

(A free translation of the original in Portuguese)

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



(A free translation of the original in Portuguese)

## ***Independent auditor's report***

To the Board of Directors and Stockholders  
Bematech S.A.

### **Opinion**

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

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

### **Basis for opinion**

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We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Bematech S.A.

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

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

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

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

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

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Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



Bematech S.A.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Curitiba, February 20, 2017

A handwritten signature in blue ink, appearing to read "PricewaterhouseCoopers", is written over the printed name.

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

A handwritten signature in blue ink, appearing to read "Carlos Alexandre Peres", is written over the printed name.

Carlos Alexandre Peres  
Contador CRC 1SP198156/O-7 "S" PR

**Bematech S.A.**

Balance sheet on December 31

*(All amounts in thousands of reais)*

Assets	Note	Parent Company		Consolidated	
		2016	2015	2016	2015
<b>Current</b>					
Cash and cash equivalents	6	48,458	46,327	68,953	71,113
Trade accounts receivable	7	77,852	77,636	95,326	91,204
Inventory	8	22,477	36,050	29,290	45,845
Recoverable taxes	9	37,559	43,078	41,399	46,953
Contractual deposits	10	-	1,725	-	1,725
Other receivables		2,710	5,174	3,915	4,352
		<b>189,056</b>	<b>209,990</b>	<b>238,883</b>	<b>261,192</b>
<b>Non-current</b>					
Judicial deposits	21 (e)	11,049	12,040	11,057	12,050
Recoverable taxes	9	21,572	17,881	21,572	17,881
Deferred tax assets	11	10,235	7,036	10,404	7,267
Contractual deposits	10	6,461	5,754	6,461	5,754
Other receivables		580	1,781	174	472
		<b>49,897</b>	<b>44,492</b>	<b>49,668</b>	<b>43,424</b>
Investments	13	220,042	253,787	-	-
Property, plant and equipment	14	7,171	9,105	10,522	13,440
Intangible assets	15	158,846	146,390	334,395	354,035
		<b>386,059</b>	<b>409,282</b>	<b>344,917</b>	<b>367,475</b>
<b>Total non-current assets</b>		<b>435,956</b>	<b>453,774</b>	<b>394,585</b>	<b>410,899</b>
<b>TOTAL ASSETS</b>		<b>625,012</b>	<b>663,764</b>	<b>633,468</b>	<b>672,091</b>

The notes to the financial statements are part of this document

**Bematech S.A.**

Balance sheet on December 31

*(All amounts in thousands of reais)*

Liabilities	Note	Parent Company		Consolidated	
		2016	2015	2016	2015
<b>Current</b>					
Trade payables	16	24,638	45,908	24,877	46,410
Loans and financing	18	12,930	7,651	12,930	7,670
Debentures	19	12,112	12,442	12,112	12,442
Salaries and charges payable	17	12,538	8,557	17,450	13,300
Taxes and contributions payable	20	4,305	2,368	6,210	3,982
Commission payable		665	377	670	383
Profit sharing		924	-	1,183	-
Dividends and interest on equity	12	1,876	1	2,257	438
Income tax and social contribution	11	-	-	305	813
Provision for contingencies	21	-	3,428	-	3,428
Other liabilities		4,922	5,701	5,357	6,182
		<b>74,910</b>	<b>86,433</b>	<b>83,351</b>	<b>95,048</b>
<b>Non-current</b>					
Loans and financing	18	27,971	34,263	27,971	34,263
Debentures	19	19,766	32,942	19,766	32,942
Provision for contingencies	21	16,887	18,244	16,902	18,412
Investment acquisition obligations	22	28,058	36,207	28,058	36,207
Provision for devaluation of subsidiaries	13	-	456	-	-
Other liabilities		-	43	-	43
		<b>92,682</b>	<b>122,155</b>	<b>92,697</b>	<b>121,867</b>
<b>Equity</b>					
Capital	23	344,601	344,601	344,601	344,601
Capital reserve	23	842	842	842	842
Profit reserves	23	102,468	91,452	102,468	91,452
Accrued dividends	23 (d)	5,380	81	5,380	81
Treasury stock	23 (c)	(13,473)	(13,473)	(13,473)	(13,473)
Equity valuation adjustments		17,602	31,673	17,602	31,673
		<b>457,420</b>	<b>455,176</b>	<b>457,420</b>	<b>455,176</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>625,012</b>	<b>663,764</b>	<b>633,468</b>	<b>672,091</b>

The notes to the financial statements are part of this document

**Bematech S.A.**  
Statement of income  
Years ended December 31  
*(All amounts in thousands of reais unless otherwise stated)*

	Note	Parent Company		Consolidated	
		2016	2015	2016	2015
<b>Continued operations</b>					
<b>Net revenue</b>	25	<b>276,870</b>	<b>305,176</b>	<b>408,554</b>	<b>433,995</b>
Cost of goods sold or services rendered	27	(194,035)	(204,222)	(274,160)	(279,854)
<b>Gross profit</b>		<b>82,835</b>	<b>100,954</b>	<b>134,394</b>	<b>154,141</b>
<b>Operating revenue (expenses)</b>					
Sales	27	(43,998)	(50,255)	(56,019)	(64,083)
Administrative and general expenses	27	(42,231)	(47,187)	(59,371)	(64,360)
Management fees	12	-	(5,245)	-	(5,873)
Other operating (expenses) revenue, net	24	2,769	(4,429)	(711)	(7,474)
Equity in subsidiaries	13	13,562	12,415	-	-
Government subsidies	23	10,639	15,991	10,639	15,991
<b>Earnings before financial income and equity income</b>		<b>23,576</b>	<b>22,244</b>	<b>28,932</b>	<b>28,342</b>
Finance expenses	26	(16,925)	(21,229)	(18,556)	(23,086)
Finance income	26	8,340	14,466	9,950	16,279
<b>Profit before income tax and social contribution</b>		<b>14,991</b>	<b>15,481</b>	<b>20,326</b>	<b>21,535</b>
Current income tax and social contribution	11 (c)	-	487	(5,299)	(4,201)
Deferred income tax and social contribution	11 (c)	3,199	8,257	3,163	6,891
<b>Net income of the year</b>		<b>18,190</b>	<b>24,225</b>	<b>18,190</b>	<b>24,225</b>
<b>Attributable to</b>					
Company shareholders				18,190	24,225
<b>Shares in circulation at the end of year</b>					
Basic and diluted net profit per share attributable to the shareholders of the Company in the year (in Reais per share)				0.35	0.47

The notes to the financial statements are part of this document

**Bematech S.A.**

Statement of comprehensive income

Years ended December 31

*(All amounts in thousands of reais)*

	<b>Parent Company and Consolidated</b>	
	<b>2016</b>	<b>2015</b>
<b>Net profit of the year</b>	18,190	24,225
<b>Other comprehensive income</b>		
<b>Items that will or may be reclassified to profit and loss</b>		
Overseas operations (Note 13)	(14,071)	25,415
<b>Total comprehensive income</b>	<b>4,119</b>	<b>49,640</b>

The notes to the financial statements are part of this document



**Bematech S.A.**  
Statement of changes in equity  
*(All amounts in thousands of reais)*

		Capital	Capital reserve Granted options recognized	Profit reserves			Additional dividend proposed	Treasury stock	Equity valuation adjustments	Retained earnings	Total
				Legal	Profit retention	Tax incentive subsidy					
<b>Balance on December 31 2014</b>		<b>344,601</b>	<b>1,814</b>	<b>8,656</b>	<b>1,945</b>	<b>64,631</b>	<b>21,486</b>	<b>(3,542)</b>	<b>6,258</b>	<b>-</b>	<b>445,849</b>
<b>Total comprehensive income</b>											
Net income for the year		-	-	-	-	-	-	-	-	24,225	24,225
Exchange gains and overseas investments	13 (a)	-	-	-	-	-	-	-	25,415	-	25,415
<b>Capital transactions with shareholders</b>											
Share-based ad cancellation payment transactions											
Options granted (Cancelled), net recognized in the year		-	(972)	-	-	-	-	506	-	-	(466)
Share buyback	23 (c)	-	-	-	-	-	-	(10,437)	-	-	(10,437)
Interim dividends / distributed in advance	23 (d)	-	-	-	-	-	(21,486)	-	-	(7,924)	(29,410)
<b>Creation of reserves</b>											
Tax incentive reserve	23 (b)	-	-	-	-	15,991	-	-	-	(15,991)	-
Legal reserve		-	-	411	-	-	-	-	-	(411)	-
Profit reserve		-	-	-	(182)	-	-	-	-	182	-
Undivided dividends	23 (d)	-	-	-	-	-	81	-	-	(81)	-
<b>Balances as at December 31 2015</b>		<b>344,601</b>	<b>842</b>	<b>9,067</b>	<b>1,763</b>	<b>80,622</b>	<b>81</b>	<b>(13,473)</b>	<b>31,673</b>	<b>-</b>	<b>455,176</b>
<b>Total comprehensive income</b>											
Net income for the year		-	-	-	-	-	-	-	-	18,190	18,190
Exchange losses on overseas investments	13 (a)	-	-	-	-	-	-	-	(14,071)	-	(14,071)
<b>Transactions with shareholders</b>											
Interim dividends / distributed in advance	23 (d)	-	-	-	-	-	(81)	-	-	(1,794)	(1,875)
<b>Creation of reserves</b>											
Tax incentive reserve	23 (b)	-	-	-	-	10,639	-	-	-	(10,639)	-
Legal reserve		-	-	377	-	-	-	-	-	(377)	-
Undivided dividends	23 (d)	-	-	-	-	-	5,380	-	-	(5,380)	-
<b>Balances as at December 31 2016</b>		<b>344,601</b>	<b>842</b>	<b>9,444</b>	<b>1,763</b>	<b>91,261</b>	<b>5,380</b>	<b>(13,473)</b>	<b>17,602</b>	<b>-</b>	<b>457,420</b>

The notes to the financial statements are part of this document

**Bematech S.A.**  
**Statement of cash flows**  
**Years ended December 31**  
*(All amounts in thousands of reais)*

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Cash flow from operating activities				
Net profit for the year before income tax and social contribution	14,991	15,481	20,326	21,535
Adjustments to:				
Depreciation and amortization	12,530	12,659	18,754	18,368
Provision for contingencies and services	(2,867)	2,986	(2,688)	2,990
Provision for doubtful accounts - AFDA	896	3,336	515	5,483
Provision for inventory scrapping losses	(1,521)	2,053	(1,521)	2,053
Provision for profit sharing	892	1,511	1,193	1,417
Equity in net income of subsidiaries	(13,562)	(12,415)	-	-
Reversal of options granted	-	(815)	-	(815)
Inventory adjustments	4,095	-	4,095	-
Interest and foreign exchange and monetary variance expenses	11,668	14,976	11,671	14,986
Write-off of intangible assets	4	290	7	382
Write-off of property, plant and equipment	135	204	194	284
	<u>27,261</u>	<u>40,266</u>	<u>52,546</u>	<u>66,683</u>
Changes in:				
Accounts receivable	1,133	(7,705)	(7,789)	(3,539)
Inventory	10,999	(18,571)	12,023	(17,879)
Recoverable taxes	621	(15,750)	(2,107)	(18,173)
Judicial deposits	994	(883)	993	(893)
Other assets	1,072	163	(37)	1,054
Trade payables	(18,351)	13,851	(18,189)	12,501
Taxes and contributions payable	2,530	(862)	5,475	977
Other liabilities	(3,663)	(5,919)	(4,657)	(11,032)
	<u>22,596</u>	<u>4,590</u>	<u>38,258</u>	<u>29,699</u>
Cash generated by operating activities				
Interest paid	(9,031)	(8,521)	(9,034)	(8,524)
Taxes on net income paid	-	(89)	(2,717)	(3,556)
	<u>13,565</u>	<u>(4,020)</u>	<u>26,507</u>	<u>17,619</u>
Net cash flow generated from (used in) operating activities				
Cash flow from investment activities				
Dividends received	13,728	13,702	-	-
Acquisition of investment	-	(13,228)	-	(13,228)
Advances on future capital increases (AFAC)	(1,394)	(828)	-	-
Acquisition of property, plant and equipment	(1,108)	(3,992)	(1,549)	(5,775)
Acquisition of intangible assets	(2,435)	(9,713)	(2,530)	(13,643)
Payment of bonds for investment acquisition	(8,149)	(1,495)	(8,149)	(1,495)
	<u>642</u>	<u>(15,554)</u>	<u>(12,228)</u>	<u>(34,141)</u>
Net cash flow used in investment activities				
Cash flow from financing activities				
Dividends paid	-	(29,410)	-	(30,064)
Share buyback	-	(10,437)	-	(10,437)
Funds from exercise of stock options	-	347	-	347
Payment of loans and financing	(7,682)	(8,238)	(7,701)	(8,327)
Funds from new loans and financing	6,852	21,694	6,852	21,694
Repurchase (buyback) of debentures	(2,416)	-	(2,416)	-
Payment of debentures	(10,564)	(7,466)	(10,564)	(7,466)
	<u>(13,810)</u>	<u>(33,510)</u>	<u>(13,829)</u>	<u>(34,253)</u>
Net cash flow used in financing activities				
Exchange variations on cash and cash equivalents	-	-	(2,610)	4,369
Net cash from incorporation of subsidiaries	1,734	-	-	-
(Decrease) increase in the cash and cash equivalents	2,131	(53,084)	(2,160)	(46,406)
Cash and cash equivalents at beginning of period	<u>46,327</u>	<u>99,411</u>	<u>71,113</u>	<u>117,519</u>
Cash and cash equivalents at end of period	<u>48,458</u>	<u>46,327</u>	<u>68,953</u>	<u>71,113</u>
Main transactions that do not affect cash flow				
Incorporation of net archive of Misterchef	1,719	-	-	-

The notes to the financial statements are part of this document

**Bematech S.A.**

**Notes to the financial statements**

**at December 31, 2016**

**(All amounts in thousands of reais unless otherwise stated)**

**1 Reporting entity**

Bematech S.A. (hereinafter the "Parent company" or "Company"), having its registered office in São José dos Pinhais, in the State of Paraná, and its subsidiaries have as their core activities the manufacture, sale, intermediation of sales, import, export, design, development, representation, distribution and rental of electric, electronic and electromechanical equipment and related parts and components; the development, representation, distribution and rental of software; the licensing and assignment of rights to use software programs; the sale of supplies for IT equipment; the rendering of technical assistance services, support, training and information technology projects; the franchising of products and services, as well as investments in other companies.

The Board of Directors authorized the issuance of these financial statements at a meeting on February 20, 2017.

**(a) Corporate reorganization**

As per the Company's announcement on August 14, 2015, TOTVS S.A. and Bematech S.A. entered into a Justification and Protocol, entailing the corporate reorganization that resulted in TOTVS owning the entire share capital of Bematech; and

At an Extraordinary Meeting held on September 3, 2015 the shareholders of Bematech S.A. and TOTVS S.A. approved the terms and conditions of the said Justification and Protocol, the performance of which is subject to approval by the Administrative Council for Economic Defense ("CADE").

The Senior CADE Management published a decision on October 6, 2015 approving the merger of Bematech's shares into TOTVS.

The Prescriptive period certificate was issued on October 22, 2015 and the Corporate Reorganization was completed.

On December 23, 2015 Bematech submitted a delisting application to the Brazilian Securities Commission (CVM).

On February 16, 2016 the Brazilian Securities Commission approved the cancellation of Bematech's listed company status.

**(b) Incorporation**

On August 1, 2016, according to the minutes of the meeting, the 52<sup>nd</sup> Extraordinary General Meeting, the incorporation of Misterchef Sistema de Automação Ltda into the Company was approved in accordance to the conditions set out in the incorporation protocol and justification.

The comparison of the balance from 2016 and those from 2015 should be carried within the context of the aforementioned incorporation.

This company was incorporated in order to reduce operational, administrative and financial costs.

Below we present, in summary, the main accounting groups in the financial statement of Misterchef Sistemas de Automação Ltda:

**Bematech S.A.**  
**Notes to the financial statements**  
**at December 31, 2016**  
**(All amounts in thousands of reais unless otherwise stated)**

	<u>08/01/2016</u>
	(not audited)
<b>Assets</b>	
Cash	1,734
Trade accounts receivable	4,477
Provision for doubtful accounts	(1,764)
Other receivables	238
Judicial deposits	3
Property, plant and equipment	33
Intangible	87
Total assets incorporated	<u>4,808</u>
<b>Liabilities</b>	
Trade accounts payable	57
Salaries and charges payable	629
Tax obligations	100
Interest on shareholders' equity payable and Dividends	356
Provision for profit-participation	42
Income tax and social obligation	168
Provision for contingencies	3
	<u>1,355</u>
<b>Net value incorporated</b>	<u><b>3,453</b></u>

## 2 Significant accounting policies

The financial statements have been prepared in accordance with Brazilian accounting practices, including the pronouncements issued by the Accounting Pronouncements Committee (CPCs) and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and highlight all data relevant to the financial statements, and only such information, which is used by the management of the Company.

The main accounting policies used to prepare these individual and consolidated financial statements are as follow. These policies were consistently applied to all the years presented, unless stipulated otherwise.

### 2.1 Basis of preparation

The individual and consolidated financial statements were in general prepared based on the historical cost as a base value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Bematech's management to exercise its judgment in the process of applying the Company's accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company and individual and consolidated financial statements are disclosed in Note 3.

**Bematech S.A.**

**Notes to the financial statements**

**at December 31, 2016**

**(All amounts in thousands of reais unless otherwise stated)**

**(a) Individual financial statements**

The Parent Company's individual financial statements have been prepared in accordance with the accounting practices adopted in Brazil issued by the Brazilian Accounting Pronouncements Committee (CPC). Because the accounting practices adopted in Brazil applied to the individual financial statements from 2014 are no different to the IFRS applicable to the separate financial statements, as they permitted the equity method to be applied to subsidiaries in the separate statements, these statements are also in compliance with international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB). These individual statements are being published in conjunction with the consolidated financial statements.

**(b) Consolidated financial statements**

The consolidated financial statements have been prepared and are being presented in accordance with the Brazilian accounting practices, including the pronouncements issued by the Accounting Pronouncements Committee (CPCs) and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The IFRS do not require the preparation of Value-Added Statement (VTAS).

**2.2 Consolidation**

The Company consolidates all entities over which the Group exercises control.

The Company controls an entity when it is exposed or entitled to variable returns arising from its involvement in the entity and can interfere with its returns due to the power it exercises over the entity.

**(i) Subsidiary**

Subsidiaries are all entities (including the structured entities) the Company exercises control over. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

Transactions, balances and gains realized in transactions between the companies of the Group are excluded. Losses not realized are also excluded except if the operation provides evidence of impairment of the asset being transferred. The subsidiaries' accounting policies are changed, when necessary, to ensure compliance with the Group's policies.

The consolidated financial statements include the operations of the Company and the following subsidiaries, with the following percentage interests as at the reporting date:

**Bematech S.A.****Notes to the financial statements  
at December 31, 2016****(All amounts in thousands of reais unless otherwise stated)**

	Functional currency	Control	Participation%	
			12/31/2016	12/31/2015
Bematech Internacional Corp.(a)	US Dollar	Direct	100	100
Logic Controls, Inc (a)	US Dollar	Indirect	100	100
FICE - Bematech Foshan Shunde Ltd. (a)	US Dollar	Indirect	100	100
Bematech Ásia Co.Ltd.	US Dollar	Direct	100	100
Bematech Argentina S.A. (b)	Argentine peso	Direct/Indirect	100	100
CMNet Soluções em Informática e Agência de Viagens e Turismo S.A.	Real	Direct	100	100
CMNet Participações S.A. (d)	Real	Direct	100	100
CMNet España (d)	Euro	Indirect	100	100
CMDIR - Soluções Informática, Lda - Portugal (d)	Euro	Indirect	100	100
CM Soluciones - Argentina (d)	Argentine peso	Direct	100	100
CM Soluciones - Chile (d)	Chilean peso	Indirect	100	100
Misterchef Sistemas de Automação Ltda. (e)	Real	Direct	-	100
RJ Participações S.A. (c)	Real	Direct	100	100
R.J. Consultores en Sistemas de Información S.C. (c)	Mexican peso	Indirect	100	100
R.J. Consultores e Informática Ltda. (c)	Real	Indirect	100	100

- (a) Bematech International Corp. holds 100% of the capital of Logic Controls, which holds 100% of FICE - Bematech Foshan;
- (b) The investment in this company's capital is owned by Bematech S.A. (95%) and Bematech International Corp. (5%).
- (c) RJ Participações S.A. holds the entire capital of R.J. Consultores en Sistemas de Información S.C. and R.J. Consultores e Informática Ltda.;
- (d) CMNet Participações S.A. holds the entire capital of CMNet España, CMDIR - Soluções Informática, Lda - Portugal, CM Soluciones - Chile and CM Soluciones - Argentina.
- (e) According to Note 1, on August 1, 2016, the subsidiary Misterchef Sistemas de Automação Ltda. was incorporated, see the minutes of the 52<sup>nd</sup> Extraordinary General Meeting.

**2.3 Foreign currency translation****(a) Functional and presentation currency**

The items included in each of the subsidiaries' entities' financial information are measured using the currency of the principal economy in which the company operates (the "functional currency").

The individual and consolidated financial statements are presented in thousands of Reais (R\$), which is the Company's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing as at the transaction dates, or valuation dates where the items are re-measured. Exchange gains and losses resulting from the settlement of these transactions and the translation at the exchange rates at the end of the financial year for monetary assets and liabilities denominated in foreign currency are recognized in the income statement.

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**(c) Subsidiaries with different currencies**

Income and financial statements and of all entities part of the Company (none of which uses a hyperinflationary currency, whose functional currency is different from the presentation currency, are converted to the presentation currency, as follows:

- (i) The assets and liabilities of foreign operations, are translated into the Brazilian Real at the exchange rates as at the reporting date.
- (ii) The income and expenses of foreign operations are translated into the Brazilian Real at average exchange rates in the year (except in cases where the average is not reasonably close to the cumulative exchange rates as at the dates of the operations, and, in that case, income and expenses are translated according to the exchange rates on the actual operations' dates).
- (iii) Foreign currency differences are recognized in other comprehensive income in shareholders' equity, in the account "Equity valuation adjustments".

Goodwill and fair value adjustments arising on acquisitions are translated into the Brazilian Real at the exchange rates as at the reporting date.

**2.4 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, with an immaterial risk of impairment.

**2.5 Financial assets**

**2.5.1 Classification**

The Company classifies its financial assets upon initial recognition in the category loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented in current assets, except for those with maturities greater than 12 months after the end of the reporting period (in which case they are classified under non-current assets). The Company's receivables include "Trade accounts receivable" and "Contractual deposits".

**2.5.2 Recognition and measurement**

Loans and receivables are recognized at amortized cost, using the effective interest rate method.

**2.5.3 Offset of financial instruments**

Financial assets and liabilities are recognized and a net amount is presented in the financial statement when there is a right to offset the recognized values and there is an intention to settle them on a net basis, or to realize the assets and settle the liability simultaneously. The right should not be contingent on future events and must be applicable in the regular course of business as well as in the case of default, insolvency or bankruptcy of the company or counterparty.

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**2.5.4 Impairment of financial assets**

**Assets measured at amortized cost**

Each year the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deteriorated and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and that loss event(s) had an impact on the estimated future cash flow of that asset that can be estimated reliably.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the individual and consolidated statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for the impairment test is the effective interest rate determined in the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the impaired loss amount is decreased and the decrease can be objectively associated with an event occurring after the recognition of the impairment (as a credit upgrade in the debtor's classification), the decrease in impairment losses is reversed through profit or loss.

**2.6 Trade accounts receivable**

Trade receivables are amounts due from customers for property sold or services performed in the ordinary course of the Company's business. If collection is expected in one year or less, the accounts receivable are classified as current assets. Otherwise, they are classified as non-current assets.

Trade accounts receivable are initially recorded at fair value and subsequently measured at amortized cost less the allowance for doubtful accounts.

**2.7 Inventory**

Inventory is measured at the lower of cost and net realizable value. Inventory is recorded at average cost and includes expenses incurred on the acquisition of inventory, production and transformation costs and other costs incurred to bring the inventory to its current status and location. In the case of manufactured inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

**2.8 Intangible assets**

**(a) Goodwill**

Goodwill resulting from the acquisition of subsidiaries represents the surplus of: (i) the payment made; (ii) the non-controlling interest in the acquiree; and (iii) the fair value as at the acquisition date of any previous equity interest in the acquired party, over the fair value of the net identifiable assets acquired. If the total amount transferred, the minority interest recognized and the interest previously held measured at fair value is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in profit or loss for the year, in the case of a bargain purchase.



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**(b) Software**

Software licenses are recognized as assets based on the acquisition costs and necessary costs to make them available for use. Those costs are amortized over the software's useful lives of five years.

Costs associated with software maintenance are recognized as expenses, as they occur.

**(c) Other intangible assets**

Other intangible assets consist of trademarks and patents, applications, client portfolio, software usage rights acquired by the Company and are recognized at fair value as at the acquisition date. Assets with finite useful lives are measured at cost, minus accumulated amortization and impairment losses, if applicable. Amortization is calculated based on the straight line method during the expected useful life (Note 15).

**2.9 Property, plant and equipment**

Property, plant and equipment are measured at acquisition cost less accumulated depreciation. The historical cost is comprised of costs directly related to the acquisition of the items. The historical cost also includes financing costs incurred through the acquisition of qualifying assets.

Subsequent costs are capitalized for recognition of a separate asset, if appropriate, only when there is an increase in the economic benefits to those costs and that can be confidently measured. The carrying amounts of replaced parts or items are written down. All other forms of repair and maintenance are recognized in the statement of income as they are incurred.

Depreciation is calculated using the straight line method, which take into account the estimated useful life of the assets and the respective residual amounts. (Note 14).

The assets' net book values and useful lives are reviewed, and adjusted annually, if appropriate, at the end of the year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other net operating revenue (expenses) " in the statement of income.

Other additions are capitalized only when there is an increase in the economic benefits to the item of property, plant and equipment. All other forms of expenditure are recognized in the statement of income as they are incurred.

**2.10 Impairment of nonfinancial assets**

Assets with an indefinite useful lives, such as goodwill, are not subject to amortization and are tested annually for impairment. Goodwill impairment is reviewed annually, or more frequently if events or changes in circumstances suggest possible impairment.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying

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amount exceeds its recoverable amount. This value is the higher of the fair value of an asset, minus selling costs, and its value in use.

For impairment testing purposes, assets are grouped at the lowest level for which there is separately identifiable cash flow (Cash-generating Unit - CGU). For the purposes of this test, this allocation is made to the cash generating units or groups of cash generating units that should benefit from the business combination generating the goodwill, and is identified by operational segment.

Non-financial assets, excluding goodwill, that have been adjusted for impairment are subsequently reviewed in order to analyze the possible reversal of the impairment at the reporting date. Impairment of goodwill recognized in profit or loss in the year is not reversed.

**2.11 Trade accounts payable**

Trade payables are obligations payable to suppliers for goods and services acquired in the normal course of business, and are classified as current liabilities if the payment is due within a year. If not, they are presented as non-current liabilities.

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

**2.12 Debentures, loans and financing**

Debentures, loans and financing are recognized initially at fair value, net of transaction costs incurred. Borrowing is subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in the statement of income over the year of the debentures, loans and financing using the effective interest method.

Debentures, loans and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The costs of general and specific debentures, loans and financing directly attributable to the acquisition, construction or production of qualifying asset, defined as an asset that requires a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the asset when they are likely to result in future economic benefits to the entity, and when such costs can be measured with confidence. Other loan costs are recognized as expenses as they are incurred.

**2.13 Provisions**

Provisions for lawsuits (labor, civil or tax) are recognized when: (i) the Company has a legal or constructive obligation as a result of a past event; (ii) and it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) the value can be estimated with confidence. Provisions do not include future operational losses.

When there is a series of similar obligations, the probability of settling them is determined considering the class of obligations as a whole. A provision is recognized even if the probability of settlement of any individual item included in the same class is low.

Provisions are measured through the present value of the expenses required to settle the obligation, using a rate before tax which expresses the present market assessment of the time value of money and the specific risks inherent in the obligation. The increase in the obligation over time is recognized as finance expenses.

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**2.14 Current and deferred income and social contribution taxes**

The income tax and social contribution expenses for the year are comprised of current and deferred taxes. Income taxes are recognized in the statement of income, except to the extent that they are related to items recognized directly as net equity or comprehensive income. In that case the tax is also recognized in the net income or comprehensive income.

The current income tax and social contribution are calculated using tax rates at the reporting dates in the countries in which the Company's entities operate and generate taxable income. Management periodically evaluates the positions taken by the Company in its income tax returns with respect to situations in which the applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities

Current income tax and social contribution are stated net, by entity, in liabilities when there are amounts payable, or in assets when the prepaid amounts exceed the total amount due.

Deferred income tax and social contribution are recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax and social contribution are not recognized if they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor the taxable profit (or tax loss).

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized in future years.

Deferred income tax and social contribution are recognized on temporary differences deriving from investments in subsidiaries, except where the reversal of the temporary differences is controlled by the Company and provided that it is possible that the temporary difference will not be reversed in the foreseeable future.

Deferred income and social contribution tax assets are stated net in the statement of financial position when there is a legal right and intention to offset them against current taxes, generally related to the same legal entity and tax authority. Thus, deferred assets and liabilities in distinct entities or in distinct countries are generally presented separately, and not in the net income.

**2.15 Employee benefits – profit sharing**

A liability account for employee benefits in the form of a profit share is recognized based on a method that considers the profit attributed to the shareholder after adjustments. A provision is recognized when the Company has a contractual obligation or a past event that has created an unrecorded obligation (constructive obligation).

**2.16 Capital**

Common shares are classified as shareholders' equity.

**Bematech S.A.****Notes to the financial statements****at December 31, 2016****(All amounts in thousands of reais unless otherwise stated)****2.17 Revenue recognition**

Revenue from product sales and services rendered in the normal course of the Company's business is stated at the fair value of the consideration received or receivable. Revenue is presented net of taxation, returns, deductions and discounts, as well as Intercompany sales eliminations.

The Company recognizes the income when there is convincing evidence that economic benefits will flow to the Company, and when specific criteria are met for each of the activities of the Company, according to the descriptions below.

**(a) Sales of goods**

Hardware revenue is recognized when there is convincing evidence that the risks and rewards of ownership have been transferred to the buyer, the economic benefits will flow to the Company, the associated costs and possible returns of goods can be estimated, there is no ongoing involvement with the goods sold, and the value of the revenue can be reliably measured. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction in revenue at the time when the sales are recognized.

**(b) Sales of services and software**

Revenue from the provision of services and software is recognized in profit or loss according to the stage of completion of the services and/or software development.

**(c) Finance income**

Finance income is recognized on an accruals basis using the effective interest method.

**2.18 Government subsidy**

Government subsidies are recognized in profit or loss in the course of the year, and are used to provide immediate financial support, this recognition occurs when it is determined and complies with the conditions of CPC 07/ IAS 20 - "Government Subsidies and Assistance".

State Decree 1922/2011 provides a presumed ICMS credit equal to the rate established for the sale of the goods covered by the said Decree for industrial establishments, manufacturing, IT and automation products, that meet the requirements of Federal Law 8248/1991 (IT Law) and that have a basic production process (PPB).

This credit is awarded as an investment subsidy, and is conditional on the Company:

- (a) Having publications included in an interministerial Ordinance (Finance, Development, Foreign Trade and Industry, and Science and Technology);
- (b) Investing in research and development, pursuant to Art. 1 (2,II) of State Decree 1922/2011.

**2.19 Dividends**

The distribution of dividends is recognized as a liability at the end of the year, in accordance with the Company's bylaws. Any amount in excess of the mandatory minimum dividend is only recorded on the date on which it is declared by the Board of Directors.

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The tax benefit of interest on net equity is recognized in the statement of income.

**2.20 New standards, amendments to and interpretations of standards that are not yet effective**

The following new standards were issued by the IASB, but were not effective in 2016. Whilst encouraged by the IASB, the early adoption of standards in Brazil is not permitted by the Accounting Pronouncements Committee (CPC).

**IFRS 9/CPC 48 - "Financial Instruments"** covers the classification, measurement and recognition of finance assets and liabilities. The full version of IFRS 9 was published in July 2014, and is effective on January 1, 2018, replacing the provisions of IAS 39/CPC38 regarding the classification and measurement of financial instruments. The main changes in IFRS 9 are: (i) new guidelines for the classification of financial assets; (ii) new standards for the impairment of financial assets, hybrid expected losses/incurred losses, replacing the current standards on incurred losses; and (iii) relaxation of the requirements for hedge accounting.

The new standards or modifications are not expected to have a material impact on the Company's consolidated financial statements. In addition, there are no hedge accounting operations. The Company has not yet concluded the detailed assessment of how impairment provisions will be affected by the new standard. Although a relevant impact is not expected, its adoption will probably result in a loss recognition.

**IFRS 15/CPC 47 - "Revenue from Contracts with Customers "** presents the principles to be used to determine the measurement of the income and when it is recognized. This standard establishes the principle in which the revenue is recognized when control of goods or services is transferred to the customer, thus the principle of control will replace the principles of risk and benefits. It will be effective on January 1, 2018 and will replace IAS 11/CPC 17 – “Building Contracts”, IAS 18/CPC 30 - "Revenue" and the corresponding interpretations. The Company is evaluating the effects of the new standard, but has already identified the areas affected:

The recognition of certain costs incurred in the contract execution directly in the income statement may be activated by IFRS 15.

**IFRS 16 - "Leases"** provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, it replaces IAS 17/CPC 06 - "Leases" and respective interpretations.

The Company has not yet determined how the extension of these commitments will affect the recognition of assets and liabilities to future obligations, nor the impact in the income and cash flow classification. It is relevant to state that some present obligations fit the exception, as they are short term and low value. Besides, some obligations may be connected to agreements not qualified as leases under IFRS16.

There were no other IFRS standards or IFRIC interpretations that have not yet come into force which could have a significant impact on the Company.

**3 Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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**3.1 Critical accounting estimates and assumptions**

Based on assumptions, the Company makes estimates concerning the future. The resulting accounting estimates may, by definition, differ from the related actual results. The estimates and assumptions that present a significant risk, with the probability of causing relevant adjustments on the carrying amount of assets and liabilities in future periods are listed below.

**(a) Impairment of goodwill**

The Company is testing goodwill for impairment annually, in accordance with the accounting policy presented in Note 2.10. The recoverable amounts of cash generating units (CGUs) have been determined based on value-in-use calculations and based in estimates. For the purposes of goodwill impairment testing, the CGUs were defined as the Company's reportable segments, namely Hardware and Software.

**(b) Tax income, social contribution and other taxes**

The Company is subject to income tax in every country in which it operates. It is necessary to use judgment in order to determine the provision to income tax in those countries.

In various operations, determining the tax is imprecise. The Company also recognizes provisions because there are occasions when additional taxation is due. When the final result of those questions is different from the values previously estimated and registered, these differences affect the current and deferred assets and tax liabilities in the period in which the definitive value is determined.

**3.2 Critical accounting judgments**

**(a) ICMS tax incentives**

The Company has Value-added Tax on Sales and Services (ICMS) incentives granted by the State Government of Paraná, which are not supported by an arrangement with the National Council of Fiscal Policy (Confaz). However, the principles of legal security and administrative morality, according to the Company's legal advisors, who issued an opinion on this matter, require that we take into account that fact that, in the event that the incentives are declared invalid by the courts, the bodies that granted the benefits have historically supported and reaffirmed the benefits granted. As a result, there is no liability to be recorded in the financial statements.

**4 Financial risk management**

**4.1 Financial risk factors**

The activities of the Company carry various financial risks: market risk, credit risk and liquidity risk. The risk management policy concentrates on the unpredictability of the finance markets and aims to minimize any potential adverse effects on the financial performance.

The Company has a risk management policy, with guidelines to transactions and demands the diversification of transactions and financial compensation. According to that policy, the nature and general position of the financial risks is regularly watched in order to assess the results and the financial impact on cash flow. The credit limits are also reviewed periodically.

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Market risks are protected when considered necessary to support the corporate strategy or when it is necessary to keep the financial flexibility level.

The management analyzes and reviews data related to risk management, including relevant policies, procedures and practices applied to risk management.

**(a) Market risk**

Cash flow risk or fair value is associated with interest rates.

Interest rates risks derive from short and long-term debentures, loans and financing. Debentures, loans and financing issued at variable rates expose the Company to cash flow interest rate risk. Debentures, loans and financing issued at fixed rates expose the Company to the risk of fair value associated with the interest rate.

The Company continuously monitors market interest rates aiming to assess the eventual necessity to contract new operations in order to protect against the volatility of the rates.

**(i) Foreign exchange risk**

As at December 31, 2016 and 2015, the Company had assets and liabilities in Foreign Exchange at the amounts below:

	Parent Company								Consolidated			
	2016				2015				2016		2015	
	Foreign currency (US Dollar)		Reais		Foreign currency (US Dollar)		Reais		Foreign currency Mainly (US Dollar)		Foreign currency Mainly (US Dollar)	
<b>Asset</b>												
Trade accounts receivable	1,371	4,467	1,239	4,838	4,512	14,706	3,216	12,556				
<b>Liabilities</b>												
Trade accounts payable	1,462	4,765	1,455	5,681	847	2,761	1,123	4,387				

**(b) Credit risk**

Credit risk is managed on a corporate basis, arising from cash and cash equivalents and credit exposures, bank deposits and financial institutions, as well as exposure to customers, including receivables.

Sales policy considers the credit risk level the Company is willing to take on in the ordinary course of business. The diversification of the receivables portfolio, the selection of customers, as well as the following deadlines to sales financing and individual position limits, are procedures adopted in order to minimize defaults.

**(c) Liquidity risk**

Cash flow forecasts are carried out by the Finance department. This department watches the continuous predictions of the liquidity demands of the Company to ensure that there is enough cash to satisfy the operational necessities. The Finance department also keeps enough resources in the credit lines available at any moment. This prediction takes into consideration the planend debt financing of the Company, compliance with contract clauses, compliance with internal rules regarding financial statements quotas and, if applicable, external or legal regularoty demands, such as currency restrictions.

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The Controller invests excess cash in current accounts with low-risk products that pay market interest rates, choosing instruments with appropriate maturities or enough liquidity to give a sufficient margin in accordance with the mentioned predictions.

The table below analyzes the finance liabilities of the Company, by maturity, corresponding to the remaining year in the balance sheet to the contractual maturity date. The amounts in the table represent the contracted undiscounted cash flow.

	<b>Parent Company</b>			<b>Total</b>
	<b>Up to 1 year</b>	<b>Between 1-2 years</b>	<b>Between 2 and 5 years</b>	
On December 31 2016				
Loans and financing	1,215	14,959	30,302	46,476
Debentures payable	-	14,298	23,860	38,158
Trade accounts payable	24,638	-	-	24,638
Investment acquisition obligations	-	-	24,016	24,016
	<b>25,853</b>	<b>29,257</b>	<b>78,178</b>	<b>133,288</b>
On December 31 2015				
Loans and financing	9,972	12,658	25,372	48,002
Debentures payable	15,867	15,993	26,623	58,483
Trade accounts payable	45,908	-	-	45,908
Investment acquisition obligations	-	-	36,783	36,783
	<b>71,747</b>	<b>28,651</b>	<b>88,778</b>	<b>189,176</b>

	<b>Consolidated</b>			<b>Total</b>
	<b>Up to 1 year</b>	<b>Between 1-2 years</b>	<b>Between 2 and 5 years</b>	
On December 31 2016				
Loans and financing	1,215	14,959	30,302	46,476
Debentures payable	-	14,298	23,860	38,158
Trade accounts payable	24,877	-	-	24,877
Investment acquisition obligations	-	-	24,016	24,016
	<b>26,092</b>	<b>29,257</b>	<b>78,178</b>	<b>133,527</b>
On December 31 2015				
Loans and financing	9,991	12,658	25,372	48,021
Debentures payable	15,867	15,993	26,623	58,483
Trade accounts payable	46,410	-	-	46,410
Investment acquisition obligations	-	-	42,653	42,653
	<b>72,268</b>	<b>28,651</b>	<b>94,648</b>	<b>195,567</b>

**4.2 Capital management**

Management's policy is to maintain a solid capital base to preserve the trust of the stockholders, creditors and the market, and keep an ideal capital to reduce cost. In order to maintain or adjust the capital structure, the Company may review equity-sharing policy, return equity to shareholders or sell assets to reduce, for instance, the debt burden.

The Company monitors capital using the finance leverage ratio. This ratio is calculated as the company's debt divided by its total capital. The debt comprises debentures, loans and financing (including short term and long term obligations, as shown in the financial statement Consolidated), subtracting cash and cash equivalents. Total capital is found by adding up shareholders' equity, as demonstrated in the consolidated financial statements, with net total liabilities (net debt).



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	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Total loans and debentures	72,779	87,298	72,779	87,317
Cash and cash equivalents (-)	(48,458)	(46,327)	(68,953)	(71,113)
Net debit	<u>24,321</u>	<u>40,971</u>	<u>3,826</u>	<u>16,204</u>
Total shareholders' equity	457,420	455,176	457,420	455,176
Total capital	<u>481,741</u>	<u>496,147</u>	<u>461,246</u>	<u>471,380</u>
<b>Financial leverage rate - %</b>	<u><b>5%</b></u>	<u><b>8%</b></u>	<u><b>1%</b></u>	<u><b>3%</b></u>

**5 Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired may be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Corporate	24,670	21,886
Logistics distributors	23,497	35,242
Resellers	25,277	22,507
End users	13,160	6,821
International	8,722	4,748
<b>Total</b>	<u><b>95,326</b></u>	<u><b>91,204</b></u>

The amount included in the Corporate line consists of a portfolio of large customers where the credit risk is extremely low. In the facility calledline item Logistics Distributor, the portfolio is concentrated on just one distributor (CDC), and the credit risk is also low. In the Resellers line item, the Company's portfolio is comprised of partners consisting of Bematech technical assistance and product resellers throughout Brazilian territory. Most Resellers are small and in some cases there is credit risk. In the End Users line item, the Company's portfolio is comprised of customers spread throughout Brazil, which are usually small and have moderate credit risk. Finally, the Company has the International line item, the portfolio of which covers Latin America and North America, where many of the sales are made through an input percentage in the form of advance payment, minimizing credit risk.

Credit risk is managed on a corporate basis and arises from cash and cash equivalents and credit exposure to wholesale and retail customers. For the customer portfolio, the Company's credit analysis department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with financial capacity, as approved by management and the Finance Department. The use of credit limits is monitored regularly.

Management does not expect any losses arising from defaults of the counterparties which exceed the amounts already provided.

**Bematech S.A.****Notes to the financial statements****at December 31, 2016****(All amounts in thousands of reais unless otherwise stated)****6 Cash and cash equivalents**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Cash and bank deposits	3,844	2,009	20,032	19,877
Financial investments - CDB (i)	44,614	44,318	48,921	51,236
	<u>48,458</u>	<u>46,327</u>	<u>68,953</u>	<u>71,113</u>

(i) Bank deposit certificates (CDBs) and repurchase commitments are remunerated at rates that range between 100% and 110% of the Interbank Deposit Certificate (CDI) interest rate and can be redeemed immediately at an amount known as interest-free rate cash, subject to an immaterial risk of changes in value, the management intends to use these resources in the short term. The balance is in line with the strategy and in the normal course of business.

**7 Trade accounts receivables**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Third parties</b>				
Domestic receivables	84,477	82,362	94,707	93,766
Foreign receivables	4,352	3,709	14,706	12,556
<b>Related party transactions</b>				
Domestic receivables	600	681	-	-
Foreign receivables	115	1,129	-	-
(-) Provision for doubtful accounts	(11,692)	(10,245)	(14,087)	(15,118)
	<u>77,852</u>	<u>77,636</u>	<u>95,326</u>	<u>91,204</u>

The amounts receivable, net of the allowance for doubtful accounts, by maturity (aging list), as at December 31, 2016 and December 31, 2015:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Not yet due	72,837	74,478	83,539	82,421
30 days overdue	2,037	2,042	5,266	4,416
31 to 60 days overdue	952	575	2,063	1,294
61 to 90 days overdue	518	261	1,614	705
91 to 180 days overdue	1,495	632	2,338	2,018
More than 181 days overdue	11,705	9,893	14,593	15,468
	<u>89,544</u>	<u>87,881</u>	<u>109,413</u>	<u>106,322</u>
(-) Provision for doubtful accounts	(11,692)	(10,245)	(14,087)	(15,118)
	<u>77,852</u>	<u>77,636</u>	<u>95,326</u>	<u>91,204</u>

The changes in the allowance/provision for doubtful accounts are as follow:

**Bematech S.A.**  
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	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Opening balance	(10,245)	(8,471)	(15,118)	(14,007)
Additional provision in the period	(3,779)	(4,367)	(5,568)	(7,892)
Amounts written off from the provision	2,883	3,886	6,083	8,067
Exchange variance	(551)	(1,293)	516	(1,286)
Balance	(11,692)	(10,245)	(14,087)	(15,118)

## 8 Inventory

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Finished goods	2,352	8,953	6,632	15,304
Raw materials	12,563	18,985	15,509	22,923
Products for resale and other goods	5,675	6,190	5,675	6,190
Parts for technical assistance	1,346	2,536	1,346	2,536
Provision for inventory losses (i)	(532)	(2,053)	(945)	(2,548)
Advances to suppliers and imports in transit	1,073	1,439	1,073	1,440
	<u>22,477</u>	<u>36,050</u>	<u>29,290</u>	<u>45,845</u>

(i) The provision for inventory losses is made by valuing items which are not expected to be used and sold.

## 9 Recoverable taxes

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Value-added tax on sales and services - ICMS (a)	46,324	47,972	46,324	47,972
Excise Tax - IPI	2,555	3,413	2,555	3,413
Income tax and social contribution (b)	1,103	3,105	2,959	5,984
Income tax on financial investments	625	1,907	959	2,179
Taxes withheld on services (c)	3,838	3,784	4,288	3,992
Other taxes recoverable	4,686	778	5,886	1,294
	<u>59,131</u>	<u>60,959</u>	<u>62,971</u>	<u>64,834</u>
Current	37,559	43,078	41,399	46,953
Non-current	21,572	17,881	21,572	17,880
	<u>59,131</u>	<u>60,959</u>	<u>62,971</u>	<u>64,834</u>

(a) The Company uses the ICMS benefit for investments granted by the State of Paraná through Decrees 1922/11 (Re-issued by Decree 2175/2015) and 5375/02 with the purpose of fostering the development of products with technological content, provided that the requirements in the Federal Legislation, primarily the requirement to spend the legislatively required amount on research and development, have been complied with. The deemed ICMS credit is granted at the equivalent of the amount due on shipment, which results in a tax burden of 0% for specific products sold by the Company. Following the issuance of Decree 2175/15, from September 2015 the presumed credit used at the end of the accrual period was limited, and does not exceed the total debt and does not result in a credit balance being accumulated. Of the total ICMS recoverable, R\$ 21,572 is classified as non-current.

The amounts registered in non-current on December 31, 2016 and December 31, 2015 show the following schedule of realization:

**Bematech S.A.****Notes to the financial statements****at December 31, 2016****(All amounts in thousands of reais unless otherwise stated)**

	<b>Parent Company and Consolidated</b>	
	<b>2016</b>	<b>2015</b>
<b>2017</b>	-	2,998
<b>2018</b>	5,761	4,775
<b>2019</b>	5,531	4,584
<b>2020</b>	5,242	4,345
<b>2021 onwards</b>	5,038	1,178
	<u>21,572</u>	<u>17,880</u>

- (b) Denotes tax credits deriving from the negative balances of IRPJ and CSLL in prior accrual periods. These credits can be used by the Company for offsetting other federal taxes.
- (c) Refers to Social Integration Program (PIS), Social Contribution on Revenue (COFINS), Social Contribution on Net Income (CSLL) withheld on services rendered (Law 10833/03) and Income Tax Withheld at Source (IRRF) (Decree 3000/99).

**10 Contractual deposits**

	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Contractual deposit Bematech Gestão - Unum (a)	6,461	5,754
Contractual deposit GSR7 (b)	-	1,725
	<u>6,461</u>	<u>7,479</u>
Current	-	1,725
Non-current	6,461	5,754
	<u>6,461</u>	<u>7,479</u>

- (a) Refers to an amount held in an escrow account, arising from the acquisition of UNUM Tecnologia e Consultoria em Informática Ltda. (subsequently Bematech Sistemas de Gestão e Consultoria Ltda.). The balance has been placed in a low-risk investment fund yielding the Interbank Deposit Certificate rate (CDI). The fund's portfolio consists of government securities and a maximum of 50% of private low-risk credits.
- (b) Refers to the amount held in the escrow account under the acquisition of GSR7 Serviços para Tecnologia da Informação S.A. The monthly restatement index is the Interbank Deposit Certificate rate (CDI). The amount was released in March 2016.

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**11 Income tax and social contribution**

**(a) Breakdown of deferred income tax and social contribution**

The breakdown of deferred tax assets and liabilities is shown below:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Income tax and Social contribution- Assets</b>				
Total tax losses	26,876	26,361	26,876	26,361
(-) Tax losses without recording of deferred tax credits	(6,154)	(6,154)	(6,154)	(6,154)
Total tax losses carried forward	9,608	8,975	9,608	8,975
(-) Tax losses carried forward without recording of deferred tax credits	(2,309)	(2,309)	(2,309)	(2,309)
Provision for doubtful accounts	1,100	117	1,100	193
Provision for inventory losses	194	698	194	698
Provision for contingencies	5,742	6,782	5,742	6,831
Provision for warranties	1,640	1,843	1,640	1,843
Provision for service costs	584	507	584	507
Provision Profit sharing	367	32	492	68
Goodwill (premium) generated on acquisitions of companies	36	36	36	36
Acquisition of portfolios - intangible assets	4,286	3,294	4,286	3,294
Adjustment to present value - AVP	1,290	787	1,290	787
Other balances of assets and liabilities	528	255	491	325
Total deferred income tax and social contribution assets	<u>43,788</u>	<u>41,224</u>	<u>43,876</u>	<u>41,455</u>
<b>Income tax and social contribution - Liability</b>				
Income tax and social contribution on amortization of expenditure for the development of new products	(2,407)	(3,585)	(2,363)	(3,585)
Income tax and social contribution on temporary differences of goodwill amortization generated on the acquisition of merged companies and related impairment	(26,905)	(26,362)	(26,868)	(26,362)
Income tax and social contribution on assets allocated from acquisition of investments and business combinations	(4,241)	(4,241)	(4,241)	(4,241)
Total deferred income tax and social contribution liabilities	<u>(33,553)</u>	<u>(34,188)</u>	<u>(33,472)</u>	<u>(34,188)</u>
Balance of income tax and social contribution deferred and assets, net	10,235	7,036	10,404	7,267

**(b) Estimated realization period**

The composition, considering the year of realization, of deferred income tax and social contribution assets is as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
2016		12,798	-	12,798
2017	13,453	8,959	13,480	8,959
2018	9,663	6,271	9,683	6,271
2019	6,592	4,390	6,606	4,390
2020 onwards	14,080	8,806	14,107	9,037
	<u>43,788</u>	<u>41,224</u>	<u>43,876</u>	<u>41,455</u>

The Company expects that the deferred tax assets resulting from temporary differences will be realized in accordance with the final resolution of the contingencies and other events.

**(c) Reconciliation of income tax and social contribution expense**

The reconciliation between the tax calculation at the standard rates and the tax expense in the financial year ended December 31, 2016 and 2015 is as follows:

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	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Profit before taxation	14,991	15,481	20,326	21,535
<b>Income tax and social contribution at nominal rates of 25% and 9%</b>	<b>(5,097)</b>	<b>(5,264)</b>	<b>(6,911)</b>	<b>(7,322)</b>
(Additions) Exclusions:				
Permanent additions	(1,157)	(1,060)	(1,223)	(937)
Depreciation Vehicles	-	(9)	-	(9)
Losses on uncollectible receivables - PCLD - Operations Settled	(144)	(9)	(144)	(9)
Investment Donations and Subsidies	3,617	5,437	3,617	5,437
Equity in earnings	5,603	5,286	-	-
Expenditure R&D (Law 11.196/2005 article 17/19)	-	-	404	-
Restatement Fair Value	-	474	-	473
Tax Incentive (PAT, Sponsorship, Donation etc)	-	-	72	47
PF/BN used in REFIS Law 12996	-	236	-	236
PF/BN used in PRORELIT CMNET MP 685	-	661	-	661
Temporary Additions/Exclusions without recording deferred charges	-	163	-	163
IRPJ (Corporate Tax Income) deferred on tax loss recorded in proportion to the portions of goodwill excluded in 2013	1,539	1,693	1,539	1,693
CSLL deferred on negative basis recorded in proportion to the portions of goodwill excluded in 2013	577	649	628	5,935
Effect IRPJ/CSLL Presumed Profit Calculation - Subsidiaries	-	-	276	(4,165)
Additional TBU - 'Tributação em Bases Universais' Universal Basis Taxation' – IN 1.520/2014	(857)	-	(895)	-
Others	(882)	487	501	487
Current income tax and social contribution	3,199	8,744	(2,136)	2,690
Deferred income tax and social contribution	3,199	8,257	3,163	6,891
Current income tax and social contribution	-	487	(5,299)	(4,201)
<b>Total income tax and social contribution expense</b>	<b>3,199</b>	<b>8,744</b>	<b>(2,136)</b>	<b>2,690</b>

**Bematech S.A.****Notes to the financial statements  
at December 31, 2016****(All amounts in thousands of reais unless otherwise stated)****12 Related party transactions****(a) Subsidiaries and Associated Companies**

The main related party assets and liabilities as at December 31, 2016, as well as the transactions that affected the results of operations for the year are as follow:

	Balance sheet			Net income		
	Trade accounts receivable (Current)	Trade accounts payable (Current)	Dividends received	Sales to Parent Company	Purchases from Parent Company	Reimbursement of expenses
<b>As at December 31, 2016</b>						
Logic Controls Inc.	115	8	-	-	120	-
RJ Participações	20	-	4,207	-	-	240
CMNet Soluções em Informática e Agência de Viagens e Turismo S.A.	580	-	5,521	-	-	-
Misterchef Sistemas de Automação Ltda.	-	-	4,000	-	-	-
Bematech Asia Co. Ltda.	-	1,996	-	-	1,965	-
<b>Total</b>	<b>715</b>	<b>2,004</b>	<b>13,728</b>	<b>-</b>	<b>2,085</b>	<b>240</b>
<b>As at December 31, 2015</b>						
Logic Controls Inc.	269	24	-	-	380	-
RJ Participações	20	-	3,319	-	-	240
CMNet Soluções em Informática e Agência de Viagens e Turismo S.A.	661	-	5,382	430	-	-
CMNet Participações S.A.	860	-	51	-	-	-
Misterchef Sistemas de Automação Ltda.	-	-	4,950	-	-	-
Bematech Asia Co. Ltda.	-	1,270	-	-	2,826	-
<b>Total</b>	<b>1,810</b>	<b>1,294</b>	<b>13,702</b>	<b>430</b>	<b>3,206</b>	<b>240</b>

**(b) Compensation of key management staff**

According to the Extraordinary and Ordinary General Meeting held on April 25, 2016, there was no fixed annual compensation as a consequence of the renounce of compensation by the board of directors. In addition, in 2016, the Fiscal Council and Management Council were dissolved. In 2015, the incurred expenses for the compensation of key management staff and executives amounted to R\$ 5,245 (R\$ 5,873 in the consolidated)

**(c) Dividends and interest on equity**

	Parent Company		Parent Company	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
TOTVS	1,875	-	1,875	-
Individual shareholders	1	1	382	438
<b>Total</b>	<b>1,876</b>	<b>1</b>	<b>2,257</b>	<b>438</b>

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**13 Investments**

**(a) Investments in subsidiaries**

Company name	% Interest	Equity income of Parent Company								Investment at Parent Company					
		Subsidiaries		Equity income		Amortization of portfolio of clients and software (*)		Total equity income		Investment value		Goodwill and portfolio of clients and software		Total investment	
		Equity	Income of the period	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Bematech International Corp.	100%	68,068	2,521	2,521	1,157	-	-	2,521	1,157	68,068	78,705	-	-	68,068	78,705
Bematech Ásia Co. Ltd.	100%	2,263	(25)	(25)	56	-	-	(25)	56	2,263	2,595	-	-	2,263	2,595
Bematech Argentina S.A.	100%	-	-	-	6	-	-	-	6	-	-	-	-	-	-
Misterchef Sistema de Automação Ltda.	100%	-	3,341	3,341	4,356	-	-	3,341	4,356	-	4,466	-	19,009	-	23,475
CMNET Participações S.A.	100%	843	247	247	(616)	(60)	(60)	187	(676)	843	-	3,657	3,717	4,500	3,717
CMNET Soluções em Informática e Agência de Viagem e Turismo Ltda.	100%	14,873	6,575	6,575	4,759	(1,683)	(1,898)	4,892	2,861	14,873	11,548	76,303	77,986	91,176	89,534
RJ Participações S.A.	100%	3,304	3,819	3,819	5,828	(1,173)	(1,173)	2,646	4,655	3,304	3,857	50,731	51,904	54,035	55,761
<b>Total Parent Company</b>		<b>89,351</b>	<b>16,478</b>	<b>16,478</b>	<b>15,546</b>	<b>(2,916)</b>	<b>(3,131)</b>	<b>13,562</b>	<b>12,415</b>	<b>89,351</b>	<b>101,171</b>	<b>130,691</b>	<b>152,616</b>	<b>220,042</b>	<b>253,787</b>

	Parent Company	
	12/31/2016	12/31/2015
<b>Changes in investment balances and unfunded liabilities</b>		
<b>Previous balance</b>	<b>253,331</b>	<b>225,561</b>
Equity income	13,562	12,415
Exchange variations	(14,071)	25,415
Dividends received	(11,711)	(10,887)
Advances on future capital increases - CMNET Participações	1,313	827
Capitalization of CMNET Soluções	80	-
Reclassification of goodwill in Misterchef to intangibles	(19,009)	-
Incorporation of Misterchef (Note 1)	(3,453)	-
	<b>220,042</b>	<b>253,331</b>
Balance of investments	220,042	253,787
Losses of subsidiaries (i)	-	(456)
<b>Balance</b>	<b>220,042</b>	<b>253,331</b>

(i) In 2015, to the subsidiaru CMNET Participações S.A., which presented negative net equity, a provision for loss amounting to R\$ 456, presented in non-current assets.



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**14 Property, plant and equipment**

**(a) Parent Company**

Parent Company

	<b>Buildings</b>	<b>Machinery and equipments</b>	<b>Furniture and fixtures</b>	<b>Tools</b>	<b>PP&amp;E under lease</b>	<b>Others</b>	<b>PP&amp;E reserved to lease</b>	<b>Total PP&amp;E</b>
<b>Cost or valuation</b>								
<b>As at December 31, 2014</b>	<b>2,836</b>	<b>9,241</b>	<b>2,579</b>	<b>3,997</b>	<b>9,881</b>	<b>724</b>	<b>142</b>	<b>29,400</b>
Additions	109	319	18	605	1,298	-	1,643	3,992
Credit Pis/Cofins	(16)	(67)	(9)	(81)	(601)	-	(93)	(867)
Tranfers	-	-	-	-	1,261	-	(1,261)	-
Disposals and write-offs	(176)	(41)	(20)	-	-	(299)	-	(536)
<b>Balance As at December 31, 2015</b>	<b>2,753</b>	<b>9,452</b>	<b>2,568</b>	<b>4,521</b>	<b>11,839</b>	<b>425</b>	<b>431</b>	<b>31,989</b>
Additions	105	318	41	129	27	184	304	1,108
Incorporation	-	33	-	-	-	-	-	33
Credit Pis/Cofins	1	9	-	(4)	510	-	-	516
Tranfers	-	-	-	-	374	-	(374)	-
Disposals and write-offs	(148)	(102)	(80)	-	(1)	(81)	-	(412)
<b>Balance As at December 31, 2016</b>	<b>2,711</b>	<b>9,710</b>	<b>2,529</b>	<b>4,646</b>	<b>12,749</b>	<b>528</b>	<b>361</b>	<b>33,234</b>
<b>Depreciation</b>								
<b>Balance As at December 31, 2014</b>	<b>(1,921)</b>	<b>(6,047)</b>	<b>(1,514)</b>	<b>(3,139)</b>	<b>(6,250)</b>	<b>(538)</b>	<b>-</b>	<b>(19,409)</b>
Depreciation in the year	(203)	(905)	(255)	(313)	(2,075)	(56)	-	(3,807)
Disposals and write-offs	41	37	11	-	-	243	-	332
<b>Balance As at December 31, 2015</b>	<b>(2,083)</b>	<b>(6,915)</b>	<b>(1,758)</b>	<b>(3,452)</b>	<b>(8,325)</b>	<b>(351)</b>	<b>-</b>	<b>(22,884)</b>
Depreciation in the year	(139)	(816)	(243)	(240)	(2,000)	(18)	-	(3,456)
Disposals and write-offs	121	58	56	-	-	42	-	277
<b>Balance As at December 31, 2016</b>	<b>(2,101)</b>	<b>(7,673)</b>	<b>(1,945)</b>	<b>(3,692)</b>	<b>(10,325)</b>	<b>(327)</b>	<b>-</b>	<b>(26,063)</b>
<b>Remaining balance</b>								
<b>Balance As at December 31, 2015</b>	<b>670</b>	<b>2,537</b>	<b>810</b>	<b>1,069</b>	<b>3,514</b>	<b>74</b>	<b>431</b>	<b>9,105</b>
<b>Balance As at December 31, 2016</b>	<b>610</b>	<b>2,037</b>	<b>584</b>	<b>954</b>	<b>2,424</b>	<b>201</b>	<b>361</b>	<b>7,171</b>
Average annual depreciation rate	4%	10%	10%	20%	33%	20%		

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**(All amounts in thousands of reais unless otherwise stated)**

**(b) Consolidated**

	<b>Buildings</b>	<b>Machinery and equipments</b>	<b>Furniture and fixtures</b>	<b>Tools</b>	<b>PP&amp;E under lease</b>	<b>Others</b>	<b>PP&amp;E reserved to lease</b>	<b>Total PP&amp;E</b>
<b>Cost or valuation</b>								
<b>Balance As at December 31, 2014</b>	<b>2,797</b>	<b>14,351</b>	<b>3,918</b>	<b>4,635</b>	<b>9,881</b>	<b>1,127</b>	<b>142</b>	<b>36,851</b>
Additions	1,217	779	231	605	1,298	2	1,643	5,775
Credit Pis/Cofins	(16)	(67)	(9)	(81)	(601)	-	(93)	(867)
Foreign exchange variation	20	567	132	524	-	59	-	1,302
Transfers	-	-	-	-	1,261	-	(1,261)	-
Disposals and write-offs	(230)	(72)	(85)	-	-	(363)	-	(750)
<b>Balance As at December 31, 2015</b>	<b>3,788</b>	<b>15,558</b>	<b>4,187</b>	<b>5,683</b>	<b>11,839</b>	<b>825</b>	<b>431</b>	<b>42,311</b>
Additions	107	503	64	129	27	415	304	1,549
Credit Pis/Cofins	1	9	-	(5)	513	-	-	518
Foreign exchange variation	(13)	(386)	(96)	(272)	-	(19)	-	(786)
Transfers	-	-	-	-	374	-	(374)	-
Disposals and write-offs	(148)	(268)	(135)	(373)	-	(180)	-	(1,104)
<b>Balance As at December 31, 2016</b>	<b>3,735</b>	<b>15,416</b>	<b>4,020</b>	<b>5,162</b>	<b>12,753</b>	<b>1,041</b>	<b>361</b>	<b>42,488</b>
<b>Depreciation</b>								
<b>Balance As at December 31, 2014</b>	<b>(1,963)</b>	<b>(8,586)</b>	<b>(2,157)</b>	<b>(3,953)</b>	<b>(6,249)</b>	<b>(710)</b>	<b>-</b>	<b>(23,618)</b>
Depreciation in the year	(302)	(1,492)	(414)	(502)	(2,074)	(73)	-	(4,857)
Foreign exchange variation	(12)	(309)	(69)	(448)	-	(24)	-	(862)
Disposal and write-offs	41	119	14	-	-	292	-	466
<b>Balance As at December 31, 2015</b>	<b>(2,236)</b>	<b>(10,268)</b>	<b>(2,626)</b>	<b>(4,903)</b>	<b>(8,323)</b>	<b>(515)</b>	<b>-</b>	<b>(28,871)</b>
Depreciation in the year	(274)	(1,453)	(412)	(395)	(1,997)	(40)	-	(4,571)
Foreign exchange variation	9	233	59	259	-	6	-	566
Transfers	121	215	111	377	-	86	-	910
Disposals and write-offs	(2,380)	(11,273)	(2,868)	(4,662)	(10,320)	(463)	-	(31,966)
<b>Remaining balance</b>								
<b>Balance As at December 31, 2015</b>	<b>1,552</b>	<b>5,290</b>	<b>1,561</b>	<b>780</b>	<b>3,516</b>	<b>310</b>	<b>431</b>	<b>13,440</b>
<b>Balance As at December 31 2016</b>	<b>1,355</b>	<b>4,143</b>	<b>1,152</b>	<b>500</b>	<b>2,433</b>	<b>578</b>	<b>361</b>	<b>10,522</b>
Average annual depreciation rate	4%	10%	10%	20%	33%	20%		

In the year ended December 31, 2016, the Company's management analyzed the recoverable values of the assets and did not identify the need to record any provision for impairment of PP&E.

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**15 Intangible assets**

**(a) Parent Company**

Parent Company

	Goodwill	Expenses on development of products - in progress	Expenses on development of products - finished	Development costs of internal projects	Software licenses	Portfolio of clients
<b>Cost or valuation</b>						
<b>As at December 31, 2014</b>	<b>125,220</b>	<b>16,697</b>	<b>49,045</b>	<b>19,728</b>	<b>15,491</b>	<b>2,213.00</b>
Additions	-	9,122	9	269	192	-
Tranfers	-	(11,108)	10,923	457	(272)	-
Disposals and write-offs	-	(230)	-	(60)	-	-
<b>Balance As at December 31, 2015</b>	<b>125,220</b>	<b>14,481</b>	<b>59,977</b>	<b>20,394</b>	<b>15,411</b>	<b>2,213</b>
Additions	-	-	-	-	2,300	-
Incorporation	19,009	84	-	-	6	-
Tranfers	-	(3,328)	3,302	26	-	-
Disposals and write-offs	-	(4)	-	-	-	-
<b>Balance As at December 31, 2016</b>	<b>144,229</b>	<b>11,233</b>	<b>63,279</b>	<b>20,420</b>	<b>17,717</b>	<b>2,213</b>
<b>Amortization</b>						
<b>As at December 31, 2014</b>	<b>(22,079)</b>	<b>-</b>	<b>(38,521)</b>	<b>(13,180)</b>	<b>(8,912)</b>	<b>(205)</b>
Amortization in the year	-	-	(6,149)	(804)	(1,638)	(221)
<b>Balance As at December 31, 2015</b>	<b>(22,079)</b>	<b>-</b>	<b>(44,670)</b>	<b>(13,984)</b>	<b>(10,550)</b>	<b>(426)</b>
Amortization in the year	-	-	(5,891)	(1,281)	(1,644)	(221)
<b>Balance As at December 31, 2016</b>	<b>(22,079)</b>	<b>-</b>	<b>(50,561)</b>	<b>(15,265)</b>	<b>(12,194)</b>	<b>(647)</b>
<b>Remaining balance</b>						
<b>Balance As at December 31, 2015</b>	<b>103,141</b>	<b>14,481</b>	<b>15,307</b>	<b>6,410</b>	<b>4,861</b>	<b>1,787</b>
<b>Balance As at December 31, 2016</b>	<b>122,150</b>	<b>11,233</b>	<b>12,718</b>	<b>5,155</b>	<b>5,523</b>	<b>1,566</b>
Average annual amortization rate			20%	20%	20%	10%

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**(b) Consolidated**

	Goodwill	Expenses on development of products - in progress	Expenses on development of products - finished	Development costs of internal projects	Software licenses	Portfolio of clients	Brands and patents	Total intangible assets
<b>Cost or valuation</b>								
<b>Balance on December 31 2014</b>	299,798	20,752	49,045	19,634	23,369	18,517	3,916	435,031
Adittions	-	11,096	9	269	882	-	1,387	13,643
Foreign exchange variation	14,407	-	-	-	3	-	1,938	16,348
Transfers	-	(15,414)	15,231	457	(272)	-	(2)	-
Disposals and write-offs	-	(280)	-	(60)	(5)	-	(804)	(1,149)
<b>Balance On December 31 2015</b>	<b>314,205</b>	<b>16,154</b>	<b>64,285</b>	<b>20,300</b>	<b>23,977</b>	<b>18,517</b>	<b>6,435</b>	<b>463,873</b>
Adittions	-	-	-	-	2,392	-	138	2,530
Foreign exchange variation	(7,451)	-	-	-	(2)	-	(1,050)	(8,503)
Transfers	-	(4,555)	4,531	26	-	-	(2)	-
Disposals and write-offs	-	(365)	361	-	-	-	(3)	(7)
<b>Balance On December 31 2016</b>	<b>306,754</b>	<b>11,234</b>	<b>69,177</b>	<b>20,326</b>	<b>26,367</b>	<b>18,517</b>	<b>5,518</b>	<b>457,893</b>
<b>Amortization</b>								
<b>Balance on December 31 2014</b>	<b>(27,725)</b>	<b>-</b>	<b>(38,519)</b>	<b>(13,180)</b>	<b>(11,075)</b>	<b>(4,814)</b>	<b>(897)</b>	<b>(96,210)</b>
Amortization in the year	-	-	(6,876)	(805)	(2,610)	(2,570)	(650)	(13,511)
Foreign exchange variation	(355)	-	-	-	(2)	-	(527)	(884)
Disposals and write-offs	-	-	-	-	4	-	763	767
<b>Balance On December 31 2015</b>	<b>(28,080)</b>	<b>-</b>	<b>(45,395)</b>	<b>(13,985)</b>	<b>(13,683)</b>	<b>(7,384)</b>	<b>(1,311)</b>	<b>(109,838)</b>
Amortization in the year	-	-	(6,979)	(1,282)	(2,625)	(2,355)	(942)	(14,183)
Foreign exchange variation	182	-	-	-	2	-	339	523
<b>Balance On December 31 2016</b>	<b>(27,898)</b>	<b>-</b>	<b>(52,374)</b>	<b>(15,267)</b>	<b>(16,306)</b>	<b>(9,739)</b>	<b>(1,914)</b>	<b>(123,498)</b>
<b>Remaining balance</b>								
<b>Balance On December 31 2015</b>	<b>286,125</b>	<b>16,154</b>	<b>18,890</b>	<b>6,315</b>	<b>10,294</b>	<b>11,133</b>	<b>5,124</b>	<b>354,035</b>
<b>Balance On December 31 2016</b>	<b>278,856</b>	<b>11,234</b>	<b>16,803</b>	<b>5,059</b>	<b>10,061</b>	<b>8,778</b>	<b>3,604</b>	<b>334,395</b>
Average annual amortization rate			20%	20%	20%	10%	20%	

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**(c) Breakdown of goodwill - consolidated**

	<u>Balance in</u> <u>2014</u>	<u>Adittion</u>	<u>Balance in</u> <u>2015</u>	<u>Adittion</u>	<u>Balance in</u> <u>2016</u>
GSR7 Serviços para Tecnologia da Informação S.A.	10,601	-	10,601	-	10,601
Tecnologia de Gerência Comercial S.A. (GEMCO)	47,393	-	47,393	-	47,393
CMNET Soluções em Informática e Agência de Viagens e Turismo Ltda.	73,088	-	73,088	-	73,088
CMNET Participações S.A.	3,556	-	3,556	-	3,556
RJ Participações S.A.	43,373	-	43,373	-	43,373
Logic Controls, Inc. (*)	29,906	14,052	43,958	(7,269)	36,689
W2M Serviços de Informática Ltda.	10,447	-	10,447	-	10,447
Misterchef Sistemas de Automação Ltda.	19,009	-	19,009	-	19,009
C&S Sistemas Ltda.	963	-	963	-	963
Bematech Gestão - Unum	31,880	-	31,880	-	31,880
SnackControl Sistemas Ltda.	1,857	-	1,857	-	1,857
	<u>272,073</u>	<u>14,052</u>	<u>286,125</u>	<u>(7,269)</u>	<u>278,856</u>

(\*)The change in goodwill denotes the exchange variance in the year.

**(d) Impairment of assets**

As required by CPC 01 (R1) on the impairment of assets, the Company carries out annual evaluations of the recoverability of amounts recorded in Intangible assets.

For the purposes of impairment testing, the goodwill paid on the acquisitions was allocated to each of the Company's cash generating units that benefited from the synergies of the related acquisitions. These cash generating units represent the lowest level of control and internal management of the Company, and are currently represented by its business segments (Hardware and Software).

The carrying value of goodwill to each CGU was allocated to the following segments:

	<u>Goodwill per segment</u>		<u>New model</u>		
	<u>Balance in</u> <u>2014</u>	<u>Adittion</u>	<u>Balance in 2015</u>	<u>Adittion</u>	<u>Balance in 2016</u>
Hardware	29,906	14,052	43,958	(7,269)	36,689
Software	242,167	-	242,167	-	242,167
	<u>272,073</u>	<u>14,052</u>	<u>286,125</u>	<u>(7,269)</u>	<u>278,856</u>

The impairment testing for each CGU to which goodwill has been allocated is carried out annually for all cash generating units, or whenever circumstances indicate a possible impairment loss of an asset of that unit.

For the analysis of each CGU, the value in use was determined by discounting the future cash flow generated from the continuous use of the unit.

Revenue and expenses were projected for the period between 2017 and 2022, considering the growth of the operating customer base.

Costs and expenses were projected in line with the Company's historical performance and the historical revenue growth.

Investments in capital goods were estimated considering the current technological infrastructure required to support the provision of solutions, on the basis of the historical performance of the Company.

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In order to extrapolate the projections on December 31, 2016, the following assumptions were considered:

- . 2% perpetuity rate applied after the last year of the flow (2022);
- . 13,04% of the discount rate - Weighted Average Cost of Capital ("WACC").

The last test took place on December 31, 2016. It did not result in the need to recognize a loss in the year as the estimated market value was higher than the net carrying amount as at the valuation date.

**16 Trade payables**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Third parties</b>				
Domestic	19,873	40,227	22,116	42,023
Foreign	2,761	4,387	2,761	4,387
<b>Related parties</b>				
Foreign	2,004	1,294	-	-
	<b>24,638</b>	<b>45,908</b>	<b>24,877</b>	<b>46,410</b>

**17 Salaries and charges payable**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Payroll payable	-	10	646	951
Provision for vacations	8,084	6,428	10,899	9,154
Charges payable	4,196	1,955	5,003	2,746
Others	258	164	902	449
	<b>12,538</b>	<b>8,557</b>	<b>17,450</b>	<b>13,300</b>

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**18 Loans and financing - Consolidated**

Loans and financing are summarized as follows:

Loans and financing	Maturity	Financial charges annual	Currency	Consolidated	
				12/31/2016	12/31/2015
<b>Current</b>					
BNDES Internacionalização	09/30/2016	UMBND + 1.82% a.a.	Real	-	2,380
BNDES EXIM	09/30/2016	5.5% a.a.	Real	-	936
Financ. BNDES EXIM Banco do Brasil	08/15/2017	8% a.a.	Real	1,523	16
Financ. BNDES PROSOFT - 2014	07/15/2020	TJLP +1.52%	Real	5,476	2,172
Financ. BNDES PSI - 2014	07/15/2020	4% a.a.	Real	3,847	1,462
Financ. BNDES Inovação - 2014	07/15/2020	TJLP +0.52%	Real	1,503	586
Finame Componente	09/15/2018	7% a.a.	Real	616	131
Banco de Chile	08/25/2016	12% a.a.	Real	-	22
Commissions on borrowings from the BNDES	-	-	Real	(35)	(35)
				<b>12,930</b>	<b>7,670</b>
<b>Non-current</b>					
Financ. BNDES EXIM Banco do Brasil	08/15/2017	8% a.a.	Real	-	1,505
Financ. BNDES PROSOFT	07/15/2020	TJLP +1.52%	Real	13,982	16,236
Financ. BNDES PSI	07/15/2020	4% a.a.	Real	9,846	11,616
Financ. BNDES Inovação	07/15/2020	TJLP +0.52%	Real	3,844	4,467
Finame Componente	05/15/2018	7% a.a.	Real	392	566
Commissions on borrowings from the BNDES	-	-	Real	(93)	(127)
				<b>27,971</b>	<b>34,263</b>
				<b>40,901</b>	<b>41,933</b>

The amounts recorded as non-current liabilities on December 31, 2016 and December 31, 2015 mature as follows:

Year	Consolidated	
	12/31/2016	12/31/2015
2017	-	11,055
2018	11,068	8,984
2019	10,676	8,984
2020	6,227	5,240
	<b>27,971</b>	<b>34,263</b>

The credit financing agreement establishes special covenants for the Company. It includes the following funding: BNDES PROSOFT, Capital Inovador (Innovative Capital) and Internacionalização (Internationalization).

The main aspects are as follow:

. Communicate formally and in advance to BNDES the establishment of a secured guarantee through legal determination or as a guarantee of liability contingencies, as well as in cases of fiduciary ownership in the case of financing for the acquisition of equipment.

. Do not establish, except with express prior authorization from BNDES, secured guarantees of any type on transactions with other creditors without the same type of guarantee being provided to BNDES, under equal conditions and priority levels.

. Do not transfer, assign, burden or sell the ownership rights on the technology or products developed with funds from this transaction, without the prior express authorization of BNDES, and

Maintain the following debt service coverage ratios (Covenants):

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- . Equal to or greater than 2.00 (division of the Net Bank Debt over EBITDA).
- . Equity/Assets ratio equal to or greater than 0.40.

As a result of the change in Bematech's share control, authorized by the BNDES Executive Board on October 23, 2015, TOTVS S.A. has been included as a guarantor in these contracts, and the financial statements comply with the aforesaid covenants. The covenants in the financing contract with the National Bank for Economic and Social Development ("BNDES") were calculated based on the consolidated financial statements of its parent company TOTVS S.A.

As at December 31, 2016, Management calculated that all of the financial indexes above were met.

No guarantees were provided for the loan agreements.

## 19 Debentures

Series	Date	Value	Maturity end	Annual compensation	Effective rate	Parent Company and Consolidated	
						12/31/2016	12/31/2015
<b>Current</b>							
1 <sup>st</sup> issuance	07/10/2014	50,000	04/10/2019	CDI +2,25%	16.38%	12,112	12,442
<b>Non-current</b>							
1 <sup>st</sup> issuance	07/10/2014	50,000	04/10/2019	CDI +2,25%	16.38%	19,766	32,942
<b>Total</b>						<b>31,878</b>	<b>45,384</b>

On July 10, 2014, the Company issued a single series of unsecured, simple debentures, non-convertible into shares, placed through a public offering with restricted distribution, at the amount of R\$ 50,000, comprised of 500 debentures of R\$ 100 each. The debentures will mature in July 2019 and are being repaid in nine semiannual installments from July 2015, adjusted based on the CDI rate variation plus 2.25% p.a. Interest is due in semiannual installments, the first of which was payable on January 10, 2015.

As described in Note 1, the change in share control was approved by the debentureholders on December 23, 2015.

20 debentures were acquired on December 22, 2015 for a unit price of R\$ 95, amounting to R\$ 1,906, and more 20 debentures were acquired in April 2016 for a unit price of R\$ 123, amounting to R\$ 2,468. In July 2016, these debentures were cancelled.

The amounts recorded in non-current liabilities as at December 31, 2016 and December 31, 2015, have the following maturity schedule:

	Consolidated	
	12/31/2016	12/31/2015
2017	-	10,974
2018	12,484	10,974
2019	7,282	10,994
	<u>19,766</u>	<u>32,942</u>

### *Covenants:*

As a result of the change in Bematech's share control, the covenants under the debenture contract were calculated based on the consolidated financial statements of its subsidiary TOTVS S.A.



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The Company promises to keep, at the end of every year, the Covenants index equal or below 2.5 (calculated by dividing Net Bank Debt by EBITDA). As at December 31, 2016, the Company is in full compliance with the commitments described above.

The Company cannot declare early maturity of any pecuniary obligations taken out by the issuer, in individual amounts greater than or equal to R\$ 5,000.

## 20 Taxes and contributions payable

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Taxes and contributions payable</b>				
Contribution for social security financing - COFINS	1,294	437	1,327	495
Value-added tax on sales and services – ICMS	119	160	119	160
Withholding Income Tax (IRRF) on payroll and third party services	1,453	520	1,725	682
Social Integration Program (PIS)	275	91	281	101
Value-added Tax (VAT) payable (Argentina)	-	-	65	127
Service taxes - ISS	305	270	710	684
Taxes on services rendered overseas	772	608	772	608
Other taxes	87	282	1,211	1,125
<b>Taxes and contributions payable</b>	<b>4,305</b>	<b>2,368</b>	<b>6,210</b>	<b>3,982</b>

## 21 Provisions for contingencies

Based on information from its legal advisers and an analysis of the pending legal proceedings, Management recorded a provision at an amount considered sufficient to cover the expected losses on the outcome of the lawsuits in progress, as follow:

	Parent Company				
	Civil	Labour	Tax	Escrow	Total
<b>Balance As at December 31, 2015</b>	<b>3,073</b>	<b>5,375</b>	<b>11,499</b>	<b>1,725</b>	<b>21,672</b>
(+) Provision supplement	401	946	1,032	-	2,379
(+) Monetary restatement	438	693	770	-	1,901
(-) Writeoffs	(1,560)	(663)	(1,351)	-	(3,574)
(-) Reversal of provision not used	(1,373)	(2,063)	(330)	-	(3,766)
(-) Reclassification of obligations with acquisitions	-	-	-	(1,725)	(1,725)
<b>Balance As at December 31, 2016</b>	<b>979</b>	<b>4,288</b>	<b>11,620</b>	<b>-</b>	<b>16,887</b>

  

	Consolidated				
	Civil	Labour	Tax	Escrow	Total
<b>Balance As at December 31, 2015</b>	<b>3,077</b>	<b>5,396</b>	<b>11,642</b>	<b>1,725</b>	<b>21,840</b>
(+) Provision supplement	400	1,116	1,032	-	2,548
(+) Monetary restatement	452	627	772	-	1,851
(-) Writeoffs	(1,575)	(782)	(1,494)	-	(3,851)
(-) Reversal of provision not used	(1,375)	(2,055)	(331)	-	(3,761)
(+) Exchange variance	-	-	-	-	-
(-) Reclassification of obligations with acquisitions	-	-	-	(1,725)	(1,725)
<b>Balance As at December 31, 2016</b>	<b>979</b>	<b>4,302</b>	<b>11,621</b>	<b>-</b>	<b>16,902</b>

### (a) Civil and administrative claims

These represent estimates of third party claims, related to products and collections.

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**(b) Labour claims**

These relate to lawsuits brought by former employees and service providing companies.

**(c) Tax**

The consolidated amount of R\$ 11,621 (R\$ 11,642 as at December 31, 2015), includes R\$3,418 (R\$3,854 as at December 31, 2015) of the principal, fine and interest of a social security tax assessment issued on May 28, 2012 (base years 2007, 2008 and 2009); and R\$8,203 (R\$7,644 as at December 31, 2015) to the proceeding with the federal tax authorities seeking to obtain recognition of the ICMS amounts in the PIS and COFINS calculation base (for further information see the section on judicial deposits).

**(d) Possible losses**

There is other litigation assessed by the legal advisors as representing a possible risk of loss, for which no provision has been recorded, and which refer to judicial and administrative proceedings arising in the normal course of business at courts and government agencies. The accounting practices adopted in Brazil and IFRS do not require their recognition. The amounts related to these proceedings are as follow:

**Possible losses**

	<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Tax (i)	42,959	13,405
Civil (ii)	20,333	9,794
Labour	3,240	4,207
	<u>66,532</u>	<u>27,406</u>

(i) Among the litigation in process representing possible losses, the main items are the claims against the Finance Office of the State of Minas Gerais regarding the procedures for the issue of the Tax Voucher (ECF) (R\$ 3,667) and against the Internal Revenue Service to obtain recognition of the amount excluded of the calculation of IRPJ and CSLL of the years 2007, 2008 and 2009 of the tax credit subsidy for presumed tax credit of ICMS against Paraná State referring to investment subsidies, which in turn is characterized by the RFB as subsidy to funding (R\$ 28,224).

(ii) Among the civil claims representing possible losses, the main ones are the ordinary claims in damages for breach of contract, property and reputational damage, and recognition of trading cessation, issued by Yuri Gomes de Oliveira, Garra Soluções em Informática Ltda (R\$6,586).

**(e) Judicial deposits**

The judicial deposits classified as non-current assets, whether or not linked to litigation subject to provisions, are as follow:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Civil	383	1,721	383	1,721
Labour	1,922	2,155	1,930	2,163
Tax (i)	8,744	8,164	8,744	8,166
	<u>11,049</u>	<u>12,040</u>	<u>11,057</u>	<u>12,050</u>

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Judicial deposits sum up R\$ 11,057 (R\$12,050 on December 31, 2015) and refer to administrative claims against the Federal Revenue Authority, an appeals deposit against the Labour Court and frozen accounts related to civil claims.

(i) In December 2006, the Company filed an injunction against the Federal Revenue Regional Office in Curitiba to obtain recognition of the illegality/unconstitutionality of the inclusion of ICMS in the calculation basis of PIS and COFINS. The lawsuit is pending judgment by the Federal Regional Court of the 4<sup>th</sup> Region until a final decision regarding the matter is obtained from the Federal Supreme Court. There are judicial deposits linked to this case, whose balances as at December 31, 2016 totaled R\$ 8,203 (R\$ 7,645 as at December 31, 2015). In February 2009, Management decided to suspend the payment of amounts through judicial deposits and resumed normal payments to the Federal Tax Authority.

## 22 Obligations for acquisition of investments

	<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
RJ Participações S.A. (a)	21,038	21,527
Bematech Sistemas de Gestão e Consultoria Ltda. - UNUM (b)	7,020	14,680
Contingent consideration payable	559	8,926
<i>Escrow Account</i>	6,461	5,754
	<u>28,058</u>	<u>36,207</u>

- (a) Refers to the recording of the liability corresponding to the present value of the exercise price of the put option held by the selling stockholders of RJ for the acquisition of the remaining 40%, which is expected to occur in January 2019. Additionally, the liability includes the present value of the future minimum dividends payable to the holders of the shares that correspond to 40% of RJ Participações, for a period of five years, up to the exercise of the put option.
- (b) Refers to the balance payable for the acquisition of UNUM Tecnologia e Consultoria em Informática Ltda., subsequently Bematech Gestão e Consultoria Ltda., monetarily restated and adjusted to present value.

## 23 Equity

### (a) Capital

Subscribed and paid-up capital as at December 31, 2016 amounts to R\$ 344,601, comprising 51,568,270 common shares, all nominative and with no nominal value.

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**(b) Reserve**

	<u>12/31/2016</u>	<u>12/31/2015</u>
Capital reserves (i)		
Stock option plan	842	842
Profit reserves		
Legal reserve(ii)	9,444	9,067
Profit retention (iii)	1,763	1,763
Tax incentives - ICMS (iv)	91,261	80,622
	<u>102,468</u>	<u>91,452</u>
Total reserves	<u>103,310</u>	<u>92,294</u>

**(i) Capital reserve**

The amount of R\$ 842 recorded in capital reserves refers to: (a) R\$ 583 of stock options granted and allocated, in accordance with the services provided by the employees and officers that hold these options; (b) R\$ 259 of goodwill reserves arising from the options exercised.

**(ii) Legal reserve**

Constituted at the rate of 5% of the net income determined for each financial year pursuant to Article 193 of Law 6404/76 up to the limit of 20% of the share capital.

**(iii) Profit retention reserve**

The amount of R\$ 1,763 recorded refers to the reserve for repurchase of shares.

**(iv) Tax incentive reserve**

In the twelve month period ended December 31, 2016, the amount of R\$ 10,639 (R\$ 15,991 as at December 31, 2015) of government subsidies was recorded in the profit reserve, corresponding to the balance of tax incentive reserves related to Decrees 1922/11 and 5375/02 of the State of Paraná.

This reserve is not used to pay out dividends.

**(c) Treasury shares**

The Company held 1,577,400 shares in the treasury on December 31, 2016 and 2015, equivalent to 3% of its total outstanding shares, which were acquired for R\$ 13,473, for subsequent sale and/or cancellation. These shares were acquired as part of the share repurchase program approved by the Board of Directors on April 4, 2011 and November 4, 2014.

**(d) Dividends**

The Company's Bylaws determine the distribution of a minimum dividend of 25% of the net income for the year, after the tax incentive reserve, whose distributed value in 2016 was R\$1,794. In 2015, in accordance with the stockholders determination, the amounts of R\$7,924 and R\$21,486 were approved within the respective year and distributed.

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The amount as at R\$ 5,380 (R\$81 in 2015) refers to the dividends not distributed concerning the additional dividend proposed beyond the mandatory minimum, which was not approved by the stockholders before December 31, 2016.

**24 Other operating income (expenses)**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Other revenue</b>				
Reimbursement and recovery of expenses	383	383	143	143
Sale of permanent assets and unsalvageable	67	179	67	179
Tax on other income and from previous years (a)	4,749	-	4,749	-
Other income	790	1,890	1,046	2,285
	<b>5,989</b>	<b>2,452</b>	<b>6,005</b>	<b>2,607</b>
<b>Other expenses</b>				
Scrapping expenses	(1,778)	(1,978)	(1,778)	(1,978)
Amortization of intangible assets on acquisitions	(1,031)	(1,031)	(3,948)	(4,162)
Other expenses	(411)	(3,872)	(990)	(3,941)
	<b>(3,220)</b>	<b>(6,881)</b>	<b>(6,716)</b>	<b>(10,081)</b>
<b>Other net operating income and expenses</b>	<b>2,769</b>	<b>(4,429)</b>	<b>(711)</b>	<b>(7,474)</b>

- (a) The balance of R\$4,749 refers mainly to a correction to the taxation of PIS and COFINS moving from the non-cumulative method to the umulative method, which influenced the TEF income between January 2012 and March 2016, this adjustment generated undue payment of these obligations, with the credit effects presented.

**25 Income breakdown**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Hardware sales revenue	229,228	260,821	275,205	299,986
Software sales revenue	107,875	110,724	207,411	211,234
( - ) Sales taxes	(54,807)	(59,596)	(66,996)	(69,211)
( - ) Returns and deductions	(5,426)	(6,773)	(7,066)	(8,014)
<b>Net income</b>	<b>276,870</b>	<b>305,176</b>	<b>408,554</b>	<b>433,995</b>

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**26 Financial income**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Finance income</b>				
Income on short-term investments	3,378	7,610	3,987	8,719
Interest earned	3,367	1,427	4,046	1,648
Exchange variance gains	702	3,488	947	3,948
Monetary restatement of judicial deposits	551	538	551	538
Discounts obtained	342	380	408	396
Other financial revenue	-	1,023	11	1,030
	<u>8,340</u>	<u>14,466</u>	<u>9,950</u>	<u>16,279</u>
<b>Finance expenses</b>				
Interest on borrowing and debentures	(7,342)	(9,053)	(7,363)	(9,058)
Exchange variance losses	(667)	(3,998)	(938)	(4,261)
Fine and interest	(1,597)	(985)	(1,747)	(1,344)
Income tax on foreign exchange	(369)	(550)	(369)	(550)
Discounts awarded	(284)	(600)	(758)	(1,097)
Contractual discounts awarded	(1,477)	(1,772)	(1,477)	(1,772)
Bank fees and expenses	(606)	(741)	(1,190)	(1,449)
Monetary restatement of judicial deposits	(795)	(538)	(795)	(538)
Adjustment to present value - AVP	(1,482)	(2,194)	(1,482)	(2,194)
Taxes on short-term investments	(575)	-	(633)	128
Monetary restatement	(220)	(544)	(221)	(544)
Other financial expenses	(1,511)	(254)	(1,583)	(407)
	<u>(16,925)</u>	<u>(21,229)</u>	<u>(18,556)</u>	<u>(23,086)</u>
<b>Net financial income</b>	<u>(8,585)</u>	<u>(6,763)</u>	<u>(8,606)</u>	<u>(6,807)</u>

**27 Expenses by nature**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Expenses by nature</b>				
Raw and use and consumption materials	112,007	113,197	136,277	134,427
Salaries, benefits and charges	78,167	88,913	124,471	137,364
Outsourced services	45,923	55,094	62,797	68,586
Depreciation and amortization	11,499	11,628	14,806	14,207
PCLD, reversal of PCLD and losses on receivables	1,915	3,336	2,525	5,483
Warranties	5,587	5,092	5,649	5,139
Travel	2,677	3,935	4,990	6,253
Rent	4,581	4,540	7,653	8,116
Deductions	1,397	3,864	1,397	3,864
Advertising and marketing	1,135	3,740	3,072	5,733
Others	15,376	13,570	25,913	24,998
	<u>280,264</u>	<u>306,909</u>	<u>389,550</u>	<u>414,170</u>
<b>Expenses by function</b>				
Cost of goods sold and services rendered	194,035	204,222	274,160	279,854
Sales	43,998	50,255	56,019	64,083
Administrative and general expenses	42,231	47,187	59,371	64,360
Management fees	-	5,245	-	5,873
	<u>280,264</u>	<u>306,909</u>	<u>389,550</u>	<u>414,170</u>

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**28 Commitments**

**(a) Investments in Research and Development**

The Company has a commitment to invest each year in research and development activities relating to information technology in Brazil. These commitments refer to Excise Tax (IPI) benefits, as established by Laws 11077/04, 10176/01 and 8248/91, and to government subsidies, as established by Decrees 1922/11 and 5375/02 of the State of Paraná.

The amount to be invested is equivalent to 3% (CPUs and Microterminals) or 4% (Other Products) of the net billing in the domestic market from the sale of computer products and IT services with incentives provided by Law. In this context, the Company must maintain the Basic Production Process (PPB) of the products authorized by Ordinances 770/05 and 109/02.

	<u>12/31/2016</u>	<u>Parent Company</u> <u>12/31/2015</u>
Net billings of products with incentives (CPUs and microterminals)	10,772	10,521
Investment percentage	3%	3%
Total CPUs and Microterminals	<u>323</u>	<u>316</u>
Net billings of other products with incentives	116,738	135,896
Investment percentage	4%	4%
Total other products with incentives	<u>4,670</u>	<u>5,436</u>
Compulsory investment	<u>4,993</u>	<u>5,752</u>
Investment made	<u>4,927</u>	<u>6,503</u>
Investment in excess of the compulsory investment (to be made)	<u>(66)</u>	<u>751</u>

The Company monitors compliance with its commitment to invest in research and development activities, and, if it does not make the necessary investments up to the end of the year, it may consider the investments made in the first quarter of the following year, as permitted by Art. 34 (I) of Decree 5906/06, which regulates Law 8248/91.

**29 Insurance coverage**

Based on the assessments of its advisers, the Company has insurance coverage considered sufficient to cover the risks posed by its own assets, rented assets and those deriving from commercial leases and civil liabilities.

The insured assets are company-owned and rented vehicles and the building where the Company and its subsidiaries are located. The maximum coverage breaks down as follows:

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	<u>12/31/2016</u>	
	<u>Parent Company</u>	<u>Consolidated</u>
Material damages – property, machinery and equipment	53,230	68,849
Material damages – inventory at logistical operator	14,508	14,508
Material damages - international transportation	3,400	3,400
Material damages and pain and suffering– D&O	60,000	108,068
Vehicles		
Material damages	700	4,604
Moral damages	100	100
Personal damages	25	2,065
	<u><b>131,963</b></u>	<u><b>201,594</b></u>

  

	<u>12/31/2015</u>	
	<u>Parent Company</u>	<u>Consolidated</u>
Material damages – property, machinery and equipment	66,267	114,335
Material damages – inventory at logistical operator	12,000	27,619
Material damages - international transportation	20,000	20,000
Material damages and pain and suffering– D&O	80,000	80,000
Vehicles		
Material damages	420	2,372
Moral damages	100	100
Personal damages	420	2,372
	<u><b>179,207</b></u>	<u><b>246,798</b></u>

**30 Financial instruments by category**

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Loans and receivables</b>				
Trade accounts receivable	77,852	77,636	95,326	91,204
Contractual deposit	6,461	7,479	6,461	7,479
<b>Total financial assets</b>	<u><b>84,313</b></u>	<u><b>85,115</b></u>	<u><b>101,787</b></u>	<u><b>98,683</b></u>
	<u>Other financial liabilities</u>		<u>Other financial liabilities</u>	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Financial liabilities measured at amortized cost</b>				
Loans and financing	40,901	41,914	40,901	41,933
Trade accounts payable	24,638	45,908	24,877	46,410
Debentures payable	31,878	45,384	31,878	45,384
Commission payable	665	377	670	383
Profit sharing	924	-	1,183	-
Dividends and interest on equity	1,876	1	2,257	438
<b>Total financial liabilities</b>	<u><b>100,882</b></u>	<u><b>133,584</b></u>	<u><b>101,766</b></u>	<u><b>134,548</b></u>

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