(A free translation of the original in Portuguese)

**MAHLE Metal Leve S.A.**

# Financial statements at December 31, 2017 and 2016

**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, 2017.**

## *1 Management's Comments*

After three and a half years of continuous drop, when the autoparts industry underwent the worst crisis of its history due to the fall in Brazil's vehicle production, in 2017 the Brazilian automotive industry returned to growth.

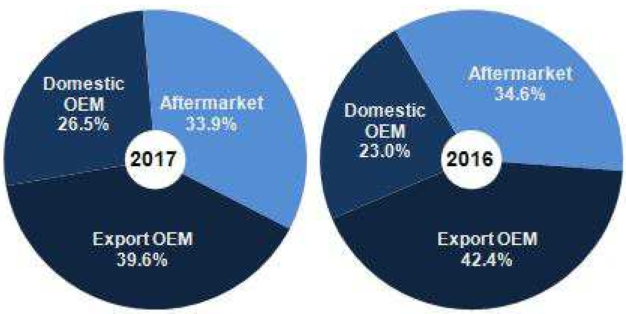
Vehicle production in 2017 grew 24.6% mainly due to a 46.5% increase in exports of vehicles produced in Brazil and a 9.1% increase in vehicle sales.

Accordingly, MAHLE Metal Leve has showed resilience (mainly because of its balanced share in the market it operates), focus on cost reduction and innovation seeking to boost the results of its operations and profitability at satisfactory levels.

In 2017, the Company had net sales revenue of R$ 2,264.5 million, meaning a growth of 5.7% compared to 2016 due to an increase of 21.8% in domestic original equipment manufacturer (OEM) sales, and a 3.6% increase in aftermarket sales. As for OEM exports, although the volumes have increased 2.5%, the negative exchange variation -3.9% led this market to report a fall of 1.4%.

Aftermarket and OEM exports grew 20.1% and 2.5%, respectively, in terms of volume. The OEM exports growth is mainly due to an increase in the light segment exports to automakers in Europe and heavy vehicle exports to North America. Aftermarket exports increased because almost all South America countries to which we export performed well between the periods.

The graph below shows revenue distribution in 2017 and 2016 in the markets where the Company operates.




In 2017 operating income measured by EBITDA was R$ 401.8 million, with EBITDA margin of 17.7%, while adjusted EBITDA in 2016 was R$ 308.7 million.

The Company has worked hard to develop new technologies, always focused in research and development. To that end, working along with several players is the key to accelerate prospection of new and cutting-edge technologies and upthrust our business opportunities.

Accordingly, the Company's Board of Directors approved on January 18, 2018 a business plan for production and commercialization of the MBE2 technology, which consists of a system that acts in fermenters by a control process equipment and a proprietary software. This is a solution that increases the efficiency of bioethanol production by at least 10% with no need to expand the sugar cane planted area.

Use of biofuels in internal combustion engines is an important alternative to significantly reduce emissions of $CO^2$, one of the gases responsible for the greenhouse effect. For this reason, many countries have been using ethanol as strategic fuel. Considering the $CO^2$ emissions under the complete cycle, the so-called well-to-wheel analysis, the use of ethanol is a fast alternative, with existing infrastructure, which, in the future, combined with electrification of vehicles and other advanced propulsion technologies, such as fuel cells, acts towards reducing emissions of greenhouse gases responsible for the global warming.

This technology can be applied to any input and any generation of bioethanol from sugar cane or other biomass, such as corn, widely used in the United States, with efficiency gains still to be assessed. Brazilian and international markets depend on economic and political factors.

With the endless engagement of our professionals, and always working with innovative spirit focused on cost management, we are committed to developing products and solutions to maintain a long-term relationship with our stakeholders, and to face and overcome challenges over 2018.

## 2 Macroeconomic Scenario and Outlook

Year 2017 marked the beginning of Brazil's economic recovery after three years and a half of continuous decline. Although the signs are becoming clear, the resumption has been slow, having as main challenges the social security and fiscal reforms that are yet to be discussed. Production has been still operating with a high level of idleness reflected in low use of industrial capacity and high unemployment rate.

Over 2017, however, economic activity indicators showed a gradual recovery of the Brazilian economy: lower inflation rates, interest rate cuts and the end of inventory adjustments in the production chain.

These changes to a certain extent brought an increase in consumer confidence whose effect is a positive impact on the demand for durable goods, including vehicles. The Brazilian economy seems to be now in conditions to support the difficulties for its growth in long term. This foundation improvement reflected in changes more favorable to the industrial production. Consequently, household consumption can be consolidated as a driving force towards recovery of growth in short term, although job positions will not recover in the same pace as that of the economic activity as a whole.

The crisis' sharpest moment has passed, it seems. Year 2017 was marked by the beginning of the vehicle production and sales recovery and this can extend for future periods. The performance of the automotive industry depended on a solution to the political crisis (after approval in 2016 of the spending celling rule that controls public expenditures, the federal government's approval of the labor reform), thus underpinning consumer and entrepreneurs' confidence, although the political scenario remains unstable due to expectations on the continuity of the necessary adjustments and reforms in the Brazilian economy, the voting of social security reform and the presidential elections set for October 2018.

In general, the market works with a scenario of vehicle production and sales growth in the domestic market in 2018, grounded by the abovementioned economic recovery.

## 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, Volkswagen, Fiat, Ford, Daimler MBB, Opel, International, Cummins, Volvo, PSA Peugeot, John Deere, Renault, Scania, Caterpillar, Honda, Hyundai and others.

We own five industrial plants, four of which are located in Brazil, in the cities of Mogi Guaçu (two units), São Bernardo do Campo, all 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, 16 research and development centers and approximately 77 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

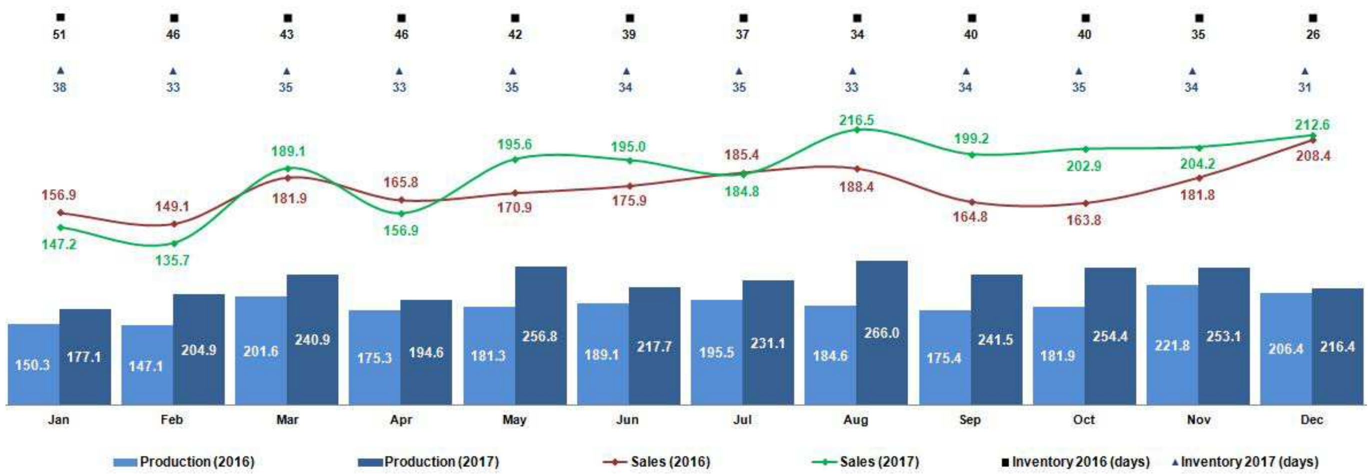
| Brazilian automotive industry | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segments | Jan-Dec 2017 | | | | | Jan-Dec 2016 | | | | | Sales Variation (A/C) | Production Variation (B/D) |
| | Sales (Local + Imp) (A) | Export | Import | Inventory (*) | Total Production (B) | Sales (Local + Imp) (C) | Export | Import | Inventory (*) | Total Production (D) | | |
| Passenger Cars | 1,856,097 | 619,121 | -164,747 | -41,003 | 2,269,468 | 1,688,289 | 411,692 | -203,545 | -117,972 | 1,778,464 | 9.9% | 27.6% |
| Light Commercials | 319,890 | 105,487 | -77,578 | -21,152 | 326,647 | 300,308 | 77,132 | -68,088 | -10,647 | 298,705 | 6.5% | 9.4% |
| **Total of Light vehicles** | **2,175,987** | **724,608** | **-242,325** | **-62,155** | **2,596,115** | **1,988,597** | **488,824** | **-271,633** | **-128,619** | **2,077,169** | **9.4%** | **25.0%** |
| Trucks | 51,941 | 28,288 | -1,783 | 4,441 | 82,887 | 50,559 | 21,548 | -1,817 | -9,808 | 60,482 | 2.7% | 37.0% |
| Buses | 11,755 | 9,137 | -1 | -221 | 20,670 | 11,161 | 9,765 | -7 | -2,214 | 18,705 | 5.3% | 10.5% |
| **Total Trucks and Buses** | **63,696** | **37,425** | **-1,784** | **4,220** | **103,557** | **61,720** | **31,313** | **-1,824** | **-12,022** | **79,187** | **3.2%** | **30.8%** |
| Agricultural | 44,362 | 14,096 | - | -3,470 | 54,988 | 43,701 | 9,598 | - | 733 | 54,032 | 1.5% | 1.8% |
| **Total of medium and heavy vehicle** | **108,058** | **51,521** | **-1,784** | **750** | **158,545** | **105,421** | **40,911** | **-1,824** | **-11,289** | **133,219** | **2.5%** | **19.0%** |
| **Total vehicle sales** | **2,284,045** | **776,129** | **-244,109** | **-61,405** | **2,754,660** | **2,094,018** | **529,735** | **-273,457** | **-139,908** | **2,210,388** | **9.1%** | **24.6%** |
| **Variation (un) - 2017 x 2016** | **190,027** | **246,394** | **29,348** | **78,503** | **544,272** | | | | | | | |
| **Variation (%) - 2017 x 2016** | **9.1%** | **46.5%** | **-10.7%** | **-56.1%** | **24.6%** | | | | | | | |

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

**Brazilian vehicle production** in 2017 grew 24.6%, and **sales of the Brazilian automotive industry** in the domestic market increased 9.1% compared to 2016.

According to the Brazilian Association of Motor Vehicle Manufacturers (ANFAVEA), **vehicle inventory** recorded at the end of 2017 totaled 219.1 thousand units, corresponding to 31 days of sales. In 2016, vehicle inventory was equivalent to 26 days of sales (176.0 thousand units).

The graph below shows the changes in the production, sales and total inventory of national vehicles for 2017 compared to 2016:




### 4.2 Performance of the Argentinean automotive industry

In 2017, the Argentinean automotive industry reported a growth of 23.2% in sales and 0.3% in vehicle production compared to 2016.

| Argentinian automotive industry | | | |
|---|---|---|---|
| **Vehicle Sales (Locally-manufactured and imported)** | **Jan-Dec 2017 (A)** | **Jan-Dec 2016 (B)** | **A/B** |
| Passenger Cars | 642,624 | 518,637 | 23.9% |
| Light Commercials | 241,178 | 202,774 | 18.9% |
| **Total of Light vehicle** | **883,802** | **721,411** | **22.5%** |
| **Total of medium and heavy vehicle (**)** | **26,168** | **17,173** | **52.4%** |
| **Total vehicle sales** | **909,970** | **738,584** | **23.2%** |
| Exports | 209,587 | 190,008 | 10.3% |
| Imports | 624,794 | 439,752 | 42.1% |
| **Automotive trade balance** | **(415,207)** | **(249,744)** | **-66.3%** |
| Vehicle inventory variation in the period (*) | (15,552) | (11,154) | -39.4% |
| **Total vehicle production** | **479,211** | **477,686** | **0.3%** |
| **Production of Light vehicle** | **472,158** | **472,776** | **-0.1%** |
| Production Trucks (***) | 5,357 | 4,002 | 33.9% |
| Production Buses (***) | 1,696 | 908 | 86.8% |
| **Production of medium and heavy vehicle** | **7,053** | **4,910** | **43.6%** |
| **Total Vehicle Production** | **479,211** | **477,686** | **0.3%** |

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

The table below shows consolidated 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 2017 | Jan-Dec 2016 | variation | Jan-Dec 2017 | Jan-Dec 2016 | variation |
| **Light vehicle** | **3,068,273** | **2,549,945** | **20.3%** | **3,059,789** | **2,710,008** | **12.9%** |
| **Medium and heavy vehicle** | **165,598** | **138,129** | **19.9%** | **134,226** | **122,594** | **9.5%** |
| **Total** | **3,233,871** | **2,688,074** | **20.3%** | **3,194,015** | **2,832,602** | **12.8%** |

Source: Anfavea and Adefa

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

The table below shows the figures for vehicle production in 2017 in Europe and NAFTA (Company's main export markets), compared to 2016.

| Vehicle Production in the main exports market | | | |
|---|---|---|---|
| **Segment** | **Jan-Dec 2017 (A)** | **Jan-Dec 2016 (B)** | **A/B** |
| Production of Light vehicle | 17,136,612 | 17,836,685 | -3.9% |
| Production of medium and heavy vehicle | 521,259 | 474,007 | 10.0% |
| **North America** | **17,657,871** | **18,310,692** | **-3.6%** |
| Production of Light vehicle | 22,330,723 | 21,540,272 | 3.7% |
| Production of medium and heavy vehicle | 673,930 | 634,125 | 6.3% |
| **Europe** | **23,004,653** | **22,174,397** | **3.7%** |
| **Total Vehicle Production** | **40,662,524** | **40,485,089** | **0.4%** |

Source: IHS

## 5 Economic and financial performance

| Summary P&L (R$ million) | 2017 | 2016 | V.A. (%) | V.A. (%) | H.A. (%) | 4Q17 | 4Q16 | V.A. (%) | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a/b) | (c) | (d) | (c) | (d) | (c/d) |
| **Net revenues** | **2,264.5** | **2,143.3** | **100.0%** | **100.0%** | **5.7%** | **576.6** | **503.9** | **100.0%** | **100.0%** | **14.4%** |
| Cost of sales | (1,635.8) | (1,550.2) | -72.2% | -72.3% | 5.5% | (421.5) | (382.2) | -73.1% | -75.8% | 10.3% |
| **Gross income** | **628.7** | **593.1** | **27.8%** | **27.7%** | **6.0%** | **155.1** | **121.7** | **26.9%** | **24.2%** | **27.4%** |
| Selling expenses | (146.9) | (145.9) | -6.5% | -6.8% | 0.7% | (41.8) | (41.5) | -7.2% | -8.2% | 0.7% |
| General and administrative expenses | (88.3) | (76.1) | -3.9% | -3.6% | 16.0% | (19.8) | (16.9) | -3.4% | -3.4% | 17.2% |
| Technology and product development expenses | (83.4) | (84.9) | -3.7% | -4.0% | -1.8% | (21.4) | (20.3) | -3.7% | -4.0% | 5.4% |
| Other operating income (expenses) | (2.2) | (258.0) | -0.1% | -12.0% | -99.1% | (12.6) | (229.2) | -2.2% | -45.5% | -94.5% |
| Equity in the results of investees | (0.4) | (2.2) | 0.0% | -0.1% | -81.8% | (0.0) | (2.1) | 0.0% | -0.4% | -100.0% |
| **Operating income** | **307.5** | **26.0** | **13.6%** | **1.2%** | **1082.7%** | **59.5** | **(188.3)** | **10.3%** | **-37.4%** | **N/A** |
| Financial income (expenses), net | (28.4) | (44.8) | -1.3% | -2.1% | -36.6% | (4.4) | (4.7) | -0.8% | -0.9% | -6.4% |
| Income tax and social contribution | (47.2) | 44.7 | -2.1% | 2.1% | -205.6% | (13.9) | 51.3 | -2.4% | 10.2% | -127.1% |
| **Net income attributable to owners of the parent** | **237.3** | **24.6** | **10.5%** | **1.1%** | **864.6%** | **43.5** | **(142.7)** | **7.5%** | **-28.3%** | **N/A** |
| **Adjusted net income attributable to owners of the parent** | **237.3** | **213.2** | **10.5%** | **9.9%** | **11.3%** | **43.5** | **45.9** | **7.5%** | **9.1%** | **-5.2%** |
| Net income of non-controlling interest | (12.6) | (20.5) | -0.6% | -1.0% | -38.5% | (2.3) | (5.4) | -0.4% | -1.1% | -57.4% |
| **EBITDA** | **401.8** | **120.1** | **17.7%** | **5.6%** | **234.6%** | **82.7** | **(164.5)** | **14.3%** | **-32.6%** | **N/A** |
| **Adjusted EBITDA** | **401.8** | **308.7** | **17.7%** | **14.4%** | **30.2%** | **82.7** | **24.1** | **14.3%** | **4.8%** | **243.2%** |
| **Margins:** | | | | | | | | | | |
| Gross margin | 27.8% | 27.7% | | | 0,1 p.p. | 26.9% | 24.2% | | | 2,7 p.p. |
| Operating margin | 13.6% | 1.2% | | | 12,4 p.p. | 10.3% | -37.4% | | | 47,7 p.p. |
| Net margin | 10.2% | 1.2% | | | 9 p.p. | 7.1% | -28.1% | | | 35,2 p.p. |
| Net margin attributable to owners of the parent | 10.5% | 1.1% | | | 9,4 p.p. | 7.5% | -28.3% | | | 35,8 p.p. |
| Adjusted net margin attributable to owners of the parent | 10.5% | 9.9% | | | 0,6 p.p. | 7.5% | 9.1% | | | -1,6 p.p. |
| EBITDA margin | 17.7% | 5.6% | | | 12,1 p.p. | 14.3% | -32.6% | | | 46,9 p.p. |
| Adjusted EBITDA margin | 17.7% | 14.4% | | | 3,3 p.p. | 14.3% | 4.8% | | | 9,5 p.p. |
| **SG&A expenses to net sales revenue** | **10.4%** | **10.4%** | | | **0 p.p.** | **10.7%** | **11.6%** | | | **-0,9 p.p.** |

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

In 2017, consolidated net sales revenue grew 5.7% compared to 2016.

The table below shows the dynamics of the Company's revenue by segment and the impact in terms of volume/price and exchange variation between the years:

| Net revenues by market (R$ Million) | 2017 (a) | Volume/Price (b) | FX-Variation (c) | 2016 (d) | % volume/price impact (b/d) | % FX-impacts (c/d) | H.A. (%) (a/d) |
|---|---|---|---|---|---|---|---|
| **Original equipment** | | | | | | | |
| Domestic[1] | 599.2 | 109.0 | (1.8) | 492.0 | 22.2% | -0.4% | 21.8% |
| Export | 897.9 | 22.6 | (35.2) | 910.5 | 2.5% | -3.9% | -1.4% |
| **Total** | **1,497.1** | **131.6** | **(37.0)** | **1,402.5** | **9.4%** | **-2.7%** | **6.7%** |
| **Aftermarket** | | | | | | | |
| Domestic[1] | 611.0 | 35.1 | (23.5) | 599.4 | 5.9% | -4.0% | 1.9% |
| Export | 156.4 | 28.4 | (13.4) | 141.4 | 20.1% | -9.5% | 10.6% |
| **Total** | **767.4** | **63.5** | **(36.9)** | **740.8** | **8.6%** | **-5.0%** | **3.6%** |
| **Grand total** | **2,264.5** | **195.1** | **(73.9)** | **2,143.3** | **9.1%** | **-3.4%** | **5.7%** |

*[1] Domestic market includes Brazil and Argentina.*

In 2017, the Company reported a volume/price increase of 9.1%, mainly in domestic EOM sales, whose performance was 22.2% above that reported in 2016, coupled with an increase of 20.1% in aftermarket exports, an increase of 5.9% in domestic aftermarket sales, and an increase of 2.5% in OEM exports.

The graph below shows consolidated net sales revenue and market share by segment in the years:


In the 4Q17, the Company reported an increase of 14.4% in its consolidated net sales revenue compared to the 4Q16.

The table below shows the dynamics of the Company's revenues by market segment and the respective impacts in terms of volume/price and exchange variation between the periods:

| Net revenues by market (R$ Million) | 4Q17 (a) | Volume/Price (b) | FX-Variation (c) | 4Q16 (d) | % volume/price impact (b/d) | % FX-impacts (c/d) | H.A. (%) (a/d) |
|---|---|---|---|---|---|---|---|
| **Original equipment** | | | | | | | |
| Domestic¹ | 157.9 | 42.3 | (0.3) | 115.9 | 36.5% | -0.3% | 36.2% |
| Export | 223.4 | 1.9 | 20.9 | 200.6 | 0.9% | 10.5% | 11.4% |
| **Total** | **381.3** | **44.2** | **20.6** | **316.5** | **14.0%** | **6.5%** | **20.5%** |
| **Aftermarket** | | | | | | | |
| Domestic¹ | 157.8 | 8.7 | (2.3) | 151.4 | 5.7% | -1.5% | 4.2% |
| Export | 37.5 | 0.8 | 0.7 | 36.0 | 2.2% | 2.0% | 4.2% |
| **Total** | **195.3** | **9.5** | **(1.6)** | **187.4** | **5.1%** | **-0.9%** | **4.2%** |
| **Grand total** | **576.6** | **53.7** | **19.0** | **503.9** | **10.7%** | **3.7%** | **14.4%** |

*¹ Domestic market includes Brazil and Argentina.*

In the 4Q17, the Company had a growth of 10.7% in sales volume/price compared to the same period of the previous year. Domestic OEM sales in the 4Q17 were 36.5% higher than those reported in the 4Q16, and domestic aftermarket sales volume increased 5.7% between the periods.

The graph below shows consolidated net sales revenue and market share by segment between the quarters:


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

### *Domestic OEM sales:*

In 2017, domestic OEM sales increased 21.8% compared to 2016, while in the 4Q17, domestic OEM sales increased 36.2%. The growth in both periods was due to an increase in vehicle production in this market, which in turn resulted from a growth in the Brazilian vehicle exports. The production increase impact on the sector is clear. On one hand, the used installed capacity level increased due to higher volume of orders both for domestic sales and exports.

### *OEM exports:*

In 2017, the Company exported USD 217.1 million and EUR 93.2 million, while in 2016 exports totaled USD 206.0 million and EUR 85.4 million, an increase of 5.4% and 9.1%, respectively, mainly due to an increase in light vehicle sales to Europe and heavy vehicle sales to North America. Despite such growth, the exchange variation between the periods resulted in a fall of 1.4% in the total OEM exports compared to 2016.

In the 4T17, the Company reported a growth of 11.4% in OEM exports, mainly due to a positive impact of 10.5% in exchange variation, while volumes increased 0.9%.

### 5.3 Aftermarket sales

***Domestic aftermarket sales:***

In 2017, domestic aftermarket sales increased 1.9%, with a volume increase of 5.9%, which was partially offset by the exchange variation -4.0% on the aftermarket sales in Argentina (these sales were consolidated into our domestic aftermarket sales).

In the 4Q17, domestic aftermarket sales grew 4.2%. Such percentage results from an increase of 5.7% in the volume of sales to this market, offset by the  exchange variation -1.5% also resulting from the aftermarket sales in Argentina.

In both periods, such growth resulted from an increase in the volume of sales of the heavy segment, thus reflecting a slow recovery of the economic activity in the country. One of the reasons for the heated aftermarket sales for the heavy segment is that used vehicle market is performing well: used truck and bus sales increased in 2017, according to the National Federation of Motor Vehicle Distributors (Fenabrave).

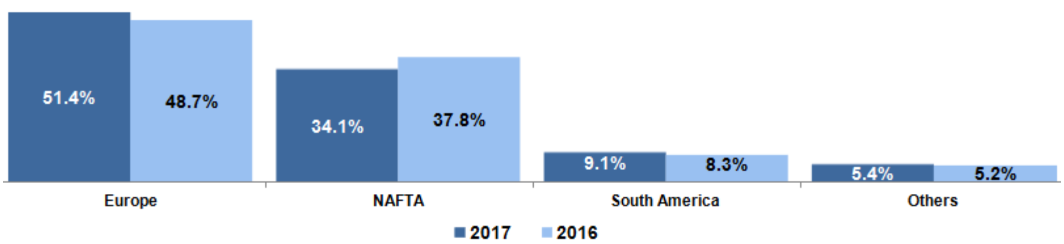
***Aftermarket exports:***

In 2017, aftermarket exports grew 10.6% compared to 2016.

This growth is due to an increase of 20.1% in the volume of sales to South America countries. According to the Ministry of Industry, Foreign Trade and Services (MDIC), the Pacific Alliance countries imported more Brazilian products in 2017 because of an evolution in trade agreements entered into with those countries. The products imported from Brazil include passenger and cargo vehicles, engines and their components. Another factor that impacted this market was the  exchange variation -9.5% between the periods. The main countries to which the Company exports include, among others Chile, Paraguay, Peru, Bolivia and Uruguay.

### 5.4 Consolidated exports by region

The graph below shows the distribution of the Company's sales by geographic region in 2017 and 2016:

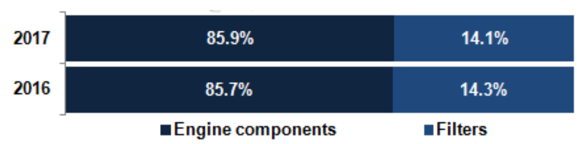


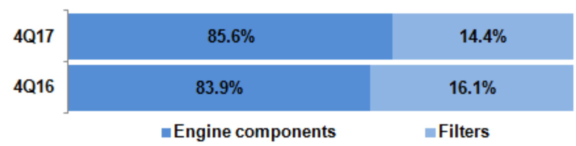

### 5.5 Net sales revenue by segment

In 2017, engine component sales grew 5.9%, and filter sales grew 4.4% compared to 2016. Comparing the 4Q17 with the 4Q16, engine component sales increased 16.8%, while filters sales increased 2.2%, as shown in the opposite:

| Performance of the net sales revenue by segment (R$ million) | 2017 (a) | 2016 (b) | H.A. (%) (a/b) | 4Q17 (c) | 4Q16 (d) | H.A. (%) (c/d) |
|---|---|---|---|---|---|---|
| Engine components | 1,945.1 | 1,837.4 | 5.9% | 493.8 | 422.9 | 16.8% |
| Filters | 319.4 | 305.9 | 4.4% | 82.8 | 81.0 | 2.2% |
| **Total** | **2,264.5** | **2,143.3** | **5.7%** | **576.6** | **503.9** | **14.4%** |

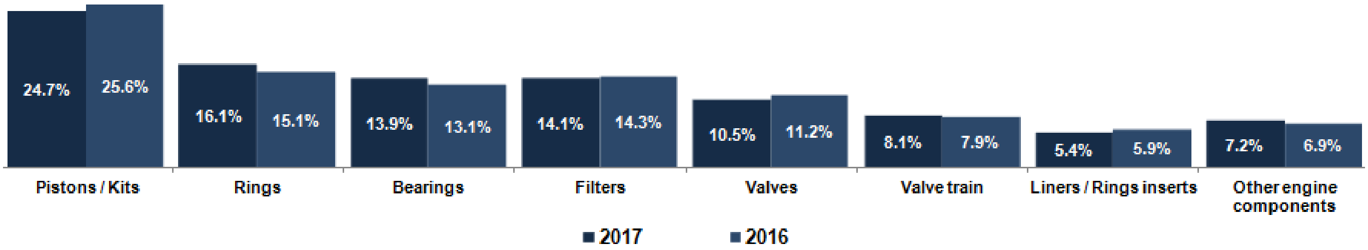
It should be noted that the Company does not export filters; therefore, this segment has not been subject to impacts of exchange variation between the quarters, as happened in the engine components segment. The opposite chart shows the dynamics of sales of both segments in 2017 and 2016, as well as in the 4Q17 and 4Q16:



### 5.6 Net sales revenue by product

The graph below shows total sales share by product in 2017 and 2016:




### 5.7 Gross margin

As shown in the table below, the Company closed 2017 with gross margin of 27.8% (27.7% in 2016), thus in line with the historical level. In the 4Q17, gross margin was 26.9% (24.2% in the 4Q16):

| Summary P&L (R$ million) | 2017 | 2016 | V.A. (%) | V.A. (%) | H.A. (%) | 4Q17 | 4Q16 | V.A. (%) | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a/b) | (c) | (d) | (c) | (d) | (c/d) |
| **Net revenues** | **2,264.5** | **2,143.3** | **100.0%** | **100.0%** | **5.7%** | **576.6** | **503.9** | **100.0%** | **100.0%** | **14.4%** |
| Cost of sales | (1,635.8) | (1,550.2) | -72.2% | -72.3% | 5.5% | (421.5) | (382.2) | -73.1% | -75.8% | 10.3% |
| **Gross income** | **628.7** | **593.1** | **27.8%** | **27.7%** | **6.0%** | **155.1** | **121.7** | **26.9%** | **24.2%** | **27.4%** |
| Gross margin | 27.8% | 27.7% | | | 0,1 p.p. | 26.9% | 24.2% | | | 2,7 p.p. |

### 5.8 Selling, general and administrative expenses

Selling expenses were very similar when comparing 2017 with 2016 or the 4Q17 with the 3Q16. The increase in general and administrative expenses, in turn, is mainly due to payment of indemnity for employment terminations to adjust the number of employees in both periods analyzed.

| Summary P&L (R$ million) | 2017 | 2016 | V.A. (%) | V.A. (%) | H.A. (%) | 4Q17 | 4Q16 | V.A. (%) | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a/b) | (c) | (d) | (c) | (d) | (c/d) |
| **Net revenues** | **2,264.5** | **2,143.3** | **100.0%** | **100.0%** | **5.7%** | **576.6** | **503.9** | **100.0%** | **100.0%** | **14.4%** |
| Selling expenses | (146.9) | (145.9) | -6.5% | -6.8% | 0.7% | (41.8) | (41.5) | -7.2% | -8.2% | 0.7% |
| General and administrative expenses | (88.3) | (76.1) | -3.9% | -3.6% | 16.0% | (19.8) | (16.9) | -3.4% | -3.4% | 17.2% |
| **SG&A expenses** | **(235.2)** | **(222.0)** | **10.4%** | **10.4%** | **5.9%** | **(61.6)** | **(58.4)** | **10.7%** | **11.6%** | **5.5%** |
| **SG&A expenses to net sales revenue** | **10.4%** | **10.4%** | | | **0 p.p.** | **10.7%** | **11.6%** | | | **-0,9 p.p.** |

### 5.9 Technology and product development expenses

R&D expenses accounted for 3.7% of net sales revenue in 2017 (4.0% in 2016). The same percentages were recorded in the 4Q17 and 4Q16, respectively. In terms of annual variation, there was a reduction of 1.8%, while the percentage increased 5.4% between the quarters.

| Summary P&L (R$ million) | 2017 | 2016 | V.A. (%) | V.A. (%) | H.A. (%) | 4Q17 | 4Q16 | V.A. (%) | V.A. (%) | H.A. (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a/b) | (c) | (d) | (c) | (d) | (c/d) |
| **Net revenues** | **2,264.5** | **2,143.3** | **100.0%** | **100.0%** | **5.7%** | **576.6** | **503.9** | **100.0%** | **100.0%** | **14.4%** |
| Technology and product development expenses | (83.4) | (84.9) | -3.7% | -4.0% | -1.8% | (21.4) | (20.3) | -3.7% | -4.0% | 5.4% |

### 5.10 *Other operating income (expenses), net*

In 2017, a net expense of R$ 2.2 million was recorded in other net operating income (expenses), representing a positive variation of R$ 255.8 million in relation to 2016. In the 4Q17, the Company recorded a net expense of R$ 12.6 million in net operating income (expenses), meaning a positive variation of R$ 216.6 million compared to the 4Q16. It is important to note that in the 4Q16 the Company recorded a non-recurring expense referring to a provision for impairment losses (impairment of the piston ring business of the engine segment). The main changes in the period were the following:

- ✓ Provision/reversal for labor, civil and tax contingencies;
- ✓ Gain on disposal of assets (write-off of asset - sale of MAHLE Metal Leve Miba Sinterizados Ltda.);
- ✓ Income from Recovered Taxes (Reintegra program).

| Others incomes and expenses, net | 2017 (a) | 2016 (b) | Var. (a-b) | 4Q17 (c) | 4Q16 (d) | Var. (c-d) |
|---|---|---|---|---|---|---|
| Provision for intangible losses (impairment) | - | (188.6) | 188.6 | - | (188.6) | 188.6 |
| Provision/Reversal for labor, civil and tax contingencies | (36.9) | (69.7) | 32.8 | (19.7) | (39.7) | 20.0 |
| Gains/losses on disposal of assets/others | 17.3 | - | 17.3 | - | - | - |
| Recovered taxes (Reintegra) | 15.7 | 0.8 | 14.9 | 4.1 | 0.2 | 3.9 |
| Electric power | 2.8 | (3.7) | 6.5 | 1.8 | 0.1 | 1.7 |
| Provision/Reversal for losses on products | (0.7) | (0.9) | 0.2 | (0.7) | (0.9) | 0.2 |
| Provision for environmental liability | - | 0.6 | (0.6) | - | 0.6 | (0.6) |
| Provision for restructuring | - | 0.6 | (0.6) | - | - | - |
| Gains/losses on disposal of assets/others | (3.4) | - | (3.4) | (0.2) | (0.5) | 0.3 |
| Provision/Reversal for obsolescence | (1.6) | 2.5 | (4.1) | 0.2 | 0.4 | (0.2) |
| Other income/expenses | 4.6 | 0.4 | 4.2 | 1.9 | (0.8) | 2.7 |
| **Total of others incomes and expenses, net** | **(2.2)** | **(258.0)** | **255.8** | **(12.6)** | **(229.2)** | **216.6** |

The positive variation in Recovered Taxes results from the change in the tax rates under the *Reintegra* Program (a special tax recovery regime for export companies), as shown in the opposite table:

| Reintegra | |
|---|---|
| **Period** | **Aliquot** |
| December, 2015 - December, 2016 | 0.1% |
| January, 2017 - December, 2017 | 2.0% |

### 5.11 *Operating income measured by EBITDA*

In 2017, EBITDA was R$ 401.8 million (R$ 308.7 million in 2016 - adjusted), with EBITDA margin of 17.7% (14.4% in 2016 - adjusted). The table below shows the changes in the accounts that make up the operating income in the periods:

| Adjusted EBITDA 2016 | Other operating income (expenses) | Technology and product development expenses | Gross income | Depreciation | Equity in the results of investees | Selling expenses | General and administrative expenses | Impairment (rings business) | EBITDA 2017 |
|---|---|---|---|---|---|---|---|---|---|
| 308.7 | 255.8 | 1.5 | 35.6 | 0.2 | 1.8 | (1.0) | (12.2) | (188.6) | 401.8 |
| EBITDA margin 14.4% | | | | | | | | | EBITDA margin 17.7% |

In the 4Q17, EBITDA was R$ 82.7 million (R$ 24.1 million in the 4Q16 - adjusted), representing an EBITDA margin of 14.3% (4.8% in the 4Q16 - adjusted). The table below shows the changes in the accounts that make up the operating income in the periods:

| Adjusted EBITDA 4Q16 | Gross income | Other operating income (expenses) | Technology and product development expenses | Equity in the results of investees | Depreciation | General and administrative expenses | Selling expenses | Impairment (rings business) | EBITDA 4Q17 |
|---|---|---|---|---|---|---|---|---|---|
| 24.1 | 33.4 | 216.6 | (1.1) | 2.1 | (0.6) | (2.9) | (0.3) | (188.6) | 82.7 |
| EBITDA margin 4.8% | | | | | | | | | EBITDA margin 14.3% |

### 5.12 Net financial income (expenses)

In 2017, the Company recorded a net financial expense of R$ 28.4 million (R$ 44.8 million in 2016), representing a positive variation of R$ 16.4 million between the years.

In the 4Q17, the Company recorded a net financial expense of R$ 4.4 million (R$ 4.7 million in the 3Q16), representing a positive variation of R$ 0.3 million between the periods.

| Net financial result (R$ million) | 2017 (a) | 2016 (b) | Var. (a - b) | 4Q17 (c) | 4Q16 (d) | Var. (c - d) |
|---|---|---|---|---|---|---|
| Interests (income on investments) | 24.4 | 13.1 | 11.3 | 4.3 | 6.0 | (1.7) |
| Interests (expenses on financing) | (35.8) | (38.3) | 2.5 | (5.3) | (9.7) | 4.4 |
| Interests (Others) | 4.9 | 6.2 | (1.3) | 0.3 | 2.0 | (1.7) |
| **Interests, net (i)** | **(6.5)** | **(19.0)** | **12.5** | **(0.7)** | **(1.7)** | **1.0** |
| Exchange variation, net | 23.5 | (31.8) | 55.3 | 12.4 | (2.4) | 14.8 |
| Result with derivatives | (3.3) | 44.3 | (47.6) | (6.3) | 9.8 | (16.1) |
| **Exchange variation and Result with derivatives (ii)** | **20.2** | **12.5** | **7.7** | **6.1** | **7.4** | **(1.3)** |
| Monetary variation, net | (35.6) | (32.5) | (3.1) | (8.4) | (8.8) | 0.4 |
| Others | (6.5) | (5.8) | (0.7) | (1.4) | (1.6) | 0.2 |
| **Monetary variation, net + Others (iii)** | **(42.1)** | **(38.3)** | **(3.8)** | **(9.8)** | **(10.4)** | **0.6** |
| **Financial income (expenses), net (i + ii + iii)** | **(28.4)** | **(44.8)** | **16.4** | **(4.4)** | **(4.7)** | **0.3** |

The positive variation of R$ 11.3 million in Interests (income on investments) between 2017 and 2016 results from an increase in the average investment levels in the period (R$ 292.6 million and R$ 132.0 million, respectively, averages for 2017 and 2016), which was partially offset by a reduction in the remuneration percentages (9.4% p.a. and 13.0% p.a., respectively, averages for 2017 and 2016). Comparing the quarters, there is a negative variation of R$ 1.7 million in Interest (income on investments) resulting from a reduction in the remuneration percentages (7.2% p.a. and 13.3% p.a., respectively, averages for the 4Q17 and 4Q16), as shown in the table below:

| Interest rates and volumes (average) | 2017 (a) | 2016 (b) | Var. (a - b) | 4Q17 (c) | 4Q16 (d) | Var. (c - d) |
|---|---|---|---|---|---|---|
| Remunetarion of investments | 9.4% | 13.0% | -3,6 p.p. | 7.2% | 13.3% | -6,1 p.p. |
| Cost of debt | 8.3% | 9.4% | -1,1 p.p. | 6.8% | 8.9% | -2,1 p.p. |
| Investments - average | 292.6 | 132.0 | 121.7% | 233.8 | 220.8 | 5.9% |
| Average debt | (429.5) | (412.4) | 4.1% | (267.4) | (459.2) | -41.8% |

[1] - Bank deposit certificates (CDBs) and repurchase agreements with average remuneration of 98.4% of interbank deposit (CDI) rate, invested exclusively with first-rate banks in Brazil.

There was an increase in the average volume of gross debt of 4.1% (from R$ 412.4 million to R$ 429.5 million in 2016 and 2017, respectively) due to changes in loans and financing, mainly those taken from the National Bank for Economic and Social Development (BNDES) and from commercial banks (export credit notes - NCE). In the 4Q17 and 4Q16, the average volume of gross debt fell 41.8% (R$ 459.2 million and R$ 267.4 million in the 4Q16 and 4Q17, respectively). The average cost of debt between 2017 and 2016 decreased, as happened in the 4Q17 and 4Q16, as shown in the table above.

### 5.13 Income and social contribution taxes

As of December 31, 2017, the Company recorded an income and social contribution tax expense of R$ 47.2 million, consolidated (income of R$ 44.7 million as of December 31, 2016), as detailed below:

- Current tax: expense of R$ 70.6 million generated mainly by the controlling shareholder and its subsidiary MAHLE Argentina S/A.
- Deferred tax: income of R$ 23.4 million with no impact on cash, comprising mainly changes in the provisions and realization of differences measured according to Law 12.973/14.

Additional information is available in note 13 to the Financial Statements as of December 31, 2017.

### *5.14 Net income*

In 2017, the Company had net income of R$ 237.3 million (R$ 213.2 million adjusted, in 2016), meaning a growth of 11.3% between the years, while net margin in 2017 was 10.5% (9.9% in 2016 - adjusted). In the 4Q17, net income was R$ 43.5 million (R$ 45.9 million adjusted, in the 4Q16), meaning a drop of 5.2% between the periods, while net margin in the 4Q17 was 7.5% (9.1% in the 4Q16 - adjusted).

### *5.15 Capital expenditures*

The table below shows capital expenditures (capex) as well as total accumulated depreciation in 2017 and 2016, respectively:

| CAPEX & Depreciation (R$ million) | 2017 | 2016 |
|---|---|---|
| Capex | 89.8 | 99.3 |
| Total depreciation | 94.6 | 94.6 |

| Capex | 2017 | 2016 |
|---|---|---|
| % of Net sales revenue | 4.0% | 4.6% |
| % of Depreciation | 94.9% | 105.0% |

In 2017, capex were channeled into R&D equipment, replacement of machinery and equipment to increase productivity and quality, new products, new buildings, IT, among others.

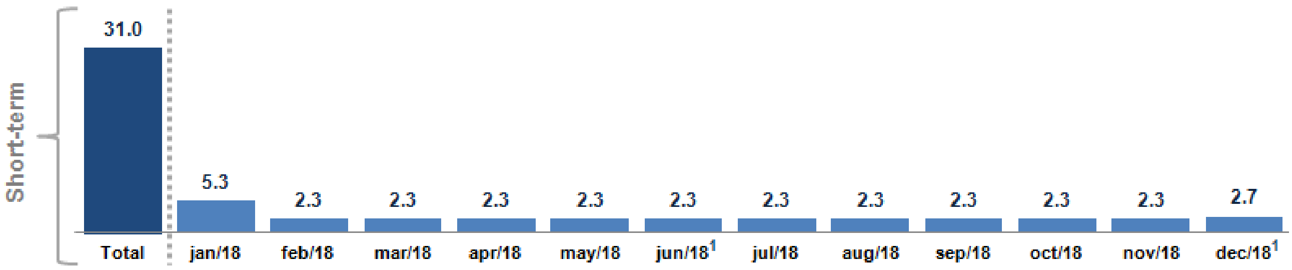
### *5.16 Net position of financial assets and liabilities*

At the end of 2017, the Company reported a positive net position of financial assets and liabilities of R$ 14.0 million, while at the end of 2016, its net position was a negative (R$ 183.3 million).

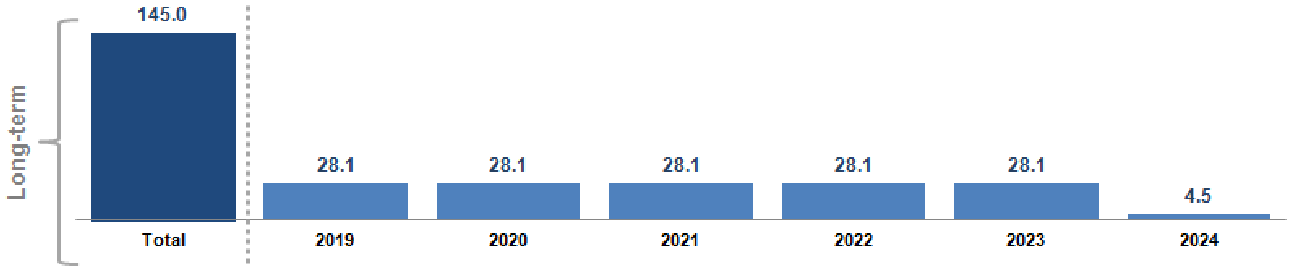
| Net indebtedness (R$ million) | As of Dec/31/2017 (a) | As of Dec/31/2016 (b) | Variation (a - b) | % Debt (a) | % Debt (b) |
|---|---|---|---|---|---|
| Liabilities (i) | 176.0 | 499.5 | (323.5) | 100% | 100% |
| Short term | 31.0 | 156.3 | (125.3) | 18% | 31% |
| Long term | 145.0 | 343.2 | (198.2) | 82% | 69% |
| Cash / banks / cash investments/ Loans - related parties (ii): | (190.0) | (316.2) | 126.2 | | |
| Net position (i + ii) | (14.0) | 183.3 | (197.3) | | |

In 2017, the Company reported a net position of R$ 14.0 million.

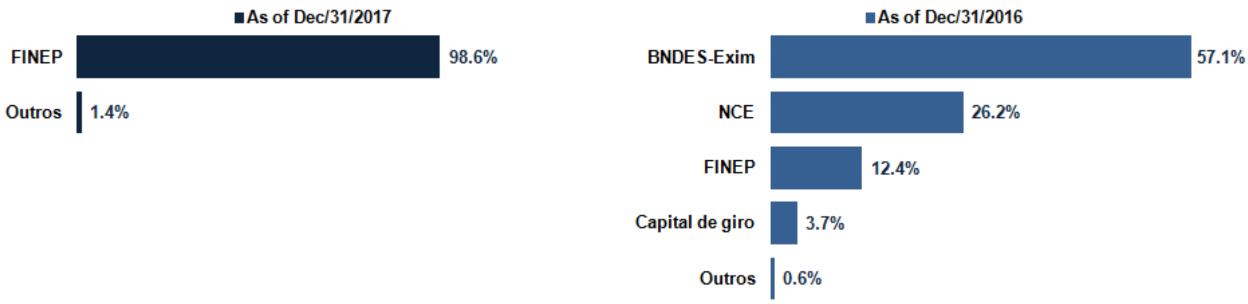
The graphs below show the maturities of short-term and long-term transactions at the end of 2017, representing 18% and 82%, respectively, of the financing described in the above table:




[1] In October 2017 the Company repaid R$ 59.5 million, whose original maturity was June 2018, referring to a credit line from BNDES-EXIM, bearing interest of 9.95 p.a.% (Long-Term Interest Rate (TJLP) + 2.00% + 0.95%), and also repaid R$ 32.0 million, whose original maturity was 2018, also borrowed from BNDES-EXIM, bearing interest of 9.90 p.a.% (TJLP + 2.00% + 0.90%).




Below is a breakdown of the Company's financing transactions per type for each of the periods indicated in the table above:




### 5.17 *Dividends and interest on capital to shareholders*

The table below shows the interest on capital amounts the Board of Directors approved for distribution to shareholders for fiscal year 2017, to be submitted to approval by the 2018 Annual Shareholders' Meeting:

| Date | Payment Date | Type of pay-out | Period | Reference Year | Total Gross Amount (in R$ million) | Gross Amount per Share (in R$) | Net Amount per Share (in R$) |
|---|---|---|---|---|---|---|---|
| December 27th, 2017 | May 24th, 2018 | Interest on capital | November, 2017 - December, 2017 | 2017 | 14.9 | 0.1159202112 | 0.0985321795 |
| November 14th, 2017 | December 21st, 2017 | Interest on capital | August, 2017 - October, 2017 | 2017 | 22.1 | 0.1723699626 | 0.1465144682 |
| August 08th, 2017 | September 15th, 2017 | Interest on capital | January, 2017 - July, 2017 | 2017 | 51.0 | 0.3972551775 | 0.3376669009 |
| | | | **Interest on capital** | | **88.0** | **0.6855453513** | **0.5827135486** |

## 6 *Investor Relations and Capital Market*

Over 2017, 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 fourth 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 2016 financial statements, in the category of net income of up to R$ 5 billion.

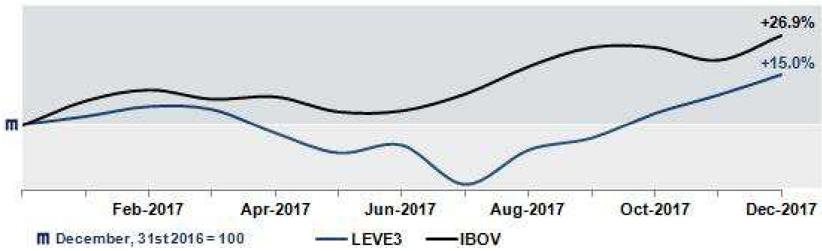
The Transparency Award – from ANEFAC-FIPECAFI-SERASA EXPERIAN – represents the recognition of the importance the winning companies give to accountability and quality when disclosing their financing statements to investors and market in general.

Created in 1997, the Transparency Award encourages the reporting of financial statements as a form of communication rather than a legal obligation. With technical assessment of FIPECAFI (Institute for Accounting, Actuarial and Financial Research Foundation) and the incentive of Serasa Experian (a credit protection agency), the assessment commitment strictly evaluates the transparency of the accounting information stated in the financial statements and disclosed to the market.

Given the challenging changes in the accounting practices, the Transparency Award follows the development of the statements over time, encouraging excellence in accountability by Brazilian entrepreneurs.


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

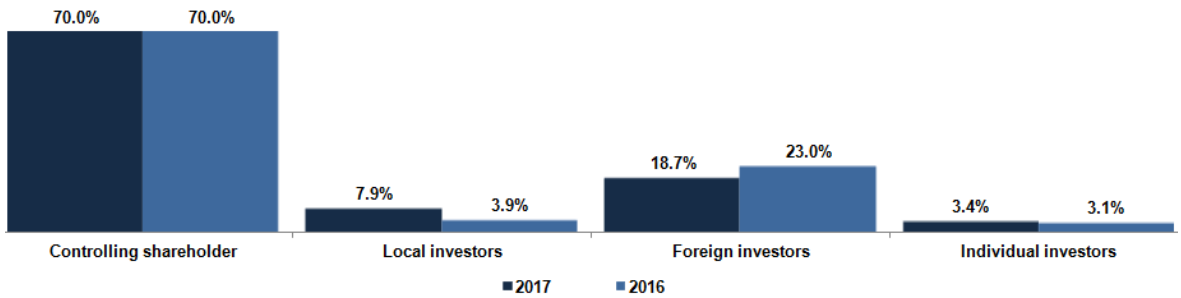
The graphs below show the evolution of LEVE3 shares, the Average Daily Trading Volume (ADTV) and the ADTV turnover in relation to the free-float market capitalization:




| Average Daily Trading Volume (ADTV) and ADTV turnover to Free-Float Mkt Cap | | | | |
|---|---|---|---|---|
| Period | 1Q17 | 2Q17 | 3Q17 | 4Q17 |
| Trading Volume (R$ million) | 3.4 | 3.7 | 5.0 | 6.4 |
| Turnover (%) | 0.40% | 0.47% | 0.70% | 0.75% |

### 6.2 Shareholders' profile

At the end of 2017 and 2016, respectively, shareholders' profile in relation to the quantity of the Company shareholders, including free-float shares, was represented as follows:




The graph below shows the main countries in which the Company's free-float shares were held at the end of 2017 and 2016, respectively:

## 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.

- A systematic risk management process where managers of business units and corporate functions identify, report and control risks relating to their respective areas in line with the risk management policy.

- An Internal Control department that carries out independent and periodical 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 the Executive Board.

The Board of Directors is composed of five permanent members and five alternates, one of them is a permanent (and respective alternate) and independent member elected by the minority shareholders. Another member appointed by the controlling shareholder is considered independent because he has no relationship with the controlling shareholder, has not been an employee or officer of the Company in the past three years, has not been a relevant supplier of the Company and has not received any compensation from the Company (except for his function as a board member ).

The Company also has 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. The Company also has 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

The most important energy efficiency regulation program ever developed by the federal government was INOVAR-AUTO, which terminated in December 2017. MAHLE was responsible for several technologies adopted by automakers, particularly powertrain low-friction product solutions compatible with low viscosity lubricating oils, optimized compression rates, advanced fuel injection and intake systems (turbo, direct injection, 3-cylinder engines).

In anticipation of the INOVAR-AUTO termination, the federal government began discussions on the so-called ROTA 2030, which is a proposed industrial policy for the automotive industry that seeks to establish technological evolution targets for the industry to eliminate by 2032 current differences in relation to developed markets, particularly Europe. These discussions have been leaded by the Ministry of Industry, Foreign Trade and Services (MDIC), and MAHLE Metal Leve has acted decisively in the discussion forums through the National Union of Manufacturers of Automotive Vehicle Components (SINDIPEÇAS) and the Brazilian Association of Automotive Engineering (AEA). Expected developments include new advancements focused on improving energetic efficiency, more intensive use of renewable and sustainable fuels (with emphasis on ethanol), electrification and hybridization technologies. Brazilian government is expected to approve ROTA 2030 program in the next months of 2018. The Renovabio program, already approved, also strengthens Brazil’s strategy to use biofuels (ethanol, biodiesel, biogas) as part of the integrated solutions of Brazil's commitments under COP21 and greenhouse gas emission targets.

Besides the above, MAHLE Metal Leve released a Notice to the Market on February 15, 2018 informing of its entry to the sugarcane-alcohol market with the revolutionary product MBE2. This is a disruptive technology that increases by 10% the efficiency of the process of fermentation of the ethanol produced from sugarcane. The original idea presented by two external inventors was adopted and have been developed by MAHLE in the last four years, with experiments and tests in its laboratories at the Judiaí Tech Center, at a partner plant in the region of Sertãozinho, São Paulo, as well as at laboratories of Universities and Research Centers of the industry.

In addition, piston rings technologies were developed for more effective use in higher energy efficiency and higher power density engines implemented under the INOVAR-AUTO program. Solutions were developed for heavy diesel engines, seeking to increase aluminum piston strength, thus allowing its use under conditions that normally would require steel pistons. The so-called “Blindagua” filter, a product developed by the Company (with patents in Brazil and abroad, which separates water from diesel, went into production. The Blindagua filter is the only one with a dual stage of operation, removing water from diesel three times more than a conventional filter, therefore extending the life of components and engines.

As to the intellectual property produced, nine patent applications were filed in 2017, six of them refer to filtration systems and peripherals and three to engine components.

## 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 2017, more than 90% of our professionals were inserted into development actions, with approximately R$ 3.0 million invested. Such actions include activities of training in production processes, development of leadership, education and foreign language allowances, internships, etc. In 2017, the Company invested relevant sums in development of experts for implementation of the MAHLE Production System (MPS), which covers the Company's global strategies aiming at perpetuating the business through lean production.

As of December 31, 2017, the Company had 7,756 employees.

## 11 Integrated Management System, Occupational Safety & Environment

The Company defends that an assertive action is associated with safe behavior and preservation of our environment.

To that end, MAHLE Metal Leve establishes occupational health and safety and environmental protection principles applicable worldwide. Our guiding principle is respect for life, and our goal is sustainable management of the business. Every year we define goals based on these guidelines and determine concrete measures to achieve them.

For MAHLE, work safety is essential. It invests continuously in actions and initiatives to ensure its professionals work under proper and safety conditions and its processes are continuously improved by using the best practices available in the market.

In 2017, a Global Occupational Safety Program was launched with the slogan “I Care We Care”, whose purpose is to ensure safety at workplace and continuously improve it, maintaining a standard for all places worldwide and encouraging the "Safety First” strategic concept. Challenging targets were set towards improving the work safety indicators, and its performance has been measured and managed.

Encouraging safe behavior through positive reinforcement is the purpose of the Safety Observation Tour – SOT campaign, which was launched in 2017 at the MAHLE group worldwide. This is a tool focused on health and safety, developed for direct interaction of managers and employees, where each management level makes the tour within certain intervals. It is important to note that this is not a safety audit or inspection. With the message “I Care We care”, the intention is help managers and employees to practice prevention and safety as a value, and more than that, to stimulate the feeling of proud of working safely, taking care of themselves and the others.

Ergonomics is also a focus of our efforts. Our management is focused on minimizing employees’ efforts when executing their daily work, by improving their physical and psychological conditions as well as their social relationships. In 2017, a committee was structured to give priority to and set standards for such actions.

The “TERRA” (Earth) Program is still in place, encouraging actions and goals based on four pillars: Water, Energy, Wastes and Effluents. It is an environmental sustainability program that aims to develop and encourage 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. Actions were taken over the year to stimulate employees to adopt conscious behavior and habits.


We incorporate the thought of life cycle analysis to develop ways to use all resources efficiently and find means for the wastes generated from raw material and production inputs have value added and may return to the initial life cycle, preferentially with the MAHLE Metal Leve production process. If not possible, with external partners, in order to allow environmental, economic and social gains.

The direct environmental benefit of these projects is the efficient use of the natural resources by recovering the materials contained in the wastes, so as to respect the nature’s limited supporting capacity, which is essential to the human life, as this is the principle of the "TERRA Program”.

## 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 nor affects the independence and objectivity required by independent auditing services.

During 2017, 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 year ended December 31, 2017 and the conclusions expressed in the independent auditor's report.

## 14 Acknowledgements

Company's management thanks its shareholders, employees, customers and suppliers for the support and trust during 2017.

*Management*

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(A free translation of the original in Portuguese)

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

***Parent company and consolidated financial statements at December 31, 2017 and independent auditor's report***

(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. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2017 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, 2017 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, 2017, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and 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.



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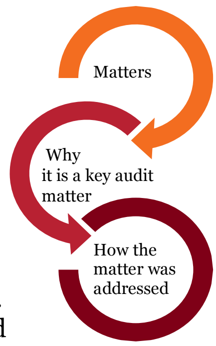
Caixa Postal 3136 T: (19) 3794-5400, www.pwc.com/br*

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.




We planned and performed our audit for the year ended December 31, 2017 considering that the operations of the Company and of the Company and its subsidiaries remained substantially the same in relation to the prior year. In this context, the key audit matters as well as our audit approach remained substantially aligned to those from the prior year.

| Why it is a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Adjustment due to 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.<br><br>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 Units (CGUs) of Anéis and of the subsidiary Mahle Argentina, in order to determine their respective values in use. The results obtained are sensitive to the inherent inaccuracies of 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. | Certain relevant aspects of our audit response involved the following main procedures:<br><br>• With the assistance of our corporate valuation specialists, we updated our 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 Board of Directors; (ii) assumptions, market and specific sectors data of the CGUs; and (iii) projections used in previous years with subsequent actual results.<br>• Knowing that changes in long-term growth rates and in 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. |

| Why it is a key audit matter | How the matter was addressed in the audit |
|---|---|
| | • We performed a sensitivity analysis and recalculated the projections considering different intervals and scenarios of growth rates and discounts.<br><br>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, on October 10, 2016, the Company received a notice issued by the Administrative Council for Economic Defense (CADE) which informed the Company about the placement of an administrative proceeding regarding a possible violation of the economic order in the independent automotive aftermarket.<br><br>During 2017, the Company executed the Cease and Desist Commitment ("TCC") with CADE, which suspended the administrative proceeding. The TCC included some conditions which, if met by the Company, will allow the dismissal without prejudice for this proceeding.<br><br>Also in 2017, CADE started new investigation related to alleged anticompetitive practices involving possible violation of the economic order in the independent replacement market of valves, filters, and original parts for pistons, bushings, connecting rods, and other related products.<br><br>We focused on this area due to its complexity as well as to the Company's exposure to proceedings of this nature. | Certain relevant aspects of our audit response involved the following main procedures:<br><br>• We obtained the TCC in addition to information related to new investigation regarding alleged anticompetitive practices and, with the assistance of legal especialists, we obtained an updated understanding of the allegations made by CADE regarding these subjects, discussing these matters with management and the Company's with internal and external lawyers.<br><br>• We interviewed the Company's major officers and members of the governance bodies and inquired them about the knowledge of potential breaches to law and regulations and to understand the plans and responses provided to compliance and ethics matters.<br><br>• We obtained confirmation of the main information directly with the external lawyer in charge of the respective proceedings and, with the support of our specialists, we discussed the possible consequences of the TCC as well as the new investigation. We also read the disclosures made in the accompanying note. |

| Why it is a key audit matter | How the matter was addressed in the audit |
|---|---|
| | • We verified the subsequent payment as foreseen in the TCC.<br><br>The information disclosed in the notes to the financial statements are consistent with the documentation provided by management and with the opinion of the external lawyer in charge of this proceed. |

## Other matters

### Statements of value added

The parent company and consolidated Statements of value added for the year ended December 31, 2017, 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 Added Value". 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 Earnings Release.

Our opinion on the parent company and consolidated financial statements does not cover the Earnings Release, 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 Earnings Release 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 Earnings Release, 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 IFRS issued by the 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.

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 15, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Valdir Augusto de Assunção
Contador CRC 1SP135319/O-9

(A free translation of the original in Portuguese)

**MAHLE Metal Leve S.A.**

# Financial statements at December 31, 2017 and 2016

(A free translation of the original in Portuguese)

# MAHLE Metal Leve S.A.

## Financial statements

**at December 31, 2017 and 2016**

Contents

## MAHLE Metal Leve S.A.

### Balance sheet
### at December 31, 2017 and 2016

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

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Assets** | **Note** | **2017** | **2016** | **2017** | **2016** |
| Cash and cash equivalents | 8 | 129,352 | 241,504 | 169,070 | 256,431 |
| Trade accounts receivables and other accounts receivables | 9/12 | 322,978 | 260,831 | 388,185 | 338,844 |
| Inventories | 10 | 255,873 | 238,021 | 352,121 | 338,199 |
| Taxes recoverable | 11 | 50,139 | 38,799 | 68,724 | 50,343 |
| Income tax and social contribution recoverable | 11 | 12,202 | 11,699 | 28,499 | 22,059 |
| Dividends and interest on capital receivable | 12 | 38,748 | 41,187 | - | - |
| Unrealized gains on derivative financial instruments | 33 | 15,107 | 39,233 | 15,886 | 39,724 |
| Other assets | | 25,814 | 16,172 | 38,769 | 20,804 |
| **Total current assets** | | **850,213** | **887,446** | **1,061,254** | **1,066,404** |
| Taxes recoverable | 11 | 10,240 | 11,652 | 14,443 | 23,055 |
| Income tax and social contribution recoverable | 11 | - | 3,337 | - | 3,550 |
| Loans to related parties | 12 | 14,470 | 59,418 | 20,945 | 59,819 |
| Deferred income tax and social contribution | 13.b | - | - | 4,966 | 6,220 |
| Investments in subsidiaries | 14 | 206,011 | 205,942 | 625 | 967 |
| Property, plant and equipment | 15 | 602,158 | 621,582 | 640,251 | 711,232 |
| Assets held for sales | 15 | - | - | 7,171 | 13,235 |
| Intangible assets | 16 | 432,195 | 426,915 | 459,013 | 454,670 |
| Other assets | | 15,844 | 15,593 | 17,476 | 15,762 |
| **Total non-current assets** | | **1,280,918** | **1,344,439** | **1,164,890** | **1,288,510** |
| **Total assets** | | **2,131,131** | **2,231,885** | **2,226,144** | **2,354,914** |

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

## MAHLE Metal Leve S.A.

### Balance sheet
### at December 31, 2017 and 2016

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

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| **Liabilities** | **Note** | **2017** | **2016** | **2017** | **2016** |
| Dividends and interest on capital payable | 12 | 13,525 | 838 | 13,588 | 901 |
| Trade and related-party payables | 12/17 | 126,546 | 97,948 | 171,874 | 134,106 |
| Taxes and contributions payable | 18 | 24,023 | 18,177 | 25,415 | 20,588 |
| Income tax and social contribution payable | 18 | 820 | 1,505 | 18,604 | 23,450 |
| Borrowings | 19 | 30,987 | 120,396 | 30,987 | 156,287 |
| Salaries, vacation pay and social charges | 20 | 72,464 | 58,360 | 82,945 | 71,317 |
| Sundry provisions | 21 | 26,407 | 16,028 | 30,650 | 23,398 |
| Provisions for warranties | 22 | 11,453 | 17,377 | 13,940 | 20,375 |
| Unrealized losses on derivative financial instruments | 33 | 7,054 | 3,594 | 7,463 | 4,181 |
| Other liabilities | | 27,891 | 24,005 | 30,298 | 34,365 |
| **Total current liabilities** | | **341,170** | **358,228** | **425,764** | **488,968** |
| Deferred income tax and social contribution | 13.b | 8,168 | 34,506 | 8,526 | 35,685 |
| Provision for subsidiary's net capital deficiency | 14 | 7,841 | 21,857 | - | - |
| Income tax and social contribution payable | 18 | 335 | 1,150 | 335 | 1,150 |
| Borrowings | 19 | 144,995 | 340,243 | 144,995 | 343,243 |
| Provisions for contingencies and judicial deposits linked to judicial proceedings | 23 | 262,276 | 241,061 | 285,006 | 266,145 |
| Other liabilities | | 11,298 | 4,005 | 11,298 | 4,005 |
| **Total non-current liabilities** | | **434,913** | **642,822** | **450,160** | **650,228** |
| Total liabilities | | **776,083** | **1,001,050** | **875,924** | **1,139,196** |
| **Equity** | 24 | | | | |
| Share capital | | 966,255 | 966,255 | 966,255 | 966,255 |
| Revenue reserves | | 280,488 | 268,624 | 280,488 | 268,624 |
| Other comprehensive income | | (35,330) | (4,044) | (35,330) | (4,044) |
| Proposed additional dividends | | 143,635 | - | 143,635 | - |
| **Equity attributable to the owners of the parent** | | **1,355,048** | **1,230,835** | **1,355,048** | **1,230,835** |
| **Non-controlling interests** | | - | - | (4,828) | (15,117) |
| Total equity | | **1,355,048** | **1,230,835** | **1,350,220** | **1,215,718** |
| **Total liabilities and equity** | | **2,131,131** | **2,231,885** | **2,226,144** | **2,354,914** |

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

## MAHLE Metal Leve S.A.

### Statement of income
### Years ended December 31, 2017 and 2016

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

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | **Note** | **2017** | **2016** | **2017** | **2016** |
| | | | **(Reclassified note nº 3 e.)** | | **(Reclassified note nº 3 e.)** |
| Net revenue | 26 | 1,896,701 | 1,756,471 | 2,264,443 | 2,143,308 |
| Cost of sales | 27 | (1,421,201) | (1,367,978) | (1,635,772) | (1,550,204) |
| **Gross profit** | | **475,500** | **388,493** | **628,671** | **593,104** |
| Selling expenses | 28 | (111,101) | (102,650) | (146,896) | (145,933) |
| General and administrative expenses | 29 | (81,682) | (63,529) | (88,318) | (76,122) |
| Technology and product development costs | 30 | (73,755) | (75,219) | (83,438) | (84,889) |
| Other income (expenses), net | 32 | 10,694 | (242,491) | (2,199) | (258,001) |
| Equity in the results of investees | 14 | 74,098 | 107,316 | (342) | (2,150) |
| **Profit before finance income (costs) and taxation** | | **293,754** | **11,920** | **307,478** | **26,009** |
| Finance income | 31 | 83,732 | 110,130 | 108,426 | 143,820 |
| Finance costs | 31 | (110,585) | (144,708) | (136,795) | (188,607) |
| **Finance income (costs), net** | | (26,853) | (34,578) | (28,369) | (44,787) |
| **Profit (loss) before taxation** | | **266,901** | **(22,658)** | **279,109** | **(18,778)** |
| Current income tax and social contribution | 13.a | (49,551) | (26,836) | (70,635) | (31,618) |
| Deferred income tax and social contribution | 13.a | 19,955 | 74,150 | 23,482 | 76,298 |
| **Income tax and social contribution** | | **(29,596)** | **47,314** | **(47,153)** | **44,680** |
| **Profit for the year** | | **237,305** | **24,656** | **231,956** | **25,902** |
| **Discontinued operations** | | | | | |
| Loss for the discontinued operations | | | | (7,271) | (21,753) |
| **Profit for the period** | | | | **224,685** | **4,149** |
| **Profit attributable to:** | 25 | | | | |
| Owners of the parent | | | | 237,305 | 24,656 |
| Non-controlling interests | | | | (12,620) | (20,507) |
| **Profit for the year** | | | | **224,685** | **4,149** |
| **Basic and diluted earnings per share (in reais)** | | **1.8495** | **0.1922** | **1.8495** | **0.1922** |

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

**MAHLE Metal Leve S.A.**

**Statement of comprehensive income**
**Years ended December 31, 2017 and 2016**

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Profit for the year** | 237,305 | 24,656 | 224,685 | 4,149 |
| **Comprehensive income** | | | | |
| Items that will be reclassified to profit or loss | | | | |
| Change in cash flow hedge, net | (18,773) | 76,249 | (18,969) | 72,636 |
| Change in subsidiaries' cash flow hedge, net | (281) | (2,168) | - | - |
| Income tax and social contribution on cash flow hedge | 6,383 | (25,925) | 6,310 | (24,697) |
| Income tax and social contribution on subsidiaries' cash flow hedge | (44) | 737 | - | - |
| Cumulative translation adjustments | (12,752) | (53,052) | (12,268) | (51,109) |
| Translation adjustments of deferred income tax (subsidiaries located abroad) | - | - | (484) | (1,943) |
| Write-off of the subsidiary's financial instrument adjustment | 224 | - | 224 | - |
| Write-off of taxes on subsidiary's financial instrument adjustment | (76) | - | (76) | - |
| **Other comprehensive income** | **(25,319)** | **(4,159)** | **(25,263)** | **(5,113)** |
| **Total comprehensive income for the year, net of income tax and social contribution** | **211,986** | **20,497** | **199,422** | **(964)** |
| **Comprehensive income attributable to:** | | | | |
| Owners of the parent | | | 211,986 | 20,497 |
| Non-controlling interests | | | (12,564) | (21,461) |
| **Total comprehensive income** | | | **199,422** | **(964)** |

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, 2017 and 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, 2016** | | **966,255** | **110,863** | **157,761** | **-** | **268,624** | **60,696** | **(64,740)** | **(4,044)** | **-** | **1,230,835** | **(15,117)** | **1,215,718** |
| **Equity transactions with shareholders** | | | | | | | | | | | | | |
| Interim interest on capital credited | 24.c | - | - | - | - | - | - | - | - | (87,961) | (87,961) | - | (87,961) |
| Prescribed dividends and interest on capital | 24.c | - | - | - | - | - | - | - | - | 188 | 188 | - | 188 |
| Capital increase of MAHLE Hirschvogel Forjas S.A. | | - | - | - | - | - | - | - | - | - | - | 11,243 | 11,243 |
| Equity transactions – sale of 60% of MAHLE MAHLE Metal Leve Miba Sinterizados Ltda. | | - | - | - | - | - | - | - | - | - | - | 11,610 | 11,610 |
| **Profit for the year** | | - | - | - | - | - | - | - | - | **237,305** | **237,305** | **(12,620)** | **224,685** |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Cumulative translation adjustments | 24.e | - | - | - | - | - | - | (12,752) | (12,752) | - | (12,752) | - | (12,752) |
| Financial instrument adjustments | 24.e | - | - | - | - | - | (18,830) | - | (18,830) | - | (18,830) | 85 | (18,745) |
| Taxes on financial instrument adjustments | 24.e | - | - | - | - | - | 6,263 | - | 6,263 | - | 6,263 | (29) | 6,234 |
| Realization of deemed cost, net | 15 | - | - | - | - | - | (5,967) | - | (5,967) | 5,967 | - | - | - |
| **Internal changes in equity** | | | | | | | | | | | | - | - |
| Appropriation to legal reserve | 24.d | - | 11,864 | - | - | 11,864 | - | - | - | (11,864) | - | - | - |
| Proposed additional dividends | 24.c | - | - | - | 143,635 | 143,635 | - | - | - | (143,635) | - | - | - |
| **At December 31, 2017** | | **966,255** | **122,727** | **157,761** | **143,635** | **424,123** | **42,162** | **(77,492)** | **(35,330)** | **0** | **1,355,048** | **(4,828)** | **1,350,220** |

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, 2017 and 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 January 1, 2016** | | **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.c | - | - | - | (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, 2017 and 2016**

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

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 (Reclassified note nº 3 e.) |
| **Cash flows from operating activities** | Note | | | | |
| Profit (losses) before taxation | | 266,901 | (22,658) | 269,881 | (41,346) |
| Adjustments for: | | | | | |
| Depreciation and amortization | | 89,342 | 88,956 | 97,967 | 100,875 |
| Equity in the results of investees | | (89,286) | (115,605) | 342 | 2,150 |
| Recognition (reversal) of provision for impairment of investments | | 15,187 | 8,288 | - | - |
| Interest and foreign exchange and monetary variations, net | | 52,103 | 62,235 | 62,548 | (13,371) |
| Unrealized (losses) gains on derivative financial instruments | | 8,813 | (9,774) | 8,525 | (9,813) |
| Results on disposal of property, plant and equipment | | (177) | 499 | 2,814 | (1,409) |
| Result on disposal of discontinued operations | | (17,267) | - | (17,267) | - |
| Recognition (reversal) of provision for impairment of trade receivables | | (1,643) | (3,793) | (1,652) | (3,316) |
| Recognition (reversal) of provision for tax and other contingencies | | 8,692 | 35,324 | 10,171 | 47,897 |
| Recognition (reversal) of provisions for warranties | | (3,228) | 13,570 | 1,436 | 11,696 |
| Recognition (reversal) of sundry provisions | | 10,379 | (978) | 10,898 | (4,898) |
| Recognition (reversal) of provision for impairment of property, plant and | | (195) | 187,713 | (376) | 187,504 |
| Recognition (reversal) of provision for inventory loss | | 4,333 | 270 | 6,272 | (2,928) |
| (Increase) decrease in assets | | | | | |
| Trade and related-party receivables | | (10,504) | 62,236 | (10,713) | 62,217 |
| Inventories | | (21,943) | 1,767 | (30,711) | 16,708 |
| Taxes recoverable | | (22,654) | (8,499) | (22,901) | (13,859) |
| Other assets | | (9,893) | (6,350) | (21,273) | (6,420) |
| Increase (decrease) in liabilities | | | | | |
| Trade and related-party payables | | 28,598 | 905 | 44,619 | 6,662 |
| Salaries, vacation pay and social charges | | 14,104 | (6,174) | 16,235 | (7,286) |
| Taxes and contributions payable | | 4,346 | (49) | (15,680) | (6,111) |
| Other liabilities | | (9,857) | (28,119) | (16,996) | (31,314) |
| **Cash from operations** | | **316,151** | **259,764** | **394,139** | **293,638** |
| Income tax and social contribution paid | | (33,990) | (7,606) | (47,604) | (13,940) |
| **Net cash provided by operating activities** | | **282,161** | **252,158** | **346,535** | **279,698** |
| **Cash flows from investing activities** | | | | | |
| Dividends and interest on capital received from subsidiary | | 84,607 | 32,714 | - | - |
| Loans granted to subsidiaries | | (20,996) | (41,223) | (485,901) | (597,547) |
| Loan repayments received from subsidiaries | | 20,203 | 6,236 | 524,820 | 566,595 |
| Additions to property, plant and equipment | | (69,833) | (77,026) | (83,073) | (94,009) |
| Additions to intangible assets | | (8,099) | (10,552) | (8,196) | (10,600) |
| Capital increase of subsidiary | | (11,705) | (41,120) | - | - |
| Cash from discontinued operations | | - | - | (1,526) | - |
| Proceeds from sale of property, plant and equipment | | 2,864 | 620 | 6,118 | 12,172 |
| **Net cash (used in) provided by investing activities** | | **(2,959)** | **(130,351)** | **(47,758)** | **(123,389)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 124,092 | 307,523 | 142,092 | 457,881 |
| Repayment of principal of borrowings | | (409,120) | (199,731) | (428,601) | (379,932) |
| Repayment of interest on borrowings | | (35,867) | (28,993) | (38,280) | (39,347) |
| Capital increase of subsidiary- MAHLE H. Forjas S.A. | | - | - | 11,246 | 5,880 |
| Dividends and interest on capital paid | | (75,085) | (86,476) | (75,085) | (86,475) |
| **Net cash provided by (used in) financing activities** | | **(395,980)** | **(7,677)** | **(388,628)** | **(41,993)** |
| **Effect of foreign exchange variation on cash and cash equivalents** | | **4,626** | **(6,621)** | **2,490** | **(9,978)** |
| **Increase (reduction) in cash and cash equivalents, net** | | **(112,152)** | **107,509** | **(87,361)** | **104,338** |
| **Represented by:** | | | | | |
| Cash and cash equivalents at the beginning of the period | | 241,504 | 133,995 | 256,431 | 152,093 |
| Cash and cash equivalents at the end of the period | 8 | 129,352 | 241,504 | 169,070 | 256,431 |
| **Increase (reduction) in cash and cash equivalents, net** | | **(112,152)** | **107,509** | **(87,361)** | **104,338** |

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

**MAHLE Metal Leve S.A.**

**Statement of value added**
**Years ended December 31, 2017 and 2016**

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Gross revenue** | **2,429,832** | **2,226,029** | **2,800,057** | **2,614,719** |
| Sales of goods, products and services | 2,418,301 | 2,224,519 | 2,779,118 | 2,604,425 |
| Other revenue | 9,831 | (1,283) | 19,662 | 8,017 |
| Provision for impairment of trade receivables | 1,700 | 2,793 | 1,277 | 2,277 |
| **Inputs acquired from third parties** | **(1,395,325)** | **(1,557,177)** | **(1,593,558)** | **(1,741,713)** |
| (Includes amounts of taxes: ICMS, IPI, PIS and COFINS) | | | | |
| Cost of sales and services | (687,124) | (681,274) | (823,061) | (807,419) |
| Materials, energy, outsourced services and other | (725,625) | (671,581) | (782,013) | (721,893) |
| Impairment/recovery of assets | 17,424 | (204,322) | 11,516 | (212,401) |
| **Gross value added** | **1,034,507** | **668,852** | **1,206,499** | **873,006** |
| **Depreciation and amortization** | **(89,342)** | **(88,956)** | **(94,386)** | **(94,081)** |
| **Net value added generated by the company** | **945,165** | **579,896** | **1,112,113** | **778,925** |
| **Value added received through transfer** | **157,830** | **217,446** | **108,084** | **141,670** |
| Equity in the results of investees | 74,098 | 107,316 | (342) | (2,150) |
| Finance income | 83,732 | 110,130 | 108,426 | 143,820 |
| **Total value added to distribute** | **1,102,995** | **797,342** | **1,220,197** | **920,595** |
| **Distribution of value added** | **1,102,995** | **797,342** | **1,220,197** | **920,595** |
| **Personnel** | **388,518** | **370,808** | **468,866** | **446,019** |
| **Taxes and contributions** | **367,087** | **257,843** | **383,518** | **258,749** |
| **Capital providers** | **110,085** | **144,035** | **135,857** | **189,925** |
| Interest | 35,485 | 29,537 | 36,774 | 41,740 |
| Rentals | - | - | 1,942 | 1,584 |
| Foreign exchange, monetary and other variations | 74,600 | 114,498 | 97,141 | 146,601 |
| **Shareholders** | **237,305** | **24,656** | **224,685** | **4,149** |
| Dividends and interest on capital | 87,961 | 54,097 | 87,961 | 54,097 |
| Retained earnings | 149,344 | (29,441) | 149,344 | (29,441) |
| Share of non-controlling interests of retained earnings | - | - | (12,620) | (20,507) |
| **Result for the discontinued operations** | **-** | **-** | **7,271** | **21,753** |

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.

According to the announcement made to the market on May 9, 2017, at June 30, 2017, the Company completed the sale of its 60% stake in MAHLE Metal Leve Miba Sinterizados Ltda. to Miba Sinter Holding GmbH & Co KG. The results and balance sheets of MAHLE Metal Leve Miba Sinterizados Ltda. up to the date of the sale are shown in Note 36. The balances of the statement of income of MAHLE Metal Leve Miba Sinterizados Ltda. for the year ended December 31, 2016 were reclassified to “Loss for the year from discontinued operations”.

The Company shares are listed on the Novo Mercado listing segment of B3 – Brasil, Bolsa, Balcão, which requires issuers to meet the highest standards of corporate governance.

*(in thousand of reais)*

## 2 Entities of the Group (subsidiaries)

| | | Ownership percentage (%) | | | |
|---|---|---|---|---|---|
| | | 2017 | | 2016 | |
| | Country | Direct | Indirect | Direct | Indirect |
| **Subsidiaries** | | | | | |
| MAHLE Metal Leve Miba Sinterizados Ltda. | Brazil | - | - | 60 | - |
| MAHLE Argentina S.A. | Argentina | 99.2 | 0.8 | 99.2 | 0.8 |
| 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 15, 2018.

### *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:

*(in thousand of reais)*

- 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. *Restatement of comparative figures*

In conformity with CPC 23 "Accounting Policies, Changes in Estimates and Correction of Errors", the figures relating to December 31, 2016 are being restated based on the criteria adopted for the quarterly financial of December 31, 2017, as shown below:

i) Reclassification of amounts of legal costs from general and administrative expenses to other income (expenses) in the statement of income.

| Income Statement | | Parent Company 12.31.2016 | | | Consolidated 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | | At previously presented | Reclassification | Restated | At previously presented | Reclassification | Discontinued operations | Restated |
| General and administrative expenses | (i) | (71,549) | 8,020 | (63,529) | (88,763) | 9,304 | 3,337 | (76,122) |
| Other income/expense | (i) | (234,471) | (8,020) | (242,491) | (251,215) | (9,304) | 2,518 | (258,001) |

ii) Reclassification of cash flows related to intercompany loans, from cash flows from operating activities to cash flows from financing activities.

| Statement of cash flows | | Consolidated 12.31.2016 | | |
|---|---|---|---|---|
| | | At previously presented | Reclassification | Restated |
| **Cash flows from operating activities** | | | | |
| Trade and other receivables | (ii) | 31,265 | 30,952 | 62,217 |
| **Net cash provided by operating activities** | (ii) | **248,746** | **30,952** | **279,698** |
| **Cash flows from investing activities** | | | | |
| Loans granted to related companies | (ii) | - | (597,547) | (597,547) |
| Loan repayments received from related companies | (ii) | - | 566,595 | 566,595 |
| **Net cash used in investing activities** | | **(92,437)** | **(30,952)** | **(123,389)** |

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

The following amendments to existing standards were adopted for the year beginning on January 1, 2017 and did not have material impacts on the Group.

(a) NBC TG 03 (R3) (CPC 03) – Statement of Cash Flows - IAS 07 – Statement of Cash Flows. This amendment introduces an additional disclosure that will enable users of financial statements to better evaluate changes in liabilities arising from financing activities. The entities are required to disclose changes in liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

(b) NBC TG 32 (R3) (CPC 32) – Income Taxes - *IAS 12* – Income Taxes. This amendment clarifies that the analysis for recognition of deferred income tax assets must be made in the context of the financial statements as whole, considering the expectation of available future taxable profits and taxable temporary differences. This issue is especially relevant when an asset is measured at fair value and this value is below its tax base. The general principle for recognition of deferred income tax assets must be always applied, i.e. the analysis for recognition cannot be made considering a single transaction.

(c) NBC TG 45 (R3) (CPC 45) - Disclosure of Interests in Other Entities - IFRS 12 – Disclosure of Interests in Other Entities. This amendment clarifies that, except for disclosure of summarized financial information, the other disclosures required in CPC 45/ IFRS 12 apply to interests classified as “held for sale” in accordance with CPC 31/ IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations.

Other amendments and interpretations effective for the year beginning on January 1, 2017 are not relevant 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.

*(in thousand of reais)*

## *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, 2017 and 2016, 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.

*(in thousand of reais)*

### *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 2017. 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/ CPC 38 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. The Company has assessed the changes introduced by CPC 48 – Financial Instruments and concluded that the adoption of this new standard will not have material impacts on the Company.

  However, the financial instruments in the financial statements should be classified so as to reflect the new measurement concepts introduced by CPC 48 – Financial Instruments. The items below were assessed and will have changes in classification and measurement, as shown below:

| Assets | Prior classification | IFRS-9 as from 1/1/2018 |
|---|---|---|
| Cash, demand deposit and cash in transit | Loans and receivables | Fair value through profit or loss |
| Financial investments | Loans and receivables | Fair value through profit or loss |
| Trade receivables | Loans and receivables | Amortized cost |
| Intercompany receivables and loans | Loans and receivables | Fair value through profit or loss |
| Unrealized gains on derivatives | Derivatives used for hedge | Derivatives used for hedge |

- NBC TG 47 (CPC 47) - "Revenue from Contracts with Customers" IFRS 15 – replaces IAS 11/ CPC 17, "Construction Contracts", IAS 18/ CPC 30, "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.

  In 2017, the Company made a detailed assessment of IFRS 15 – Revenue from Contracts with Customers, based on the nature of its contracts with customers for the Company's main revenue streams. The result of this assessment and the impacts identified from the first adoption of IFRS 15 are summarized below:

  The recognition of the Company's revenue depends on the type of contract signed with the customer, which follows the parameters set by the International Commercial Terms ("Incoterms"). Since the transfer of risks and rewards of ownership usually coincides with the transfer of control of the goods, the time of revenue recognition will not be impacted by the adoption of the new standard.

  The Company has sales arrangements under various Incoterms categories and, in some cases, it is responsible for the freight service after the passing of control of the goods to the buyer. At present, revenues arising from freight services, as well as related costs, are recognized at the time of delivery/shipment and are not considered a separate service.

  Under IFRS 15, freight services included in some Incoterms arrangements will be considered as a separate service and, therefore, a separate performance obligation, with allocation of part of the transaction price to profit or loss as service is effectively delivered over time. The effect of the difference in the time of recognition of the portion of revenue allocated to freight does not significantly impact the Company's result. Therefore, such revenue will not be classified separately in the financial statements of the Company.

The new rules will be adopted retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

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.

*(in thousand of reais)*

## 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 | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| Borrowings | 19 | 175,982 | 460,639 | 175,982 | 499,530 |
| Cash and cash equivalents | 8 | (129,352) | (241,504) | (169,070) | (256,431) |
| Loans to related parties, net | 12 | (14,470) | (59,418) | (20,945) | (59,819) |
| **Net indebtedness** | | **32,160** | **159,717** | **(14,033)** | **183,280** |
| Total equity | | 1,355,048 | 1,230,835 | 1,350,220 | 1,215,718 |
| **Total equity + net indebtedness** | | **1,387,208** | **1,390,552** | **1,336,187** | **1,398,998** |
| **Financial leverage index - %** | | **2%** | **11%** | **-1%** | **13%** |

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.

*(in thousand of reais)*

## 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** | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | | **2016** | | |
| **Statement of income** | **Engine components** | **Filters** | **Consolidated** | **Engine components** | **Filters** | **Consolidated** |
| **Gross operating revenue** | **2,449,883** | **456,874** | **2,906,757** | **2,308,193** | **441,246** | **2,749,439** |
| Deductions from sales | (504,862) | (137,452) | (642,314) | (470,742) | (135,389) | (606,131) |
| **Net operating revenue** | **1,945,021** | **319,422** | **2,264,443** | **1,837,451** | **305,857** | **2,143,308** |
| Cost of sales | (1,386,621) | (249,151) | (1,635,772) | (1,317,918) | (232,286) | (1,550,204) |
| **Gross profit** | **558,400** | **70,271** | **628,671** | **519,533** | **73,571** | **593,104** |
| Selling expenses | (125,992) | (20,904) | (146,896) | (123,343) | (22,590) | (145,933) |
| Administrative expenses | (69,782) | (18,536) | (88,318) | (57,780) | (18,342) | (76,122) |
| Technology research costs | (67,287) | (16,151) | (83,438) | (69,452) | (15,437) | (84,889) |
| Other operating income (expenses) | (1,073) | (1,126) | (2,199) | (70,087) | 740 | (69,347) |
| Other operating income (impairment - MAHLE M. Leve - UGC - Rings business) | - | - | - | (188,654) | - | (188,654) |
| Equity in the results of investees | (343) | 1 | (342) | (2,150) | - | (2,150) |
| Finance income | 99,361 | 9,065 | 108,426 | 135,830 | 7,990 | 143,820 |
| Finance costs | (123,472) | (13,323) | (136,795) | (176,915) | (11,692) | (188,607) |
| **Profit before income tax and social contribution** | **269,812** | **9,297** | **279,109** | **(33,018)** | **14,240** | **(18,778)** |
| Income tax and social contribution | (46,797) | (356) | (47,153) | 49,548 | (4,868) | 44,680 |
| **Profit for the year** | **223,015** | **8,941** | **231,956** | **16,530** | **9,372** | **25,902** |
| Discontinued operations | (7,271) | - | (7,271) | (21,753) | - | (21,753) |
| Non-controlling interests | 11,966 | 654 | 12,620 | 19,656 | 851 | 20,507 |
| **Profit for the year** | **227,710** | **9,595** | **237,305** | **14,433** | **10,223** | **24,656** |

*(in thousand of reais)*

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

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| Balance sheet accounts | **Engine components** | **Filters** | **Consolidated** | **Engine components** | **Filters** | **Consolidated** |
| **Total assets** | **2,085,814** | **140,330** | **2,226,144** | **2,216,386** | **138,528** | **2,354,914** |
| Inventories | 308,483 | 43,638 | 352,121 | 303,497 | 34,702 | 338,199 |
| Property, plant and equipment | 2,202,978 | 134,025 | 2,337,003 | 2,350,333 | 131,741 | 2,482,074 |
| Depreciation and amortization | (1,612,416) | (84,336) | (1,696,752) | (1,691,906) | (78,936) | (1,770,842) |
| Intangible assets | 52,572 | 159 | 52,731 | 47,645 | 1,165 | 48,810 |
| Goodwill | 406,282 | - | 406,282 | 405,860 | - | 405,860 |
| Investment - Innoferm Tecnologia Ltda. | 625 | - | 625 | 967 | - | 967 |
| Other | 727,290 | 46,844 | 774,134 | 799,990 | 49,856 | 849,846 |

### *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 2017 was R$ 2,264,443 (R$ 2,143,308 in 2016), the portion of which relating to foreign countries amounting to R$ 1,054,276 (R$ 1,051,946 in 2016) is distributed as follows:

| **Sales per country** | **Consolidated** | | | |
|---|---|---|---|---|
| | **YTD 2017** | **%** | **YTD 2016** | **%** |
| **Domestic market (Brazil and Argentina)** | **1,210,167** | **53.4%** | **1,091,362** | **50.9%** |
| Europe | 541,709 | 23.9% | 511,717 | 23.9% |
| Central and North America | 359,462 | 15.9% | 398,057 | 18.6% |
| South America | 96,254 | 4.3% | 87,494 | 4.0% |
| Africa, Asia, Oceania and Middle East | 56,851 | 2.5% | 54,678 | 2.6% |
| **Foreign countries** | **1,054,276** | **46.6%** | **1,051,946** | **49.1%** |
| **Total** | **2,264,443** | **100.0%** | **2,143,308** | **100.0%** |

*(in thousand of reais)*

## 8 Cash and cash equivalents

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| BRL | 489 | 1,708 | 1,557 | 2,416 |
| ARS (expressed in BRL) | - | - | 6,489 | 2,441 |
| USD (expressed in BRL) | 10,593 | 11,016 | 10,593 | 11,244 |
| EUR (expressed in BRL) | 7,356 | 10,056 | 8,114 | 10,086 |
| Cash and demand deposits | 18,438 | 22,780 | 26,753 | 26,187 |
| BRL | 104,739 | 206,665 | 120,113 | 212,713 |
| ARS (expressed in BRL) | - | - | 1,989 | - |
| USD (expressed in BRL) | 5,954 | 12,059 | 5,954 | 12,059 |
| Financial investments | 110,693 | 218,724 | 128,056 | 224,772 |
| Cash in transit | 221 | - | 14,261 | 5,472 |
| | 221 | - | 14,261 | 5,472 |
| | **129,352** | **241,504** | **169,070** | **256,431** |

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 (94.6 %), which yield an average interest rate of 98.4 % 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, as well as payments received from local customers available on the next day (D+1).

*(in thousand of reais)*

## 9 Trade accounts receivables and other accounts receivables

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Market | | | | |
| Domestic | 194,969 | 152,708 | 196,542 | 161,160 |
| Foreign | 55,776 | 54,783 | 128,439 | 128,262 |
| | **250,745** | **207,491** | **324,981** | **289,422** |
| Other accounts receivable | 2,471 | 1,808 | 2,501 | 1,893 |
| Provision for impairment of trade receivables | (3,806) | (5,449) | (4,691) | (6,743) |
| | **249,410** | **203,850** | **322,791** | **284,572** |
| Related parties (Note 12) | 73,568 | 56,981 | 65,394 | 54,272 |
| | **322,978** | **260,831** | **388,185** | **338,844** |

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

At December 31, 2017, trade receivables of the parent company in the amount of R$ 12,050 (December 31, 2016 - R$ 11,850) and consolidated trade receivables at december 31, 2017 of R$ 21,592 (December 31, 2016 - R$ 17,477) 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, 2017, other past-due accounts receivable do not represent any risk for the Group since most of them were settled in January 2018.

# Explanatory notes to the financial statements

*(in thousand of reais)*

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Not yet due | 237,360 | 192,000 | 301,199 | 267,095 |
| Past due: | | | | |
| Up to 7 days | 4,304 | 5,300 | 8,255 | 7,667 |
| From 8 to 30 days | 4,923 | 3,495 | 8,058 | 6,150 |
| From 31 to 60 days | 2,119 | 2,254 | 3,158 | 2,913 |
| From 61 to 90 days | 772 | 196 | 1,560 | 424 |
| From 91 to 120 days | 377 | 1,076 | 1,165 | 1,290 |
| From 121 to 180 days | 577 | 1,088 | 938 | 1,288 |
| From 181 to 360 days | 858 | 556 | 1,150 | 1,103 |
| Over 360 days | 1,926 | 3,334 | 1,999 | 3,385 |
| (-) Provision for impairment of trade receivables | (3,806) | (5,449) | (4,691) | (6,743) |
| Total past due | 12,050 | 11,850 | 21,592 | 17,477 |
| | **249,410** | **203,850** | **322,791** | **284,572** |

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.

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 December 31, 2016** | **(5,449)** | **(6,743)** |
| Receivables provided for in the period | (4,901) | (5,914) |
| Receivables reversed in the period | 6,161 | 7,440 |
| Receivables written off definitively | 441 | 491 |
| Foreign exchange variation | (58) | (224) |
| Discontinued operations | - | 259 |
| **At December 31, 2017** | **(3,806)** | **(4,691)** |

*(in thousand of reais)*

## 10 Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Finished products | 106,348 | 98,197 | 182,184 | 172,875 |
| Work in progress | 89,959 | 83,366 | 95,673 | 93,125 |
| Raw materials | 39,988 | 40,644 | 48,442 | 49,811 |
| Auxiliary materials | 7,768 | 7,278 | 11,235 | 10,793 |
| Imports in transit | 11,810 | 8,536 | 14,587 | 11,595 |
| | **255,873** | **238,021** | **352,121** | **338,199** |

In December 31, 2017, 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$ 28,474 (R$ 24,141 in December 31, 2016) in the parent company and R$ 42,885 (R$ 37,396 in December 31, 2016) in the consolidated accounts.

Changes in the provision for inventory loss are as follows:

| | Parent company | Consolidated |
|---|---|---|
| **At january 1st, 2016** | **(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)** |
| Reversal of provision | 10,459 | 16,532 |
| Recognition of provision | (15,227) | (23,793) |
| Inventory written off definitively as loss | - | 435 |
| Foreign exchange variation | 435 | 445 |
| Discontinued operations | - | 892 |
| **At December 31, 2017** | **(28,474)** | **(42,885)** |

*(in thousand of reais)*

## 11 Taxes recoverable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Income tax and social contribution | 12,202 | 15,036 | 28,499 | 25,609 |
| Value-added Tax on Sales and Services (ICMS) on purchases of fixed assets | 19,657 | 21,486 | 19,686 | 23,834 |
| ICMS and Excise Tax (IPI) | 32,014 | 21,159 | 42,494 | 26,249 |
| Import Tax | 5,742 | 4,881 | 6,131 | 6,478 |
| Social Contribution on Revenues (COFINS) | 2,427 | 2,361 | 4,612 | 3,237 |
| Social Integration Program (PIS) | 528 | 512 | 1,002 | 720 |
| Export incentive - Argentina (*) | - | - | 4,182 | 10,102 |
| Other | 11 | 52 | 5,060 | 2,778 |
| | **72,581** | **65,487** | **111,666** | **99,007** |
| Current | 62,341 | 50,498 | 97,223 | 72,402 |
| Non-current | 10,240 | 14,989 | 14,443 | 26,605 |
| | **72,581** | **65,487** | **111,666** | **99,007** |

(*) The decrease in export incentives of subsidiary MAHLE Argentina S.A. refers to the receipt of prior years' amounts (2012 to 2017).

*(in thousand of reais)*

## 12 Related parties

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

| | Parent company | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12.31.2017 | | | | | | | Transactions from 2017 | | | | | | | | | |
| | Current assets | | | Non-current assets | Current liabilities | | | Sales/revenue | | | | Purchases | | | | | |
| | Receivables (Note 9) | Dividends and interest on capital receivable | Payment term in days (*) | Loan | Suppliers (Note 17) | Dividends and interest on capital payable | Payment term in days (*) | Products | Services | Property, plant and equipment | Rent, Transport, Food and Energy | Products | Services | Property, plant and equipment | Commissions | Trademark license | Rent |
| **Companies** | | | | | | | | | | | | | | | | | |
| **Subsidiaries** | | | | | | | | | | | | | | | | | |
| **Direct subsidiaries** | | | | | | | | | | | | | | | | | |
| MAHLE Metal Leve GmbH | 45,292 | 38,748 | 60 | - | - | - | - | 361,597 | 36 | - | - | - | - | - | - | - | - |
| MAHLE Argentina S.A. | 4,578 | - | 60 | - | 989 | - | 60 | 49,628 | 1,531 | - | - | 7,597 | - | - | - | - | - |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | 56 | - | 60 | 14,470 | - | - | - | - | 147 | - | - | - | - | - | - | - | - |
| MAHLE Hirschvogel Forjas S.A. | 22 | - | 60 | - | - | - | - | - | 121 | - | - | - | - | - | - | - | - |
| MAHLE Metal Leve Miba Sinterizados Ltda. | - | - | - | - | - | - | - | - | 1,701 | 9 | - | 4,361 | - | - | - | - | - |
| MAHLE Industry do Brasil Ltda. | - | - | - | - | - | - | - | (3) | 35 | - | - | - | - | - | - | - | - |
| **Total direct subsidiaries** | **49,948** | **38,748** | | **14,470** | **989** | **-** | | **411,222** | **3,571** | **9** | **-** | **11,958** | **-** | **-** | **-** | **-** | **-** |
| **Related companies** | | | | | | | | | | | | | | | | | - |
| MAHLE Vöcklabruck GmbH | 5,473 | - | 60 | - | - | - | - | 28,044 | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Componentes USA, Inc. | 3,215 | - | 60 | - | 152 | - | 60 | 10,984 | 163 | - | - | 73 | 60 | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 2,655 | - | 60 | - | - | - | - | 170 | 10,679 | - | 2,019 | - | - | - | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 2,200 | - | 60 | - | - | - | - | 16,771 | - | - | - | - | - | - | - | - | - |
| MAHLE Compressores do Brasil Ltda. | 1,307 | - | 60 | - | 61 | - | 60 | 1,475 | 5,727 | - | - | - | 74 | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 1,295 | - | 60 | - | - | - | - | 7,333 | 214 | - | - | - | - | - | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 1,141 | - | 60 | - | 16 | - | 60 | 4,359 | - | - | - | 151 | - | - | 31 | - | - |
| MAHLE Aftermarket GmbH | 1,038 | - | 60 | - | 1,386 | - | 60 | 4,450 | 1,000 | - | - | 3,914 | 734 | - | 121 | - | - |
| MAHLE Pistoni Italia SPA | 786 | - | 60 | - | 70 | - | 60 | 3,126 | 79 | - | - | 80 | 3 | - | - | - | - |
| MAHLE France SAS | 638 | - | 60 | - | - | - | - | 6,100 | 83 | - | - | - | - | - | - | - | - |
| MAHLE Engine Comp. Slovakia | 586 | - | 60 | - | - | - | - | 595 | - | 939 | - | - | - | - | - | - | - |
| MAHLE India Pistons Ltd. | 440 | - | 60 | - | - | - | - | 3,266 | 19 | - | - | - | - | - | - | - | - |
| MAHLE Clevite Inc. | 424 | - | 60 | - | 29 | - | 60 | 6,686 | 1,406 | - | - | - | 1 | - | 137 | - | - |
| MAHLE Engine Comp. Japan Corporation | 415 | - | 60 | - | 19 | - | 60 | 454 | - | - | - | - | 26 | - | - | - | - |
| MAHLE International GmbH | 360 | - | 60 | - | 3,076 | - | 60 | - | 1,893 | - | - | 54 | 4,224 | 121 | - | - | - |
| MAHLE Filter Systems North America Inc | 273 | - | 60 | - | - | - | - | - | 264 | - | - | - | - | - | - | - | - |
| MAHLE Ventiltrieb GmbH | 238 | - | 60 | - | - | - | - | 335 | - | - | - | - | - | - | - | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 181 | - | 60 | - | 13 | - | 60 | 4,484 | - | 419 | - | 13 | - | - | - | - | - |
| MAHLE Filtersysteme GmbH | 156 | - | 60 | - | 1,192 | - | 60 | 2 | 57 | - | - | - | 1,306 | - | - | - | - |
| MAHLE GmbH | 129 | - | 60 | - | 11,032 | - | 60 | 66 | 79 | - | - | 1,385 | 8,957 | 863 | - | 9,365 | - |
| MAHLE Engine Systems UK Ltd. | 115 | - | 60 | - | 1,681 | - | 60 | 2 | 426 | - | - | 1,448 | 417 | 92 | - | - | - |
| MAHLE Engine Comp. (Chongqing) Co. Ltd. | 110 | - | 60 | - | - | - | - | 545 | - | - | - | - | - | - | - | - | - |
| MAHLE Industries Inc | 97 | - | 60 | - | 1 | - | 60 | 16 | 231 | - | - | - | 1 | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 93 | - | 60 | - | 21 | - | 60 | 2,028 | 201 | - | - | 42 | - | - | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 77 | - | 60 | - | - | - | - | 195 | - | - | - | - | - | - | - | - | - |
| MAHLE Technologies Holding (China) Co., Ltd. | 56 | - | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Trading Japan Co. Ltd. | 38 | - | 60 | - | 165 | - | 60 | 21 | 105 | - | - | 167 | - | - | - | - | - |
| MAHLE Compon. de Mot. de México, S. de R.L. d | 19 | - | 60 | - | 211 | - | 60 | 75 | 39 | - | - | 4,894 | - | - | - | - | - |
| MAHLE Filter Systems India Pvt ,Ltd. | 18 | - | 60 | - | - | - | - | 13 | - | - | - | - | - | - | - | - | - |
| MAHLE Letrika D.O.O. | 16 | - | 60 | - | 162 | - | 60 | - | 96 | - | - | 1,526 | 4 | - | - | - | - |
| MAHLE Migna Private Ltd. | 10 | - | 60 | - | - | - | - | 77 | - | - | - | - | - | - | - | - | - |
| MAHLE Japan Ltd. | 8 | - | 60 | - | - | - | - | - | 53 | - | - | - | - | - | - | - | - |
| MAHLE Kleinmot. Gmbh | 5 | - | 60 | - | - | - | - | 38 | - | - | - | - | - | - | - | - | - |
| MAHLE Letrika (Suzhou) Automotive | 3 | - | 60 | - | 205 | - | 60 | - | 102 | - | - | 1,925 | - | - | - | - | - |
| MAHLE Aftermarket Pte. Ltd | 2 | - | 60 | - | 507 | - | 60 | - | 6 | - | - | 1,485 | - | - | - | - | - |
| MAHLE Powertrain Ltd. | 2 | - | 60 | - | - | - | - | 2 | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 1 | - | 60 | - | - | - | - | 18 | - | - | - | - | - | - | - | - | - |
| Innoferm Tecnologia Ltda. | - | - | - | - | 2,500 | - | 60 | - | 396 | - | - | - | - | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | - | - | - | - | 1,130 | 7,586 | 60 | - | - | - | - | - | - | - | - | - | 6,779 |
| MAHLE Filtersysteme Austria GmbH | - | - | - | - | 733 | - | 60 | - | - | - | - | 3,187 | - | - | - | - | - |
| MAHLE Filter Systems Japan Corporation | - | - | - | - | 692 | - | 60 | - | - | - | - | 908 | 60 | - | - | - | - |
| MAHLE Trading (Shangai) Co. Ltd. | - | - | - | - | 669 | - | 60 | - | 2 | - | - | 732 | - | - | 2 | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | - | 189 | - | 60 | 7 | - | - | - | 229 | 59 | - | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | - | 70 | - | 60 | - | - | 823 | - | 377 | - | - | - | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | - | 47 | - | 60 | - | - | - | - | 303 | - | - | - | - | - |
| MAHLE Componentes de Motor Espana S.L. | - | - | - | - | 21 | - | 60 | 4 | - | - | - | 24 | 4 | - | - | - | - |
| MAHLE Filtersysteme France SAS | - | - | - | - | 14 | - | 60 | - | - | - | - | 30 | - | - | - | - | - |
| MAHLE Industriebeteiligungen GmbH | - | - | - | - | - | 1,264 | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Brockhaus GmbH | - | - | - | - | - | - | - | - | - | - | - | 3,195 | - | - | - | - | - |
| Other | - | - | - | - | 1 | - | 60 | 113 | 52 | - | - | 168 | 6 | - | 9 | - | - |
| **Total related companies** | **23,620** | **-** | | **-** | **26,065** | **8,850** | | **101,854** | **23,372** | **2,181** | **2,019** | **26,310** | **15,936** | **1,076** | **300** | **9,365** | **6,779** |
| **Total related parties** | **73,568** | **38,748** | | **14,470** | **27,054** | **8,850** | | **513,076** | **26,943** | **2,190** | **2,019** | **38,268** | **15,936** | **1,076** | **300** | **9,365** | **6,779** |

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

*(in thousand of reais)*

| | Parent company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12.31.2016 | | | | | | Transactions from 2016 | | | | | | | | |
| | Current assets | | | Non-current assets | Current liabilities | | Sales/revenue | | | Purchases | | | | | |
| | Receivables (Note 9) | Dividends and interest on capital receivable | 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 | 41,187 | 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 Filtroil 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** | **41,187** | | **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 Migna 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 | 60 | 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** | **41,187** | | **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**

# MAHLE Metal Leve S.A.

# Explanatory notes to the financial statements

*(in thousand of reais)*

| | Consolidated | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balances at 12.31.2017 | | | | | | Transactions from 2017 | | | | | | | | | |
| | Current assets | | Non-current assets | Current liabilities | | | Sales/revenue | | | | Purchases | | | | | |
| | Receivables (Note 9) | Payment term in days (*) | Loan | Suppliers (Note 17) | Dividends and interest on capital payable | Payment term in days (*) | Products | Services | Property, plant and equipment | Rent Transport Food Energy | Products | Services | Property, plant and equipment | Commissions | Trademark license/ Royaltes | Rent |
| **Related companies** | | | | | | | | | | | | | | | | |
| MAHLE Compon. de Mot. de México, S. de R.L. de C.V. | 8,474 | 60 | - | 211 | - | 60 | 60,931 | 39 | - | - | 5,142 | - | - | - | - | - |
| MAHLE France SAS | 8,440 | 60 | - | - | - | - | 47,920 | 83 | - | - | - | - | - | - | - | - |
| MAHLE Componentes de Motores S.A. | 6,992 | 60 | - | 21 | - | 60 | 50,495 | 201 | - | - | 42 | - | - | - | - | - |
| MAHLE Aftermarket GmbH | 6,810 | 60 | - | 2,735 | - | 60 | 52,248 | 1,000 | - | - | 10,858 | 735 | - | 121 | - | - |
| MAHLE Vöcklabruck GmbH | 5,473 | 60 | - | - | - | - | 28,044 | - | - | - | - | - | - | - | - | - |
| MAHLE GmbH | 4,205 | 60 | - | 12,794 | - | 60 | 10,741 | 79 | - | - | 1,385 | 9,980 | 863 | - | 10,466 | - |
| MAHLE Engine Componentes USA, Inc. | 3,980 | 60 | - | 896 | - | 60 | 16,185 | 163 | - | - | 73 | 1,123 | - | - | - | - |
| MAHLE Componenti Motori Italia S.p.A. | 3,325 | 60 | - | 150 | - | 60 | 17,347 | 79 | - | - | 235 | 3 | - | - | - | - |
| MAHLE Behr Gerenciamento Térmico Brasil Ltda. | 2,774 | 60 | - | 11,570 | - | 60 | 268 | 10,679 | - | 2,019 | 8 | 4,207 | - | - | - | - |
| MAHLE Aftermarket S.de R.L.de C.V. | 2,200 | 60 | - | - | - | - | 16,771 | - | - | - | - | - | - | - | - | - |
| MAHLE Componentes de Motor Espana S.L. | 2,073 | 60 | - | 21 | - | 60 | 13,198 | - | - | - | 24 | 4 | - | - | - | - |
| MAHLE Engine Components (Yingkou) Co., Ltd. | 1,350 | 60 | - | - | - | - | 7,626 | 214 | - | - | - | - | - | - | - | - |
| MAHLE Compressores do Brasil Ltda. | 1,307 | 60 | - | 61 | - | 60 | 1,475 | 5,727 | - | - | - | 74 | - | - | - | - |
| MAHLE Engine Components (Thailand) Co., Ltd. | 1,162 | 60 | - | - | - | - | 5,945 | - | - | - | - | - | - | - | - | - |
| MAHLE Motor Parcalari San. Izmir A.S | 1,141 | 60 | - | 16 | - | 60 | 4,359 | - | - | - | 151 | - | - | 31 | - | - |
| MAHLE Engine Components Slovakia s.r.o | 923 | 60 | - | - | - | - | 1,767 | - | 939 | - | - | - | - | - | - | - |
| MAHLE Kleinmotoren-Komponenten GmbH & Co. KG | 806 | 60 | - | 28 | - | 60 | 4,738 | - | - | - | - | 128 | - | - | - | - |
| MAHLE S.A. | 641 | 60 | - | - | - | - | 6,410 | - | - | - | 187 | - | - | - | - | - |
| MAHLE India Pistons Ltd. | 440 | 60 | - | - | - | - | 3,266 | 19 | - | - | - | - | - | - | - | - |
| MAHLE Clevite Inc. | 424 | 60 | - | 72 | - | 60 | 6,823 | 1,406 | - | - | - | 1 | - | 137 | - | - |
| MAHLE Engine Componets Japan Corporation | 415 | 60 | - | 19 | - | 60 | 497 | - | - | - | - | 26 | - | - | - | - |
| MAHLE International GmbH | 360 | 60 | - | 3,173 | - | 60 | - | 1,893 | - | - | 54 | 4,785 | 121 | - | - | - |
| MAHLE Industriemotoren-Komponenten GmbH | 307 | 60 | - | 40 | - | 60 | 1,872 | - | - | - | - | 44 | - | - | - | - |
| MAHLE Filter Systems North America Inc | 273 | 60 | - | - | - | - | - | 264 | - | - | - | - | - | - | - | - |
| MAHLE Ventiltrieb GmbH | 238 | 60 | - | - | - | - | 335 | - | - | - | 34 | 426 | - | - | - | - |
| MAHLE Engine Components (Nanjing) Co., Ltd. | 181 | 60 | - | 13 | - | 60 | 4,484 | - | 419 | - | 13 | - | - | - | - | - |
| MAHLE Filtersysteme GmbH | 156 | 60 | - | 1,192 | - | 60 | 2 | 57 | - | - | - | 1,306 | - | - | - | - |
| MAHLE Engine Systems UK Ltd. | 115 | 60 | - | 1,682 | - | 60 | 2 | 426 | - | - | 1,448 | 417 | 92 | - | - | - |
| MAHLE Engine Components (Chongqing) Co.,Ltd. | 110 | 60 | - | - | - | - | 545 | - | - | - | - | - | - | - | - | - |
| MAHLE Industries, Inc. | 97 | 60 | - | 489 | - | 60 | 29 | 231 | - | - | - | 2,500 | - | - | - | - |
| MAHLE Technologies Holding (China) Co., Ltd. | 56 | 60 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Polska Spolka Z.0.0 | 48 | 60 | - | - | - | - | 165 | 9 | - | - | - | - | - | - | - | - |
| MAHLE Trading Japan Co. Ltd. | 38 | 60 | - | 165 | - | 60 | 21 | 105 | - | - | 167 | - | - | - | - | - |
| MAHLE Filter Systems India Pvt ,Ltd. | 18 | 60 | - | - | - | - | 13 | - | - | - | - | - | - | - | - | - |
| MAHLE Letrika D.O.O. | 16 | 60 | - | 228 | - | 60 | - | 96 | - | - | 1,728 | 4 | - | - | - | - |
| MAHLE Migna Private Ltd. | 10 | 60 | - | 109 | - | 60 | 77 | - | - | - | - | - | - | - | - | - |
| MAHLE Japan Ltd. | 8 | 60 | - | - | - | - | - | 53 | - | - | - | - | - | - | - | - |
| MAHLE Letrika (Suzhou) Automotive | 3 | 60 | - | 205 | - | 60 | - | 102 | - | - | 1,925 | - | - | - | - | - |
| MAHLE Aftermarket Pte Ltd. | 2 | 60 | - | 507 | - | 60 | - | 6 | - | - | 1,485 | - | - | - | - | - |
| MAHLE Powertrain Ltd. | 2 | 60 | - | - | - | - | 2 | - | - | - | - | - | - | - | - | - |
| MAHLE Motorsports Inc | 1 | 60 | - | - | - | - | 18 | - | - | - | - | - | - | - | - | - |
| Innoferm Tecnologia Ltda. | - | - | - | 2,500 | - | 60 | - | 396 | - | - | - | - | - | - | - | - |
| MAHLE Indústria e Comércio Ltda. | - | - | - | 1,130 | 7,586 | 60 | - | - | - | - | - | - | - | - | - | 6,779 |
| MAHLE Filtersysteme Austria GmbH | - | - | - | 773 | - | 60 | - | - | - | - | 3,187 | 209 | - | - | - | - |
| MAHLE Filter Systems Japan Corporation | - | - | - | 692 | - | 60 | - | - | - | - | 908 | 60 | - | - | - | - |
| MAHLE Trading (Shangai) Co.Ltd. | - | - | - | 669 | - | 60 | - | 2 | - | - | 732 | - | - | 2 | - | - |
| MAHLE Donghyun Filter Systems Co., Ltd. | - | - | - | 189 | - | 60 | 7 | - | - | - | 229 | 59 | - | - | - | - |
| MAHLE Componente de Motor SRL | - | - | - | 70 | - | 60 | - | - | 823 | - | 377 | - | - | - | - | - |
| MAHLE Filter Systems Philippines Corporation | - | - | - | 47 | - | 60 | - | - | - | - | 303 | - | - | - | - | - |
| MAHLE Engine Comp. Inc | - | - | - | 41 | - | 60 | - | - | - | - | - | 207 | - | - | - | - |
| MAHLE Industrial Thermal Systems GmbH & Co. KG | - | - | - | 27 | - | 60 | - | - | - | - | - | 27 | - | - | - | - |
| MAHLE Filtersysteme France SAS | - | - | - | 14 | - | 60 | | | | | | | | - | | |
| MAHLE Holding Austria GmbH | - | - | 20,945 | - | - | 60 | - | - | - | - | - | - | - | - | - | - |
| MAHLE Industriebeteiligungen GmbH | - | - | - | - | 1,264 | - | - | - | - | - | - | - | - | - | - | - |
| MAHLE Brockhaus GmbH | - | - | - | - | - | - | - | - | - | - | 3,195 | - | - | - | - | - |
| Other | - | - | - | 5 | - | 60 | 266 | 43 | - | - | 168 | 5 | - | 9 | 23 | - |
| **Total related companies** | **65,394** | | **20,945** | **42,554** | **8,850** | | **364,892** | **23,372** | **2,181** | **2,019** | **34,088** | **26,330** | **1,076** | **300** | **10,489** | **6,779** |
| **Total related parties** | **65,394** | | **20,945** | **42,554** | **8,850** | | **364,892** | **23,372** | **2,181** | **2,019** | **34,088** | **26,330** | **1,076** | **300** | **10,489** | **6,779** |

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

# MAHLE Metal Leve S.A.

# 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/ Royaltes | 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 Vocklabruck 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**

*(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, 2017, the subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda. had a loan agreement with the Company in the amount of R$ 14,470 (R$ 12,136 at December 31, 2016), 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.

The subsidiary MAHLE Metal Leve GmbH has a daily cash management contract with MAHLE Holding Austria GmbH, subject to interest based on Eonia (Euro OverNight Index Average) + 1.15% p.a., with no definite maturity date. At December 31, 2017, the subsidiary has R$ 20,945 (R$ 59,819 at December 31, 2016) receivable from these transactions.

At December 31, 2016, the Company had a loan owed by subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. and with the sale of the subsidiary, the loan was transferred to the account “loans to third parties”. At July 25, 2017, Miba Sinter Brasil Ltda. paid R$ 50.3 million to MAHLE Metal Leve S.A. for the total loan plus interest.

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 parent company in the amount of R$ 9,365 (December 31, 2016 - R$ 8,492) and in the consolidated accounts in the amount of R$ 10,466 (December 31, 2016 - R$ 9,733).

### *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 | |
|---|---|---|
| | **2017** | **2016** |
| MAHLE Metal Leve GmbH | 38,748 | 41,187 |
| | **38,748** | **41,187** |

# Explanatory notes to the financial statements

*(in thousand of reais)*

### *Dividends and interest on capital payable*

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| MAHLE Indústria e Comércio Ltda. | 7,586 | - | 7,586 | - |
| MAHLE Industriebeteiligungen GmbH. | 1,264 | - | 1,264 | - |
| Minorities | 4,675 | 838 | 4,738 | 901 |
| | **13,525** | **838** | **13,588** | **901** |

### *Management compensation*

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Statutory officers | 7,084 | 6,636 | 7,084 | 6,636 |
| Non-statutory officers | 16,605 | 6,176 | 16,605 | 6,176 |
| | **23,689** | **12,812** | **23,689** | **12,812** |

The officers receive no share-based compensation.

*(in thousand of reais)*

## 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Profit before income tax and social contribution | 266,901 | (22,658) | 279,109 | (18,778) |
| (-) Interest on capital | (87,961) | (54,097) | (87,961) | (54,097) |
| Profit before income tax and social contribution after interest on capital | **178,940** | **(76,755)** | **191,148** | **(72,875)** |
| Income tax and social contribution at the statutory rate in Brazil (34%) | (60,840) | 26,097 | (64,990) | 24,778 |
| Effects of permanent differences: | | | | |
| Equity in the results of investees | 25,193 | 36,488 | (116) | (730) |
| Overstated (understated) provision in prior year | (890) | 484 | (890) | 484 |
| Loss for the year for which no deferred tax asset was recognized | - | - | (2,266) | (9,131) |
| Gain for the period related to amount received by foreign subsidiary (*) | - | - | - | 21,537 |
| Non deductible expenses | (2,442) | (14,983) | (3,690) | (13,013) |
| Others, net | 9,383 | (772) | 24,799 | 20,755 |
| **Total income tax and social contribution** | **(29,596)** | **47,314** | **(47,153)** | **44,680** |
| Current income tax and social contribution | (49,551) | (26,836) | (70,635) | (31,618) |
| Deferred income tax and social contribution | 19,955 | 74,150 | 23,482 | 76,298 |
| | **(29,596)** | **47,314** | **(47,153)** | **44,680** |
| **Effective rate** | **16.5%** | **-61.6%** | **24.7%** | **-61.3%** |

(*) 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.

*(in thousand of reais)*

### 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 2017 | Balance in 2016 | Balance in 2017 | Balance in 2016 |
| Property, plant and equipment | - | - | 42,703 | 52,781 |
| Intangible assets | - | - | 129,428 | 129,428 |
| Derivatives | - | - | 2,739 | 8,711 |
| Inventory | (9,682) | (8,208) | - | - |
| Provisions | (157,020) | (148,206) | - | - |
| Tax (assets) liabilities | (166,702) | (156,414) | 174,870 | 190,920 |
| Amount eligible for offsetting | 166,702 | 156,414 | (166,702) | (156,414) |
| Net tax (assets) liabilities | **-** | **-** | **8,168** | **34,506** |

| | Consolidated | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | Balance in 2017 | Balance in 2016 | Balance in 2017 | Balance in 2016 |
| Property, plant and equipment | - | - | 43,062 | 57,970 |
| Intangible assets | - | - | 129,428 | 129,428 |
| Derivatives | - | - | 2,738 | 8,510 |
| Inventory | (10,919) | (11,750) | - | - |
| Provisions | (160,749) | (154,693) | - | - |
| Tax (assets) liabilities | (171,668) | (166,443) | 175,228 | 195,908 |
| Amount eligible for offsetting | 166,702 | 160,223 | (166,702) | (160,223) |
| Net tax (assets) liabilities | **(4,966)** | **(6,220)** | **8,526** | **35,685** |

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 thousand of reais)*

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 | **2017** | **2016** | **2017** | **2016** |
| Next 12 months | 38,514 | 33,083 | 42,841 | 39,839 |
| Between 12 and 24 months | 11,867 | 13,084 | 12,102 | 13,023 |
| Between 24 and 36 months | 23,818 | 21,986 | 24,335 | 23,352 |
| Between 36 and 48 months | 12,568 | 11,696 | 12,871 | 12,354 |
| Between 48 and 60 months | 16,400 | 15,358 | 15,983 | 16,254 |
| Over 60 months | 63,535 | 61,207 | 63,536 | 61,621 |
| | **166,702** | **156,414** | **171,668** | **166,443** |

*(in thousand of reais)*

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

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance in 01.01.2016 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2016 | Recognized in profit or loss | Recognized in other comprehensive income | Balance in 12.31.2017 |
| Property, plant and equipment | 65,060 | (12,279) | - | 52,781 | (10,078) | - | 42,703 |
| Intangible assets | 193,570 | (64,142) | - | 129,428 | - | - | 129,428 |
| Derivatives | (21,068) | 3,854 | 25,925 | 8,711 | 411 | (6,383) | 2,739 |
| Inventory | (8,116) | (92) | - | (8,208) | (1,474) | - | (9,682) |
| Provisions | (146,715) | (1,491) | - | (148,206) | (8,814) | - | (157,020) |
| | **82,731** | **(74,150)** | **25,925** | **34,506** | **(19,955)** | **(6,383)** | **8,168** |

| | Consolidated | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance in 01.01.2016 | Recognized in profit or loss | Recognized in other comprehensive income | Discontinued operations | Balance in 12.31.2016 | Recognized in profit or loss | Recognized in other comprehensive income | Discontinued operations | Recognized in other comprehensive income | Balance in 12.31.2017 |
| Property, plant and equipment | 71,610 | (12,907) | - | (733) | 57,970 | (14,908) | - | - | - | 43,062 |
| Intangible assets | 193,571 | (64,143) | - | - | 129,428 | - | - | - | - | 129,428 |
| Derivatives | (20,039) | 3,852 | 24,697 | - | 8,510 | 611 | (6,383) | - | - | 2,738 |
| Inventory | (11,742) | (39) | - | 31 | (11,750) | 831 | - | - | - | (10,919) |
| Provisions | (153,463) | (3,061) | 1,943 | (112) | (154,693) | (6,100) | 484 | (440) | - | (160,749) |
| Taxloss to be offset | - | - | - | - | - | (3,916) | - | - | 3,916 | - |
| | **79,937** | **(76,298)** | **26,640** | **(814)** | **29,465** | **(23,482)** | **(5,899)** | **(440)** | **3,916** | **3,560** |

## *c. Unrecognized deferred tax assets*

At December 31, 2017, tax credits of R$ 25,833 (R$ 27,595 in 2016) 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 | |
|---|---|---|
| | **2017** | **2016** |
| Temporary differences | 9,045 | 7,573 |
| Taxlosses | 16,788 | 20,022 |
| | **25,833** | **27,595** |

*(in thousand of reais)*

## 14 Investments in subsidiaries

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Investments accounted for using the equity method** | **Goodwill based on expected future profitability** | **Impairment** | **Elimination of profit on inventory (Balance at 12/31/2017)** | **Total** |
| MAHLE Argentina S.A. | 133,123 | 59,549 | (38,408) | (1,987) | 152,277 |
| MAHLE Metal Leve GmbH | 44,825 | - | - | (2,454) | 42,371 |
| Innoferm Tecnologia Ltda. | 4,118 | - | - | (3,493) | 625 |
| MAHLE Hirschvogel Forjas S.A. | 416 | 35,755 | (35,755) | - | 416 |
| MAHLE Industry do Brasil Ltda. | 10,322 | - | - | - | 10,322 |
| **Total** | **192,804** | **95,304** | **(74,163)** | **(7,934)** | **206,011** |

| | 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** |

*(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, 2016** | | | | | | **(FY 2016)** | | | | | |
| **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)** |
| **December 31, 2017** | | | | | | **(FY 2017)** | | | | | |
| **Subsidiaries** | | | | | | | | | | | |
| MAHLE Metal Leve Miba Sinterizados Ltda. | 60.00 | - | - | - | - | - | - | - | (4,362) | - | - |
| MAHLE Argentina S.A. | 99.20 | 197,994 | 63,797 | 134,197 | 323,146 | 33,674 | 133,123 | 33,405 | - | 2,112 | - |
| MAHLE Metal Leve GmbH | 100.00 | 141,452 | 96,628 | 44,824 | 438,207 | 50,763 | 44,825 | 50,763 | - | (1,355) | - |
| MAHLE Filtroil Ind. e Com. de Filtros Ltda. | 60.00 | 2,220 | 15,288 | (13,068) | 2,925 | (1,634) | - | - | (981) | - | (7,841) |
| MAHLE Industry do Brasil Ltda. | 99.99 | 22,301 | 11,979 | 10,322 | 30,128 | 4,287 | 10,322 | 4,287 | - | - | - |
| MAHLE Hirschvogel Forjas S.A. | 51.00 | 24,961 | 24,145 | 816 | 88 | (18,488) | 416 | - | (9,429) | - | - |
| **Subtotal subsidiaries** | | **388,928** | **211,837** | **177,091** | **794,494** | **68,602** | **188,686** | **88,455** | **(14,772)** | **757** | **(7,841)** |
| **Related companies** | | | | | | | | | | | |
| Innoferm Tecnologia Ltda. | 33.33 | 12,620 | 266 | 12,354 | - | (1,026) | 4,118 | - | (342) | - | - |
| **Subtotal related companies** | | **12,620** | **266** | **12,354** | **-** | **(1,026)** | **4,118** | **-** | **(342)** | **-** | **-** |
| **Total** | | **401,548** | **212,103** | **189,445** | **794,494** | **67,576** | **192,804** | **88,455** | **(15,114)** | **757** | **(7,841)** |

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, 2017, the interest in the net capital deficiency of the subsidiary MAHLE Filtroil Indústria e Comércio de Filtros Ltda. was R$ 7,841 (R$ 6,860 at December 31, 2016) and this was recorded in non-current liabilities within "provision for subsidiary's net capital deficiency".

At December 31, 2017 and 2016, 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, 2017, the share of equity in subsidiary MAHLE Hirschvogel Forjas S.A. is R$ 416, which is recorded in current assets as “Investments in subsidiaries”.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 the Extraordinary General Meetings held on April 28, 2017, May 2, 2017 and November 30, 2017, share capital increases of R$ 1,600, R$ 1,550 and R$ 19,800, were approved for this subsidiary, of which R$ 11,705 was contributed by MAHLE Metal Leve S.A. and R$ 11,245 by the non-controlling shareholder. The purpose of this capital contribution was to complete the process of cessation of the subsidiary’s operations.

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.

### *MAHLE Industry do Brasil Ltda*

At December 31, 2017, the share of equity in subsidiary MAHLE Industry do Brasil Ltda. is R$ 10,322 (R$ 6,034 at December, 31 2016), which is recorded in current assets as “Investments in subsidiaries”.

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 GmbH*

On May 31, 2017, the subsidiary MAHLE Metal Leve GmbH declared and paid dividends of R$ 84,607 to the Company for profits earned in FY 2016.

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

According to the announcement made to the market on May 9, 2017, at June 30, 2017, the Company completed the sale of its 60% stake in MAHLE Metal Leve Miba Sinterizados Ltda. to Miba Sinter Holding GmbH & Co KG. The results and balance sheets of MAHLE Metal Leve Miba Sinterizados Ltda. up to the date of the sale are shown in Note 36.

### *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.

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

*(in thousand of reais)*

## 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, 2016** | **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** |
| Additions | - | - | 42,097 | 685 | 1,911 | 7,539 | 17,602 | - | 69,834 |
| Write-offs | - | - | (2,303) | (35) | (349) | - | - | 195 | (2,492) |
| Transfer | - | 5 | 31,475 | (73) | 1 | (9,452) | (21,956) | - | - |
| Depreciation | - | (5,014) | (72,424) | (808) | (1,888) | - | - | - | (80,134) |
| Depreciation/write-off (deemed cost) | - | (2,568) | (4,023) | (29) | (12) | - | - | - | (6,632) |
| **At December 31, 2017** | **52,454** | **104,499** | **421,700** | **4,050** | **5,130** | **5,401** | **11,831** | **(2,907)** | **602,158** |
| Total cost | 52,454 | 230,434 | 1,925,351 | 24,652 | 24,200 | 5,401 | 11,831 | (2,907) | 2,271,416 |
| Accumulated depreciation | - | (125,935) | (1,503,651) | (20,602) | (19,070) | - | - | - | (1,669,258) |
| **Net book value** | **52,454** | **104,499** | **421,700** | **4,050** | **5,130** | **5,401** | **11,831** | **(2,907)** | **602,158** |

*(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, 2016** | **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** |
| Additions | - | 410 | 46,541 | 960 | 2,080 | 7,540 | 25,542 | (17) | 83,056 |
| Write-offs | - | - | (2,433) | (47) | (388) | - | - | 393 | (2,475) |
| Transfer | - | (111) | 41,899 | (103) | - | (14,424) | (27,261) | - | - |
| Depreciation | - | (5,165) | (80,202) | (907) | (2,044) | - | - | - | (88,318) |
| Depreciation/write-off (deemed cost) | - | (2,626) | (4,132) | (29) | (12) | - | - | - | (6,799) |
| Discontinued operations | (6,087) | (3,694) | (40,854) | (393) | (180) | (2) | (23) | 138 | (51,095) |
| Foreign exchange variation | (31) | (566) | (4,457) | (61) | (46) | - | (254) | 65 | (5,350) |
| **At December 31, 2017** | **52,636** | **107,787** | **452,888** | **4,644** | **5,370** | **5,401** | **15,499** | **(3,974)** | **640,251** |
| Total cost | 52,636 | 234,264 | 1,982,736 | 25,669 | 24,774 | 5,401 | 15,499 | (3,974) | 2,337,005 |
| Accumulated depreciation | - | (126,477) | (1,529,848) | (21,025) | (19,404) | - | - | - | (1,696,754) |
| **Net book value** | **52,636** | **107,787** | **452,888** | **4,644** | **5,370** | **5,401** | **15,499** | **(3,974)** | **640,251** |

*(in thousand of reais)*

### *Deemed cost*

### *Changes in deemed cost*

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | 01.01.2016 | Depreciation/write-off (deemed cost) | 12.31.2016 | Depreciation/write-off (deemed cost) | Discontinued operations (deemed cost) | 12.31.2017 |
| Land | 46,905 | - | 46,905 | - | - | 46,905 |
| Buildings and construction | 48,192 | (2,568) | 45,624 | (2,568) | - | 43,056 |
| Machinery, equipment and facilities | 12,643 | (5,630) | 7,013 | (4,023) | - | 2,990 |
| Furniture and fittings | 131 | (72) | 59 | (29) | - | 30 |
| Vehicles | (118) | (12) | (130) | (12) | - | (142) |
| | **107,753** | **(8,282)** | **99,471** | **(6,632)** | **-** | **92,839** |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 01.01.2016 | Depreciation/write-off (deemed cost) | 12.31.2016 | Depreciation/write-off (deemed cost) | Discontinued operations (deemed cost) | 12.31.2017 |
| Land | 52,617 | - | 52,617 | - | (5,712) | 46,905 |
| Buildings and construction | 49,834 | (2,688) | 47,146 | (2,626) | (1,464) | 43,056 |
| Machinery, equipment and facilities | 12,927 | (5,915) | 7,012 | (4,132) | 110 | 2,990 |
| Furniture and fittings | 282 | (72) | 210 | (29) | (151) | 30 |
| Vehicles | (122) | (12) | (134) | (12) | 4 | (142) |
| | **115,538** | **(8,687)** | **106,851** | **(6,799)** | **(7,213)** | **92,839** |

### *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 |

*(in thousand of reais)*

### *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$ 6,680 in the consolidated accounts at December 31, 2017 (R$ 6,257 at December 31, 2016). 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.

*(in thousand of reais)*

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

In 2016, the amount of R$ 13,235 was reclassified to non-current assets as assets held for sale, and there are also advance payments of R$ 377, which are recorded as “other liabilities”, related to the sale of items of property, plant and equipment which are to be removed from the Company by the end of 2017.

In 2017 there were partial sales in which the residual value of the assets was R$ 4,518. At September 30, 2017, a provision for loss of R$ 3,262 was recorded for property, plant and equipment, with a remaining balance of R$ 7,171 in the assets held for sale account. These assets are still available for immediate sale and in the process of negotiation.

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

| | **2017** | **2016** |
|---|---|---|
| Buildings and construction | 7,171 | 7,942 |
| Machinery and equipment | 7,538 | 10,909 |
| Furniture, fittings and other | 767 | 687 |
| Obsolete property, plant and equipment | (8,305) | (6,398) |
| **Total property, plant and equipment** | **7,171** | **13,140** |
| Intangible assets | 95 | 95 |
| Obsolete intangibel | (95) | - |
| **Total intangible assets** | **-** | **95** |
| **Total** | **7,171** | **13,235** |

*(in thousand of reais)*

# 16 Intangible assets

| | Annual amortization rates (%) | Parent company 2017 | Parent company 2016 | Consolidated 2017 | Consolidated 2016 |
|---|---|---|---|---|---|
| Goodwill on merger with subsidiary: | | | | | |
| MAHLE Participações Ltda. (a) | - | 568.612 | 568.612 | 568.612 | 568.612 |
| Goodwill on acquisition of subsidiaries: | | | | | |
| MAHLE Argentina S.A. (a) | - | - | - | 65.046 | 64.311 |
| MAHLE Hirschvogel Forjas S.A. (a) | - | - | - | 35.755 | 35.755 |
| Cost of acquisition and installation of software (b) | 20 | 45.828 | 48.024 | 46.490 | 49.898 |
| Other (a and b) | - | 334 | 334 | 3.355 | 2.917 |
| Usage right and concessions (a) (*) | - | 17.665 | 40.044 | 17.665 | 40.044 |
| Usage right and concessions (b) (**) | 20 | 37.703 | 5.813 | 37.703 | 7.526 |
| Provision for impairment of intangible assets *(Oring businnes)* | - | (188.654) | (188.654) | (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) |
| | | 481.154 | 473.839 | 511.466 | 505.903 |
| Accumulated amortization | | (48.959) | (46.924) | (52.453) | (51.233) |
| | | **432.195** | **426.915** | **459.013** | **454.670** |

(a) Indefinite useful life

(b) finite useful life

(*) Out of the amount relating to usage right and concessions (a), R$ 12,000 refers to the exclusivity rights to the development of the ethanol-production technology (MBE2) and R$ 5,665 refers to costs of improvement of access through Anhanguera Highway and right-of-way easement to the Group's Technology Center in the city of Jundiaí, State of São Paulo.

(**) Out of the amount relating to usage right and concessions (b), R$ 31,483 refers to costs associated with the continuity of development of MBE2 technology.

# 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 1st, 2016** | **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** |
| Additions | - | 2,068 | 6,031 | - | 8,099 |
| Amortization | - | (1,878) | (940) | (1) | (2,819) |
| Other | - | (3,481) | 3,481 | - | - |
| **At December 31, 2017** | **379,958** | **2,891** | **49,346** | **-** | **432,195** |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Goodwill on acquisition of subsidiaries (merged or not) | Cost of acquisition and installation of software | Usage right and concessions | Other | Total |
| **At january 1st, 2016** | **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** |
| Additions | - | 2,165 | 6,031 | - | 8,196 |
| Amortization | - | (1,964) | (1,115) | - | (3,079) |
| Foreign exchange variation | 735 | (17) | - | (14) | 704 |
| Transfer | - | (3,484) | 3,484 | - | - |
| Discontinued operations | - | (139) | (1,339) | - | (1,478) |
| **At December 31, 2017** | **406,595** | **2,999** | **49,346** | **73** | **459,013** |

(in thousand of reais)

### *Provision for impairment of intangible assets*

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.

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. 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.

### *Key assumptions*

The main rates used for the period from 2017 to 2022 to determine the subsidiaries' valuation through discounted cash flows were as follows:

| | **December 2017** | | **December 2016** | |
|---|---|---|---|---|
| | **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 | 1.50% | 1.50% | 0.60% | 0.60% |
| b. Country risk premium | 9.25% | 3.51% | 10.05% | 3.55% |
| c. Market premium | 6.00% | 6.00% | 6.50% | 6.50% |
| d. Unleveraged beta | 1.00 | 0.90 | 1.00 | 0.90 |
| e. Cost of equity (b + c) x d | 15.25% | 8.56% | 16.55% | 9.05% |
| f. Discount rate | 14.40% | 11.94% | 15.37% | 12.60% |
| g. Gross margin | 22% to 27% | 35% to 38% | 22% to 28% | 37% to 41% |
| h. Inflation rate | 0% | 4.19% | 0% | 4.5% |
| i. Growth | 0% | 2.10% | 0% | 2.25% |

### *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 2,10% for projections in perpetuity. The rates were determined based on the management's expectations.

### *Exchange rate*

The exchange rates used in the 2017-2022 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 sensitivity analyses to determine the impacts from changes in its main variables that affect the value-in-use calculation. The main variables are: gross margin and perpetuity growth.

With respect to the gross margin of the cash-generating unit MAHLE Metal Leve S.A. (Rings Business), a 2.4 p.p. decrease in margin in the projected years reduces the value in use by approximately 11.6%. The perpetuity growth rate is 2.1%, a decrease of 1.1% in this rate (from 2.1% to 1% p.a.) reduces the value in use by approximately 6.2%.

The above sensitivity scenarios, analyzed individually, would result in a recoverable amount equal to the carrying amount at December 31, 2017.

*(in thousand of reais)*

## 17 Trade and related-party payables

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Suppliers - Third Party | | | | |
| Raw material | 77,990 | 49,566 | 107,700 | 70,575 |
| Services | 21,502 | 19,915 | 21,620 | 21,767 |
| | **99,492** | **69,481** | **129,320** | **92,342** |
| Related parties (Note 12) | 27,054 | 28,467 | 42,554 | 41,764 |
| | **126,546** | **97,948** | **171,874** | **134,106** |

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, 2017, 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Legal process | 5,737 | 5,274 | 5,737 | 5,274 |
| Eletric power | 9,519 | 12,540 | 9,519 | 13,317 |
| Suppliers (raw material) | - | - | - | 1,159 |
| | **15,256** | **17,814** | **15,256** | **19,750** |

*(in thousand of reais)*

## 18 Taxes and contributions payable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **State taxes** | **9,597** | **6,594** | **9,899** | **7,266** |
| ICMS payable | 9,597 | 6,594 | 9,611 | 6,974 |
| Other | - | - | 288 | 292 |
| **Federal taxes** | **14,426** | **11,583** | **15,430** | **13,225** |
| IRRF | 4,584 | 4,188 | 4,611 | 4,639 |
| IPI payable | 3,243 | 2,063 | 3,243 | 2,106 |
| COFINS payable | 3,406 | 1,896 | 3,412 | 1,978 |
| PIS payable | 717 | 396 | 718 | 414 |
| Other | 2,476 | 3,040 | 3,446 | 4,088 |
| **Income tax and social contribution** | **820** | **1,505** | **18,604** | **23,450** |
| **Municipal taxes** | **-** | **-** | **86** | **97** |
| **Current liabilities** | **24,843** | **19,682** | **44,019** | **44,038** |
| **Federal taxes** | | | | |
| Social contribution payable | 335 | 1,150 | 335 | 1,150 |
| **Non-current liabilities** | **335** | **1,150** | **335** | **1,150** |

*(in thousand of reais)*

## 19 Borrowings

| Description | | Average Cost | Parent company 2017 | Parent company 2016 | Consolidated 2017 | Consolidated 2016 |
|---|---|---|---|---|---|---|
| **Borrowings in local currency (BRL)** | | | | | | |
| BNDES-Exim (Long-Term Interest Rate (TJLP) + 2.00% p.a. + 1.00% p.a.) | | 10.00% | - | 102,134 | - | 102,134 |
| BNDES-Exim (Long-Term Interest Rate (TJLP) + 2,00% p.a. + 0,95% p.a.) | | 9.95% | - | 60,078 | - | 60,078 |
| BNDES-Exim (Long Term Interest Rate (TJLP) + 2,00% p.a. + 0,90% p.a.) | | 9.90% | - | 32,335 | - | 32,335 |
| BNDES-Exim (interest of 8.00% p.a.) | | 8.00% | - | 70,482 | - | 90,675 |
| NCE (interest of 8.86% p.a.) | | 8.86% | - | 82,213 | - | 82,213 |
| FINEP (Long-Term Interest Rate (TJLP) + 5.00% p.a. - 6.00% p.a.) | | 6.00% | 173,435 | 61,991 | 173,435 | 61,991 |
| NCE (interest of 11.00% p.a.) | | 11.00% | - | 48,515 | - | 48,515 |
| Other | | 0.00% | 2,547 | 2,891 | 2,547 | 3,038 |
| **Borrowings in foreign currency** | **Currency** | | | | | |
| Working capital (interest of 111,20% CDI p.a.) - M Sint.* | USD | | - | - | - | 18,551 |
| | | **5.91%** | **175,982** | **460,639** | **175,982** | **499,530** |
| Current - borrowings in local currency | | | 30,987 | 120,396 | 30,987 | 140,736 |
| Current - borrowings in foreign currency | | | - | - | - | 15,551 |
| **Total current** | | | **30,987** | **120,396** | **30,987** | **156,287** |
| Non-current - borrowings in local currency | | | 144,995 | 340,243 | 144,995 | 340,243 |
| Non-current - borrowings in foreign currency | | | - | - | - | 3,000 |
| **Total non-current** | | | **144,995** | **340,243** | **144,995** | **343,243** |

* 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 2017, the parent company took bank loans of R$ 121.5 million with FINEP, subject to Long-term Interest Rate (TJLP) + spread of 5.00% p.a., less equalization equivalent to 6.00% p.a. in December 2017.

Changes in borrowings in 2017 were as follows:

**Parent company**

| 2016 | Addition | Monetary variation | Payment of principal | Payment of interest | Interest allocation | Discontinued operations | 2017 |
|---|---|---|---|---|---|---|---|
| 460,639 | 124,092 | 2,922 | (409,120) | (35,867) | 33,316 | - | 175,982 |

**Consolidated**

| 2016 | Addition | Monetary variation | Payment of principal | Payment of interest | Interest allocation | Discontinued operations | 2017 |
|---|---|---|---|---|---|---|---|
| 499,530 | 142,092 | 2,922 | (428,600) | (38,280) | 35,304 | (36,986) | 175,982 |

*(in thousand of reais)*

At December 31, 2017, long-term borrowings mature as follows:

| | Parent company and consolidated |
|---|---|
| | 2017 |
| **2018** | - |
| **2019** | 28,064 |
| **2020** | 28,064 |
| **2021** | 28,064 |
| **2022** | 28,064 |
| **2023** | 28,064 |
| **2024** | 4,675 |
| | **147,012** |

**Restrictive covenants**

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 (7.0 % p.a. as at December 31, 2017) 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, 2017, the Company did not have delinquent principal and interest payments and had not breached any provisions of the agreements with FINEP (agreements with BNDES-Exim, BNDES-Finem, NCE and FINEP at December 31, 2016).

## 20 Salaries, vacation pay and social charges

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Employee profit sharing | 28,695 | 22,271 | 30,257 | 24,506 |
| Accrued vacation pay | 31,675 | 25,058 | 36,899 | 31,176 |
| INSS /FGTS | 11,715 | 10,541 | 11,743 | 11,147 |
| Other social security obligations | 379 | 490 | 4,046 | 4,488 |
| | **72,464** | **58,360** | **82,945** | **71,317** |

*(in thousand of reais)*

## 21 Sundry provision

| | Parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses on contracts | Commercial bonuses | Restructuring | Electric power | Employee benefits | Other | Total |
| **At January 1st, 2016** | **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** |
| Reversal | (315) | - | - | (4,364) | - | (17) | (4,696) |
| Payment | - | (11,573) | - | - | (2,042) | (3,525) | (17,140) |
| Complement | 686 | 15,993 | - | 5,767 | 5,558 | 4,211 | 32,215 |
| **At December 31, 2017** | **6,705** | **7,901** | **-** | **5,767** | **3,516** | **2,518** | **26,407** |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses on contracts | Commercial bonuses | Restructuring | Electric power | Employee benefits | Other | Total |
| **At January 1st, 2016** | **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** |
| Reversal | (577) | - | (6) | (5,154) | - | (304) | (6,041) |
| Payment | - | (11,573) | (154) | - | (2,045) | (4,266) | (18,038) |
| Complement | 1,278 | 15,993 | 71 | 6,229 | 5,622 | 5,622 | 34,815 |
| Foreign exchange variation | (164) | - | - | - | - | (104) | (268) |
| Discontinued operations | (2,860) | - | - | - | (61) | (295) | (3,216) |
| **At December 31, 2017** | **8,256** | **7,902** | **1,828** | **6,229** | **3,516** | **2,919** | **30,650** |

### *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.

*(in thousand of reais)*

## 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 1st, 2016** | **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** |
| Reversal | (7,900) | (3,769) |
| Payment | (3,098) | (7,881) |
| Complement | 4,672 | 5,206 |
| Foreign exchange variation | 402 | 649 |
| Discontinued operations | - | (640) |
| **At December 31, 2017** | **11,453** | **13,940** |

*(in thousand of reais)*

## 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 1st, 2016** | **220,307** | **34,760** | **7,547** | **(65,335)** | **197,279** |
| Additions | 73,537 | 4,855 | 217 | (14,918) | 63,691 |
| 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) | - | (848) | 6,954 | (28,367) |
| Transfer | - | - | - | 2,585 | 2,585 |
| **At December 31, 2016** | **259,329** | **42,860** | **4,833** | **(65,961)** | **241,061** |
| Additions | 54,445 | 10,599 | - | (16,560) | 48,484 |
| Monetary restatements | 28,952 | 2,426 | - | (916) | 30,462 |
| Write-off for use | (25,738) | (3,790) | (627) | 11,972 | (18,183) |
| Write-off for reversal | (47,363) | - | - | 7,571 | (39,792) |
| Transfer | - | - | - | 244 | 244 |
| **At December 31, 2017** | **269,625** | **52,095** | **4,206** | **(63,650)** | **262,276** |

*(in thousand of reais)*

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Civil and labor | Tax | Environmental liability | Judicial deposits | Total |
| **At January 1st, 2016** | **238,901** | **34,901** | **7,550** | **(70,910)** | **210,442** |
| Additions | 95,669 | 4,832 | 1,732 | (22,428) | 79,805 |
| 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) | - | (1,127) | 8,098 | (31,908) |
| 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** |
| Additions | 70,780 | 10,597 | 615 | (27,116) | 54,876 |
| Monetary restatements | 32,982 | 2,437 | - | (1,340) | 34,079 |
| Write-off for use | (30,749) | (3,790) | (1,316) | 17,926 | (17,929) |
| Write-off for reversal | (52,061) | - | (488) | 7,845 | (44,704) |
| Transfer | - | - | - | 1,783 | 1,783 |
| Foreign exchange variation | (223) | - | (22) | - | (245) |
| Discontinued operations | (10,595) | (169) | - | 1,765 | (8,999) |
| **At December 31, 2017** | **304,254** | **52,095** | **4,206** | **(75,549)** | **285,006** |

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.

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, 2017, the Group had labor, civil and tax proceedings brought before the proper authorities in the amount of R$ 50,290 (December 31, 2016 - R$ 42,849), 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.

According to the announcement made to the market on June 28, 2017, August 17, 2017 and December 4, 2017, the Company has had knowledge, through website www.cade.gov.br, that the Administrative Council for Economic Defense ("CADE") started an investigation into suspected anticompetitive practices in the market for auto parts, engine valves, components for filters, pistons and related products. The Company is one of the companies being investigated and will cooperate with CADE to clarify the facts under investigation.

According to the Significant Event Notice disclosed to the market on October 31, 2017, the Company signed on the same date a cease-and-desist commitment "TCC" with CADE. This commitment was homologated by the Administrative Court of CADE also on the same date, suspending administrative proceeding No. 08700.006386/2016-53 (announced to the market on October 10, 2016) in which the Company and its employees or former employees were under investigation. The case will be shelved without an adjudication on the merits of the Company and its employees or former employees if all conditions set out in the commitment have been fully met.

Management continues monitoring this matter and will make required adjustments and disclosures whenever applicable. On February 2, 2018, the Company made a payment in the total of R$ 17.5 million, for which a provision had already been recorded in the financial statements.

*(in thousand of reais)*

## 24 Equity

### a. *Share capital*

At December 31, 2017 and 2016, subscribed and paid-up capital was represented by the following number of shares with no par value:

| | Number of shares | | | |
|---|---|---|---|---|
| | 12.31.2017 | | 12.31.2016 | |
| Mahle Indústria e Comércio Ltda. | 76,985,132 | 60.0% | 76,985,131 | 60.0% |
| Mahle Industriebeteiligungen GmbH | 12,830,850 | 10.0% | 12,830,850 | 10.0% |
| Non-controlling shareholders | 38,492,518 | 30.0% | 38,492,519 | 30.0% |
| | **128,308,500** | **100%** | **128,308,500** | **100%** |

The Company is authorized to increase its capital up to the limit of R$ 50,000,000 (fifty million) common shares, regardless of statutory reform, by resolution of the Board of Directors, which will determine the number of shares issued, the period of issuance and payment conditions.

On December 31, 2017, the market value of the Company's common shares corresponded the price of R$ 23.80 per share (R$ 20.17 on December 31, 2016).

### 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 August 8, 2017, the Board of Directors approved the payment of interest on capital in the gross amount of R$ 50,971, for the period from January 1, 2017 to July 31, 2017, which was paid on September 15, 2017, corresponding to R$ 0.3972551775 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$ 0.3376669009 per common share.

On November 14, 2017, the Board of Directors approved the payment of interest on capital in the gross amount of R$ 22,116, for the period from August 1, 2017 to October 31, 2017, which was paid on December 21, 2017, corresponding to R$ 0.1723699626 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$ 0.1465144682 per common share.

*(in thousand of reais)*

On December 27, 2017, the Board of Directors approved the payment of interest on capital in the gross amount of R$ 14,874, for the period from November 1, 2017 to December 31, 2017, which was paid on May 24, 2018, corresponding to R$ 0.1159202112 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$ 0.0985321796 per common share.

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

Profit for the year was appropriated as follows:

| | 2017 | 2016 |
|---|---|---|
| **Profit for the year** | **237,305** | **24,656** |
| Legal reserve (5% of the profit for the year) | (11,864) | (1,233) |
| Realization/write-off of deemed cost of property, plant and equipment, net of | 5,967 | 4,146 |
| Prescribed dividends and interest on capital | 188 | 162 |
| **Basis for calculation of dividends** | **231,596** | **27,731** |
| **Minimum mandatory dividends - 25%** | **57,899** | **6,933** |
| **Distribution to shareholders:** | | |
| Proposed additional dividends | 143,635 | - |
| Interest on capital, net of income tax, paid partially during the year | 62,712 | 46,328 |
| Interest on capital payable, net of income tax | 12,817 | - |
| Income tax on interest on capital | 12,432 | 7,769 |
| Use of revenue reserve | - | (26,366) |
| **Interest on capital and dividends on profit for the year** | **231,596** | **27,731** |
| **Percentage in relation to the calculation base** | **100%** | **100%** |
| **Interest on capital/dividends paid per common share in reais:** | | |
| Gross | R$ 0.685545 | R$ 0.421618 |
| Net | R$ 0.582714 | R$ 0.358376 |
| Proposed additional dividends per common share in reais | R$ 1.119450 | - |
| 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, to fund future investments to be implemented in the next three years according to the budget prepared by Management.

## 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 2017, net of taxes, at (-) R$ 12,390 (In 2016 (+) R$ 50,324) in the parent and at (-) R$ 12,807 (In 2016 (+) R$ 47,939) in the consolidated accounts.

- The adjustments for the adoption of the deemed cost of property, plant and equipment, net at R$ 5,967 in 2017 (2016 - R$ 4,146). 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.

*(in thousand of reais)*

## 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:

| | 2017 | 2016 |
|---|---|---|
| **Profit attributable to owners of the parent** | **237,305** | **24,656** |
| Shares outstanding | 128,308,500 | 128,308,500 |
| **Basic earnings per share** | **1.8495** | **0.1922** |
| From continuing operations | 244,576 | 46,409 |
| From descontinuing operations | (7,271) | (21,753) |
| **Profit attributable to owners of the parent** | **237,305** | **24,656** |
| From continuing operations | 1.90616 | 0.36170 |
| From descontinuing operations | (0.05667) | (0.16954) |
| **Basic earnings per share** | **1.8495** | **0.1922** |

There are no diluted earnings per share for the Company.

## 26 Net operating revenue

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 (*) |
| Gross revenue | | | | |
| Products | 2,393,773 | 2,212,062 | 2,867,156 | 2,714,460 |
| Services | 43,169 | 38,497 | 39,601 | 34,979 |
| Total revenue with products + services | 2,436,942 | 2,250,559 | 2,906,757 | 2,749,439 |
| Deductions from sales: | | | | |
| Taxes on sales | (507,355) | (456,435) | (510,716) | (458,353) |
| Discounts , returns and sales incentives | (32,886) | (37,653) | (131,598) | (147,778) |
| **Net operating revenue** | **1,896,701** | **1,756,471** | **2,264,443** | **2,143,308** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

## 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016 (*)** |
| Personnel and benefits | (41,194) | (39,405) | (49,618) | (47,590) |
| Freight | (36,487) | (29,808) | (45,673) | (37,955) |
| Variable selling expenses | (6,140) | (6,520) | (13,795) | (19,377) |
| Brand license | (9,365) | (8,492) | (10,466) | (9,733) |
| Advertising | (4,819) | (4,286) | (6,353) | (8,234) |
| Travel and entertainment allowance | (2,418) | (2,617) | (2,837) | (3,108) |
| General expenses | (374) | (1,565) | (5,864) | (6,720) |
| Depreciation | (750) | (781) | (883) | (937) |
| Professional services/service orders | (6,534) | (6,013) | (8,067) | (9,961) |
| (Reversal of) provision for impairment of trade receivables | 1,260 | 2,312 | 1,634 | 1,496 |
| Other expenses | (4,280) | (5,475) | (4,974) | (3,814) |
| | **(111,101)** | **(102,650)** | **(146,896)** | **(145,933)** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

## 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 | |
|---|---|---|---|---|
| | **2017** | **2016 (Restated note nº 3 e.)** | **2017** | **2016 (*) (Restated note nº 3 e.)** |
| Personnel and benefits | (29,920) | (28,030) | (35,064) | (32,420) |
| Management | (23,689) | (12,812) | (23,689) | (12,812) |
| Professional services/service orders | (7,544) | (5,629) | (7,136) | (8,723) |
| Maintenance | (4,275) | (3,452) | (4,547) | (4,153) |
| Materials and utilities | (3,859) | (3,424) | (4,262) | (4,846) |
| Depreciation | (3,494) | (3,221) | (3,712) | (3,443) |
| PIS/COFINS | (2,723) | (1,885) | (2,850) | (1,922) |
| Travel and entertainment allowance | (1,158) | (925) | (1,385) | (1,254) |
| Insurance | (130) | 27 | (217) | (311) |
| Other expenses | (4,890) | (4,178) | (5,456) | (6,238) |
| | **(81,682)** | **(63,529)** | **(88,318)** | **(76,122)** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

## 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016 (*)** |
| Personnel and benefits | (45,828) | (45,120) | (47,137) | (46,394) |
| Materials/utilities | (7,001) | (8,779) | (7,083) | (8,855) |
| Depreciation | (6,165) | (6,404) | (6,341) | (6,542) |
| General expenses | (5,357) | (4,972) | (8,755) | (9,736) |
| Professional services/service orders | (3,255) | (4,227) | (7,626) | (7,063) |
| Maintenance | (3,827) | (2,995) | (3,839) | (3,000) |
| Other expenses | (2,322) | (2,722) | (2,657) | (3,299) |
| | **(73,755)** | **(75,219)** | **(83,438)** | **(84,889)** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

## 31 Finance income and costs, net

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016 (*)** |
| **Finance income** | | | | |
| Interest | 29,986 | 21,466 | 30,670 | 22,442 |
| Exchange variation (a) | 38,768 | 34,032 | 62,367 | 66,232 |
| Monetary variation gains | 2,413 | 4,686 | 2,843 | 4,912 |
| Derivative financial instruments (c) | 12,279 | 49,720 | 12,279 | 49,720 |
| Other | 286 | 226 | 267 | 514 |
| | **83,732** | **110,130** | **108,426** | **143,820** |
| **Finance costs** | | | | |
| Interest | (35,848) | (29,185) | (37,137) | (41,388) |
| Exchange variations (b) | (21,922) | (72,866) | (38,876) | (98,000) |
| Monetary variation losses | (34,406) | (35,457) | (38,430) | (37,400) |
| Derivative financial instruments (d) | (15,571) | (5,454) | (15,571) | (5,454) |
| Other | (2,838) | (1,746) | (6,781) | (6,365) |
| | **(110,585)** | **(144,708)** | **(136,795)** | **(188,607)** |
| **Finance income (costs), net** | **(26,853)** | **(34,578)** | **(28,369)** | **(44,787)** |
| **Summary of foreign exchange variations (a+b)** | **16,846** | **(38,834)** | **23,491** | **(31,768)** |
| Trade receivables | 8,687 | (27,466) | 16,688 | (9,821) |
| Cash and cash equivalents | 4,953 | (12,033) | 5,632 | (12,884) |
| Interest on capital receivable | 6,113 | (9,865) | 6,113 | (9,865) |
| Trade payables | (2,892) | 2,641 | (4,927) | (6,868) |
| Borrowings | - | 7,928 | - | 7,928 |
| Other | (15) | (39) | (15) | (258) |
| **Summary of derivative instruments (c+d)** | **(3,292)** | **44,266** | **(3,292)** | **44,266** |
| Income | 12,279 | 49,720 | 12,279 | 49,720 |
| Expenses | (15,571) | (5,454) | (15,571) | (5,454) |
| **Net result of foreign exchange variations and derivative financial instruments** | **13,554** | **5,432** | **20,199** | **12,498** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

## 32 Other operating income and expenses, net

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2017 | 2016 (Restated note nº 3 e.) | 2017 | 2016 (*) (Restated note nº 3 e.) |
| **Other income** | | | | |
| Provision/reversal for labor, civil and tax contingencies | (26,113) | (51,939) | (36,881) | (69,719) |
| Gains (losses) on disposal of assets /other | (2,018) | (537) | (3,387) | (29) |
| Gains on disposal of equity interest in subsidiary | 17,267 | - | 17,267 | - |
| Provision/reversal of losses on products | (371) | 544 | (738) | (880) |
| Provision for impairment of intangible assets | - | (188,654) | - | (188,654) |
| Provisio/reversal of provision for restructuring | - | - | - | 579 |
| Provision/reversal of provision for environmental liability | - | 631 | - | 631 |
| Provision/reversal of provision for obsolescence | 196 | 941 | (1,632) | 2,544 |
| Electric power | 2,490 | (3,505) | 2,826 | (3,702) |
| Taxes recovered (Reintegra) | 15,720 | 790 | 15,720 | 778 |
| Other income | 3,523 | (762) | 4,626 | 451 |
| | **10,694** | **(242,491)** | **(2,199)** | **(258,001)** |

(*) The amounts for 2016 of subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. are presented in Note 36 – Discontinued operations.

*(in thousand of reais)*

# 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**

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| **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 | 18,659 | - | 18,659 | 22,780 | - | 22,780 |
| Financial investments | 8 | 110,693 | - | 110,693 | 218,724 | - | 218,724 |
| Trade receivables | 9 | 249,410 | - | 249,410 | 203,850 | - | 203,850 |
| Receivables from and loans to related parties | 9 and 12 | 88,038 | - | 88,038 | 116,399 | - | 116,399 |
| Unrealized gains on derivatives | 33 | - | 15,107 | 15,107 | - | 39,233 | 39,233 |
| **Total** | | **466,800** | **15,107** | **481,907** | **561,753** | **39,233** | **600,986** |

| **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 | - | (27,054) | (27,054) | - | (28,467) | (28,467) |
| Trade payables | 17 | - | (99,492) | (99,492) | - | (69,481) | (69,481) |
| Borrowings | 19 | - | (175,982) | (175,982) | - | (460,639) | (460,639) |
| Unrealized losses on derivatives | 33 | (7,054) | - | (7,054) | (3,594) | - | (3,594) |
| **Total** | | **(7,054)** | **(302,528)** | **(309,582)** | **(3,594)** | **(558,587)** | **(562,181)** |

**Consolidated**

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| **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 | 41,014 | - | 41,014 | 31,659 | - | 31,659 |
| Financial investments | 8 | 128,056 | - | 128,056 | 224,772 | - | 224,772 |
| Trade receivables | 9 | 322,791 | - | 322,791 | 284,572 | - | 284,572 |
| Receivables from and loans to related parties | 9 and 12 | 86,339 | - | 86,339 | 114,091 | - | 114,091 |
| Unrealized gains on derivatives | 33 | - | 15,886 | 15,886 | - | 39,724 | 39,724 |
| **Total** | | **578,200** | **15,886** | **594,086** | **655,094** | **39,724** | **694,818** |

| **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 | - | (42,554) | (42,554) | - | (41,764) | (41,764) |
| Trade payables | 17 | - | (129,320) | (129,320) | - | (92,342) | (92,342) |
| Borrowings | 19 | - | (175,982) | (175,982) | - | (499,530) | (499,530) |
| Unrealized losses on derivatives | 33 | (7,463) | - | (7,463) | (4,181) | - | (4,181) |
| **Total** | | **(7,463)** | **(347,856)** | **(355,319)** | **(4,181)** | **(633,636)** | **(637,817)** |

*(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.

| **2017** | **Measured at fair value** | | | |
|---|---|---|---|---|
| | **Parent company** | | **Consolidated** | |
| **Assets** | **Total** | **Level 2** | **Total** | **Level 2** |
| Unrealized gains on derivatives | 15,107 | 15,107 | 15,886 | 15,886 |
| **Total** | **15,107** | **15,107** | **15,886** | **15,886** |
| **Liabilities** | | | | |
| Unrealized losses on derivatives | (7,054) | (7,054) | (7,463) | (7,463) |
| **Total** | **(7,054)** | **(7,054)** | **(7,463)** | **(7,463)** |

| **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)** |

*- 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 "B3" a 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 "B3", 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 "B3" 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 57.2% 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.

At December 31, 2017, the Company did not enter into hedge transactions for tin and nickel because the level of risk was acceptable according to 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).

*(in thousand of reais)*

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.

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | **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 | (42,554) | (42,554) | - | - | - |
| Trade payables | 17 | (129,320) | (129,320) | - | - | - |
| Borrowings | 19 | (175,982) | (37,194) | (37,244) | (111,757) | (43,481) |
| Unrealized losses on derivatives | 33 | (7,463) | (7,463) | - | - | - |
| **Total** | | **(355,319)** | **(216,531)** | **(37,244)** | **(111,757)** | **(43,481)** |

| | | 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) | (204,918) | (172,168) | (166,070) | (14,201) |
| Unrealized losses on derivatives | 33 | (4,181) | (4,181) | - | - | - |
| **Total** | | **(637,817)** | **(343,205)** | **(172,168)** | **(166,070)** | **(14,201)** |

*(in thousand of reais)*

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** | **2017** | **2016** | **2017** | **2016** |
| Cash, demand deposits and cash in transit | 8 | 18,659 | 22,780 | 41,014 | 31,659 |
| Financial investments | 8 | 110,693 | 218,724 | 128,056 | 224,772 |
| Trade receivables | 9 | 249,410 | 203,850 | 322,791 | 284,572 |
| Receivables from and loans to related parties | 9 and 12 | 88,038 | 116,399 | 86,339 | 114,091 |
| **Total** | | **466,800** | **561,753** | **578,200** | **655,094** |

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:

Trade receivables
Counterparties with external credit rating (Standard & Poor's)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| Counterparties unrated external de crédit | **2017** | **2016** | **2017** | **2016** |
| *Top 20* | 117,218 | 76,882 | 159,307 | 115,421 |
| *Third Parties* | 135,998 | 132,417 | 168,175 | 175,894 |
| *Intercompanies* | 73,568 | 56,981 | 65,394 | 54,272 |
| Trade accounts receivables and other accounts receivables | **326,784** | **266,280** | **392,876** | **345,587** |

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).

*(in thousand of reais)*

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 2017 | Parent Company 2016 | Consolidated 2017 | Consolidated 2016 |
|---|---|---|---|---|---|
| AAA * | 8 | 80,721 | 123,741 | 81,023 | 101,067 |
| AA* | | 31,838 | 72,555 | 47,977 | 102,226 |
| *Others* | | 16,793 | 45,208 | 40,070 | 53,138 |
| | | **129,352** | **241,504** | **169,070** | **256,431** |

** 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:

| | Note | Parent company 2017 | Parent company 2016 | Consolidated 2017 | Consolidated 2016 |
|---|---|---|---|---|---|
| Cash, demand deposits and cash in transit | 8 | 18,659 | 22,780 | 41,014 | 31,659 |
| Financial investments | 8 | 110,693 | 218,724 | 128,056 | 224,772 |
| Borrowings | 19 | (175,982) | (460,639) | (175,982) | (499,530) |
| **Total** | | **(46,630)** | **(219,135)** | **(6,912)** | **(243,099)** |

At December 31, 2017, the balance of borrowings of R$ 173,435 (Parent company and Consolidated) comes totally from FINEP (98.6% of the borrowings), which carries an interest rate based on TJLP -1% p.a.

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, 2017, the Group's exposure in USD (EUR and JPY equivalents in USD) was USD 3,700 thousand in the parent company and USD 3,700 thousand in the consolidated accounts, as shown below:

**Foreign exchange exposure arising from accounts receivable and payable in foreign currency at December 31, 2017**

| | USD thousand | | EUR thousand (*) | | JPY thousand (**) | |
|---|---|---|---|---|---|---|
| **Item** | **Parent company** | **Consolidated** | **Parent company** | **Consolidated** | **Parent company** | **Consolidated** |
| ( + ) Trade receivables | 26,146 | 26,146 | 10,204 | 10,204 | - | - |
| ( + ) Demand deposits (in foreign currency) | 5,002 | 5,002 | 1,853 | 1,853 | - | - |
| ( - ) Imports | (3,655) | (3,655) | (3,983) | (3,983) | (208,822) | (208,822) |
| ( - ) Currency forwards - sale | (23,438) | (23,438) | (7,546) | (7,546) | 97,525 | 97,525 |
| **( = ) Net balance of foreign exchange exposur** | **4,055** | **4,055** | **528** | **528** | **(111,297)** | **(111,297)** |

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

| **Currency** | **Parent company** | **Consolidated** | | |
|---|---|---|---|---|
| USD | 4,055 | 4,055 | | |
| EUR | 634 | 634 | (*) Paridade EUR / USD | 1,1999 |
| JPY | (989) | (989) | (**) Paridade JPY / USD | 112,51701 |
| **Total** | **3,700** | **3,700** | | |

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

| Parent company and consolidated (USD) | | | | |
|---|---|---|---|---|
| **Year** | **Net Exposure (thousands)** | **Notional Value - Hedge (thousands)** | **Average Rate (Portfolio NDF)** | ***% Hedged*** |
| 2018 (Jan-Dec) | 44,853 | (25,663) | 3.6075 | 57.2% |
| 2019 (Jan-Dec) | 42,610 | (10,793) | 3.5640 | 25.3% |
| **Total** | **87,463** | **(36,456)** | **3.5946** | **41.7%** |

| Parent company and consolidated (EUR) | | | | |
|---|---|---|---|---|
| **Year** | **Net Exposure (thousands)** | **Notional Value - Hedge (thousands)** | **Average Rate (Portfolio NDF)** | ***% Hedged*** |
| 2018 (Jan-Dec) | 31,265 | (18,770) | 4.3404 | 60.0% |
| 2019 (Jan-Dec) | 29,702 | (7,922) | 4.2208 | 26.7% |
| **Total** | **60,967** | **(26,692)** | **4.3049** | **43.8%** |

| Parent company and consolidated (JPY) | | | | |
|---|---|---|---|---|
| **Year** | **Net Exposure (thousands)** | **Notional Value - Hedge (thousands)** | **Average Rate (Portfolio NDF)** | ***% Hedged*** |
| 2018 (Jan-Dec) | (668,354) | 399,817 | 0.0340 | 59.8% |
| 2019 (Jan-Dec) | (634,936) | 165,006 | 0.0335 | 26.0% |
| **Total** | **(1,303,290)** | **564,823** | **0.0339** | **43.3%** |

- 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.

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, 2017;

The selling rates published on December 31, 2017 by the Brazilian Central Bank for USD, EUR and JPY were used in this sensitivity analysis.

**Parent company and 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 |
|---|---|---|---|---|
| 50% better | 4.9620 | | 3.2884 | 6,787 |
| 25% better | 4.1350 | | 3.2884 | 3,433 |
| Balance sheet date | 3.3080 | 4,055 | 3.2884 | 80 |
| 25% worse | 2.4810 | | 3.2884 | (3,274) |
| 50% worse | 1.6540 | | 3.2884 | (6,627) |

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

**Parent company and 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 |
|---|---|---|---|---|
| 50% better | 5.9540 | | 3.7388 | 1,170 |
| 25% better | 4.9616 | | 3.7388 | 646 |
| Balance sheet date | 3.9693 | 528 | 3.7388 | 122 |
| 25% worse | 2.9770 | | 3.7388 | (402) |
| 50% worse | 1.9847 | | 3.7388 | (926) |

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

**Parent company and 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 |
|---|---|---|---|---|
| 50% better | 0.0147 | | 0.0293 | 1,625 |
| 25% better | 0.0221 | | 0.0293 | 801 |
| Balance sheet date | 0.0294 | (111,297) | 0.0293 | (11) |
| 25% worse | 0.0368 | | 0.0293 | (835) |
| 50% worse | 0.0441 | | 0.0293 | (1,647) |

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

## 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, 2017**

| Scenario | USD/BRL exchange rate for settlement of operations | Notional value - USD (thousand) | Weighted average rate at maturity (*) | Adjustment in R$ thousand | EUR/BRL exchange rate for settlement of operations | Notional value - EUR (thousand) | Weighted average rate at maturity (*) | Adjustment in R$ thousand | JPY/BRL exchange rate for settlement of operations | Notional value - JPY (thousand) | Weighted average rate at maturity (*) | 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 | 1.6540 | 36,456 | 3.6010 | 70,981 | 1.9847 | 26,692 | 4.3049 | 61,933 | 0.0441 | (564,823) | 0.0338 | 5,818 | 138,732 | 138,732 | - |
| 25% better | 2.4810 | 36,456 | 3.6010 | 40,831 | 2.9770 | 26,692 | 4.3049 | 35,446 | 0.0368 | (564,823) | 0.0338 | 1,666 | 77,943 | 77,943 | - |
| Balance sheet date | 3.3080 | 36,456 | 3.6010 | 10,682 | 3.9693 | 26,692 | 4.3049 | 8,958 | 0.0294 | (564,823) | 0.0338 | (2,485) | 17,155 | 17,155 | - |
| 25% worse | 4.1350 | 36,456 | 3.6010 | (19,468) | 4.9616 | 26,692 | 4.3049 | (17,530) | 0.0221 | (564,823) | 0.0338 | (6,637) | (43,635) | (43,635) | - |
| 50% worse | 4.9620 | 36,456 | 3.6010 | (49,617) | 5.9540 | 26,692 | 4.3049 | (44,017) | 0.0147 | (564,823) | 0.0338 | (10,788) | (104,422) | (104,422) | - |

**Consolidated sensitivity analysis table – cash flow derivatives portfolio for the period ended December 31, 2017**

| Scenario | USD/BRL exchange rate for settlement of operations | Notional value - USD (thousand) | Weighted average rate at maturity (*) | Adjustment in R$ thousand | EUR/BRL exchange rate for settlement of operations | Notional value - EUR (thousand) | Weighted average rate at maturity (*) | Adjustment in R$ thousand | JPY/BRL exchange rate for settlement of operations | Notional value - JPY (thousand) | Weighted average rate at maturity (*) | 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 | 1.6540 | 36,456 | 3.6010 | 70,981 | 1.9847 | 26,692 | 4.3049 | 61,933 | 0.0441 | (564,823) | 0.0338 | 5,818 | 138,732 | 138,732 | - |
| 25% better | 2.4810 | 36,456 | 3.6010 | 40,831 | 2.9770 | 26,692 | 4.3049 | 35,446 | 0.0368 | (564,823) | 0.0338 | 1,666 | 77,943 | 77,943 | - |
| Balance sheet date | 3.3080 | 36,456 | 3.6010 | 10,682 | 3.9693 | 26,692 | 4.3049 | 8,958 | 0.0294 | (564,823) | 0.0338 | (2,485) | 17,155 | 17,155 | - |
| 25% worse | 4.1350 | 36,456 | 3.6010 | (19,468) | 4.9616 | 26,692 | 4.3049 | (17,530) | 0.0221 | (564,823) | 0.0338 | (6,637) | (43,635) | (43,635) | - |
| 50% worse | 4.9620 | 36,456 | 3.6010 | (49,617) | 5.9540 | 26,692 | 4.3049 | (44,017) | 0.0147 | (564,823) | 0.0338 | (10,788) | (104,422) | (104,422) | - |

The selling rates published on December 31, 2017 by the Brazilian Central Bank for USD, EUR and JPY were used.

*(in thousand of reais)*

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 | | | 2017 | 2016 | 2017 | 2016 |
| **Short position** | **EUR** | **4.22007** | 34,239 | 39,369 | 34,239 | 39,369 |
| **Short position** | **USD** | **3.48380** | 59,895 | 58,530 | 59,895 | 58,530 |
| **Long position** | **JPY** | **0.02625** | (662,348) | (571,686) | (662,348) | (571,686) |

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

| | | Weighted average forward rate - value for settlement | Fair market value - thousand | | | |
|---|---|---|---|---|---|---|
| | | | Parent company | | Consolidated | |
| Foreign currency | | | 2017 | 2016 | 2017 | 2016 |
| **Short position** | **EUR** | **4.22007** | 3,864 | 22,709 | 3,864 | 22,709 |
| **Short position** | **USD** | **3.48380** | 6,510 | 14,681 | 6,510 | 14,681 |
| **Long position** | **JPY** | **0.03314** | (1,867) | (3,383) | (1,867) | (3,383) |

Counterparties: Banco ABC Brasil; BNP; Bradesco; Brasil; HSBC; Itaú; Mizuho; Pactual; 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.

*(in thousand of reais)*

The table below presents the outstanding position at December 31, 2017 and 2016:

| Long position | Weighted average price on maturity | Notional value - metric tons | | | |
|---|---|---|---|---|---|
| | | Parent company | | Consolidated | |
| | | 2017 | 2016 | 2017 | 2016 |
| **Commodities** | | | | | |
| **Copper** | **6,801** | 286 | 225 | 286 | 225 |
| **Aluminum** | **2,071** | 202 | 138 | 202 | 138 |
| **TOTAL** | | **488** | **363** | **488** | **363** |

Counterparties: ABC Brasil; Bradesco.

| Long positioi | Weighted average price on maturity | Notional value (fair market value) | | | |
|---|---|---|---|---|---|
| | | Parent company | | Consolidated | |
| | | 2017 | 2016 | 2017 | 2016 |
| **Commodities** | | | | | |
| **Copper** | **6,801** | 610 | 405 | 610 | 405 |
| **Aluminum** | **2,071** | 85 | (14) | 85 | (14) |
| **TOTAL** | | **695** | **391** | **695** | **391** |

Counterparties: ABC Brasil; Bradesco.

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

**Parent company and Consolidated (ALUMINUM)**

| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
|---|---|---|---|---|
| 2018 (Jan-Dec) | 351 | 202 | 2,150 | 57.5% |
| **Total** | **351** | **202** | **2,150** | **57.5%** |

**Parent company and consolidated (COPPER)**

| Year | Net Exposure (Tons) | Notional Value - Hedge (Tons) | Average Price - Portfolio Swap | *% Hedged* |
|---|---|---|---|---|
| 2018 (Jan-Dec) | 498 | 286 | 6,608 | 57.4% |
| **Total** | **498** | **286** | **6,608** | **57.4%** |

*(in thousand of reais)*

- 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 (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, 2017. 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, 2017 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 | | 10,736 | | 3,722 | (3,722) |
| 25% better | | 8,946 | | 2,029 | (2,029) |
| Balance sheet date | 286 | 7,157 | 6,801 | 337 | (337) |
| 25% worse | | 5,368 | | (1,356) | 1,356 |
| 50% worse | | 3,579 | | (3,049) | 3,049 |
| **Aluminum** | | | | | |
| 50% better | | 3,362 | | 863 | (863) |
| 25% better | | 2,802 | | 489 | (489) |
| Balance sheet date | 202 | 2,242 | 2,071 | 114 | (114) |
| 25% worse | | 1,681 | | (260) | 260 |
| 50% worse | | 1,121 | | (635) | 635 |

The selling rates of the USD published on December 31, 2017 by the Brazilian Central Bank and the metal prices published on the same date by the LME were used.

*(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:

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | Parent company | Consolidated | Parent company | Consolidated |
| **Results of derivatives (exports/imports/loan)** | | | | | |
| **Provisions** | | | | | |
| - Operations on accounts receivable and payable | (BS) | (8,813) | (8,813) | 3,056 | 3,056 |
| - Operations on IOC | | 2,179 | 2,179 | 3,943 | 3,943 |
| **Reversal** | | | | | |
| - Operations on accounts receivable and payable | | - | - | 2,776 | 2,776 |
| **Cash effect** | | | | | |
| - Operations on accounts receivable and payable | | 3,342 | 3,342 | 34,491 | 34,491 |
| | **Note 31** | **(3,292)** | **(3,292)** | **44,266** | **44,266** |
| **Total derivative operations - Net finance result** | | **(3,292)** | **(3,292)** | **44,266** | **44,266** |
| **Gross result** | | | | | |
| **Gross sales** | | | | | |
| - Settlements with cash effect | | 29,945 | 29,945 | 385 | 385 |
| | | **29,945** | **29,945** | **385** | **385** |
| **Cost of sales** | | | | | |
| - Settlements with cash effect | | 5,171 | 5,171 | 1,186 | 1,186 |
| | | **5,171** | **5,171** | **1,186** | **1,186** |
| **Total derivative operations - Gross result** | | **35,116** | **35,116** | **1,571** | **1,571** |
| **Equity** | | **Parent company** | **Consolidated** | **Parent company** | **Consolidated** |
| **Provisions** | | | | | |
| - Operations on sales to be made | (BS) | 9,173 | 9,173 | 28,250 | 28,250 |
| - Operations on commodities | (BS) | 695 | 695 | 391 | 391 |
| Deferred income tax and social contribution | | 3,355 | 3,355 | 9,738 | 9,738 |
| **Total derivative operations - Equity** | | **13,223** | **13,223** | **38,379** | **38,379** |
| **Provision for unrealized losses and gains on derivatives** | | | | | |
| **(BS) - Sum of the net balance sheet** | | | | | |
| Balance sheet assets | | 15,107 | 15,886 | 39,233 | 39,724 |
| Balance sheet liabilities | | (7,054) | (7,463) | (3,594) | (4,181) |
| **Balance sheet, net** | | **8,053** | **8,423** | **35,639** | **35,543** |
| Exchange variations (gains and losses) | | 16,846 | 23,491 | (38,834) | (31,768) |
| Results of derivatives (exports/imports) | | (3,292) | (3,292) | 44,266 | 44,266 |
| Gross sales | | 29,945 | 29,945 | 385 | 385 |
| Cost of sales | | 5,171 | 5,171 | 1,186 | 1,186 |
| **Effects of foreign exchange variation and financial instruments on profit and loss** | | **48,670** | **55,315** | **7,003** | **14,069** |

*Guarantees*

The Group had no guarantee deposits relating to these derivative instruments for the periods presented above (December 31, 2017 and 2016).

## 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, 2017, the Group granted profit-sharing to its employees, based on a union agreement, in the amount of R$ 42,637 (R$ 35,302 in 2016) in the parent company and R$ 42,692 (R$ 35,377 in 2016) 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$ 7,061 in 2017 (R$ 4,300 in 2016).

## 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 2017, the insurance coverage against operating risks totaled R$ 1,100,000 for material damages and loss of profits combined.

*(in thousand of reais)*

## 36 Discontinued operations

On May 9, 2017, the Board of Directors authorized the sale of 60% of the quotas held by MAHLE Metal Leve S.A. in MAHLE Leve Miba Sinterizados Ltda. to Miba Sinter Holding GmbH & Co KG, for the amount of R$ 1.00. The sale was consummated on June 30, 2017.

The deal was submitted to CADE for approval. With the sale of the subsidiary, the Company derecognized the provision for net capital deficiency in the amount of R$ 17,415, of which R$ 17,267 in other operating income and R$ 148 in other comprehensive income.

At December 31, 2016, the Company had a loan owed by subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. and with the sale of the subsidiary, the loan was transferred to the account “loans to third parties”. At July 25, 2017, Miba Sinter Brasil Ltda. paid R$ 50.3 million to MAHLE Metal Leve S.A. for the total loan plus interest.

The assets and liabilities of MAHLE Metal Leve Miba Sinterizados Ltda. at June 30, 2017 and December 31, 2016 and the provision for net capital deficiency are shown in the table below:

| **Assets** | **06.30.2017** | **12.31.2016** |
|---|---|---|
| Total current assets | 32,371 | 30,417 |
| Total non-current assets | 54,221 | 56,121 |
| **Total assets** | **86,592** | **86,538** |
| **Liabilities** | | |
| Total current liabilities | 93,118 | 50,653 |
| Total non-current liabilities | 22,499 | 57,780 |
| Equity (Net capital deficiency) | (29,025) | (21,895) |
| **Total liabilities and equity (Net capital deficiency)** | **86,592** | **86,538** |

*(in thousand of reais)*

Calculation of the provision for net capital deficiency:

| | |
|---|---|
| Net capital deficiency | 29,025 |
| Ownership interest | 60% |
| Reversal of provision | 17,415 |

The results of discontinued operations of MAHLE Metal Leve Miba Sinterizados Ltda. for the periods ended December 31, 2017 and 2016 are shown in the table below and were recorded in a separate account in the income statement:

| | 2017 | 2016 |
|---|---|---|
| Net revenue | 51,918 | 92,699 |
| Cost of sales | (45,962) | (89,800) |
| **Gross (loss) profit** | **5,956** | **2,899** |
| Selling expenses | (2,822) | (5,016) |
| General and administrative expenses | (1,542) | (3,337) |
| Technology and product development costs | (998) | (1,830) |
| Other income (expenses) | (3,280) | (2,517) |
| **Loss before finance income (costs) and taxation** | **(2,686)** | **(9,801)** |
| Finance income | 1,353 | 8,541 |
| Finance costs | (7,893) | (21,307) |
| **Finance income (costs), net** | (6,540) | (12,766) |
| **Loss before taxation** | **(9,226)** | **(22,567)** |
| Current income tax and social contribution | (5) | - |
| Deferred income tax and social contribution | 1,960 | 814 |
| **Income tax and social contribution** | **1,955** | **814** |
| **Loss for the period classified as loss from discontinued operations** | **(7,271)** | **(21,753)** |

* * *

# 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 2018 will demand funds in the order of R$ 88,1 million (Parent company) and R$ 99,5 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.

(A free translation of the original in Portuguese)

# 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, 2017, 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, 2017 and notes to the financial statements, (iii) Management's Proposal for allocation of result, and (iv) Capital Budget for fiscal year 2018.

As part of its activities, the Board has met during 2017 and in the first quarter of 2018 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:

- 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 status of the proceedings with Administrative Council for Economic Defense ("CADE");
- Follow-up on the disposal of the subsidiary MAHLE Metal Leve Miba Sinterizados Ltda. to Miba Sinterholding GmbH & CoKG;
- Follow-up on the cessation of operations of MAHLE Hirschvogel Forjas S.A.;
- Analysis and verification of the implementation of the new Policy on the Related-Party Transactions;
- Monotoring of the update of the Company´s Risk Management Policy;
- Verification of the main situations that potentially could result in contingent liabilities and respective judgments exercised, principally labor, tax and civil litigation and respective accounting provisions;
- Analysis of the technical study for keeping the recorded amounts of the tax credits at December 31, 2017, according to CVM Instruction 371 of June 27, 2012;and
- Visit to manufacturing plant in Mogi Guaçu.

# 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 15, 2018, 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 15, 2018.

Axel Erhard Brod - Chairman

Helio Carlos de Lamare Cox – 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. Sergio Pancini de Sá 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, 2017, and thus authorize their completion.

Mogi Guaçu, March 15, 2018.

________________________
Sergio Pancini de Sá
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. Sergio Pancini de Sá 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, 2017.

Mogi Guaçu, March 15, 2018

Sergio Pancini de Sá
CEO

Christian Harald Binkert
Executive Officer