(A free translation of the original in Portuguese)

**MAHLE Metal Leve S.A.**

# Financial statements at December 31, 2016 and 2015

## DEAR SHAREHOLDERS

**In compliance with legal and statutory provisions, the Company's Management submits to shareholders the Management Report and the Financial Statements accompanied by the Independent Auditors' Report for the fiscal year ended December 31, 2016.**

## *1 Management's Comments*

We closed 2016 with political and economic challenges still to be overcome in our country.

The instable and uncertain environment has caused a strong impact in the Brazilian economic activity, thus increasing the unemployment rate, the inflation level, consumer confidence and credit restriction. Such factors directly impacted the Brazilian automotive industry, which underwent a drop in vehicle sales and production of 19.9% and 11.0%, respectively, compared to 2015.

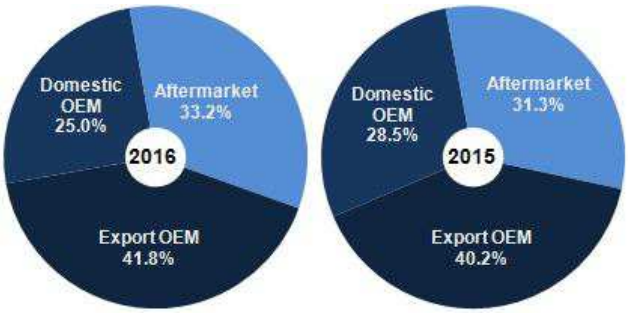
It should be noted that we faced this period with the permanent engagement of our employees. The Company is attentive to the future, with focus on the innovation, automation and cost management, always committed to developing sustainable products and solutions in long term.

Accordingly, in 2016, the Company reported net sales revenue of R$ 2,236.0 million (a drop of 7.7% compared to 2015), resulting from a performance of -4.3% of OEM exports; -2.1% of aftermarket sales; and a drop of 18.8% in domestic OEM sales.

In 2016, domestic OEM sales were impacted by the discontinuance of subsidiary MAHLE Hirschvogel Forjas S.A., whose revenue in 2015 was R$ 36.7 million. Comparing the periods, the drop was of 14.3% in 2016.

The decrease of 4.3% in OEM exports was due mainly to the negative performance of the US market – heavy vehicle segment (a drop of 9.6% in the production of that segment in 2016 compared to 2015), which was partially offset by the positive exchange variation between the periods.

The graph below shows revenue distribution in 2016 and 2015 in the markets where the Company operates:




In 2016, operating income measured by adjusted EBITDA was R$ 326.7 million, with EBITDA margin of 14.6%.

The net debt/Ebitda ratio at the end of 2016 was 0.56 times, while at the end of 2015 the ratio was 0.75 times.

The Company has been using its best efforts to develop new technologies. A good example is the installation of a state-of-the-art dynamometer for validation and development of more powerful, economic and cleaner engines at our Tech Center. This testbed is able to reproduce the real cycle of use of a vehicle regardless of its application: city, highway, city-highway use, among others. The purpose is to assess how a propellant will respond to running and thus verify the consumption and emission levels.

The Company estimates that the margin of assessment error for this new equipment is only 0.4%, well below that registered from a conventional testbed, where the difference could reach 2.0%.

Additionally, the Company was one of the winners of the award "*Maiores e Melhores 2016*" in the "*Autoindústria*" category (The Biggest and Best Ones of 2016 in the Automotive Industry) from *Exame* Magazine, which, in its special edition of July 2016, disclosed the winners for their performance in 2015.

## 2 Macroeconomic Scenario and Outlook

In 2016, the Brazilian economy still faced challenges, with negative effects in the investments, production and consumption.

However, a stabilization process has started, supported by a reduction in the inventory level in certain market segments (including the automotive sector) and an increase in the private sector's confidence mainly with respect to the public policies by the new government and the positive impact that they have in the future resumption of the economic activity.

Growth jumps are not expected for 2017, even if the economy resumes the expansion with the tax and exchange rate stability, controlled inflation rates and offer of credit and financing. The unemployment rate will unlikely be reversed and consumers do not seem to be willing to take on medium- and long-term financing in the next year. In addition, financial agents should maintain such actual selective level for granting lending over 2017.

In the international market, the European economy is still showing a positive growth outlook with an European Central Bank (BCE)'s plan to inject funds in that market, having, however, economic uncertainties and policies generated by the United Kingdom's exit from the European Union, in addition to the fact that elections will take place in Germany and France in 2017. China shows more moderate growth trend in relation to past years, and the United States is showing signs that interest will return to regular rates, a suggestion that the US economy continues its recovery pace.

## 3 About MAHLE Metal Leve

We are a Brazilian autoparts company that manufactures and sells components for internal combustion engines and automotive filters. We manufacture products with state-of-art technology and the highest quality, and we continuously invest in the research and development of new products and production processes.

We have been developing activities in Brazil since the 50's and have a broad portfolio of products and integrated solutions that in most cases have been customized jointly with our major customers. We operate in the OEM (Original Equipment Manufacturers) and aftermarket segments, serving automakers and large autoparts distributors and engine overhaul enterprises.

Our products are manufactured and sold in Brazil and Argentina, and also exported to over 60 countries, among USA, Germany, Mexico, Portugal and Spain, for a diversified portfolio of customers including General Motors/Opel, Volkswagen, Fiat, Ford, Daimler MBB, International, Cummins, Volvo, PSA Peugeot, John Deere, Renault, Scania, Caterpillar, Honda, Hyundai and others.

We own six industrial plants, five of which are located in Brazil, in the cities of Mogi Guaçu (two units), Indaiatuba, São Bernardo do Campo, all of which are located in the State of São Paulo, and in Itajubá, State of Minas Gerais. Our sixth plant is located in the city of Rafaela, Argentina. We have two distribution centers: one in the city of Limeira, State of São Paulo, and one in Buenos Aires, Argentina. We have a technology center located in the city

of Jundiaí, State of São Paulo, which we believe is one of the largest and most well-equipped technology centers in Latin America for development of components and solution packages for internal combustion engines. This center allows us to add value to and meet the requirements of our customers in a customized and efficient manner, and develop innovative new product technologies and processes.

We belong to the German autoparts group MAHLE, or MAHLE Group, which was established in 1920 and is one of the most traditional groups in the autoparts industry in the world. MAHLE Group, including the Company, currently has more than 170 industrial plants in 35 countries on five continents, 15 research and development centers and approximately 76 thousand employees.

As part of the MAHLE Group, a group with global operations, we are able to exchange knowledge, have constant access to the latest technology and develop new products together with our customers, which we believe are key factors to the high level of market penetration and customer loyalty that we have achieved.

## 4 Performance of the Automotive Industry

### 4.1 Performance of the Brazilian automotive industry

**Brazilian automotive industry**

| Vehicle sales | 2016 | | | | | 2015 | | | | | Sales Variation (A/C) | Production Variation (B/D) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sales (Local + Imp) (A) | Export | Import | Inventory (*) | Total Production (B) | Sales (Local + Imp) (C) | Export | Import | Inventory (*) | Total Production (D) | | |
| Passenger Cars | 1,676,717 | 410,153 | -188,607 | -119,746 | 1,778,517 | 2,123,008 | 316,537 | -336,032 | -85,874 | 2,017,639 | -21.0% | -11.9% |
| Light Commercials | 311,876 | 78,903 | -79,646 | -11,586 | 299,547 | 357,521 | 72,486 | -76,862 | -36,923 | 316,222 | -12.8% | -5.3% |
| **Total of Light vehicles** | **1,988,593** | **489,056** | **-268,253** | **-131,332** | **2,078,064** | **2,480,529** | **389,023** | **-412,894** | **-122,797** | **2,333,861** | **-19.8%** | **-11.0%** |
| Trucks | 50,562 | 21,470 | -1,817 | -9,611 | 60,604 | 71,655 | 20,984 | -1,429 | -17,148 | 74,062 | -29.4% | -18.2% |
| Buses | 11,162 | 9,760 | -8 | -2,203 | 18,711 | 16,792 | 7,325 | -10 | -2,609 | 21,498 | -33.5% | -13.0% |
| **Total Trucks and Buses** | **61,724** | **31,230** | **-1,825** | **-11,814** | **79,315** | **88,447** | **28,309** | **-1,439** | **-19,757** | **95,560** | **-30.2%** | **-17.0%** |
| Agricultural | 42,839 | 9,501 | - | 677 | 53,017 | 44,995 | 10,077 | - | 190 | 55,262 | -4.8% | -4.1% |
| **Total of medium and heavy vehicle** | **104,563** | **40,731** | **-1,825** | **-11,137** | **132,332** | **133,442** | **38,386** | **-1,439** | **-19,567** | **150,822** | **-21.6%** | **-12.3%** |
| **Total vehicle sales** | **2,093,156** | **529,787** | **-270,078** | **-142,469** | **2,210,396** | **2,613,971** | **427,409** | **-414,333** | **-142,364** | **2,484,683** | **-19.9%** | **-11.0%** |
| **Variation (un) - 2016 x 2015** | **-520,815** | **102,378** | **144,255** | **-105** | **-274,287** | | | | | | | |
| **Variation (%) - 2016 x 2015** | **-19.9%** | **24.0%** | **-34.8%** | **0.1%** | **-11.0%** | | | | | | | |

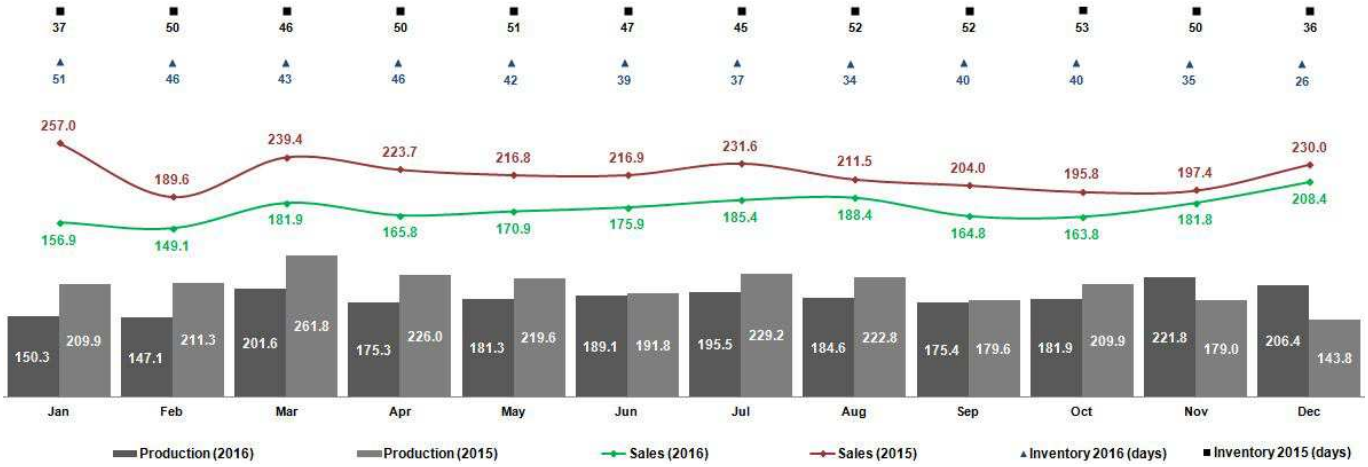
Source: Anfavea
(*) Vehicle inventory variation = production - (sales + exports - imports)

**Brazilian vehicle production** in 2016 fell 11.0% and **sales of the Brazilian automotive industry** fell 19.9% compared to 2015.

These drops are due to Brazil's economic and political deterioration that affected job position in the country, a scenario of high inflation and low investments by the private sector. All such factors, coupled with increased restriction of credit offer to consumers, affected consumers' confidence in purchasing durable goods.

According to the Brazilian Association of Motor Vehicle Manufacturers (ANFAVEA), vehicle inventory recorded at the end of 2016 totaled 176.2 thousand units, corresponding to 26 days of sales. At the end of 2015, vehicle inventory was equivalent to 36 days of sales (271.1 thousand units).

The graph below shows the changes in the production, sales and total inventory of national vehicles in 2016 compared to 2015.




## 4.2 *Performance of the Argentinean automotive industry*

| Argentinian automotive industry | | | |
|---|---|---|---|
| **Vehicle Sales (Locally-manufactured and imported)** | **Jan-Dec 2016 (A)** | **Jan-Dec 2015 (B)** | **A/B** |
| Passenger Cars | 518,637 | 431,097 | 20.3% |
| Light Commercials | 202,774 | 156,012 | 30.0% |
| **Total of Light vehicle** | **721,411** | **587,109** | **22.9%** |
| **Total of medium and heavy vehicle (**)** | **17,163** | **19,550** | **-12.2%** |
| **Total vehicle sales** | **738,574** | **606,659** | **21.7%** |
| Exports | 190,008 | 240,015 | -20.8% |
| Imports | 439,752 | 306,888 | 43.3% |
| **Automotive trade balance** | **(249,744)** | **(66,873)** | **273.5%** |
| Vehicle inventory variation in the period (*) | (11,876) | (7,548) | 57.3% |
| **Total vehicle production** | **476,954** | **532,238** | **-10.4%** |
| **Production of Light vehicle** | **472,776** | **526,657** | **-10.2%** |
| Production Trucks (***) | 3,700 | 5,171 | -28.4% |
| Production Buses (***) | 478 | 410 | 16.6% |
| **Production of medium and heavy vehicle** | **4,178** | **5,581** | **-25.1%** |
| **Total Vehicle Production** | **476,954** | **532,238** | **-10.4%** |

(*) Vehicle inventory variation = production - (sales + exports - imports).
(**) Source: Arcaras Arg.
(***) Source: IHS
Source: Adefa

Comparing 2016 with 2015, the Argentinean automotive industry reported a growth of 21.7% in sales and a drop of 10.4% in production of vehicles.

The main change refers to the volume of imports mainly from Brazil, since approximately 80.0% of the Brazilian exports are channeled into the Argentinean market. Moreover, amongst the most sold vehicles in Argentina, there are various models exclusively produced in Brazil, thus the percentage of drop in the Argentinean production is equivalent to the percentage of drop in vehicle sales in Brazil when comparing both Brazil and Argentina figures.

The opposite table shows the figures for vehicle production and sales in Brazil and Argentina. This refers to the domestic market in which the Company operates.

| Production and sales: Brazil & Argentina | Vehicle production | | | Vehicle sales | | |
|---|---|---|---|---|---|---|
| | Jan-Dec 2016 | Jan-Dec 2015 | variation | Jan-Dec 2016 | Jan-Dec 2015 | variation |
| **Light vehicle** | **2,550,840** | **2,860,518** | **-10.8%** | **2,710,004** | **3,067,638** | **-11.7%** |
| Trucks | 64,304 | 79,233 | -18.8% | 67,725 | 91,205 | -25.7% |
| Buses | 19,189 | 21,908 | -12.4% | 11,162 | 16,792 | -33.5% |
| **Production Trucks and Buses** | **83,493** | **101,141** | **-17.4%** | **78,887** | **107,997** | **-27.0%** |
| Agricultural | 53,017 | 55,262 | -4.1% | 42,839 | 44,995 | -4.8% |
| **Medium and heavy vehicle** | **136,510** | **156,403** | **-12.7%** | **121,726** | **152,992** | **-20.4%** |
| **Total** | **2,687,350** | **3,016,921** | **-10.9%** | **2,831,730** | **3,220,630** | **-12.1%** |

Source: Anfavea and Adefa

## 4.3 *Vehicle production in the main export markets*

The opposite table shows the figures for vehicle production in 2016 in Europe and NAFTA (Company's main export markets) compared to 2015.

| Vehicle Production in the main exports market | | | |
|---|---|---|---|
| **Segment** | **Jan-Dec 2016 (A)** | **Jan-Dec 2015 (B)** | **A/B** |
| Production of Light vehicle | 17,846,006 | 17,495,388 | 2.0% |
| Production of medium and heavy vehicle | 522,752 | 578,516 | -9.6% |
| **North America** | **18,368,758** | **18,073,904** | **1.6%** |
| Production of Light vehicle | 21,489,689 | 20,936,382 | 2.6% |
| Production of medium and heavy vehicle | 629,242 | 618,405 | 1.8% |
| **Europe** | **22,118,931** | **21,554,787** | **2.6%** |
| **Total Vehicle Production** | **40,487,689** | **39,628,691** | **2.2%** |

Source: IHS

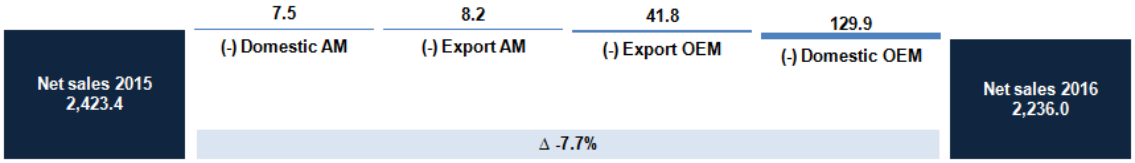
## 5 Economic and financial performance

| Summary P&L (R$ million) | 2016 | V.A. (%) | 2015 | V.A. (%) | H.A. (%) | 4Q16 | V.A. (%) | 4Q15 | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (a) | (b) | (b) | (a/b) | (c) | (c) | (d) | (d) | (c/d) |
| **Net sales revenue** | **2,236.0** | **100.0%** | **2,423.4** | **100.0%** | **-7.7%** | **518.6** | **100.0%** | **560.9** | **100.0%** | **-7.5%** |
| Cost of sales | (1,640.0) | -73.3% | (1,782.4) | -73.5% | -8.0% | (403.8) | -77.9% | (427.6) | -76.2% | -5.6% |
| **Gross income** | **596.0** | **26.7%** | **641.0** | **26.5%** | **-7.0%** | **114.8** | **22.1%** | **133.3** | **23.8%** | **-13.9%** |
| Selling expenses | (150.9) | -6.7% | (168.2) | -6.9% | -10.3% | (35.8) | -6.9% | (36.8) | -6.6% | -2.7% |
| General and administrative expenses | (88.8) | -4.0% | (81.9) | -3.4% | 8.4% | (19.8) | -3.8% | (26.8) | -4.8% | -26.1% |
| Technology and product development expenses | (86.7) | -3.9% | (92.7) | -3.8% | -6.5% | (20.9) | -4.0% | (29.7) | -5.3% | -29.6% |
| Other operating income (expenses) | (251.2) | -11.2% | (35.2) | -1.5% | 613.6% | (227.8) | -43.9% | (18.8) | -3.4% | 1111.7% |
| Equity in the results of investees | (2.2) | -0.1% | 2.0 | 0.1% | -210.0% | (2.1) | -0.4% | 2.0 | 0.4% | -205.0% |
| **Operating income** | **16.2** | **0.7%** | **265.0** | **10.9%** | **-93.9%** | **(191.6)** | **-36.9%** | **23.2** | **4.1%** | **-925.9%** |
| Financial income (expenses), net | (57.5) | -2.6% | (11.8) | -0.5% | 387.3% | (8.1) | -1.6% | 1.9 | 0.3% | -526.3% |
| Income tax and social contribution | 45.4 | 2.0% | (81.0) | -3.3% | -156.0% | 51.6 | 9.9% | (3.0) | -0.5% | -1820.0% |
| **Net income attributable to owners of the parent** | **24.6** | **1.1%** | **201.0** | **8.3%** | **-87.8%** | **(142.7)** | **-27.5%** | **33.8** | **6.0%** | **-522.2%** |
| **Adjusted net income attributable to owners of the parent** | **170.1** | **7.6%** | **226.9** | **9.4%** | **-25.0%** | **2.8** | **0.5%** | **50.4** | **9.0%** | **-94.4%** |
| Net income of non-controlling interest | (20.5) | -0.9% | (28.8) | -1.2% | -28.8% | (5.4) | -1.0% | (11.7) | -2.1% | -53.8% |
| **EBITDA** | **117.1** | **5.2%** | **372.4** | **15.4%** | **-68.6%** | **(166.1)** | **-32.0%** | **49.8** | **8.9%** | **-433.5%** |
| **Adjusted EBITDA** | **326.7** | **14.6%** | **398.3** | **16.4%** | **-18.0%** | **43.5** | **8.4%** | **66.4** | **11.8%** | **-34.5%** |
| **Margins:** | | | | | | | | | | |
| Gross margin | 26.7% | | 26.5% | | 0,2 p.p. | 22.1% | | 23.8% | | -1,7 p.p. |
| Operating margin | 0.7% | | 10.9% | | -10,2 p.p. | -36.9% | | 4.1% | | -41 p.p. |
| Net margin attributable to owners of the parent | 1.1% | | 8.3% | | -7,2 p.p. | -27.5% | | 6.0% | | -33,5 p.p. |
| Adjusted net margin attributable to owners of the parent | 7.6% | | 9.4% | | -1,8 p.p. | 0.5% | | 9.0% | | -8,5 p.p. |
| EBITDA margin | 5.2% | | 15.4% | | -10,2 p.p. | -32.0% | | 8.9% | | -40,9 p.p. |
| Adjusted EBITDA margin | 14.6% | | 16.4% | | -1,8 p.p. | 8.4% | | 11.8% | | -3,4 p.p. |

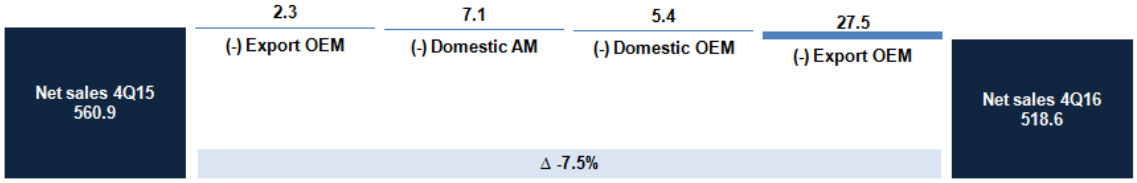
### 5.1 Net sales revenue and market share by segment

| Performance of the net sales revenue (R$ Million) | 2016 (a) | 2015 (b) | % Share by market (a) | % Share by market (b) | H.A. (%) (a/b) | 4Q16 (c) | 4Q15 (d) | % Share by market (c) | % Share by market (d) | H.A. (%) (c/d) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Original equipment** | | | | | | | | | | |
| Domestic | 560.1 | 690.0 | 25.0% | 28.5% | -18.8% | 131.7 | 137.1 | 25.4% | 24.5% | -3.9% |
| Export | 933.3 | 975.1 | 41.8% | 40.2% | -4.3% | 206.5 | 234.0 | 39.8% | 41.7% | -11.8% |
| **Total** | **1,493.4** | **1,665.1** | **66.8%** | **68.7%** | **-10.3%** | **338.2** | **371.1** | **65.2%** | **66.2%** | **-8.9%** |
| **Aftermarket** | | | | | | | | | | |
| Domestic | 601.2 | 608.7 | 26.9% | 25.1% | -1.2% | 144.5 | 151.6 | 27.9% | 27.0% | -4.7% |
| Export | 141.4 | 149.6 | 6.3% | 6.2% | -5.5% | 35.9 | 38.2 | 6.9% | 6.8% | -6.0% |
| **Total** | **742.6** | **758.3** | **33.2%** | **31.3%** | **-2.1%** | **180.4** | **189.8** | **34.8%** | **33.8%** | **-5.0%** |
| **Grand total** | **2,236.0** | **2,423.4** | **100.0%** | **100.0%** | **-7.7%** | **518.6** | **560.9** | **100.0%** | **100.0%** | **-7.5%** |

In 2016, net sales revenue fell 7.7% compared to 2015, totaling R$ 2,236.0 million. This result is due to the performance of domestic aftermarket sales (-1.2%), aftermarket exports (-5.5%), OEM exports (-4.3%), and domestic OEM sales (-18.8%).




In the 4Q16, net sales revenue fell 7.5% compared to the 4Q15, totaling R$ 518.6 million. This result is due to the performance of aftermarket exports (-6.0%), domestic aftermarket sales (-4.7%), domestic OEM sales (-3.9%), and OEM exports (-11.8%).



### 5.2 Domestic OEM (original equipment manufacturer) sales

In 2016, the Company's revenue from this market totaled R$ 560.1 million (R$ 690.0 million in 2015), meaning a drop of 18.8%. Revenue from this market accounted for 25.0% of the Company's total revenue in 2016 (28.5% in 2015).

In 4Q16, domestic OEM sales totaled R$ 131.7 million (R$ 137.1 million in the 4Q15), meaning a decrease of 3.9%. Domestic OEM revenue accounted for 25.4% of the Company's total revenue in the 4Q16 (24.5% in the 4Q15).

Domestic OEM revenue was affected mainly by the fall of 11.0% in the vehicle production in 2016 and the discontinuance of the operations of subsidiary MAHLE Hirschvogel Forjas S.A..

Taking into account only the discontinuance of subsidiary MAHLE Hirschvogel Forjas S.A. whose revenue in 2015 was R$ 36.7 million, the drop in 2016 would have been 14.3%, i.e., less than the 18.8% reported. Comparing the 4Q16 with the 4Q15, revenue from that subsidiary was R$ 2.2 million, thus, the decrease would have been 2.4%, i.e., less than the 3.9% reported.

### 5.3 Domestic aftermarket sales

In 2016, the Company's revenue from this market totaled R$ 601.2 million (R$ 608.7 million in 2015), meaning a decrease of 1.2%. Revenue from this market accounted for 26.9% of the Company's total revenue in 2016 (25.1% in 2015).

In the 4Q16, domestic aftermarket revenue totaled R$ 144.5 million (R$ 151.6 million in the 4Q15), meaning a decrease of 4.7%. Revenue from this market accounted for 27.9% of the Company's total revenue reported in the 4Q16 (27.0% in the 4Q15).

In 2016, sales were positively affected by an increase in sales of engine components, particularly the motorcycle and piston rings line, and by the increase in the filter line, which was negatively affected by the performance of the diesel line (heavy vehicle segment ), which was strongly affected by the drop of the economic activity.

### 5.4 OEM exports

In 2016, the Company reported OEM exports revenue of R$ 933.3 million (R$ 975.1 million in 2015), meaning a decrease of 4.3%. Revenue from this market accounted for 41.8% of the Company's total revenue in 2016 (40.2% in 2015).

In the 4Q16, the Company reported revenue of R$ 206.5 million (R$ 234.0 million in the 4Q15), meaning a decrease of 11.8%. Revenue from this market accounted for 39.8% of the Company's total revenue in 4Q16 (41.7% in the 4Q15).

The performance of this market is due to the positive exchange variation between the periods, coupled with the decrease in sales volumes affected by the fall in the heavy vehicle production in the US market.

### 5.5 Aftermarket exports

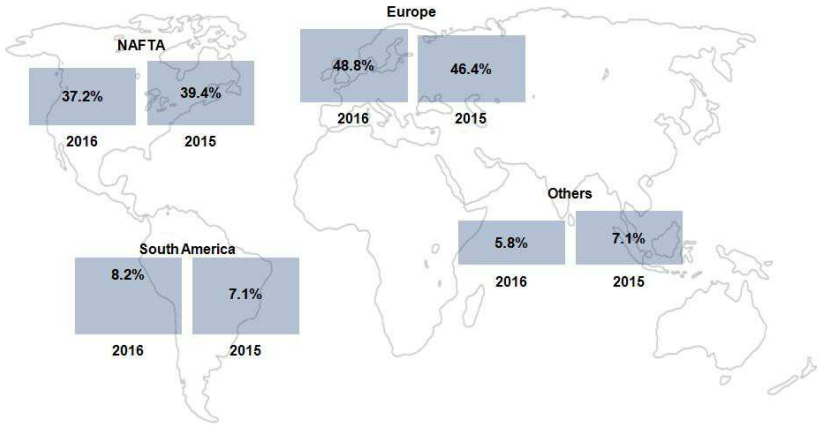
In 2016, the Company reported aftermarket export revenue of R$ 141.4 million (R$ 149.6 million in 2015), meaning a decrease of 5.5%. Revenue from this market accounted for 6.3% of the Company's total revenue in 2016 (6.2% in 2015).

In the 4Q16, the Company reported revenue of R$ 35.9 million (R$ 38.2 million in the 4Q15), meaning a reduction of 6.0%. Revenue from this market accounted for 6.9% of the Company's total revenue in the 4Q16 (6.8% in the 4Q15).

The impact of the exchange variation between the periods (Brazilian currency appreciation compared to the US dollar), coupled with the low performance of sales in certain countries to which the Company exports, were the main reasons for the Company's performance in this market.

### 5.6 Consolidated exports by region

The graph below shows the distribution of the Company's sales by geographic region in 2016 and 2015, respectively:

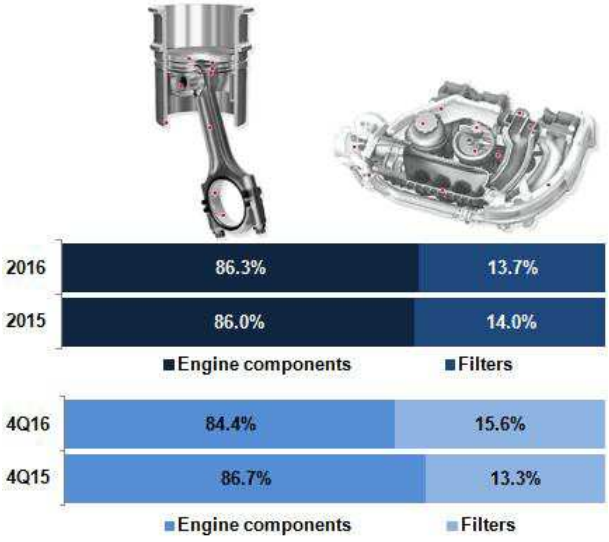



### 5.7 Net sales revenue by segment

In 2016, sales of engine components and filters decreased by 7.4% and 9.7%, respectively, compared with 2015. In the 4Q16, sales of engine components decreased by 10.0% and sales of filters increased by 8.4%.

| Performance of the net sales revenue by segment (R$ million) | 2016 (a) | 2015 (b) | H.A. (%) (a/b) | 4Q16 (c) | 4Q15 (d) | H.A. (%) (c/d) |
|---|---|---|---|---|---|---|
| Engine components | 1,930.0 | 2,084.5 | -7.4% | 437.6 | 486.2 | -10.0% |
| Filters | 305.9 | 338.9 | -9.7% | 81.0 | 74.7 | 8.4% |
| **Total** | **2,236.0** | **2,423.4** | **-7.7%** | **518.6** | **560.9** | **-7.5%** |

The graph below shows the sales share of both segments in 2016 and 2015:

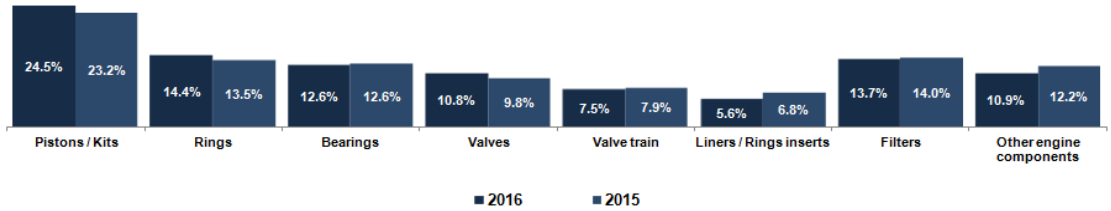



Reduction of sales of engine components and filters in 2016 and in the 4Q16 results mainly from a slump in the domestic OEM market.

One of the factors that negatively affected filter sales in 2016 was that one of our customers started importing directly a project component previously supplied by the Company resulting in a reduction of revenue as that component is no longer part of the final cost of goods sold.

Also with respect to the filters segment, it is important to mention that the Company does not export filters and therefore this segment has not been impacted by the exchange variation as happened to the segment of engine components in prior periods.

The graph below shows the share of each product in the total net revenue in 2016 compared to 2015:




## 5.8 Gross margin

Despite the reduction in revenue from the markets where the Company operates in 2016, the Company could maintain the level of its gross margin thanks to its intense efforts towards increased productivity in the direct and indirect areas of the Company.

The Company closed 2016 with gross margin of 26.7%, almost the same as that of 2015, as shown below:

| Summary P&L (R$ million) | 2016 | V.A. (%) | 2015 | V.A. (%) | H.A. (%) | 4Q16 | V.A. (%) | 4Q15 | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (a) | (b) | (b) | (a/b) | (c) | (c) | (d) | (d) | (c/d) |
| **Net sales revenue** | **2,236.0** | **100.0%** | **2,423.4** | **100.0%** | **-7.7%** | **518.6** | **100.0%** | **560.9** | **100.0%** | **-7.5%** |
| Cost of sales | (1,640.0) | -73.3% | (1,782.4) | -73.5% | -8.0% | (403.8) | -77.9% | (427.6) | -76.2% | -5.6% |
| **Gross income** | **596.0** | **26.7%** | **641.0** | **26.5%** | **-7.0%** | **114.8** | **22.1%** | **133.3** | **23.8%** | **-13.9%** |
| Gross margin | 26.7% | | 26.5% | | 0,2 p.p. | 22.1% | | 23.8% | | -1,7 p.p. |

## 5.9 Selling, general and administrative expenses

Reduced selling expenses result from the drop in the Company's sales.

The increase in general and administrative expenses, in turn, is mainly due to salary adjustments in Brazil and Argentina and an increase in the rate of *Programa Brasil Maior*, which is a government program for production growth that replaces part of payroll taxes.

| Summary P&L (R$ million) | 2016 | V.A. (%) | 2015 | V.A. (%) | H.A. (%) | 4Q16 | V.A. (%) | 4Q15 | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (a) | (b) | (b) | (a/b) | (c) | (c) | (d) | (d) | (c/d) |
| **Net sales revenue** | **2,236.0** | **100.0%** | **2,423.4** | **100.0%** | **-7.7%** | **518.6** | **100.0%** | **560.9** | **100.0%** | **-7.5%** |
| Selling expenses | (150.9) | -6.7% | (168.2) | -6.9% | -10.3% | (35.8) | -6.9% | (36.8) | -6.6% | -2.7% |
| General and administrative expenses | (88.8) | -4.0% | (81.9) | -3.4% | 8.4% | (19.8) | -3.8% | (26.8) | -4.8% | -26.1% |

## 5.10 Technology and product development expenses

As one of its main competitive advantages, the Company believes it is essential to maintain its R&D investments. The historic level of such expenses in relation to revenues was maintained in the 4Q16 and throughout the year 2016.

| Summary P&L (R$ million) | 2016 | V.A. (%) | 2015 | V.A. (%) | H.A. (%) | 4Q16 | V.A. (%) | 4Q15 | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (a) | (b) | (b) | (a/b) | (c) | (c) | (d) | (d) | (c/d) |
| **Net sales revenue** | **2,236.0** | **100.0%** | **2,423.4** | **100.0%** | **-7.7%** | **518.6** | **100.0%** | **560.9** | **100.0%** | **-7.5%** |
| Technology and product development expenses | (86.7) | -3.9% | (92.7) | -3.8% | -6.5% | (20.9) | -4.0% | (29.7) | -5.3% | -29.6% |

## 5.11 Other operating income (expenses), net

In 2016, a net expense of R$ 251.2 million was recorded in other operating income (expenses), representing a negative variation of R$ 216.0 million in relation to 2015.

In the 4Q16, a net expense of R$ 227.8 million was recorded in other operating income (expenses), representing a negative variation of R$ 209.0 million in relation to the 4Q15.

The main changes in the period refer to the following:

- Non-recurrent expense resulting from the provision for impairment losses (impairment of the piston ring business of the engine segment);
- Increase in the provisions for labor contingencies;
- Reduction in income from sale of electric power surplus (occurred in 2015) and reduced in 2016; and
- Reduction in the rate relating to income from Recovered Taxes under the *Reintegra* Program.

| Others incomes and expenses, net | 2016 (a) | 2015 (b) | Var. (a-b) | 4Q16 (c) | 4Q15 (d) | Var. (c-d) |
|---|---|---|---|---|---|---|
| Provision for intangible losses (impairment) | (188.6) | - | (188.6) | (188.6) | - | (188.6) |
| Provision/Reversal for labor contingencies | (56.4) | (32.0) | (24.4) | (32.5) | (14.2) | (18.3) |
| Electric power | (3.8) | 7.4 | (11.2) | 0.1 | (0.6) | 0.7 |
| Recovered taxes (Reintegra) | 0.8 | 11.5 | (10.7) | 0.2 | 1.7 | (1.5) |
| Gains/losses on disposal of assets | (0.1) | 2.4 | (2.5) | (0.4) | (0.1) | (0.3) |
| Provision/Reversal for taxes contingencies | (4.8) | (2.8) | (2.0) | (5.2) | 1.0 | (6.2) |
| Provision/Reversal for losses on products | (1.3) | (0.9) | (0.4) | (1.1) | (0.9) | (0.2) |
| Provision for environmental liability | 0.1 | (0.8) | 0.9 | 0.6 | (0.2) | 0.8 |
| Provision for restructuring | - | (2.0) | 2.0 | - | (2.0) | 2.0 |
| Provision for obsolescence | 2.7 | (6.8) | 9.5 | 0.4 | (0.2) | 0.6 |
| Other income/expenses | 0.2 | (11.2) | 11.4 | (1.3) | (3.3) | 2.0 |
| **Total of others incomes and expenses, net** | **(251.2)** | **(35.2)** | **(216.0)** | **(227.8)** | **(18.8)** | **(209.0)** |

The table below shows the periods of applicability and respective rates of the *Reintegra* Program (a special tax recovery regime for export companies), which explains the negative variation of R$ 10.7 million in 2016 compared to 2015 and the negative variation of R$ 1.5 million in the 4Q16, compared to the 4Q15:

| Reintegra | |
|---|---|
| **Period** | **Aliquot** |
| January, 2014 - September, 2014 | 0.0% |
| October, 2014 - February, 2015 | 3.0% |
| March, 2015 - November, 2015 | 1.0% |
| December, 2015 - December, 2016 | 0.1% |

### *5.12 Operating income measured by EBITDA*

In 2016, adjusted EBITDA was R$ 326.7 million, representing an EBITDA margin of 14.6%.

| EBITDA 2015 | 372.4 |
|---|---|
| Selling expenses | 17.3 |
| Technology and product development expenses | 6.0 |
| Equity in the results of investees | -4.2 |
| Depreciation | -6.5 |
| General and administrative expenses | -6.9 |
| Gross income | -45.0 |
| Other operating income (expenses) | -216.0 |
| **EBITDA 2016** | **117.1** |
| Impairment (rings business) | 188.6 |
| Discontinuance of the operations of subsidiary MHF | 21.0 |
| **Adjusted EBITDA 2016** | **326.7** |

In the 4Q16, adjusted EBITDA was R$ 43.5 million, representing an EBITDA margin of 8.4%.

| EBITDA 4Q15 | 49.8 |
|---|---|
| Technology and product development expenses | 8.8 |
| General and administrative expenses | 7.0 |
| Selling expenses | 1.0 |
| Depreciation | -1.1 |
| Equity in the results of investees | -4.1 |
| Gross income | -18.5 |
| Other operating income (expenses) | -209.0 |
| **EBITDA 4Q16** | **-166.1** |
| Impairment (rings business) | 188.6 |
| Discontinuance of the operations of subsidiary MHF | 21.0 |
| **Adjusted EBITDA 4Q16** | **43.5** |

### 5.13 Net financial income (expenses)

In 2016, the Company recorded a net financial expense of R$ 57.5 million, and of R$ 11.8 million in 2015, representing a variation of R$ 45.7 million between both periods.

In the 4Q16, the Company recorded a net financial expense of R$ 8.1 million, and of R$ 1.9 million in the 4Q15, meaning a variation of R$ 10.0 million between the periods.

| Net financial result (R$ million) | 2016 (a) | 2015 (b) | Var. (a - b) | 4Q16 (c) | 4Q15 (d) | Var. (c - d) |
|---|---|---|---|---|---|---|
| Interests (income on investments) | 13.2 | 29.7 | (16.5) | 6.0 | 7.1 | (1.1) |
| Interests (expenses on financing) | (43.1) | (54.5) | 11.4 | (10.6) | (14.6) | 4.0 |
| Interests (Others) | 0.6 | 0.3 | 0.3 | 0.1 | (0.5) | 0.6 |
| **Interests, net (i)** | **(29.3)** | **(24.5)** | **(4.8)** | **(4.5)** | **(8.0)** | **3.5** |
| Exchange variation, net | (23.8) | 102.9 | (126.7) | (2.6) | 5.0 | (7.6) |
| Result with derivatives | 35.5 | (56.6) | 92.1 | 9.9 | 14.3 | (4.4) |
| **Exchange variation and Result with derivatives (ii)** | **11.7** | **46.3** | **(34.6)** | **7.3** | **19.3** | **(12.0)** |
| Monetary variation, net | (33.5) | (26.6) | (6.9) | (9.0) | (7.1) | (1.9) |
| Others | (6.4) | (7.0) | 0.6 | (1.9) | (2.3) | 0.4 |
| **Monetary variation, net + Others (iii)** | **(39.9)** | **(33.6)** | **(6.3)** | **(10.9)** | **(9.4)** | **(1.5)** |
| **Financial income (expenses), net (i + ii + iii)** | **(57.5)** | **(11.8)** | **(45.7)** | **(8.1)** | **1.9** | **(10.0)** |

The negative variation of R$ 4.8 million in net financial result (item “i” of the table above) between 2016 and 2015 results from the variation of net interests. In the 4Q16, compared to the 4Q15, the variation was positive, at R$ 3.5 million.

The variation in “Interest (income on investments)” of R$ 16.5 million between the years results from a reduction in the average investment levels in the period (R$ 133.9 million and R$ 268.9 million, respectively, averages for 2016 and 2015), coupled with higher remuneration of the Company’s investments (13.0% p.y. and 12.4% p.y., respectively averages for 2016 and 2015), as shown in the table below:

| Interest rates and volumes (average) | 2016 (a) | 2015 (b) | Var. (a - b) | 4Q16 (c) | 4Q15 (d) | Var. (c - d) |
|---|---|---|---|---|---|---|
| Remunetarion of investments | 13.0% | 12.4% | 0.6 p.p. | 13.3% | 13.4% | -0.1 p.p. |
| Cost of debt | 9.8% | 9.0% | 0.8 p.p. | 9.7% | 10.0% | -0.3 p.p. |
| Investments - average[1] | 133.9 | 268.9 | -50.2% | 222.4 | 217.5 | 2.3% |
| Average debt | (458.2) | (631.5) | -27.4% | (497.9) | (561.9) | -11.4% |

[1] - Certificates do Deposits (CDs) and repurchase agreements with remuneration of 99.8% in average of the interbank deposit (CDI) rate, invested exclusively with first rate banks in Brazil.

There was a reduction in the average volume of gross indebtedness of 27.4% (from R$ 631.5 million to R$ 458.2 million, in 2015 and 2016, respectively), due repayment of loans and financing transactions, mainly those contracted with the National Bank for Economic and Social Development (BNDES) and commercial banks (export credit note - NCE). In the 4Q16 and 4Q15, there was an average reduction of 11.4% (R$ 561.9 million and R$ 497.9 million, 4Q15 and 4Q16, respectively).

The average cost of debt increased by 0.8 p.p. in 2016 compared to 2015 due to the repayment of lower cost loans (BNDES and NCEs), and new funding (from BNDES) with higher rates at the time of the changes in the macroeconomic scenario.

Comparing the 4Q16 with the 4Q15, there was a reduction of 0.3 p.p. due to the repayment of more expensive loans, particularly those relating to the Company's subsidiary in Argentina.

Another change in the net financial income (expenses) (item “ii” of the “Net financial result”) between 2016 and 2015 is the negative variation of R$ 34.6 million referring to net exchange variation and results with derivatives. In the 4Q16 and 4Q15, the negative variation was R$ 12.0 million for the same reason of the 2016-2015 variation.

### 5.14 Income and social contribution taxes

As of December 31, 2016, the Company accrued a tax income for income and social contribution taxes of R$ 45.4 million, consolidated (expense of R$ 81.0 million as of December 31, 2015), which was mainly impacted by the tax credit obtained by subsidiary MAHLE Metal Leve GmbH and by the reversal of the portion of deferred income on the impairment loss on goodwill, as detailed below:

- Current tax: expense of R$ 31.6 million, mainly comprising:
  (i) expense of R$ 51.0 million, generated by the controlling shareholder and its subsidiary MAHLE Argentina S/A;
  (ii) income of R$ 19.4 million, generated by subsidiary MAHLE Metal Leve GmbH, referring to recalculation of the provision for income tax in 2014 and 2015 because of a favorable outcome obtained from the Austrian tax authorities in March 2016;

- Deferred tax: total income of R$ 77.1 million, with no impact on cash, mainly comprising the reversal of deferred liabilities of R$ 64.1 million resulting from the impairment loss on goodwill and the amount of R$ 7.9 million arising from realization of differences between amounts of assets measured under the corporate legislation and the amounts measured under the tax legislation (Law 12.973/14).

For additional information, see note 13 to the Financial Statements of 2016.

### 5.15 Net income

✓ Adjusted net income: Adjustments due to provision of R$ 21.0 million relating to discontinuance of subsidiary MAHLE Hirschvogel Forjas S.A.; the provision of R$ 188.6 million in 2016 referring to impairment loss on goodwill of the Company's cash generating unit (CGU), i.e., piston rings business; reversal of R$ 64.1 million relating to income and social contribution taxes on the above mentioned impairment loss. Taken into account such adjustments, adjusted net income totals R$ 170.1 million (reduction of 25.0% in relation to 2015) and net margin of 7.6% in 2016.

✓ Net income: In 2016, net income totaled R$ 24.6 million (R$ 201.0 million in 2015), representing a drop of 87.8% compared to 2015, and net margin in 2016 was 1.1% and 8.3% in 2015.

In the 4Q16, net income was negative at R$ 142.7 million, while in the 4Q15 was R$ 33.8 million, with net margin of -27.5% in the 4Q16 (6.0% in the 4Q15).

| Summary P&L (R$ million) | 2016 | 2015 | 4Q16 | 4Q15 | V.A. (%) | V.A. (%) | V.A. (%) | V.A. (%) | H.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (a) | (b) | (c) | (d) | (a/b) | (c/d) |
| **Profit attributable to owners of the parent** | **24.6** | **201.0** | **(142.7)** | **33.8** | **1.1%** | **8.3%** | **-27.5%** | **6.0%** | **-87.8%** | **-522.2%** |
| (+) Discontinuance of the operations of subsidiary MAHLE Hirschvogel Forjas S.A. | 21.0 | 25.9 | 21.0 | 16.6 | | | | | | |
| (+) Impairment - rings business | 188.6 | - | 188.6 | - | | | | | | |
| (-) IR/CSSL adjust (impairment) | (64.1) | - | (64.1) | - | | | | | | |
| **Adjusted net income attributable to owners of the parent** | **170.1** | **226.9** | **2.8** | **50.4** | **7.6%** | **9.4%** | **0.5%** | **9.0%** | **-25.0%** | **-94.4%** |
| **Margins:** | | | | | | | | | | |
| Net margin attributable to owners of the parent | 1.1% | 8.3% | -27.5% | 6.0% | | | | | -7,2 p.p. | -33,5 p.p. |
| Adjusted net margin attributable to owners of the parent | 7.6% | 9.4% | 0.5% | 9.0% | | | | | -1,8 p.p. | -8,5 p.p. |

### 5.16 Capital expenditures

In 2016, capital expenditures (capex) were channeled into new buildings, warehousing systems, new products, replacement of machinery and equipment aiming to increase productivity and quality, R&D and IT equipment, among others.

Depreciation of deemed cost of property, plant and equipment refers to the adjustment for adoption of the International Financial Reporting Standards (IRFS), which therefore is in line with the Brazilian Accounting Standards (NBCs).

The table below shows the capex amounts and total accumulated depreciation for 2016 and 2015:

| CAPEX & Depreciation (R$ million) | 2016 | 2015 |
|---|---|---|
| Capex | 104.6 | 123.6 |
| Total depreciation | 101.4 | 107.5 |
| Depreciation | 92.7 | 93.8 |
| Deemed costs | 8.7 | 13.7 |

| *Capex* | 2016 | 2015 |
|---|---|---|
| % of Net sales revenue | 4.7% | 5.1% |
| % of Depreciation | 103.2% | 115.0% |

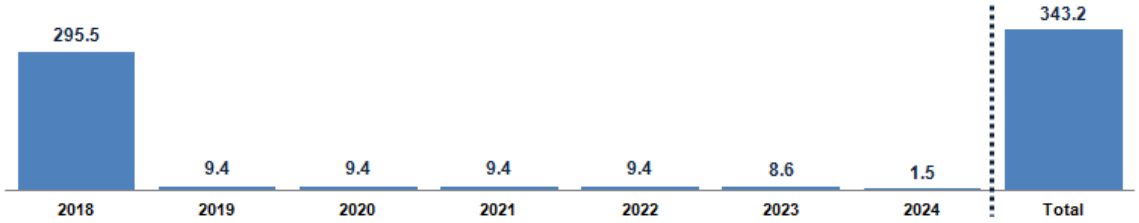
Capital expenditures estimated for 2017 total R$ 111.9 million.

### *5.17 Indebtedness*

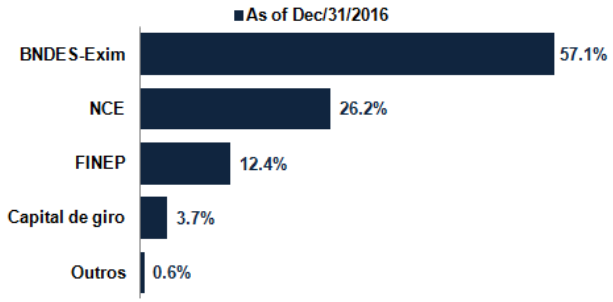
In 2016, the Company's total net indebtedness was R$ 183.2 million, representing a reduction of 38.7% compared to the figures at the end of 2015 (R$ 299.1 million).

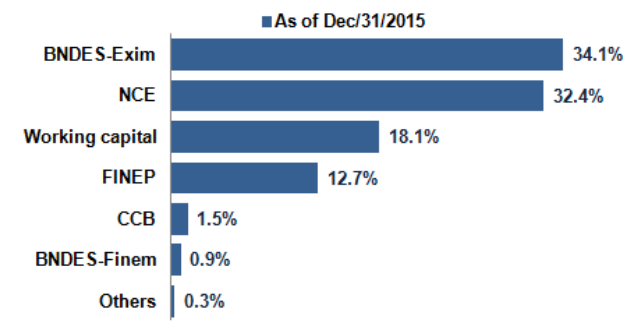
| Net indebtedness (R$ million) | As of Dec/31/2016 (a) | As of Dec/31/2015 (b) | Variation (a - b) | % Debt (a) | % Debt (b) |
|---|---|---|---|---|---|
| **Liabilities (i)** | **499.5** | **479.7** | **19.8** | **100%** | **100%** |
| Short term | 156.3 | 180.7 | (24.4) | 31% | 38% |
| Long term | 343.2 | 299.0 | 44.3 | 69% | 62% |
| **Assets (ii)** | **(316.3)** | **(180.6)** | **(135.7)** | | |
| Cash / banks / cash investments/ Loans - related parties | (316.3) | (180.6) | (135.7) | | |
| **Net indebtedness (i + ii)** | **183.2** | **299.1** | **(115.9)** | | |
| **Adjusted EBITDA** | **326.7** | **398.3** | | | |
| **Net indebtedness / Adjusted EBITDA** | **0.56** | **0.75** | | | |

The table below shows the transactions with long-term maturities, which represent 69% of the financing transactions in the above table:




Below is a breakdown of our financing transactions per type, for each of the periods indicated in the table above.



### 5.18 Dividends and interest on capital to shareholders

In 2016, the Company made distributions to its shareholders as follows:

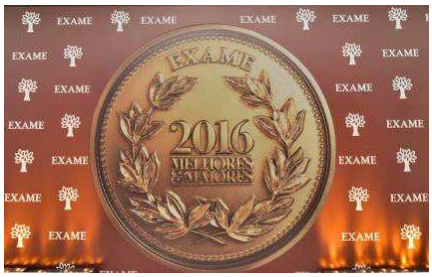
| Date | Payment Date | Type of pay-out | Period | Reference Year | Total Gross Amount (in R$ million) | Gross Amount per Share (in R$) | Net Amount per Share (in R$) |
|---|---|---|---|---|---|---|---|
| August 09th, 2016 | August 29th, 2016 | Interest on capital | April, 2016 - July, 2016 | 2016 | 31.0 | 0.2412799417 | 0.2050879504 |
| April 27th, 2016 | May 23th, 2016 | Interest on capital | January, 2016 - March, 2016 | 2016 | 23.1 | 0.1803384426 | 0.1532876762 |
| | | | **Interest on capital** | | **54.1** | **0.4216183843** | **0.3583756266** |

## 6 Investor Relations and Capital Markets

In 2016, the Company's Investor Relations team maintained the actions to improve its internal processes and information flow, thus enhancing interaction with the most varied capital market players and stakeholders, seeking to show to the market how the Company operates. Further, the Company continues participating in several meetings, conferences, site visits, teleconferences, and other events focused on the capital market, including contacts by phone and emails.

For the third consecutive year the Company received the Transparency Award from Brazil's National Association of Finance, Accounting and Administration Executives (ANEFAC). The award highlighted the Company as one of the most transparent companies in the country for the quality of the information in its financial statements for 2015.

Additionally, the Company was one of the winners of the award "*Maiores e Melhores 2016*" in the "*Autoindústria*" category (The Biggest and Best Ones of 2016 in the Automotive Industry) from *Exame* Magazine, which in its special edition of July 2016, disclosed the winners for their performance in 2015.

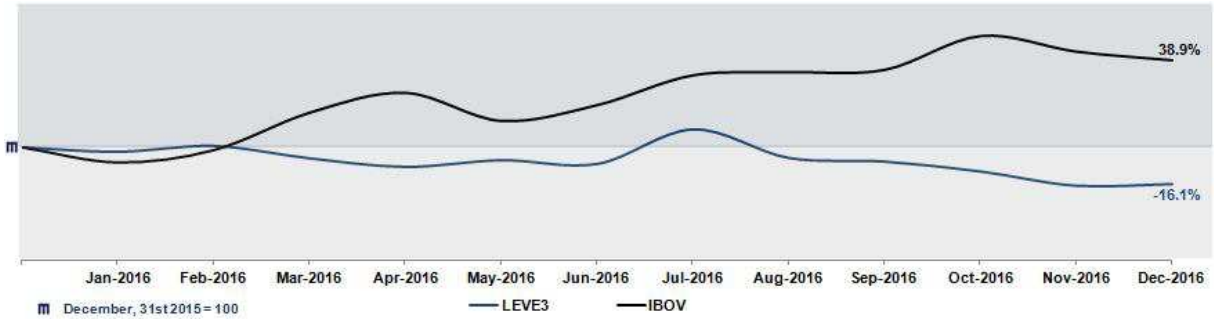



Still in 2016, at a ceremony held at the Federation of Trade (Fecomércio) in São Paulo, the Investor Relations Department of MAHLE Metal Leve S.A. received the award "Melhor Programa de Relações com Investidores" (Best Investor Relations Program) for companies with market value from two to five billion Brazilian Reais.



### 6.1 *Performance of the Company shares and free-float shares*

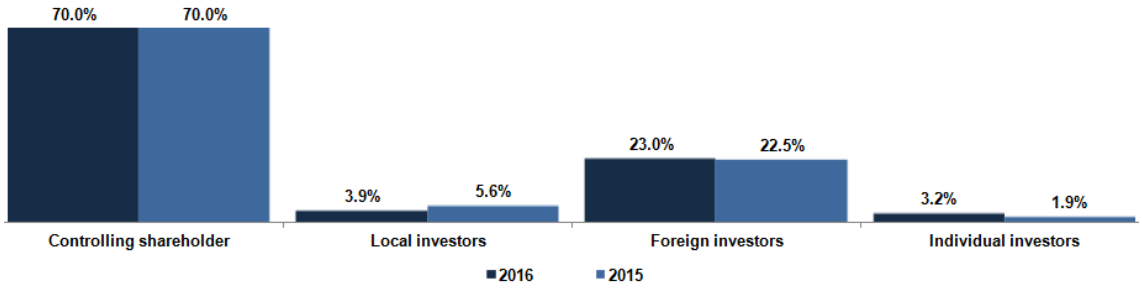
The graphs below show the evolution of LEVE3 shares, the Average Daily Trading Volume (ADTV) and the ADTV turnover in relation to the free-float market capitalization:




| Average Daily Trading Volume (ADTV) and ADTV turnover to Free-Float Mkt Cap | | | | |
|---|---|---|---|---|
| **Period** | **1Q16** | **2Q16** | **3Q16** | **4Q16** |
| **Trading Volume (R$ million)** | 6.6 | 5.6 | 6.3 | 4.8 |
| **Turnover (%)** | 0.71% | 0.62% | 0.67% | 0.59% |

### 6.2 *Shareholders' profile*

In 2016 and 2015, shareholders' profile in relation to the quantity of the Company shareholders, including free-float shares, was represented as follows:




## 7 *Corporate Risk Management, Internal Controls and Compliance*

The Executive Board is responsible for overseeing the internal controls, compliance and corporate risk of the Company so as to promote a sustainable process to create value for shareholders.

Accordingly, MAHLE, committed to transparency and ethics and continuous improvement of its controls, makes use of the following tools:

- A Compliance Program that establishes guidelines and standards to direct the form of operating and doing business, primarily focused on anticorruption practices and defense of free competition in the market, among others.

- An Internal Control department that carries out impartial and timely assessment of the effectiveness of risk management, internal controls and standards and procedures established by management. The department recommends improvements in internal controls and risk management in conformity with the market best practices, thus helping to take pro-active actions towards identifying, preventing and controlling risks.

## 8 Corporate Governance

The Company adopts good practices in corporate governance, following the principles of transparency, fairness, accountability and corporate responsibility. The Company shares have been traded since July 2011 on the BM&FBovespa Novo Mercado (New Market) segment, which requires high standards of corporate governance. The Company is subject to arbitration by the Market Arbitration Chamber, pursuant to the binding arbitration clause of its bylaws. The Company is managed based on the powers and responsibilities of the Board of Directors and Executive Board. The Board of Directors is composed of five permanent members and five alternates, where one of them is a permanent (and respective alternate) and independent member elected by the minority shareholders. The Company has also a Supervisory Board, which is composed of three permanent members and three alternates, where one member (and respective alternate) is appointed by the minority shareholders and two members by the controlling shareholders. There is also a Communication Committee whose primary duty is to enforce the Company's guidelines concerning information provided to the market, ensure compliance with CVM Instruction No. 358 and the Reporting and Trading Policy, and evaluate and propose improvements in the communication between the Company and stakeholders.

## 9 Excellence and Technological Innovation

Strengthening the role of the main technological partner in the automotive industry, MAHLE Metal Leve S.A. has developed several optimization works and certification of engines for agricultural applications under the scope of the new legislation MAR1 (Agricultural and Road Machinery Legislation), including limits for emissions and noise.

The Inovar-Auto program has set the agenda of the Tech Center with different market players, such as customers, autoparts enterprises, associations, academies and the government. The focus is learning the role of the legislation as a propeller of the international competitiveness and technical role in relation to biofuels as a means to strongly reduce global warming. To that end, the Company formed, along with Sindipeças, a group called "Frente Inovar-Auto" to discuss technical issues by providing conditions for greater predictability and innovation in the Brazilian technological development.

Again, MAHLE Metal Leve S.A. was recognized as the automotive company that most applies for patent registrations, thus being ranked in the third place among all applicants of most varied industries. Of the products launched, the fuel heater "SmartHeat" and the diesel-water separation filter named "Blindagua" are the highlights. Having performance superior to any other technology existing in the world, the SmartHeat system was considered the most important technology of the year and was granted the AEA Environment Award and REI Award of Automotive Business. With remarkable participation, the system was introduced during the International Symposium on Automotive Engineering (SIMEA), as capable of reducing emissions even at lower cost than the other technologies. The Blindagua filter is the single double phase filter that separates water from diesel in more than three times, extending the life of components and the engine.

Furthermore, the Company started another project with the Technological Research Institute (IPT) following the initiatives of Embrapii (a federal government company for industrial research and innovation) for development of a high-performance structural and trobological material for heavy duty engine shirts. This involves even more aggressive project conditions, which will result in increasingly higher conditions for reduction of fuel consumption.

## 10 Human Resources

The Company's global human resources strategy seeks to develop procedures and activities to implement modern structures for attracting and retaining talents. We strive to be an attractive employer for those who are starting their careers and also professionals and executives, through our professional development program and partnerships with high rate universities. In 2016, training initiatives totaled approximately 35 hours per employee and approximately R$ 2.3 million invested. Such initiatives include activities of training in production process, development of leadership, education and foreign language allowances, internships, etc. Due to the current political and economic scenario, in 2015, most of such actions were carried out with internal resources.

The Company adopts the philosophy of continued education as a way to perpetuate its growth, since continued education leads to specialized skills and behaviors, either for decision making or improvement of production processes.

As of December 31, 2016, the Company had 7,814 employees.

## *11 Environment*

Defined as a value for MAHLE, the Environment is one of the most important commitments of our organization, which strives to develop technologies that benefit the future of human beings and are in full harmony with the environment.

In 2016, the Occupational Environment, Safety and Health Policy was revised to reaffirm principles such as accountability; conscious behavior; legal compliance; resources and energy conservation; risk management; commitment and partnership; and transparency. Our policy focus on environmental awareness at a global scenario where preserving the planet limits is a commitment of all while seeking sustainable development.

A management strategy was structured based on guidelines such as maximization of the use of the natural resources in all spheres; the concept of the 3R's (reduce, reuse, recycle) applied to solid wastes, liquid effluents and atmospheric emissions; another priority is the positive influence that every action may reverse for the society.

To this end, in 2016 MAHLE launched regionally the *Terra* (earth) Program, which is an environmental sustainability program with the purpose of developing and encouraging a sustainability culture by means of conscious consumption of the natural resources and employment of technologies to reduce environmental impacts, thus involving employees and the community.

The Terra Program is structured with four pillars:




**Waste Pillar**: Aims to manage the efficient use of productive and non-productive inputs, thus minimizing and/or eliminating wastes, thus searching for "cleaner" production processes.

**Water Pillar**: Focused on the conscious conversion, use and consumption of water, seeking minimum water consumption as necessary for the production processes.

**Effluent Pillar**: With a more efficient use of the water, we consequently have a reduction and the generation of effluents; we created actions for treatment and reuse of the generated effluents.

**Energy Pillar**: Seeks rationalization of electric power consumption through actions involving efficient use of energy, use of natural light and use of equipment with more efficient technology.

One of the main premises of the Terra Program is to stimulate all publics of the organization to adopt conscious behavior and habits in relation to the environment. In order to involve the entire organization and ensure that the intended purpose is achieved in a focused and coherent form, the organization structured the program covering different areas of the business.

MAHLE believes that acting as the supporter of simple ideas originated from its employees objectively contributes to a cleaner and more organized work place, consequently reducing wasting and increasing productivity, which adds value to its productive sustainability strategy with environmental technological innovations.

Company units also received ISO 14001 re-certification for adherence to the 2015 version of the standard.

## 12 Independent Auditors

In accordance with CVM Instruction 381/03, the Company and its subsidiaries adopt the policy of ensuring that provision of other services by the auditors does not create conflict of interest and affect the independence and objectivity required by independent auditing services.

In 2016, the Company did not engage PricewaterhouseCoopers Auditores Independentes to perform other services, therefore not generating any situation that could create conflict of interests pursuant to that Instruction.

## 13 Representation by the Executive Board

In compliance with the provisions of CVM Instruction 480, Management declares that it discussed, reviewed and agreed with the financial statements for the period ended December 31, 2016 and the opinions expressed in the independent auditor's report.

## 14 Acknowledgments

Company's Management thanks its employees, shareholders, customers and suppliers for the support and trust during the year of 2016.

## Management

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# *MAHLE Metal Leve S.A. and MAHLE Metal Leve S.A and its subsidiaries*

***Parent company and consolidated financial statements at December 31, 2016 and independent auditor's report***

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(A free translation of the original in Portuguese)

# *Independent auditor's report*

To the Board of Directors and Stockholders
MAHLE Metal Leve S.A.

## Opinion

We have audited the accompanying parent company financial statements of MAHLE Metal Leve S.A. (the "Company"), which comprise the balance sheet as at December 31, 2016 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of MAHLE Metal Leve S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MAHLE Metal Leve S.A. and of MAHLE Metal Leve S.A. and its subsidiaries as at December 31, 2016, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

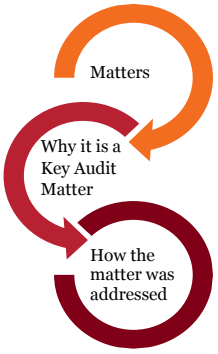
## Basis for opinion

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 the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MAHLE Metal Leve S.A.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.




| Why it is a Key Audit Matter | How the matter was addressed in the audit |
|---|---|

### Adjustment for impairment of non-financial assets (goodwill)

Details on the accounting policy and significant notes related to the impairment test of non-financial assets (goodwill) are described in Notes 4.h - "Impairment of non-financial assets" and 16 - "Intangible assets" to the parent company and consolidated financial statements.

We focused our work on this area, as the assessment performed by the Company's management on the recoverable amount of goodwill involves judgments and is based on assumptions, including determining a discount rate, and expected projections of future results, associated to a methodology of discounted cash flow from the Cash Generating Unit (CGU) of Anéis, in order to determine its value in use. The result obtained is sensitive to the inherent inaccuracies in the process and to the judgments and assumptions, which, if changed, may result in amounts that are materially different from those determined by the Company.

At December 31, 2016, the Company's management reviewed the aforementioned recoverable amount of goodwill and, as a result, identified the need to reduce the recoverable amount of goodwill related to the CGU of Anéis, in the amount of R$ 188,654 thousand, which was recorded in the financial statements for the year ended December 31, 2016.

In the context of the audit of the financial statements, regarding the recoverable amount of goodwill, we performed, among others, the procedures as follows.

With the assistance of our corporate valuation specialists, we obtained an understanding of the process carried out by the Company's Management to determine the cash flow projections, as well as the understanding of the significant assumptions used in these projections and we tested the consistency of the information and assumptions used in the projections of cash flows, by comparison with: (i) current budgets approved by the Company's management, (ii) assumptions, market and specific sectors of the CGU, and (iii) projections used in previous years with subsequent actual results. Our detail tests also considered the integrity of the data used in the calculation.

In addition, knowing that changes in long-term growth rates and discount rates can have significant effects on the CGU's value in use, we focused our tests on the parameters used to determine the growth rate, by comparing economic and segment forecasts and on the discount rate applied through the evaluation of the cost of capital for the Company and comparable organizations.

We performed a sensitivity analysis and recalculated the projections considering different intervals and scenarios of growth rates and discounts.

| Why it is a Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| | Our audit procedures demonstrated that the judgments and assumptions used by management are reasonable and consistent with observable information, both internally and externally, as applicable. |
| **Administrative proceeding at CADE** | |
| As mentioned in Note 23 to the financial statements, the Administrative Council for Economic Defense (CADE) issued a notice to the Company informing that it filed an administrative proceeding due to a possible violation to the economic order in the independent aftermarket of the automotive industry.<br><br>We focused our work on this topic, since the evaluation carried out by the Company's management involves a high level of judgment regarding the probability of loss and estimate of outcome. | In the context of the audit of the financial statements, regarding this matter, we performed, among others, the procedures as follows.<br><br>We obtained an understanding of the allegations made by CADE regarding this matter, by discussing with management, the Company's internal and external lawyers and our specialists, who also supported us in verifying the actions taken to address them.<br><br>We obtained confirmation of the main information directly with the external lawyer who is in charge of the claim and we read the disclosures made in the Notes.<br><br>Management's judgments and the information disclosed in the Notes to the financial statements are consistent with the internal management documentation and the position of the external lawyer in charge of the claim. |

## Other matters

### Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

## Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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 parent company and consolidated 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 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 financial reporting process of the Company and its subsidiaries.

## Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit 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 the risks of material misstatement of the parent company and consolidated 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 significant doubt on the ability of the Company 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 parent company and consolidated 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 parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

MAHLE Metal Leve S.A.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Campinas, March 14, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F"

Eduardo Dias Vendramini
Contador CRC 1SP220017/O-4

(A free translation of the original in Portuguese)

**MAHLE Metal Leve S.A.**

# Financial statements at December 31, 2016 and 2015

(A free translation of the original in Portuguese)

# MAHLE Metal Leve S.A.

Financial statements

**at December 31, 2016 and 2015**

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## MAHLE Metal Leve S.A.

### Balance sheet
### at December 31, 2016 and 2015

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Assets** | **Note** | **2016** | **2015** | **2016** | **2015** |
| Cash and cash equivalents | 8 | 241,504 | 133,995 | 256,431 | 152,093 |
| Trade and related-party receivables | 9/12 | 260,831 | 319,274 | 338,844 | 397,746 |
| Inventories | 10 | 238,021 | 239,424 | 338,199 | 351,439 |
| Taxes recoverable | 11 | 38,799 | 34,282 | 50,343 | 43,973 |
| Income tax and social contribution recoverable | 11 | 11,699 | 23,646 | 22,059 | 33,154 |
| Dividends and interest on capital receivable | 12 | 41,187 | 34,284 | - | - |
| Unrealized gains on derivative financial instruments | 33 | 39,233 | 5,036 | 39,724 | 8,550 |
| Other assets | | 16,172 | 12,592 | 20,804 | 17,152 |
| **Total current assets** | | **887,446** | **802,533** | **1,066,404** | **1,004,107** |
| Assets held for sales | 15 | - | - | - | 22,657 |
| | | **887,446** | **802,533** | **1,066,404** | **1,026,764** |
| Taxes recoverable | 11 | 11,652 | 14,953 | 23,055 | 29,095 |
| Income tax and social contribution recoverable | 11 | 3,337 | 3,336 | 3,550 | 3,549 |
| Loans to related parties | 12 | 59,418 | 33,354 | 59,819 | 28,635 |
| Deferred income tax and social contribution | 13.b | - | - | 6,220 | 6,645 |
| Investments in subsidiaries | 14 | 205,942 | 136,568 | 967 | 3,117 |
| Property, plant and equipment | 15 | 621,582 | 631,313 | 711,232 | 729,835 |
| Assets held for sales | 15 | - | - | 13,235 | - |
| Intangible assets | 16 | 426,915 | 608,028 | 454,670 | 637,307 |
| Other assets | | 15,593 | 12,823 | 15,762 | 12,994 |
| **Total non-current assets** | | **1,344,439** | **1,440,375** | **1,288,510** | **1,451,177** |
| **Total assets** | | **2,231,885** | **2,242,908** | **2,354,914** | **2,477,941** |

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

## MAHLE Metal Leve S.A.

### Balance sheet
### at December 31, 2016 and 2015

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Liabilities** | | **2016** | **2015 (Reclassified note nº 3 e.)** | **2016** | **2015 (Reclassified note nº 3 e.)** |
| Dividends and interest on capital payable | 12 | 838 | 7,352 | 901 | 7,415 |
| Trade and related-party payables | 12/17 | 97,948 | 97,043 | 134,106 | 127,276 |
| Taxes and contributions payable | 18 | 18,177 | 16,062 | 20,588 | 19,667 |
| Income tax and social contribution payable | 18 | 1,505 | 2,164 | 23,450 | 35,751 |
| Borrowings | 19 | 120,396 | 97,802 | 156,287 | 180,702 |
| Salaries, vacation pay and social charges | 20 | 58,360 | 64,534 | 71,317 | 78,603 |
| Sundry provisions | 21 | 16,028 | 17,006 | 23,398 | 28,296 |
| Provisions for warranties | 22 | 17,377 | 11,913 | 20,375 | 17,083 |
| Unrealized losses on derivative financial instruments | 33 | 3,594 | 55,420 | 4,181 | 55,456 |
| Other liabilities | | 24,005 | 24,763 | 34,365 | 35,165 |
| **Total current liabilities** | | **358,228** | **394,059** | **488,968** | **585,414** |
| Loans to related parties | 12 | - | - | - | 167 |
| Deferred income tax and social contribution | 13.b | 34,506 | 82,731 | 35,685 | 86,582 |
| Provision for subsidiary's net capital deficiency | 14 | 21,857 | 12,138 | - | - |
| Income tax and social contribution payable | 18 | 1,150 | 2,655 | 1,150 | 2,826 |
| Borrowings | 19 | 340,243 | 260,979 | 343,243 | 298,979 |
| Provisions for contingencies and judicial deposits linked to judicial proceedings | 23 | 241,061 | 197,279 | 266,145 | 210,442 |
| Other liabilities | | 4,005 | 2,769 | 4,005 | 2,769 |
| **Total non-current liabilities** | | **642,822** | **558,551** | **650,228** | **601,765** |
| Total liabilities | | **1,001,050** | **952,610** | **1,139,196** | **1,187,179** |
| **Equity** | 24 | | | | |
| Share capital | | 966,255 | 966,255 | 966,255 | 966,255 |
| Revenue reserves | | 268,624 | 293,757 | 268,624 | 293,757 |
| Other comprehensive income | | (4,044) | 4,261 | (4,044) | 4,261 |
| Proposed additional dividends | | - | 26,025 | - | 26,025 |
| **Equity attributable to the owners of the parent** | | **1,230,835** | **1,290,298** | **1,230,835** | **1,290,298** |
| **Non-controlling interests** | | - | - | (15,117) | 464 |
| Total equity | | **1,230,835** | **1,290,298** | **1,215,718** | **1,290,762** |
| **Total liabilities and equity** | | **2,231,885** | **2,242,908** | **2,354,914** | **2,477,941** |

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

## MAHLE Metal Leve S.A.

### Statement of income
### Years ended December 31, 2016 and 2015

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | Note | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2016 | 2015 (Restated note no 3 f.) | 2016 | 2015 (Restated note no 3 f.) |
| Net revenue | 26 | 1,756,471 | 1,920,733 | 2,236,007 | 2,423,356 |
| Cost of sales | 27 | (1,367,978) | (1,405,453) | (1,640,004) | (1,782,419) |
| **Gross profit** | | **388,493** | **515,280** | **596,003** | **640,937** |
| Selling expenses | 28 | (102,650) | (118,869) | (150,949) | (168,153) |
| General and administrative expenses | 29 | (71,549) | (61,549) | (88,763) | (81,947) |
| Technology and product development costs | 30 | (75,219) | (81,942) | (86,719) | (92,692) |
| Other income | 32 | 64,047 | 81,755 | 78,729 | 89,994 |
| Other expenses | 32 | (298,518) | (99,123) | (329,944) | (125,166) |
| Equity in the results of investees | 14 | 107,316 | 8,701 | (2,150) | 1,989 |
| **Profit before finance income (costs) and taxation** | | **11,920** | **244,253** | **16,207** | **264,962** |
| Finance income | 31 | 110,130 | 198,047 | 152,361 | 264,508 |
| Finance costs | 31 | (144,708) | (189,479) | (209,914) | (276,299) |
| **Finance income (costs), net** | | (34,578) | 8,568 | (57,553) | (11,791) |
| **Profit (loss) before taxation** | | **(22,658)** | **252,821** | **(41,346)** | **253,171** |
| Current income tax and social contribution | 13.a | (26,836) | (45,482) | (31,617) | (73,659) |
| Deferred income tax and social contribution | 13.a | 74,150 | (6,314) | 77,112 | (7,367) |
| Income tax and social contribution | | **47,314** | **(51,796)** | **45,495** | **(81,026)** |
| **Profit for the year** | | **24,656** | **201,025** | **4,149** | **172,145** |
| Profit attributable to | 25 | | | | |
| Owners of the parent | | | | 24,656 | 201,025 |
| Non-controlling interests | | | | (20,507) | (28,880) |
| **Profit for the year** | | | | **4,149** | **172,145** |
| **Basic and diluted earnings per share (in reais)** | | **0.1922** | **1.5667** | **0.1922** | **1.5667** |

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

## MAHLE Metal Leve S.A.

### Statement of comprehensive income
### Years ended December 31, 2016 and 2015

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Profit for the year** | 24,656 | 201,025 | 4,149 | 172,145 |
| **Comprehensive income** | | | | |
| Items that will be reclassified to profit or loss | | | | |
| Change in cash flow hedge, net | 76,249 | (30,605) | 72,636 | (28,225) |
| Change in subsidiaries' cash flow hedge, net | (2,168) | 1,428 | - | - |
| Income tax and social contribution on cash flow hedge | (25,925) | 10,406 | (24,697) | 9,597 |
| Income tax and social contribution on subsidiaries' cash flow hedge | 737 | (485) | - | - |
| Cumulative translation adjustments | (53,052) | 343 | (51,109) | 980 |
| Translation adjustments of deferred income tax (subsidiaries located abroad) | - | - | (1,943) | (637) |
| **Other comprehensive income** | **(4,159)** | **(18,913)** | **(5,113)** | **(18,285)** |
| **Total comprehensive income for the year, net of income tax and social contribution** | **20,497** | **182,112** | **(964)** | **153,860** |
| **Comprehensive income attributable to:** | | | | |
| Owners of the parent | | | 20,497 | 182,112 |
| Non-controlling interests | | | (21,461) | (28,252) |
| **Total comprehensive income** | | | **(964)** | **153,860** |

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

**MAHLE Metal Leve S.A.**

## Statement of changes in equity
**Years ended December 31, 2015**

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Revenue reserves | | | | Other comprehensive income | | | | | | |
| | Note | Share capital | Legal reserve | Reserve for expansion and modernization | Proposed additional dividends | Total | Carrying value adjustments | Cumulative translation adjustments | Total | Retained earnings | Equity attributable to owners of the parent | Non-controlling interests | Total equity |
| **At January 1, 2015** | | **966,255** | **99,579** | **184,127** | **46,123** | **329,829** | **42,315** | **(12,031)** | **30,284** | **-** | **1,326,368** | **18,912** | **1,345,280** |
| **Equity transactions with shareholders** | | | | | | | | | | | | | |
| Interim interest on capital credited | 24.c | - | - | - | - | - | - | - | - | (78,008) | (78,008) | - | (78,008) |
| Interim dividends credited | 24.c | - | - | - | - | - | - | - | - | (94,251) | (94,251) | - | (94,251) |
| Prescribed dividends and interest on capital | 24.c | - | - | - | - | - | - | - | - | 200 | 200 | - | 200 |
| Capital increase of MAHLE Hirschvogel Forjas S.A. | | - | - | - | - | - | - | - | - | - | - | 9,804 | 9,804 |
| **Profit for the year** | | - | - | - | - | - | - | - | - | 201,025 | 201,025 | (28,880) | 172,145 |
| **Other comprehensive income** | | | | | | | | | | - | - | - | - |
| Cumulative translation adjustments | 24.e | - | - | - | - | - | - | 343 | 343 | - | 343 | - | 343 |
| Financial instrument adjustments | 24.e | - | - | - | - | - | (29,177) | - | (29,177) | - | (29,177) | 952 | (28,225) |
| Taxes on financial instrument adjustments | 24.e | - | - | - | - | - | 9,921 | - | 9,921 | - | 9,921 | (324) | 9,597 |
| Realization of deemed cost, net | 15 | - | - | - | - | - | (7,110) | - | (7,110) | 7,110 | - | - | - |
| **Internal changes in equity** | | | | | | | | | | - | - | - | - |
| Appropriation to legal reserve | 24.d | - | 10,051 | - | - | 10,051 | - | - | - | (10,051) | - | - | - |
| Proposed additional dividends | 24.b | - | - | - | 26,025 | 26,025 | - | - | - | (26,025) | - | - | - |
| Payment of proposed additional dividends | | - | - | - | (46,123) | (46,123) | - | - | - | - | (46,123) | - | (46,123) |
| **At December 31, 2015** | | **966,255** | **109,630** | **184,127** | **26,025** | **319,782** | **15,949** | **(11,688)** | **4,261** | **-** | **1,290,298** | **464** | **1,290,762** |

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

**MAHLE Metal Leve S.A.**

## Statement of changes in equity
**Years ended December 31, 2016**

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Revenue reserves | | | | Other comprehensive income | | | | | | |
| | Note | Share capital | Legal reserve | Reserve for expansion and modernization | Proposed additional dividends | Total | Carrying value adjustments | Cumulative translation adjustments | Total | Retained earnings | Equity attributable to owners of the parent | Non-controlling interests | Total equity |
| **At December 31, 2015** | | **966,255** | **109,630** | **184,127** | **26,025** | **319,782** | **15,949** | **(11,688)** | **4,261** | **-** | **1,290,298** | **464** | **1,290,762** |
| **Equity transactions with shareholders** | | | | | | | | | | | | | |
| Interim interest on capital credited | 24.c | - | - | - | - | - | - | - | - | (54,097) | (54,097) | - | (54,097) |
| Prescribed dividends and interest on capital | 24.c | - | - | - | - | - | - | - | - | 162 | 162 | - | 162 |
| Capital increase of MAHLE Hirschvogel Forjas S.A. | | - | - | - | - | - | - | - | - | - | - | 5,880 | 5,880 |
| **Profit for the year** | | - | - | - | - | - | - | - | - | 24,656 | 24,656 | (20,507) | 4,149 |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Cumulative translation adjustments | 24.e | - | - | - | - | - | - | (53,052) | (53,052) | - | (53,052) | - | (53,052) |
| Financial instrument adjustments | 24.e | - | - | - | - | - | 74,081 | - | 74,081 | - | 74,081 | (1,445) | 72,636 |
| Taxes on financial instrument adjustments | 24.e | - | - | - | - | - | (25,188) | - | (25,188) | - | (25,188) | 491 | (24,697) |
| Realization of deemed cost, net | 15 | - | - | - | - | - | (4,146) | - | (4,146) | 4,146 | - | - | - |
| **Internal changes in equity** | | | | | | | | | | | - | - | - |
| Appropriation to legal reserve | 24.d | - | 1,233 | - | - | 1,233 | - | - | - | (1,233) | - | - | - |
| Absorption of loss for the year | 24.c | | | (26,366) | | (26,366) | | | | 26,366 | - | - | - |
| Payment of proposed additional dividends | 24.b | - | - | - | (26,025) | (26,025) | - | - | - | - | (26,025) | - | (26,025) |
| **At December 31, 2016** | | **966,255** | **110,863** | **157,761** | **-** | **268,624** | **60,696** | **(64,740)** | **(4,044)** | **-** | **1,230,835** | **(15,117)** | **1,215,718** |

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

## MAHLE Metal Leve S.A.

### Statement of cash flows
**Years ended December 31, 2016 and 2015**

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2016 | 2015 (Reclassified note nº 3 e.) | 2016 | 2015 (Reclassified note nº 3 e.) |
| **Cash flows from operating activities** | **Note** | | | | |
| Profit (losses) before taxation | | (22,658) | 252,821 | (41,346) | 253,171 |
| Adjustments for: | | | | | |
| Depreciation and amortization | | 88,956 | 89,443 | 100,875 | 107,390 |
| Equity in the results of investees | | (115,605) | (16,597) | 2,150 | (1,989) |
| Recognition (reversal) of provision for impairment of investments | | 8,288 | 7,896 | - | - |
| Interest and foreign exchange and monetary variations, net | | 62,235 | 24,429 | (13,371) | 68,124 |
| Unrealized (losses) gains on derivative financial instruments | | (9,774) | 2,366 | (9,813) | 2,320 |
| Results on disposal of property, plant and equipment | | 499 | (2,339) | (1,409) | (2,299) |
| Recognition (reversal) of provision for impairment of trade receivables | | (3,793) | 5,722 | (3,316) | 5,924 |
| Recognition (reversal) of provision for tax and other contingencies | | 35,324 | 9,514 | 47,897 | 12,066 |
| Recognition (reversal) of provisions for warranties | | 13,570 | 4,102 | 11,696 | 7,518 |
| Recognition (reversal) of sundry provisions | | (978) | 6,782 | (4,898) | 12,215 |
| Recognition (reversal) of provision for impairment of property, plant and | | 187,713 | (168) | 187,504 | 6,751 |
| Recognition (reversal) of provision for inventory loss | | 270 | 3,307 | (2,928) | 8,468 |
| (Increase) decrease in assets | | | | | |
| Trade and related-party receivables | | 62,236 | (9,199) | 31,265 | (24,963) |
| Inventories | | 1,767 | (28,818) | 16,708 | (32,615) |
| Taxes recoverable | | (8,499) | (13,734) | (13,859) | (28,424) |
| Other assets | | (6,350) | (2,432) | (6,420) | (2,141) |
| Increase (decrease) in liabilities | | | | | |
| Trade and related-party payables | | 905 | 15,430 | 6,662 | 8,741 |
| Salaries, vacation pay and social charges | | (6,174) | 5,774 | (7,286) | 5,294 |
| Taxes and contributions payable | | (49) | (10,316) | (6,111) | (6,783) |
| Other liabilities | | (28,119) | (22,621) | (31,314) | (20,367) |
| **Cash from operations** | | **259,764** | **321,362** | **262,686** | **378,401** |
| Income tax and social contribution paid | | (7,606) | (35,537) | (13,940) | (40,304) |
| **Net cash provided by operating activities** | | **252,158** | **285,825** | **248,746** | **338,097** |
| **Cash flows from investing activities** | | | | | |
| Dividends and interest on capital received from subsidiary | | 32,714 | 40,931 | - | 2,000 |
| Loans granted to subsidiaries | | (41,223) | (47,882) | - | - |
| Loan repayments received from subsidiaries | | 6,236 | 36,253 | - | - |
| Additions to property, plant and equipment | | (77,026) | (75,471) | (94,009) | (100,484) |
| Additions to intangible assets | | (10,552) | (21,294) | (10,600) | (23,111) |
| Capital increase of subsidiary | | (41,120) | (10,200) | - | - |
| Proceeds from sale of property, plant and equipment | | 620 | 3,099 | 12,172 | 3,620 |
| **Net cash (used in) provided by investing activities** | | **(130,351)** | **(74,564)** | **(92,437)** | **(117,975)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 307,523 | 134,431 | 457,881 | 479,006 |
| Repayment of principal of borrowings | | (199,731) | (264,567) | (379,932) | (609,304) |
| Repayment of interest on borrowings | | (28,993) | (29,384) | (39,347) | (37,405) |
| Capital increase of subsidiary- MAHLE H. Forjas S.A. | | - | - | 5,880 | 9,800 |
| Dividends and interest on capital paid | | (86,476) | (216,379) | (86,475) | (216,379) |
| **Net cash provided by (used in) financing activities** | | **(7,677)** | **(375,899)** | **(41,993)** | **(374,282)** |
| **Effect of foreign exchange variation on cash and cash equivalents** | | **(6,621)** | **18,767** | **(9,978)** | **18,971** |
| **Increase (reduction) in cash and cash equivalents, net** | | **107,509** | **(145,871)** | **104,338** | **(135,189)** |
| **Represented by:** | | | | | |
| Cash and cash equivalents at the beginning of the period | | 133,995 | 279,866 | 152,093 | 287,282 |
| Cash and cash equivalents at the end of the period | 8 | 241,504 | 133,995 | 256,431 | 152,093 |
| **Increase (reduction) in cash and cash equivalents, net** | | **107,509** | **(145,871)** | **104,338** | **(135,189)** |

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

## MAHLE Metal Leve S.A.

### Statement of value added
**Years ended December 31, 2016 and 2015**

*All amounts in thousands of reais* *(A free translation of the original in Portuguese)*

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Gross revenue** | **2,226,029** | **2,367,234** | **2,734,112** | **2,906,981** |
| Sales of goods, products and services | 2,224,519 | 2,374,380 | 2,723,726 | 2,913,923 |
| Other revenue | (1,283) | (2,351) | 7,897 | (1,830) |
| Provision for impairment of trade receivables | 2,793 | (4,795) | 2,489 | (5,112) |
| **Inputs acquired from third parties** | **(1,557,177)** | **(1,434,697)** | **(1,829,987)** | **(1,774,544)** |
| (Includes amounts of taxes: ICMS, IPI, PIS and COFINS) | | | | |
| Cost of sales and services | (681,274) | (766,630) | (860,767) | (994,896) |
| Materials, energy, outsourced services and other | (671,581) | (657,629) | (757,309) | (759,293) |
| Impairment/recovery of assets | (204,322) | (10,438) | (211,911) | (20,355) |
| **Gross value added** | **668,852** | **932,537** | **904,125** | **1,132,437** |
| **Depreciation and amortization** | **(88,956)** | **(89,443)** | **(100,876)** | **(107,390)** |
| **Net value added generated by the company** | **579,896** | **843,094** | **803,249** | **1,025,047** |
| **Value added received through transfer** | **217,446** | **206,748** | **150,210** | **266,497** |
| Equity in the results of investees | 107,316 | 8,701 | (2,150) | 1,989 |
| Finance income | 110,130 | 198,047 | 152,360 | 264,508 |
| **Total value added to distribute** | **797,342** | **1,049,842** | **953,459** | **1,291,544** |
| **Distribution of value added** | **797,342** | **1,049,842** | **953,459** | **1,291,544** |
| **Personnel** | **370,808** | **349,459** | **457,961** | **468,119** |
| **Taxes and contributions** | **257,843** | **310,138** | **280,737** | **373,703** |
| **Capital providers** | **144,035** | **189,220** | **210,612** | **277,577** |
| Interest | 29,537 | 28,913 | 52,208 | 58,864 |
| Rentals | - | - | 1,584 | 1,501 |
| Foreign exchange, monetary and other variations | 114,498 | 160,307 | 156,820 | 217,212 |
| **Shareholders** | **24,656** | **201,025** | **4,149** | **172,145** |
| Dividends and interest on capital | 54,097 | 172,259 | 54,097 | 172,259 |
| Retained earnings | (29,441) | 28,766 | (29,441) | 28,766 |
| Share of non-controlling interests of retained earnings | - | - | (20,507) | (28,880) |

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

# MAHLE Metal Leve S.A.

# Explanatory notes to the financial statements

*(in thousand of reais)*

## 1 Operations

MAHLE Metal Leve S.A. (the Company) is an entity domiciled in Brazil. The registered address of the Company's head office is in Mogi Guaçu, São Paulo. The Company's consolidated (consolidated) and separate (parent company) financial statements for the periods ended December 31, 2016 and 2015 include the Company and its subsidiaries (referred to collectively as the Group or individually as entities of the Group).

The Company's main activities are the research, development, manufacturing and marketing, in Brazil and abroad, of parts and accessories for internal combustion engines, the sale of which is made to entities in various industries and lines of activity, such as manufacturers of automobiles, trucks and tractors, etc., the spare parts market and the aviation, stationary and other engines industry.

The products manufactured by the Company are pistons, piston rings, gudgeon pins, camshafts, bearings, bushes, valve tappets, rockers, rods, ring carriers, valve guides and seats, cylinder liners and filters.

Other activities are carried out through subsidiaries and include the production of sintered metal parts and combustion engine valves, as well as the marketing of products and provision of technical assistance on the international market.

The Company's shares are registered at the highest level of corporate governance of the BM&FBovespa S.A. - Securities, Commodities and Futures Exchange called *Novo Mercado* (New Market).

## 2 Entities of the Group (subsidiaries)

| | | Ownership percentage (%) | | | |
|---|---|---|---|---|---|
| | | 2016 | | 2015 | |
| | Country | Direct | Indirect | Direct | Indirect |
| **Subsidiaries** | | | | | |
| MAHLE Metal Leve Miba Sinterizados Ltda. | Brazil | 60 | - | 60 | - |
| MAHLE Argentina S.A. | Argentina | 99.2 | 0.8 | 99.1 | 0.9 |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | Brazil | 60 | - | 60 | - |
| MAHLE Metal Leve GmbH | Austria | 100 | - | 100 | - |
| MAHLE Industry do Brasil Ltda. | Brazil | 99.9 | - | 99.9 | - |
| MAHLE Hirschvogel Forjas S.A. | Brazil | 51 | - | 51 | - |
| **Related companies** | | | | | |
| Innoferm Tecnologia Ltda. | Brazil | 33.33 | - | 33.33 | - |

## 3 Basis of preparation

### *a. Statement of compliance*

The parent company and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as according to accounting practices adopted in Brazil, and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties. The parent company financial statements are disclosed together with the consolidated financial statements.

The accounting practices adopted in Brazil include the pronouncements, interpretations and guidance issued by the Brazilian Accounting Pronouncements Committee (CPC), which were approved by the Brazilian Securities Commission ("CVM") and the Federal Accounting Council ("CFC").

The main accounting policies applied in the preparation of these financial statements are set out in Note 4.

The issuance of the parent company and consolidated financial statements was authorized by the Company's Board of Directors on March 14, 2017.

### *b. Valuation basis*

The financial statements have been prepared under the historical cost convention, and adjusted to reflect to deemed cost of property, plant and equipment on the opening date of the fiscal year 2009, in the case of financial assets, other assets and financial liabilities (including derivative instruments) measured at fair value.

### *c. Functional and presentation currency*

The Company's functional currency is the real, and the parent company and consolidated financial statements are presented in thousands of Brazilian reais.

The functional currencies of subsidiaries abroad, MAHLE Metal Leve GmbH and MAHLE Argentina S.A., are the euro (EUR) and Argentine peso (ARS), respectively.

For those subsidiaries whose currency of parent company and consolidated financial statements is different from the real, the asset and liability accounts are translated into the Company's functional currency using the exchange rates in effect on the balance sheet date, and the items of income and expenses are translated using the monthly average rate. The monthly average rate does not differ materially from the rates on the dates of the transactions. The resulting translation adjustments are recognized in a specific account in the statement of comprehensive income and equity called "Cumulative translation adjustments".

### *d. Use of estimates and judgments*

The preparation of parent company and consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods that are affected.

The information on critical judgments relating to the accounting policies adopted that have an effect on the amounts recognized in the parent company and consolidated financial statements is included in the following notes:

- Notes 15 and 16 - useful lives of property, plant and equipment and intangible assets;
- Note 33 - fair values of derivative financial instruments.

The information on uncertainties, assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 16 - provision for impairment of intangible assets;
- Note 23 - provision for contingencies.
- Note 26 – net operating revenue (revenue recognition)

Other significant items that are subject to estimates include: provision for inventory loss; provision for losses on contracts; and provision for warranties.

### *e. Reclassification in the comparative interim financial statements*

In this context, for a better comparability of the financial statements and in accordance with IAS 1/ NBC TG 26 (CPC 26 – R1) "Presentation of Financial Statements", the balance sheet figures of December 31, 2015 and cash flow figures of December 31, 2015 are being restated, according to the criterion adopted for the period of December 31, 2016, as shown below:

| **Balance sheet** | | **Parent Company** | | | **Consolidated** | | |
|---|---|---|---|---|---|---|---|
| | | **12.31.2015** | | | **12.31.2015** | | |
| | | At previously presented | Reclassification | Reclassified | At previously presented | Reclassification | Reclassified |
| Trade and related-party payables | (a) | 78,496 | 18,547 | 97,043 | 107,408 | 19,868 | 127,276 |
| Advances from customers | (b) | 2,012 | (2,012) | - | 8,585 | (8,585) | - |
| Other liabilites (Current liabilities) | (a e b) | 41,298 | (16,535) | 24,763 | 46,448 | (11,283) | 35,165 |

| **Statement of cash flows** | | **Parent Company** | | | **Consolidated** | | |
|---|---|---|---|---|---|---|---|
| | | **12.31.2015** | | | **12.31.2015** | | |
| | | At previously presented | Reclassification | Reclassified | At previously presented | Reclassification | Reclassified |
| Trade and related-party payables | (a) | 13,399 | 2,031 | 15,430 | 8,344 | 397 | 8,741 |
| Advances from customers | (b) | (3,129) | 3,129 | - | 2,428 | (2,428) | - |
| Other liabilites | (a e b) | (17,461) | (5,160) | (22,621) | (22,398) | 2,031 | (20,367) |

(a) Reclassification of amounts to pay to third parties for services acquired from “other liabilities” to “trade payables and payables to related parties” to improve presentation.

(b) Reclassification of “advances from customer” to “other liabilities” to improve presentation.

### *f. Restatement of comparative figures*

In 2016 the amounts related to sales discounts were reclassified, and this expense, which was previously recorded as selling expense, is now subtracted from revenue.

In this context, to allow for better comparability of financial statements and in conformity with CPC 23 "Accounting Policies, Changes in Estimates and Correction of Errors", the figures relating to December 31, 2015 are being restated based on the criteria adopted for the year ended December 31, 2016, as shown below:

| Income Statement | Parent Company | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | 12.31.2015 | | | 12.31.2015 | | |
| | At previously presented | Reclassification | Restated | At previously presented | Reclassification | Restated |
| Net revenue | 1,930,470 | (9,737) | 1,920,733 | 2,433,093 | (9,737) | 2,423,356 |
| Selling expenses | (128,606) | 9,737 | (118,869) | (177,890) | 9,737 | (168,153) |

### *g. Changes in accounting policies and disclosures*

The following amendments to standards were adopted for the year beginning January 1, 2016 and had no material impact on the Group.

a) Review of Technical Pronouncement 8 – Annual Improvements Projects for 2012-2014

i) NBC TG 27 (CPC 27) - IAS 16 – Property, plant and equipment and NBC TG 04 (CPC 04) - IAS 38 – Intangible assets - Clarifies that the depreciation of a property, plant and equipment item based on the revenue generated by the use of the asset is not appropriate. Also states that only in rare circumstances, the amortization of an intangible asset based on revenue generated by the use of the asset may be adequate, depending on the correlation between revenue and the economic benefits generated.

ii) NBC TG 40 (CPC 40) - IFRS 7 – Financial instruments: Disclosure - Specific guidance on the disclosure of transfer of financial assets has been added, as well as guidelines to help determine whether a service contract on the transferred portfolio constitutes continuous involvement. The change in the standard also provides guidance on the disclosure of offsetting of financial assets and liabilities, which is not required for all interim periods.

Other amendments and interpretations which are effective for the financial year beginning on January 1, 2016 are not material to the Group.

## 4 Significant accounting policies

The accounting policies described below have been consistently applied in the years presented for these parent and consolidated financial statements.

### *a. Basis of consolidation*

#### *i. Subsidiaries*

The Group controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group to the date that control ceases. The subsidiaries' accounting policies are aligned with the Group's policies.

In the parent financial statements, the financial information of subsidiaries is recognized using the equity method of accounting. The consolidation of subsidiaries includes the total amounts of accounts of assets, liabilities and profit or loss and segregates non-controlling interests in the consolidated balance sheet and statement of income, corresponding to the ownership interest in subsidiaries.

#### *ii. Transactions eliminated on consolidation*

Intercompany balances and transactions, as well as any revenue or expenses arising from intercompany transactions, are eliminated on the preparation of the consolidated financial statements.

Unrealized gains on transactions with investees recognized based on the equity method are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, however only to the extent that no evidence of impairment exists.

### *b. Foreign currency*

#### *i. Transactions in foreign currency*

Foreign currency transactions are translated into the respective functional currencies of the Group entities at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated into the functional currency at the exchange rate prevailing on that date.

Foreign exchange gains and losses on monetary items are the difference between the amortized cost of the functional currency at the beginning of the period, adjusted for interest and payments made during the period, when applicable, and the amortized cost in

the foreign currency at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are re-translated into the functional currency at the exchange rate prevailing on the date when the fair value is determined.

Foreign currency differences arising on re-translation are recorded in income, except for those differences arising on the re-translation of a cash flow hedge, which are recognized in other comprehensive income.

### *ii. Foreign operations*

The assets and liabilities of foreign operations are translated into the real at the exchange rates prevailing at the reporting date. The revenue and expenses of foreign operations are translated into the real at the average monthly exchange rates.

Foreign currency differences are recognized in other comprehensive income and stated in equity.

## *c. Financial instruments*

### *i. Classification*

The Group classifies its financial assets and liabilities in the following categories:

a) Loans and receivables;

b) Other financial liabilities measured at amortized cost and;

c) Derivatives at fair value through profit or loss unless they are designated as hedges.

### *ii. Recognition and measurement*

Financial instruments are recognized in the Group's financial statements when, and only when, the entity becomes a party to the instrument's contract.

Financial assets and liabilities are initially measured at fair value and are subsequently added to the transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability, at cost or amortized cost, based on the effective interest rate method, when these financial instruments are classified into the following categories: i) loans and receivables; and ii) other financial liabilities.

All financial liabilities are initially recognized on the trade date, when the Group becomes a party to the instrument's contract.

Derivative financial instruments are recognized at fair value.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the Group´s contractual obligations have been cancelled or expired.

### *iii. Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. An asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

In assessing impairment collectively, the Group uses historical trends to gauge the probability of default, timing of recovery and the amounts of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Provision for the impairment of trade receivables is calculated based on a credit risk analysis, which includes the history of losses, individual situation of customers, situation of the economic group to which they belong, guarantees for debts and the assessment of legal advisors. Additionally, provision has been recorded for all receivables overdue for more than 120 days, except for those due from related parties, for which different procedures are in place. Management considers that the provision is sufficient to cover any losses on receivables.

### *iv. Cash and cash equivalents*

Cash and cash equivalents include cash on hand, bank deposits, and financial investments with original maturities of three months or less, recorded at cost plus income earned through the balance sheet date, which does not exceed market value.

Financial investments are recognized and measured at fair value and the related yield is taken directly to income.

### *v. Trade and related-party receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of the Group's business. If collection is expected in one year or less (or in the normal operating cycle of the Group), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for the impairment of trade receivables.

### *vi. Borrowings*

Borrowings are initially carried at fair value when the proceeds are received, net of transaction costs, when applicable. They are subsequently measured at amortized cost, that is, including charges, interest and monetary and exchange variations under the related contract, using the effective interest rate method, as stated in Note 19.

### *vii. Trade and related-party payables*

Trade and related-party payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due in one year. If not, they are presented as non-current liabilities.

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

### *viii. Derivative financial instruments and hedging activities*

To hedge the Group balance of accounts receivable and payable in foreign currency against exposure to changes in exchange rates and fluctuations in the prices of raw materials, such as nickel, copper, aluminum), the Group uses derivative financial instruments. These instruments consist mainly of the sale and purchase operations of forward contracts.

Derivative financial instruments are initially recognized and measured at their fair values. Attributable transaction costs are recognized in the statement of income as incurred. Subsequent to their initial recognition and measurement, derivatives are stated at their fair values and changes are recorded in the statement of income, except in the circumstances described below for the recording of hedge accounting operations.

Hedge accounting is the designation of one or more contracts with derivative financial instruments carried out with third parties, for the purpose of partially or totally offsetting the risks resulting from exposure to changes in the cash flow or in the fair value of any asset, liability, commitment or forecast future transaction, provided that this designation

is effective.

- **Cash flow hedge**

  This is a hedge of exposure to variability in cash flows that could affect the Group's profit or loss, among which are: accounts receivable and payable transactions in foreign currency, sales to be made and commodities to be acquired. The changes in the fair value of the derivative financial instrument as a cash flow hedge are recognized directly in equity, to the extent that the hedge is considered effective. If the hedge is not considered effective, changes in the fair value are recognized in profit or loss. The accumulated gain or loss in equity, under "carrying value adjustments", is transferred to profit or loss at the same time that the hedged item impacts on profit or loss or when the criteria for hedge accounting are discontinued.

### *d. Property, plant and equipment*

#### *i. Recognition and measurement*

Property, plant and equipment are stated at historical acquisition or construction cost, less accumulated depreciation and impairment losses. The cost of certain property, plant and equipment items is determined by reference to the revaluation up to the year 2008, previously permitted under BRGAAP.

The Group elected to reevaluate property, plant and equipment to deemed cost at the beginning of 2009. The effects of deemed cost increased property, plant and equipment against equity, net of tax effects (Note 15).

The Group's dividend policy underwent no changes from the adoption of fair value as deemed cost and the resulting increase in depreciation expense in subsequent years.

Cost includes expenditure that is directly attributable to the acquisition of an asset.

Gains and losses on the sale of a property, plant and equipment item are determined by comparing the proceeds from the sale with the item's carrying amount and are recognized within "other income (expenses), net" in the statement of income.

#### *ii. Depreciation*

The depreciation of property, plant and equipment items is calculated using the straight-line method over their estimated useful lives. Land is not depreciated. The assets' useful lives are reviewed yearly.

Property, plant and equipment items are depreciated from the date they are installed and ready for use.

The estimated useful lives for current periods are stated in Note 15.

### *e. Intangible assets and goodwill*

#### *i. Goodwill*

Goodwill on acquisitions of investments recorded by the Company is determined based on the investments' expected future profitability. Goodwill represents the excess of the cost of an acquisition over the net fair value of the subsidiaries' equity, as determined on the acquisition date, and is grounded on the future profitability, based on the profit projections of individual investees that were are determined using the discounted cash flow method for a five-year projection period.

For goodwill arising from the acquisition of its subsidiary abroad, MAHLE Argentina S.A., the Company started to consider it as a non-monetary item and therefore translated into the functional currency of the Company based on the exchange rate on the transaction date.

Goodwill is valued at cost, less impairment losses.

This goodwill is not amortized on the grounds that it has an indefinite life, thought, each year, the Company assesses the recoverability of the goodwill on investments, using for this purpose practices considered to be market practices, especially the discounted cash flow of its units that have goodwill allocated to them.

#### *ii. Other intangible assets*

Other intangible assets that are acquired by the Group and that have finite useful lives are stated at cost less accumulated amortization and accumulated impairment losses.

Costs associated with purchasing and installing computer software licenses are capitalized on the basis of the future economic benefits that will flow to the Group and are amortized in conformity with the rates stated in Note 16. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Purchased software is capitalized individually in a specific software account, while computer software that is integral to the functionality of the related equipment is capitalized as part of that equipment, provided that it is exclusive to such equipment.

Rights of use are capitalized through the investments incurred in the year. The Group’s rights of use comprise exclusive rights of production; right-of-way easement for the Technology Center in the city of Jundiaí; the costs of development of the technology fermentation related to the production of ethanol.

The rights of use related to the cost of the development of products are amortized at the rates mentioned in Note 16, while other rights will be valued through impairment provision.

#### *iii. Technology and products development costs and investments*

Costs associated with researches and development or other knowledge in a project with the intention of developing new or improving existing materials, devices, products, processes, systems or services prior to the start of their commercial production or their use by the technological research center of the Group are recorded as expenses (research) or investments (development) according to the nature of the expense and projections that result in future economic benefits for the Group.

#### *iv. Amortization*

When applicable, the amortization of intangible assets with a finite life is recognized in profit or loss on a straight-line basis over that estimated useful life, from the date they are available for use.

The estimated useful lives for the current periods are presented in Note 16.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### *f. Non-current assets held for sale*

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within 12 months. They are stated at the lower of the carrying amount and fair value less costs to sell.

### *g. Inventories*

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs and selling expenses.

Inventories are measured at the average acquisition or production cost, which does not exceed the replacement or realization values. The cost of sales includes the transfer from equity, net of any gains or losses on cash flow hedges of purchases of raw materials.

### *h. Impairment*

#### *i. Non-financial assets*

The carrying values of the Group's non-financial assets other than inventories and deferred income tax and social contribution are reviewed on each reporting date for evidence of impairment. If there is evidence of impairment, then the recoverable value of the asset is estimated. For goodwill and intangible assets with an indefinite useful life or

intangible assets in development that are not yet available for use, the recoverable value is estimated at least on an annual basis.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit (CGU) or the group of CGUs that is expected to benefit from the synergies of the business combination. This allocation represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with NBC TG 22 (CPC 22) – "Segment information"/IFRS 8 "Operating segments".

An impairment loss is recognized when the asset's carrying amount or that of its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. The impairment loss is allocated to the CGU initially to reduce the carrying amount of any goodwill allocated to the CGU.

With respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indication that a previously recognized loss has increased, or decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable value. An impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized previously.

Items of property, plant and equipment and intangible assets, when applicable to other assets, are assessed annually to determine whether there is any evidence of impairment, mainly using the context of internal and external indicators that interfere in the recovery of these assets, always based on significant events or changes that indicate that the carrying amount may not be recoverable.

Where applicable, when there is a loss arising from situations where the carrying value of the asset exceeds its recoverable value - which is the higher of an asset's net selling price and its value in use - this loss is recognized in the statement of income for the period and cannot be reversed when it is related to goodwill based on the expected future profitability.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

### *i. Investments*

Investments in subsidiaries where the parent company has control or significant influence at financial statements of parent compant are accounted for using the equity method, as disclosed in Note 14.

The financial statements of subsidiaries located abroad are translated into reais using the

following criteria:

- Assets and liabilities accounts at the closing exchange rate;
- Specific equity accounts at the historical rate of the transactions or account activities;
- Income accounts at the average exchange rate for each month.

The exchange differences of foreign subsidiaries are recognized in a specific account "cumulative translation adjustments", within equity. The realization of such exchange variation adjustments occurs with the realization (i.e. sale) of the investment.

### *j. Other current and non-current assets*

These are stated at cost plus accrued earnings and monetary variations, when applicable, less provision to reflect the realization value, when necessary.

### *k. Liabilities*

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Certain liabilities involve uncertainties about the timing and amount, and are estimated as incurred and recorded through provision. Provision is recorded considering the best estimates of the risk involved.

### *l. Employee benefits*

The Group grants benefits basically on a montlhy basis, and they are recorded in the accounting books.

A description of the main benefit plans granted to employees is presented in Note 34.

#### *i. Supplementary Open Pension Plan - defined contribution*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a pension fund) and has no legal or constructive obligation to pay further contributions. Obligations for contributions to defined contribution pension plans are recognized as employee benefit expenses in the statement of income in the periods during which related services are rendered by employees.

The Group has a Supplementary Open Pension Plan that is structured according to the capitalization financial system, in the form of variable contribution, as described in specific regulations, duly approved by the Superintendency of Private Insurance, through Process 15414.004168/2005/12.

### *ii. Short-term employee benefits*

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## *m. Provision*

Provision is recognized as a result of a past event when the Group has a legal or constructive obligation that can be reliably estimated and it is probable that economic resources will be required to settle the obligation.

### *i. Warranties*

Provision for warranties is recognized when products or services are sold.

The provision is based on historical warranty data and a weighting of all the probabilities of disbursement.

### *ii. Losses on contracts*

Provision for losses on contracts is recognized in an amount sufficient to meet the losses on sales contracts already entered into and for estimates of forecast losses, on which management anticipates that it will incur negative margins. Before recording the provision, the Group recognizes any impairment loss on assets related to that contract.

### *iii. Restructuring*

Restructuring provision is recognized when the Group has a present or constructive obligation as a result of past events, and, it is probable that an outflow of resources will be required to settle the obligation. Restructuring provisions comprise employee termination payments. Provisions do not include future operating losses.

### *iv. Contingencies and judicial deposits linked to judicial proceedings*

The respective provision for contingencies was recorded considering the estimates made by the legal advisors for proceedings in which the likelihood of loss on the respective outcomes was assessed as probable and other unrelated legal obligations. The Group is a party to civil, labor and tax proceedings in progress both at the administrative and judicial level, which, when applicable, are supported by judicial deposits.

### *n. Operating revenue*

Revenue is shown net of taxes, returns, rebates, discounts and sales incentives and after eliminating sales within the Group.

#### *i. Sales of goods*

The operating revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable.

Operating revenue is recognized when there is convincing evidence that the most significant risks and rewards of ownership have been transferred to the buyer, it is probable that financial and economic benefits will flow to the Group, the associated costs and potential return of products can be estimated reliably, there is no continuing involvement with the products sold and the amount of operating revenue can be measured reliably.

#### *ii. Services*

Service revenue is recognized in the statement of income on the basis of the completion of the service provided, that is, when economic benefits associated with the transaction flow to the Group.

### *o. Finance income and costs*

Finance income includes changes in financial assets at fair value through profit or loss and gains on hedge instruments recorded in the statement of income. Interest income is recognized in the statement of income using the effective interest rate method.

Finance costs comprise interest on borrowings, changes in financial assets and liabilities at fair value through profit and loss, and losses on hedge instruments recorded in the statement of income.

## *p. Taxation*

### *i. Indirect taxes*

Sales and services revenue is subject to the following taxes and contributions at the following basic rates:

| | São Paulo State | Minas Gerais State | Rio de Janeiro State | Other States |
|---|---|---|---|---|
| ICMS | 4% and 18% | 4% and 18% | 4% and 19% | 4% and 7% to 12% |
| IPI | 4% to 16% | 4% to 16% | 4% to 16% | 4% to 16% |
| PIS | 1.65% to 2.30% | 1.65% to 2.30% | 1.65% to 2.30% | 1.65% to 2.30% |
| COFINS | 7.60% to 10.80% | 7.60% to 10.80% | 7.60% to 10.80% | 7.60% to 10.80% |
| ISS | 2% to 5% | 2% to 5% | 2% to 5% | 2% to 5% |

These charges are presented as sales deductions in the statement of income. The credits resulting from the non-cumulativeness of PIS and COFINS are presented as a reduction in cost of sales in the statement of income.

### *ii. Income tax and social contribution*

Current and deferred income tax and social contribution are calculated based on the rates of 15%, plus a 10% surcharge on taxable income in excess of R$ 240 for income tax, and 9% of taxable income for social contribution on net income.These consider the offsetting of tax losses, limited to 30% of taxable income.

The income tax and social contribution expense comprises current and deferred taxes. The current and deferred taxes are recognized in the statement of income or directly in equity (in other comprehensive income).

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on tax laws enacted or substantively enacted by the reporting date.

In determining current and deferred income tax, the Group takes into account the impact of uncertainties related to tax positions taken and whether the additional payment of income tax and interest has to be made. The Group believes that the provision for income tax within liabilities is adequate with respect to all outstanding tax years based on its assessment of various factors, including interpretations of tax laws and past experience.

This assessment is based on estimates and assumptions which may involve a series of judgments about future events. New information may become available that would lead the Group to change its judgment with respect to the appropriateness of the existing provision; these changes will have an impact on the income tax expense in the year in which they are realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized.

The carrying amounts of deferred income tax and social contribution assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that they will be realized.

### *q. Earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year as mentioned in Note 25.

As at December 31, 2016 and 2015, there were no instruments with dilutive effects. Diluted earnings per share were calculated by adjusting the weighted average number of common shares outstanding to assume the conversion of all potential common shares with dilutive effects, in accordance with NBC TG 41 (CPC 41) – "Earnings per share"and IAS 33 "Earnings per share".

### *r. Segment reporting*

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group, and for which discrete financial information is available.

The reported segment results include items that are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

### *s. Statement of value added*

The Company has prepared separate and consolidated statements of value added, in accordance with Technical Pronouncement NBC TG 09 (CPC 09) – "Statement of value added", which are presented as an integral part of the parent company financial statements in conformity with accounting practices adopted in Brazil applicable to publicly-held companies, while for IFRS this statement represents additional financial information.

### *t. New standards and interpretations that are not yet effective*

**Interpretations and amendments to existing standards that are not yet effective**

The following new standards were issued by IASB but are not effective for 2016. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

- NBC TG 48 (CPC 48) – Financial Instruments - IFRS 9 - "Financial instruments": addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective as from January 1, 2018. It replaces the orientation included in IAS 39 related to the classification and measurement of financial instruments. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, which is a hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) relaxation of the requirements for adoption of the hedge accounting.

- NBC TG 47 (CPC 47) – Revenue from Contracts with Customers - IFRS 15 - "Revenue from Contracts with Customers": replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and related interpretations and introduces the principles to be applied by an entity to determine the measurement and recognition of revenue. This standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a customer, so the control principle will replace the principle of risks and rewards. Effective date is January 1, 2018.

Management started an evaluation of the impacts of adopting the new accounting standards for purposes of a thorough analysis of financial assets (IFRS 9) in light of contracts with customers as well as currently adopted accounting practices for revenue recognition (IFRS 15). To date it has not identified any material impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's financial statements.

## 5 Determination of fair value

Many accounting policies and disclosures of the Company require fair value measurements.

The financial instruments that are measured at fair value after initial recognition are included in Level 2 (Level 2 – valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

All assets and liabilities for which the fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as described in Note 33.

## 6 Financial risk management

The Group manages capital with the aim of protecting its operating capacity, while maintaining a capital structure that enables it to provide the highest possible returns for its shareholders.

The Group monitors its capital based on the financial leverage index as follows:

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| Borrowings | 19 | 460,639 | 358,781 | 499,530 | 479,681 |
| Cash and cash equivalents | 8 | (241,504) | (133,995) | (256,431) | (152,093) |
| Loans to related parties, net | 12 | (59,418) | (33,354) | (59,819) | (28,468) |
| **Net indebtedness** | | **159,717** | **191,432** | **183,280** | **299,120** |
| Total equity | 24 | 1,230,835 | 1,290,298 | 1,215,718 | 1,290,762 |
| **Total equity + net indebtedness** | | **1,390,552** | **1,481,730** | **1,398,998** | **1,589,882** |
| **Financial leverage index - %** | | **11%** | **13%** | **13%** | **19%** |

Information pertinent to the risks inherent in the Group's operation and the use of financial instruments to prevent these risks, as well as the policies and the risks related to the financial instruments, are described in Note 33.

## 7 Segment reporting

### 1*) Operating segments*

The Group determines the operating segments based on the reports used to take strategic operating decisions of the Management. The presentation of the reported information is consistent with the statement of income.

The Group's operating segments are:

**a)** Engine components - rings, sensors, rockers, rods, crank arms, bearings, bushes, cylinder liners, bearing covers, rocker assemblies, crowns, injectors, synchromesh hubs, universal joints, shafts, camshafts, linkages, gears, forks, guides and valve seats, gudgeon pins, pistons, valve plates, pulleys, ring carriers, water and oil pump impellers, valve tappets and tulips, amongst others. Generally, the products are used in internal combustion engines and automotive vehicles.

**b)** Filters - fuel filters, air filters, oil filters, cabin air filters, activated carbon filters and oil separators. Specifically, press filters with underground and air installation, separator filters, line filters, lubricant oil suppliers, filters for cleaning vehicle tanks and reservoirs, product transfer pumps, and equipment for the containment, absorption and collection of residues or products from leaks (magnetic steam retaining valves, vacuum oil change equipment, coolant refillers, easy checks and kits for changing brake fluid). These products are used in vehicles and have applications in industry, automobile service stations, passenger and cargo transport, earthworks, fishing terminals and farms.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| **Statement of income** | **Engine components** | **Filters** | **Consolidated** | **Engine components (Restated note no 3 f.)** | **Filters** | **Consolidated (Restated note no 3 f.)** |
| **Gross operating revenue** | **2,429,285** | **441,246** | **2,870,531** | **2,591,737** | **484,504** | **3,076,241** |
| Deductions from sales | (499,135) | (135,389) | (634,524) | (507,252) | (145,633) | (652,885) |
| **Net operating revenue** | **1,930,150** | **305,857** | **2,236,007** | **2,084,485** | **338,871** | **2,423,356** |
| Cost of sales | (1,407,718) | (232,286) | (1,640,004) | (1,517,122) | (259,185) | (1,776,307) |
| Cost of sales (Impairment- MAHLE Hirschvogel Forjas S.A.) | - | - | - | (6,112) | - | (6,112) |
| **Gross profit** | **522,432** | **73,571** | **596,003** | **561,251** | **79,686** | **640,937** |
| Selling expenses | (128,359) | (22,590) | (150,949) | (138,447) | (29,706) | (168,153) |
| Administrative expenses | (70,421) | (18,342) | (88,763) | (69,513) | (12,434) | (81,947) |
| Technology research costs | (71,282) | (15,437) | (86,719) | (74,978) | (17,714) | (92,692) |
| Other operating income (expenses) | (63,301) | 740 | (62,561) | (27,893) | (1,313) | (29,206) |
| Other operating income (Impairment- MAHLE Hirschvogel Forjas S.A.) | - | - | - | (5,966) | - | (5,966) |
| Other operating income (impairment - MAHLE M. Leve - UGC - Rings business) | (188,654) | - | (188,654) | - | - | - |
| Equity in the results of investees | (2,150) | - | (2,150) | 1,989 | - | 1,989 |
| Finance income | 144,371 | 7,990 | 152,361 | 247,991 | 16,517 | 264,508 |
| Finance costs | (198,222) | (11,692) | (209,914) | (257,503) | (18,796) | (276,299) |
| **Profit before income tax and social contribution** | **(55,586)** | **14,240** | **(41,346)** | **236,931** | **16,240** | **253,171** |
| Income tax and social contribution | 50,363 | (4,868) | 45,495 | (75,493) | (5,533) | (81,026) |
| **Profit for the year** | **(5,223)** | **9,372** | **4,149** | **161,438** | **10,707** | **172,145** |

Net operating revenue comprises revenue from the sale of products and services, where most of service revenue refers to the engine component segment.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| **Balance sheet accounts** | **Engine components** | **Filters** | **Consolidated** | **Engine components** | **Filters** | **Consolidated** |
| **Total assets** | **2,167,708** | **187,206** | **2,354,914** | **2,330,990** | **146,951** | **2,477,941** |
| Inventories | 303,497 | 34,702 | 338,199 | 312,499 | 38,940 | 351,439 |
| Property, plant and equipment | 2,350,333 | 131,741 | 2,482,074 | 2,302,797 | 126,600 | 2,429,397 |
| Depreciation and amortization | (1,691,906) | (78,936) | (1,770,842) | (1,627,788) | (71,774) | (1,699,562) |
| Intangible assets | 45,895 | 1,165 | 47,060 | 39,506 | 2,162 | 41,668 |
| Goodwill | 407,610 | - | 407,610 | 595,639 | - | 595,639 |
| Investment - Innoferm Tecnologia Ltda. | 967 | - | 967 | 3,117 | - | 3,117 |
| Other | 751,312 | 98,534 | 849,846 | 705,220 | 51,023 | 756,243 |

***2 ) Distribution by geographic area***

The Group does not have any customer that accounts for more than 10% of total consolidated net revenue.

The consolidated net operating revenue in 2016 was R$ 2,236,007 (R$ 2,423,356 in 2015), the portion of which relating to foreign countries amounting to R$ 1,074,768 (R$ 1,124,645 in 2015) is distributed as follows:

| **Sales per country** | **Consolidated** | | | |
|---|---|---|---|---|
| | **2016** | **%** | **2015** | **%** |
| **Domestic market (Brazil and Argentina)** | **1,161,239** | **51.9%** | **1,298,711** | **53.6%** |
| Europe | 524,072 | 23.4% | 521,679 | 21.5% |
| Central and North America | 400,039 | 17.9% | 443,365 | 18.3% |
| South America | 87,795 | 3.9% | 80,219 | 3.3% |
| Africa, Asia, Oceania and Middle East | 62,862 | 2.9% | 79,382 | 3.3% |
| **Foreign countries** | **1,074,768** | **48.1%** | **1,124,645** | **46.4%** |
| **Total** | **2,236,007** | **100.0%** | **2,423,356** | **100.0%** |

## 8 Cash and cash equivalents

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| BRL | 1,708 | 4,587 | 2,416 | 5,679 |
| ARS (expressed in BRL) | - | - | 2,441 | 802 |
| USD (expressed in BRL) | 11,016 | 9,108 | 11,244 | 9,233 |
| EUR (expressed in BRL) | 10,056 | 8,325 | 10,086 | 8,342 |
| Cash and demand deposits | 22,780 | 22,020 | 26,187 | 24,056 |
| BRL | 206,665 | 105,213 | 212,713 | 111,649 |
| USD (expressed in BRL) | 12,059 | 6,762 | 12,059 | 7,296 |
| Financial investments | 218,724 | 111,975 | 224,772 | 118,945 |
| BRL | - | - | 5,472 | 9,092 |
| Cash in transit | - | - | 5,472 | 9,092 |
| | **241,504** | **133,995** | **256,431** | **152,093** |

The Group holds checking accounts at major banks in Brazil and abroad.

Financial investments have made as follows:

- Bank Deposit Certificates (CDBs) and repurchase agreements (94.5 %), which yield an average interest rate of 99.8 % of the Interbank Deposit Certificate (CDI) rate, held exclusively at first-tier banks in Brazil;

- Certificate deposits and time deposits which are short-term, highly liquid investments with original maturities of three months or less and subject to an insignificant risk of change in value.

- Financial investments are recorded at updated value up to the end of the period. Their values reflect the redemption amount that would be realized if the investments were redeemed on that date. Yields on these transactions are recognized as finance income.

Cash in transit is deposits in foreign currency relating to funds received from customers abroad, available for redemption from the banks with which the Group operates.

## 9 Trade and related-party receivables

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Market | | | | |
| Domestic | 152,708 | 156,829 | 161,160 | 190,218 |
| Foreign | 54,783 | 95,052 | 128,262 | 156,509 |
| | **207,491** | **251,881** | **289,422** | **346,727** |
| Other accounts receivable | 1,808 | 1,592 | 1,893 | 1,944 |
| Provision for impairment of trade receivables | (5,449) | (9,242) | (6,743) | (10,059) |
| | **203,850** | **244,231** | **284,572** | **338,612** |
| Related parties (Note 12) | 56,981 | 75,043 | 54,272 | 59,134 |
| | **260,831** | **319,274** | **338,844** | **397,746** |

The Group's exposure to credit and currency risks relating to trade receivables is disclosed in Note 33.

At December 31, 2016, trade receivables of the parent company in the amount of R$ 11,850 (December 31, 2015 - R$ 22,001) and consolidated trade receivables at december 31, 2016 of R$ 17,477 (December 31, 2015 - R$ 28,477) were past due but not impaired. These relate to a number of original equipment and aftermarket customers for whom there is no recent history of default.

Other receivables derive from the sale of property, plant and equipment, tooling, scraps and other.

At December 31, 2016, other past-due accounts receivable do not represent any risk for the Group since most of them were settled in January 2017.

# Explanatory notes to the financial statements

*(in thousand of reais)*

The amounts and aging analysis of trade receivables are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Not yet due | 192,000 | 222,230 | 267,095 | 310,135 |
| Past due: | | | | |
| Up to 7 days | 5,300 | 8,989 | 7,667 | 12,183 |
| From 8 to 30 days | 3,495 | 6,644 | 6,150 | 9,347 |
| From 31 to 60 days | 2,254 | 2,787 | 2,913 | 3,613 |
| From 61 to 90 days | 196 | 2,969 | 424 | 3,001 |
| From 91 to 120 days | 1,076 | 992 | 1,290 | 1,115 |
| From 121 to 180 days | 1,088 | 1,769 | 1,288 | 1,714 |
| From 181 to 360 days | 556 | 5,192 | 1,103 | 5,606 |
| Over 360 days | 3,334 | 1,901 | 3,385 | 1,957 |
| (-) Provision for impairment of trade receivables | (5,449) | (9,242) | (6,743) | (10,059) |
| Total past due | 11,850 | 22,001 | 17,477 | 28,477 |
| | **203,850** | **244,231** | **284,572** | **338,612** |

In the table above, where provision for the impairment of trade receivables over 120 days past due is presented, the amounts of goods returned and advances from customers are excluded.

The redkuction in trade receivables provided for in 2016 compared to 2015 was mainly due to two aftermarket customers located in countries that began to have foreign exchange restrictions that have hampered the settlement of obligations within the payment periods established by the policy concerning provision for the impairment of trade receivables adopted by the Group.

No provision for impairment of accounts receivable has been recognized for related parties, but there are no significant accounts over 120 days past due.

Changes in the provision for impairment of trade receivables are as follows:

| | Parent company | Consolidated |
|---|---|---|
| **At January 1st, 2015** | **(3,520)** | **(4,135)** |
| Receivables provided for in the period | (8,273) | (9,441) |
| Receivables reversed in the period | 3,196 | 4,172 |
| Receivables written off definitively | 283 | 355 |
| Foreign exchange variation | (928) | (1,010) |
| **At December 31, 2015** | **(9,242)** | **(10,059)** |
| Receivables provided for in the period | (3,574) | (4,792) |
| Receivables reversed in the period | 5,886 | 6,500 |
| Receivables written off definitively | 481 | 547 |
| Foreign exchange variation | 1,000 | 1,061 |
| **At December 31st, 2016** | **(5,449)** | **(6,743)** |

## 10 Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Finished products | 98,197 | 104,009 | 172,875 | 185,834 |
| Work in progress | 83,366 | 80,038 | 93,125 | 91,579 |
| Raw materials | 40,644 | 39,480 | 49,811 | 51,071 |
| Auxiliary materials | 7,278 | 6,198 | 10,793 | 10,278 |
| Imports in transit | 8,536 | 9,699 | 11,595 | 12,677 |
| | **238,021** | **239,424** | **338,199** | **351,439** |

In December 31, 2016, inventory was stated net of provision for losses. These losses relate to products with a negative margin, tooling, quality issues, out-of-specification materials, obsolescence and slow-moving items in the amount of R$ 24,141 (R$ 23,871 in December 31, 2015) in the parent company and R$ 37,396 (R$ 40,324 in December 31, 2015) in the consolidated accounts.

Changes in the provision for inventory loss are as follows:

| | Parent company | Consolidated |
|---|---|---|
| **At January 1st, 2015** | **(20,564)** | **(31,856)** |
| Reversal of provision | 14,791 | 20,087 |
| Recognition of provision | (19,216) | (31,720) |
| Inventory written off definitively as loss | 1,118 | 3,166 |
| Foreign exchange variation | - | (1) |
| **At December 31, 2015** | **(23,871)** | **(40,324)** |
| Reversal of provision | 11,810 | 18,440 |
| Recognition of provision | (12,540) | (19,456) |
| Inventory written off definitively as loss | 460 | 1,933 |
| Foreign exchange variation | - | 2,011 |
| **At December 31, 2016** | **(24,141)** | **(37,396)** |

## 11 Taxes recoverable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Income tax and social contribution | 15,036 | 26,982 | 25,609 | 36,703 |
| Value-added Tax on Sales and Services (ICMS) on purchases of fixed assets | 21,486 | 24,698 | 23,834 | 27,817 |
| ICMS and Excise Tax (IPI) | 21,159 | 16,646 | 26,249 | 18,049 |
| Import Tax | 4,881 | 3,878 | 6,478 | 4,826 |
| Social Contribution on Revenues (COFINS) | 2,361 | 3,261 | 3,237 | 3,523 |
| Social Integration Program (PIS) | 512 | 709 | 720 | 785 |
| Export incentive - Argentina (*) | - | - | 7,734 | 12,242 |
| Other | 52 | 43 | 5,146 | 5,826 |
| | **65,487** | **76,217** | **99,007** | **109,771** |
| Current | 50,498 | 57,928 | 72,402 | 77,127 |
| Non-current | 14,989 | 18,289 | 26,605 | 32,644 |
| | **65,487** | **76,217** | **99,007** | **109,771** |

(*) The reduction in the balance of export incentives of the subsidiary MAHLE Argentina S.A. refers to an expedited receipt of this incentive from the Argentinean government.

## 12 Related parties

The aggregate amount of transactions and outstanding balances with related parties is presented below:

| | Parent company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12/31/2016 | | | | | Transactions from 2016 | | | | | | | | |
| | Current assets | | Non-current assets | Current liabilities | | Sales/revenue | | | Purchases | | | | | |
| | Receivables (Note 9) | Payment term in days (*) | Loan | Suppliers (Note 17) | Payment term in days (*) | Products | Services | Rent, Transport, Food and Energy | Products | Services | Property, plant and equipment | Commissions | Trademark license | Rent |
| **Companies** | | | | | | | | | | | | | | |
| **Subsidiaries** | | | | | | | | | | | | | | |
| **Direct subsidiaries** | | | | | | | | | | | | | | |
| MAHLE Metal Leve GmbH | 33,403 | 60 | - | - | - | 344,095 | 215 | - | - | - | - | - | - | - |
| MAHLE Argentina S.A. | 3,793 | 60 | - | 1,077 | 60 | 64,401 | - | - | 9,556 | - | - | - | - | - |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 613 | 60 | 47,282 | 1,171 | 60 | - | 3,172 | - | 6,436 | - | - | - | - | - |
| MAHLE Filtrol Ind. e Com. de Filtros Ltda. | 67 | 60 | 12,136 | - | - | - | 147 | - | - | - | - | - | - | - |
| MAHLE Hirschvogel Forjas S.A. | 34 | 60 | - | - | - | 8 | 227 | - | - | - | 1,145 | - | - | - |
| MAHLE Industry do Brasil Ltda. | 22 | 60 | - | 15 | 60 | - | 97 | - | 2 | - | - | - | - | - |
| **Total direct subsidiaries** | **37,932** | | **59,418** | **2,263** | | **408,504** | **3,858** | **-** | **15,994** | **-** | **1,145** | **-** | **-** | **-** |
| **Related companies** | | | | | | | | | | | | | | - |
| MAHLE Vöcklabruck GmbH | 4,962 | 60 | - | - | - | 28,930 | - | - | - | (8) | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 2,248 | 60 | - | - | - | 43 | 7,626 | 1,900 | - | - | - | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 1,335 | 60 | - | - | - | 6,177 | - | - | - | - | - | - | - | - |
| MAHLE Compressores do Brasil Ltda. | 1,210 | 60 | - | 2 | 60 | 1 | 6,012 | - | - | 6 | - | - | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 1,143 | 60 | - | - | - | 3,322 | - | - | - | - | - | - | - | - |
| MAHLE Filtersysteme GmbH | 1,082 | 60 | - | 1,964 | 60 | (5) | 1,254 | - | 5 | 2,780 | - | - | - | - |
| MAHLE France SAS | 1,037 | 60 | - | - | - | 6,399 | 16 | - | - | - | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 987 | 60 | - | - | - | 5,382 | 323 | - | - | - | - | - | - | - |
| MAHLE International GmbH | 900 | 60 | - | 1,057 | 60 | - | 1,938 | - | - | 3,147 | - | - | - | - |
| MAHLE Engine Componentes USA, Inc. | 805 | 60 | - | 20 | 60 | 5,803 | 361 | - | 226 | (53) | - | - | - | - |
| MAHLE Clevite Inc. | 752 | 60 | - | 54 | 60 | 9,719 | 392 | - | - | 23 | - | 183 | - | - |
| MAHLE Aftermarket GmbH | 587 | 60 | - | 2,621 | 60 | 3,507 | 986 | - | 3,752 | 3,095 | - | 157 | - | - |
| MAHLE India Pistons Ltd. | 489 | 60 | - | - | - | 2,713 | - | - | - | - | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 232 | 60 | - | 108 | 60 | 1,043 | 441 | - | 322 | - | - | - | - | - |
| MAHLE Compon. de Mot. de México, S. de R.L. d | 173 | 60 | - | 337 | 60 | 418 | 38 | - | 3,901 | 314 | - | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 146 | 60 | - | 149 | 60 | 1,687 | - | - | 52 | - | - | 52 | - | - |
| MAHLE Pistoni Italia SPA | 126 | 60 | - | - | - | 551 | - | - | 357 | - | - | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 122 | 60 | - | - | - | 1,886 | - | - | - | 6 | - | - | - | - |
| MAHLE Motorkomponenten GmbH | 120 | 60 | - | - | - | - | - | - | 6 | - | - | - | - | - |
| MAHLE Engine Systems UK Ltd. | 96 | 60 | - | 646 | 60 | 5 | 410 | - | 843 | 598 | 156 | - | - | - |
| MAHLE Powertrain LLC | 89 | 60 | - | - | - | - | 91 | - | - | - | - | - | - | - |
| MAHLE Letrika (Suzhou) Automotive | 79 | 60 | - | 352 | 60 | - | 79 | - | 1,560 | - | - | - | - | - |
| MAHLE Letrika D.O.O. | 65 | 60 | - | 715 | 60 | - | 65 | - | 1,242 | 5 | - | - | - | - |
| MAHLE Engine Comp. (Thailand) Co. Ltd. | 62 | 60 | - | - | - | 1 | 64 | - | - | - | - | - | - | - |
| MAHLE Mgna Private Ltd. | 44 | 60 | - | - | - | 46 | - | - | - | - | - | - | - | - |
| MAHLE Industries Inc | 40 | 60 | - | 3 | 60 | - | 202 | - | - | 4 | - | - | - | - |
| MAHLE GmbH | 30 | 60 | - | 8,310 | 60 | 32 | 84 | - | 5,340 | 8,197 | 3,169 | - | 8,492 | - |
| MAHLE Engine Comp. (Chongqing) Co. Ltd. | 26 | 60 | - | - | - | 379 | - | - | - | - | - | - | - | - |
| MAHLE Filter Systems India Ltd. (India) | 20 | 60 | - | - | - | 27 | 20 | - | - | - | - | - | - | - |
| MAHLE Japan Ltd. | 18 | 60 | - | - | - | - | 94 | - | - | - | - | - | - | - |
| MAHLE Engine Comp. Japan Corporation | 15 | 60 | - | 7 | 60 | 67 | - | - | - | - | - | - | - | - |
| MAHLE Filter Systems India Pvt .Ltd. | 4 | 60 | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Powertrain Ltd. | 2 | 60 | - | - | - | 3 | - | - | - | - | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | 1 | 60 | - | 1,054 | 60 | - | - | - | - | - | - | - | - | 6,323 |
| MAHLE Anéis Participações Ltda | 1 | 60 | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 1 | 60 | - | - | - | 14 | - | - | - | - | - | - | - | - |
| Innoferm Tecnologia Ltda. | - | - | - | 4,000 | 60 | - | - | - | - | - | - | - | - | - |
| MAHLE Brockhaus GmbH | - | - | - | 2,173 | 60 | - | - | - | 9,644 | - | - | - | - | - |
| MAHLE Engine Comp. Inc | - | - | - | 679 | 60 | - | - | - | 15 | 348 | - | - | - | - |
| MAHLE Technologies Holding (China) Co., Ltd. | - | - | - | 583 | 60 | - | - | - | - | 583 | - | - | - | - |
| MAHLE Filtersysteme Austria GmbH | - | - | - | 530 | 60 | - | 343 | - | 3,212 | - | - | - | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | 391 | 60 | - | - | - | 468 | - | - | - | - | - |
| MAHLE Filter Systems Japan Corporation | - | - | - | 234 | 60 | - | - | - | 672 | 204 | - | - | - | - |
| MAHLE Trading (Shangai) Co. Ltd. | - | - | - | 77 | 60 | - | - | - | 261 | - | - | 2 | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | 61 | 60 | - | - | - | 228 | - | - | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | 59 | 60 | - | - | - | 459 | - | - | - | - | - |
| Letrika do Brasil Sistemas Elétricos | - | - | - | 11 | 60 | - | - | - | - | 9 | 1 | - | - | - |
| Other | - | - | - | 7 | - | 744 | 37 | - | 1,151 | 41 | - | 14 | - | - |
| **Total related companies** | **19,049** | | **-** | **26,204** | | **78,894** | **20,876** | **1,900** | **33,716** | **19,299** | **3,326** | **408** | **8,492** | **6,323** |
| **Total related parties** | **56,981** | | **59,418** | **28,467** | | **487,398** | **24,734** | **1,900** | **49,710** | **19,299** | **4,471** | **408** | **8,492** | **6,323** |

*** Realization of term days refers to current assets and current liabilities**

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Parent company | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12/31/2015 | | | | | Transactions from 2015 | | | | | | | | | | |
| | Current assets | | Non-current assets | Current liabilities | | Sales/revenue | | | | Purchases | | | | | | |
| | Receivables (Note 9) | Payment term in days (*) | Loan | Suppliers (Note 17) | Payment term in days (*) | Products | Services | Property, plant and equipment | Rent Transport Food Energy | Products | Services | Intangible assets | Property, plant and equipment | Commissions | Trademark license | Rent |
| **Companies** | | | | | | | | | | | | | | | | |
| **Subsidiaries** | | | | | | | | | | | | | | | | |
| **Direct subsidiaries** | | | | | | | | | | | | | | | | |
| MAHLE Metal Leve GmbH | 55,845 | 60 | - | - | - | 430,946 | 354 | - | - | - | - | - | - | - | - | - |
| MAHLE Argentina S.A. | 1,661 | 60 | - | 185 | 60 | 65,605 | - | - | - | 11,013 | - | - | - | - | - | - |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 449 | 60 | 14,600 | 1,071 | 60 | 7 | 3,168 | - | - | 6,661 | - | - | - | - | - | - |
| MAHLE Hirschvogel Forjas S.A. | 212 | 60 | - | 8,289 | 60 | 43 | 850 | 6 | - | 20,239 | - | - | 1 | - | - | - |
| MAHLE Industry do Brasil Ltda. | 158 | 60 | 7,445 | 188 | 60 | 3 | 569 | - | - | 105 | - | - | 182 | - | - | - |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | 51 | 60 | 11,309 | - | - | - | 131 | - | - | - | - | - | - | - | - | - |
| **Total direct subsidiaries** | **58,376** | | **33,354** | **9,733** | | **496,604** | **5,072** | **6** | **-** | **38,018** | **-** | **-** | **183** | **-** | **-** | **-** |
| **Related companies** | | | | | | | | | | | | | | | | |
| MAHLE Vöcklabruck GmbH | 4,501 | 60 | - | - | - | 26,931 | - | - | - | - | (2) | - | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 2,978 | 60 | - | - | - | 10,818 | 207 | - | - | 6 | - | - | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 1,277 | 60 | - | - | - | 5 | 2,049 | - | 1,926 | - | - | - | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 1,144 | 60 | - | - | - | 2,079 | 508 | - | - | 34 | - | - | - | - | - | - |
| MAHLE Engine Componentes USA, Inc. | 910 | 60 | - | 184 | 60 | 8,326 | 68 | - | - | 43 | 174 | - | 23 | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 860 | 60 | - | - | - | 7,861 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Aftermarket GmbH | 789 | 60 | - | 2,784 | 60 | 2,352 | 929 | - | - | 4,526 | 2,486 | - | - | 111 | - | - |
| MAHLE Compressores do Brasil Ltda. | 668 | 60 | - | - | - | - | 815 | - | - | - | - | - | - | - | - | - |
| MAHLE Clevite Inc. | 658 | 60 | - | 12 | 60 | 9,099 | 396 | - | - | 19 | - | - | - | 79 | - | - |
| MAHLE France SAS | 389 | 60 | - | - | - | 1,531 | 26 | - | - | - | - | - | - | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 368 | 60 | - | - | - | 2,591 | - | - | - | 583 | - | - | - | 23 | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 301 | 60 | - | - | - | 2,495 | - | - | - | 6 | - | - | - | - | - | - |
| MAHLE International GmbH | 277 | 60 | - | 584 | 60 | - | 801 | - | - | - | 2,165 | - | - | - | - | - |
| MAHLE India Pistons Ltd. | 228 | 60 | - | - | - | 1,745 | - | - | - | - | 24 | - | - | - | - | - |
| MAHLE Pistoni Italia SPA | 203 | 60 | - | - | - | 1,051 | 11 | - | - | 440 | - | - | - | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 180 | 60 | - | - | - | 689 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Comp. (Chongqing) Co. Ltd. | 175 | 60 | - | - | - | 393 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Ventiltrieb GmbH | 170 | 60 | - | - | - | 804 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Systems UK Ltd. | 103 | 60 | - | 589 | 60 | 135 | 427 | - | - | 689 | 418 | - | 253 | - | - | - |
| MAHLE Trading Japan Co. Ltd. | 101 | 60 | - | - | - | 85 | 140 | - | - | 519 | - | - | - | - | - | - |
| MAHLE Compon. de Mot. de México, S. de R.L. d | 79 | 60 | - | 791 | 60 | 2,310 | 40 | - | - | 5,770 | 826 | - | - | - | - | - |
| MAHLE GmbH | 62 | 60 | - | 6,081 | 60 | 172 | 54 | - | - | 2,636 | 4,781 | - | 11,270 | - | 9,927 | - |
| MAHLE Filtersysteme Austria GmbH | 58 | 60 | - | 2,277 | 60 | - | 56 | - | - | 3,219 | 286 | - | - | - | - | - |
| MAHLE Migna Private Ltd. | 54 | 60 | - | - | - | 15 | 40 | - | - | - | - | - | - | - | - | - |
| MAHLE Industries Inc | 42 | 60 | - | - | - | - | 183 | - | - | - | 16 | - | - | - | - | - |
| MAHLE König GmbH | 35 | 60 | - | - | - | 1,418 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Aftermarket Pte. Ltd | 18 | 60 | - | 578 | 60 | - | 17 | - | - | 2,852 | - | - | - | - | - | - |
| MAHLE Engine Comp. Japan Corporation | 18 | 60 | - | - | - | 73 | - | - | - | 144 | 4 | - | - | - | - | - |
| MAHLE Japan Ltd. | 12 | 60 | - | - | - | - | 47 | - | - | - | - | - | - | - | - | - |
| MAHLE Filter Systems India Pvt ,Ltd. | 5 | 60 | - | - | - | - | 5 | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 4 | 60 | - | - | - | 14 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Comp. Slovakia | - | - | - | - | - | 86 | 8 | - | - | - | - | - | - | - | - | - |
| MAHLE Polska Spolka Z.O.0 | - | - | - | - | - | 11 | - | - | - | - | - | - | 265 | - | - | - |
| Innoferm Tecnologia Ltda. | - | - | - | 5,000 | 60 | - | - | - | - | - | - | 12,000 | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | - | - | - | 954 | 60 | - | - | - | - | - | - | - | - | - | - | 5,705 |
| MAHLE Filter Systems Japan Corporation | - | - | - | 2,228 | 60 | - | - | - | - | 1,511 | 929 | - | - | - | - | - |
| MAHLE Trading (Shangai) Co. Ltd. | - | - | - | - | - | - | - | - | - | 1,185 | - | - | - | 2 | - | - |
| MAHLE Filtersysteme GmbH | - | - | - | 2,877 | 60 | - | - | - | - | 10 | 2,666 | - | - | - | - | - |
| MAHLE Technologies Holding (China) Co., Ltd. | - | - | - | 699 | 60 | - | - | - | - | - | 699 | - | - | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | - | - | - | - | - | - | 779 | - | - | - | - | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | 15 | 60 | - | - | - | - | 262 | - | - | - | - | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | 594 | 60 | - | - | - | - | 665 | 467 | - | - | - | - | - |
| MAHLE Brockhaus GmbH | - | - | - | - | - | - | - | - | - | 190 | - | - | - | - | - | - |
| Other | - | - | - | 283 | 60 | 185 | - | - | - | 819 | 66 | - | 980 | 14 | - | - |
| **Total related companies** | **16,667** | | **-** | **26,530** | | **83,274** | **6,827** | **-** | **1,926** | **26,907** | **16,005** | **12,000** | **12,791** | **229** | **9,927** | **5,705** |
| **Total related parties** | **75,043** | | **33,354** | **36,263** | | **579,878** | **11,899** | **6** | **1,926** | **64,925** | **16,005** | **12,000** | **12,974** | **229** | **9,927** | **5,705** |

*** Realization of term days refers to current assets and current liabilities**

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Consolidated | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12/31/2016 | | | | | Transactions from 2016 | | | | | | | | | | |
| | Current assets | | Non-current assets | Current liabilities | | Sales/revenue | | | | Purchases | | | | | | |
| | Receivables (Note 9) | Payment term in days (*) | Loan | Suppliers (Note 17) | Payment term in days (*) | Products | Services | Property, plant and equipment | Rent Transport Food Energy | Products | Services | Property, plant and equipment | Commissions | Trademark license/ Royalties | Rent |
| **Related companies** | | | | | | | | | | | | | | | |
| MAHLE Compon. de Mot. de México, S. de R.L. de C.V. | 10,968 | 60 | - | 1,263 | 60 | 75,746 | 38 | 1,893 | - | 3,905 | 314 | - | - | - | - |
| MAHLE Filter Systems India Pvt .Ltd. | 6,782 | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE France SAS | 5,325 | 60 | - | 7 | 60 | 46,234 | 16 | - | - | - | - | - | - | - | - |
| MAHLE Vöcklabruck GmbH | 4,962 | 60 | - | - | - | 28,930 | - | - | - | - | (8) | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 4,707 | 60 | - | 108 | 60 | 49,052 | 441 | - | - | 322 | - | - | - | - | - |
| MAHLE Componenti Motori Italia S.p.A. | 2,955 | 60 | - | - | - | 15,929 | - | - | - | 357 | - | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 2,248 | 60 | - | 4,940 | 60 | 43 | 7,626 | - | 1,900 | - | 4,815 | - | - | - | - |
| MAHLE Componentes de Motor Espana S.L. | 1,808 | 60 | - | 3 | 60 | 11,497 | - | - | - | 45 | 3 | - | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 1,335 | 60 | - | - | - | 6,177 | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Componentes USA, Inc. | 1,246 | 60 | - | 3,209 | 60 | 8,284 | 361 | - | - | 226 | 1,378 | - | - | - | - |
| MAHLE Engine Components (Thailand) Co., Ltd. | 1,242 | 60 | - | - | - | 7,416 | 64 | - | - | - | - | - | - | - | - |
| MAHLE S.A. | 1,223 | 60 | - | - | - | 9,351 | - | - | - | - | - | - | - | - | - |
| MAHLE Compressores do Brasil Ltda. | 1,210 | 60 | - | 2 | 60 | 1 | 6,012 | - | - | - | 6 | - | - | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 1,143 | 60 | - | - | - | 3,322 | - | - | - | - | - | - | - | - | - |
| MAHLE Filtersysteme GmbH | 1,082 | 60 | - | 1,964 | 60 | (5) | 1,254 | - | - | 5 | 2,780 | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 987 | 60 | - | - | - | 5,988 | 323 | - | - | 31 | - | - | - | - | - |
| MAHLE International GmbH | 900 | 60 | - | 1,693 | 60 | - | 1,938 | - | - | - | 3,444 | - | - | - | - |
| MAHLE Kleinmotoren-Komponenten GmbH & Co. KG | 856 | 60 | - | 7 | 60 | 5,466 | - | - | - | - | 136 | - | - | - | - |
| MAHLE Clevite Inc. | 807 | 60 | - | 97 | 60 | 9,780 | 392 | - | - | - | 23 | - | 183 | - | - |
| MAHLE Aftermarket GmbH | 587 | 60 | - | 4,061 | 60 | 43,878 | 986 | - | - | 8,545 | 3,095 | - | 157 | - | - |
| MAHLE India Pistons Ltd. | 489 | 60 | - | - | - | 2,713 | - | - | - | - | - | - | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 454 | 60 | - | - | - | 2,446 | - | - | - | - | 6 | - | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 146 | 60 | - | 149 | 60 | 1,687 | - | - | - | 52 | - | - | 52 | - | - |
| Mahle Motorkomponenten GMBH | 120 | 60 | - | - | - | - | - | - | - | 6 | - | - | - | - | - |
| MAHLE Engine Components Slovakia s.r.o | 110 | 60 | - | - | - | 1,127 | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Systems UK Ltd. | 96 | 60 | - | 648 | 60 | 5 | 410 | - | - | 843 | 598 | 156 | - | - | - |
| MAHLE Powertrain LLC | 89 | 60 | - | - | - | - | 91 | - | - | - | - | - | - | - | - |
| Compania Rosarina S.A. | 87 | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Letrika (Suzhou) Automotive | 79 | 60 | - | 352 | 60 | - | 79 | - | - | 1,560 | - | - | - | - | - |
| MAHLE Letrika D.O.O. | 65 | 60 | - | 715 | 60 | - | 65 | - | - | 1,242 | 5 | - | - | - | - |
| MAHLE Industries, Inc. | 48 | 60 | - | 350 | 60 | - | 202 | - | - | 4 | 2,988 | - | - | - | - |
| MAHLE Migna Private Ltd. | 44 | 60 | - | - | - | 46 | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Components (Chongqing) Co .Ltd. | 26 | 60 | - | - | - | 379 | - | - | - | - | - | - | - | - | - |
| MAHLE Filter Systems India Ltd. (India) | 20 | 60 | - | - | - | 27 | 20 | - | - | - | - | - | - | - | - |
| MAHLE Japan Ltd. | 18 | 60 | - | - | - | - | 94 | - | - | - | - | - | - | - | - |
| MAHLE Engine Componets Japan Corporation | 15 | 60 | - | 7 | 60 | 417 | - | - | - | - | - | - | - | - | - |
| MAHLE Powertrain Ltd. | 2 | 60 | - | - | - | 3 | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 1 | 60 | - | - | - | 14 | - | - | - | - | - | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | 1 | 60 | - | 1,054 | 60 | - | - | - | - | - | - | - | - | - | 6,323 |
| MAHLE Anéis Participações Ltda | 1 | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE GmbH | (12) | 60 | - | 12,111 | 60 | 3,614 | 84 | - | - | 6,025 | 9,888 | 3,169 | - | 9,733 | - |
| Innoferm Tecnologia Ltda. | - | - | - | 4,000 | 60 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Brockhaus GmbH | - | - | - | 2,173 | 60 | - | - | 162 | - | 9,644 | - | - | - | - | - |
| MAHLE Engine Comp. Inc | - | - | - | 663 | 60 | - | - | - | - | 15 | 330 | - | - | - | - |
| MAHLE Filtersysteme Austria GmbH | - | - | - | 604 | 60 | - | 343 | - | - | 3,212 | 257 | - | - | - | - |
| MAHLE Technologies Holding (China) Co., Ltd. | - | - | - | 583 | 60 | - | - | - | - | - | 583 | - | - | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | 391 | 60 | - | - | - | - | 468 | - | - | - | - | - |
| MAHLE Filter Systems Japan Corporation | - | - | - | 234 | 60 | - | - | - | - | 672 | 204 | - | - | - | - |
| MAHLE Trading (Shangai) Co.Ltd. | - | - | - | 77 | 60 | - | - | - | - | 261 | - | - | 2 | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | 61 | 60 | - | - | - | - | 228 | - | - | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | 59 | 60 | - | - | - | - | 459 | - | - | - | - | - |
| MIBA Sinter Áustria Gmbh | - | - | - | 11 | 360 | - | - | - | - | 8 | 46 | 130 | - | - | - |
| MAHLE Ventiltrieb GmbH | - | - | - | 5 | 60 | 443 | - | - | - | 3 | 362 | - | - | - | - |
| MIBA Sinter Holding Gmbh | - | - | - | 4 | 360 | - | - | - | - | - | 70 | - | - | - | - |
| MAHLE Aftermarket S.L. | - | - | - | 2 | 60 | - | - | - | - | 166 | - | - | 3 | - | - |
| MAHLE Aftermarket Ltd | - | - | - | 2 | 60 | - | - | - | - | - | - | - | 9 | - | - |
| MAHLE Holding Austria GmbH | - | - | 59,819 | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Industriefiltration GmbH | - | - | - | - | - | - | - | - | - | 36 | - | - | - | - | - |
| Other | - | - | - | 155 | 60 | 425 | 36 | - | - | 945 | 190 | 1 | 2 | - | - |
| **Total related companies** | **54,272** | | **59,819** | **41,764** | | **340,435** | **20,875** | **2,055** | **1,900** | **39,285** | **31,513** | **3,456** | **408** | **9,733** | **6,323** |
| **Total related parties** | **54,272** | | **59,819** | **41,764** | | **340,435** | **20,875** | **2,055** | **1,900** | **39,285** | **31,513** | **3,456** | **408** | **9,733** | **6,323** |

*** Realization of term days refers to current assets and current liabilities**

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Consolidated | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12/31/2015 | | | | | | Transactions from 2015 | | | | | | | | | | | |
| | Current assets | | Non-current assets | Current liabilities | | Non-current liabilities | Sales/revenue | | | Purchases | | | | | | | | |
| | Receivables (Note 9) | Payment term in days (*) | Loan | Suppliers (Note 17) | Payment term in days (*) | Loan | Products | Services | Rent Transport Food Energy | Products | Services | Intangible assets | Property, plant and equipment | Commissions | Trademark license/ Royalties | Rent | Other |
| **Related companies** | | | | | | | | | | | | | | | | | | |
| MAHLE Compon. de Mot. de México, S. de R.L. de C.V. | 12,631 | 60 | - | 800 | 60 | - | 81,051 | 40 | - | 5,770 | 826 | - | - | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 9,787 | 60 | - | - | - | - | 60,074 | 508 | - | 34 | - | - | - | - | - | - | - |
| MAHLE France SAS | 6,617 | 60 | - | 1 | 60 | - | 36,316 | 26 | - | - | - | - | - | - | - | - | - |
| MAHLE Aftermarket GmbH | 5,223 | 60 | - | 5,501 | 60 | - | 51,347 | 929 | - | 11,961 | 2,805 | - | - | 111 | - | - | - |
| MAHLE Vöcklabruck GmbH | 4,501 | 60 | - | - | - | - | 26,931 | - | - | - | (2) | - | - | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 2,978 | 60 | - | 1,270 | 60 | - | 12,692 | 207 | - | 6 | - | - | - | - | - | - | - |
| MAHLE Componentes de Motor Espana S.L. | 2,515 | 60 | - | 7 | 60 | - | 10,860 | - | - | 26 | - | - | - | - | - | - | - |
| MAHLE GmbH | 2,339 | 60 | - | 10,027 | 60 | - | 12,135 | 54 | - | 2,636 | 6,702 | - | 11,270 | - | 11,951 | - | - |
| MAHLE Componenti Motori Italia S.p.A. | 1,849 | 60 | - | - | - | - | 18,435 | 11 | - | 440 | - | - | - | - | - | - | - |
| MAHLE S.A. | 1,611 | 60 | - | - | - | - | 9,685 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 1,277 | 60 | - | 851 | 60 | - | 5 | 2,049 | 1,926 | 658 | 3,449 | - | - | - | - | - | - |
| MAHLE Engine Componentes USA, Inc. | 1,169 | 60 | - | 1,330 | 60 | - | 11,684 | 68 | - | 43 | 1,403 | - | 24 | - | - | - | - |
| MAHLE Engine Components (Thailand) Co., Ltd. | 1,168 | 60 | - | - | - | - | 6,750 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Kleinmotoren-Komponenten GmbH & Co. KG | 952 | 60 | - | 24 | 60 | - | 8,007 | - | - | - | 123 | - | - | - | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 809 | 60 | - | - | - | - | 7,861 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Compressores do Brasil Ltda. | 668 | 60 | - | - | - | - | - | 815 | - | - | - | - | - | - | - | - | - |
| MAHLE Clevite Inc. | 658 | 60 | - | 64 | 60 | - | 9,208 | 396 | - | 48 | - | - | - | 79 | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 368 | 60 | - | - | - | - | 2,591 | - | - | 695 | - | - | - | 23 | - | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 301 | 60 | - | - | - | - | 2,495 | - | - | 6 | - | - | - | - | - | - | - |
| MAHLE International GmbH | 277 | 60 | - | 1,104 | 60 | - | - | 801 | - | - | 2,405 | - | - | - | - | - | - |
| MAHLE India Pistons Ltd. | 228 | 60 | - | - | - | - | 1,745 | - | - | - | 24 | - | - | - | - | - | - |
| MAHLE Engine Components Slovakia s.r.o | 196 | 60 | - | - | - | - | 1,323 | 8 | - | - | - | - | - | - | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 180 | 60 | - | - | - | - | 689 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Components (Chongqing) Co.,Ltd. | 175 | 60 | - | - | - | - | 393 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Ventilrieb GmbH | 170 | 60 | - | 52 | 60 | - | 5,418 | - | - | 64 | - | - | - | - | - | - | - |
| MAHLE Engine Systems UK Ltd. | 103 | 60 | - | 603 | 60 | - | 135 | 427 | - | 689 | 418 | - | 253 | - | - | - | - |
| MAHLE Trading Japan Co. Ltd. | 101 | 60 | - | - | - | - | 85 | 140 | - | 519 | - | - | - | - | - | - | - |
| MAHLE Filtersysteme Austria GmbH | 58 | 60 | - | 2,328 | 60 | - | - | 56 | - | 3,219 | 470 | - | - | - | - | - | - |
| MAHLE Migna Private Ltd. | 55 | 60 | - | - | - | - | 15 | 40 | - | - | - | - | - | - | - | - | - |
| MAHLE Industries, Inc. | 53 | 60 | - | 673 | 60 | - | 3 | 183 | - | - | 4,229 | - | - | - | - | - | - |
| MAHLE König GmbH | 35 | 60 | - | - | - | - | 1,418 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Polska Spolka Z.O.O | 27 | 60 | - | - | - | - | 89 | - | - | 21,939 | - | - | 265 | - | - | - | - |
| MAHLE Aftermarket Pte Ltd. | 18 | 60 | - | 578 | 60 | - | - | 17 | - | 2,852 | - | - | - | - | - | - | - |
| MAHLE Engine Componets Japan Corporation | 18 | 60 | - | - | - | - | 230 | - | - | 144 | 3 | - | - | - | - | - | - |
| MAHLE Japan Ltd. | 12 | 60 | - | - | - | - | - | 47 | - | - | - | - | - | - | - | - | - |
| MAHLE Filter Systems India Pvt .Ltd. | 5 | 60 | - | - | - | - | - | 5 | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 2 | 60 | - | - | - | - | 14 | - | - | - | - | - | - | - | - | - | - |
| Innoferm Tecnologia Ltda. | - | - | - | 5,000 | 60 | - | - | - | - | - | - | 12,000 | - | - | - | - | - |
| MAHLE Filtersysteme GmbH | - | - | - | 2,877 | 60 | - | - | - | - | 10 | 2,666 | - | - | - | - | - | - |
| MAHLE Filter Systems Japan Corporation | - | - | - | 2,228 | 60 | - | - | - | - | 1,511 | 929 | - | - | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | - | - | - | 954 | 60 | - | - | - | - | 12 | - | - | - | - | - | 5,705 | - |
| MAHLE Technologies Holding (China) Co., Ltd. | - | - | - | 699 | 60 | - | - | - | - | - | 699 | - | - | - | - | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | 594 | 60 | - | - | - | - | 665 | 467 | - | - | - | - | - | - |
| MAHLE Aftermarket S.L. | - | - | - | 194 | 60 | - | - | - | - | 498 | - | - | - | 2 | - | - | - |
| MAHLE Donghyun Filter Systems (Tianjin) Co., Ltd. | - | - | - | 50 | 60 | - | - | - | - | 60 | - | - | - | - | - | - | - |
| MAHLE Industriefiltration GmbH | - | - | - | 35 | 60 | - | - | - | - | 1,131 | - | - | - | - | - | - | - |
| MAHLE Ventilrieb Brandenburg GmbH | - | - | - | 25 | 60 | - | - | - | - | - | 25 | - | 979 | - | - | - | - |
| MBA Sinter Holding Gmbh | - | - | - | 24 | 360 | - | - | - | - | - | - | - | - | - | 55 | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | 16 | 60 | - | - | - | - | 262 | - | - | - | - | - | - | - |
| MAHLE Composants Moteur France | - | - | - | 6 | 60 | - | 24 | - | - | 166 | 5 | - | - | - | - | - | - |
| MAHLE Aftermarket Ltd | - | - | - | 1 | 60 | - | - | - | - | - | - | - | - | 10 | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | - | - | - | - | - | - | 779 | - | - | - | - | - | - | - |
| MAHLE Trading (Shangai) Co.Ltd. | - | - | - | - | - | - | - | - | - | 1,185 | - | - | - | 2 | - | - | - |
| MAHLE Holding Austria GmbH | - | - | 28,635 | - | - | 167 | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | 69 | 2 | - | 401 | 51 | - | 1,758 | 2 | 44 | - | 4 |
| **Total related companies** | **59,134** | | **28,635** | **37,916** | | **167** | **379,777** | **6,829** | **1,926** | **58,429** | **27,697** | **12,000** | **14,549** | **229** | **12,050** | **5,705** | **4** |
| **Total related parties** | **59,134** | | **28,635** | **37,916** | | **167** | **379,777** | **6,829** | **1,926** | **58,429** | **27,697** | **12,000** | **14,549** | **229** | **12,050** | **5,705** | **4** |

*** Realization of term days refers to current assets and current liabilities**

# Explanatory notes to the financial statements

*(in thousand of reais)*

The business transactions with related parties relate mainly to the purchase and sale of products and services directly related to the Group's operating activities.

At December 31, 2016, the subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. has a loan agreement with the Company in the amount of R$ 47,282 (R$ 14,600 at December 31, 2015), subject to an interest of 115% of the Interbank Deposit Certificate rate (CDI). Management does not intend to collect this loan within the next 12 months and the loan has no definite maturity date.

At December 31, 2016, the subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda. had a loan agreement with the Company in the amount of R$ 12,136 (R$ 11,309 at December 31, 2015), subject to an interest rate of 115% of the CDI . Management does not intend to collect this loan within the next 12 months and the loan has no definite maturity date.

On November 14, 2016, there was a capital contribution of R$ 16,800 to the subsidiary MAHLE Industry do Brasil Ltda. On the same date, the subsidiary paid off the total amount of R$ 15,800 (as of that date) of the loan owed to the Company. At December 31, 2015, the subsidiary MAHLE Industry do Brasil Ltda. had a loan agreement with the Company in the amount of R$ 7,445, subject to an interest of 115% of the Interbank Deposit Certificate rate (CDI). Management does not intend to collect this loan within the next 12 months and the loan has no definite maturity date.

Since February 15, 2012, the Company has had a brand licensing agreement with its parent company MAHLE GmbH, which is registered with the National Institute of Industrial Property, in which the licensor establishes the payment of royalties of up to 1% of net sales revenue and the Company is authorized to manufacture and distribute products using the brand "MAHLE". The royalty expenses were recorded within "selling expenses - brand license", in the amount of R$ 8,492 in the parent company and R$ 9,733 in the consolidated accounts at December 31, 2016 (December 31, 2015 - R$ 9,927 in the parent and R$ 11,951 in the consolidated accounts).

### *Parent company and ultimate parent company*

The Company's direct parent company is established as a limited liability company and its corporate name is MAHLE Indústria e Comércio Ltda.

MAHLE Industriebeteiligungen GmbH is the Group's ultimate parent company, established as a limited liability company with its head office in the city of Stuttgart, in the Federal Republic of Germany.

### *Dividends and interest on capital receivable*

The breakdown of dividends and interest on capital receivable from subsidiaries is presented below:

| | Parent company | |
|---|---|---|
| | **2016** | **2015** |
| MAHLE Metal Leve GmbH | 41,187 | 34,284 |
| | **41,187** | **34,284** |

### *Dividends and interest on capital payable*

The breakdown of dividends and interest on capital payable is presented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| MAHLE Indústria e Comércio Ltda. | - | 3,813 | - | 3,813 |
| MAHLE Industriebeteiligungen GmbH. | - | 636 | - | 636 |
| Minorities | 838 | 2,903 | 901 | 2,966 |
| | **838** | **7,352** | **901** | **7,415** |

### *Management compensation*

The compensation of the key management personnel, which comprises the executive officers and the Board of Directors, includes salaries, fees and variable benefits.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Statutory officers | 6,636 | 6,801 | 6,636 | 6,801 |
| Non-statutory officers | 6,176 | 3,996 | 6,961 | 4,730 |
| | **12,812** | **10,797** | **13,597** | **11,531** |

The officers receive no share-based compensation.

## 13 Income tax and social contribution

Income tax and social contribution are calculated at the statutory rates.

### *a. Reconciliation of income tax and social contribution expense*

The reconciliation of the amount that results from applying the combined statutory tax rates with the income tax and social contribution expense recorded in the statement of income is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Profit before income tax and social contribution | (22,658) | 252,821 | (41,346) | 253,171 |
| (-) Interest on capital | (54,097) | (78,008) | (54,097) | (78,008) |
| Profit before income tax and social contribution after interest on capital | **(76,755)** | **174,813** | **(95,443)** | **175,163** |
| Income tax and social contribution at the statutory rate in Brazil (34%) | 26,097 | (59,436) | 32,451 | (59,555) |
| Effects of permanent differences: | | | | |
| Equity in the results of investees | 36,488 | 2,958 | (730) | 676 |
| Overstated (understated) provision in prior year | 484 | (305) | 484 | (305) |
| Loss for the year for which no deferred tax asset was recognized | - | - | (15,938) | (22,612) |
| Credit reversal of tax losses and negative base of social contribution on net income | - | - | - | (4,230) |
| Gain for the period related to amount received by foreign subsidiary (*) | - | - | 21,537 | - |
| Provision for (reversal of) deferred tax asset not recognized in prior year | (139) | 1,858 | (58) | 1,858 |
| Non deductible expenses | (14,983) | (3,826) | (13,149) | (7,150) |
| Others, net | (633) | 6,955 | 20,898 | 10,292 |
| **Total income tax and social contribution** | **47,314** | **(51,796)** | **45,495** | **(81,026)** |
| Current income tax and social contribution | (26,836) | (45,482) | (31,617) | (73,659) |
| Deferred income tax and social contribution | 74,150 | (6,314) | 77,112 | (7,367) |
| | **47,314** | **(51,796)** | **45,495** | **(81,026)** |
| **Effective rate** | **-61.6%** | **29.6%** | **-47.7%** | **46.3%** |

(*) The subsidiary MAHLE Metal Leve GmbH recorded a tax credit of R$ 21,537, related to the recalculation of the provision for income tax for the years 2014 and 2015 due to the favorable opinion obtained from the Austrian authorities in March 2016. Of this amount, R$ 16,580 was used to compensate the income tax payable that was recorded in liabilities and R$ 4,957 was recognized as taxes recoverable and was refunded by the Austrian authorities in September 2016.

### *b. Recognized deferred tax assets and liabilities*

Deferred income tax and social contribution were calculated on temporarily non-deductible provision and tax losses.

#### *i. Breakdown of deferred tax assets and liabilities:*

| | Parent company | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | Balance in 2016 | Balance in 2015 | Balance in 2016 | Balance in 2015 |
| Property, plant and equipment | - | - | 52,781 | 65,060 |
| Intangible assets | - | - | 129,428 | 193,570 |
| Derivatives | - | (21,068) | 8,711 | - |
| Inventory | (8,208) | (8,116) | - | - |
| Provisions | (148,206) | (146,715) | - | - |
| Tax (assets) liabilities | (156,414) | (175,899) | 190,920 | 258,630 |
| Amount eligible for offsetting | 156,414 | 175,899 | (156,414) | (175,899) |
| Net tax (assets) liabilities | **-** | **-** | **34,506** | **82,731** |

| | Consolidated | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | Balance in 2016 | Balance in 2015 | Balance in 2016 | Balance in 2015 |
| Property, plant and equipment | - | - | 57,970 | 71,610 |
| Intangible assets | - | - | 129,428 | 193,571 |
| Derivatives | - | (21,068) | 8,510 | 1,029 |
| Inventory | (11,750) | (11,742) | - | - |
| Provisions | (154,693) | (153,463) | - | - |
| Tax (assets) liabilities | (166,443) | (186,273) | 195,908 | 266,210 |
| Amount eligible for offsetting | 160,223 | 179,628 | (160,223) | (179,628) |
| Net tax (assets) liabilities | **(6,220)** | **(6,645)** | **35,685** | **86,582** |

Deferred income tax and social contribution assets are recognized to the extent that it is probable future taxable profit will be available to utilize temporary differences, considering projections of future results based on internal assumptions.

In the parent company and consolidated financial statements, the deferred tax asset was offset against the deferred tax liability when they related to the same tax authority and the same taxable entity.

### *ii. Estimated realization:*

Deferred income tax and social contribution assets are recognized to the extent that it is probable future taxable profit will be available to utilize temporary differences, considering projections of future results based on internal assumptions.

Deferred tax assets are expected to be realized as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| Period | **2016** | **2015** | **2016** | **2015** |
| Next 12 months | 33,083 | 53,720 | 39,839 | 61,098 |
| Between 12 and 24 months | 13,084 | 7,568 | 13,023 | 7,428 |
| Between 24 and 36 months | 21,986 | 19,933 | 23,352 | 21,114 |
| Between 36 and 48 months | 11,696 | 11,726 | 12,354 | 12,324 |
| Between 48 and 60 months | 15,358 | 13,054 | 16,254 | 13,949 |
| Over 60 months | 61,207 | 69,898 | 61,621 | 70,360 |
| | **156,414** | **175,899** | **166,443** | **186,273** |

### *iii. Changes in temporary differences and tax loss carry-forwards:*

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance in january, 1st 2015 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2015 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2016 |
| Property, plant and equipment | 74,010 | (8,950) | - | 65,060 | (12,279) | - | 52,781 |
| Intangible assets | 156,440 | 37,130 | - | 193,570 | (64,142) | - | 129,428 |
| Derivatives | (10,783) | 121 | (10,406) | (21,068) | 3,854 | 25,925 | 8,711 |
| Inventory | (6,992) | (1,124) | - | (8,116) | (92) | - | (8,208) |
| Provisions | (125,852) | (20,863) | - | (146,715) | (1,491) | - | (148,206) |
| | **86,823** | **6,314** | **(10,406)** | **82,731** | **(74,150)** | **25,925** | **34,506** |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance in january, 1st 2015 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2015 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2016 |
| Property, plant and equipment | 81,466 | (9,856) | - | 71,610 | (13,640) | - | 57,970 |
| Intangible assets | 156,440 | 37,131 | - | 193,571 | (64,143) | - | 129,428 |
| Derivatives | (10,657) | 215 | (9,597) | (20,039) | 3,852 | 24,697 | 8,510 |
| Inventory | (9,545) | (2,197) | - | (11,742) | (8) | - | (11,750) |
| Provisions | (131,025) | (23,075) | 637 | (153,463) | (3,173) | 1,943 | (154,693) |
| Tax loss to be offset | (5,149) | 5,149 | - | - | - | - | - |
| | **81,530** | **7,367** | **(8,960)** | **79,937** | **(77,112)** | **26,640** | **29,465** |

### *c. Unrecognized deferred tax assets*

At December 31, 2016, tax credits of R$ 38,638 (R$ 27,921 in 2015) arising from tax losses and temporary differences generated by certain subsidiaries headquartered in Brazil were not recognized in the consolidated financial statements. The non-recognition of such credits is basically due to the lack of taxable income for the coming years, as indicated in profit projections prepared by the management of these companies. Under Brazilian tax legislation, tax losses are not subject to a statute of limitations.

| | Consolidated | |
|---|---|---|
| | **2016** | **2015** |
| Temporary differences | 7,715 | 5,681 |
| Tax losses | 30,923 | 22,240 |
| | **38,638** | **27,921** |

### *d. Law 12,973/14*

Provisional Measure (MP) 627 was converted into Law 12,973/14 on May 13, 2014, ratifying the cancellation of the Transitional Tax Regime (RTT) as from 2015. Early adoption is allowed.

The Group finalized an analysis of the effects of the adoption of this law both on its financial statements and on its internal control structure.

Considering that the result of this analysis did not indicate material tax effects, the Group elected not to adopt the law in early fiscal 2014.

As from 2015, subaccounts were opened for recording positive and negative differences between the amounts of assets measured in accordance with the Corporate Law and the amounts measured in accordance with the accounting criteria in effect at December 31, 2007 (RTT), so that the tax effect of such adjustments occurs as the assets are realized.

## 14 Investments in subsidiaries

| | | | | | 2016 |
|---|---|---|---|---|---|
| | Investments accounted for using the equity method | Goodwill based on expected future profitability | Impairment | Elimination of profit on inventory (Balance at 12/31/2016) | Total |
| MAHLE Argentina S.A. | 120,706 | 59,549 | (38,408) | (4,100) | 137,747 |
| MAHLE Metal Leve GmbH | 62,293 | - | - | (1,099) | 61,194 |
| Innoferm Tecnologia Ltda. | 4,460 | - | - | (3,493) | 967 |
| MAHLE Hirschvogel Forjas S.A. | - | 35,755 | (35,755) | - | - |
| MAHLE Industry do Brasil Ltda. | 6,034 | - | - | - | 6,034 |
| **Total** | **193,493** | **95,304** | **(74,163)** | **(8,692)** | **205,942** |

| | | | | | 2015 |
|---|---|---|---|---|---|
| | Investments accounted for using the equity method | Goodwill based on expected future profitability | Impairment | Elimination of profit on inventory (Balance at 12/31/2015) | Total |
| MAHLE Argentina S.A. | 85,828 | 59,549 | (38,408) | (6,829) | 100,140 |
| MAHLE Metal Leve GmbH | 34,779 | - | - | (6,235) | 28,544 |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 1,346 | - | - | - | 1,346 |
| Innoferm Tecnologia Ltda. | 4,610 | - | - | (1,493) | 3,117 |
| MAHLE Hirschvogel Forjas S.A. | 3,421 | 35,755 | (35,755) | - | 3,421 |
| **Total** | **129,984** | **95,304** | **(74,163)** | **(14,557)** | **136,568** |

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | | | | | | | Interest in equity | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Interest (%) | Total assets | Total liabilities | Equity | Net revenue | Profit (loss) for the period | Investments | Equity in the results of subsidiaries | Provision for loss (effect on profit or loss) | Elimination of profit on inventory/other assets (equity) | Provision for impairment of investments |
| **December 31, 2015** | | | | | | **(FY 2015)** | | | | | |
| **Subsidiaries** | | | | | | | | | | | |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 60.00 | 93,328 | 91,085 | 2,243 | 103,251 | (24,814) | 1,346 | (14,888) | - | - | - |
| MAHLE Argentina S.A. | 99.10 | 202,262 | 115,653 | 86,609 | 358,174 | 25,429 | 85,828 | 25,200 | - | (3,614) | - |
| MAHLE Metal Leve GmbH | 100.00 | 158,353 | 123,574 | 34,779 | 515,220 | 32,685 | 34,779 | 32,685 | - | (4,628) | - |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | 60.00 | 2,698 | 12,005 | (9,307) | 3,782 | (2,238) | - | - | (1,343) | - | (5,584) |
| MAHLE Industry do Brasil Ltda. | 99.99 | 2,998 | 9,551 | (6,553) | 4,115 | (7,904) | - | (1,351) | (6,553) | - | (6,554) |
| MAHLE Hirschvogel Forjas S.A. | 51.00 | 37,332 | 30,625 | 6,707 | 57,819 | (36,855) | 3,421 | (18,796) | - | - | - |
| **Subtotal subsidiaries** | | **496,971** | **382,493** | **114,478** | **1,042,361** | **(13,697)** | **125,374** | **22,850** | **(7,896)** | **(8,242)** | **(12,138)** |
| **Related companies** | | | | | | | | | | | |
| Innoferm Tecnologia Ltda. | 33.33 | 14,470 | 641 | 13,829 | 12,000 | 10,446 | 4,610 | 3,482 | - | (1,493) | - |
| **Subtotal related companies** | | **14,470** | **641** | **13,829** | **12,000** | **10,446** | **4,610** | **3,482** | **-** | **(1,493)** | **-** |
| **Total** | | **511,441** | **383,134** | **128,307** | **1,054,361** | **(3,251)** | **129,984** | **26,332** | **(7,896)** | **(9,735)** | **(12,138)** |
| **December 31, 2016** | | | | | | **(FY 2015)** | | | | | |
| **Subsidiaries** | | | | | | | | | | | |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 60.00 | 86,538 | 108,433 | (21,895) | 92,699 | (21,753) | - | - | (13,052) | - | (13,137) |
| MAHLE Argentina S.A. | 99.20 | 182,427 | 60,748 | 121,679 | 334,115 | 40,931 | 120,706 | 40,588 | - | 2,729 | - |
| MAHLE Metal Leve GmbH | 100.00 | 153,151 | 90,858 | 62,293 | 463,958 | 90,954 | 62,293 | 90,954 | - | 5,135 | - |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | 60.00 | 1,482 | 12,916 | (11,434) | 2,489 | (2,127) | - | - | (1,276) | - | (6,860) |
| MAHLE Industry do Brasil Ltda. | 99.99 | 11,637 | 5,602 | 6,035 | 13,190 | (4,211) | 6,034 | - | (4,212) | - | - |
| MAHLE Hirschvogel Forjas S.A. | 51.00 | 18,599 | 22,245 | (3,646) | 1,549 | (22,353) | - | - | (11,400) | - | (1,860) |
| **Subtotal subsidiaries** | | **453,834** | **300,802** | **153,032** | **908,000** | **81,441** | **189,033** | **131,542** | **(29,940)** | **7,864** | **(21,857)** |
| **Related companies** | | | | | | | | | | | |
| Innoferm Tecnologia Ltda. | 33.33 | 13,861 | 481 | 13,380 | - | (449) | 4,460 | - | (150) | (2,000) | - |
| **Subtotal related companies** | | **13,861** | **481** | **13,380** | **-** | **(449)** | **4,460** | **-** | **(150)** | **(2,000)** | **-** |
| **Total** | | **467,695** | **301,283** | **166,412** | **908,000** | **80,992** | **193,493** | **131,542** | **(30,090)** | **5,864** | **(21,857)** |

The subsidiaries belong to the engine component segment, except the subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda.

### *MAHLE Argentina S.A.*

As mentioned in Note 16, the Company has made provision for the impairment of the goodwill on the acquisition of this subsidiary in the amount of R$ 38,408.

At the meeting of the Board of Directors held on February 29, 2016, the Board approved an increase in the share capital of this company of up to R$ 34,000, of which R$ 20,400 was contributed by MAHLE Metal Leve S.A. on March 28, 2016 and the remaining R$ 13,600 was contributed on May 10, 2016.

### *MAHLE Filtroil Indústria e Comércio de Filtros Ltda.*

At December 31, 2016, the interest in the net capital deficiency of the subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda. was R$ 6,860 (R$ 5,584 at December 31, 2015) and this was recorded in non-current liabilities within "provision for subsidiary's net capital deficiency".

At December 31, 2016 and 2015, the subsidiary has a loan agreement with the Company as stated in Note 12 – Related parties.

The subsidiary has suffered recurring operating losses and experienced a working capital deficiency and a consequent increase in indebtedness. Since June 2009, several lawsuits have been filed involving the subsidiary's quotaholders with respect to its commercial, financial and administrative management, in addition to an action for dissolution of the subsidiary that was initiated because of a capital increase proposed by the Company but not accepted by the non-controlling quotaholder to resolve the working capital deficit of the subsidiary.

Although the action for dissolution of the subsidiary has been judged in favor of the Company by the lower court, management has concluded, based on its judgment about the possibility of the non-controlling quotaholder filing an appeal to the Superior Court, that the subsidiary has the ability to continue in operational existence for the foreseeable period of more than 12 months from the date of the approval of these financial statements, and, therefore, it is not anticipated that any material losses will arise, other than those already recognized in the financial statements of the parent company. For this reason, the going-concern basis was adopted in preparing the financial statements.

***MAHLE Hirschvogel Forjas S.A.***

At December 31, 2016, the interest in the net capital deficiency of the subsidiary MAHLE Hirschvogel Forjas S.A. is R$ 1,860, which is recorded in non-current liabilities within “Provision for net capital deficiency of subsidiary”. At December 31, 2015, the share of equity in this subsidiary is R$ 3,421, which is recorded in non-current assets within “Investments in subsidiaries”.

At the Extraordinary General Meeting held on November 1, 2016, the shareholders approved an increase in the share capital of this subsidiary in the amount of R$ 12,000, of which R$ 6,120 was contributed by MAHLE Metal Leve S.A. and R$ 5,880 was contributed by the non-controlling shareholder. The objective of this capital contribution was to complete the process of termination of operations of this subsidiary.

The financial statements of the subsidiary MAHLE Hirschvogel Forjas S.A. have been prepared assuming that the subsidiary will not continue as a going concern and its assets and liabilities are stated at liquidation value. Because the balances of this subsidiary are immaterial for the Group, NBC TG 31 (CPC 31) – Discontinued Operations / IFRS 5 – Presentation and disclosure of discontinued operations does not apply.

At the Extraordinary General Meeting held on October 26, 2015, the stockholders approved a capital increase for this Company in the amount of R$ 20,000, of which R$ 10,200 was contributed by MAHLE Metal Leve S.A. and R$ 9,800 was contributed by the non-controlling stockholder. The objective of this capital contribution was to satisfy all obligations to employees, customers and suppliers.

At the Board of Directors’ meeting held on October 1, 2015, the Board approved the cessation of operations of the Company by reason of the phase-out of orders from existing customers and no future prospects for them. The decision was made also to stem losses suffered by this subsidiary due to the crisis in the auto parts industry.

***MAHLE Industry do Brasil Ltda***

At December 31, 2016, the share of equity in subsidiary MAHLE Industry do Brasil Ltda. is R$ 6,034, which is recorded in current assets as "Investments in subsidiaries". At December 31, 2015, the interest in the net capital deficiency in this subsidiary was R$ 6,554, which was recorded in non-current liabilities as "Provision for net capital deficiency of subsidiary".

At December 31, 2015, the subsidiary has a loan agreement with the Company as stated in Note 12 – Related parties.

On November 14, 2016, there was a capital contribution of R$ 16,800 to the subsidiary MAHLE Industry do Brasil Ltda. On the same date, the subsidiary paid off the total amount of R$ 15,800 (as of that date) of the loan owed to the Company, and R$ 1,000 was deposited in the subsidiary's account.

***MAHLE Metal Leve Miba Sinterizados Ltda.***

At December 31, 2016, the interest in the net capital deficiency of the subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. is R$ 13,137, which is recorded in non-current liabilities within "Provision for net capital deficiency of subsidiary".

At December 31, 2016 and 2015, the subsidiary has a loan agreement with the Company as stated in Note 12 – Related parties.

At the Board of Directors' meeting held on August 9, 2016 the management was authorized to sign a memorandum of understanding with Miba Sinter Holding GmbH & CO KG, in order to initiate studies on synergies between Miba Sinter Holding and the subsidiary MAHLE Metal Leve Miba Sinterizados Ltda., which may result in a possible increase of Miba Sinter Holding´s participation in the subsidiary's share capital.

***Innoferm Tecnologia Ltda.***

On August 25, 2015, the company Innoferm Tecnologia Ltda. was founded, in the share capital of which MAHLE Metal Leve S.A. has a stake of 33.3%, totaling 1,000,000 (one million) shares with a face value of R$ 0.01 (one cent real), totaling R$ 10.

With the approval of ¾ of the share capital, the company may open branches, agencies and offices anywhere in the country, fulfilling the applicable legislation, with unlimited duration. It is based in the city of Mogi Guaçu, State of São Paulo.

Innoferm is engaged in the development and commercialization of technologies related to the production of ethanol and the assignment of exploration rights in general and related applications in the ethanol production cycle via biomass and other underlying technologies.

On September 28, 2015, the Company increased its capital from R$ 30 to R$ 9,384, through the capital contribution of credits by each partner. These credits relate to the acquisition of rights under patent registration requests. At the same date, MAHLE Metal Leve S.A. acquired from Innoferm the exclusive rights to the exploration of such technology in relation to the production of ethanol for R$ 12,000.

On 2 October 2015, Innoferm Tecnologia Ltda. distributed interim dividends in the amount of R$ 6,000. MAHLE Metal Leve S.A. received the amount of R$ 2,000.

This investment is recorded and evaluated by the equity method and recognized in the income statement.

## 15 Property, plant and equipment

| | Parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and construction | Machinery, equipment and facilities | Furniture and fittings | Vehicles | Construction in progress | Advances to suppliers | (Recognition) / Reversal of provision for impairment | Total |
| **At January 1st, 2015** | **52,454** | **121,770** | **428,329** | **5,335** | **6,973** | **5,412** | **27,633** | **(4,211)** | **643,695** |
| Total cost | 52,454 | 225,236 | 1,772,943 | 27,723 | 25,151 | 5,412 | 27,633 | (4,211) | 2,132,341 |
| Accumulated depreciation | - | (103,466) | (1,344,614) | (22,388) | (18,178) | - | - | - | (1,488,646) |
| **Net book value** | **52,454** | **121,770** | **428,329** | **5,335** | **6,973** | **5,412** | **27,633** | **(4,211)** | **643,695** |
| Additions | - | 5,068 | 39,388 | 518 | 1,562 | 10,353 | 18,582 | - | 75,471 |
| Write-offs | - | - | (318) | (1) | (441) | - | - | 168 | (592) |
| Transfer | - | (969) | 53,974 | (1) | - | (14,664) | (38,340) | - | - |
| Depreciation | - | (4,779) | (66,215) | (999) | (2,065) | - | - | - | (74,058) |
| Depreciation/write-off (deemed cost) | - | (2,568) | (10,453) | (170) | (12) | - | - | - | (13,203) |
| **At December 31, 2015** | **52,454** | **118,522** | **444,705** | **4,682** | **6,017** | **1,101** | **7,875** | **(4,043)** | **631,313** |
| Total cost | 52,454 | 229,336 | 1,856,681 | 28,192 | 24,397 | 1,101 | 7,875 | (4,043) | 2,195,993 |
| Accumulated depreciation | - | (110,814) | (1,411,976) | (23,510) | (18,380) | - | - | - | (1,564,680) |
| **Net book value** | **52,454** | **118,522** | **444,705** | **4,682** | **6,017** | **1,101** | **7,875** | **(4,043)** | **631,313** |
| Additions | - | 1,330 | 32,764 | 513 | 1,886 | 17,706 | 22,827 | - | 77,026 |
| Write-offs | - | - | (555) | - | (564) | - | - | 941 | (178) |
| Transfer | - | (232) | 26,217 | 25 | - | (11,493) | (14,517) | - | - |
| Depreciation | - | (4,976) | (70,623) | (838) | (1,860) | - | - | - | (78,297) |
| Depreciation/write-off (deemed cost) | - | (2,568) | (5,630) | (72) | (12) | - | - | - | (8,282) |
| **At December 31, 2016** | **52,454** | **112,076** | **426,878** | **4,310** | **5,467** | **7,314** | **16,185** | **(3,102)** | **621,582** |
| Total cost | 52,454 | 230,434 | 1,903,242 | 26,471 | 24,469 | 7,314 | 16,185 | (3,102) | 2,257,467 |
| Accumulated depreciation | - | (118,358) | (1,476,364) | (22,161) | (19,002) | - | - | - | (1,635,885) |
| **Net book value** | **52,454** | **112,076** | **426,878** | **4,310** | **5,467** | **7,314** | **16,185** | **(3,102)** | **621,582** |

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Buildings and construction | Machinery, equipment and facilities | Furniture and fittings | Vehicles | Construction in progress | Advances to suppliers | (Recognition) / Reversal of provision for impairment | Total |
| **At January 1st, 2015** | **59,331** | **129,739** | **531,562** | **6,706** | **8,171** | **5,427** | **33,667** | **(7,005)** | **767,598** |
| Total cost | 59,331 | 245,819 | 2,048,779 | 31,304 | 28,766 | 5,427 | 33,667 | (7,005) | 2,446,088 |
| Accumulated depreciation | - | (116,080) | (1,517,217) | (24,598) | (20,595) | - | - | - | (1,678,490) |
| **Net book value** | **59,331** | **129,739** | **531,562** | **6,706** | **8,171** | **5,427** | **33,667** | **(7,005)** | **767,598** |
| Additions | - | 5,701 | 50,397 | 697 | 1,685 | 16,671 | 25,333 | - | 100,484 |
| Write-offs | - | - | (724) | (11) | (513) | - | (1) | (6,823) | (8,072) |
| Transfer | - | (1,236) | 65,265 | 12 | (6) | (16,021) | (48,014) | - | - |
| Depreciation | - | (5,068) | (82,158) | (1,219) | (2,420) | - | - | - | (90,865) |
| Depreciation/write-off (deemed cost) | - | (2,688) | (10,825) | (170) | (12) | - | - | - | (13,695) |
| Reclassification of assets for sale | (462) | (309) | (28,934) | (528) | (233) | - | - | 7,906 | (22,560) |
| Foreign exchange variation | (15) | (245) | (2,555) | (23) | (6) | - | (238) | 27 | (3,055) |
| **At December 31, 2015** | **58,854** | **125,894** | **522,028** | **5,464** | **6,666** | **6,077** | **10,747** | **(5,895)** | **729,835** |
| Total cost | 58,854 | 248,715 | 2,054,101 | 30,529 | 26,269 | 6,077 | 10,747 | (5,895) | 2,429,397 |
| Accumulated depreciation | - | (122,821) | (1,532,073) | (25,065) | (19,603) | - | - | - | (1,699,562) |
| **Net book value** | **58,854** | **125,894** | **522,028** | **5,464** | **6,666** | **6,077** | **10,747** | **(5,895)** | **729,835** |
| Additions | - | 1,915 | 41,570 | 831 | 2,091 | 17,911 | 29,691 | - | 94,009 |
| Write-offs | - | - | (749) | (6) | (586) | - | - | 1,150 | (191) |
| Transfer | - | 737 | 33,101 | 93 | 5 | (11,701) | (22,235) | - | - |
| Depreciation | - | (5,200) | (81,154) | (960) | (2,064) | - | - | - | (89,378) |
| Depreciation/write-off (deemed cost) | - | (2,688) | (5,915) | (72) | (12) | - | - | - | (8,687) |
| Foreign exchange variation | (100) | (1,119) | (12,355) | (126) | (140) | - | (708) | 192 | (14,356) |
| **At December 31, 2016** | **58,754** | **119,539** | **496,526** | **5,224** | **5,960** | **12,287** | **17,495** | **(4,553)** | **711,232** |
| Total cost | 58,754 | 250,017 | 2,093,035 | 28,869 | 26,170 | 12,287 | 17,495 | (4,553) | 2,482,074 |
| Accumulated depreciation | - | (130,478) | (1,596,509) | (23,645) | (20,210) | - | - | - | (1,770,842) |
| **Net book value** | **58,754** | **119,539** | **496,526** | **5,224** | **5,960** | **12,287** | **17,495** | **(4,553)** | **711,232** |

### *Deemed cost*

### *Changes in deemed cost*

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | 1.01.2015 | Depreciation/write-off (deemed cost) | 12.31.2015 | Depreciation/write-off (deemed cost) | 12.31.2016 |
| Land | 46,905 | - | 46,905 | - | 46,905 |
| Buildings and construction | 50,760 | (2,568) | 48,192 | (2,568) | 45,624 |
| Machinery, equipment and facilities | 23,096 | (10,453) | 12,643 | (5,630) | 7,013 |
| Furniture and fittings | 301 | (170) | 131 | (72) | 59 |
| Vehicles | (106) | (12) | (118) | (12) | (130) |
| | **120,956** | **(13,203)** | **107,753** | **(8,282)** | **99,471** |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 1.01.2015 | Depreciation/write-off (deemed cost) | 12.31.2015 | Depreciation/write-off (deemed cost) | 12.31.2016 |
| Land | 52,617 | - | 52,617 | - | 52,617 |
| Buildings and construction | 52,522 | (2,688) | 49,834 | (2,688) | 47,146 |
| Machinery, equipment and facilities | 23,752 | (10,825) | 12,927 | (5,915) | 7,012 |
| Furniture and fittings | 452 | (170) | 282 | (72) | 210 |
| Vehicles | (110) | (12) | (122) | (12) | (134) |
| | **129,233** | **(13,695)** | **115,538** | **(8,687)** | **106,851** |

### *Depreciation method*

The Group uses the straight-line depreciation method, which takes into account:

#### *i. Depreciation of acquisition and construction costs*

| | weighted useful life (in years) |
|---|---|
| Buildings and construction | 25 years |
| Machinery, equipment and facilities | 10 years |
| Furniture and fittings | 10 years |
| Vehicles | 5 years |

### *ii. Depreciation of deemed cost*

| | Weighted useful life (in years) |
|---|---|
| Buildings and construction | 26 years |
| Machinery, equipment and facilities | 7 years |
| Furniture and fittings | 5 years |
| Vehicles | 9 years |

The depreciation rate used for the costs of acquisition and construction of assets is defined according to the useful life valuation report based on NBC TG 27 (CPC 27) – Property, Plant and Equipment / IAS 16 - Property, Plant and Equipment, while the depreciation rate for the deemed cost was determined according to Technical Interpretation ICPC 10 – Interpretation on first-time adoption for property, plant and equipment and investment property of Technical Pronouncements CPC 27, 28, 37 and 43, which deals with revaluation of property, plant and equipment, with the weighted depreciation rates being maintained in the year of valuation.

### *Guarantees*

The Group offered items of its property, plant and equipment as collateral for borrowings and tax and labor lawsuits, in the amount of R$ 6,257 in the consolidated accounts at December 31, 2016 (R$ 6,531 at December 31, 2015). These items comprise machinery and equipment.

### *Provision for impairment*

The Group has recorded provision at an amount sufficient to cover any impairment losses on property, plant and equipment, which relates substantially to the group of machinery and equipment and is recorded in the parent company and consolidated accounts of property, plant and equipment in accordance with the requirements set out in NBC TG 01 (CPC 01) - (R1)/IAS 36 “Impairment of assets”. The provisions recorded in the Group’s financial statements refer to impairment, obsolescence and scrap.

### *Non-current assets held for sale*

In 2015, due to the termination of operations of MAHLE Hirschvogel Forjas S.A, the current assets of this subsidiary were reclassified as held for sale in the net amount of R$ 22,657, with the subsidiary's assets amounting to R$ 30,563 and the provision for loss totaling R$ 7,906. During 2016, there were partial sales and the residual value of the assets was R$ 9,422. In 2016 the amount of R$ 13,235 was reclassified to non-current assets as assets held for sale, furthermore, there are advance payments amounting to R$ 2,165, which are classified as other liabilities and are related to the sale of property, plant and equipment items that will be removed by the end of 2017. The other assets are still intended and available for immediate sale and are in the process of negotiation for sale.

The subsidiary's non-current assets held for sale can be summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Buildings and construction | 771 | 771 |
| Machinery and equipment | 18,080 | 28,934 |
| Furniture, fittings and other | 687 | 761 |
| Obsolete property, plant and equipment | (6,398) | (7,906) |
| **Total property, plant and equipment** | **13,140** | **22,560** |
| Intangible assets | 95 | 97 |
| **Total intangible assets** | **95** | **97** |
| **Total** | **13,235** | **22,657** |

## 16 Intangible assets

| | Annual amortization rates (%) | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| Goodwill on merger with subsidiaries: | | | | | |
| MAHLE Participações Ltda. (a) | - | 568,612 | 568,612 | 568,612 | 568,612 |
| Goodwill on acquisition of subsidiaries: | | | | | |
| MAHLE Argentina S.A. (a) | - | - | - | 64,311 | 65,435 |
| MAHLE Hirschvogel Forjas S.A. (a) | - | - | - | 35,755 | 35,755 |
| Cost of acquisition and installation of software (b) | 20 | 48,024 | 46,701 | 49,898 | 50,519 |
| Other (a and b) | - | 334 | 334 | 2,917 | 4,120 |
| Usage right and concessions (a) (*) | - | 40,044 | 30,833 | 40,044 | 30,833 |
| Usage right and concessions (b) | 20 | 5,813 | 5,813 | 7,526 | 5,813 |
| Provision for impairment of intangible assets *(Oring businnes)* | - | (188,654) | - | (188,654) | - |
| Provision for impairment of intangible assets *( MAHLE Argentina S.A.)* | - | - | - | (38,408) | (38,408) |
| Provision for impairment of intangible assets (*MAHLE Hirschvogel Forjas S.A.*) | - | - | - | (35,755) | (35,755) |
| Provision for impairment of intangible assets (other) | - | (334) | (334) | (343) | (343) |
| | | 473,839 | 651,959 | 505,903 | 686,581 |
| Accumulated amortization | | (46,924) | (43,931) | (51,233) | (49,274) |
| | | **426,915** | **608,028** | **454,670** | **637,307** |

(a) Indefinite useful life

(b) finite useful life

(*) The intangible asset in the amount of R$ 40,044 refers to R$ 12,000 of exclusive rights for the development of production systems of products derived from the fermentation technology and related products (MBE2), R$ 25,655 refers to costs associated with the continuity of development of MBE2 technology and R$ 2,389 refers to costs of improvement of the access through Anhanguera Highway and right of way to the Group's Technological Center in the city of Jundiaí, State of São Paulo.

# Explanatory notes to the financial statements

*(in thousand of reais)*

## *Statement of changes in intangible assets*

| | Parent company | | | | |
|---|---|---|---|---|---|
| | Goodwill on acquisition of subsidiaries (merged or not) | Cost of acquisition and installation of software | Usage right and concessions | Other | Total |
| **At january 01, 2015** | **568,612** | **17,924** | **-** | **6,080** | **592,616** |
| Additions | - | 2,901 | 18,393 | - | 21,294 |
| Amortization | - | (1,829) | (934) | (2) | (2,765) |
| Transfer | - | (12,078) | 15,039 | (6,078) | (3,117) |
| **At December 31, 2015** | **568,612** | **6,918** | **32,498** | **-** | **608,028** |
| Additions | - | 1,181 | 9,371 | - | 10,552 |
| Amortization | - | (2,075) | (936) | - | (3,011) |
| Other | - | 158 | (159) | 1 | - |
| Provision for impairment | (188,654) | - | - | - | (188,654) |
| **At December 31, 2016** | **379,958** | **6,182** | **40,774** | **1** | **426,915** |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Goodwill on acquisition of subsidiaries (merged or not) | Cost of acquisition and installation of software | Usage right and concessions | Other | Total |
| **At january 01, 2015** | **594,221** | **18,535** | **-** | **6,217** | **618,973** |
| Additions | - | 4,718 | 18,393 | - | 23,111 |
| Amortization | - | (2,016) | (934) | (2) | (2,952) |
| Foreign exchange variation | 1,417 | (21) | - | (7) | 1,389 |
| Reclassification of assets for sale | - | (97) | - | - | (97) |
| Transfer | - | (12,078) | 15,039 | (6,078) | (3,117) |
| **At December 31, 2015** | **595,638** | **9,041** | **32,498** | **130** | **637,307** |
| Additions | - | 1,230 | 9,371 | - | 10,601 |
| Amortization | - | (2,212) | (1,138) | - | (3,350) |
| Foreign exchange variation | (1,124) | (67) | - | (43) | (1,234) |
| Other (*) | - | (1,554) | 1,554 | - | - |
| Provision for impairment | (188,654) | - | - | - | (188,654) |
| **At December 31, 2016** | **405,860** | **6,438** | **42,285** | **87** | **454,670** |

(*) In 2016, the rights of use account recorded additions of R$ 9,371 and transfers of R$ 1,554 which were allocated in 2015 to the account of software installation costs related to costs of development of production systems for products derived from the fermentation technology and related products.

# Explanatory notes to the financial statements

*(in thousand of reais)*

### *Provision for impairment of intangible assets*

At December 31, 2016, impairment tests were performed in accordance with the Brazilian accounting standard NBC TG 01 (CPC 01) "Impairment of assets", and an impairment loss estimated at R$ 188.6 million was identified for goodwill of the cash generating unit (CGU) of the Company - ring business – related to the engine components segment, for which the amount recognized at December 31, 2015 is R$ 568.6 million. This identified impairment loss is due to a reduction in future results by reason of changes in exchange rates and the decline in sales volume driven by the current market conditions that have affected principally the automotive industry, whose recovery is not expected to occur in the coming years.

The recoverable amount was calculated based on value in use. Management made budget projections based on the future profitability of the subsidiaries using the discounted cash flow method.

The amount of the provision for impairment was recorded within "other operating income (expenses)" in the statement of income, as disclosed in Note 32.

The Company's management continuously monitors the activities and did not detect substantial changes in their operational performance as at December 31, 2016 of the subsidiary MAHLE Argentina S.A. which could justify a change in the previously recorded impairment amounts.

### *Key assumptions*

The main rates used for the period from 2016 to 2021 to determine the subsidiaries' valuation through discounted cash flows were as follows:

| | December 2016 | | December 2015 | |
|---|---|---|---|---|
| | Actual model | Nominal model | Actual model | Nominal model |
| | MAHLE Argentina S.A. | MAHLE Metal Leve S.A (Rings) | MAHLE Argentina S.A. | MAHLE Metal Leve S.A (Rings) |
| a. Risk free rate | 0.60% | 0.60% | 1.50% | 1.50% |
| b. Risk premium | 10.05% | 3.55% | 11.25% | 2.85% |
| c. Market premium | 6.50% | 6.50% | 6.00% | 6.00% |
| d. Unleveraged beta | 1.00 | 0.90 | 1.00 | 0.90 |
| e. Cost of equity (b + c) x d | 16.55% | 9.60% | 17.25% | 7.97% |
| f. Discount rate | 15.37% | 12.60% | 16.62% | 12.97% |
| g. Gross margin | 22 a 28 | 37 a 41 | 22 a 24 | 36 a 42 |
| h. Inflation rate | 0% | 4.5% | 0% | 6.0% |
| i. Growth | 0% | 2.25% | 0% | 6.00% |

***Discount rate***

The discount rate applied to cash flow projections for the subsidiary MAHLE Argentina S.A. and the CGU of MAHLE Metal Leve S.A. (rings business) was estimated based on management's experience of the assets of the CGUs and the weighted average cost of capital of the companies.

***Growth rate in perpetuity***

The assumed projected period is five years and considers as residual value perpetuity calculated based on the normalized cash flow of the last year of the projected period. For the subsidiary MAHLE Argentina S.A., projections were made in real terms, i.e. without inflation. For the CGU MAHLE Metal Leve S.A. (rings business), the projections were made in nominal terms and included, in addition to the growth rates of the sales volume, price restatements for inflation.

The subsidiary MAHLE Argentina S.A. has no growth rate because this is considered a valuation in real terms, that is, disregarding inflation. The CGU MAHLE Metal Leve S.A. (rings business) used an annual growth rate of 2,25% for projections in perpetuity. The rates were determined based on the management's expectations.

***Exchange rate***

The exchange rates used in the 2016-2021 periods for the subsidiary MAHLE Argentina S.A. and the CGU of MAHLE Metal Leve S.A. – (rings business) were based on foreign exchange market forecasts (Central Bank survey “Focus”, Bloomberg and inquiries made of financial institutions in Brazil and Argentina).

***Sensitivity analysis***

The Company performed a sensitivity analysis to determine the impact of change in relation to the gross margin of the Company’s CGU (rings), a reduction of 1 pp in margin in the projected years reduces the value in use by approximately 5%.

## 17 Trade and related-party payables

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | | Reclassified note no. 3.e | | Reclassified note no. 3.e |
| Suppliers - Third Party | | | | |
| Raw material | 49,566 | 42,233 | 70,575 | 69,492 |
| Services | 19,915 | 18,547 | 21,767 | 19,868 |
| | **69,481** | **60,780** | **92,342** | **89,360** |
| Related parties (Note 12) | 28,467 | 36,263 | 41,764 | 37,916 |
| | **97,948** | **97,043** | **134,106** | **127,276** |

The Group's exposure to currency and liquidity risks in connection with accounts payable to suppliers is disclosed in Note 33.

### *Commitments assumed*

At December 31, 2016, the Group and its subsidiaries had bank letters of guarantee with various maturities for guaranteeing the supply of electric power, judicial proceedings and the supply of imported raw materials, as shown in the table below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Legal process | 5,274 | 6,776 | 5,274 | 6,776 |
| Eletric power | 12,540 | 17,328 | 13,317 | 14,334 |
| Suppliers (raw material) | - | 15,752 | 1,159 | 14,594 |
| | **17,814** | **39,856** | **19,750** | **35,704** |

## 18 Taxes and contributions payable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **State taxes** | **6,594** | **5,906** | **7,266** | **7,262** |
| ICMS payable | 6,594 | 5,906 | 6,974 | 7,038 |
| Other | - | - | 292 | 224 |
| **Federal taxes** | **11,583** | **10,156** | **13,225** | **12,319** |
| IRRF | 4,188 | 5,055 | 4,639 | 5,529 |
| IPI payable | 2,063 | 1,755 | 2,106 | 1,852 |
| COFINS payable | 1,896 | 345 | 1,978 | 1,179 |
| PIS payable | 396 | 61 | 414 | 242 |
| Other | 3,040 | 2,940 | 4,088 | 3,517 |
| **Income tax and social contribution** | **1,505** | **2,164** | **23,450** | **35,751** |
| **Municipal taxes** | **-** | **-** | **97** | **86** |
| **Current liabilities** | **19,682** | **18,226** | **44,038** | **55,418** |
| **Federal taxes** | | | | |
| Social contribution payable | 1,150 | 2,655 | 1,150 | 2,826 |
| **Non-current liabilities** | **1,150** | **2,655** | **1,150** | **2,826** |

## 19 Borrowings

| Description | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| **Borrowings in local currency (BRL)** | | | | | |
| BNDES-Exim (interest of 5.50% p.a.) | | - | 65,656 | - | 72,703 |
| Export Credit Note (NCE) (interest of 5.50% p.a.) | | - | 52,855 | - | 52,855 |
| BNDES-Exim (Long-Term Interest Rate (TJLP) + 2.00% p.a. + 1.00% p.a.) | | 102,134 | - | 102,134 | - |
| BNDES-Exim (Long-Term Interest Rate (TJLP) + 2.00% p.a. + 0.95% p.a.) | | 60,078 | - | 60,078 | - |
| BNDES-Exim (Long-Term Interest Rate (TJLP) + 2.00% p.a. + 0.90% p.a.) | | 32,335 | - | 32,335 | - |
| BNDES-Exim (interest of 8.00% p.a.) | | 70,482 | 70,490 | 90,675 | 90,679 |
| NCE (interest of 8.86% p.a.) | | 82,213 | 82,194 | 82,213 | 82,194 |
| FINEP (Long-Term Interest Rate (TJLP) + 5.00% p.a. - 6.00% p.a.) | | 61,991 | 61,111 | 61,991 | 61,111 |
| NCE (interest of 11.00% p.a.) | | 48,515 | 20,180 | 48,515 | 20,180 |
| BNDES-Finem (TJLP + 1.40% p.a.) | | - | 4,259 | - | 4,259 |
| Bank Credit Certificate (interest of 109.50% to 112.20% of CDI p.a.) | | - | - | - | 7,000 |
| Other | | 2,891 | 2,036 | 3,038 | 2,061 |
| **Borrowings in foreign currency** | **Currency** | | | | |
| Working capital (interest of 9.90% to 36,00% p.a.) - Argentina | ARS | - | - | - | 58,834 |
| Working capital (interest of 111,20 CDI p.a.) - M Sint. | USD | - | - | 18,551 | 27,805 |
| | | **460,639** | **358,781** | **499,530** | **479,681** |
| Current - borrowings in local currency | | 120,396 | 97,802 | 140,736 | 112,063 |
| Current - borrowings in foreign currency | | - | - | 15,551 | 68,639 |
| **Total current** | | **120,396** | **97,802** | **156,287** | **180,702** |
| Non-current - borrowings in local currency | | 340,243 | 260,979 | 340,243 | 280,979 |
| Non-current - borrowings in foreign currency | | - | - | 3,000 | 18,000 |
| **Total non-current** | | **340,243** | **260,979** | **343,243** | **298,979** |

* The original cost of this working capital loan is foreign exchange variation + interest of 3.00% p.a., and the reported cost of 111.20% of the CDI and the amount of R$ 18,551 relate to the swap contract for this facility.

In 2016 the Parent company took out bank loans of R$ 306.6 million, through the following types of facilities:

R$ 100.2 million - BNDES-Exim Pré-embarque (pre-shipment financing) subject to Long-Term Interest Rate (TJLP) +2.00% p.a. +1.00% p.a., equivalent to 10.50% p.a.

R$ 81.8 million - ACC/ACE (advance on foreign exchange contract) (original USD) with average interest of 2.34% p.a. – already paid off.

R$ 33.2 million - ACC/ACE (original EUR) with average interest of 1.59% p.a. – already paid off.

R$ 59.5 million - BNDES-Exim Pré-embarque subject to Long-Term Interest Rate (TJLP) +2.00% p.a. +0.95% p.a., equivalent to 10.45% p.a.

R$ 31.9 million - BNDES-Exim Pré-embarque subject to Long-Term Interest Rate (TJLP) +2.00% p.a. +0.90% p.a., equivalent to 10.40% p.a.

Such loans have a 24-month grace period and are due in a lump sum. Interest is payable on a quarterly basis.

The amounts relating to non-current liabilities (74% and 69% of total borrowings for the parent company and consolidated accounts, respectively) have the following maturities per year:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **2017** | - | 112,554 | - | 147,554 |
| **2018** | 292,480 | 100,592 | 295,480 | 103,592 |
| **2019** | 9,396 | 9,258 | 9,396 | 9,258 |
| **2020** | 9,396 | 9,258 | 9,396 | 9,258 |
| **2021** | 9,396 | 9,258 | 9,396 | 9,258 |
| **2022** | 9,396 | 9,258 | 9,396 | 9,258 |
| **2023** | 8,613 | 9,258 | 8,613 | 9,258 |
| **2024** | 1,566 | 1,543 | 1,566 | 1,543 |
| | **340,243** | **260,979** | **343,243** | **298,979** |

**Restrictive covenants**

In the BNDES-Exim and NCE (86% and 83% of borrowings in the parent company and consolidated accounts, respectively) there are accelerated maturity clauses related mainly to the use of funds for a purpose other than that established in the credit facility agreements with the financial institutions. No guarantees were provided for these credit lines. For this financing, product export supporting documents are required.

BNDES-Finem: This financing was obtained from the National Bank for Economic and Social Development (BNDES) for developing new products and processes and acquiring machinery and equipment, and is collateralized by a bank guarantee maturing on April 17, 2017. This contract contains accelerated maturity clauses related mainly to the non-performance of the project and/or acquisition of the financed asset.

FINEP: This financing was obtained from the Financing Agency for Studies and Projects (FINEP) to partially fund (at an average of 64%) the expenses incurred in several projects of the program "Innovation in MAHLE Components and Systems", and is collateralized by a bank guarantee with maturity on August 30, 2021. This financing is based on the TJLP interest rate (7,5% p.a. as at December 31, 2016) plus a bank spread of 5% p.a. less an equalization rate of 6% p.a. There are various accelerated maturity clauses (respecting ample defense for the Company) with loss of the equalization value: use of funds for a purpose other than that established in the contract; change in effective control of the Company; existence of FINEP amounts in arrears; inaccurate information provided to FINEP by the Company; and suspension of the project.

At December 31, 2016 and 2015, the Group had no payment of principal or interest in arrears and was not in breach of any of the covenants under the BNDES-Exim, BNDES-Finem, working capital, NCE and FINEP contracts.

## 20 Salaries, vacation pay and social charges

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Accrued vacation pay | 22,271 | 29,804 | 24,506 | 32,420 |
| Employee profit sharing | 25,058 | 22,811 | 31,176 | 28,858 |
| INSS /FGTS | 10,541 | 11,284 | 11,147 | 12,132 |
| Other social security obligations | 490 | 635 | 4,488 | 5,193 |
| | **58,360** | **64,534** | **71,317** | **78,603** |

## 21 Sundry provision

| | Parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Losses on contracts** | **Commercial bonuses** | **Restructuring** | **Electric power** | **Employee benefits** | **Other** | **Total** |
| **At January 1, 2015** | **3,496** | **3,870** | **-** | **2,181** | **-** | **677** | **10,224** |
| Reversal | (290) | (672) | (95) | (2,181) | - | (209) | (3,447) |
| Payment | - | (8,985) | (517) | - | (2,163) | (49) | (11,714) |
| Complement | 3,671 | 9,526 | 932 | 5,380 | 2,163 | 271 | 21,943 |
| **At December 31, 2015** | **6,877** | **3,739** | **320** | **5,380** | **-** | **690** | **17,006** |
| Reversal | (824) | (11) | - | (5,380) | - | - | (6,215) |
| Payment | - | (12,830) | (320) | - | (2,093) | (5,289) | (20,532) |
| Complement | 281 | 12,583 | - | 4,364 | 2,093 | 6,448 | 25,769 |
| **At December 31, 2016** | **6,334** | **3,481** | **-** | **4,364** | **-** | **1,849** | **16,028** |

*(in thousand of reais)*

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses on contracts | Commercial bonuses | Restructuring | Electric power | Employee benefits | Other | Total |
| **At January 1, 2015** | **8,377** | **3,870** | **108** | **2,748** | **-** | **978** | **16,081** |
| Reversal | (2,877) | (672) | (95) | (2,748) | - | (841) | (7,233) |
| Payment | - | (8,985) | (1,550) | - | (2,347) | (337) | (13,219) |
| Complement | 3,780 | 9,524 | 8,023 | 6,358 | 2,347 | 2,948 | 32,980 |
| Foreign exchange variation | - | - | - | - | - | (313) | (313) |
| **At December 31, 2015** | **9,280** | **3,737** | **6,486** | **6,358** | **-** | **2,435** | **28,296** |
| Reversal | (824) | (11) | (1,605) | (6,358) | (3) | (1,785) | (10,586) |
| Payment | - | (12,828) | (3,764) | - | (2,200) | (6,871) | (25,663) |
| Complement | 2,129 | 12,584 | 899 | 5,154 | 2,203 | 8,906 | 31,875 |
| Foreign exchange variation | (6) | - | (99) | - | - | (419) | (524) |
| **At December 31, 2016** | **10,579** | **3,482** | **1,917** | **5,154** | **-** | **2,266** | **23,398** |

### *Provision for losses on contracts*

Provision for losses on contracts is recognized in an amount sufficient to cover losses on sales contracts already entered into and for estimates of losses, on which management expects to incur negative margins.

### *Provision for restructuring*

In December 2016, there is a restructuring provision for employee termination payments and taxes related to the termination of operations of the subsidiary MAHLE Hirschvogel Forjas S.A.

## 22 Provision for warranties

The Group guarantees the quality of its products, assuming responsibility for providing replacements and repairs for customers for defective products.

The Group recognizes provision for warranties calculated on the sale of products, based on historical percentages of expenditure and cases already identified on which the Company and its subsidiaries estimate they will incur expenditure in order to replace and repair products, including recalls:

| | Parent company | Consolidated |
|---|---|---|
| **At January 1, 2015** | **12,028** | **15,452** |
| Reversal | (2,341) | (2,866) |
| Payment | (4,217) | (6,419) |
| Complement | 6,443 | 10,384 |
| Foreign exchange variation | - | 532 |
| **At December 31, 2015** | **11,913** | **17,083** |
| Reversal | (931) | (1,157) |
| Payment | (6,588) | (9,578) |
| Complement | 14,500 | 16,427 |
| Foreign exchange variation | (1,517) | (2,400) |
| **At December 31, 2016** | **17,377** | **20,375** |

In December 31, 2016, the Company provided for EUR 2,396 (mio) for quality problems in bearings product line. The amount of this provision is subject to foreign exchange adjustments.

## 23 Provision for contingencies and judicial deposits linked to judicial proceedings

The Group is a party to civil, labor and tax proceedings in progress both at the administrative and judicial level, which, when applicable, are supported by judicial deposits. The respective provision for contingencies was recorded considering the estimates made by the legal advisors for proceedings in which the likelihood of loss on the respective outcomes was assessed as probable and other unrelated legal obligations.

According to management's assessment, contingencies are as follows:

| | Parent company | | | | |
|---|---|---|---|---|---|
| | Civil and labor | Tax | Environmental liability | Judicial deposits | Total |
| **At January 1, 2015** | **184,223** | **30,706** | **7,795** | **(42,672)** | **180,052** |
| Additions | 50,047 | 29,124 | 700 | (23,038) | 56,833 |
| Monetary restatements | 25,691 | 2,918 | - | (3,548) | 25,061 |
| Write-off for use | (16,620) | (1,715) | (948) | 998 | (18,285) |
| Write-off for reversal | (23,034) | (26,273) | - | 1,988 | (47,319) |
| Transfer | - | - | - | 937 | 937 |
| **At December 31, 2015** | **220,307** | **34,760** | **7,547** | **(65,335)** | **197,279** |
| Additions | 73,537 | 26,513 | 217 | (14,918) | 85,349 |
| Monetary restatements | 29,903 | 3,245 | - | (2,681) | 30,467 |
| Write-off for use | (29,945) | - | (2,083) | 7,434 | (24,594) |
| Write-off for reversal | (34,473) | (21,658) | (848) | 6,954 | (50,025) |
| Transfer | - | - | - | 2,585 | 2,585 |
| **At December 31, 2016** | **259,329** | **42,860** | **4,833** | **(65,961)** | **241,061** |

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Civil and labor | Tax | Environmental liability | Judicial deposits | Total |
| **At January 1, 2015** | **198,894** | **30,830** | **7,796** | **(45,750)** | **191,770** |
| Additions | 56,748 | 29,124 | 1,151 | (26,149) | 60,874 |
| Monetary restatements | 27,565 | 2,944 | - | (3,726) | 26,783 |
| Write-off for use | (19,605) | (1,715) | (1,294) | 1,662 | (20,952) |
| Write-off for reversal | (24,664) | (26,282) | - | 2,138 | (48,808) |
| Transfer | - | - | - | 915 | 915 |
| Foreign exchange variation | (37) | - | (103) | - | (140) |
| **At December 31, 2015** | **238,901** | **34,901** | **7,550** | **(70,910)** | **210,442** |
| Additions | 95,669 | 26,514 | 1,732 | (22,428) | 101,487 |
| Monetary restatements | 32,915 | 3,287 | - | (2,951) | 33,251 |
| Write-off for use | (34,201) | - | (2,585) | 9,181 | (27,605) |
| Write-off for reversal | (38,879) | (21,682) | (1,127) | 8,098 | (53,590) |
| Transfer | - | - | - | 2,598 | 2,598 |
| Foreign exchange variation | (285) | - | (153) | - | (438) |
| **At December 31, 2016** | **294,120** | **43,020** | **5,417** | **(76,412)** | **266,145** |

The civil provision is related to consumer relations, compensation claims for commercial representation and distribution, service providers, work accidents and professional fees.

The labor provision relates mainly of claims filed by former employees for sums of money resulting from employment relationships and various suits for damages. The reversals are due to settlement agreements made with claimants.

In 2016 there was an increase in provisions to cover labor claims due to the termination of operations of the subsidiary MAHLE Hirschvogel Forjas S.A.

Transfers relate to judicial deposits not related to the balance of provision for contingencies, and therefore, they are reclassified to other asset accounts.

The tax provision with respect to PIS, COFINS, ICMS, IPI, social security, royalties and drawbacks relates mainly to state and federal procedural assessments that are already being heard in court or not. They refer mainly to litigation with respect to the appropriate interpretation of the tax legislation.

The environmental provision relates mainly to the projection of expenditure required to preserve environmental areas used by the Group.

The main indexes for monetarily restating the contingencies are the basic interest rate (SELIC) and the monetary restatement indexes provided by the Superior Labor Court and law courts, when applicable.

***Proceedings involving the risk of possible loss***

At December 31, 2016, the Group had labor, civil and tax proceedings brought before the proper authorities in the amount of R$ 42,849 (December 31, 2015 - R$ 39,314), which were assessed by the Group's management as having a risk of possible loss, and, therefore, were not provided for in the financial statements.

***Administrative Council for Economic Defense ("CADE")***

According to the announcement made to the market on October 10, 2016, the Company received a notice from CADE stating that an administrative proceeding was initiated, involving 28 companies and other individuals for possible anti-competitive behavior in the independent automotive aftermarket.

The Company is among the companies involved in the administrative proceeding mentioned above and will cooperate with CADE to clarify the facts under investigation. The Company continues discussing, evaluating and taking the actions needed to address this matter with the support of its legal advisors.

The Company recorded in its financial statements what it deems appropriate at this time, based on available information, applicable statutory and non-statutory provisions and CADE precedents.

Management continues monitoring this matter and will make the necessary adjustments and disclosures whenever applicable.

## 24 Equity

### *a. Share capital*

At December 31, 2016 and 2015, subscribed and paid-up capital was represented by the following number of shares with no par value:

| | Number of shares | |
|---|---|---|
| Mahle Indústria e Comércio Ltda. | 76,985,131 | 60.0% |
| Mahle Industriebeteiligungen GmbH | 12,830,850 | 10.0% |
| Non-controlling shareholders | 38,492,519 | 30.0% |
| | **128,308,500** | **100%** |

### *b. Policies for distribution of dividends and interest on capital*

Every fiscal year the shareholders have the right to receive mandatory minimum dividends of 25% of the profit, considering mainly the following adjustments:

- subtraction of the sums earmarked for the legal reserve and provision for contingencies.
- addition of the effects of the adoption of fair value with deemed cost.

Under the bylaws, the Company has the right to prepare half-yearly or interim balance sheets and, based on these balance sheets, the Board of Directors may approve the distribution of interim dividends.

On April 29, 2016, the Shareholders' Meeting approved the payment of additional dividends for the fiscal year ended December 31, 2015 in the amount of R$ 26,025, which was paid on May 23, 2016, corresponding to R$ 0.2028334099 per common share, without withholding income tax, pursuant to Law 9,249/95, Article 10.b.

On April 27, 2016, the Board of Directors approved the payment of interest on capital in the gross amount of R$ 23,139, for the period from January 1, 2016 to March 31, 2016, which was paid on May 23, 2016, corresponding to R$ 0.1803384426 per common share with withholding income tax at the rate of 15%, with the result that the net value of interest on capital was R$ 0.1532876762 per common share.

On August 9, 2016, the Board of Directors approved the payment of interest on capital in the gross amount of R$ 30,958, for the period from April 1, 2016 to July 31, 2016, which was paid on August 29, 2016, corresponding to R$ 0.2412799417 per common share with withholding income tax at the rate of 15%, with the result that the net value of interest on capital was R$ 0.2050879504 per common share.

### *c. Appropriation of profit for the year*

Profit for the year was appropriated as follows:

| | 2016 | 2015 |
|---|---|---|
| **Profit for the year** | **24,656** | **201,025** |
| Legal reserve (5% of the profit for the year) | (1,233) | (10,051) |
| Realization/write-off of deemed cost of property, plant and equipment, net of taxes | 4,146 | 7,110 |
| Prescribed dividends and interest on capital | 162 | 200 |
| **Basis for calculation of dividends** | **27,731** | **198,284** |
| **Minimum mandatory dividends - 25%** | **6,933** | **49,571** |
| **Distribution to shareholders:** | | |
| Dividends paid partially during the year | - | 94,251 |
| Proposed additional dividends | - | 26,025 |
| Interest on capital, net of income tax, paid partially during the year | 46,328 | 60,650 |
| Interest on capital payable, net of income tax | - | 6,419 |
| Income tax on interest on capital | 7,769 | 10,939 |
| Use of revenue reserve | (26,366) | - |
| **Interest on capital and dividends on profit for the year** | **27,731** | **198,284** |
| **Percentage in relation to the calculation base** | **100%** | **100%** |
| **Interest on capital/dividends paid per common share in reais:** | | |
| Gross | R$ 0.421618 | R$ 1.342533 |
| Net | R$ 0.358376 | R$ 1.251338 |
| Proposed additional dividends per common share in reais | - | R$ 0.202834 |
| Number of common shares | 128,308,500 | 128,308,500 |

### *d. Revenue reserves*

#### *Legal reserve*

In accordance with the Corporation Law, the Company credits 5% of the profit for the year to the legal reserve, up to the limit of 20% of the paid-up capital or of 30% of the capital considering the sum of this reserve and the amount of capital reserves. Once these limits are reached, allocations to the legal reserve are not mandatory. The legal reserve can only be used to increase capital or offset losses.

#### *Reserve for expansion and modernization*

The reserve for expansion and modernization is intended for use in investments established in the capital budget in conformity with Article 196 of the Brazilian Corporation Law.

### *e. Other comprehensive income*

#### *Cumulative translation adjustments*

The Company recognizes under this heading the cumulative effect of the currency translation of the financial statements of its subsidiaries that keep accounting records in a functional currency different from the parent company's functional currency.

This cumulative effect will be reversed in the statement of income as a gain or loss only in the event of the sale or write-off of the investment.

#### *Carrying value adjustments*

The Company recognizes under this heading:

- The effects of carrying value adjustments relating to the effective portion of gains or losses on cash flow hedges, which are recognized in 2016, net of taxes, at (R$ 50,324) (2015 – R$ 20,199) in the parent and at (R$ 48,893) (2015 - R$ 19,256) in the consolidated accounts, and of those relating to the subsidiary MAHLE Metal Leve Miba Sinterizados Ltda., which are recognized at R$ 1,431 (2015 - R$ 943).

- The adjustments for the adoption of the deemed cost of property, plant and equipment at R$ 4,146 in 2016 (2015 - R$ 7,110). The deemed cost is accrued to property, plant and equipment recorded in carrying value adjustments, according to the depreciation, disposal or write-off of the respective item of property, plant and equipment, against retained earnings.

## 25 Earnings per share

In compliance with CVM Resolution 636/2010 which approved Technical Pronouncement NBC TG 41 (CPC 41)-/-"IAS 33 - Earnings per share", the Company presents the following information on earnings per share:

| | 2016 | 2015 |
|---|---|---|
| **Profit attributable to owners of the parent** | **24,656** | **201,025** |
| Shares outstanding | 128,308,500 | 128,308,500 |
| **Basic earnings per share (R$ per share)** | **0.19216** | **1.56673** |

There are no diluted earnings per share for the Company.

## 26 Net operating revenue

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 (Restated note nº 3 f.) | 2016 | 2015 (Restated note nº 3 f.) |
| Gross revenue | | | | |
| Products | 2,212,062 | 2,377,982 | 2,835,226 | 3,057,250 |
| Services | 38,497 | 23,538 | 35,305 | 18,991 |
| Total revenue with products + services | 2,250,559 | 2,401,520 | 2,870,531 | 3,076,241 |
| Deductions from sales: | | | | |
| Taxes on sales | (456,435) | (443,911) | (484,955) | (489,832) |
| Discounts , returns and sales incentives | (37,653) | (36,876) | (149,569) | (163,053) |
| **Net operating revenue** | **1,756,471** | **1,920,733** | **2,236,007** | **2,423,356** |

## 27 Cost of sales

The cost of sales comprises raw materials and other materials required for the production of the Group's products. In the engine components segment, the main raw materials are metal commodities, such as aluminum, nickel iron, cast iron, steel, copper, nickel, tin, silicon, magnesium, bronze and iron alloy, amongst others. In the filters segment, the main raw materials are resins, filter papers and activated carbon, amongst others. Other inputs for the production of both engine components and filters include electric power, fuels, natural gas, liquefied petroleum gas and plastic, wood, paper and cardboard packaging.

This account also includes direct labor (e.g. factory work) and indirect labor (e.g. maintenance, engineering and tooling) and the depreciation of machinery and equipment used in the production process.

## 28 Selling expenses

Selling expenses comprise mainly sales personnel expenses as well as commission on sales, freight, customs fees, advertising and brand license costs.

Selling expenses by nature are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 (Restated note nº 3 f.) | 2016 | 2015 (Restated note nº 3 f.) |
| Personnel and benefits | (41,596) | (39,940) | (51,867) | (52,531) |
| Freight | (29,808) | (29,858) | (39,188) | (42,223) |
| Variable selling expenses | (8,679) | (10,797) | (22,245) | (20,168) |
| Brand license | (8,492) | (9,927) | (9,733) | (11,951) |
| Advertising | (4,541) | (2,933) | (8,718) | (4,127) |
| Travel and entertainment allowance | (2,773) | (2,351) | (3,545) | (3,343) |
| General expenses | (1,658) | (2,732) | (7,162) | (7,691) |
| Depreciation | (828) | (909) | (1,012) | (1,128) |
| Professional services/service orders | (788) | (5,742) | (5,004) | (9,568) |
| (Reversal of) provision for impairment of trade receivables | 2,312 | (5,077) | 1,673 | (5,174) |
| Other expenses | (5,799) | (8,603) | (4,148) | (10,249) |
| | **(102,650)** | **(118,869)** | **(150,949)** | **(168,153)** |

## 29 General and administrative expenses

General and administrative expenses comprise mainly salaries, charges and benefits for administrative personnel and outsourced professional services.

General and administrative expenses by nature are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Personnel and benefits | (33,690) | (29,293) | (39,286) | (41,526) |
| Management | (12,812) | (10,797) | (13,597) | (11,531) |
| Professional services/service orders | (6,804) | (5,869) | (11,395) | (10,104) |
| Maintenance | (3,683) | (3,447) | (4,460) | (3,817) |
| Materials and utilities | (3,658) | (3,196) | (5,238) | (4,197) |
| Depreciation | (3,437) | (2,922) | (3,708) | (3,258) |
| PIS/COFINS | (1,885) | (1,314) | (1,938) | (1,362) |
| Travel and entertainment allowance | (998) | (960) | (1,336) | (1,476) |
| Insurance | 29 | (144) | (310) | (377) |
| Other expenses | (4,611) | (3,607) | (7,495) | (4,299) |
| | **(71,549)** | **(61,549)** | **(88,763)** | **(81,947)** |

## 30 Technology and product development costs

The costs of technology and product development include: (i) expenditure on the development of new technologies, such as flex fuel technology; (ii) expenditures on the development of new products, such as new low-friction piston rings aimed at reducing carbon emissions from combustion engines; (iii) expenditure on improving existing products; and (iv) expenditure on improving production processes.

The costs of technology and product development by nature are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Personnel and benefits | (45,120) | (46,329) | (47,275) | (49,089) |
| Materials/utilities | (8,779) | (9,771) | (8,864) | (9,942) |
| Depreciation | (6,404) | (6,748) | (6,870) | (6,912) |
| General expenses | (4,972) | (8,355) | (10,233) | (13,587) |
| Professional services/service orders | (4,227) | (4,226) | (7,138) | (6,166) |
| Maintenance | (2,995) | (2,790) | (3,011) | (2,812) |
| Other expenses | (2,722) | (3,723) | (3,328) | (4,184) |
| | **(75,219)** | **(81,942)** | **(86,719)** | **(92,692)** |

## 31 Finance income and costs, net

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Finance income** | | | | |
| Exchange variation (a) | 34,032 | 133,833 | 81,265 | 190,995 |
| Interest | 21,466 | 33,158 | 22,579 | 34,409 |
| Derivative financial instruments (c) | 49,720 | 26,119 | 43,016 | 33,846 |
| Monetary variation gains | 4,686 | 4,677 | 4,981 | 4,896 |
| Other | 226 | 260 | 520 | 362 |
| | **110,130** | **198,047** | **152,361** | **264,508** |
| **Finance costs** | | | | |
| Derivative financial instruments (d) | (5,454) | (87,780) | (7,420) | (90,413) |
| Exchange variations (b) | (72,866) | (41,958) | (105,097) | (88,179) |
| Monetary variation losses | (35,457) | (29,583) | (38,511) | (31,483) |
| Interest | (29,185) | (28,929) | (51,857) | (58,880) |
| Other | (1,746) | (1,229) | (7,029) | (7,344) |
| | **(144,708)** | **(189,479)** | **(209,914)** | **(276,299)** |
| **Finance income (costs), net** | **(34,578)** | **8,568** | **(57,553)** | **(11,791)** |
| **Summary of foreign exchange variations (a+b)** | **(38,834)** | **91,875** | **(23,832)** | **102,816** |
| Trade receivables | (27,466) | 62,491 | (10,856) | 106,250 |
| Cash and cash equivalents | (12,033) | 25,604 | (13,189) | 26,644 |
| Interest on capital receivable | (9,865) | 7,739 | (640) | 7,739 |
| Trade payables | 2,641 | (3,858) | (6,814) | (31,109) |
| Borrowings | 7,928 | - | 7,928 | - |
| Other | (39) | (101) | (261) | (6,708) |
| **Summary of derivative instruments (c+d)** | **44,266** | **(61,661)** | **35,596** | **(56,567)** |
| Income | 49,720 | 26,119 | 43,016 | 33,846 |
| Expenses | (5,454) | (87,780) | (7,420) | (90,413) |
| **Net result of foreign exchange variations and derivative financial instruments** | **5,432** | **30,214** | **11,764** | **46,249** |

## 32 Other operating income and expenses, net

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Other income** | | | | |
| Reversal of provision for labor contingencies | 34,473 | 23,029 | 38,879 | 24,655 |
| Reversal of provision for tax contingencies | 21,658 | 26,273 | 21,682 | 26,282 |
| Reversal of provision for obsolescence | 941 | 167 | 2,718 | 361 |
| reversal of provision for environmental liability | 848 | - | 848 | - |
| Reversal of losses on products | 824 | 290 | 824 | 2,877 |
| Electric power (*) | 813 | 13,941 | 1,145 | 15,305 |
| Taxes recovered (Reintegra) | 790 | 11,150 | 801 | 11,502 |
| Gains on disposal of assets | 42 | 2,530 | 5,683 | 2,839 |
| Other income | 3,658 | 4,375 | 6,149 | 6,173 |
| | **64,047** | **81,755** | **78,729** | **89,994** |
| **Other expenses** | | | | |
| Provision for impairment of intangible assets (**) | (188,654) | - | (188,654) | - |
| Provision for labor contingencies | (73,537) | (50,047) | (95,273) | (56,657) |
| Provision for tax contingencies | (26,513) | (29,124) | (26,514) | (29,124) |
| Electric power | (4,318) | (7,391) | (4,984) | (7,895) |
| Losses on disposal of assets | (579) | (208) | (5,833) | (414) |
| Provision of losses on products | (280) | (3,671) | (2,162) | (3,780) |
| Provision for environmental liability | (217) | (700) | (716) | (788) |
| Provision for obsolescence (***) | - | - | (27) | (7,113) |
| Provision for reestructuring | - | - | - | (1,964) |
| Other expenses | (4,420) | (7,982) | (5,781) | (17,431) |
| | **(298,518)** | **(99,123)** | **(329,944)** | **(125,166)** |
| | **(234,471)** | **(17,368)** | **(251,215)** | **(35,172)** |

(*) Financial settlement of electric power on the spot market.

(**) In December 2016, an impairment loss of R$ 186,905 was identified and recognized for goodwill of the cash generating unit (CGU) of MAHLE Metal Leve S.A. – ring business related to the engine components segment. This identified impairment loss is due to a reduction in future results by reason of changes in exchange rates and the decline in sales volume driven by the current market conditions that have affected principally the automotive industry, whose recovery is not expected to occur in the coming years.

(***) At September 30, 2015, a provision for loss on property, plant and equipment of R$ 6,866 was recorded for the subsidiary MAHLE Hirschvogel Forjas S.A.

## 33 Financial instruments

### *I. Financial instruments and risk management*

Financial instruments are used to assure the Group's continuity, liquidity and profitability, and there is no speculative purpose. The financial instruments are recorded in the financial statements and classified in conformity with CPC 40 (IFRS 7), allowing the reader to assess the Group's financial position. The table below shows the classification of the financial instruments.

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | |
| **Assets** | **Note** | **Loans and receivables** | **Derivatives used for hedge** | **Total** | **Loans and receivables** | **Derivatives used for hedge** | **Total** |
| Cash, demand deposits and cash in transit | 8 | 22,780 | - | 22,780 | 22,020 | - | 22,020 |
| Financial investments | 8 | 218,724 | - | 218,724 | 111,975 | - | 111,975 |
| Trade receivables | 9 | 203,850 | - | 203,850 | 244,231 | - | 244,231 |
| Receivables from and loans to related parties | 9 and 12 | 116,399 | - | 116,399 | 108,397 | - | 108,397 |
| Unrealized gains on derivatives | 33 | - | 39,233 | 39,233 | - | 5,036 | 5,036 |
| **Total** | | **561,753** | **39,233** | **600,986** | **486,623** | **5,036** | **491,659** |

| **Liabilities** | **Note** | **Derivatives used for hedge** | **Others financial liabilities** | **Total** | **Derivatives used for hedge** | **Others financial liabilities** | **Total** |
|---|---|---|---|---|---|---|---|
| Payables to related parties | 12 and 17 | - | (28,467) | (28,467) | - | (36,263) | (36,263) |
| Trade payables | 17 | - | (69,481) | (69,481) | - | (60,780) | (60,780) |
| Borrowings | 19 | - | (460,639) | (460,639) | - | (358,781) | (358,781) |
| Unrealized losses on derivatives | 33 | (3,594) | - | (3,594) | (55,420) | - | (55,420) |
| **Total** | | **(3,594)** | **(558,587)** | **(562,181)** | **(55,420)** | **(455,824)** | **(511,244)** |

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | |
| **Assets** | **Note** | **Loans and receivables** | **Derivatives used for hedge** | **Total** | **Loans and receivables** | **Derivatives used for hedge** | **Total** |
| Cash, demand deposits and cash in transit | 8 | 31,659 | - | 31,659 | 33,148 | - | 33,148 |
| Financial investments | 8 | 224,772 | - | 224,772 | 118,945 | - | 118,945 |
| Trade receivables | 9 | 284,572 | - | 284,572 | 338,612 | - | 338,612 |
| Receivables from and loans to related parties | 9 and 12 | 114,091 | - | 114,091 | 87,769 | - | 87,769 |
| Unrealized gains on derivatives | 33 | - | 39,724 | 39,724 | - | 8,550 | 8,550 |
| **Total** | | **655,094** | **39,724** | **694,818** | **578,474** | **8,550** | **587,024** |

| **Liabilities** | **Note** | **Derivatives used for hedge** | **Others financial liabilities** | **Total** | **Derivatives used for hedge** | **Others financial liabilities** | **Total** |
|---|---|---|---|---|---|---|---|
| Payables to related parties | 12 and 17 | - | (41,764) | (41,764) | - | (38,083) | (38,083) |
| Trade payables | 17 | - | (92,342) | (92,342) | - | (89,360) | (89,360) |
| Borrowings | 19 | - | (499,530) | (499,530) | - | (479,681) | (479,681) |
| Unrealized losses on derivatives | 33 | (4,181) | - | (4,181) | (55,456) | - | (55,456) |
| **Total** | | **(4,181)** | **(633,636)** | **(637,817)** | **(55,456)** | **(607,124)** | **(662,580)** |

# Explanatory notes to the financial statements

*(in thousand of reais)*

*- Fair value hierarchy and measurement*

The financial instruments that are measured at fair value after initial recognition must be grouped in Levels 1 to 3 based on the observable level of the fair value.

Level 1 – prices quoted (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below provides an analysis of financial instruments measured at fair value after initial recognition.

| **2016** | **Measured at fair value** | | | |
|---|---|---|---|---|
| | **Parent company** | | **Consolidated** | |
| **Assets** | **Total** | **Level 2** | **Total** | **Level 2** |
| Unrealized gains on derivatives | 39,233 | 39,233 | 39,724 | 39,724 |
| **Total** | **39,233** | **39,233** | **39,724** | **39,724** |
| **Liabilities** | | | | |
| Unrealized losses on derivatives | (3,594) | (3,594) | (4,181) | (4,181) |
| **Total** | **(3,594)** | **(3,594)** | **(4,181)** | **(4,181)** |

| **2015** | **Measured at fair value** | | | |
|---|---|---|---|---|
| | **Parent company** | | **Consolidated** | |
| **Assets** | **Total** | **Level 2** | **Total** | **Level 2** |
| Unrealized gains on derivatives | 5,036 | 5,036 | 8,550 | 8,550 |
| **Total** | **5,036** | **5,036** | **8,550** | **8,550** |
| **Liabilities** | | | | |
| Unrealized losses on derivatives | (55,420) | (55,420) | (55,456) | (55,456) |
| **Total** | **(55,420)** | **(55,420)** | **(55,456)** | **(55,456)** |

*- Fair value calculation*

Level 2 - Derivative financial instruments were included in this level. The value of these instruments was determined as follows:

- The values of derivative financial instruments (NDFs) were calculated using the discounted cash flow method, which consists of:

a) The difference between the future exchange rate contracted for the settlement of each contract, and the future exchange rate of BM&FBovespa valid for the mark-to-market (MTM) date of the US dollar, euro and yen is determined. In the absence of a future rate for the maturity date disclosed by BM&FBovespa, an interpolation is made of the rate for that date;

b) The result of the above difference is multiplied by the notional value of each operation;

c) The amounts obtained in item "b" are brought to present value at the Interbank Deposit (DI) curve of BM&FBovespa valid for the MTM date.

- The values of commodity derivative financial instruments are calculated using the "market fair value", i.e.:

a) The difference between the future price of the metal (USD/tons) contracted for the settlement of each contract, and the future price of the metal (USD/tons) published by Bloomberg for the maturity date of each contract, valid on the MTM date. In the absence of a future price for the maturity date of a given contract, an interpolation is made of the price of the metal for that date;

b) The result of the above difference is multiplied by the contracted volume in tons and the US dollar rate (Ptax sale) valid for the MTM date.

*- Fair value versus carrying amount*

As for trade receivables, receivables from related parties, trade payables and payables to related parties, the Group believes that the variation between their original maturities and the date of the financial statements is immaterial.

*- Hedge accounting*

The Group adopts hedge accounting to minimize its exposure to volatility in currency and commodity price. The hedge accounting policy is properly formalized and sets out the hedged items; the authorized hedging instruments; and the method of assessing the effectiveness of the hedging relationship.

*Hedging objective and strategy:*

Currency hedge

The purpose of the currency hedge program is to minimize foreign exchange risks that may arise in adverse times in the market and that may adversely affect the Group's profitability.

The foreign exchange hedging policy is to hedge the entire position of budgeted cash flow (budget) as well as the actual cash flow (balance sheet) denominated and/or indexed in a foreign currency using derivative financial instruments (NDF - Non-deliverable Forwards).

The Group also hedges borrowings in foreign currency using swaps.

For the budgeted cash flow, this policy covers different levels and time horizons, so as to reach the following levels of hedge at the end of the current month (base date):

i) 75% of the net foreign exchange risk exposure – 1st to 6th month following the base date;
ii) 50% of the net foreign exchange risk exposure – 7th to 9th month following the base date; and
iii) 25% of the net foreign exchange risk exposure – 10th to 24th month following the base date.

With these amounts, the Group has 56.3% of hedge for the first 12 months after the base date and 25% for the second year (13th to 24th month) from the base date.

The net foreign exchange risk exposure for the months fo llowing the time horizon of the budget will be based on the budget itself or its latest version (reviewed by the business areas on a quarterly basis).

For the actual cash flow, the policy is to hedge 100% of the net foreign exchange risk exposure (denominated and/or indexed in a foreign currency).

*Commodity hedging (metal raw materials)*

The purpose of the commodity hedging program is to minimize the risks of fluctuations in metal raw material prices (aluminum, nickel and copper) quoted on the London Metal Exchange (LME), which may arise during adverse times in the market and which would adversely affect the Group's profitability.

The commodity hedging policy is to hedge the planned volumes of budgeted cash flows (budget) using swaps.

The execution of this policy covers different levels and time horizons so as to reach the following levels of hedge at the end of each quarter of the calendar year (base date):

Year 1:
i) 75% of the net exposure – 1st and 2nd quarter subsequent to the base date;
ii) 50% of the net exposure – 3rd quarter subsequent to the base date; and
iii) 25% of the net exposure – 4th quarter subsequent to the base date.

Year 2/Year 3:
i) up to 25% of the net exposure

The percentage of the commodity hedging operations for the Year 2 and Year 3 subsequent to the base date shall be defined by the Global Committee together with the Regional Procurement Department. This decision shall be based on a study of historical average prices of metals for the last 5 and 10 years versus the prices quoted on the LME at the time of the hedging operations.

The net exposure for the quarters following the time horizon of the budget will be based on the budget itself or its latest version (reviewed by the business areas on a quarterly basis).

## *II. Risk management*

*Overview*

It is the Group's practice to take a conservative approach to the management of existing risks, with the primary objectives of preserving the value and liquidity of the financial assets and guaranteeing financial resources for the good conduct of its business, including expansions.

The risks are classified into two categories: strategic/operational and economic/financial.

a) Strategic/operational risks (including, but not limited to, demand behavior, competition and significant changes in industry structure) are addressed by the Group's management model. These are classified as operational risk and business risk.

a.1) Operational risk

Operational risks arise from all the Group's operations. Operational risk is the risk of direct or indirect losses arising from a variety of causes related to the Group's processes, personnel, technology and infrastructure and external factors, other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group has a Technological Center for the purpose of prospecting the need for process restructuring and the adaptation of production engineering, minimizing the operational risks and consequently reducing the potential impacts on the financial flow and damage to its reputation, and seeking cost effectiveness in order to avoid any operating restrictions . Also, the Group´s processes are reviewed by administrative areas on an ongoing basis.

a.2) Business risk

Potential political restrictions, the emergence of new competitors and significant changes in the macroeconomic environment are the main components of this risk. To minimize any impacts from this risk, the Group seeks to manage its expectations for billing and results in the most conservative manner possible in relation to the global scenarios.

The Group's management has a policy of preparing a budget for the following year, as well as a strategic plan for another four years after the budget. These are coordinated and consolidated worldwide by the parent company jointly with local senior management. In the course of the year, the budget is reassessed on two different occasions.

In addition, the Group maintains a research and development center, seeking to design new technologies and products in order to stay ahead of the market.

b) Economic/financial risks mainly reflect the behavior of macroeconomic variables, such as the prices of metals used by the Group (aluminum, copper and nickel), exchange and interest rates, which have direct impacts on operations, as well as the characteristics of the financial instruments used by the Group. These risks are monitored by senior management, which is actively involved in the Group's operational management, by reference to the Group's global policies.

The main economic/financial risks considered by the Group include:

- Liquidity risk;
- Credit risk;
- Risk of fluctuation in interest rates;
- Risk of fluctuation in exchange rates;
- Market risk - fluctuations in the prices of inputs (commodities).

b.1) Liquidity risk

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to pay its obligations as they fall due under all market conditions, to avoid incurring significant losses or adversely affecting the Group's reputation.

The table below shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of currency negotiation agreements at the net position, as well as financial assets that are used to manage this risk.

| | | 2016 | | | | |
|---|---|---|---|---|---|---|
| | Note | Carrying amount | Up to 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
| **Liabilities** | | | | | | |
| Payables to related parties | 12 and 17 | (41,764) | (41,764) | - | - | - |
| Trade payables | 17 | (92,342) | (92,342) | - | - | - |
| Borrowings | 19 | (499,530) | (185,211) | (319,499) | (32,728) | (12,724) |
| Unrealized losses on derivatives | 33 | (4,181) | (4,181) | - | - | - |
| **Total** | | **(637,817)** | **(323,498)** | **(319,499)** | **(32,728)** | **(12,724)** |

| | | 2015 | | | | |
|---|---|---|---|---|---|---|
| | Note | Carrying amount | Up to 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
| **Liabilities** | | | | | | |
| Payables to related parties | 12 and 17 | (37,916) | (37,916) | - | - | - |
| Trade payables | 17 | (89,360) | (89,360) | - | - | - |
| Borrowings | 19 | (479,681) | (204,918) | (172,168) | (166,070) | (14,201) |
| Unrealized losses on derivatives | 33 | (55,456) | (55,456) | - | - | - |
| **Total** | | **(662,413)** | **(387,650)** | **(172,168)** | **(166,070)** | **(14,201)** |

The flows shown above are not expected to be realized earlier.

b.2) Credit risk

Credit risk is the risk of the Group incurring financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises mainly from receivables, mostly from recurring customers, demand deposits, cash in transit and financial investments.

The carrying amount of financial assets that represent the maximum exposure to credit risk on the date of these financial statements was as follows:

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Assets** | **Note** | **2016** | **2015** | **2016** | **2015** |
| Cash, demand deposits and cash in transit | 8 | 22,780 | 22,020 | 31,659 | 33,148 |
| Financial investments | 8 | 218,724 | 111,975 | 224,772 | 118,945 |
| Trade receivables | 9 | 203,850 | 244,231 | 284,572 | 338,612 |
| Receivables from and loans to related parties | 9 and 12 | 116,399 | 108,397 | 114,091 | 87,769 |
| **Total** | | **561,753** | **486,623** | **655,094** | **578,474** |

The Group also has policies for granting credit to its customers, where credit limits and monitoring criteria are pre-established and consist of systematic checking and pre-billing to verify items such as late payments and the available balance of the invoicing limit. Market information on customers is also important in the context of the granting and management of credit.

The Group considers that there is no significant risk of concentration of credit in relation to customers:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| Counterparties unrated external de crédit | **2016** | **2015** | **2016** | **2015** |
| *Top 20* | 76,882 | 81,765 | 115,421 | 132,154 |
| *Third Parties* | 132,417 | 171,708 | 175,894 | 216,517 |
| *Intercompanies* | 56,981 | 75,043 | 54,272 | 59,134 |
| Total trade receivables and other | **266,280** | **328,516** | **345,587** | **407,805** |

With respect to financial institutions, the Group operates only with banks with a minimum risk rating of AA (Fitch National Long-Term or equivalent from Moody's or Standard & Poor's).

The table below presents the risk rating of financial investments, cash and cash in transit.

| Cash, demand deposits, cash in transit and financial investments | Note | Parent Company 2016 | Parent Company 2015 | Consolidated 2016 | Consolidated 2015 |
|---|---|---|---|---|---|
| AAA * | 8 | 123,741 | 88,614 | 101,067 | 95,530 |
| AA* | | 72,555 | 45,381 | 102,226 | 47,872 |
| *Others* | | 45,208 | - | 53,138 | 8,691 |
| | | **241,504** | **133,995** | **256,431** | **152,093** |

** Fitch National Long Term*

b.3) Risk of fluctuation in interest rates

This risk arises from the possibility of the Group incurring losses as a result of fluctuations in interest rates on its financial assets and liabilities.

Aiming at mitigating this risk, the Group seeks to diversify the raising of funds in terms of fixed or floating rates with papers pegged to the CDI rate and TJLP, so that any results originating from the volatility of these indexes do not drive material impacts.

The carrying value of financial instruments that represent the maximum exposure to the interest rate risk on the balance sheet date was:

| Assets | Note | Parent company 2016 | Parent company 2015 | Consolidated 2016 | Consolidated 2015 |
|---|---|---|---|---|---|
| Cash, demand deposits and cash in transit | 8 | 22,780 | 22,020 | 31,659 | 33,148 |
| Financial investments | 8 | 218,724 | 111,975 | 224,772 | 118,945 |
| Borrowings | 19 | (460,639) | (358,781) | (499,530) | (479,681) |
| **Total** | | **(219,135)** | **(224,786)** | **(243,099)** | **(327,588)** |

At December 31, 2016, of the parent company and consolidated borrowing balances of R$ 395,757 and R$ 415,950, 85.91% and 83.27%, respectively, relate to BNDES-Exim funding transactions with the BNDES and NCE transactions, at fixed rates.

This rate condition being considered, the Group believes that fluctuations in interest rates will not result in any material impact on its results. Accordingly, the Group maintains financial assets or liabilities bearing fixed interest rates at amortized cost and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model, or carries out sensitivity analyses for the interest rate variation.

b.4) Risk of fluctuation in exchange rates

This arises from the possibility of fluctuations in the exchange rates of the foreign currencies used by the Group for the sale of products and the contracting of financial instruments.

The Group follows the Group's global policy for managing the risk of fluctuation in exchange rates. The main instrument to mitigate this risk is to use derivatives. The Group has a short position (USD and euro) since there is a significant currency volume due to the export market and, consequently, there is a risk of Brazilian currency appreciation relative to these currencies. In the case of JPY transactions, the Group has a long position.

The Group contracts hedge instruments both for the exchange exposure originating from the operations incurred and already reflected in the balance sheet (effective cash flow) and exposure arising from the expectations outlined in the budget (budgeted cash flow).

At December 31, 2016, the Group's exposure in USD (EUR and JPY equivalents in USD) was USD 2,360 thousand in the parent company and USD 4,526 thousand in the consolidated accounts, as shown below:

**Foreign exchange exposure arising from accounts receivable and payable in foreign currency at December 31, 2016**

| | USD thousand | | EUR thousand (*) | | JPY thousand (**) | |
|---|---|---|---|---|---|---|
| **Item** | **Parent company** | **Consolidated** | **Parent company** | **Consolidated** | **Parent company** | **Consolidated** |
| ( + ) Trade receivables | 25,347 | 27,119 | 10,803 | 11,182 | - | - |
| ( + ) Demand deposits (in foreign currency) | 7,080 | 7,139 | 2,925 | 2,927 | - | - |
| ( - ) Imports | (2,836) | (2,865) | (5,249) | (5,285) | (106,232) | (106,232) |
| ( - ) Currency forwards - sale | (24,724) | (24,724) | (10,695) | (10,695) | 86,485 | 86,485 |
| **( = ) Net balance of foreign exchange exposure** | **4,867** | **6,669** | **(2,216)** | **(1,871)** | **(19,747)** | **(19,747)** |

**Net balance of foreign exchange exposure in USD (EUR and JPY equivalents in USD) - in thousands**

| Currency | Parent company | Consolidated |
|---|---|---|
| USD | 4,867 | 6,669 |
| EUR | (2,338) | (1,974) |
| JPY | (169) | (169) |
| **Total** | **2,360** | **4,526** |

(*) Paridade EUR / USD 1.055

(**) Paridade JPY / USD 116.72994

Additionally, we present the notional value of NDFs for hedging the Group's budget:

**Parent company (USD)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | 40,342 | (23,822) | 3.7422 | 59.1% |
| 2018 (Jan-Dec) | 38,325 | (9,984) | 4.0945 | 26.1% |
| **Total** | **78,667** | **(33,806)** | **3.8462** | **43.0%** |

**Consolidated (USD)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | 38,372 | (22,796) | 3.7311 | 59.4% |
| 2018 (Jan-Dec) | 38,325 | (9,984) | 4.0945 | 26.1% |
| **Total** | **76,697** | **(32,780)** | **3.8418** | **42.7%** |

**Parent company(EUR)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | 31,777 | (18,921) | 4.2780 | 59.5% |
| 2018 (Jan-Dec) | 30,188 | (9,753) | 4.7331 | 32.3% |
| **Total** | **61,965** | **(28,674)** | **4.4328** | **46.3%** |

**Consolidated (EUR)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | 31,777 | (18,921) | 4.2780 | 59.5% |
| 2018 (Jan-Dec) | 30,188 | (9,753) | 4.7331 | 32.3% |
| **Total** | **61,965** | **(28,674)** | **4.4328** | **46.3%** |

**Parent company (JPY)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | (570,683) | 327,319 | 0.0346 | 57.4% |
| 2018 (Jan-Dec) | (542,149) | 157,882 | 0.0402 | 29.1% |
| **Total** | **(1,112,832)** | **485,201** | **0.0364** | **43.6%** |

**Consolidated (JPY)**

| Year | Net Exposure (thousands) | Notional Value - Hedge (thousands) | Average Rate (Portfolio NDF) | *% Hedged* |
|---|---|---|---|---|
| 2017 (Jan-Dec) | (570,683) | 327,319 | 0.0346 | 57.4% |
| 2018 (Jan-Dec) | (542,149) | 157,882 | 0.0402 | 29.1% |
| **Total** | **(1,112,832)** | **485,201** | **0.0364** | **43.6%** |

- Sensitivity analysis

For the purposes of carrying out sensitivity analysis of market risks, the Group analyzes together asset and liability positions indexed to a foreign currency.

For the sensitivity analysis of transactions indexed in foreign currency, management adopted as a probable scenario the amounts accounted for and determined at the exchange rates disclosed by the Brazilian Central Bank. For other scenarios, the depreciation and appreciation of the exchange rates were considered as references for calculating the amounts recorded in the books under those scenarios. The other scenarios were estimated with appreciation and depreciation of the real of 25% and 50%, compared to the probable scenario.

# Explanatory notes to the financial statements

*(in thousand of reais)*

The methodology adopted for the calculation of the balances in the table below consisted of replacing the closing foreign exchange rate used for the purposes of accounting records with the stressed rates, in accordance with the scenarios below:

Sensitivity analysis table – foreign exchange exposure of December 31, 2016;

The selling rates published on December 31, 2016 by the Brazilian Central Bank for USD, EUR and JPY were used in this sensitivity analysis.

| | Parent company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | USD/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - USD | ** Average rate of bills of exchange | Total BRL | USD/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - USD | ** Average rate of bills of exchange | Total BRL |
| 50% better | 4.8887 | | 3.3230 | 7,621 | 4.8887 | | 3.3212 | 10,454 |
| 25% better | 4.0739 | | 3.3230 | 3,655 | 4.0739 | | 3.3212 | 5,020 |
| Balance sheet date | 3.2591 | 4,867 | 3.3230 | (311) | 3.2591 | 6,669 | 3.3212 | (414) |
| 25% worse | 2.4443 | | 3.3230 | (4,276) | 2.4443 | | 3.3212 | (5,848) |
| 50% worse | 1.6296 | | 3.3230 | (8,242) | 1.6296 | | 3.3212 | (11,281) |

(*) Amounts in thousands
(**) Average rate of remittance of the bills of exchange that comprise the net balance of foreign exchange exposure

| | Parent company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | EUR/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - EUR | ** Average rate of bills of exchange | Total BRL | EUR/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - EUR | ** Average rate of bills of exchange | Total BRL |
| 50% better | 1.7192 | | 3.5973 | 4,162 | 1.7192 | | 3.5968 | 3,513 |
| 25% better | 2.5788 | | 3.5973 | 2,257 | 2.5788 | | 3.5968 | 1,905 |
| Balance sheet date | 3.4384 | (2,216) | 3.5973 | 352 | 3.4384 | (1,871) | 3.5968 | 296 |
| 25% worse | 4.2980 | | 3.5973 | (1,553) | 4.2980 | | 3.5968 | (1,312) |
| 50% worse | 5.1576 | | 3.5973 | (3,458) | 5.1576 | | 3.5968 | (2,920) |

(*) Amounts in thousands
(**) Average rate of remittance of the bills of exchange that comprise the net balance of foreign exchange exposure

| | Parent company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | JPY/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - JPY | ** Average rate of bills of exchange | Total BRL | JPY/BRL exchange rate for settlement of bills of exchange | * Net balance of foreign exchange exposure - JPY | ** Average rate of bills of exchange | Total BRL |
| 50% better | 0.0140 | | 0.0321 | 357 | 0.0140 | | 0.0321 | 357 |
| 25% better | 0.0209 | | 0.0321 | 221 | 0.0209 | | 0.0321 | 221 |
| Balance sheet date | 0.0279 | (19,747) | 0.0321 | 83 | 0.0279 | (19,747) | 0.0321 | 83 |
| 25% worse | 0.0349 | | 0.0321 | (55) | 0.0349 | | 0.0321 | (55) |
| 50% worse | 0.0419 | | 0.0321 | (194) | 0.0419 | | 0.0321 | (194) |

(*) Amounts in thousands
(**) Average rate of remittance of the bills of exchange that comprise the net balance of foreign exchange exposure

# Explanatory notes to the financial statements

*(in thousand of reais)*

## Budgeted cash flow - exposure in foreign currency

The Group projects and conducts its transactions based on its current cash flows, which means that subsequent changes in the exchange rates can result in expenditure for the Group. To hedge its future cash flow against currency fluctuations, the Group uses forward contracts for USD, EUR and JPY (NDF).

### Sensitivity analysis table

**Parent company sensitivity analysis table – cash flow derivatives portfolio for the period ended December 31, 2016**

| Scenario | Exchange rate for settlement of operations (USD/BRL) | Notional value - USD (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Exchange rate for settlement of operations (EUR/BRL) | Notional value - EUR (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Exchange rate for settlement of operations (JPY/BRL) | Notional value - JPY (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Total adjustment in R$ thousand | Total effect of adjustments on equity - R$ thousand | Net effect on profit or loss - R$ thousand |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50% better | 1.6296 | 33,806 | 3.8463 | 74,939 | 1.7192 | 28,674 | 4.4328 | 77,810 | 0.0419 | (485,201) | 0.0364 | 2,659 | 155,408 | 155,408 | - |
| 25% better | 2.4443 | 33,806 | 3.8463 | 47,395 | 2.5788 | 28,674 | 4.4328 | 53,162 | 0.0349 | (485,201) | 0.0364 | (728) | 99,829 | 99,829 | - |
| Balance sheet date | 3.2591 | 33,806 | 3.8463 | 19,851 | 3.4384 | 28,674 | 4.4328 | 28,513 | 0.0279 | (485,201) | 0.0364 | (4,115) | 44,249 | 44,249 | - |
| 25% worse | 4.0739 | 33,806 | 3.8463 | (7,693) | 4.2980 | 28,674 | 4.4328 | 3,865 | 0.0209 | (485,201) | 0.0364 | (7,501) | (11,329) | (11,329) | - |
| 50% worse | 4.8887 | 33,806 | 3.8463 | (35,237) | 5.1576 | 28,674 | 4.4328 | (20,783) | 0.0140 | (485,201) | 0.0364 | (10,888) | (66,908) | (66,908) | - |

**Consolidated sensitivity analysis table – cash flow derivatives portfolio for the period ended December 31, 2016**

| Scenario | Exchange rate for settlement of operations (USD/BRL) | Notional value - USD (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Exchange rate for settlement of operations (EUR/BRL) | Notional value - EUR (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Exchange rate for settlement of operations (JPY/BRL) | Notional value - JPY (thousand) | Average Rate (Portfolio NDF) | Adjustment in R$ thousand | Total adjustment in R$ thousand | Total effect of adjustments on equity - R$ thousand | Net effect on profit or loss - R$ thousand |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50% better | 1.6296 | 32,780 | 3.8463 | 72,664 | 1.7192 | 28,674 | 4.4328 | 77,810 | 0.0419 | (485,201) | 0.0364 | 2,659 | 153,133 | 153,133 | - |
| 25% better | 2.4443 | 32,780 | 3.8463 | 45,956 | 2.5788 | 28,674 | 4.4328 | 53,162 | 0.0349 | (485,201) | 0.0364 | (728) | 98,390 | 98,390 | - |
| Balance sheet date | 3.2591 | 32,780 | 3.8463 | 19,248 | 3.4384 | 28,674 | 4.4328 | 28,513 | 0.0279 | (485,201) | 0.0364 | (4,115) | 43,646 | 43,646 | - |
| 25% worse | 4.0739 | 32,780 | 3.8463 | (7,460) | 4.2980 | 28,674 | 4.4328 | 3,865 | 0.0209 | (485,201) | 0.0364 | (7,501) | (11,096) | (11,096) | - |
| 50% worse | 4.8887 | 32,780 | 3.8463 | (34,168) | 5.1576 | 28,674 | 4.4328 | (20,783) | 0.0140 | (485,201) | 0.0364 | (10,888) | (65,839) | (65,839) | - |

The selling rates published on December 31, 2016 by the Brazilian Central Bank for USD, EUR and JPY were used.

All the instruments are traded with top-tier banks on an organized over-the-counter market, duly registered with the Clearing House for the Custody and Financial Settlement of Securities, as presented below:

| | | Weighted average forward rate - value for settlement | Notional value - thousand | | | |
|---|---|---|---|---|---|---|
| | | | Parent company | | Consolidated | |
| Foreign currency | | | 2016 | 2015 | 2016 | 2015 |
| **Short position** | **EUR** | **4.21297** | 39,369 | 46,692 | 39,369 | 46,692 |
| **Short position** | **USD** | **3.64052** | 58,530 | 76,464 | 57,504 | 72,148 |
| **Long position** | **JPY** | **0.03575** | (571,686) | (480,374) | (571,686) | (480,374) |

| | | Weighted average forward rate - value for settlement | Fair market value - thousand | | | |
|---|---|---|---|---|---|---|
| | | | Parent company | | Consolidated | |
| Foreign currency | | | 2016 | 2015 | 2016 | 2015 |
| **Short position** | **EUR** | **4.21297** | 22,709 | (20,617) | 22,709 | (20,617) |
| **Short position** | **USD** | **3.64052** | 14,681 | (39,237) | 14,059 | (35,747) |
| **Long position** | **JPY** | **0.03575** | (3,383) | 3,304 | (3,383) | 3,304 |

Counterparties: Banco ABC Brasil; BNP; Bradesco; Brasil; HSBC; Itaú BBA; Mizuho; BTGPactual; Santander.

b.5) Market risk, fluctuations in prices of inputs (commodities).

This risk arises from possible fluctuations in prices of the main raw materials used in the Group's production process, which are: aluminum, copper and nickel.

To minimize and manage this risk, the Group contracts derivative transactions to hedge against fluctuations in the prices of these raw materials, in compliance with the Group's hedging policy.

The table below presents the outstanding position at December 31, 2016 and 2015:

| Long position | Weighted average price on maturity | Notional value - metric tons | | | |
|---|---|---|---|---|---|
| | | Parent company | | Consolidated | |
| | | 2016 | 2015 | 2016 | 2015 |
| **Commodities** | | | | | |
| **Nickel** | **11,013** | - | 48 | - | 48 |
| **Copper** | **5,666** | 225 | 414 | 225 | 414 |
| **Aluminum** | **1,731** | 138 | 385 | 138 | 385 |
| **TOTAL** | | **363** | **847** | **363** | **847** |

| Long position | Weighted average price on maturity | Notional value (fair market value) | | | |
|---|---|---|---|---|---|
| | | Parent company | | Consolidated | |
| | | 2016 | 2015 | 2016 | 2015 |
| **Commodities** | | | | | |
| **Nickel** | **11,013** | - | (503) | - | (503) |
| **Copper** | **5,666** | 405 | (568) | 405 | (568) |
| **Aluminum** | **1,731** | (14) | (235) | (14) | (235) |
| **TOTAL** | | **391** | **(1,306)** | **391** | **(1,306)** |

Additionally, we present the notional value of the commodities to protect the economic plan of the Company.

| Parent company (ALUMINUM) | | | | |
|---|---|---|---|---|
| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
| 2017 (Jan-Dec) | 246 | 138 | 1,731 | 56.1% |
| **Total** | **246** | **138** | **1,731** | **56.1%** |

| Consolidated (ALUMINUM) | | | | |
|---|---|---|---|---|
| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
| 2017 (Jan-Dec) | 246 | 138 | 1,731 | 56.1% |
| **Total** | **246** | **138** | **1,731** | **56.1%** |

| Parent company (COPPER) | | | | |
|---|---|---|---|---|
| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
| 2017 (Jan-Dec) | 396 | 225 | 4,704 | 56.8% |
| **Total** | **396** | **225** | **4,704** | **56.8%** |

| Consolidated (COPPER) | | | | |
|---|---|---|---|---|
| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
| 2017 (Jan-Dec) | 396 | 225 | 4,704 | 56.8% |
| **Total** | **396** | **225** | **4,704** | **56.8%** |

- Sensitivity analysis table

For the purposes of carrying out the sensitivity analysis of market risks, the Group analyzes together long and short positions of the prices of commodities (nickel, copper and aluminum).

For the sensitivity analysis of commodity transactions, management adopted as a probable scenario the amounts recognized in its books, determined by projected prices disclosed by the LME and exchange rates published by the Brazilian Central Bank at December 31, 2016. As a reference, the depreciation and appreciation of the prices used for accounting records were considered for the other scenarios. The scenarios were estimated with appreciation and depreciation of 25% and 50%, respectively, of prices in the probable scenario.

The methodology adopted for calculating the balances presented in the table below consisted of replacing the closing exchange rate and commodity prices at December 31, 2016 used for the purposes of accounting records with the stressed rates and prices calculated in accordance with the following scenarios.

**Sensitivity analysis on results of operations of purchase of commodity swap contracts - Parent company and Consolidated**

| Commodity | Volume in metric tons | Settlement price on maturity (USD/metric ton) | Weighted average price on maturity (USD/metric ton) | Total adjustment BRL | Total effect on purchases of commodities BRL |
|---|---|---|---|---|---|
| **Copper** | | | | | |
| 50% better | | 8,252 | | 1,896 | (1,896) |
| 25% better | | 6,876 | | 887 | (887) |
| Balance sheet date | 225 | 5,501 | 5,666 | (121) | 121 |
| 25% worse | | 4,126 | | (1,130) | 1,130 |
| 50% worse | | 2,751 | | (2,138) | 2,138 |
| **Aluminum** | | | | | |
| 50% better | | 2,570 | | 378 | (378) |
| 25% better | | 2,142 | | 185 | (185) |
| Balance sheet date | 138 | 1,714 | 1,731 | (8) | 8 |
| 25% worse | | 1,285 | | (200) | 200 |
| 50% worse | | 857 | | (393) | 393 |

The selling rates of the USD published on December 31, 2016 by the Brazilian Central Bank and the metal prices published on the same date by the LME were used.

# Explanatory notes to the financial statements

*(in thousand of reais)*

The results from foreign exchange and commodity derivative financial instruments affected the Company's and its subsidiaries' information as presented below:

| | | 2016 | | 2015 | |
|---|---|---|---|---|---|
| | | Parent company | Consolidated | Parent company | Consolidated |
| **Results of derivatives (exports/imports/loan)** | | | | | |
| **Provisions** | | | | | |
| - Operations on accounts receivable and payable | (BS) | 3,056 | 1,092 | (2,776) | (2,757) |
| - Operations on loan | | - | 7,248 | - | 7,248 |
| - Operations on IOC | | 3,943 | 3,943 | - | - |
| **Reversal** | | | | | |
| - Operations on accounts receivable and payable | | 2,776 | 2,757 | 410 | 469 |
| **Cash effect** | | | | | |
| - Operations on accounts receivable and payable | | 34,491 | 22,520 | 64,027 | 52,255 |
| - Operations on loan | | - | (1,964) | - | (648) |
| **Total derivatives operations - net finance result** | Note 31 | **44,266** | **35,596** | **61,661** | **56,567** |
| **Gross result** | | | | | |
| **Gross sales** | | | | | |
| - Settlements with cash effect | | 385 | 385 | (53,057) | (53,057) |
| | | **385** | **385** | **(53,057)** | **(53,057)** |
| **Cost of sales** | | | | | |
| - Settlements with cash effect | | 1,186 | 2,973 | 6,539 | 8,680 |
| | | **1,186** | **2,973** | **6,539** | **8,680** |
| **Total derivative operations - gross result** | | **1,571** | **3,358** | **(46,518)** | **(44,377)** |
| **Equity** | | Parent company | Consolidated | Parent company | Consolidated |
| **Provisions** | | | | | |
| - Operations on sales to be made | (BS) | 28,250 | 27,663 | (46,304) | (43,277) |
| - Operations on commodities | (BS) | 391 | 391 | (1,305) | (1,305) |
| Deferred income tax and social contribution | | 9,738 | 9,538 | 16,187 | 15,158 |
| **Total derivative operations - Equity** | | **38,379** | **37,592** | **(31,422)** | **(29,424)** |
| **Provision for unrealized losses and gains on derivatives** | | | | | |
| **(BS) - Sum of the net balance sheet** | | | | | |
| Balance sheet assets | | 39,233 | 39,724 | 5,036 | 8,550 |
| Balance sheet liabilities | | (3,594) | (4,181) | (55,420) | (55,456) |
| **Balance sheet, net** | | **35,639** | **35,543** | **(50,384)** | **(46,906)** |
| Exchange variations (gains and losses) | | (38,834) | (23,832) | 91,875 | 102,816 |
| Results of derivatives (exports/imports/loan) | | 44,266 | 35,596 | 61,661 | 56,567 |
| Gross sales | | 385 | 385 | (53,057) | (53,057) |
| Cost of sales | | 1,186 | 2,973 | 6,539 | 8,680 |
| **Effects of foreign exchange variation and financial instruments on profit and loss** | | **7,003** | **15,122** | **107,018** | **115,006** |

*Guarantees*

The Group had no guarantee deposits relating to these derivative instruments for the periods presented above (December 31, 2016 and 2015).

## 34 Employee benefits

The employee benefits offered by the Group are mainly granted on a monthly basis and recognized in the accounting records accordingly. There are no post-employment benefits, pension funds or other benefits that require specific accounting treatment.

For the year ended December 31, 2016, the Group granted profit-sharing to its employees, based on a union agreement, in the amount of R$ 35,302 (R$ 42,533 in 2015) in the parent company and R$ 36,959 (R$ 46,212 in 2015) in the consolidated accounts. The criteria established for the payment of profit-sharing follow the rules defined in the collective bargaining agreement, which establish certain goals to be attained, such as: i) meeting production goals for a predetermined number of employees; ii) maintaining the level of absenteeism at or below a previously established annual average rate of hours of absence in relation to the standard hours worked; and iii) maintaining the annual level of waste at or below the previously set average annual rate in relation to the number of parts produced.

***Supplementary pension plan - defined contribution***

In September 2006, the Group joined a free benefit-generating private pension plan, managed by Bradesco Vida e Previdência S.A. (the Manager), offering all its employees the option to participate.

The contributions are defined according to salary bracket. Annually, the Manager conducts an actuarial valuation of the plan in order to determine possible adjustments to the contribution levels.

The Group contributed to the private pension plan an amount of R$ 4,480 in 2016 (R$ 4,832 in 2015).

## 35 Insurance (not audited)

The Group has a policy of taking out insurance coverage for assets subject to risks at amounts considered sufficient to cover losses, considering the nature of its activity. The risk assumptions adopted, given their nature, have not been made part of the scope of an audit and, accordingly, were not examined by our independent auditors. The insurance is contracted with leading insurance companies with the advice of specialist insurance brokers.

For 2016, the insurance coverage against operating risks totaled R$ 1,100,000 for material damages and loss of profits combined.

* * *

# MAHLE Metal Leve S.A.

# Proposal for Capital Budget

MAHLE Metal Leve S.A.
CNPJ nº 60.476.884/0001-87
Publicly traded company

The investments estimated in the capital budget of MAHLE Metal Leve S.A. in 2017 will demand funds in the order of R$ 93.1 million (Parent company) and R$ 111,9 million (consolidated), allocated as follows: a) investments in new products; b) increase in capacity; c) rationalizations; d) tooling; e) quality; f) land and construction; g) research and development equipment; h) information technology: i) environment; j) intangible assets; k) maintenance; and l) other, which will be submitted for approval at the next Ordinary General Meeting.

The Management.

# MAHLE Metal Leve S.A.

# Statutory Audit Board's Opinion

The Statutory Audit Board of MAHLE Metal Leve S.A., elected at the Annual General Meeting on April 27, 2016, in accordance with law and the Company's bylaws, has examined (i) the Management Report, (ii) the Financial Statements for the year ended December 31, 2016 and notes to the financial statements, (iii) Management's Proposal for allocation of result, and (iv) Capital Budget for fiscal year 2017.

As part of its activities, the Board has met in 2016 and in the first quarter of 2017 with the members of the Board of Directors, Executive Board and respective teams, independent auditors and other parties.

These are among the issues that demanded more attention from the Statutory Audit Board:

- Visits to the piston rings and bushes manufacturing plant located in Itajubá, and to the Distribution Center for the aftermarket in Limeira;
- Verification of the impairment testing for non-financial assets (goodwill) of the piston rings manufacturing plant and MAHLE Argentina S.A.;
- Follow-up on the termination of operations of the subsidiary MAHLE Hirschvogel Forjas S.A.;
- Follow-up on the process of dissolution of MAHLE Filtroil Indústria e Comercio de Filtros Ltda.;
- Follow-up on issues related to the management of risks of volatility and exposure to foreign currencies and commodities and any impacts on the Company's businesses;
- Evaluation of the main situations that potentially could result in contingent liabilities and respective judgments exercised, principally labor, tax and civil litigation and respective provisions; and,
- Analysis of the technical study for keeping the recorded amounts of tax credits at December 31, 2016, according to CVM Instruction 371 of June 27, 2012.

# MAHLE Metal Leve S.A.

# Statutory Audit Board's Opinion

**Conclusion**

Based on the documents examined, analyses performed, clarifications provided by management during the fiscal year and the unqualified audit report issued by **PWC Auditores Independentes,** dated March 14, 2017, the Board is of the opinion that the documents referred to in the first paragraph are suitable for consideration by the Annual General Meeting.

Mogi Guaçu, March 14, 2017.

Axel Erhard Brod - Chairman

Eduardo Pocetti – Effective Member

Mario Probst – Effective Member

(A free translation of the original in Portuguese)

# MAHLE Metal Leve S.A.

# Representation by officers on the parent company and consolidated financial statements

MAHLE Metal Leve S.A.
CNPJ No. 60.476.884/0001-87
Publicly-held company

REPRESENTATION

Messrs. Claus Hoppen and Christian Harald Binkert, executive officers of MAHLE Metal Leve S.A., with its head office at Avenida Ernst MAHLE, 2000, Mombaça, in the city of Mogi Guaçu, State of São Paulo, in conformity with item VI of Article 25 of CVM Instruction 480, of December 7, 2009, do hereby declare that:

They have reviewed and discussed, and agree with, the parent company and consolidated financial statements of MAHLE Metal Leve S.A. for the year ended December 31, 2016, and thus authorize their completion.

Mogi Guaçu, March 14, 2017.

_____
Claus Hoppen
CEO

_____
Christian Harald Binkert

(A free translation of the original in Portuguese)

# MAHLE Metal Leve S.A.

# Representation by officers on the independent auditor's report on the financial statements

MAHLE Metal Leve S.A.
CNPJ No. 60.476.884/0001-87
Publicly-held company

REPRESENTATION

Messrs. Claus Hoppen and Christian Harald Binkert, executive officers of MAHLE Metal Leve S.A., with its head office at Avenida Ernst MAHLE, 2000, Mombaça, in the city of Mogi Guaçu, State of São Paulo, in conformity with item V of Article 25 of CVM Instruction 480, of December 7, 2009, do hereby declare that:

They have reviewed and discussed, and agree with, the opinion expressed by PricewaterhouseCoopers Auditores Independentes on the parent company and consolidated financial statements of MAHLE Metal Leve S.A. for the year ended December 31, 2016.

Mogi Guaçu, March 14, 2017

_____
Claus Hoppen
CEO

_____
Christian Harald Binkert
Executive Officer