

Our auditor's work scope does not include expressing an opinion on the sufficiency of the insurance coverage, adequacy of which was determined and assessed by Company management.

Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2017

(In thousands of reais, unless otherwise stated)

21. Transactions with related parties

	Oxon Brasil Defensivos Agrícolas Ltda.		Oxon Itália S.p.A.		Nihon Nohyaku CO.Ltd.		Total	
	06/30/2017	06/30/2016	06/30/2017	06/30/2016	06/30/2017	06/30/2016	06/30/2017	06/30/2016
	(unaudited)		(unaudited)		(unaudited)		(unaudited)	
Balances								
Noncurrent assets:								
Other accounts receivable	146	148	-	-	-	-	146	148
Current liabilities:								
Trade accounts payable	-	-	29,692	26,567	1,092	-	30,784	26,567
Related parties (*)	-	-	-	-	58,004	60,680	58,004	60,680
Transactions								
Purchases	-	-	28,691	30,448	416	-	29,107	30,448
Other expenses	(149)	(149)	-	-	-	-	(149)	(149)
Finance income (costs)	-	-	699	5,186	(3,403)	1,891	(2,704)	7,077

The transactions with related parties are carried out at specific prices and conditions agreed-upon between the parties.

(*) This balance refers to an intercompany loan agreement entered into with Nihon Nohyaku CO., Ltd in August 2015, amounting to R\$56,774 (JPY1,920,000,000), subject to interest of 1.4% p.a. and with maturity on August 31, 2020.