Individual and Consolidated Financial Statements

Eternit S.A.

December 31, 2016
with Independent Auditor's Report

ETERNIT S.A.

Management Report 2016

Dear Shareholders,

The Management of Eternit S.A. (“Eternit" or "Company") hereby submits for your appreciation the Management Report and the corresponding Individual and Consolidated Financial Statements of ETERNIT S.A., together with the reports from the Independent Auditors and the Audit Board, for the fiscal year ended December 31, 2016. Except where stated otherwise, the operational and financial information of the Company is presented on a consolidated basis in Brazilian real, in accordance with Brazilian Corporation Law and International Financial Reporting Standards (IFRS).

Since the Company exercises joint control over Companhia Sulamericana de Cerâmica (CSC), together with Companhia Colombiana de Cerâmica S.A. – a Corona Group (Colombian multinational) company, CSC's results are included in the consolidated accounting statements based on the equity pickup method, in accordance with CPC 19R2 (IFRS 11).

1. Brief history

Eternit was founded in 1940 and has been listed on the stock exchange since 1948 and on the Novo Mercado, the highest corporate governance segment of the São Paulo Stock Exchange (BM&FBovespa), since 2006. The Company’s operating segments are fiber-cement roofing tiles, concrete roofing panels, chrysotile mining, bathroom chinaware and metal bathroom fixtures, construction solutions and other products.

2. Corporate Governance

In its constant pursuit of transparency and fairness in its relations with all stakeholders, the corporate governance model adopted by Eternit is based on best market practices. The main objective of this model is to enable the Company to act in a responsible and sustainable manner in all the communities where it operates, thereby generating value for shareholders, capital markets and other stakeholders, in full compliance with Brazilian Corporation Law and the listing regulations of the Novo Mercado segment of the BM&FBovespa.

Eternit’s governance structure consists of the Audit Board, the Board of Directors and its committees, the Executive Board, as well as the Internal Controls and Internal Audit departments. The Company also relies on external audit, which is conducted by an independent firm that is replaced at most every five years, as determined by the Securities and Exchange Commission of Brazil (CVM).

3. Economy and Market in 2016

With regard to the domestic scenario in 2016, the Monetary Policy Committee[1] of the Central Bank of Brazil (Copom) is considering a scenario of economic activity performing below expectations in the short term, indicating a slower and more gradual recovery than previously expected. In this context, the economy continues to operate with high a level of idleness across the factors of production, which is evident from the increase in unemployment and low capacity utilization by industry.

Inflation measured by IPCA[2] for 2016 ended at 6.3% when compared to 2015, lower than the ceiling determined by the inflation targets regime. Inflation estimates in the FOCUS market readout dated March 10, 2017, at the end of the current year are at around 4.2%.

[1] Copom: Monetary Policy Committee of the Central Bank of Brazil
[2] IPCA: National Extended Consumer Price Index

Based on this scenario, projections about the performance of the economy were periodically revised during the course of 2016. In 2016, GDP stood at -3.6%[3], and construction GDP should close at -4.5%[4] compared to 2015. GDP for 2017 is projected at 0.5%[5], and construction GDP is expected to drop 0.5%[4] compared to 2016.

Revenues deflated from sales of construction materials in 2016, reported by ABRAMAT[6], decreased 11.5% from 2015, due to high unemployment rate, the fear of losing jobs, the difficulty in obtaining credit and the reduction in public and private investments, all of which discouraged the consumption of materials for renovations and new constructions. Considering the results at the end of 2016 and the start of 2017, ABRAMAT points to stability in 2017 while projecting zero growth.

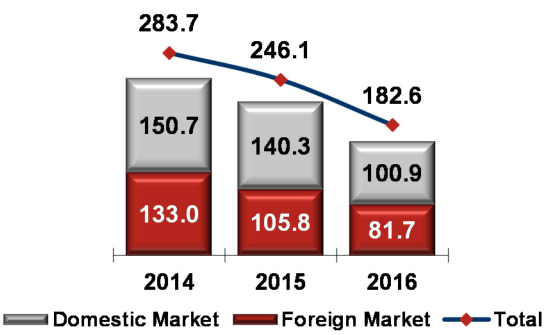
In comparison, Eternit[7] posted a decrease of 10.9% in consolidated gross revenue in 2016, which was higher than that of the industry (-11.5%). Note than in 2016, the Company has been adjusting its operations to the lower inventory levels to meet market demand, both in chrysotile mining and its finished products, which includes the production of fiber-cement and concrete roofing tiles.

4. Operating Performance

Chrysotile mineral

Sales totaled 182,600 tons in 2016, down 25.8% from 2015, while in the same period domestic sales decreased 28.0% due to the lower share of chrysotile fiber in the industrial process and the downturn in the construction materials sector, as explained in the "Economy and Market" section. The export market saw a decrease of 22.8%, due to an aggressive pricing policy implemented by mining companies in Russia and Kazakhstan and the higher competitiveness of metal roofing panels in major Asian markets.

Sales of Chrysotile Mineral (thous. Tons.)*



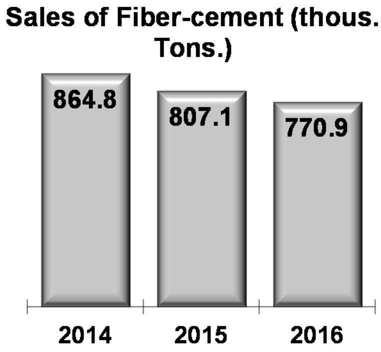
(*) Chrysotile mineral sales volume includes intercompany sales, which accounted for 49.4% of domestic sales volume in 2016.

SAMA remained one of the three largest producers of chrysotile in the world in 2016.

Fiber-cement

Fiber-cement sales reached 770,900 tons in 2016, down 4.5% from 2015, due to the downturn in the construction materials market caused by factors such as unemployment, lower income distribution, high interest rates and stricter credit concession, all of which inhibited the consumption of materials for both renovations and new constructions.

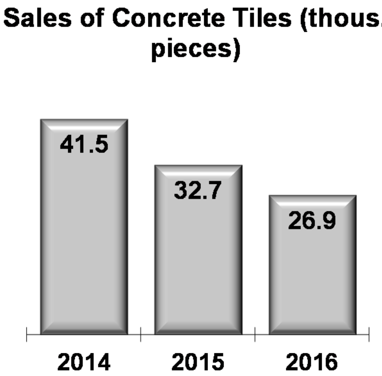
[3] BACEN: Economic indicators of the Central Bank of Brazil on March 7, 2017
[4] BACEN: December 2016 Inflation Report issued by the Central Bank of Brazil
[5] BACEN: Focus market readout of March 10, 2017 issued by the Central Bank of Brazil
[6] ABRAMAT: Brazilian Construction Materials Industry Association
[7] Growth in Eternit's consolidated gross revenue compares fiscal year 2016 with fiscal year 2015, deflated by the IGP-M index.



Eternit maintained its leadership of Brazil's fiber-cement market in 2016, with a market share of approximately 30%.

Concrete Roofing Tiles

In 2016, sales volume was 26.9 million tiles, 17.4% lower than in 2015, mainly due to the postponement of construction work by medium- and high-income consumers due to the lack of confidence among consumers and the uncertainties surrounding the economy.



Tégula maintained its leadership of Brazil's concrete roofing tiles market in 2016, with market share of about 22%. On February 15, 2017, the Board of Directors approved the restructuring of the production units of Tégula Soluções para Telhados Ltda., which operates in this segment. For more information, see "8. Restructuring of Tégula Soluções para Telhados Ltda."

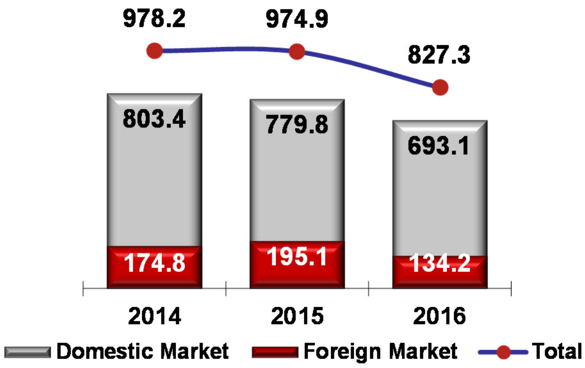
5. Financial Performance

Consolidated Net Revenue

In 2016, consolidated net revenue reached R$827.3 million, down 15.1% from 2015. Exports totaled R$134.2 million, down 31.2% from 2015, explained by lower sales volume and the reduction in US dollar prices to face the stiff competition, which was partially offset by the 4.7% appreciation of the dollar against the real (comparison of average PTAX in the period). Domestic sales totaled R$693.1 million, a decrease of 11.1%, mainly due to lower sales volumes in its operating segments and the higher sale of a cheaper mix, which was offset by the increase in chrysotile prices.

In the period, consolidated net revenue was composed of 64% fiber-cement, 27% chrysotile, 6% concrete roofing tiles and accessories, and 3% others, such as metal bathroom fixtures, polythene water tanks and construction solutions.

Consolidated Net Revenue (R$ million)



Cost of Goods Sold

In 2016, consolidated cost of goods sold totaled R$564.1 million, down 5.7% from 2015, mainly due to lower sales volume in its operating segments, which was partially offset by cost pressures resulting from inflation (especially labor) and lower installed capacity utilization. Consequently, gross margin declined 7 percentage points from 2015 to end the year at 32%.

Operating Expenses

Total operating expenses in 2016 amounted to R$223.0 million, down 13.2% from 2015, with the following main variations:

Selling expenses: decrease of 7.1% due to the drop in the sales of its operating segments, as well as adjustment to the commercial structure.

General and administrative expenses: decrease of 15.0% due to the structured cost cutting program and lower expenses with the Company's provision for profit sharing in view of the results of fiscal year 2016.

Other operating (expenses) income: these refer to non-recurring expenses during the year relating to payment of legal fees for filing ordinary appeals on Public Civil Actions filed in São Paulo, expenses with extraordinary downtime (idleness of plants) and during the year relating to additional contribution to the closure of them mine´s private pension plan; which were partially offset by non-recurring PIS/Cofins credits of previous years.

In R$ '000	2014	2015	2016
Selling expenses	(116,528)	(114,704)	(106,593)
General and administrative expenses	(122,465)	(118,405)	(100,661)
Other operating revenues (expenses), net	(3,810)	(23,844)	(15,736)
Total operating expenses	**(242,803)**	**(256,953)**	**(222,990)**

Estimated loss due to impairment of assets and provision for restructuring

In light of the restructuring of Tégula Soluções para Telhados Ltda., approved on February 15, 2017, the Company registered an estimated loss from its assets, with no cash effect, in the amount of R$ 11.7 million, relating to the shutdown of production at the Frederico Westphalen/RS, Içara/SC, Anápolis/GO, São José do Rio Preto/SP and Camaçari/BA plants. In addition, the following were registered: (i) estimated loss on the impairment of assets in this segment, with no cash effect, in the amount of R$3.8 million, relating to the impairment test of goodwill and other non-current assets; and (ii) the provision for restructuring and decommissioning of these assets in the amount of R$2.6 million.

Equity Pickup

Equity pickup refers to the gain or loss from the bathroom chinaware plant in the state of Ceará, the joint venture Companhia Sulamericana de Cerâmica (CSC). In 2016, equity pickup was a negative R$29.3 million, as against a negative R$27.7 million in 2015, due to the preference for selling products with lower value added, in light of the current economic situation in Brazil, such as high levels of unemployment and lower household income, as mentioned in the section “Economy and Market.”

Despite the industrial progress of the site, with continuous improvement in productivity indicators and the availability of a more diversified portfolio in order to improve the business profitability, its results still reflect the economic scenario faced by clients, who mostly consume low value items.

Net Financial Result

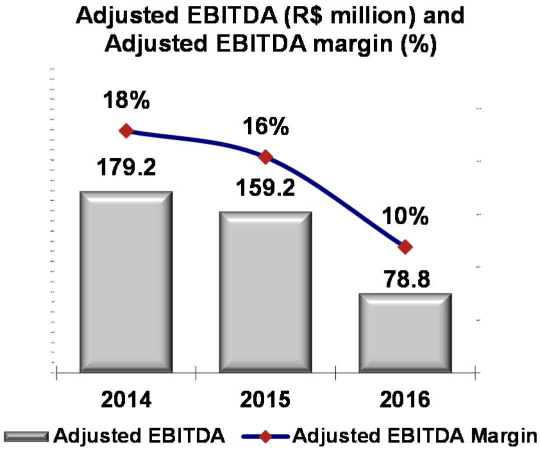
In 2016, net financial result decreased 12.9% from 2015 due to the lower effects of exchange variation resulting from the Company’s non-exposure policy in foreign currency receivables and payables and the reduction in financial investments due to lower cash availability, which was partially offset by higher interest on debt.

In R$ '000	2014	2015	2016
Financial expenses	(52,674)	(108,735)	(71,235)
Financial income	54,962	85,209	50,742
Net financial result	**2,288**	**(23,526)**	**(20,493)**

The hedging strategy for foreign exchange risk consists of obtaining a natural hedge, that is, the pursuit of a monthly balance between assets and liabilities in foreign currency among the Group companies.

Adjusted EBITDA

In 2016, adjusted EBITDA totaled R$78.8 million, down 50.5%, with margin of 10%, down 6 percentage points from 2015, due to lower sales volume, low industrial capacity utilization, decline in operating margins due to the sale of a mix with lower value. Seeking to mitigate the negative effects of adjusted EBITDA, the Company has focused its efforts on reducing recurring operating expenses, as mentioned above.



Reconciliation of consolidated EBITDA - (R$'000)	2014	2015	2016
Net (loss) income	**85,160**	**29,421**	**(37,682)**
Income tax and social contributions	44,924	39,196	9,955
Net financial Income	(2,288)	23,526	20,493
Depreciation and amortization	37,704	39,401	38,572
EBITDA[1]	**165,500**	**131,544**	**31,338**
Impairment of assets and provision for restructuring[2]	-	-	18,109
Equity pickup	13,676	27,661	29,337
Adjusted EBITDA[3]	**179,176**	**159,205**	**78,784**

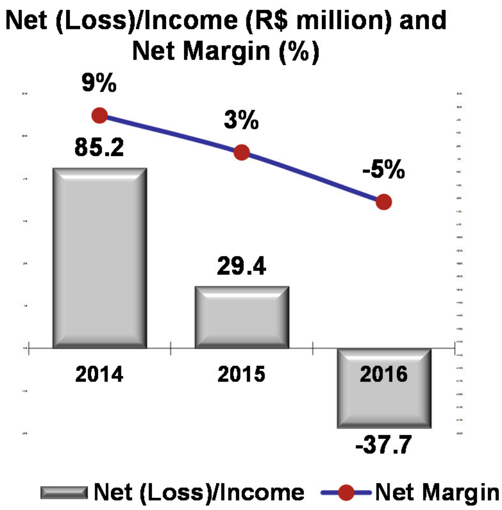
[1] With the operational startup of Companhia Sulamericana de Cerâmica (CSC), its results are included in the consolidated EBITDA in accordance with the equity pickup method and non-recurring events, in compliance with CVM Instruction 527 of October 4, 2012.

[2] Restructuring of Tégula Soluções para Telhados Ltda.

[3] Adjusted EBITDA is an indicator used by the Company's Management to analyze the operational and financial performance of its wholly-owned businesses, excluding equity pickup, due to the fact that CSC is a joint venture and its information is not consolidated, in addition to non-recurring, non-cash events.

Net (Loss)/Income

In 2016, Eternit posted net loss of R$37.7 million and net margin of -5%, compared to net income of R$29.4 million and net margin of 3% in 2015, due to the aforementioned aspects related to Adjusted EBITDA, partially offset by a lower net financial result.



Debt

In line with the policy to reduce debt, the Company ended 2016 with net debt of R$117.2 million, a 19.1% decline from the net debt on December 31, 2015, due to amortizations of FINIMP[8] and FINAME[9] loans and the settlement of NCE[10] and ACE[11] working capital agreements. In the period, gross debt of Eternit and its subsidiaries totaled R$125.1 million, mainly due to: (i) the Bank Credit Notes (CCB), Export Credit Notes (NCE) and Advances on Foreign Exchange Contracts (ACE); and (ii) the financing facilities to acquire machinery and equipment.

[8] FINIMP: Financing to Imports

[9] FINAME: Special Agency for Industrial Financing

[10] NCE: Export Credit Notes

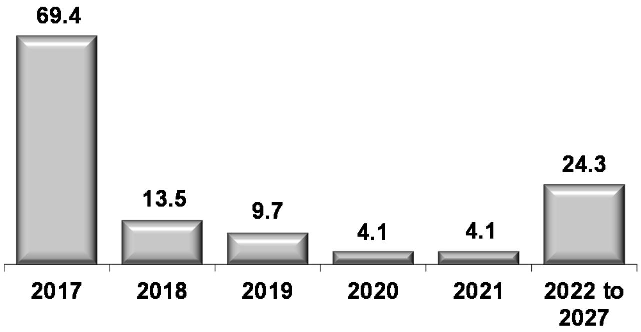
[11] ACE: Advances on Foreign Exchange Contracts

Cash, cash equivalents and short-term investments totaled R$7.9 million, with investments remunerated at an average weighted rate of 106.2% of the variation in the CDI[12] rate.

DEBT - R$ ´000	12/31/14	12/31/15	12/31/16
Short- term gross debt	88,946	90,307	69,428
Long-term gross debt	38,978	76,954	55,626
Total gross debt	**127,924**	**167,261**	**125,054**
Cash and cash equivalents	(13,367)	(5,578)	(5,143)
Short-term investments (same cash equivalents)	(35,023)	(16,734)	(2,708)
Net debt	**79,534**	**144,949**	**117,203**
Adjusted EBITDA	179,176	159,205	78,784
Net debt / Adjusted EBITDA x	**0.44**	**0.91**	**1.49**
Net debt / Equity	**15.4%**	**29.0%**	**25.5%**

On December 31, 2016, 100% of foreign currency debt was naturally hedged by accounts receivable in foreign currency on chrysotile exports. In the same period, debt was broken down as follows: 63% domestic currency and 37% foreign currency.

Repayment Schedule (R$ '000)

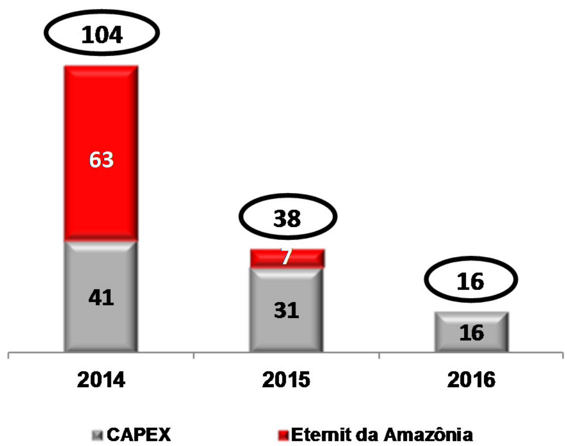


Of the amortization flow expected in 2017, 66.4% is linked to export accounts receivable.

Capex

In 2016, Capex totaled R$15.7 million, down 58.6% from 2015, and was allocated to the maintenance and modernization of the Group's industrial facilities.

Consolidated CAPEX (R$'000)



[12] CDI: Interbank Deposit Certificates

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Capex for 2017 is projected at approximately R$18.3 million, which will go towards the maintenance and modernization of industrial facilities. It, however, does not include capital injections in subsidiaries.

Value Added

Value added in the year totaled R$319.9 million, down 35.8% from 2015. Of this amount, R$147.3 million was distributed to employees and R$128.8 million to the federal, state and municipal governments in the form of taxes and contributions.

R$ '000	2014	2015	2016
VALUE ADDED TO BE DISTRIBUTED	**546,448**	**497,860**	**319,860**
Personal	191,345	188,694	147,280
Taxes and contributions	193,814	150,266	128,789
Remuneration of third-party capital	76,130	129,479	81,473
Remuneration of own capital	85,159	29,421	(37,682)
DISTRIBUTION OF VALUE ADDED	**546,448**	**497,860**	**319,860**

Outlook

With an economic scenario of uncertainties and low levels of capacity utilization across the industry, in line with credit, employment and income data, the performance of the economy in terms of GDP in 2017 compared to in 2016 is 0.5%, according to the FOCUS market readout dated March 10, 2017, whereas the outlook for construction GDP is -0.5%, as per the December 2016 Inflation report published by the Central Bank of Brazil (BACEN).

For the construction materials sector, the Brazilian Construction Materials Industry Association (ABRAMAT) points to a scenario of stability in 2017 compared to 2016, since the market will remain sluggish as a result of high unemployment levels and unfavorable credit conditions. Although the confidence level of businessman has improved, mainly due to expectations about the future, according to ABRAMAT only a set of measures to stimulate demand, cut interest rates and reduce unemployment can change the trend seen in the construction materials sector.

The Federal Government has been taking measures to drive growth in the construction and construction materials sectors through a few proposals, including the reduction of interest rates for real estate financing through the Caixa Econômica Federal; launch of the Renovation Card to combat the qualitative housing deficit of low-income families with subsidies of around R$5,000 for home renovation and expansion; relaunch of the Construcard card for renovations, with injection of R$7 billion; and expansion of the My Home, My Life Program to include families with monthly income of up to R$9,000. The Company believes that launching measures such as these that stimulate the economy is fundamental for the construction materials sector to resume growth, which will positively contribute to the Company's business.

The Company operates in the construction materials sector, whose performance depends on the construction industry, which is vital for Brazil's economic activity. It is important to emphasize the following challenges facing the country and the industry in which the Company operates, which have impact our business and the demand for products in our portfolio, particularly those linked to self-managed construction: competitiveness of Brazil's industry in light of the infrastructure bottlenecks, tax aspects and appreciation of the US dollar, employment generation and better distribution of income, sustainable economic policies, and an increase in consumer and business confidence.

For fiber-cement, Eternit will optimize the operation of its plants and the mining company in line with market demand, and will use the strength of its brand and network of around 15,000 points of sale, besides increasing the points of sale to mitigate the effects of the economic crisis.

As for concrete roofing tiles, the Company restructured this segment to operate in markets with higher operating profitability. Hence, as from February 2017, production of concrete roofing tiles is concentrated at the Atibaia unit, whose production capacity can meet demand from regions served by the deactivated units. The properties at these units will be made available for sale.

Efforts will remain focused on recovering operating margin, on the constant pursuit of cost reduction and lower operating expenses to achieve the necessary competitiveness to face competition, especially during times of low installed capacity utilization, and on selling a more profitable mix in line with the expectation of improved economic activity as a whole.

In keeping with its strategy of diversified organic growth, the plant in Manaus, Amazonas, produced and sold polypropylene yarns with applications in fiber-cement on an industrial scale over the course of 2016. The bathroom chinaware unit in Ceará continuously improved its productivity indicators and has been offering a more diversified portfolio (products in the medium and medium-luxury segments) in order to improve business profitability.

With regard to legal aspects involving chrysotile mineral, the Company believes the courts will consider the technical and scientific evidence in the ongoing lawsuits and, if necessary, it will take all applicable legal measures.

Regardless of the above-mentioned challenges, the Company believes in the recovery of growth of the Brazilian economy and, especially, of its industry. Management remains closely watchful of the developments and impacts of the current macroeconomic scenario, operating with financial discipline, reducing its working capital and focusing its debt reduction policy on business sustainability in order to consolidate Eternit's position as a supplier of raw materials, products and solutions for the construction industry.

6. Capital Markets

Eternit has been listed on the stock exchange since 1948 and since 2006 its stock has been traded on the Novo Mercado, the highest corporate governance segment of the São Paulo Stock Exchange (BM&FBovespa), under the stock ticker ETER3. The stock is a component of four stock indexes on the exchange, namely: Special Corporate Governance Index (IGCX), Corporate Governance Index – Novo Mercado (IGNM), Industrial Sector Index (INDX) and Special Tag-Along Stock Index (ITAG).

With a highly fragmented ownership and no shareholders' agreement or controlling group, the Company's shareholder base has a high concentration of individual investors, who accounted for 77.5% of the shareholder base on December 31, 2016, while foreign investors accounted for 7.3% and legal entities, clubs, investment funds and foundations accounted for 15.2%. In December 2016, only three shareholders held more than 5% interest in the capital stock, with an aggregate interest of 33.4%, while the Executive Board held 0.7% interest in capital stock.

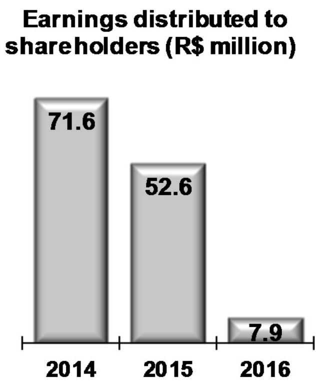
At the end of 2016, the company had 10,721 shareholders, i.e. 2.8% fewer than in 2015. The Company's free-float ended 2016 at 85.2%, excluding treasury shares and shares held by Management, in accordance with the methodology of the Novo Mercado Regulations.

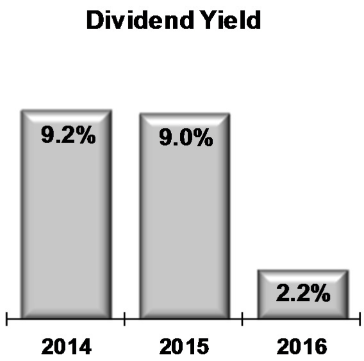
On December 31, 2016, Eternit stock was quoted at R$1.32 while the Company's market capitalization was R$236.3 million.

Shareholder Remuneration

In 2016, the amount paid as interest on equity amounted to R$7.9 million, relating to the results of the fourth quarter of 2015. In view of the results obtained in 2016, there was no distribution of earnings.

The Bylaws of Eternit establish a minimum mandatory dividend of 25% on the year's net income after deductions required by law and the Bylaws. Note that the Company's dividend policy, as determined in the Bylaws, remains unchanged, but fresh distributions will be made once positive results are recorded.





7. Human capital

Human capital is fundamental for implementing business strategies and this importance is recognized by Eternit and its subsidiaries through diverse people management initiatives. That is why it invests in its employees and values them. The efforts made on this front are recognized by the market, with Eternit and SAMA figuring in the leading people management rankings in recent years. Learn more in "Recognition."

The Company ended the year with 2,028 direct employees compared to 2,416 in 2015, including interns and apprentices[13].

8. Restructuring of Tégula Soluções para Telhados Ltda.

On February 16, 2017, the Company published a Material Fact notice informing its shareholders and the market that the Board of Directors Meeting held on February 15, 2017, approved the restructuring of the production units of Tégula Soluções para Telhados Ltda.

The restructuring is aimed at preparing Tégula to operate in markets with higher operating profitability. As a result, production of concrete roofing tiles at the Frederico Westphalen (Rio Grande do Sul), Içara (Santa Catarina), Anápolis (Goiás) and Camaçari (Bahia) units will be shut down this month. The impairment of these assets, of around R$15 million, was recognized in 2016 and the properties at these units will be made available for sale.

This decision was taken after an extensive analysis of alternatives to maximize the results of these units, which were already operating at low capacity utilization due to weak market demand. The units being shut down currently employ 90 people.

Therefore, production of concrete roofing tiles will now be concentrated at the unit in Atibaia, whose production capacity can meet the demand from the regions served by the units being closed.

9. Legal issues involving chrysotile mineral

Public-Interest Civil Actions filed in São Paulo

Eternit was officially notified, on February 10, 2017, of the full contents of the appellate decision of the Regional Labor Court of the 2nd Region, which amended the decision of the 9th Labor Court of São Paulo partially ruling in favor of the Labor Prosecution Office and the Brazilian Association of Persons Exposed to Asbestos (ABREA) on the public-interest civil actions filed by them against the plant in Osasco, São Paulo, which was shut down in 1993.

As a result of the understanding of the Court, the trial court judgment was amended. The most significant terms were:

[13] Data not including the joint venture Companhia Sulamericana de Cerâmica.

Exclusion of the following convictions:

- Indemnity for collective pain and suffering in the amount of R$100 million;
- Indemnity for pain and suffering in the amount of R$50,000 to each former employee not diagnosed with asbestos-related diseases;
- All and any claims made by the family members of former employees;

The following convictions were reduced:

- Pain and suffering and existential damages for each former employee already diagnosed with asbestos-related diseases to R$100,000 and to R$50,000, respectively.
- Pain and suffering fixed in favor of the estate of each former employee deceased after the filing of claims to R$100,000;

The following conviction was upheld:

- Full medical assistance for former employees diagnosed with asbestos-related diseases.

Eternit further informs that it will take all appropriate legal measures in the higher courts.

Public-Interest Civil Action filed in Paraná – Subsequent event

Eternit S.A. was notified on March 10, 2017 of a Public-Interest Civil Action filed by the Labor Prosecution Office against the Company, which is currently in progress at the 1st Labor Court of Colombo in the state of Paraná. The claim demands indemnity for occupational exposure to asbestos and a plea for the company to be condemned to pay R$85 million as collective damage.

It also informs that some requests for an injunction were denied by the Court of Colombo, such as replacement of asbestos within 90 days.

Note that the work environment at the Colombo unit was already checked for unhealthy conditions on several occasions and none of them identified exposure to asbestos above the levels permitted by law. The Company will submit its defense at an opportune moment.

The Company reiterates that it complies with all safety standards and procedures established by Federal Law 9,055/95 and the Decree that regulated it, as well as the recommendations of the International Labor Organization (ILO) and expects the technical and scientific evidence to be considered while judging the action.

10. Recognition

The numerous awards received show how the Company is serious about what it does for all its stakeholders. In 2016, Eternit Group companies won various important awards in the fields of Human Resources, Marketing and Products, including one of the Best Companies to Work For by the Revista Você S/A Guide 2016 and the ANAMACO 2016 Award, respectively. To learn more about the awards, visit www.eternit.com.br/ri.

11. Market Arbitration Chamber

Pursuant to the arbitration clause in its Bylaws, the Company informs that it has been bound to the Market Arbitration Chamber since August 2006.

12. Relationship with Independent Auditors

During fiscal year 2016, Eternit used the independent audit services of Ernst & Young Auditores Independentes S.S. ("EY") to audit and issue reports on the individual and consolidated financial statements of Eternit S.A. and Sama S.A. Minerações Associadas for fiscal year 2016, and for the interim financial information (ITR) for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 of Eternit S.A..

The company engaged the following consulting services from Ernst & Young Auditores Independentes S.S. ("EY") in fiscal year 2016:

(i) Nature of service: revision of extemporaneous PIS and COFINS tax credits. Start of engagement in 2014 and conclusion in 2018.

Total value of consulting services was three hundred thirty-three thousand, eight hundred thirty-six reais and twenty centavos (R$333,836.20), equivalent to 38.37% of total fees paid for external audit services.

The Company Management informs that its policy is to not hire independent auditors for consulting services that could generate conflict of interest. The Management and independent auditors understand that the aforementioned services do not generate conflicts of interest and, therefore, do not pose a risk to independence in accordance with applicable Brazilian laws.

13. Management Statement

The Executive Board of Eternit S.A. hereby states, for the purposes of Article 25, 1st Paragraph, Items V and VI of CVM Instruction 480 dated December 7, 2009, that:

i) they revised, discussed and agree with the opinions expressed in the independent auditor's report regarding the financial statements for the fiscal year ended December 31, 2016; and

ii) they revised, discussed and agree with the financial statements for the fiscal year ended December 31, 2016.

São Paulo, March 17, 2017

Eternit S.A.

Executive Board

14. Additional Information

For more information on the Company and its operating segment, please visit its Investor Relations website www.eternit.com.br/ri and/or contact the IR team at ri@eternit.com.br

Acknowledgments

We thank our shareholders, employees, clients, suppliers, regulatory agencies, partners and all those who contributed to Eternit's performance in 2016, for their support, confidence in the future and trust in our unwavering commitment and dedication, which serve as the foundation of our work, always in line with the sustainable development of Brazil.

São Paulo, March 17, 2017

The Management

Eternit S.A.

Statements of financial position
December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
Assets					
Current assets					
Cash and cash equivalents	4	**3,365**	2,850	**5,143**	5,578
Short-term investments	5	**32**	3,114	**2,708**	16,734
Accounts receivable	6	**84,835**	73,337	**158,663**	172,342
Inventories	7	**93,582**	108,428	**160,867**	184,383
Taxes recoverable	8	**9,289**	7,638	**17,861**	15,083
Related parties	10.a	**14,819**	30,447	**718**	2,818
Other current assets		**2,193**	7,501	**5,724**	15,382
		208,115	233,315	**351,684**	412,320
Assets held for sale		**796**	-	**5,291**	-
Total current assets		**208,911**	233,315	**356,975**	412,320
Noncurrent assets					
Judicial deposits		**14,384**	11,576	**22,264**	19,003
Taxes recoverable	8	**24,335**	24,081	**24,746**	24,765
Deferred income and social contribution taxes	19.b	**42,315**	34,264	**72,655**	63,823
Related parties	10	**27,982**	9,711	**15,985**	-
Other noncurrent assets		**1,078**	339	**2,545**	2,807
Investments	9	**203,707**	251,659	**3,546**	24,782
Property, plant and equipment (PP&E)	11	**150,412**	154,920	**317,716**	354,047
Intangible assets		**6,069**	6,950	**26,016**	31,647
Total noncurrent assets		**470,282**	493,500	**485,473**	520,874
Total assets		**679,193**	726,815	**842,448**	933,194

	Note	Company 12/31/2016	Company 12/31/2015	Consolidated 12/31/2016	Consolidated 12/31/2015
Liabilities and equity					
Current liabilities					
Trade accounts payable	12	**20,602**	23,922	**33,566**	41,420
Loans and financing	13	**10,337**	6,258	**68,750**	90,238
Derivative financial instruments	27.2	**374**	69	**678**	69
Related parties	10	**25,393**	12,256	**-**	-
Personnel expenses	14	**12,413**	14,858	**23,388**	27,722
Dividends and interest on equity	17.d	**426**	7,534	**426**	7,534
Provision for post-employment benefits	16.b	**3,184**	2,749	**5,115**	4,890
Taxes, charges and contributions payable	15	**14,030**	10,697	**22,260**	19,867
Other current liabilities		**6,578**	5,940	**14,306**	14,080
Total current liabilities		**93,337**	84,283	**168,489**	205,820
Noncurrent liabilities					
Loans and financing	13	**4,362**	16,294	**55,626**	76,954
Related parties	10	**36,012**	40,728	**-**	-
Taxes, charges and contributions payable	15	**1,746**	6,477	**4,699**	8,969
Provision for tax, civil and labor risks	20	**46,975**	47,096	**90,003**	84,281
Provision for post-employment benefits	16.b	**37,128**	31,839	**50,104**	44,437
Provision for decommissioning of mine	29	**-**	-	**13,878**	12,617
Total noncurrent liabilities		**126,223**	142,434	**214,310**	227,258
Equity					
Capital	17.a	**334,251**	334,251	**334,251**	334,251
Capital reserve		**19,460**	19,460	**19,460**	19,460
Treasury shares		**(174)**	(174)	**(174)**	(174)
Income reserves		**118,221**	155,738	**118,221**	155,738
Other comprehensive income		**(12,125)**	(9,177)	**(12,125)**	(9,177)
Equity attributable to controlling interests		**459,633**	500,098	**459,633**	500,098
Noncontrolling interests		**-**	-	**16**	18
Total equity		**459,633**	500,098	**459,649**	500,116
Total liabilities and equity		**679,193**	726,815	**842,448**	933,194

See accompanying notes.

Eternit S.A.
Income statements
Years ended December 31, 2016 and 2015
(In thousands of reais - except earnings (loss) per share)

		Company		Consolidated	
	Note	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
Net operating revenue	21	**494,763**	511,090	**827,275**	974,872
Cost of goods sold	22	**(394,446)**	(384,403)	**(564,073)**	(598,115)
Gross profit		**100,317**	126,687	**263,202**	376,757
Operating income (expenses)					
Selling expenses	22	**(60,616)**	(58,313)	**(106,593)**	(114,704)
General and administrative expenses	22	**(39,740)**	(48,272)	**(89,134)**	(106,961)
Management compensation	22	**(8,055)**	(7,121)	**(11,527)**	(11,444)
Other operating income (expenses), net	23	**(14,826)**	(25,115)	**(15,736)**	(23,844)
Estimated impairment losses of assets and provision for restructuring	1, 3.3 and 30	**-**	-	**(18,109)**	-
Equity pickup	9	**(15,335)**	45,116	**(29,337)**	(27,661)
Total operating income (expenses)		**(138,572)**	(93,705)	**(270,436)**	(284,614)
Financial expenses	24	**(27,348)**	(19,804)	**(71,235)**	(108,735)
Financial income	24	**21,169**	7,762	**50,742**	85,209
Financial income (expenses), net		**(6,179)**	(12,042)	**(20,493)**	(23,526)
Net (loss) income before income and social contribution taxes		**(44,434)**	20,940	**(27,727)**	68,617
Income and social contributions taxes					
Current	19	**-**	-	**(17,269)**	(48,851)
Deferred	19	**6,751**	8,480	**7,314**	9,655
Net loss/income for the year		**(37,683)**	29,420	**(37,682)**	29,421
Attributable to:					
Controlling interests		**37,683**	29,420	**(37,683)**	29,420
Noncontrolling interests		**-**	-	**1**	1
Net income (loss) for the year		**(37,683)**	29,420	**(37,682)**	29,421
Earnings (loss) per share, basic and diluted - R$	17	**(0.2106)**	0.1644	**(0.2106)**	0.1644

See accompanying notes.

Eternit S.A.

Statements of comprehensive income (loss)
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Net (loss) income for the year	**(37,683)**	29,420	**(37,682)**	29,421
Other comprehensive income (loss)				
Net gain/(loss) on restatement of defined benefit plan	**(3,823)**	(3,040)	**(4,466)**	(2,555)
Effect of income and social contribution taxes	**1,299**	1,034	**1,518**	869
Equity pickup - comprehensive income	**(424)**	320	**-**	-
Other comprehensive income (loss), net of taxes	**(2,948)**	(1,686)	**(2,948)**	(1,686)
Comprehensive income (loss) for the year	**(40,631)**	27,734	**(40,630)**	27,735
Attributable to:				
Controlling interests	**(40,631)**	27,734	**(40,631)**	27,734
Noncontrolling interests	**-**	-	**1**	1
	(40,631)	27,734	**(40,630)**	27,735

See accompanying notes.

Eternit S.A.

Statements of changes in equity
Years ended December 31, 2016 and 2015
(In thousands of reais)

			Capital reserve			Income reserves							
	Note	Capital	Subsidies for investments	Premium on acquisition of shares	Treasury shares	Statutory	Legal	Retained profits	Retained earnings (accumulated losses)	Other comprehensive income (loss)	Total Company	Noncontrolling interests	Total equity
Financial position at January 1, 2015		334,251	19,437	23	(174)	31,251	34,891	102,603	-	(7,491)	514,791	17	514,808
Unclaimed dividends		-	-	-	-	-	-	160	-	-	160	-	160
Net income/loss for the year		-	-	-	-	-	-	-	29,420	-	29,420	1	29,421
Establishment of reserves	17	-	-	-	-	1,471	1,471	1,784	(4,726)	-	-	-	-
Net gain/(loss) on restatement of defined benefit plan		-	-	-	-	-	-	-	-	(1,686)	(1,686)	-	(1,686)
Allocation of net income:													
Interest on equity - R$0.166 per outstanding share	17	-	-	-	-	-	-	(6,621)	(23,083)	-	(29,704)	-	(29,704)
Dividends - R$0.072 per outstanding share	17	-	-	-	-	-	-	(11,272)	(1,611)	-	(12,883)	-	(12,883)
Financial position at December 31, 2015		**334,251**	**19,437**	**23**	**(174)**	**32,722**	**36,362**	**86,654**	**-**	**(9,177)**	**500,098**	**18**	**500,116**
Unclaimed dividends		**-**	**-**	**-**	**-**	**-**	**-**	**166**	**-**	**-**	**166**	**(3)**	**163**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(37,683)**	**-**	**(37,683)**	**1**	**(37,682)**
Absorption of loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(37,683)**	**37,683**	**-**	**-**	**-**	**-**
Loss on restatement of defined benefit plan		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,948)**	**(2,948)**	**-**	**(2,948)**
Financial position at December 31, 2016		**334,251**	**19,437**	**23**	**(174)**	**32,722**	**36,362**	**49,137**	**-**	**(12,125)**	**459,633**	**16**	**459,649**

See accompanying notes.

Eternit S.A.

Cash flow statements
Years ended December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash flows from operating activities					
Net income (loss) before income and social contribution taxes		**(44,434)**	20,940	**(27,727)**	68,617
Adjustments to reconcile pre-tax income (loss) to net cash generated by operating activities:					
Equity pickup	9	**15,335**	(45,116)	**29,337**	27,661
Depreciation and amortization		**14,880**	13,470	**38,572**	39,401
Gain (loss) on disposal of PP&E and intangible assets	23	**(5)**	(100)	**(3,123)**	165
Allowance for doubtful accounts	6	**1,980**	1,493	**3,420**	2,531
Estimated for impairment of net realizable value	1, 3.3, 7 and 30	**(527)**	(267)	**1,025**	(267)
Estimated impairment losses	1, 3.3, 7 and 30	**-**	-	**14,460**	-
Estimated loss for decommissioning and provision for restructuring	1, 3.3, 7 and 30	**-**	-	**2,586**	-
Provision for tax, civil and labor risks		**1,344**	23,605	**7,209**	27,467
Provision for post-employment benefits		**1,901**	1,307	**1,426**	635
Provision for decommissioning of mine		**-**	**-**	**1,261**	2,570
Financial charges, and monetary and exchange variations		**(416)**	6,745	**(828)**	13,011
Short-term investment yield		**(74)**	(993)	**(841)**	(3,331)
Net changes in prepaid expenses		**6,020**	2,886	**7,106**	5,067
		(3,996)	23,970	**73,883**	183,527
(Increase) decrease in operating assets:					
Accounts receivable		**(14,259)**	(3,503)	**7,100**	(669)
Receivables from related parties		**965**	(5,150)	**2,100**	(391)
Inventories	7	**15,373**	(38,766)	**22,491**	(36,023)
Taxes recoverable		**1,603**	(1,836)	**3,380**	(4,085)
Judicial deposits		**(4,132)**	(4,765)	**(4,586)**	(5,588)
Dividends and interest on equity received		**44,759**	98,341	**-**	-
Other assets		**(1,430)**	(5,389)	**2,842**	(12,209)
Assets held for sale		**(16)**	-	**(16)**	-
Increase (decrease) in operating liabilities					
Trade accounts payable		**(3,304)**	1,064	**(7,828)**	(731)
Payables to related parties	10	**13,137**	4,584	-	-
Taxes, charges and contributions payable		**(3,028)**	(5,893)	**(11,493)**	(6,617)
Provisions and social charges	14	**(2,445)**	2,120	**(4,334)**	(935)
Other liabilities		**638**	2,807	**(2,582)**	2,964
Interest paid		**(1,021)**	(411)	**(7,530)**	(4,782)
Income and social contribution taxes paid		**-**	-	**(12,604)**	(56,829)
Net cash provided by operating activities		**42,844**	67,173	**60,823**	57,632
Cash flow from investing activities					
Intercompany loan receivable		**(16,053)**	19,585	**(14,953)**	726
Amount received on disposal of PP&E items	23	**22**	784	**3,395**	876
Additions to PP&E and intangible assets		**(9,508)**	(23,161)	**(15,700)**	(37,944)
Addition to capitalized exchange variation	11	**-**	(107)	**-**	(14,524)
Additions to investments	9	**(8,101)**	(47,627)	**(8,101)**	(18,105)
Short-term investments		**(41,750)**	(93,136)	**(149,403)**	(277,192)
Redemption of short-term investments		**44,905**	106,740	**164,264**	298,812
Net cash used in investing activities		**(30,485)**	(36,922)	**(20,498)**	(47,351)
Cash flows from financing activities					
Loans and financing raised		**1,962**	14,915	**64,575**	246,870
Repayment of loans and financing		**(6,929)**	(3,633)	**(98,458)**	(215,838)
Intercompany loan payable		**-**	4,708	-	-
Payment of dividends and interest on equity		**(6,877)**	(49,102)	**(6,877)**	(49,102)
Net cash generated by (used in) financing activities		**(11,844)**	(33,112)	**(40,760)**	(18,070)
Increase (decrease) in cash and cash equivalents		**515**	(2,861)	**(435)**	(7,789)
Increase (decrease) in cash and cash equivalents					
At beginning of year	4	**2,850**	5,711	**5,578**	13,367
At end of year	4	**3,365**	2,850	**5,143**	5,578
Increase (decrease) in cash and cash equivalents		**515**	(2,861)	**(435)**	(7,789)

See accompanying notes.

Eternit S.A.

Statements of value added
Years ended December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Revenues					
Sale of goods, products and services	21	**655,962**	679,553	**1,048,748**	1,221,417
Other income		**87**	100	**3,982**	(86)
Allowance for doubtful accounts		**(1,980)**	(1,493)	**(3,420)**	(2,512)
		654,069	678,160	**1,049,310**	1,218,819
Inputs acquired from third parties					
Cost of products, goods and services sold		**(325,811)**	(333,319)	**(470,819)**	(555,314)
Materials, electricity, third-party services and other		**(133,597)**	(153,783)	**(221,602)**	(185,782)
Estimate impairment losses at assets and provision for restructuring	30	**-**	-	**(18,109)**	-
Other discounts, rebates and donations		**(1,605)**	(3,100)	**(4,018)**	(5,518)
		(461,013)	(490,202)	**(713,524)**	(746,614)
Gross value added		**193,056**	187,958	**334,762**	472,205
Depreciation, amortization and depletion		**(14,880)**	(13,470)	**(38,572)**	(39,401)
Net value added generated by the Company		**178,176**	174,488	**296,190**	432,804
Value added received in transfer					
Equity pickup	9	**(15,335)**	45,116	**(29,337)**	(27,661)
Financial income	24	**21,169**	7,762	**50,742**	85,209
Other		**433**	3,983	**2,265**	7,508
		6,267	56,861	**23,670**	65,056
Total value added to be distributed		**184,443**	231,349	**319,860**	497,860
Personnel:					
Direct compensation		**72,985**	69,177	**101,888**	127,943
Benefits		**23,281**	26,618	**34,972**	49,173
Unemployment Compensation Fund (FGTS)		**7,887**	6,181	**10,420**	11,578
		104,153	101,976	**147,280**	188,694
Taxes, charges and contributions:					
Federal		**59,103**	57,161	**64,609**	100,616
State		**22,582**	14,280	**60,317**	45,815
Local		**2,200**	1,832	**3,863**	3,835
		83,885	73,273	**128,789**	150,266
Debt remuneration:					
Interest		**27,348**	19,804	**71,235**	108,735
Lease		**6,740**	6,876	**10,238**	20,744
		34,088	26,680	**81,473**	129,479
Equity remuneration:					
Dividends	17	**-**	1,611	**-**	1,611
Interest on equity (IOE)	17	**-**	23,083	**-**	23,083
(Accumulated losses) retained earnings	17	**(37,683)**	4,726	**(37,683)**	4,726
Noncontrolling interests in (accumulated losses) retained earnings		**-**	-	**1**	1
		(37,683)	29,420	**(37,682)**	29,421
		184,443	231,349	**319,860**	497,860

See accompanying notes.

(In thousands of reais - R$, unless otherwise stated)

1. Operations

Eternit S.A. ("Company" or "Eternit"), headquartered at Street Dr. Fernandes Coelho, 85 – 8th floor, in the city and state of São Paulo, is a publicly-held company, with no controlling shareholder, registered in the New Market segment of São Paulo State Stock Exchange - BM&FBOVESPA, under ticker ETER3. Its shareholders are individuals, legal entities, investment clubs, investment funds and foundations (see Note 17).

The business purpose of the Company and its subsidiaries ("Group") is the production and sale of fiber cement, cement, concrete, plaster and plastic products, as well as other construction materials and related accessories. The Company currently comprises 9 manufacturing units in Brazil, with branches in major Brazilian cities.

The Group is structured as follows:

Companies	(%) Ownership interest	(%) Voting capital	Headquarters location	Core activity
SAMA S.A.	99.99%	99.99%	Minaçu/GO	Exploration and processing of Chrysotile.
Tégula Soluções para Telhados Ltda.	99.99%	99.99%	Atibaia/SP	Manufacturing and sale of concrete roofing tiles and roofing accessories.
Precon Goiás Industrial Ltda.	99.99%	99.99%	Anápolis/GO	Manufacturing and sale of fiber cement products.
Prel Empreendimentos e Participações Ltda.	99.99%	99.99%	São Paulo/SP	Shareholding interest in industrial and commercial companies among other.
Wagner da Amazônia Ltda.	99.99%	99.99%	São Paulo/SP	No economic activity.
Eternit da Amazônia Indústria de Fibrocimento Ltda.	99.99%	99.99%	Manaus/AM	Research, development and production of inputs for the construction industry polypropylene threads.
Engedis Distribuição Ltda.	99.94%	99.94%	Minaçu/GO	No economic activity.
Wagner Ltda.	99.84%	99.84%	São Paulo/SP	No economic activity.
Companhia Sulamericana de Cerâmica.	60.00%	60.00%	Caucaia/CE	Manufacturing, import, export, sale, and distribution of sanitary wares and related accessories in general.

The main products manufactured and/or sold by the Group as well as information correlated to segment reporting are described in Note 25.

1. Operations (Continued)

Significant operational events

The Company clarified that Federal Law No. 9055/1995 - Decree No. 2350/1997 and Regulations of the Ministry of Labor and Employment (MTE) govern the extraction, manufacturing, use, sale and transportation of chrysotile asbestos and production containing it.

State Laws No. 10813/2001, in São Paulo, and No. 2210/2001, in Mato Grosso do Sul, which prohibited the import, extraction, processing, sale and installation of products containing any type of amiantus, in any form, were judged and rendered unconstitutional by the Federal Supreme Court of Brazil (STF), by means of Direct Actions of Unconstitutionality (ADI) No. 2656 and No. 2396, respectively, as they address issues under the responsibility of the Federal Government.

Current State Laws No. 12684/2007 (São Paulo), No. 3579/2004 (Rio de Janeiro), No. 11643/2001 (Rio Grande do Sul) and No. 12589/2004 (Pernambuco), restricting the use of amiantus in their territories are subject to ADI, as proposed by the National Confederation of Industry Workers (CNTI), before the STF.

On April 2, 2008, the National Association of Labor Justice Judges (ANAMATRA) and the National Association of Labor Attorneys General (ANPT) proposed ADI No. 4066 against article 2 of Federal Law No. 9055 of 1995.

On October 31, 2012, the STF started the judgment of the merits of ADI No. 3357 and ADI No. 3937 in relation to State Law No. 11643/2001, in Rio Grande do Sul, and State Law No. 12684/2007, in São Paulo, respectively. The session was suspended after reporting Minister Ayres Britto voted for the constitutionality of the laws and Minister Marco Aurélio voted for the unconstitutionality of the laws. The matter is pending a decision, with no specific date to enter the STF agenda for a final decision. On October 23, 2016, the judgment of action No. 3357 was resumed, with Minister Edson Facchin dismissing the claim formulated in the action. While Minister Dias Toffoli requested a hearing of the case. As for ADI No. 3937, was also given a hering to Minister Dias Toffoli.

On December 30, 2013, Law No. 21114/2013 was signed. Its article 1 prohibits the import, transportation, storage, manufacturing, sale and use of products containing amiantus in the state of Minas Gerais, considering an 8-10 year period for compliance with article 1. Therefore, compliance with this provision will be mandatory as from 2021 and 2023, respectively.

The Government of Mato Grosso State regulated Law No. 9583/2011 by means of Decree No. 68/2015 published on April 16, 2015, which prohibits the use of products, materials or goods that contain any type of asbestos or amianthus.

1. Operations (Continued)

On May 6, 2015, the Government of Amazonas State enacted Law No. 258/2015, which prohibits in that state the use of products that contain asbestos. Such Law is pending regulation.

On January 13, 2017, the Government of Santa Catarina State enacted Law No. 17076/2017, which prohibits the use of products, materials or goods that contain any type of amianthus in that state. Such Law is pending regulation.

Operating restructuring

At the Board of Directors' Meeting held on February 15, 2017, a restructuring was approved in the manufacturing units of subsidiary Tégula Soluções para Telhados Ltda.

Such restructuring aimed at adjusting subsidiary Tégula to operate in markets with higher operational profitability. Accordingly, the concrete roofing tiles production activities were shut down in the units in the cities of Frederico Westphalen/RS, Içara/SC, Anápolis/GO, São José do Rio Preto/SP and Camaçari/BA.

As a result of this restructuring, the assets of referred manufacturing units were tested for impairment using the value-in-use methodology, which resulted in an impairment loss to their recoverable amount, as well as recording of provisions for decommissioning and restructuring, recognized in P&L for the year ended December 31, 2016, which totaled R$14,313.

Approval of financial statements

The presentation of these annual financial statements was approved and authorized by the Company's Supervisory Board and Board of Directors on March 17, 2017, respectively, for disclosure on the same date.

2. Basis of preparation and significant accounting practices

Significant accounting practices adopted by the Group are described in specific notes that relate to the items presented, and the ones that in general apply to different aspects in the financial statements are described below:

Accounting practices for immaterial transactions are not included in the financial statements.

Worth noting, the accounting practices were uniformly applied to the current year, are consistent with those used in the prior reporting year and are used for both the Company and subsidiaries. Where necessary, the subsidiaries' financial statements are adjusted to meet this criterion.

2.1. Statement of compliance and basis of preparation

The Company's individual and consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil through the Brazilian Financial Accounting Standards Board ("CPC") and its technical interpretations ("ICPC") and guidance ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

Accordingly, significant information of the financial statements themselves, and only such information, is being disclosed and corresponds to that used by Management over its administration.

The financial statements were prepared based on historical cost, except for certain financial instruments measured at fair value, as described in the following accounting practices. The historical cost is usually based on the fair value of consideration paid in exchange for assets.

2.2. Statement of compliance and basis of preparation (Continued)

Going concern assumption

Management assessed the Company's ability to continue as a going concern and is convinced that it has the resources to continue its business in the future and, as disclosed in Note 1, the Company restructured certain manufacturing units of subsidiary Tégula to resume the growth of such subsidiary.

2. Basis of preparation and significant accounting practices (Continued)

2.2. Statement of compliance and basis of preparation (Continued)

Furthermore, management is not aware of any material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, these financial statements were prepared based on the assumption that the Company will continue as a going concern.

2.3. Basis of consolidation and investments in subsidiaries

The consolidated financial statements include the Company's financial statements and those of its subsidiaries. Control is obtained when the Company has the power to control financial and operational policies and appoint or dissolve the majority of the members of the Board of Directors of an entity in order to earn benefits from its activities.

Company management, based on its Articles of Incorporation and shareholders' agreement, controls the companies listed in Note and, therefore, fully consolidated these entities with the exception of Companhia Sulamericana de Cerâmica.- (CSC), which is treated based on the parameters described in the prior paragraph as a joint venture and not consolidated given that its P&L is considered in the consolidated financial statements based on the equity method as provided in CPC 19 (R2) - Joint Arrangements (IFRS 11).

Noncontrolling interest of fully consolidated companies is identified in the consolidated statements of operations and of changes in equity.

In the Company's individual financial statements, subsidiaries' financial statements are recognized under the equity method.

The main consolidation adjustments, among others, include the following eliminations:

- Asset and liability account balances, as well as revenues and expenses between Parent Company and subsidiaries, so that the consolidated financial statements represent balances receivable from and payable to third parties only.
- Interest in capital and net income (loss) for the year of subsidiaries.

2. Basis of preparation and significant accounting practices (Continued)

2.3. Basis of consolidation and investments in subsidiaries (Continued)

The fiscal year of consolidated subsidiaries coincides with that of the Company. All intercompany balances and transactions of subsidiaries were fully eliminated in the consolidated financial statements. Transactions between the Parent Company and its subsidiaries are carried out under conditions established by the parties.

P&L of subsidiaries acquired or sold over the year are included in the consolidated statements of operations as of the date they were effectively acquired to the sale date, as applicable.

2.4. Provisions

Provisions are recorded when the Group has a present (legal or constructive) obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits, in an amount that can be reliably estimated. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Provision expenses are stated in the statement of operations, net of any reimbursement.

2.5. Foreign currency

In the preparation of the financial statements for each Group company, the transactions in foreign currency, i.e. any currency distinct from each companies' functional currency, are recorded at the effective rates on the dates of those transactions. At the end of each reporting period, monetary items in foreign currency are translated at the rates in force at year end. Non-monetary items recorded at fair value calculated in foreign currency are retranslated at the rates in force when fair value was determined. Non-monetary items that are measured at historical cost in foreign exchange should be translated using the rate in force of the transaction date.

2. Basis of preparation and significant accounting practices (Continued)

2.6. Financial instruments

The Group operates with several financial instruments, particularly cash and cash equivalents, short-term investments, accounts receivable from customers abroad, trade accounts payable in the foreign market and loans.

The amounts recorded in current assets and liabilities are high liquidly or mature within three months, in most cases. Considering the term and characteristics of these instruments, which are systematically renegotiated, the book values approximate the fair values.

a) Identification and assessment of financial instruments

These financial instruments are managed and monitored by Group management, in order to leverage business profitability to the shareholder, and set the balance between third-party capital and equity.

Financial assets are classified as:

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

These are financial assets held for trading, whenever acquired for such purpose, mainly in the short-term, measured at fair value on the financial statement date. Changes in these assets are recognized in P&L. This group includes cash and cash equivalents, short-term investments and accounts receivable from customers abroad.

ii) *Financial assets available for sale*

When applicable, this classification includes non-derivative financial assets designated as available for sale or those not classified as: (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

Short-term investments comprise investment funds classified as available for sale and, after initially measured, they are measured at fair value and posted to P&L for the year upon realization.

2. Basis of preparation and significant accounting practices (Continued)

2.6. Financial instruments (Continued)

iii) *Loans and receivables*

This classification includes non-derivative financial assets, with payments that are fixed or determinable, which cannot be quoted in an active market.

They are recorded under current assets except, for applicable cases, those with maturity exceeding 12 months after the financial statement date, which are classified as noncurrent assets.

Financial liabilities are classified as:

i) *Other financial liabilities*

These are initially recognized at fair value, upon receipt of funds, net of transaction costs. They are then measured at amortized cost, under the effective interest method. The effective interest rate method is used to calculate amortized cost of a financial liability and allocate the interest expense over the related year.

At December 31, 2016, financial liabilities comprise loans and financing (Note 13) and trade accounts payable - foreign and domestic (Note 12).

2.7. Standards, amendments and interpretation for standards

The Company intends to adopt these standards when they become effective, with any impacts therefrom being disclosed and recognized in the financial statements.

(In thousands of reais - R$, unless otherwise stated)

2. Basis of preparation and significant accounting practices (Continued)

2.7. Standards, amendments and interpretations to standards (Continued)

Standard	Requirement	Impact on financial statements
IFRS 9 - Financial Instruments CPC 48 - Financial Instruments	The objective of IFRS 9 is ultimately to replace IAS 39 - Financial Instruments: Recognition and Measurement. The main changes objectives consist of: (i) all financial assets must be initially recognized at fair value; (ii) the standard divides all financial assets that are currently in the scope of IAS 39 into two classifications: amortized cost and fair value; (iii) the IAS 39 categories of available for sale and held to maturity were eliminated; and (iv) the IAS 39 concept of embedded derivatives was extinguished by the concepts of this new standard, and in addition to losses incurred, estimated losses shall also be recorded. Approved in December 2016 with effectiveness changed for annual periods beginning on or after January 1, 2018.	The Group does not have large volumes of derivative transactions and hedge accounting, therefore no significant changes are expected.
IFRS 15 - Revenue from Contracts with Customers IFRS 34 - Revenue from Contracts with Customers	This standard will replace IAS 11 - Construction contracts and IAS 18 - Revenue and their related interpretations; the main objectives consist of: (i) eliminating inconsistencies in revenue recognition standards, providing clear principles on how to record account balances; (ii) providing a single revenue recognition model, improving the comparability of accounting and financial information; and (iii) simplifying the process of preparing the financial statements. It will apply to all contracts with customers except leases, financial instruments and insurance contracts. Changes are most effective in telecommunications and real estate development industries. Approved in December 2016 with effectiveness changed for annual periods beginning on or after January 1, 2018.	The Group does not anticipate any material impact from IFRS 15 on its financial statements, however it is currently evaluating such standard and, therefore, it is unable to disclose its effects.
Adoption of IFRS 16 - Leases (currently IAS 17 Leases as Issued) - CPC 6 - Leases	This new standard does not change the understanding on Leases, whereby a company may record a lease under finance lease or operating lease, however, it provides for the convenience of a single recording for the case of finance lease. Already provided for in IAS 17. Effective from January 1, 2019.	The Group does not have large volumes of lease transactions, therefore no significant changes are expected.
IFRS 6 (CPC 34 - Exploration for and evaluation of mineral resources)	The purpose of this pronouncement is to regulate the best way to classify and measure the exploration of mineral resources activity due to continued discussions with the IASB and other international agencies concerning this standard. The Brazilian FASB (“CPC”) decided not to issue such pronouncement, since it is pending review by international competent agencies. Approval and effectiveness not determined.	The Group constantly updates evaluation of the impacts from this standard.
IAS 29 (CPC 42) - Financial Reporting in Hyperinflationary Economies	This standard establishes adjustment-for-inflation criteria to the financial statements in hyperinflationary countries. The Brazilian FASB (“CPC”) did not approve this pronouncement in view of the prior experience with the full adjustment of financial statements. Approval and effectiveness not determined.	The Group constantly updates evaluation of the impacts from this standard.

(In thousands of reais - R$, unless otherwise stated)

3. Significant accounting judgments and sources of uncertainties in estimates

In applying the significant accounting practices of the Group, management must make judgments and prepare estimates regarding the carrying amounts of assets and liabilities that are not easily obtained from other sources. These estimates and their respective assumptions are based on historical experience and other factors considered relevant. Actual results may differ from the amounts estimated.

The main assumptions about future and other sources of uncertainties in estimates at the end of each reporting period that may lead to significant adjustments in the carrying amounts of assets and liabilities for the next year are described below.

3.1. Impairment of goodwill for expected future profitability

To determine whether goodwill is impaired, it is necessary to estimate the value in use of the cash-generating units to which goodwill was allocated. The calculation of value in use requires management to estimate expected future cash flows from cash-generating units and an adequate discount rate to calculate present value.

	Consolidated	
Company	**12/31/2016**	**12/31/2015**
Sama	**16,559**	16,559
Tégula (i)	**-**	3,436
Total	**16,559**	19,995

(i) Under intangible asset group.

3.2. Useful lives of property, plant and equipment

From time to time, the Group reviews the recoverable amounts and useful life estimates of property, plant and equipment. Economic facts, changes in business, technological changes or any use of the asset item that may affect its useful life are taken into account. Current depreciation rates used appropriately represent the useful life of equipment.

3. Significant accounting judgments and sources of uncertainties in estimates (Continued)

3.3. Impairment loss of assets

The Company tests its assets for impairment, mainly goodwill and other noncurrent assets, based on discounted cash flow projections that take into consideration assumptions such as: cost of capital, growth rates, methodology for determining working capital, investment plan and long-term economic and financial projections. In addition, projections are restated taking into consideration the changes observed in the economic outlook of the markets in which the Company and its subsidiaries operate, as well as assumptions of expected result and history of profitability of each asset or Cash-Generating Unit (CGU). Impairment tests of assets are carried out annually in December, or before when events or circumstances indicate the need. The present value of discounted cash flow, or value in use, is compared with the carrying amount of this asset.

Based on the aforementioned assumptions, the Company identified the need to record an impairment loss of assets in the amount of R$3,796 in its subsidiary Tégula, of which R$3,436 refer to the result of goodwill impairment test and R$360 refer to the result of impairment test of other noncurrent assets. Reversal of losses previously recognized is allowed, except for goodwill impairment loss.

3.4. Income and social contribution taxes and other taxes

Management regularly reviews deferred tax assets and liabilities in terms of recovery, considering the history of profit generated and projected future taxable profit, according a technical feasibility study. The projections of future taxable profits include several estimates regarding the performance of Brazilian and international economies, exchange rate fluctuations, sales volume, selling prices and tax rates, among others, which can vary in relation to actual data and amounts.

3.5. Provision for tax, civil and labor risks

This provision refers to legal proceedings and assessments the Group was served. The obligation is recognized when it is considered probable and can be measured with reasonable certainty. The matching entry of this obligation is an expense for the year. This obligation is restated according to the progress of the legal proceeding or financial charges incurred and can be reversed if the estimated loss is no longer probable, or written off when the obligation is settled.

(In thousands of reais - R$, unless otherwise stated)

3.6. Provision for post-employment benefits

The current amount of the provision for post-employment benefits depends on a number of factors that are determined based on actuarial calculation, which restates a number of assumptions, such as discount rate and inflation rates, among others, which are disclosed in Note 16. Change in these estimates could affect the results presented.

4. Cash and cash equivalents

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Cash and banks	**52**	2,850	**1,639**	5,463
Investments in Bank Deposit Certificates	**3,313**	-	**3,504**	115
	3,365	2,850	**5,143**	5,578

Balances are highly liquid and readily convertible into cash, in order to meet short-term cash commitments, and subject to insignificant risk of change in value.

(In thousands of reais - R$, unless otherwise stated)

5. Short-term investments

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Investment funds	**32**	3,114	**2,708**	16,734

Most investment funds are fixed-income investments, remunerated at average CDI rates of 106.2% (100.9% as of December 31, 2015).
The funds are readily redeemable (highly liquid) as there is no grace period for share redemption. Shares may be redeemed with earnings if required by the Group.

6. Accounts receivable

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Domestic market	**89,718**	77,222	**121,174**	111,336
Foreign market	**-**	-	**46,124**	69,316
(-) Present value adjustment	**-**	-	**(317)**	(319)
	89,718	77,222	**166,981**	180,333
Allowance for doubtful accounts	**(4,883)**	(3,885)	**(8,318)**	(7,991)
	84,835	73,337	**158,663**	172,342

Aging list of accounts receivable:

	Company		Consolidated	
	12/31/2016	12/31/2015	**12/31/2016**	12/31/2015
Falling due	**78,623**	68,163	**141,430**	153,946
Overdue:				
Within 30 days	**4,582**	2,690	**11,894**	14,439
From 31 to 60 days	**714**	536	**1,196**	1,319
Over 60 days	**916**	1,948	**4,143**	2,638
	84,835	73,337	**158,663**	172,342

Changes in allowance for doubtful accounts:

	Company		Consolidated	
	12/31/2016	12/31/2015	**12/31/2016**	12/31/2015
Opening balance	**(3,885)**	(3,307)	**(7,991)**	(6,689)
Addition	**(2,847)**	(1,720)	**(4,956)**	(2,786)
Reversal	**867**	227	**1,536**	255
Write-off	**982**	915	**3,093**	1,229
Closing balance	**(4,883)**	(3,885)	**(8,318)**	(7,991)

(In thousands of reais - R$, unless otherwise stated)

7. Inventories

Accounting practice

Inventories are carried at the lower of cost and net realizable value. Inventory costs are determined under the average cost method. Net realizable value corresponds to the estimated inventory selling price, less those costs estimated for completion and costs required for the sale.

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Finished products	**58,390**	61,591	**107,403**	110,595
Semi-finished products	**-**	-	**1,231**	3,486
Resale	**7,396**	8,371	**10,253**	11,700
Raw materials	**21,771**	32,438	**23,479**	33,936
Ancillary materials	**7,096**	7,626	**21,497**	26,637
(-) Allowance for estimated loss for reduction to net realizable value (*)	**(1,071)**	(1,598)	**(2,996)**	(1,971)
	93,582	108,428	**160,867**	184,383

(*) The matching entry of estimated loss is recorded as "Cost of goods sold" in the statements of operations.

Changes in allowance for estimated loss for reduction to net realizable value for the years ended December 31, 2016 and 2015 are as follows:

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Opening balance	**(1,598)**	(1,865)	**(1,971)**	(2,238)
Addition	**(1,039)**	(398)	**(2,622)**	(398)
Reversal	**1,566**	665	**1,597**	665
Closing balance	**(1,071)**	(1,598)	**(2,996)**	**(1,971)**

(In thousands of reais - R$, unless otherwise stated)

8. Taxes recoverable

	Company		Consolidated	
	12/31/2016	12/31/2015	**12/31/2016**	12/31/2015
Current:				
State value-added tax (ICMS)	**2,943**	2,208	**3,475**	4,365
Withholding income tax (IRRF)	**288**	201	**531**	475
Corporate income tax (IRPJ)	**1,669**	1,027	**1,882**	1,570
Social contribution tax on net income (CSLL)	**475**	276	**511**	333
IRRF on interest on equity	**2,145**	1,646	**2,145**	1,646
FOMENTAR fund - ICMS (*)	**1,061**	1,542	**1,061**	1,542
Contribution tax on gross revenue for social security financing (COFINS) and other	**708**	738	**8,256**	5,152
	9,289	7,638	**17,861**	15,083
Noncurrent:				
State value-added tax (ICMS)	**709**	1,419	**1,063**	2,045
Withholding income tax (IRRF)	**15,035**	14,421	**15,035**	14,422
Corporate income tax (IRPJ)	**8,591**	8,241	**8,591**	8,241
Social security tax (INSS)	**-**	-	**57**	57
	24,335	24,081	**24,746**	24,765

(*) Development and Industrialization of the State of Goiás Fund - FOMENTAR, intended to increase the implementation and expansion of activities that promote the industrial development of the State of Goiás.

9. Investments

The Company's investments in its subsidiaries and joint venture Companhia Sulamericna de Cerâmica ("CSC") are as follows:

Summary of investment breakdown:

	Eternit da Amazônia	Precon	Prel	SAMA	Tégula	Wagner	CSC	Total
Investments	33,593	29,053	7,313	81,789	27,159	4,695	3,546	187,148
Surplus value of net assets	-	-	-	16,559	-	-	-	16,559
Balance at December 31, 2016	**33,593**	**29,053**	**7,313**	**98,348**	**27,159**	**4,695**	**3,546**	**203,707**

(In thousands of reais - R$, unless otherwise stated)

9. **Investments** (Continued)

	Eternit da Amazônia	Precon	Prel	SAMA	Tégula	Wagner	CSC	Total
At January 1, 2015	11,685	23,985	7,830	106,944	67,134	4,164	34,338	256,080
Dividends	-	(8,035)	(822)	(81,682)	-	-	-	(90,539)
Interest on equity (IOE)	-	(1,408)	-	(5,537)	-	-	-	(6,945)
Equity pickup	(11,942)	12,349	813	82,615	(11,028)	(30)	(27,661)	45,116
Equity pickup of comprehensive income (loss)	-	-	-	320	-	-	-	320
Capital contribution	29,522	-	-	-	-	-	18,105	47,627
At December 31, 2015	29,265	26,891	7,821	102,660	56,106	4,134	24,782	251,659
Dividends	**-**	**(2,773)**	**(998)**	**(26,335)**	**-**	**(1,412)**	**-**	**(31,518)**
Interest on equity (IOE)	**-**	**(2,096)**		**(6,680)**	**-**	**-**	**-**	**(8,776)**
Equity pickup	**4,328**	**7,031**	**490**	**29,127**	**(28,947)**	**1,973**	**(29,337)**	**(15,335)**
Equity pickup of comprehensive income (loss)	**-**	**-**	**-**	**(424)**	**-**	**-**	**-**	**(424)**
Capital contribution	**-**	**-**	**-**	**-**	**-**	**-**	**8,101**	**8,101**
At December 31, 2016	**33,593**	**29,053**	**7,313**	**98,348**	**27,159**	**4,695**	**3,546**	**203,707**

The balance of investments in the consolidated financial statements as of December 31, 2016 amounting to R$3,546 (R$24,782 as of December 31, 2015) refers to investment in the joint venture with CSC. Throughout 2016, capital contributions were made amounting to R$8,101 (R$18,105 in 2015).

The balances of subsidiaries and interest held in joint venture as of December 31, 2016 are as follows:

	Subsidiaries						**Joint venture**
	Eternit da Amazônia	**Precon**	**Prel**	**SAMA**	**Tégula**	**Wagner**	**Companhia Sulamericana de Cerâmica**
Current assets	12,515	27,000	1,369	127,103	20,124	1,703	71,635
Noncurrent asset	88,743	14,954	6,126	102,882	31,798	4,565	116,678
Current liabilities	16,116	9,338	182	80,398	7,761	12	67,406
Noncurrent liabilities	50,786	3,561	-	64,222	16,999	1,554	114,997
Equity	34,356	29,055	7,313	85,365	27,162	4,702	5,910
Proportional interest	99.9900%	99.9946%	99.9977%	99.9977%	99.9900%	99.8400%	60%
Unrealized income in inventories	(760)	-	-	(3,574)	-	-	-
Book value of investment	33,593	29,053	7,313	81,789	27,159	4,695	3,546
Net operating revenue	20,098	72,286	-	309,513	47,918	-	48,434
Cost of goods sold	(38,340)	(54,918)	-	(181,260)	(38,340)	-	(55,621)
Unrealized income in inventories	(75)	-	-	2,126	-	-	-
Net income (loss) from continuing operations	4,328	7,031	490	29,128	(28,950)	1,976	(48,895)
Attributable to:							
Company interest	4,328	7,031	490	29,127	(28,947)	1,973	(29,337)

(In thousands of reais - R$, unless otherwise stated)

10. Related parties

a) Balances and transactions of the Company with related parties

	Company	
	12/31/2016	**12/31/2015**
Balances:		
Current assets		
Eternit da Amazônia (ii)	**19**	255
Precon (i)	**145**	1,096
SAMA (ii)	**328**	1,254
Tégula (i) and (ii)	**41**	171
Companhia Sulamericana de Cerâmica (i) and (ii)	**718**	2,818
	1,251	5,594
Dividends and interest on equity receivable:		
SAMA	**5,600**	17,848
Prel	**127**	122
Precon	**2,228**	2,723
Tégula	**706**	706
	8,661	21,399
Advances to suppliers:		
Eternit da Amazônia (i)	**4,907**	3,454
	4,907	3,454
Total current assets	**14,819**	30,447
Noncurrent asset		
Loan		
Companhia Sulamericana de Cerâmica (iii)	**15,985**	-
Tégula (iii)	**11,997**	9,711
Total noncurrent assets	**27,982**	9,711
Total assets	**42,801**	40,158
Current liabilities		
Trade accounts payable		
Eternit da Amazônia (i)	**1,155**	4,545
Precon (i)	**1,947**	707
SAMA (i)	**19,539**	6,681
	22,641	11,933
Other accounts payable		
Precon (i) and (ii)	**1,441**	29
Prel (ii)	**75**	110
Wagner (iii)	**1,191**	13
Tégula (i)	**9**	100
SAMA (ii)	**36**	71
	2,752	323
Total current liabilities	**25,393**	12,256

(In thousands of reais - R$, unless otherwise stated)

10. Related parties (Continued)

a) Related-party transactions and balances (Continued)

	Company	
	12/31/2016	12/31/2015
Balances:		
Noncurrent liabilities		
Loan		
SAMA (iii)	**31,276**	35,382
Prel (iii)	**1,736**	2,346
Wagner (iii)	**3,000**	3,000
Total noncurrent liabilities	**36,012**	40,728
Total liabilities	**61,405**	52,984

(i) There are purchases and sales between related parties, therefore the balances basically refer to supplies of raw materials (chrysotile) and/or finished products, rendering of services and/or lease agreements, which were eliminated in the Company's consolidated financial statements. The joint venture, consolidated by the equity method is not eliminated in the consolidation.

(ii) These basically refer to reimbursements of expenses with no fixed maturity.

(iii) These refer to intercompany loans subject to Tax on Financial Transactions (IOF) and Withholding Income Tax (IRRF) levy, and bear interest of 100% of the CDI, for repayment within 24 months as from loan agreement execution date, term of which may be extended for further 24 months.

	Company							
	Sales		Purchases		Other expenses		Other income	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Precon	**10,084**	1,906	**4,666**	707	**-**	-	**-**	-
Tégula	**196**	209	**-**	-	**-**	-	**-**	-
SAMA	**-**	-	**67,734**	81,958	**-**	-	**-**	-
Eternit da Amazônia	**-**	-	**19,837**	14,703	**-**	-	**-**	-
Companhia Sulamericana de Cerâmica	**1,839**	299	**-**	-	**-**	-	**-**	-
Administrative expenses								
Prel	**-**	-	**-**	-	**1,175**	1,101	**-**	-
Precon	**-**	-	**-**	-	**26**	-	**-**	-
Sama	**-**	-	**-**	-	**36**	-	**-**	-
Interest on loan								
Sama	**-**	-	**-**	-	**5,043**	4,269	**-**	-
Tégula	**-**	-	**-**	-	**-**	-	**1,395**	1,163
Companhia Sulamericana de Cerâmica	**-**	-	**-**	-	**-**	-	**1,332**	1,209
Interest on equity								
Sama	**-**	-	**-**	-	**-**	-	**6,681**	5,538
Precon	**-**	-	**-**	-	**-**	-	**2,096**	1,408
Total	**12,119**	2,414	**92,237**	97,368	**6,280**	5,370	**11,504**	9,318

Purchase and sale transactions between related parties are carried out under conditions agreed between the parties.

(In thousands of reais - R$, unless otherwise stated)

10. **Related parties** (Continued)

a) Related-party transactions and balances (Continued)

As of December 31, 2016 and 2015, there are no outstanding guarantees with related parties, and there are no provisions for impairment in receivables from related parties.

b) Key management personnel compensation

The Group paid its officers short-term benefits, salaries and variable compensation as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Salaries, fees and benefits	**5,957**	5,100	**7,170**	6,201
Social charges	**1,644**	1,365	**2,013**	1,702
Profit sharing	**1,080**	1,859	**1,220**	2,066
Supplementary profit sharing	**-**	714	**-**	737
Post-employment benefit	**85**	87	**85**	114
	8,766	9,125	**10,488**	10,820

The Group's Board of Directors approved a share acquisition plan for the Company's Executive Board. The Group grants supplementary profit sharing to officers that invest up to 100% of their profit sharing net amount for the purchase of Company shares. This supplementary profit sharing is proportional to the net amount of profit sharing that is so invested and must be fully used to acquire Company's shares. The plan establishes specific share purchase and sale rules, such as minimum term of three years after share purchase for purposes of share sale, limited to 30% after the third year, 30% after the fourth year, 30% after the fifth year, and the remaining 10% may only be sold upon officer's dismissal/retirement. Share purchase and sale guidelines in CVM Ruling No. 358/02 must also be followed by officers.

The share acquisition plan is not considered a share-based payment (CPC 10 R1 - Share-based Payment), as the executive officer does not receive shares directly from Eternit, but the total equivalent to 100% paid as profit sharing, and purchases Company shares by means of an outside brokerage.

As of December 31, 2016, Executive Board's shareholding position was 1,212,660 shares - ETER3 (1,852,748 shares - ETER3 for the year ended December 31, 2015).

(In thousands of reais - R$, unless otherwise stated)

10. Related parties (Continued)

b) Key management personnel compensation (Continued)

Changes in shares held by the Executive Board	
At December 31, 2015	**1,852,748**
Purchase	-
Sale	(383,100)
Other	(256,988)
At December 31, 2016	**1,212,660**

11. Property, Plant and Equipment (PPE)

Accounting practice

Property, plant and equipment

Property, plant and equipment are stated at cost, less depreciation and accumulated impairment loss, when applicable. These are recorded as part of the costs from construction in progress, professionals' fees directly attributable to bringing the asset to the location and condition required for its use and borrowing costs, until the completion of the assets. Maintenance and repair expenses incurred are accounted for as asset only if the economic benefits associated with these items are probable and the amounts can be reliably measured, while the remaining maintenance and repair expenses are recognized in the statement of operations when incurred.

Depreciation of these assets starts when they are ready for use, on the same basis as depreciation of other property, plant and equipment.

Depreciation of property, plant and equipment items is calculated by the straight-line method at rates that take into consideration the estimated economic useful life of each asset.

Impairment of tangible assets, less goodwill

At the end of each year, the Group reviews the book value of its tangible and intangible assets to determine whether there is any evidence that those assets have suffered some impairment loss. In case such evidence exists, the recoverable amount of the asset is estimated in order to measure the loss amount, if any. If the calculated recoverable amount of an asset (or cash-generating unit) is lower than its book value, the book value of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognized immediately in the income statement.

(In thousands of reais - R$, unless otherwise stated)

11. Property, Plant and Equipment (PPE) - Continued

	Company									
	Land	Buildings and Improvements	Machinery and equipment	Tools and molds	Facilities	Vehicles	Furniture and fixtures	IT equipment	Construction in progress	Total
Cost										
Balances at January 1, 2015	2,021	33,485	110,014	13,082	83,746	1,659	6,044	4,351	28,980	283,382
Additions	-	-	1,408	-	-	-	-	-	19,929	21,337
Write-offs	-	-	(19)	-	(6)	(244)	(11)	(71)	-	(351)
Transfers	1,157	1,769	31,590	454	2,758	-	378	455	(38,561)	-
Foreign exchange variation	-	-	-	-	-	-	-	-	107	107
Balances at December 31, 2015	3,178	35,254	142,993	13,536	86,498	1,415	6,411	4,735	10,455	304,475
Additions	-	-	-	-	-	-	-	-	8,662	8,662
Write-offs	-	(1)	(167)	-	(30)	(66)	(20)	(171)	-	(455)
Transfers	-	438	15,234	542	2,159	-	96	205	(18,674)	-
Balances at December 31, 2016	3,178	35,691	158,060	14,078	88,627	1,349	6,487	4,769	443	312,682
Average depreciation rates	-	4%	8.6%	15%	10%	20%	10%	20%	-	-
Accumulated depreciation										
Balances at January 1, 2015	-	(20,079)	(48,278)	(10,664)	(51,479)	(1,036)	(3,158)	(3,029)	-	(137,723)
Additions	-	(791)	(3,804)	(748)	(5,708)	(71)	(495)	(435)	-	(12,052)
Write-offs	-	-	19	-	1	120	9	71	-	220
Transfers	-	-	(3)	-	3	-	-	-	-	-
Balances at December 31, 2015	-	(20,870)	(52,066)	(11,412)	(57,183)	(987)	(3,644)	(3,393)	-	(149,555)
Additions	-	(836)	(5,026)	(601)	(5,695)	(51)	(490)	(454)	-	(13,153)
Write-offs	-	1	155	-	30	66	16	170	-	438
Transfers	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2016	-	(21,705)	(56,937)	(12,013)	(62,848)	(972)	(4,118)	(3,677)	-	(162,270)
Net book value										
At January 1, 2015	2,021	13,406	61,736	2,418	32,267	623	2,886	1,322	28,980	145,659
At December 31, 2015	3,178	14,384	90,927	2,124	29,315	428	2,767	1,342	10,455	154,920
At December 31, 2016	3,178	13,986	101,123	2,065	25,779	377	2,369	1,092	443	150,412

(In thousands of reais - R$, unless otherwise stated)

11. Property, Plant and Equipment (PP&E) - Continued

	Consolidated													
	Land	Buildings and improvements	Machinery and equipment	Mining machinery	Tools and molds	Facilities	Vehicles	Off-road vehicles	Furniture and fixtures	IT equipment	Decommissioning of mine	Stabilization construction works in mine	Construction in progress	Total
Cost														
Balances at January 1, 2015	5,404	82,019	207,804	30,058	26,855	230,168	23,675	1,776	18,238	9,315	5,778	13,387	107,222	761,699
Additions	-	-	1,418	-	13	-	-	-	-	10	-	-	47,526	48,967
Write-offs	-	(276)	(3,627)	(2)	-	(18)	(474)	(58)	(655)	(357)	-	-	-	(5,467)
Transfers	1,157	6,368	121,732	657	454	10,460	473	-	728	731	-	-	(142,760)	-
Foreign exchange variation	-	-	-	-	-	-	-	-	-	-	-	-	844	844
Balances at December 31, 2015	**6,561**	**88,111**	**327,327**	**30,713**	**27,322**	**240,610**	**23,674**	**1,718**	**18,311**	**9,699**	**5,778**	**13,387**	**12,832**	**806,043**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,587**	**14,587**
Write-offs	**(916)**	**(5,257)**	**(14,807)**	**-**	**(7,004)**	**(4,725)**	**(1,557)**	**-**	**(428)**	**(686)**	**-**	**-**	**(8)**	**(35,388)**
Transfers	**10**	**(2,093)**	**17,336**	**146**	**3,291**	**8,424**	**-**	**-**	**(2,553)**	**314**	**805**	**-**	**(25,680)**	**-**
Balances at December 31, 2016	**5,655**	**80,761**	**329,856**	**30,859**	**23,609**	**244,309**	**22,117**	**1,718**	**15,330**	**9,327**	**6,583**	**13,387**	**1,731**	**785,242**
Average depreciation rates	-	4%	8.6%	28.4%	15%	10%	20%	26.8%	10%	20%	2.9%	5.3%	-	-
Accumulated depreciation														
Balances at January 1, 2015	-	(49,168)	(110,751)	(23,546)	(22,338)	(170,197)	(19,907)	(1,604)	(9,975)	(6,708)	(1,550)	(4,271)	-	(420,015)
Additions	-	(1,824)	(9,604)	(4,265)	(2,137)	(14,354)	(1,467)	(124)	(1,256)	(886)	(231)	(812)	-	(36,960)
Write-offs	-	11	3,617	2	-	16	296	58	622	357	-	-	-	4,979
Transfers	-	-	1	-	-	3	-	-	(4)	-	-	-	-	-
Balances at December 31, 2015	**-**	**(50,981)**	**(116,737)**	**(27,809)**	**(24,475)**	**(184,532)**	**(21,078)**	**(1,670)**	**(10,613)**	**(7,237)**	**(1,781)**	**(5,083)**	**-**	**(451,996)**
Additions	**-**	**(2,221)**	**(11,899)**	**(2,244)**	**(1,486)**	**(13,926)**	**(839)**	**(46)**	**(1,146)**	**(880)**	**(263)**	**(823)**	**-**	**(35,773)**
Write-offs	**-**	**2,101**	**6,226**	**-**	**6,619**	**2,807**	**1,527**	**-**	**304**	**659**	**-**	**-**	**-**	**20,243**
Transfers	**-**	**1,453**	**(1,147)**	**-**	**(1,085)**	**(822)**	**(2)**	**-**	**1,602**	**1**	**-**	**-**	**-**	**-**
Balances at December 31, 2016	**-**	**(49,648)**	**(123,557)**	**(30,053)**	**(20,427)**	**(196,473)**	**(20,392)**	**(1,716)**	**(9,853)**	**(7,457)**	**(2,044)**	**(5,906)**	**-**	**(467,526)**
Net book value														
At January 1, 2015	5,404	32,851	97,053	6,512	4,517	59,971	3,768	172	8,263	2,607	4,228	9,116	107,222	341,684
At December 31, 2015	6,561	37,130	210,590	2,904	2,847	56,078	2,596	48	7,698	2,462	3,997	8,304	12,832	354,047
At December 31, 2016	**5,655**	**31,113**	**206,299**	**806**	**3,182**	**47,836**	**1,725**	**2**	**5,477**	**1,870**	**4,539**	**7,481**	**1,731**	**317,716**

Due to legal proceedings, subsidiary SAMA gave in warranty PP&E items (machinery and equipment) at the cost value of R$2,150 (R$ 2,150 at December 31, 2015).

(In thousands of reais - R$, unless otherwise stated)

12. Trade accounts payable

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Domestic market	**18,989**	21,244	**31,694**	36,318
Foreign market	**1,613**	2,678	**1,872**	5,102
	20,602	23,922	**33,566**	41,420

13. Loans and financing

Accounting practice

Loans and financing are initially recognized at fair value upon receipt of funds, net of transaction costs. Subsequently borrowings are stated at amortized cost, i.e., plus charges and interest proportional to the period incurred (on a “pro rata temporis” basis), using the effective interest rate method, except for those with hedging derivative instruments, which will be stated at their fair value. The borrowing costs directly attributed to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily take substantial time to be ready for its intended use or sale, are capitalized as part of the cost of such assets, when it is probable that they will result in future economic benefits to the entity and that such costs can be reliably measured. All other borrowing costs are expensed in the year they incur.

In 2016, the Group capitalized borrowing costs that were directly attributable to the acquisition of qualifying assets, totaling R$737 (R$13,959 in 2015). The average effective interest rate to determine the amount of borrowing costs subject to capitalization was 2.26% p.a.

(In thousands of reais - R$, unless otherwise stated)

13. Loans and financing (Continued)

	(%) Interest rate and commissions	Company 12/31/2016	Company 12/31/2015	Consolidated 12/31/2016	Consolidated 12/31/2015
Current:					
Domestic currency for acquisition of machinery and equipment	From 2.76% to 9.85% p.a. + TJLP and 10%p.a	**1,487**	1,610	**2,282**	5,105
Foreign currency for acquisition of machinery and equipment	From 2.87% to 3.07% p.a.	**2,875**	3,082	**12,115**	14,910
Foreign currency for acquisition of raw material	From 2.19% to 2.73% p.a.	**4,255**	1,566	**4,255**	1,566
Domestic currency (finance lease) for acquisition of IT equipment	1.14% to 1.23% p.a.	**-**	-	**9**	251
Domestic currency for working capital (Export Credit Note – NCE)	117.60% p.a	**-**	-	**21,091**	68,406
Foreign currency for working capital (Advances on Export Contracts - ACE)	From 3.17% to 4.20% p.a.	**-**	-	**11,552**	-
Domestic currency for acquisition of machinery, equipment and services	From 7.06% to 8.24% p.a.	**-**	-	**165**	-
Foreign currency for acquisition of raw material	2.78% p.a.	**1,720**	-	**1,720**	-
Foreign currency for working capital (Export Credit Note - NCE)	From 3.46% to 3.65% p. a.	**-**	-	**15,561**	-
Total current		**10,337**	6,258	**68,750**	90,238
Noncurrent:					
Domestic currency for acquisition of machinery and equipment	From 2.76% to 9.85% p.a. + TJLP and 10%p.a	**1,365**	2,763	**2,008**	4,207
Foreign currency for acquisition of machinery and equipment	From 2.87% to 3.07% p.a.	**1,341**	5,274	**15,470**	36,245
Foreign currency for acquisition of raw material	From 2.19% to 2.73% p.a.	**1,656**	8,257	**1,656**	8,257
Domestic currency for acquisition of machinery, equipment and services	From 7.06% to 8.24% p.a.	**-**	-	**36,492**	28,245
Total noncurrent		**4,362**	16,294	**55,626**	76,954
Total		**14,699**	22,552	**124,376**	167,192

	Company 12/31/2016	Company 12/31/2015	Consolidated 12/31/2016	Consolidated 12/31/2015
Noncurrent payment flow:				
2017	**-**	10,984	**-**	24,408
2018	**3,637**	5,231	**13,468**	19,967
2019	**725**	79	**9,720**	9,565
2020	**-**	-	**4,131**	3,138
2021	**-**	-	**4,055**	3,138
From 2022 to 2027	**-**	-	**24,252**	16,738
	4,362	16,294	**55,626**	76,954

(In thousands of reais - R$, unless otherwise stated)

13. Loans and financing (Continued)

The Group has loan agreements with non-financial covenants with which it was compliant as of December 31, 2016, such as (i) application for bankruptcy, in-court or out-of-court reorganization; (ii) reduction of the Company's equity and amounts that may make it unable to settle its obligations under an agreement; and (iii) to be handed down an unfavorable and unappealable decision or to enter into a leniency agreement for the performance of acts or conduct detrimental to the public administration. Guarantees, if any, are disclosed in Note 28.

14. Personnel expenses

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Vacation pay	**8,576**	9,297	**14,322**	15,726
Profit sharing (a)	**1,314**	2,821	**4,232**	7,120
Unemployment Compensation Fund (FGTS)	**576**	622	**1,002**	1,056
Social Security Tax (INSS)	**1,941**	2,115	**3,388**	3,352
Other	**6**	3	**444**	468
	12,413	14,858	**23,388**	27,722

(a) The Group grants profit sharing to its employees, which is calculated in accordance with the agreement entered into by Group companies with the Labor Union. Profit sharing expenses recorded are as follows:

	Profit sharing	
	12/31/2016	12/31/2015
Company	**109**	4,168
Consolidated	**2,955**	7,465

(In thousands of reais - R$, unless otherwise stated)

15. Taxes, charges and contributions payable

	Company		Consolidated	
Current:	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
Income taxes				
Corporate income t(IRPJ)	**-**	-	**1,940**	1,188
Social contribution tax on net profit (CSLL)	**-**	-	**344**	698
Other taxes				
State value added tax (ICMS)	**8,108**	5,176	**10,657**	7,989
Federal value added tax (IPI)	**2,410**	2,227	**2,832**	2,538
Contribution tax on gross revenue for social security financing (COFINS)	**1,960**	1,175	**2,639**	2,444
Contribution tax on gross revenue for social integration program (PIS)	**397**	241	**545**	508
Withholding income tax (IRRF)	**1,021**	1,708	**1,967**	2,504
Tax on financial transactions (IOF)	**31**	12	**74**	28
Mineral resource offsetting financial contribution	**-**	-	**885**	1,423
Other	**103**	158	**377**	547
Total	**14,030**	10,697	**22,260**	19,867
Noncurrent:				
State value-added tax (ICMS) (*)	**1,746**	6,477	**4,699**	8,969

(*) ICMS deriving from tax incentive programs PRODUZIR and DESENVOLVE in the Company; FOMENTAR in subsidiary Precon; FUNDOPEM and PRODUZIR in subsidiary Tégula; and INCENTIVO (tax incentive) of 7% and 90.25%, respectively, in subsidiary Eternit da Amazônia.

16. Provision for post-employment benefits

Accounting practice

Private pension plan costs

The payments under the defined contribution pension plan are recognized as expense when the services that grant the right to these payments are rendered.

I) Future health benefits

Based on an actuarial report prepared by a specialized independent company, the Group records a provision for future health benefits (health care and laboratory exams) to former employees. The assumptions and calculations were revised and restated for 2016.

(In thousands of reais - R$, unless otherwise stated)

16. Provision for post-employment benefits (Continued)

I) Future health benefits (Continued)

a) *Main actuarial assumptions used to determine the present value of benefits*

	12/31/2016	12/31/2015
Actual actuarial annual interest rate	6.14%	7.27%
Actual annual medical cost increase rate	3.80%	3.80%
Annual projected inflation rate	5.15%	6.49%
General mortality table	AT-2000	AT-2000

b) *Liabilities from post-employment benefit plan*

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current liabilities	**3,184**	2,749	**5,115**	4,890
Noncurrent liabilities	**37,128**	31,839	**50,104**	44,437
	40,312	34,588	**55,219**	49,327

c) *Net expenses with the benefit in 2016 (posted to P&L)*

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current service and interest cost	**4,653**	3,930	**6,318**	5,892
Benefits paid	**(2,752)**	(2,624)	**(4,892)**	(4,453)
Net expense with the benefit	**1,901**	1,306	**1,426**	1,439

d) Changes in present value of the defined benefit obligation

	Company	Consolidated
Defined benefit obligations at January 1, 2015	22,747	31,285
Current service and interest cost	3,930	5,892
Benefits paid	(2,624)	(4,453)
Defined benefit obligations at December 31, 2015	**24,053**	**32,724**
Current service and interest cost	**4,653**	**6,318**
Benefits paid	**(2,752)**	**(4,892)**
Defined benefit obligations at December 31, 2016	**25,954**	**34,150**

(In thousands of reais - R$, unless otherwise stated)

16. Provision for post-employment benefits (Continued)

I) Future health benefits (Continued)

e) Changes in plan defined benefit obligations in 2016

	Company	Consolidated
At January 1, 2016	**34,588**	**49,327**
Current service and interest cost	**4,653**	**6,318**
Benefits paid	**(2,752)**	**(4,892)**
Experience adjustments	**3,823**	**4,466**
At December 31, 2016	**40,312**	**55,219**

f) Sensitivity analysis:

Company	**Sensitivity of the discount rate on obligations calculated**			**Sensitivity of average cost increase on obligations calculated**		
	Actual	**Increase (1%)**	**Decrease (1%)**	**Actual**	**Increase (1%)**	**Decrease (1%)**
Impact on benefit obligation, net	40,312	36,905	44,035	40,312	43,914	37,010
Variation		**(8.45%)**	**9.24%**		**8.94%**	**(8.19%)**

Consolidated	**Sensitivity of the discount rate on obligations calculated**			**Sensitivity of average cost increase on obligations calculated**		
	Actual	**Increase (1%)**	**Decrease (1%)**	**Actual**	**Increase (1%)**	**Decrease (1%)**
Impact on benefit obligation, net	55,219	50,551	60,318	55,219	60,152	50,695
Variation		**(8.45%)**	**9.24%**		**8.94%**	**(8.19%)**

The abovementioned sensitivity analysis was conducted by submitting most significant assumptions to some variation, and reflecting the effect thereof on the obligations amount.

(In thousands of reais - R$, unless otherwise stated)

16. Provision for post-employment benefits (Continued)

I) Future health benefits (Continued)

g) The following payments represent contributions expected for future years based on the defined benefit plan obligations:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Within 12 months	**3,184**	2,749	**5,115**	4,890
From 2 to 5 years	**11,058**	10,694	**15,688**	14,807
From 6 to 10 years	**10,785**	10,603	**14,606**	14,650
After 10 years	**15,285**	10,542	**19,810**	14,980
	40,312	34,588	**55,219**	49,327

II) Supplementary private pension plan

The Group has an open-ended supplementary private pension plan with a duly authorized private pension entity. The plan is for defined contributions and deductible for income tax purposes (PGBL) and offered to all employees and officers. There is no need for supplemental amount to the provision recorded at December 31, 2016.

For the years ended December 31, 2016 and 2015, the Group and its participants made contributions to fund benefit plans as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Contributions made for the year ended:	**1,242**	1,377	**3,280**	3,846

(In thousands of reais - R$, unless otherwise stated)

17. Equity

Accounting practice

Dividends and interest on equity

The Company's articles of incorporation ensures to shareholders mandatory minimum dividend of 25% of net income for the year, less legal reserves of 5% and statutory reserve of 5% of income, under the Brazilian Corporation Law. In addition, if proposed by the Board of Directors, the Company may set up reserves for contingencies and capital budget. After such allocations, the remaining balance, if any, shall be fully allocated to dividend payment to shareholders. For corporate and accounting purposes, Interest on Equity (IOE) is posted as allocation of net income directly to equity.

a) Capital

At December 31, 2016 and 2015, the Company's fully subscribed and paid-up capital amounted to R$334,251 and was represented by 179,000,000 common registered book-entry shares, with no par value, with the right to vote in Annual General Meeting deliberations, held as follows:

	12/31/2016		12/31/2015	
Shareholding structure	**Shareholders**	**Shares**	**Shareholders**	**Shares**
Individuals	**10,507**	**138,669,276**	10,753	126,183,006
Legal entities	**80**	**2,698,925**	92	3,213,774
Residents abroad	**71**	**12,990,161**	91	14,323,451
Clubs, funds and foundations	**62**	**24,582,906**	88	35,221,037
	10,720	**178,941,268**	11,024	178,941,268
Treasury shares	**1**	**58,732**	1	58,732
	10,721	**179,000,000**	11,025	179,000,000

The Company is authorized to increase capital up to R$1,000,000 (one billion reais), irrespective of any corporate restructuring, upon approval by the Board of Directors, which will establish the share issue price and other conditions for the respective subscriptions and payments.

(In thousands of reais - R$, unless otherwise stated)

17. **Equity** (Continued)

b) Treasury shares

At December 31, 2016, market value of treasury shares was R$78 (R$123 at December 31, 2015).

c) Earnings (loss) per share

The following table reconciles net income (loss) to amounts used to calculate basic and diluted earnings (loss) per share.

	Company	
	12/31/2016	**12/31/2015**
Dilutive effect		
Net income (loss) for the year attributable to controlling interests	**(37,683)**	29,420
Weighted average number of outstanding common shares, less the average of treasury common shares	**178,941**	178,941
Basic and diluted earnings (loss) per share - R$	**(0.2106)**	0.1644

There is no dilutive effect to be considered in the calculation above.

d) Dividends

The outstanding balance of dividends and IOE as of December 31, 2016 represents:

	Company and Consolidated	
	12/31/2016	**12/31/2015**
Interest on equity	**-**	**7,118**
Dividends	**-**	**-**
Prior year's amounts	**426**	**416**
	426	**7,534**

(In thousands of reais - R$, unless otherwise stated)

17. **Equity** (Continued)

e) Allocation of P&L for the year

	Company and Consolidated	
	12/31/2016	**12/31/2015**
Net income (loss) for the year	**(37,683)**	29,420
Establishment of reserves		
Legal reserve	**-**	(1,471)
Statutory reserve	**-**	(1,471)
(Absorption of loss)/retained profits (i)	**37,683**	(1,784)
Income available	**-**	24,694
Dividends proposed and paid	**-**	1,611
IOE proposed and paid	**-**	23,083
Total	**-**	24,694
Mandatory minimum dividends	**-**	6,620

(i) Loss for the year transferred to “Absorption of loss” account.

f) Capital budget - use of funds

Market conditions, macro-economic scenarios and other operational factors that involve risks, uncertainties and assumptions may affect business projections and perspectives, and, as a result, the amount projected in this 2017 capital budget will be acquired through third-party funds and/or own funds.

• Maintenance and update of the plant	18,303

18. Government grants

Accounting practice

Government grants are not recognized until there is sufficient certainty that the Group will meet the conditions related to the grants to be received and are systematically recognized in P&L during the years in which the Group recognizes the corresponding costs that the grants are intended to offset as expenses.

Tégula - Investment grant - Goiás Industrial Development Program - Produzir

Tégula Soluções para Telhados has a tax benefit to reduce 73% of ICMS calculated on sales of goods produced in the unit established in the city of Anápolis, Goiás state. Tégula used 100% of the contracted amount of R$6,910, a balance of R$1,424 remaining to be used.

For the year ended December 31, 2016, this benefit totaled R$662 (R$881 at December 31, 2015). This benefit is treated as investment grant, since conceptually the company benefits itself through reduction, refund or exemption of taxes due, and it is intended to expand the company's activity.

Precon - Investment grant - Agência de Fomento Goiás S.A - company in the state of Goiás - Fomentar

Precon Goiás Industrial Ltda. has a tax benefit to reduce 70% of ICMS calculated on sales of goods produced in the unit established in the city of Anápolis, Goiás state. Precon used R$54,118 of the amount contracted, remaining a balance of R$16,038 to be used until the expiration of the benefit contract on 12/31/2020.

In 2016, this benefit totaled R$2,032 (R$2,914 at December 31, 2015). The benefit is treated as investment grant, since conceptually the company benefits itself through reduction, refund or exemption of taxes due, and it is intended to expand the company's activity.

18. **Government grants** (Continued)

Eternit - Investment grant - Goiás Industrial Development Program - Produzir

Eternit S.A. has a tax benefit to reduce 73% of ICMS calculated on sales of goods produced in the unit established in the city of Goiânia, Goiás state. Eternit used R$29,826 of the amount contracted, remaining a balance of R$33,290 to be used until the expiration of the benefit contract on 12/31/2020, which is restated by reference to the General Market Price Index (IGP-M).

For the year ended December 31, 2016, this benefit totaled R$6,083 (R$4,008 at December 31, 2015). This benefit is treated as investment grant, since conceptually the company benefits itself through reduction, refund or exemption of taxes due, and it is intended to expand the company's activity.

Eternit - Investment grant - Brazilian Supervisory Office for Development of the Northeast (Sudene)

The Company has a tax benefit to reduce 75% of Corporate Income Tax (IRPJ) and non-refundable surtaxes on profit from tax-incentive activities ("lucro da exploração") on behalf of Eternit S.A. This benefit expires in calendar year 2020.

The history of laws and granting of tax benefit related to each program mentioned herein were disclosed by management in these financial statements.

19. Income and social contributions taxes

Accounting practice

Provision for income and social contribution taxes is based on taxable profit for the year. Taxable profit is different from profit stated in the income statement, as it excludes taxable or deductible revenues and expenses in other years, in addition to permanently excluding non-taxable or non-deductible items. The provision for income and social contribution taxes is calculated individually by each Group company, based on year-end rates in force.

Deferred income and social contribution taxes ("deferred tax") are recognized on temporary differences, at the end of each reporting period, between assets and liabilities recognized in the financial statements and corresponding tax bases used in computing taxable profit, including income and social contribution tax losses, where applicable. Deferred tax liabilities are generally recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences only when the Company is likely to recognize future taxable profit at an amount sufficient for such deductible temporary differences to be used. Deferred tax assets and liabilities are measured at the tax rate expected to be applied in the year in which the asset or liability will be realized or settled, based on tax rates (and tax law) in force as of the statement of financial position date.

The recoverability of deferred tax assets is reviewed at the end of each year and adjusted by the amount that are expected to be recovered.

Current and deferred income and social contribution taxes are recognized as expenses or revenue in P&L for the year, except when these are related to items recorded under other comprehensive income (loss), when applicable.

(In thousands of reais - R$, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Reconciliation of income and social contribution tax expense with statutory amounts

Reconciliation of Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) at effective and statutory rates is as follows:

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Income (loss) before income and social contribution taxes	**(44,434)**	20,940	**(27,727)**	68,617
Statutory rate	**34%**	34%	**34%**	34%
Income and social contribution taxes at statutory rates	**15,108**	(7,120)	**9,427**	(23,330)
Effect of income and social contribution taxes on permanent differences:				
Equity pickup	**(5,214)**	15,339	**(9,975)**	(9,405)
Interest on equity (IOE)	**(2,984)**	7,738	**-**	10,099
Donations and gifts	**(56)**	(176)	**(859)**	(969)
Nondeductible taxes and fines	**(96)**	(80)	**(164)**	(128)
Tax incentive	**-**	-	**271**	798
Labor contingencies	**(36)**	(7,177)	**(36)**	(7,177)
Provision for PIS and COFINS (financial income)	**(375)**	-	**(375)**	-
Gains (losses) on swap transactions	**(171)**	-	**(436)**	-
Tax loss without set up of deferred tax	**-**	-	**(5,315)**	(2,919)
Other (additions) exclusions, net	**575**	(44)	**(2,493)**	(6,165)
Income and social contribution taxes in P&L	**6,751**	8,480	**(9,955)**	(39,196)
Effective rate	**-16.6%**	40.5%	**41.6%**	-57.1%

b) Breakdown of deferred income and social contribution taxes

The estimated realization of the deferred tax balance may present changes, since most of them are subject to court decisions over which the Group has no control or cannot predict when there will be a decision in higher court.

Deferred income and social contribution taxes, presented in noncurrent assets, refer to income and social contribution taxes on temporary differences in the calculation of taxable profit and income and social contribution tax losses, as follows:

(In thousands of reais - R$, unless otherwise stated)

19. Income and social contribution taxes (Continued)

b) Breakdown of deferred income and social contribution taxes (Continued)

	Company	Consolidated
Balance at January 1, 2015	24,750	53,299
Setup of temporary differences	8,121	75,949
Reversal of temporary differences	(6,524)	(70,078)
Setup on tax loss	7,917	7,917
Reversal on tax loss	-	(3,264)
Balance at December 31, 2015	**34,264**	**63,823**
Setup of temporary differences	**8,862**	**70,756**
Reversal of temporary differences	**(6,781)**	**(66,837)**
Setup on tax loss	**5,970**	**5,970**
Income in inventories	**-**	**(1,057)**
Balance at December 31, 2016	42,315	72,655

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Income and social contribution tax losses	**18,995**	13,026	**25,402**	19,432
Post-employment benefit	**13,706**	11,760	**18,774**	18,224
Provision for tax, civil and labor risks	**7,610**	7,702	**19,714**	17,841
Unrealized income in inventories	**-**	-	**2,232**	3,289
Allowance for doubtful accounts	**1,660**	1,321	**2,810**	2,699
Provision for profit sharing	**447**	959	**1,429**	2,398
Provision for losses on PP&E	**1,271**	1,271	**1,271**	1,271
Unshipped products	**-**	-	**821**	1,470
Other provisions	**(1,374)**	(1,775)	**202**	(2,801)
	42,315	34,264	**72,655**	63,823

Expected realization of tax credits

i. *Income and social contribution tax losses*

Based on projected future taxable profit of the Company and its subsidiary Tégula, expected recovery of the deferred income and social contribution tax balance calculated on income and social contribution tax losses, posted to noncurrent assets, is as follows:

	Company	Consolidated
	12/31/2016	12/31/2016
2017	**748**	**1,067**
2018	**1,579**	**1,974**
2019	**2,216**	**2,684**
2020	**2,823**	**3,387**
2021 to 2026	**11,629**	**16,290**
	18,995	**25,402**

(In thousands of reais - R$, unless otherwise stated)

19. Income and social contribution taxes (Continued)

b) Breakdown of deferred income and social contribution taxes (Continued)

Estimated realization of tax credits (Continued)

Recorded deferred tax assets are limited to the offset amount supported by projections of taxable profit, discounted to present value, made by the Company and its subsidiary Tégula within the next ten years, further considering that offset of income and social contribution tax losses is limited to 30% of annual net income, determined in accordance with ruling Brazilian tax legislation, however, these may be carried indefinitely for offset against future taxable profit.

At December 31, 2016, subsidiary Tégula had accumulated income tax loss of R$47,591 and social contribution tax loss of R$42,758, for which deferred taxes were not recorded, since up to December 31, 2016 there were no projections of future taxable profits confirming realization thereof.

ii. *Temporary differences*

Noncurrent assets related to deferred income and social contribution taxes calculated on temporary differences are expected to be realized as follows:

	Company	Consolidated
	12/31/2016	12/31/2016
2017	6,057	11,299
2018	1,918	9,002
2019	1,918	2,847
2020	1,919	4,476
2021 to 2026	11,508	19,629
	23,320	47,253

As the result of income and social contribution taxes depends not only on taxable profit, but also on the existence of non-taxable revenues, nondeductible expenses and various other variables, there is no significant correlation between net income of the Group and the result of income and social contribution taxes.

(In thousands of reais - R$, unless otherwise stated)

20. Provision for tax, civil and labor risks

The Group is party to various civil, labor and tax proceedings that are pending judgment at different court levels.

Group management understands that the provision for risks is sufficient and represents the best estimate of the probable future disbursement of the Company, based on information available up to the authorization date of these financial statements, impacts of which may be reliably measured as follows:

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Labor claims (i)	**39,280**	39,177	**51,282**	48,581
Civil claims	**-**	-	**5,578**	4,918
Tax claims (ii)	**7,695**	7,919	**33,143**	30,782
	46,975	47,096	**90,003**	84,281

Changes in provision for tax, civil and labor risks are as follows:

	Company		
	Provisions for labor claims	**Provisions for tax claims**	**Total**
Balance at January 1, 2015	20,258	5,968	26,226
Additions	23,466	1,956	25,422
Payments	(843)	-	(843)
Write-offs	(1,892)	-	(1,892)
Reversals	(1,812)	(5)	(1,817)
Balance at December 31, 2015	39,177	7,919	47,096
Additions	**2,167**	**1,078**	**3,245**
Write-offs	**(1,325)**	**(140)**	**(1,465)**
Reversals	**(739)**	**(1,162)**	**(1,901)**
Balance at December 31, 2016	**39,280**	**7,695**	**46,975**

	Consolidated			
	Provisions for labor claims	**Provisions for civil claims**	**Provisions for tax claims**	**Total**
Balance at January 1, 2015	29,225	4,930	25,394	59,549
Additions	23,904	-	5,394	29,298
Payments	(843)	-	-	(843)
Write-offs	(1,892)	-	-	(1,892)
Reversals	(1,813)	(12)	(6)	(1,831)
Balance at December 31, 2015	48,581	4,918	30,782	84,281
Additions	**5,207**	**660**	**3,663**	**9,530**
Write-offs	**(1,545)**	**-**	**(140)**	**(1,685)**
Reversals	**(961)**	**-**	**(1,162)**	**(2,123)**
Balance at December 31, 2016	**51,282**	**5,578**	**33,143**	**90,003**

20. Provisions for tax, civil and labor risks (Continued)

i) Significant provisions related to labor claims include

a) Damages including pain and suffering, property damage and labor claims brought by former employees claiming (i) overtime (ii) night shift pay, (iii) health and risk exposure premiums; and (iv) severance pay, among others.

b) Civil Class Action filed in 2013 with São Paulo Labor Court by São Paulo Labor Prosecution Office against the Company. This action is challenging matters relating to the work environment and occupational health of the manufacturing unit that was shut down in early 1990s. In parallel to this action, other Civil Class Action, forwarded by way of dependence, was filed by ABREA also with the Labor Court, reason why, and by a court order, those actions were unified. The requests aim compensation for collective pain and suffering, individual damage, among others. On March 1, 2016, both actions were rendered partially upheld at the lower court. Part of the decision at the lower court was assessed as probable loss by the Company's legal advisors. The Company filed an appeal against the decision handed down at lower court, and the Regional Labor Court partially reversed the decision at the lower court. The most significant terms are: The following unfavorable decisions were excluded: compensation for collective pain and suffering in the amount of R$100 million; compensation for pain and suffering in the amount of R$50 thousand on behalf of each former employee not diagnosed with asbestos-related diseases; any and all dispute regarding relatives of former employees. The following unfavorable decisions were reduced: Pain and suffering and life-threatening damage established on behalf of former employee already diagnosed with asbestos-related diseases in the amounts of R$100 thousand and R$50 thousand, respectively; pain and suffering established on behalf of the Estate of each deceased former employee, after filing of actions in the amount of R$100 thousand. The following unfavorable decision were upheld: comprehensive health care plan for former employees diagnosed with asbestos-related diseases. This decision is subject to appeals by the parties. The provision was set up considering uncertainties surrounding the amount recognized at various means according to the circumstances, which is in line with IAS 37.39 (CPC 25.39), which provides that in measuring a provision that involves a large population of items, the obligation shall be estimated by weighing up all possible outcomes considering their associated probabilities.

20. Provisions for tax, civil and labor risks (Continued)

ii) Significant provisions related to tax claims include

Difference in ICMS amounts paid;
Difference in rates paid for INSS purposes; and
Difference in the amounts recognized referring to the Financial Compensation for the Exploration of Mineral Resources (CEFEM).

iii) Proceedings whose likelihood of an unfavorable outcome is assessed as possible

At December 31, 2016, there were civil, tax, administrative and labor claims against the Group, for which legal advisors assessed the likelihood of loss as possible, which can be reliably measured, in the consolidated amount of R$15,146 (R$19,526 at December 31, 2015), therefore, no provision was recorded for these claims and proceedings.

In addition, the following proceedings were in course against the Group, whose likelihood of loss was assessed as possible by legal advisors, and whose amounts are not measurable up to date:

a) Civil class actions on environmental and health matters brought by state and federal prosecutors of Bahia state, and a class action with the same objective as the abovementioned civil class actions amounting to R$40,000.

b) Consumer civil class actions in the State of Rio de Janeiro and another one in the State of Pernambuco, in order to prohibit the sale of products containing chrysotile mineral in those states.

c) Managerial Wrongdoing suit in which issues related to Financial Compensation for Exploration of Mineral Resources (CEFEM) were discussed in the amount of R$38,795, as well as an annulment action and enforcement proceeding totaling R$13,729.

d) Civil class action and class action, both related to the sale by the state of Goiás of an area of land where the residential quarters of subsidiary SAMA is located.

e) Part of the decision at the lower court on the proceeding mentioned in item i “b” to this note was assessed as possible loss by the Company’s legal advisors.

20. Provisions for tax, civil and labor risks (Continued)

f) In 2014, a Civil Class Action was filed by the Labor Prosecution Office against the Company with the Rio de Janeiro Labor Court. This action challenges matters relating to the work environment and occupational health, in addition to indemnification request for collective pain and suffering in the amount of R$1 billion. In parallel to this action, other Civil Class Action, forwarded by way of dependence, was filed by ABREA with the same Labor Court. Both actions are pending judgment.

iii) Proceedings whose likelihood of an unfavorable outcome is assessed as possible: (Continued)

The judicial deposits for provisional enforcement guarantees and appeal deposits in connection with the provisions for contingencies are classified in a specific account in noncurrent assets.

21. Net operating revenue

Accounting practice

Revenues

Revenue is measured at fair value of the consideration received or receivable, less any estimates of returns, trade discounts and/or subsidies granted to the buyer and other similar deductions. Sales revenue is recognized when:

- The Group has transferred to the buyer the significant risks and rewards related to ownership of the products;
- The Group has neither continued involvement in the management of products sold at levels usually associated with the ownership nor effective control over these products;
- The value of the revenue can be reliably measured; and
- The costs incurred or to be incurred in relation to the transaction can be reliably measured.

Sales taxes

Taxes relating to revenues and expenses are recognized net of sales taxes, except when sales taxes are incurred in the acquisition of goods or services that are not recoverable from the tax authorities. This occurs when sales taxes are recognized as part of the cost of acquisition of the asset or expenses item as applicable; and when the amounts receivable or payable are stated with the sales tax amount.

(In thousands of reais - R$, unless otherwise stated)

21. Net operating revenue (Continued)

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Gross sales revenue	**655,962**	679,553	**1,048,748**	1,221,417
Unconditional discounts and rebates	**(1,519)**	(2,879)	**(1,867)**	(3,383)
Sales taxes	**(159,680)**	(165,584)	**(219,606)**	(243,162)
Net operating revenue	**494,763**	511,090	**827,275**	974,872

22. Information on the nature of expenses

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Cost of products and goods sold	**(394,446)**	(384,403)	**(564,073)**	(598,115)
Selling expenses	**(60,616)**	(58,313)	**(106,593)**	(114,704)
General and administrative expenses	**(39,740)**	(48,272)	**(89,134)**	(106,961)
Management compensation	**(8,055)**	(7,121)	**(11,527)**	(11,444)
	(502,857)	(498,109)	**(771,327)**	(831,224)
Raw material used	**(258,688)**	(249,109)	**(369,725)**	(401,704)
Personnel expenses and charges	**(116,133)**	(119,209)	**(160,853)**	(165,278)
Material, electric energy and services	**(46,416)**	(44,661)	**(57,932)**	(55,413)
Third-party services	**(19,006)**	(25,127)	**(50,178)**	(58,670)
Depreciation and amortization	**(14,880)**	(13,469)	**(38,572)**	(39,399)
Sales commissions	**(12,354)**	(12,148)	**(18,162)**	(19,905)
Variable selling expenses	**(5,919)**	(7,002)	**(26,489)**	(33,445)
Lease of chattels	**(6,537)**	(6,657)	**(10,540)**	(11,022)
Travel expenses	**(3,670)**	(5,508)	**(6,310)**	(8,491)
Expenses with materials and IT services	**(4,138)**	(4,097)	**(6,423)**	(6,561)
Advertising and publicity	**(9,029)**	(4,707)	**(10,633)**	(9,323)
Trade union dues	**(1,544)**	(2,920)	**(5,760)**	(12,704)
Taxes and charges	**(1,200)**	(647)	**(4,124)**	(3,551)
Expenses with allowance for doubtful accounts net of reversals	**(1,980)**	(1,493)	**(3,420)**	(2,531)
Other	**(1,363)**	(1,355)	**(2,206)**	(3,227)
	(502,857)	(498,109)	**(771,327)**	(831,224)

(In thousands of reais - R$, unless otherwise stated)

23. Other operating income (expenses), net

	Company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Other operating income:				
PP&E disposals	**22**	784	**3,395**	876
Sample for product testing (ii)	**-**	1,186	**-**	1,186
Dividends and interest on equity	**67**	70	**67**	70
Reversal of provision for labor risks	**-**	1,753	**222**	1,753
Lease	**-**	-	**820**	1,490
PIS and COFINS previously unused credit	**-**	-	**9,492**	3,552
ICMS credit (ii)	**-**	-	**2,581**	2,126
FI Fund - Private Pension (i)	**-**	-	**-**	1,956
Receipt of appeal deposit	**9**	-	**254**	-
Occasional receipts	**150**	-	**150**	-
Scrap sales	**199**	-	**555**	-
Other (ii)	**108**	975	**1,211**	1,098
	555	4,768	**18,747**	14,107
Other operating expenses:				
Provision for tax, civil, and labor risks	**(129)**	(21,197)	**(951)**	(21,634)
Provision for post-employment benefits	**(4,653)**	(3,818)	**(6,318)**	(5,117)
Environmental restoration	**-**	-	**(1,262)**	(1,093)
Taxes on other sales (ii)	**(40)**	(48)	**(496)**	(808)
Quality control	**(967)**	(1,025)	**(1,192)**	(1,389)
Replacement of defective products (ii)	**(291)**	(367)	**(306)**	(399)
Expenses with unexpected halts (ii)	**(3,001)**	(721)	**(7,228)**	(2,334)
Legal expenses with civil class action	**(4,000)**	-	**(4,000)**	-
Expenses with labor and civil indemnifications	**(1,531)**	(1,169)	**(3,084)**	(1,691)
Cost of PP&E disposals	**(17)**	(684)	**(272)**	(1,041)
FibraPrev - Private Pension Plan	**-**	-	**(5,388)**	-
Other (ii)	**(752)**	(854)	**(3,986)**	(2,445)
	(15,381)	(29,883)	**(34,483)**	(37,951)
Total	**(14,826)**	(25,115)	**(15,736)**	(23,844)

(i) Private pension credit offset, Company's contribution, in unnamed fund established upon termination of employees, in accordance with the Company's policies.

(ii) In order to improve the quality of information stated in the financial statements, the Company made reclassifications in the group of "Other" for the balance as of December 31, 2015. Under "Other income" the amount of R$3,312 was reclassified, while under "Other expenses" the amount of R$430 was reclassified.

(In thousands of reais - R$, unless otherwise stated)

24. Financial income and expenses

Accounting practice

Revenue from interest-bearing financial assets is recognized when it is probable that the future economic benefits shall flow to the Group and revenue can be reliably measured. Interest income is recognized by the straight-line method based on the period and the effective interest rate on the outstanding principal amount. The effective interest rate is that which exactly discounts receivable from estimated future cash flows during the estimated life of the financial asset in relation to the initial net book value of the asset.

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial income:				
Short-term investment yield - including Bank Deposit Certificates (CDB)	**255**	993	**1,235**	3,735
Discounts obtained	**245**	93	**665**	267
Interest income	**4,161**	3,620	**5,189**	6,189
Monetary gains	**1,079**	966	**1,097**	1,008
Foreign exchange gains	**15,429**	2,090	**42,556**	74,005
Other financial income	**-**	-	**-**	5
	21,169	7,762	**50,742**	85,209
Financial expenses:				
Interest on financing	**(1,028)**	(743)	**(5,175)**	(3,035)
Interest on loan	**(5,043)**	(4,269)	**-**	-
Interest expense	**(163)**	(234)	**(8,533)**	(5,472)
Bank expenses	**(2,238)**	(1,341)	**(2,658)**	(1,686)
Discounts granted	**(2,977)**	(2,346)	**(4,677)**	(4,226)
Tax on Financial Transactions (IOF)	**(593)**	(550)	**(885)**	(1,057)
PIS and COFINS - Interest on Equity (IOE)	**(899)**	(1,441)	**(972)**	(1,593)
Foreign exchange losses	**(12,315)**	(6,233)	**(41,928)**	(85,133)
Monetary losses	**(1,693)**	(2,285)	**(5,584)**	(5,869)
Other financial expenses	**(399)**	(362)	**(823)**	(664)
	(27,348)	(19,804)	**(71,235)**	(108,735)
Financial income (expenses), net	**(6,179)**	(12,042)	**(20,493)**	(23,526)

25. Segment reporting

Management defined the operating segments as Fiber Cement, Chrysotile Mineral and Concrete Roof Tiles, as well as the geographic area of operation. Information presented in line "Other" refers to expenses not directly attributable to Fiber Cement, Chrysotile and Concrete Roof Tiles segments, among others.

Operating segments defined by senior management are as follows:

Company and Consolidated	
Description	**Geographic area**
Fiber cement	Southeast, South, Midwest, North and Northeast
Chrysotile Mineral	Domestic and foreign markets
Concrete roof tiles	Domestic market
Other	Domestic market

(In thousands of reais - R$, unless otherwise stated)

25. Segment reporting (Continued)

Significant consolidated segment reporting for the years ended December 31, 2016 and 2015 is as follows:

		12/31/2016		12/31/2016					
		Total assets	**Liabilities**	**Net revenue**	**Gross profit**	**Income (loss) before taxes**	**Depreciation and amortization**	**Financial income (expense)**	**IRPJ/CSLL**
Fiber cement									
	Southeast	**254,781**	**27,460**	**96,919**	**19,638**	**(3,385)**	**(4,655)**	**(1,051)**	**916**
	South	**48,207**	**36,721**	**147,288**	**29,889**	**(5,099)**	**(5,197)**	**(1,597)**	**1,393**
	Mid-West	**85,579**	**48,534**	**191,667**	**44,567**	**(963)**	**(4,810)**	**(2,078)**	**1,812**
	North and Northeast	**32,219**	**25,147**	**90,496**	**18,337**	**(3,161)**	**(2,620)**	**(981)**	**856**
		420,786	**137,862**	**526,370**	**112,431**	**(12,608)**	**(17,282)**	**(5,707)**	**4,977**
Chrysotile Mineral									
	Domestic market	**229,984**	**144,620**	**92,877**	**58,414**	**21,893**	**(5,953)**	**(6,514)**	**(5,016)**
	Foreign market	**-**	**-**	**134,245**	**72,761**	**19,539**	**(8,661)**	**(9,415)**	**(7,250)**
		229,984	**144,620**	**227,122**	**131,475**	**41,432**	**(14,614)**	**(15,929)**	**(12,266)**
Concrete roof tiles	Domestic market	**48,609**	**21,601**	**41,804**	**9,284**	**(24,669)**	**(3,107)**	**(1,522)**	**(672)**
Other (*)	Domestic market	**143,069**	**78,716**	**31,979**	**10,012**	**(31,882)**	**(3,569)**	**2,665**	**(1,994)**
Total		**842,448**	**382,799**	**827,275**	**263,202**	**(27,727)**	**(38,572)**	**(20,493)**	**(9,955)**

(*) Including (R$29,337) of equity pickup of the joint venture Companhia Sulamericana de Cerâmica which operates in the bathroom chinaware segment. See Note 9 - Investments.

(In thousands of reais - R$, unless otherwise stated)

25. Segment reporting (Continued)

		12/31/2015		12/31/2015					
		Total assets	**Liabilities**	**Net revenue**	**Gross profit**	**Income (loss) before taxes**	**Depreciation and amortization**	**Financial income (expense)**	**IRPJ/CSLL**
Fiber cement									
	Southeast	226,850	48,611	95,639	23,709	(3,868)	3,420	(1,851)	707
	South	52,191	64,034	148,870	36,947	(5,979)	4,927	(2,892)	1,104
	Mid-West	83,936	79,226	216,798	59,005	(3,510)	3,751	(4,212)	1,608
	North and Northeast	26,908	42,140	96,110	23,819	(3,894)	2,260	(1,867)	714
		389,885	234,011	557,417	143,480	(17,251)	14,358	(10,822)	4,133
Chrysotile Mineral									
	Domestic market	271,088	87,166	134,095	77,164	41,471	7,068	398	(15,973)
	Foreign market	-	-	195,079	131,596	79,671	10,282	578	(23,237)
		271,088	87,166	329,174	208,760	121,142	17,350	976	(39,210)
Concrete roof tiles	Domestic market	71,814	24,133	54,869	13,827	(6,209)	4,990	(2,192)	(4,064)
Other (*)	Domestic market	200,407	87,768	33,412	10,690	(29,065)	2,701	(11,488)	(55)
Total		933,194	433,078	974,872	376,757	68,617	39,399	(23,526)	(39,196)

(*) Including (R$27,660) of equity pickup of joint venture Companhia Sulamericana de Cerâmica which operates in the bathroom chinaware segment. See Note 9 - Investments.

(In thousands of reais - R$, unless otherwise stated)

26. Insurance coverage

As of December 31, 2016, the insurance taken out by the Group, under the guidance from its insurance advisors, against risks, if any, is described below. Average maturity of insurance taken out is July 2017.

Type	Insured assets	Insurance amounts
Engineering and operational risks, general civil liability and loss of profits	Buildings, facilities, equipment and other	R$322,700

27. Financial instruments

27.1. Identification and assessment of financial instruments

a) Financial instrument analysis

To protect its assets and liabilities, the Group maintains insurance coverage for risks that, if incurred, may cause losses that significantly impact the Groups' equity and/or P&L, considering the risks subject to compulsory insurance, whether legally or contractually.

A comparison by class of Group's financial instruments, presented in the financial statements, is as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets	Level 1	Level 1	Level 1	Level 1
Measured at fair value				
Cash and cash equivalents	**3,365**	2,850	**5,143**	5,578
Short-term investments	**32**	3,114	**2,708**	16,734
Accounts receivable - foreign market	**-**	-	**46,124**	69,316
Total financial assets	**3,397**	5,964	**53,975**	91,628
Financial liabilities				
Measured at amortized cost				
Trade accounts payable	**20,602**	23,922	**33,566**	41,420
Loans and financing	**14,699**	22,552	**124,376**	167,192
	35,301	46,474	**157,942**	208,612
Measured at fair value				
Derivative financial instruments	**374**	69	**678**	69
	374	69	**678**	69
Total financial liabilities	**35,675**	46,543	**158,620**	208,681

27. Financial instruments (Continued)

27.1. Identification and assessment of financial instruments (Continued)

b) Fair value hierarchy

Over the year ended December 31, 2016, there was no fair value measurement transfer between Level I and Level II, or fair value measurement transfer between Level III and Level II.

27.2. Financial risk management

The Company's main financial liabilities refer to trade accounts payable, and loans and financing. The main purpose of these financial liabilities is to raise funds for operations. The Company also has trade accounts receivable, demand deposits and short-term investments that result directly from its operations. Accordingly, the Company is exposed to market, credit and liquidity risks.
The Company and its subsidiaries are exposed to market risks related to interest, foreign exchange and credit rate fluctuations.
The Group adopts procedures to manage and use hedge instruments.

I. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk includes four types of risks for the Group: a) currency risk; b) interest rate risk; c) risk of loss in production due to scarcity in the supply of raw material and inputs; and d) growth-related risks.

a) *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument floats due to exchange rate variations. Company exposure to exchange rate fluctuations refers mostly to the Group's operating activities (when revenues or expenses are denominated in a currency other than the Group's functional currency).

(In thousands of reais - R$, unless otherwise stated)

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

I. Market risk (Continued)

a) Currency risk (Continued)

As of December 31, 2016, the Group was exposed to a currency other than its functional currency, as follows:

	Consolidated		Quotation at 12/31/2016 (US$ / € 1.00 = R$1.00)
	12/31/2016	**12/31/2015**	
Foreign market customers	**46,124**	69,316	3.2585 US$
Foreign market suppliers	**(1,872)**	(5,102)	3.2591 US$
Advances on Export Contracts (ACE)	**(11,552)**	-	3.2591 US$
Financing (USD) (*)	**(33,495)**	(58,778)	3.2591 US$
Financing (USD) - swap	**(678)**	(69)	3.2591 US$
Financing (EUR)	**-**	(2,200)	3.4384 €
Total currency exposure	**(1,473)**	3,167	

(*) Financing with SWAP not contemplated, the effect of which is demonstrated in a specific line.

a1) *Sensitivity analysis*

In order to measure the economic impact of exchange variations on the Group's financial instruments, four scenarios were considered in relation to the exchange rate prevailing as of December 31, 2016, as follows:

Balances (foreign currency) - Consolidated	Risk	Rate (*) Position at 12/31/2016	Rate depreciation Scenario I (-50%)	Scenario II (-25%)	Rate appreciation Scenario III (+25%)	Scenario IV (+50%)
USD		***3.2585***	***1.6293***	***2.4439***	***4.0731***	***4.8878***
Foreign market customers	USD	**46,124**	23,062	34,593	57,655	69,186
USD		***3.2591***	***1.6296***	***2.4443***	***4.0739***	***4.8887***
Foreign market suppliers	USD	**(1,872)**	(936)	(1,404)	(2,340)	(2,808)
Advances on Export Contracts (ACE)	USD	**(11,552)**	(5,776)	(8,664)	(14,440)	(17,328)
Financing (*)	USD	**(33,395)**	(16,748)	(25,121)	(41,869)	(50,243)
Financing - swap	USD	**(678)**	(339)	(509)	(848)	(1,017)
Total exposure		**(1,473)**	**(737)**	**(1,105)**	**(1,842)**	**(2,210)**

(*) Financing with SWAP not contemplated, the effect of which is demonstrated in a specific line.

(In thousands of reais - R$, unless otherwise stated)

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

a.2) *Derivative transactions:*

I - In derivative transactions there are no checks, monthly settlements or margin calls, and the contract is settled on maturity, recorded at fair value, considering the market conditions as regards terms and interest rates.

USD and CDI swap agreements

II - The Company has three agreements of this type, in the aggregate amount of US$5,272 thousand, maturing up to October 17, 2017, with long position in US dollars and short position in CDI.

III - The fair value of financial instruments was calculated using the market price for both long and short positions, where the difference results in the swap market value.

Breakdown of the Group's agreements at December 31, 2016:

Table

	Notional reference value		**Fair value**		**Accumulated effect**	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
					Receivables	Payables
Swap contracts						
Long position						
Foreign currency (USD)	**5,272**	524	**5,305**	530	**55**	-
Short position						
CDI (R$)	**(17,545)**	(2,045)	**(17,976)**	(2,110)	**179**	(726)

b) *Interest rate risks*

Interest rate risk is the risk that fair value of future cash flows of a financial instrument floats due to market interest rate variations.

Group management makes it a policy to maintain the rates of its exposures at asset and liability interest rates pegged to floating rates. Short-term investments are restated by reference to the CDI.

(In thousands of reais - R$, unless otherwise stated)

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

I. Market risk (Continued)

b) *Interest rate risk* (Continued)

Asset (liability) exposures to interest rates are as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Short-term investments (cash equivalents)	**3,313**	-	**3,504**	115
Short-term investments	**32**	3,114	**2,708**	16,734
Total exposure to interest rate	**3,345**	3,114	**6,212**	16,849

Group management periodically assesses its investments and cash equivalents to avoid the risk of loss, considering the instability allowed by the current monetary policy adopted by the Federal Government, as well as the history of increases in the base interest rate of the Brazilian economy in recent months. Accordingly, the Company considers taking out derivative contracts to hedge this risk.

The table below sets out the net economic impact of increases in the interest rate curve used in the Group's financial instruments:

(In thousands of reais - R$, unless otherwise stated)

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

I. Market risk (Continued)

b) *Interest rate risks* (Continued)

Short-term investments - Consolidated	Index	Position at 12/31/2016	Probable scenario	Scenario I (-50%)	Scenario II (-25%)	Scenario III (+25%)	Scenario IV (+50%)
			Projection of financial income - one year				
				Reduction risk		Increase risk	
CDI							
			13.63%	**6.82%**	**10.22%**	**17.04%**	**20.45%**
Short-term investments (cash equivalents)	CDI	3,504	3,982	3,265	3,146	4,101	4,220
Short-term investments	CDI	2,708	3,077	2,523	2,431	3,169	3,262
		6,212	**7,059**	**5,788**	**5,577**	**7,270**	**7,482**

Loans and financing - consolidated	Index	Position at 12/31/2016	Probable scenario	Scenario I (-50%)	Scenario II (-25%)	Scenario III (+25%)	Scenario IV (+50%)
			Projection of financial expenses - one year				
				Reduction risk		Increase risk	
CDI							
			13.63%	**6.82%**	**10.22%**	**17.04%**	**20.45%**
Loans and financing	CDI	21,091	23,966	19,652	18,934	24,684	25,406
TJLP							
			7.50%	**3.75%**	**5.63%**	**9.38%**	**11.25%**
Loans and financing	TJLP	1,413	1,519	1,360	1,333	1,545	1,572
SELIC							
			13.65%	**6.83%**	**10.24%**	**17.06%**	**20.48%**
Loans and financing	SELIC	465	529	434	418	545	561

c) *Risk of loss in production due to scarcity in the supply of raw material and inputs*

This growth strand is based on the diversification of the portfolio, through development, launching of new products and entry of new business segments, using the Group's own structure or the ability of third parties. Within this concept there are the constructive solutions (cement slabs and the Wall Panel), metallic roof tiles, bathroom chinaware, sanitary seats and metal fittings. Except for constructive solutions and bathroom chinaware items, third parties' skills are used in other segments.

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

c) *Risk of loss in production due to scarcity in the supply of raw material and inputs* (Continued)

The Company has no control over certain raw materials such as cement, limestone, sand and recycled pulp, thus a significant increase in prices arising from scarcity, taxes, restrictions or exchange rate fluctuations, or reduction in payment terms, may substantially impact the production cost and adversely affect the Company's business.

d) *Growth-related risk*

Concerning suppliers of metal fixtures whose products Eternit sells in the Brazilian market, the Company may face difficulties in finding new partners in case of a dissolution in the supply contract.

II. Credit risk

Accounts receivable

Customer credit risk is managed by the Company on a daily basis, also such risk is mitigated by the fact that sales are made to a large number of customers and managed through a strict credit rating process. The result of this management and maximum exposure to credit risk are reflected under "Allowance for doubtful accounts", as described in Note 6.
The Company evaluates, periodically, its customer portfolio and for December 31, 2016, no customer individually held significant representativeness compared to total trade accounts receivable and the individual and consolidated invoicing.

Demand deposits and short-term investments

The Company is also subject to credit risks related to financial instruments taken out for business management purposes. Company management considers that there is low risk of non-settlement of transactions in financial institutions in Brazil.

(In thousands of reais - R$, unless otherwise stated)

27. Financial instruments (Continued)

27.2. Financial risk management (Continued)

III. Liquidity risk

The liquidity risk consists in the Company's occasionally not having sufficient funds to meet its commitments, given the different currencies and realization/settlement terms of its rights and obligations.

The control over the Company's liquidity and cash flow is monitored daily basis by management, in such way as to ensure that the operating cash generation and the available lines of credit, as necessary, are sufficient to meet their schedule of commitments, not generating liquidity risks to the Company.

IV. Capital management

For the year ended December 31, 2016, there were no changes in capital structure objectives, policies or processes as compared with 2015. The Company includes in its net debt structure: loans and financing less cash and cash equivalents.

	Company		Consolidated	
	Leverage		Leverage	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Loans and financing	**14,699**	22,552	**124,376**	167,192
Derivative financial instruments	**374**	69	**678**	69
(-) Cash and cash equivalents	**(3,365)**	(2,850)	**(5,143)**	(5,578)
Net debt	**11,708**	19,771	**119,911**	161,683
Equity	**459,633**	500,098	**459,649**	500,116
Net debt and equity	**447,925**	480,327	**339,738**	338,433

28. Commitments and guarantees

At December 31, 2016, the Group had the following guarantees:

(i) Guarantee Insurance Policy No. 54-0776-19-0011974 for purchase and sale of electric energy No. TBLC-08.258-CVE-CL and its Addenda Nos. 01 to 05 in the amount of R$4,680, of which Sama S.A. - Minerações Associadas is the policyholder, contracted with Pottencial Seguradora S.A., maturing on December 31, 2017, whose beneficiary is Engie Brasil Energia Comercializadora Ltda.;

28. Commitments and guarantees (Continued)

(ii) Bank Guarantee No. 2.052.898 referring to tax enforcement payment - DNPM (National Department of Mineral Production) entered into by SAMA S.A. Minerações Associadas, amounting to R$1,440, with Banco Bradesco, with indefinite maturity;

(iii) Bank Guarantee No. 2.043.852-5 referring to the financing related to Goiás State Development Agency entered into with Eternit S.A., amounting to R$6,034, with Banco Bradesco, maturing on February 25, 2017;

(iv) Bank Guarantee No. 2.062.549-P, amounting to R$40,909, referring to (60%) of the financing entered into between Companhia Sulamericana de Cerâmica and BNB, Banco do Nordeste, for installation of a sanitary ware plant, with Banco Bradesco, maturing on January 25, 2018. Corporate guarantee for working capital and (FINIMP), with the banking institutions, in the amount of R$ 57,844, maturing between July 2017 and February 2020;

(v) Concession of PP&E items pledged as guarantee for judicial deposits amounting to R$2,150, as mentioned in Note 11;

(vi) In December 2016, Eternit da Amazônia entered into an agreement amounting to R$37,384, referring to a Bank Credit Bill (CCB) with Banco da Amazônia for implementing its research and development plant in Manaus. The Group offered as guarantee a property and its respective improvements located in the city and state of Rio de Janeiro, the market value of which is R$62,500;

(vii) Guarantee Insurance Policy No. 54-0775-23-4000138 for payments of debts included in the roster of debtors to government - CDAs No. 80.6.15.066685-39 and 80.6.15.068746-00, referring to CSLL and COFINS, in the amount of R$417, effective from January 29, 2016 to January 29, 2021;

(viii) Guarantee Insurance Policy No. 16-0775-23-0132155 for payments of debts included in the roster of debtors to government - CDAs Nos. 80.6.15.068893-81, 80.7.15.015565-27 and 80.3.15.001323-50, referring to the annulment action related to the payment of COFINS debt amounting R$6,350, effective from October 26, 2015 to October 26, 2020;

(ix) Bank Guarantee No. 2.075.216-5 referring to the financing related to Goiás State Development Agency entered into with Tégula Soluções para Telhados Ltda., amounting to R$1,510, with Banco Bradesco, maturing on June 27, 2017;

(In thousands of reais - R$, unless otherwise stated)

28. Commitments and guarantees (Continued)

(x) Guarantee Insurance Policy No. 54-0776-19-0011056 for purchase and sale of electric energy No. TBLC-15.1015-CVEI-CL and its Addendum No. 01 in the amount of R$1,549, of which Eternit S.A. is the policyholder, contracted with Pottencial Seguradora S.A., maturing on December 31, 2017, whose beneficiary is Engie Energia Comercializadora Ltda.;

(xi) Guarantee Insurance Policy No. 54-0776-19-0011973 for purchase and sale of electric energy No. EBC-16.1148-CVEI-CL in the amount of R$605, of which Eternit S.A. is the policyholder, contracted with Pottencial Seguradora S.A., maturing on December 31, 2017, whose beneficiary is Engie Energia Comercializadora Ltda.;

(xii) Guarantee Insurance Policy No. 44-0776-19-0011136 for purchase and sale of electric energy No. EBC-15.1015-CVEI-CL in the amount of R$344, of which Companhia Sulamericana de Cerâmica is the policyholder, contracted with Pottencial Seguradora S.A., maturing on December 31, 2017, whose beneficiary is Engie Energia Comercializadora Ltda.;

(xiii) Guarantee Insurance Policy No. 54-0776-19-0012078 for purchase and sale of electric energy No. EBC-16. 1171-CVEI-CL in the amount of R$257, of which Precon Goiás Industrial Ltda. is the policyholder, contracted with Pottencial Seguradora S.A., maturing on December 31, 2017, whose beneficiary is Engie Energia Comercializadora Ltda..

29. Provision for decommissioning of mine

Environment

Subsidiary SAMA records a provision for possible environmental liabilities based on its best estimates of cleaning and restoration costs, and for such, it employs a team of environmental experts to manage all the phases of the environmental programs, including assistance of external experts, when required, in accordance with the Environmental Plan for Decommissioning of Mine (PAFEM), according to Law No. 9985 of July 18, 2000, assessing expenses based on market quotations.

Subsidiary SAMA records the restatement of environmental remediation at fair value, according to the following criteria:

	2016 and 2015
Discount rate	**10% p.a.**
Long-term inflation rate	**5% p.a.**

(In thousands of reais - R$, unless otherwise stated)

29. Provision for decommissioning of mine (Continued)

	Consolidated	
Present value of expected cash outlays	**12/31/2016**	**12/31/2015**
2032	**5,216**	4,742
2033	**4,477**	4,070
2034	**2,320**	2,109
2035 to 2043	**1,865**	1,696
Total	**13,878**	12,617

Considering the agreement entered into under the PAFEM plan, the environmental remediation of the mine will occur between 2032 and 2043.

The expenses recognized for environmental restoration of the mine for the year ended December 31, 2016 totaled R$1,262 (R$1,093 as of December 31, 2015), calculated based on the current production of chrysotile.

30. Estimated impairment losses of assets and provision for restructuring and decommissioning

At December 31, 2016, the Company identified the need to record an impairment loss of assets at subsidiary Tégula (Atibaia unit), as mentioned in Note 3.2.
On that same date, the Company recorded amounts for the provision for restructuring and decommissioning of part of assets in certain units of subsidiary Tégula, as mentioned in Note 1 - Operations.

Estimated impairment loss	**Carrying amount**	**Recoverable amount**	**Impairment adjustment**
Estimated impairment loss goodwill and other assets	**25,565**	21,769	**3,796**
Restructuring and decommissioning			
Estimated loss on asset			**11,727**
Provision for decommissioning and restructuring			**2,586**
			14,313
Estimated impairment loss of the asset, restructuring and decommissioning			**18,109**

31. Subsequent events

On March 10, the Company was served a Civil Class Action filed by the Labor Prosecution Office at the 1st labor Court of Colombo (Paraná state). This action comprises various requests, including replacement of the raw material within 90 days, and a demand for the Company to be ordered to pay indemnity of R$85 million for collective pain and suffering.

It also informs that various preliminary injunctions were filed, among them requiring the replacement of the raw material, which was rejected by the trial court.

The Company reiterates that it complies with the safety standards and procedures established by Federal Law 9,055/95 and the Decree that regulated it. The Company will submit its defense at an opportune moment and expects the technical and scientific evidence to be considered while judging this action. This action was assessed as possible loss by the legal advisors, since it is currently at an early stage.

Board of Directors

Luiz Barsi Filho* - Chairman of the Board of Directors

Manoel Arlindo Zaroni Torres*

Marcelo Amaral Moraes*

Marcelo Gasparino da Silva*

Marcelo Munhoz Auricchio*

Raphael Manhães Martins*

*Independent director in accordance with the BM&FBovespa Novo Mercado regulations.

Executive Board

Nelson Pazikas – Chief Executive and Investor Relations Officer

Flavio Grisi

Rodrigo Lopes da Luz

Rubens Rela Filho

Welney de Souza Paiva

Accountant

Ricardo Benatti – Accounting and Controllership Manager

CRC 1SP186493/O-4

Audit Board Report

The Audit Board of Eternit S.A., in compliance with the law and its Bylaws, examined the Management Report, the separate and consolidated Financial Statements and the corresponding Notes for the fiscal year ended December 31, 2016, as well as the management proposal, including the capital budget and the proposal not to distribute mandatory dividends, in view of the net loss recorded in fiscal year 2016.

Based on its examination, and also taking into account the unqualified report issued by the independent auditors EY Auditores Independentes S.S., as well as the information and clarifications provided during the fiscal year, the Audit Board believes said documents are in fair conditions to be submitted to the Board of Directors and Annual Shareholders' Meeting.

São Paulo, March 17, 2017

Audit Board

André Eduardo Dantas – Coordinator

Daniel Vinicius Alberini Schrickte

Pedro Paulo de Souza

A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)

INDEPENDENT AUDITOR'S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers
Eternit S.A.
São Paulo, SP, Brazil

Opinion

We have audited the accompanying individual and consolidated financial statements of Eternit S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2016, and the related statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Eternit S.A. as at December 31, 2016, its individual and consolidated operating performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) 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 individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements defined in the Code of Ethics for Professional Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC"), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

We draw attention to Note 1 to the individual and consolidated financial statements, which describes the uncertainty surrounding the Federal Supreme Court of Brazil (STF) judgment of the overall merit of Direct Actions of Unconstitutionality (ADIs) ADI No. 3357 against State Law No. 11643/2001 of the State of Rio Grande do Sul, which prohibits the manufacturing and sale of all types of asbestos-based goods, within that state, and of ADI No. 3937 contesting State Law No. 12684/2007 of the State of São Paulo, which prohibits the use in that State of products, materials or goods that contain any type of asbestos or amianthus, and of other ADIs related to amianthus. Our opinion is not qualified in respect of this matter.

We draw also attention to Note 20, item i b) and item iii e) to the individual and consolidated financial statements, which describes Civil Class Actions filed by the São Paulo Labor Prosecution Office and by Associação Brasileira dos Expostos ao Amianto of São Paulo – ABREA against the Company, wherein matters related to the working environment and occupational diseases are challenged, related to the Company's manufacturing unit that was shut down in the early 1990s, for which partially unfavorable decisions were handed down to the Company by the lower court. As disclosed in Note 20, item i b), the likelihood of loss on part of those actions was assessed as probable by the Company's legal advisors. Accordingly, a provision for loss was recorded for such part. No provision for loss was recorded for the part assessed as possible loss, as disclosed in Note 20, item iii e). Our opinion is not qualified in respect of this matter.

We draw also attention to Note 20, item iii f) and Note 31 to the individual and consolidated financial statements, which describes Civil Class Actions filed by the Rio de Janeiro Labor Prosecution Office, by ABREA-Rio de Janeiro and by the Paraná Labor Prosecution Office against the Company, wherein matters related to the working environment and occupational diseases are challenged, for which no decision has been handed down yet. The likelihood of loss on these actions was assessed as possible by the Company's legal advisors. Accordingly, no provisions for loss were recorded in connection with those Civil Class Actions. Our opinion is not qualified in respect of these matters.

Key audit matters

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

Provision for tax, civil and labor risks

As disclosed in Note 20, the Company is subject to potential risks related to tax, civil and labor claims. Due to the fact that the assessment regarding the need to recognize or not a provision involves judgment by Management and its legal advisors on the likelihood of financial loss, as well as the fact that the disclosure of possible loss, if any, is associated with the possibility of its reliable measurement, this issue was considered a key audit matter.

The civil class actions referred to as significant operational events in Note 1 and in Note 20, items i b), iii e) and f) to the individual and consolidated financial statements are described in our emphasis paragraphs.

Our audit procedures included, among others, discussion with Company Management and legal counsel regarding the policies and procedures adopted to identify, assess and account for and/or disclose provisions for tax, civil and labor risks; obtainment of formal confirmations from the Company's external legal advisors for the most significant lawsuits, reconciliation of information received from external legal advisors with the position of the legal department used as a basis for the establishment of accounting provisions and disclosure in the individual and consolidated financial statements; and review of the disclosures made by the Company on the main tax, civil and labor risks.

Recoverability of deferred income and social contribution tax assets

At December 31, 2016, deferred income and social contribution taxes recoverable, disclosed in Note 19 in the amounts of R$42,315 thousand and R$72,655 thousand, in the Company and Consolidated, respectively, are directly associated with the future taxable profit projections. Due to the complexity of the measurement process of future taxable profit projections, which are based on estimates and assumptions and whose realization is impacted by market projections and uncertain economic scenarios, this issue was considered a key audit matter.

Our audit procedures included, among others, the involvement of valuation experts to help us evaluate the model used to measure the recoverable amount of taxes and the assumptions, projections and methodology used by the Company and its subsidiaries, in particular those related to future sales estimates, discount rates, inflation projection, growth rate, foreign currency exchange rate and profitability rate of the Company's business, as well as profit margin. We have also reviewed the disclosures in Note 19 made by the Company on the assumptions used in relation to future profitability estimates.

Impairment test of assets with finite and indefinite useful lives

The property, plant and equipment balances of the Company and its subsidiaries are annually tested for impairment, as disclosed in Note 11 to the individual and consolidated financial statements. In addition, an assessment is performed regarding the existence of indications that the goodwill for future profitability is impaired, as disclosed in Note 3.1 to the individual and consolidated financial statements. Considering that the process for assessing these assets for impairment is complex and involves a high degree of subjectivity, and since it is based on various assumptions whose realization is affected by market projections and uncertain economic scenarios, this issue was considered a key audit matter.

Our audit procedures included, among others, the involvement of valuation experts to help us valuate the model used to measure the recoverable amount of taxes and the assumptions and methodologies used by the Company and its subsidiaries, in particular those related to future sales projections, growth rate, discount rate used in cash flows, as well as profit margin of all cash-generating units. We have also reviewed the disclosures made by the Company in the individual and consolidated financial statements on the assumptions used in determining impairment of referred to assets, mainly those that may have a more significant impact on determining the recoverable amounts stated in Notes 3.1 and 11 to the individual and consolidated financial statements.

Revenue recognition

The revenue recognition of the Company and its subsidiaries are disclosed in Note 21, which involves a high degree of controls to ensure that sales revenues are accounted for, within the appropriate accounting period, whenever invoiced products have been delivered to their respective buyers. Considering the volume and dilution of sales, as well as the characteristics of the regionalization of the Company's and its subsidiaries' business, the revenue recognition process involves a high degree of dependence on the proper operation of internal control, reason why the revenue recognition is considered a key audit matter.

Our audit procedures to cover the risk of material misstatements in revenue recognition included, among others:

- Understanding and testing of significant internal control related to the identification, separation and recording of sales revenues within the appropriate accounting period;
- Procedures for confirmation of accounts receivable directly with the Company's and its subsidiaries' customers randomly selected;
- Documental examination of the sample of invoices issued and their respective proof of delivery, at a date close to the end of the fiscal year (before and after December 31, 2016), in order to test whether these transactions were recognized in the appropriate accounting period;
- Recalculation of adjustments made by the Company to reverse sales revenues invoiced and not delivered in the appropriate accounting period.

In addition, we assessed the adequacy of disclosures included in the Note mentioned above on this matter.

Other matters

Statements of value added

The individual and consolidated Statements of Value Added (SVA) for the year ended December 31, 2016, prepared under the responsibility of Company Management and presented as supplementary information for IFRS purposes, were submitted to the same audit procedures performed in accordance with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements of value added are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria provided for in Accounting Pronouncement CPC 09 and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Company Management is responsible for such other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion on this report.

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

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual 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 and its subsidiaries or to cease operations, or has no other realistic alternative but to do so.

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

Auditor's responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual 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 material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or jointly, they could reasonably be expected to influence the economic decisions of users made on the basis of these individual and consolidated financial statements.

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

- Identify and assess risks of material misstatements of the individual 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 one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- 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 substantial doubt as to the Companies' and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual 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 and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding 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 individual and 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 controls 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 individual and consolidated financial statements of the current year 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.

São Paulo, March 17, 2017.

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

Rita de C. S. de Freitas
Accountant CRC-1SP214160/O-5