

Financial Statements

Sinagro Produtos Agropecuários S.A.

December 31, 2017
with Independent Auditor's Report

Sinagro Produtos Agropecuários S.A.

Financial statements

December 31, 2017

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

Independent auditor's report on individual and consolidated financial statements

The shareholders, Board of Directors and Officers

Sinagro Produtos Agropecuários S.A.

Primavera do Leste - Mato Grosso

Opinion

We have audited the accompanying individual and consolidated financial statements of Sinagro Produtos Agropecuários S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as of December 31, 2017, and the related statements of income, of comprehensive income, of changes in quotaholders' equity and cash flows for the year then ended, and explanatory notes to financial statements, including a summary of significant accounting practices.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Sinagro Produtos Agropecuários S.A. as at December 31, 2017, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance and comply with the relevant ethical set forth in the Code of Ethics for Professional Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Other matters

Audit of prior year amounts

The financial statements for the year ended December 31, 2016 were audited by other independent auditors, who issued an unmodified audit opinion, thereon dated March 31, 2017.

Management responsibility for the individual and consolidated financial statements

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

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

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

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

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

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



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

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

Goiânia, April 12, 2018.

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

A handwritten signature in blue ink, appearing to read 'Wagner dos Santos Júnior', is written over a faint, light blue rectangular stamp.

Wagner dos Santos Júnior
Sócio-Contador CRC-1SP216386/O-T

Sinagro Produtos Agropecuários S.A.

Balance sheets
December 31, 2017 and 2016
(In thousands of reais)

	Nota	Consolidated		Company	
		2017	2016	2017	2016
Assets					
Cash and cash equivalents	5	12,001	20,590	11,186	19,483
Trade accounts receivable	6	197,326	320,622	190,226	309,381
Inventories	7	113,560	162,041	101,447	141,349
Advances for purchase of inventories	8	55,924	67,989	54,083	67,969
Advances to suppliers		1,592	6,677	1,556	6,613
Recoverable taxes	9	8,954	6,544	8,899	6,482
Income and social contribution tax recoverable		14,410	13,769	13,993	13,329
Financial loans	10	520	31	4,690	3,021
Derivative financial instruments	23	11,887	36,033	11,887	36,033
Prepaid expenses		178	871	170	855
Others	11	4,011	28,464	3,953	25,554
Total current assets		420,363	663,631	402,090	630,069
Interest earnings bank deposits					
		147	516	147	137
Trade accounts receivable	6	6,291	11,518	6,259	10,690
Financial loans	10	3,722	3,386	1,061	900
Derivative financial instruments	11	153,308	130,406	133,832	106,977
Total long-term assets		163,468	145,826	141,299	118,704
Investments					
	12	6,972	110,486	11,419	119,215
Property, plant and equipment	13	24,275	26,314	23,017	24,836
Intangible assets		232	391	228	387
Total non-current assets		194,947	283,017	175,963	263,142
Total assets		615,310	946,648	578,053	893,211

	Nota	Consolidated		Company	
		2017	2016	2017	2016
Liabilities					
Suppliers	14	270,058	430,354	246,157	396,350
Loans and financing	15	221,403	231,574	220,560	230,737
Advances from clients		14,776	61,528	13,684	60,765
Financial loans	10	11,573	19,012	11,573	19,014
Taxes and contributions payable	17	39,448	6,389	38,929	5,146
Derivative financial instruments	23	8,018	20,081	8,018	20,081
Social charges and labor legislation obligations		6,169	8,274	5,946	7,736
Other accounts payable	18	14,563	25,687	14,128	25,305
Total current liabilities		586,008	802,899	558,995	765,134
Financial loans					
Financial loans	10	29,685	65,693	29,685	65,693
Loans and financing	15	25,439	42,217	25,439	41,383
Taxes and contributions payable	17	3,870	3,739	1,804	1,679
Deferred income and social contribution taxes	17	16,542	21,389	14,780	17,879
Provision for contingencies	16	2,449	2,349	2,099	1,999
Other accounts payable	18	-	59,674	-	59,674
Total non-current liabilities		77,985	195,061	73,807	188,307
Shareholders' equity					
Capital	19	277,984	155,528	277,984	155,528
Capital reserve		-	7,136	-	7,136
Accumulated losses		(332,733)	(222,894)	(332,733)	(222,894)
Total shareholders' equity		(54,749)	(60,230)	(54,749)	(60,230)
Interest of non-controlling shareholders		6,066	8,918	-	-
Total shareholders' equity		(48,683)	(51,312)	(54,749)	(60,230)
Total liabilities and shareholders' equity		615,310	946,648	578,053	893,211

See accompanying notes.

Sinagro Produtos Agropecuários S.A.

Income statement
December 31, 2017 and 2016
(In thousands of reais)

	Nota	Consolidated		Company	
		2017	2016	2017	2016
Net operating income	20	1,031,746	1,211,415	1,006,533	1,173,700
Cost of products sold, and services rendered	21	(975,334)	(1,016,012)	(952,339)	(985,539)
Gross income		56,412	195,403	54,194	188,161
Commercial expenses	21	(38,699)	(63,937)	(38,377)	(63,811)
General and administrative expenses	21	(65,431)	(64,809)	(61,600)	(61,249)
Other operating income and (expenses), net	21	(26,296)	2,646	(21,411)	(327)
Equity in net income of subsidiaries	12	207	(1,024)	(2,483)	5,370
Operating income before financial income and expenses		(73,807)	68,279	(69,677)	68,144
Financial income		22,354	18,046	21,120	15,949
Financial expenses		(47,264)	(80,618)	(45,866)	(77,752)
Net foreign exchange variation		(15,144)	19,843	(14,838)	20,187
Net financial income (loss)	22	(40,054)	(42,729)	(39,584)	(41,616)
Income before income and social contribution taxes		(113,861)	25,550	(109,261)	26,528
Deferred income and social contribution taxes	17	1,170	11,708	(578)	6,460
Current income and social contribution taxes	17	-	(9,770)	-	(9,455)
Net income (loss) for the year		(112,691)	27,488	(109,839)	23,533
Income attributed to controlling shareholders		(109,839)	23,533	(109,839)	23,533
Income (loss) attributed to non-controlling shareholders		(2,852)	3,955	-	-
Net income (loss) for the year		(112,691)	27,488	(109,839)	23,533

See accompanying notes.

Sinagro Produtos Agropecuários S.A.

Statements of comprehensive income
December 31, 2017 and 2016
(In thousands of reais)

	Consolidated		Company	
	2017	2016	2017	2016
Net income (loss) for the year	(112,691)	27,488	(109,839)	23,533
Financial loans' adjustment to present value, net of deferred taxes	(7,136)	(3,171)	(7,136)	(3,171)
Total comprehensive income	(119,827)	24,317	(116,975)	20,362
Comprehensive income attributed to controlling shareholders	(116,975)	20,362	(116,975)	20,362
Comprehensive income attributed to non-controlling shareholders	(2,852)	3,955	-	-

See accompanying notes.

Sinagro Produtos Agropecuários S.A.

Statement of changes in equity
December 31, 2017 and 2016
(In thousands of reais)

	Capital	Capital reserve	Accumulated losses	Total usecured liability attributable to controlling shareholders	Interest of non-controlling shareholders	Total usecured liability
Balances at December 31, 2015	113,861	10,307	(246,427)	(122,259)	4,963	(117,296)
Capital increase	41,667	-	-	41,667	-	41,667
Realization of adjustment to present value on financial loans	-	(3,171)	-	(3,171)	-	(3,171)
Net income (loss) for the year	-	-	23,533	23,533	3,955	27,488
Balances at December 31, 2016	155,528	7,136	(222,894)	(60,230)	8,918	(51,312)
Capital increase	122,456	-	-	122,456	-	122,456
Realization of adjustment to present value on financial loans	-	(7,136)	-	(7,136)	-	(7,136)
Net income (loss) for the year	-	-	(109,839)	(109,839)	(2,852)	(112,691)
Balances at December 31, 2017	277,984	-	(332,733)	(54,749)	6,066	(48,683)

See accompanying notes.

Sinagro Produtos Agropecuários S.A.

Statements of cash flows Years ended December 31, 2017 and 2016 (In reais)

	Consolidated		Company	
	2017	2016	2017	2016
Cash flow from operating activities				
Net income (loss) for the year	(112,691)	27,488	(109,839)	23,533
Adjustments on income (loss) for the year				
Deferred income and social contribution taxes	(1,170)	(11,708)	578	(6,460)
Current income and social contribution taxes provided	-	9,770	-	9,455
Allowance for doubtful accounts	32,254	(790)	27,592	(24)
Adjustment to present value	(8,237)	950	(7,471)	(100)
Interest and foreign exchange rates - incurred assets and liabilities	54,308	51,604	54,137	49,879
Inventories' adjustment to net realizable value	(1,363)	(720)	(1,363)	(720)
Provision for expired inventories	1,068	-	2,077	-
Fair value of derivative financial instruments	(2,137)	(152)	(2,137)	(152)
Equity in income of subsidiaries and associated companies	(207)	1,024	2,483	(5,370)
Provision for contingencies	100	(460)	100	(502)
Debt adjustment in acquisition of interest in Serra Bonita	(9,182)	(1,655)	(9,182)	(1,654)
Depreciation and amortization	2,829	6,650	2,732	6,532
Net income (loss) on sale of property, plant and equipment	104,820	(7,126)	104,674	(7,126)
	60,392	74,875	64,381	67,291
(Increase)/decrease in assets				
Trade accounts receivable	112,111	28,419	107,478	27,336
Inventories	48,776	(10,551)	39,188	(14,680)
Biological assets	-	620	-	620
Advances for purchase of inventories	12,065	(24,734)	13,886	(24,720)
Advances to suppliers	5,087	(5,736)	5,057	(5,753)
Recoverable taxes	(2,410)	11,267	(2,417)	11,240
Income and social contribution tax recoverable	(641)	(1,629)	(664)	(1,497)
Prepaid expenses	696	1,166	685	1,169
Interest earnings bank deposits	369	2,305	(10)	2,343
Other credits	(145)	(9,630)	(2,998)	(8,160)
	175,908	(8,503)	160,205	(12,102)
Increase/(decrease) in liabilities				
Suppliers	(144,725)	(66,237)	(135,081)	(63,731)
Advances from clientes	(46,755)	41,838	(47,081)	44,719
Taxes and contributions payable	11,807	2,023	12,527	(853)
Social charges and labor legislation obligations	(2,106)	1,082	(1,790)	1,081
Other accounts payable	(61,615)	(8,571)	(61,669)	(8,533)
Income and social contribution tax payable	(3,677)	(11,683)	(3,677)	(9,455)
Cash flow (invested in) from operating activities	(10,771)	24,824	(12,185)	18,417
Cash flow from investment activities				
Impact of AVP on transactions with partners	-	(4,805)	-	(4,805)
Investments in associated companies - paid	(1,570)	(16,387)	(1,570)	(13,680)
Income from sale of property, plant and equipment	2,353	61,345	2,353	61,345
Acquisition of property, plant and equipment and intangible assets	(2,782)	(6,808)	(898)	(6,808)
Cash flow from (invested in) from investment activities	(1,999)	33,345	(115)	36,052
Cash flow from financing activities				
Payments of loans	(66,865)	(29,816)	(66,038)	(26,964)
Loan payments	(51,410)	(56,894)	(52,415)	(56,894)
Capital increase received	122,456	41,667	122,456	41,667
Cash flow from (invested in) financing activities	4,181	(45,043)	4,003	(42,191)
Increase (decrease) in cash and cash equivalents	(8,589)	13,126	(8,297)	12,278
Cash and cash equivalents at the beginning of the year	20,590	7,464	19,483	7,205
Cash and cash equivalents at the end of year	12,001	20,590	11,186	19,483
Increase (decrease) in cash and cash equivalents	(8,589)	13,126	(8,297)	12,278

See accompanying notes.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements

December 31, 2017

(In thousands of reais, unless otherwise stated)

1. Operations

Sinagro Produtos Agropecuários Ltda. (“Company”) is a privately-held company with head office and jurisdiction in the municipality of Primavera do Leste, MT. The Company was formed in February 2001 and currently has 20 branches installed in the eastern and southeastern regions of the state of Mato Grosso, in the cities of Rondonópolis, Campo Verde, Nova Xavantina, Querência, Canarana, Alto Taquari, Gaucha do Norte and São Félix do Araguaia; in the last one up to August 31, 2015 the Company operates with soybean, corn and rice production in leased areas. The Company has expanded its range of activity with the recently installed units in the states of Mato Grosso do Sul and Bahia.

The Company is mainly engaged in retail sales and commercial representation of agricultural pesticides, fertilizers, soil correctors and varied seeds; exports of bagged or bulk grain; activities related to general warehouses; working as a freight agency, mostly for cargo transportation by truck, and cotton processing, such as seed removal and fiber preparation.

Sinagro is the representative of crops protection company Syngenta in selling agricultural pesticides in the regions it covers and is considered one of Syngenta’s main partners in Brazil.

The purpose of the strategic planning that is being implemented by the Company is to improve its income and working capital.

The Company’s goal is to continuously improve management of risks related to: (i) loan portfolio, (ii) exposure to commodity prices and, (iii) exposure to exchange variation. In addition, continuous improvement in governance aspects are considered to reinforce to the market the best market practices adopted by the Company. As regards financial management, the Company will seek leverage and financial cost reduction, as well as capital structure adjustment to the activity. It is important to strengthen that the Company’s operating structure, which was developed throughout the years by material investments, as well as employees’ quality, will contribute to carry out this strategy and to achieve outlined goals.

2. Group entities

The Company has the following direct subsidiary and jointly-controlled subsidiaries:

Entity	City /State	Interest 2017	Interest 2016
Direct subsidiary			
Seara Comercial Agrícola Ltda.	Luis Eduardo Magalhães – Bahia	51.00%	51.00%
Jointly-controlled subsidiaries			
Bioplanta Nutrição Vegetal, Indústria e Comércio S.A.	Lucas do Rio Verde – Mato Grosso	33.33%	33.33%

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

2. Group entities (Continued)

Seara Comercial Agrícola Ltda.

The direct subsidiary, headquartered in Luís Eduardo Magalhães, in Bahia, is engaged in representing agricultural products and trading grains in general. It is currently present in Bahia State, in the cities of Rosário and Luis Eduardo Magalhães.

Bioplanta Nutrição Vegetal, Indústria e Comércio S.A.

Jointly-controlled subsidiary, with head office in Lucas do Rio Verde, Mato Grosso State, currently in pre-operating stage, is engaged in industry activities, wholesale trading, services and import of agricultural products, such as: soy bean, corn, millet, sorghum, among others, raw material to prepare fertilizers, agricultural pesticides, fertilizers and seeds, by-products and similar chemical products, provision of services for fertilizer production, storing and packing agricultural products, seeds and fertilizers and commercial representation.

Venda da Serra Bonita Sementes S.A. ("Serra Bonita")

As deliberated at the Shareholders' General Meeting held on July 6, 2017, the Company, holder of 96,672,926 (ninety-six million, six hundred and seventy-two, nine hundred and twenty-five) shares without face value, representing thirty-three, thirty-three percent (33,33%) of the total and voting shareholders capital of Serra Bonita, fully subscribe and paid-up (the "shares") decided to fully dispose of its participation to Advanta Comércio de Sementes Ltda. ("Advanta")

The table below shows the result of the sales of this investment

	<u>2017</u>
Sale value	41.452
(-) Investment cost	(104.530)
(-) Gado Bravos' account payable	<u>62.350</u>
Net sale	<u>(728)</u>

3. Preparation basis

a) Statement of conformity regarding the Accountant Statements Committee (CPC) standards

These individual and consolidated financial statements were prepared according to the accounting practices adopted in Brazil (BR GAAP) in conformity with the pronouncements, guidance and interpretations issued by the Accounting Pronouncement Committee - CPC.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

3. Preparation basis (Continued)

a) Statement of conformity regarding the Accountant Statements Committee (CPC) standards (Continued)

The issue of financial statements was authorized by the Management on April 12, 2018.

Details on the Company's significant accounting policies are shown in Note 4.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by company Management.

b) Measuring basis

The individual and consolidated financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Non-derivative financial instruments measured at fair value through profit or loss;
- Derivative financial instruments measured at fair value; and
- Commodities' inventories measured at fair value.

c) Functional and presentation currency

These financial statements are being presented in Brazilian thousand reais, functional currency of the Group. All balances have been rounded to the nearest value, except otherwise indicated.

d) Use of estimates and judgments

The preparation of these individual and consolidated financial statements, Management used judgments, estimates and assumptions that affect the application of Group's accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews of estimates are recognized on a prospective basis.

i) *Judgments*

Information about judgment referring to the adoption of accounting policies which impact significantly the amounts recognized in the financial statements are included in the following notes:

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

3. Preparation basis (Continued)

d) Use of estimates and judgments (Continued)

i) *Judgments* (Continued)

Note 4 (a) – consolidation, determination of whether the Group holds actual control on an investee; and

Note 4(l) - Lease: to determine if the agreements have a lease.

ii) *Uncertainties on assumptions and estimates*

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the year ending December 31, 2017 are included in the following notes:

Note 6 – Trade accounts receivable (allowance for doubtful accounts and adjustment to present value);

Note 7 - Inventories (Provision for expired goods' losses);

Note 16 – Recognition and measurement of provision for contingencies in progress: main assumptions on the probability and volume of outflows; and

Note 17 – Measurement of period for realization of deferred tax assets.

• Measurement at fair value

A series of accounting policies and disclosures of the Company and its subsidiaries requires the measurement of the fair values of financial and non-financial assets and liabilities.

The Management periodically reviews unobservable data considered significant and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the CPC requirements, including the level in the fair value hierarchy in which such valuations should be classified.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

3. Preparation basis (Continued)

d) Use of estimates and judgments (Continued)

ii) *Uncertainties on assumptions and estimates* (Continued)

Note 17 (Continued)

• Measurement at fair value (Continued)

When measuring fair value of an asset or liability, the Company and its subsidiaries use market observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

- Level 1: Prices quoted (not adjusted) in active markets for identical assets and liabilities;
- Level 2: Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices); and
- Level 3: Inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

The totality of financial instruments, assets and liabilities of the Company and its subsidiaries are classified into "level 2".

Additional information on the assumptions adopted in the measurement of fair values is included in the following note:

Note no. 23 – Financial instruments.

4. Significant accounting policies

The accounting policies described in detail below have been consistently applied to all the years presented in these consolidated individual and financial statements.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

a) Consolidation basis (Continued)

i) *Subsidiary*

The Group controls an entity when it is exposed to, or has a right over the variable returns arising from its involvement with the entity and has the ability to affect those returns exerting its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements as from the date they start to be controlled by the Company until the date such control ceases.

ii) *Interest of non-controlling shareholders*

The Group chose to measure non-controlling interest at their proportion in acquirees at their proportion in identifiable net assets on acquisition date.

Changes to the Group's interest in a subsidiary that do not result in loss of control are accounted for as transactions of shareholders' equity.

iii) *Investments in entities are accounted for at the equity method.*

The Group's investment in entities numbered by the equity method is comprised of its interest in joint ventures.

Associated companies are the entities in which the Group has, directly or indirectly, significant influence but not control or jointly-control on financial and operating policies. In order to classify an entity as jointly-controlled subsidiary, a contract must exist allowing the Group to maintain joint control over the entity and giving the Group rights over jointly-owned subsidiary's net assets, and not directly to its specific assets and liabilities.

Such investments are initially recognized by the cost, which includes expenses with transactions. After initial recognition, financial statements include the Group's interest in investees' income or net loss for the year and other comprehensive income up to the date in which significant influence or joint control no longer exists. In the Parent Company's financial statements, investments in subsidiaries are also accounted for at such method.

When the participation of the Company in the losses of an investee, whose shareholders' equity has been accounted for, exceeds its ownership interest in the investee recorded at the equity method, the book value of that ownership interest, including long-term investments, is reduced to zero and additional losses are no longer recognized, except when the Company has constructive obligations or made payments on behalf of the investee, when a provision for investment losses is recorded.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

a) Consolidation basis (Continued)

iv) *Transactions eliminated in the consolidation*

Intragroup balances and transactions, and any unrealized income or expenses derived from intragroup transactions, are eliminated. Unrealized gains originating from transactions with investee recorded using the equity method, are eliminated against the investment in the proportion of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

b) Foreign currency

Foreign currency transactions

Transactions in foreign currency are translated into the respective functional currency of the Group at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated and calculated in foreign currencies on the balance sheet date are reconverted into the functional currency at the foreign exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date the fair value was determined. Non-monetary items that are measured based on the historical cost in foreign currency are translated using the rate of the transaction date. Exchange differences arising from the translated are recognized in income (loss).

c) Financial instruments

The Group classifies non-derivative financial assets in the following categories: financial instruments measured at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities in the category of other financial liabilities.

i) *Non-derivative financial assets and liabilities – recognition and derecognition*

The Company and its subsidiaries initially recognize the loans, receivables and debt instruments on the date that they are originated. All other financial assets and liabilities are recognized on the date of the negotiation when the Entity becomes a party to the instrument's contractual provisions.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

c) Financial instruments (Continued)

i) *Non-derivative financial assets and liabilities – recognition and derecognition* (Continued)

The Group fails to recognize a financial asset when the contractual rights to the cash flow of the asset expire, or when it transfers the rights to the reception of contractual cash flows over a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

Financial assets and liabilities are offset and the net value reported in the balance sheet only when there is a legally enforceable right of the Company and its subsidiaries to offset and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

ii) *Non-derivative financial assets - measurement*

Financial assets recorded at fair value through profit or loss

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. The transaction costs are recognized as incurred. They are measured at fair value and changes in the fair value, including gains with interest and dividends, are recognized in the income (loss) for the year.

Loans and receivables

Such assets are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

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Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

c) Financial instruments (Continued)

iii) *Non-derivative financial liabilities - Measurement*

A financial liability is classified as measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. The transaction costs are recognized in income (loss) as incurred. These financial liabilities are measured at fair value and changes in the fair value, including gains with interest and dividends, which are recognized in the income (loss) for the year.

Other non-derivative financial liabilities are initially measured at fair value less any transaction costs directly assignable. After their initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

iv) *Derivative financial instruments*

The Company and its subsidiaries keep derivative instruments to hedge its exposures to foreign currency and interest rate changes. Embedded derivatives are separated from the host contracts and separately recorded when certain criteria are met. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

v) *Capital*

The Company's capital is comprised of common shares and preferred shares that are classified as shareholders' equity.

d) Inventories

Inventories are comprised of commodities and products for resale.

Inventory of commodities is marked-to-market less selling costs. In determining fair value, the Company uses as a reference the quotation and indices disclosed by public sources and related to the products and active markets where it operates. Changes in the fair value of these inventories are recognized in the income (loss) for the year.

Inventory of products for resale are measured at the lower value between the cost and net realizable value. Inventory costs are based on moving weighted average.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

e) Property, plant and equipment

i) *Recognition and measurement*

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses, when applicable.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the Company itself and its subsidiaries include:

- The cost of materials and direct labor;
- Any other costs directly attributable to bringing the assets to the location and condition required for them to operate in the manner intended by the Management; and
- The costs for dismantling and restoration of the site where these assets are located.

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the book value of property, plant and equipment) are recognized in other operating income (expenses) in profit or loss.

ii) *Subsequent costs*

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company or subsidiaries. Maintenance expenses and recurring repairs are recorded in the income.

iii) *Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use, or, in the case of assets constructed by the Company, as of the date the construction is concluded and the asset is available for use.

Depreciation is calculated to amortize the cost of items of fixed asset items, net of their estimated residual values, using the straight-line method based on estimated useful lives of such items. Depreciation is recognized in income (loss), unless the amount is included in the book value of another asset. Land is not depreciated.

Leased assets are depreciated over the shorter of the estimated useful life of the asset and the contractual term, unless it is certain that the Company will become the owner of the asset at the end of the lease term.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

e) Property, plant and equipment (Continued)

iii) *Depreciation* (Continued)

The average useful lives estimated for the current and comparative years are as follows:

<u>Class of assets</u>	<u>Average useful life</u>
Buildings	25 years
Agricultural machinery and equipment	10 years
Furniture and fixtures	10 years
Facilities	10 years
Leasehold improvements	10 years (average contract period)
Vehicles	5 years
Storage	10 years
Aircrafts	10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date and adjusted if appropriate.

f) Impairment

i) *Non-derivative financial assets*

Financial assets not classified as financial assets at fair value through profit or loss, including investments calculated under the equity method of accounting are assessed at each balance sheet date for objective evidence of impairment loss.

Objective evidences of financial assets' impairment include:

- Debtor's default or delays;
- Restructuring of an amount owed to the Group at conditions that would not be accepted under normal conditions;
- Indications that the debtor or issuer will face bankruptcy/court-ordered reorganization;
- Negative changes in payment situation of debtors or issuers;
- The disappearance of an active market for an instrument due to financial distress; or
- Observable data indicating that expected cash flow measurement of a group of financial assets decreased.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

f) Impairment (Continued)

i) *Non-derivative financial assets* (Continued)

Financial assets measured at amortized cost

The Group considers as evidence of impairment of assets measured by amortized cost both individually and on an aggregate basis. All individually significant assets are assessed for impairment. Those non-impaired on an individual basis are collectively assessed for any impairment loss not yet identified. Assets that are not individually significant are collectively evaluated for impairment based on group of assets with similar risk characteristics.

When assessing impairment on an aggregate basis the Company makes use of historical trends of the recovery term and the amounts of losses incurred, adjusted to reflect the Management's judgment if the current economic and credit conditions are such that the actual losses will probably be higher or lower than those suggested by historical trends.

An impairment of a financial asset measured at amortized cost is calculated as the difference between the asset's book and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in an allowance in the income statement against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When the Group considers that it is not possible to reasonably expect recovery, amounts are written-off. When subsequent event indicates loss reduction, provision is reversed through profit or loss.

ii) *Non-financial assets*

The book values of the non-financial assets of the Company and its subsidiaries, except for biological assets, inventories, biological assets and deferred tax assets are reviewed at each balance sheet date for indication of impairment. If such indication exists, the asset's recoverable value is determined.

For impairment tests, assets are grouped at the lowest possible group of assets that generates cash inflows for their continued use, these entries that are largely independent of the cash inflows from other assets or CGU (cash generating units).

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

f) Impairment (Continued)

ii) *Non-financial assets* (Continued)

The recoverable value of an asset or CGU is the greater of its value in use and its fair value less selling expenses. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions as to the recoverability period of capital and the risks specific to the asset or CGU.

An impairment loss is recognized when the book value of an asset or its CGU exceeds its recoverable value.

Impairment losses are recognized in profit or loss. Impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

g) Provisions

A provision is formed if the Company or its subsidiaries have a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation.

h) Adjustment to present value

The Company and its subsidiaries present, whenever relevant, assets and liabilities at present value, in accordance with CPC 12 – Adjustment to present value. Adjustment to present value is calculated by the Company on a timely basis and recorded, if relevant; it is detailed in notes referring to assets and liabilities that generated the adjustment. Assumptions considered for adjustment to present value calculation are as follows: (i) amount to be discounted; (ii) realization and settlement dates; and (iii) discount rate. The discount rate used considered the current market assessments of the time value of money and the risks specific to each asset and liability.

i) Operating income

Sale of agricultural products

The operating income from sales of agricultural products in the normal course of business is measured by the fair value of the installment received or receivable.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

i) Operating income (Continued)

Sale of agricultural products (Continued)

Operating income is recognized when (i) the most significant risks and rewards inherent to the ownership of the assets have been transferred to the purchaser, (ii) it is probable that the financial economic benefits will flow to the Group, (iii) the costs related and potential return of goods can be reliably estimated, (iv) there is no continued involvement with the goods sold, and (v) the amount of operating income can be reliably measured. In the event that it is probable that discounts will be granted and their amounts can be reliably measured, discounts are recognized as a reduction to sales. Income is measured net of returns, trade discounts and bonus.

The correct moment for the transfer of risks and benefits varies depending on the individual conditions of the sales agreement. Sale of products: soybean, soy meal, corn, seeds, fertilizers and pesticides, the transfer normally takes place when the product is delivered in the client's warehouse; however, for international sales, the transfer takes place upon loading of the products at the pertinent transporting company in the port of the selling party.

j) Financial income and expenses

The financial income and expenses of the Company and its subsidiaries comprise the following:

- Interest income;
- Discounts obtained;
- Gains/Losses in derivative financial instruments;
- Interest on loans and financing; and
- Variation in price indices

Interest income and expenses are recognized in income at the effective interest method.

k) Income and social contribution taxes

The income and social contribution taxes, both current and deferred are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R\$ 240 (annual basis) for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of income tax loss carryforward and negative basis of social contribution, limited to 30% of the annual taxable income for the year.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

k) Income and social contribution taxes (Continued)

The income tax and social contribution expense comprises the current and deferred installments.

Current taxes and deferred taxes are recognized in income unless they are related to items directly recognized in Shareholders' equity or in other comprehensive income.

i) *Current income tax and social contribution expense*

Current tax expense is the tax payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years. The amount of current taxes payable or receivable is recognized on the balance sheet as a tax asset or liability, according to the best estimate of the expected amount of the taxes to be paid or received, which reflects the uncertainties relating to the calculation thereof, if any. It is measured based on rates enacted at the balance sheet date.

Current tax assets and liabilities are offset only if certain criteria are met.

ii) *Deferred income and social contribution tax expenses*

Deferred tax assets and liabilities are recognized in relation to the temporary differences between the book values of assets and liabilities for financial statement purpose and used for taxation purposes.

A deferred tax asset is recognized in relation to tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be subject to taxation will be available against which they will be used. Deferred tax assets are reviewed at each reporting date and will be reduced to the extent their realization is no longer probable.

Deferred tax assets and liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates enacted or decreed up to the date of balance sheet date.

The measurement of deferred tax assets and liabilities reflects the tax consequences in a manner in which the Company and its subsidiaries expect to recover or settle its assets and liabilities.

The deferred tax assets and liabilities are offset only if certain criteria are met.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

l) Leases

i) *Determining whether an agreement contains a lease*

At the inception of an agreement, the Company and its subsidiaries define whether the agreement is for or contains a lease.

- Meeting the agreement depends on the use of said specified asset, and
- The agreement has a right of use of the asset.

At the inception of an agreement or at the time of a possible revaluation thereof, the Company and its subsidiaries separate payments and other considerations required by said agreement between those for leasing and those for other components, taking as a basis their relative fair values.

ii) *Lease payments*

Payments for operating leases are charged to income on the straight-line basis over the lease period.

m) Standards, amendments and interpretations to standards

The pronouncements and interpretations issued by the Brazilian Financial Accounting Standards Board (CPC) applicable to the Company that were not yet effective as at the date of these financial statements are described below. The Company intend to adopt these pronouncements once they become effective in Brazil.

- CPC 47 (IFRS 15) - Revenue Recognition - specifies how and when to recognize revenue from contracts with customers, and requires an entity to provide users of financial statements with more informative and relevant information.
- CPC 48 (IFRS 9) - Financial Instruments - aims to replace CPCs 38, 39 and 40 (IAS 39) and establishes principles for disclosure of financial assets and liabilities, as well as adds a new impairment model and limited changes to the classification and measurement requirements by introducing a valuation criterion at "fair value through equity adjustments" for certain simple debt instruments.

The Company assessed the effects from implementing the above regulations in its financial statements and concluded that the impacts will not be significant. Additionally, the cumulative method was defined as the transition method.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

4. Significant accounting policies (Continued)

m) Standards, amendments and interpretations to standards (Continued)

Applicable on or after January 1, 2019:

- CPC 06 (R2) (IFRS 16) - Leases (new pronouncement) - aims to introduce requirements for recognition, measurement, presentation and disclosure of leases. The pronouncement 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. There are no significant changes for lessor accounting, and lessors should continue to classify leases as operating or finance, as defined in the standard.

The Company has not yet concluded the evaluation of the effects and disclosures arising from this standard in its financial statements.

5. Cash and cash equivalents

	Consolidated		Company	
	2017	2016	2017	2016
Cash	25	262	22	211
Bank deposits	2,693	1,103	2,527	1,042
Interest earnings bank deposits	9,283	19,225	8,637	18,230
	12,001	20,590	11,186	19,483

The cash balance arises from receipts of business transactions and are resources available to meet the immediate cash needs of the Company and its subsidiaries. All funds are deposited in prime bank institutions.

Interest earning bank deposits are convertible into a known sum of cash and subject to an insignificant risk of change of value.

Financial investments are fixed-income consisting of Bank Deposit Certificates backed by Interbank Deposit Certificate (CDI).

The Company's exposure to rate risks and a sensitivity analysis of financial assets and liabilities are disclosed in note 23.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

6. Accounts receivable

	Consolidated		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Accounts receivable from third parties	263,452	394,719	234,520	361,454
Accounts receivable from related parties (Note 10)	14,442	10,468	14,180	10,006
(-) Allowance for doubtful accounts	(66,085)	(56,909)	(44,383)	(35,915)
(-) Adjustment to present value	(8,192)	(16,138)	(7,832)	(15,474)
	203,617	332,140	196,485	320,071
Current assets	197,326	320,622	190,226	309,381
Non-current assets	6,291	11,518	6,259	10,690
	203,617	332,140	196,485	320,071

The credit risk of accounts receivable is derived from the possibility of the Company and its subsidiaries not receiving amounts resulting from sale operations. In order to minimize this risk, the Company and its subsidiaries adopt the practice of conducting a detailed analysis of the financial situation of its clients, establishing a credit limit, permanently monitoring their debt balance and obtaining effective guarantees through Farmer Bills (CPR).

The reserve is mostly for securities over 180 days past due and having a remote expectation of realization and is considered sufficient to cover possible losses on receivables. For clients classified in this criterion and balances overdue for less than 180 days, we applied a progressive table from 15% to 50% of balances to supplement the allowance for doubtful accounts.

As of December 31, 2017, and 2016, the breakdown of balances by maturity may be presented as follows:

	Consolidated		Company	
	2017	2016	2017	2016
Falling due	205,657	332,668	199,317	320,756
Overdue - in days	205,657	332,668	199,317	320,756
Up to 30	1,232	1,515	741	1,472
31-60	680	4,136	-	3,621
61-90	216	527	127	527
91-120	2,791	7,095	2,791	7,045
121-180	2,009	2,236	1,990	2,236
>180	63,802	54,577	42,327	33,830
	70,730	70,086	47,976	48,731
Sales for future delivery and foreign exchange variation	1,507	2,433	1,407	1,973
Total	277,894	405,187	248,700	371,460

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

6. Accounts receivable (Continued)

Changes in the allowance for doubtful accounts

	Consolidated		Company	
	2017	2016	2017	2016
Opening balance	(56,909)	(57,698)	(35,916)	(35,939)
Additions/reversals, net	(9,176)	789	(8,467)	24
Closing balance	(66,085)	(56,909)	(44,383)	(35,915)

The Company's exposure to credit and currency risks and impairment losses related to accounts receivable and other accounts are disclosed in Note 23.

The Company's operating cycle is one year, accordingly, accounts receivable are concentrated in the short term. Long-term is comprised of current crop accounts that were renegotiated for future receipt.

7. Inventories

	Consolidated		Company	
	2017	2016	2017	2016
Pesticides	81,773	131,844	69,916	110,800
Micronutrients	7,249	8,158	6,155	7,206
Soy	8,506	6,816	8,506	6,816
Corn seed	14,866	14,269	14,866	13,834
(-) Provision for expired goods' losses	(3,010)	(1,942)	(2,077)	-
Other	4,176	2,896	4,081	2,693
	113,560	162,041	101,447	141,349

8. Advances for purchase of inventories

	Nota	Consolidated		Company	
		2017	2016	2017	2016
Advances to third parties		48,908	65,013	47,067	64,993
Advances to related parties	10	7,016	2,976	7,016	2,976
		55,924	67,989	54,083	67,969

Advances to the purchase of inventories are financial onlendings to suppliers on account of future purchases, mostly acquisition of grain, fertilizers and seeds.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

8. Advances for purchase of inventories (Continued)

Advances are guaranteed by pledge of the crop represented by rural producer bills and collateral signatures from third parties.

9. Recoverable taxes

	Consolidated		Company	
	2017	2016	2017	2016
Cofins recoverable (a)	4,934	3,024	4,934	3,004
Pis recoverable (a)	1,138	484	1,138	481
IRRF (Withholding income tax) recoverable	51	3	33	-
Withholding CSLL (Social contribution on net income) recoverable	22	27	11	6
CSLL	1,107	983	1,107	983
Other taxes recoverable	1,702	2,023	1,676	2,008
	8,954	6,544	8,899	6,482

(a) Credits due to the non-cumulative tax computation regime for inputs and other items used in the agricultural activity and will be used to pay PIS and COFINS on financial income.

10. Related parties

a) Parent company

Final parent companies of the Company are S3B - Fundo de Investimento em Participações and United Phosphorus Holdings Brazil B.V. "UPL".

b) Compensation of key management personnel

Management key personnel is comprised of the Executive Board. The Directors' fees are defined in the Shareholders' Meeting and the amounts paid in the year as regards to compensation totaled R\$937 as of December 31, 2017 (R\$869 as of 2016).

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

10. Related parties (Continued)

c) Related party transactions

Nota	Consolidated		Company	
	2017	2016	2017	2016
Assets:				
Trade accounts receivable (i)				
6				
	3SB Produtos Agrícolas S.A.	10,361	14,180	9,899
	Serra Bonita Sementes S.A.	75	-	75
	UPL do Brasil Indústria e Comércio	32	-	32
		14,442	14,180	10,006
Advances for purchase of inventory				
8				
	Serra Bonita Sementes S.A.	850	-	850
	3SB Produtos Agrícolas S.A.	1,963	6,966	1,963
	UPL do Brasil Indústria e Comércio	163	50	163
		7,016	7,016	2,976
Other credits – Non-current				
11				
	Marcos Antônio Vimercati (ii)	91,847	98,594	68,418
	3SB Produtos Agrícolas S.A.	21,445	17,507	21,445
		113,292	116,101	89,863
Loans - assets				
	3SB Produtos Agrícolas S.A.	-	520	-
	César Augusto Simões Miranda	1,103	-	-
	Glaucis Roberto Cica	1,048	-	-
	Marcos Antônio Vilmercati	619	325	284
	Gilmar Reinoldo Wentz	397	455	397
	Roberto Daniel Silva Rocha	245	281	245
	Seara Comercial Agrícola S.A.	-	4,170	2,990
	Outros	5	-	5
		3,417	5,751	3,921
	Current assets	31	4,690	3,021
	Non-current assets	3,386	1,061	900
Liabilities:				
Suppliers				
14				
	UPL do Brasil Indústria e Comércio	105,375	50,530	97,383
	3SB Produtos Agrícolas S.A.	-	219	-
	Marcos Antônio Vimercati	40	-	40
		105,415	50,749	97,423
Other accounts payable				
18				
	Gado Bravo (iii)	71,609	-	71,609
	Gilmar Reinoldo Wentz	2,437	1,434	2,437
	UPL do Brasil Indústria e Comércio	-	3,709	-
		74,046	5,143	74,046

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

10. Related parties (Continued)

c) Related party transactions (Continued)

Nota	Consolidated		Company	
	2017	2016	2017	2016
Financial loan liabilities				
Marcos Antônio Vimercati e Ademir Ortiz de Goes (iv)	-	39,188	-	36,984
UPL do Brasil Indústria e Comércio (v)	40,849	26,128	40,849	25,954
Uniphos Indústria e Comércio de Produtos Químicos Ltda. (vi)	-	10,000	-	10,000
UPL do Brasil Indústria e Comércio (vii)	-	9,012	-	9,012
Other	409	377	409	377
	41,258	84,705	41,258	82,327
Current liabilities	11,573	19,012	11,573	19,014
Non-current liabilities	29,685	65,693	29,685	65,693

- (i) Refers to accounts receivable from sale of agricultural inputs;
- (ii) Amounts deriving from reimbursement of costs and expenses, recorded pursuant to the terms of investment contract, which ensures to the Company and its subsidiaries the right to reimbursement of certain expenses and receivables. Such expenses and receivables were the responsibility of shareholders existing before corporate reorganization on June 29, 2015, pursuant to which United Phosphorus Holding Brazil B.V. ("UPL") subscribed capital of the Company in exchange for 40% of capital;
- (iii) Agreement for the purchase and sale of Serra Bonita shares, executed in April 2013, which provides that investment will be made through 1,176,669 soy bean sacks divided into 10 installments and converted to prevailing soy bean price. The amount of R\$71,609 corresponds to 6 remaining contract installments (soy bean sacks adjusted to market value as of December 31, 2016). In the end of 2017, the Company performed the settlement of its shares of Serra Bonita. (Notes to financial statement 2)
- (iv) Loans made by indirect shareholders on June 29, 2015, maturing on March 31, 2019, automatically postponed to March 31, 2020, and bearing no financial charges; payment will be in the form of compliance with certain preceding conditions determined in the contract. For such amounts, the Company recognized adjustments to present value of R\$10,812 (R\$7,136 net of deferred taxes) as capital reserve, in line with Brazilian accounting policies. The loan was settled in 2017.
- (v) Loan made by related party UPL do Brasil - Indústria e Comércio de Produtos Agropecuários S.A. on June 29, 2015, maturing on March 31, 2018, adjusted at CDI plus 2% per annum or at the Company's average raising rate for previous year, whichever is higher. This loan may be capitalized by complying with certain preceding conditions determined in contract;
- (vi) Loan of R\$9,000 raised on December 29, 2016 to be paid on June 15, 2017, added of financial charges at the rate of 6.21% p.a.; and
- (vii) Loan as of November 18, 2015 settled in 2017.

Significant transactions that influenced income for the year ended December 31, 2017 are resales amounting to R\$14,962 (R\$215,345 in 2016), acquisition of input for resale amounting to R\$104.927 (R\$160,372 in 2016).

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

11. Other credits

	Consolidated		Company	
	2017	2016	2017	2016
Expenses to be reimbursed (note 10)	118,070	91,847	98,594	68,418
Leases receivable (Note 10)	17,507	21,445	17,507	21,445
Real estate credits receivable	8,000	16,384	8,000	16,384
Credits receivable	8,392	14,100	8,392	14,100
Judicial deposits	-	5,067	-	5,066
Other	5,350	10,027	5,292	7,118
	157,319	158,870	137,785	132,531
Current assets	4,011	28,464	3,953	25,554
Non-current assets	153,308	130,406	133,832	106,977
	157,319	158,870	137,785	132,531

12. Investments

	Consolidated		Company	
	2017	2016	2017	2016
Subsidiaries and associated companies				
Seara Comercial Agrícola Ltda.	-	-	6,306	8,729
Serra Bonita Sementes S.A.	-	104,839	-	104,839
Bioplanta Nutrição Vegetal Ind. e Com. S.A.	4,679	2,719	4,679	2,719
	4,679	107,558	10,985	116,287
Other investments	2,293	2,928	434	2,928
	6,972	110,486	11,419	119,215

Changes in balances and investees' information

	2017			Total
	Seara Comercial Agrícola Ltda.	Serra Bonita Sementes S.A.	Bioplanta Nutrição Vegetal Ind. e Com. S.A.	
Investees' information:				
Number of shares (quotas) held	51,000	96,672,926	933	
Ownership interest	51%	33%	33%	
Changes in investments:				
At the beginning of the year	8,729	104,839	2,719	116,287
Acquisition	-	-	1,570	1,570
Other	267	(660)	534	141
Equity in net income of subsidiaries	(2,690)	351	(144)	(2,483)
Settlement for sale of investment (explanatory note 2)	-	(104,530)	-	(104,530)
At the end of the year	6,306	-	4,679	10,985

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

12. Investments (Continued)

Changes in balances and investees' information (Continued)

	2017			
	Seara Comercial Agrícola Ltda.	Serra Bonita Sementes S.A.	Bioplanta Nutrição Vegetal Ind. e Com. S.A.	
Assets:				
Current	22,442	-	370	
Non-current	25,290	-	13,629	
Total assets	47,732	-	13,999	
Liabilities:				
Current	31,183	-	394	
Non-current	4,178	-	-	
Shareholders' equity	12,371	-	13,605	
Total liabilities and shareholders' equity	47,732	-	13,999	
Income (loss):				
Income	25,213	21,050	5	
Gross income	2,218	4,826	5	
Income (loss) for the year	(5,274)	1,061	(437)	
	2016			
	Seara Comercial Agrícola Ltda.	Serra Bonita Sementes S.A.	Bioplanta Nutrição Vegetal Ind. e Com. S.A.	Total
Investees' information:				
Number of shares (quotas) held	51,000	96,672,926	933	-
Ownership interest	51%	33%	33%	-
Changes in investments:				
At the beginning of the year	5,038	105,744	1,601	112,383
Acquisition	-	-	1,241	1,241
Equity in net income of subsidiaries	(268)	(2,401)	(38)	(2,707)
Changes in investments:	3,959	1,496	(85)	5,370
At the end of the year	8,729	104,839	2,719	116,287

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

12. Investments (Continued)

Changes in balances and investees' information (Continued)

	2016		
	Seara Comercial Agrícola Ltda.	Serra Bonita Sementes S.A.	Bioplanta Nutrição Vegetal Ind. e Com. S.A.
Assets:			
Current	36,558	64,735	732
Non-current	29,176	335,970	7,502
Total assets	65,734	400,705	8,234
Liabilities:			
Current	40,763	74,538	76
Non-current	7,329	11,617	-
Shareholders' equity	17,642	314,550	8,158
Total liabilities and shareholders' equity	65,734	400,705	8,234
Income (loss):			
Income	37,715	101,740	42
Gross income	7,239	8,617	(245)
Income (loss) for the year	7,642	(2,704)	(259)

13. Property, plant and equipment

Consolidated

	Balance at December 31, 2016	Additions	Disposal	Transfers	Balance at December 31, 2017
Lands and land plots	4,434	-	-	-	4,434
Buildings	15,909	-	-	29	15,938
Agricultural machinery and equipment	1,854	-	(119)	-	1,735
Vehicles	2,339	-	(505)	-	1,834
Aircrafts	3,839	-	-	-	3,839
Leasehold improvements	3,459	139	-	-	3,598
Works in progress	253	388	-	(29)	612
Other	7,161	530	(5)	-	7,686
	39,248	1,057	(629)	-	39,676

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

13. Property, plant and equipment (Continued)

Consolidated (Continued)

Depreciation	Balance at December 31, 2016	Additions	Disposal	Transfers	Balance at December 31, 2017
Buildings	(2,748)	(763)	-	-	(3,512)
Agricultural machinery and equipment	(1,176)	(317)	18	-	(1,476)
Vehicles	(1,853)	(209)	-	-	(1,719)
Aircrafts	(2,556)	(384)	343	-	(2,940)
Leasehold improvements	(1,082)	(399)	-	-	(1,481)
Other	(3,519)	(756)	2	-	(4,273)
	(12,934)	(2,828)	363	-	(15,401)
Net book value	26,314	(1,771)	(269)	-	24,275

Company

Cost	Balance at December 31, 2016	Additions	Disposal	Transfers	Balance at December 31, 2017
Lands and land plots	4,284	-	-	-	4,284
Buildings	14,866	-	-	29	14,895
Agricultural machinery and equipment	1,735	-	-	-	1,735
Storage	2,024	-	(358)	-	1,666
Vehicles	3,839	-	-	-	3,839
Aircrafts	3,459	139	-	-	3,598
Leasehold improvements	253	379	-	(29)	603
Works in progress	6,798	516	(5)	-	7,309
	37,258	1,034	(363)	-	37,929
Depreciation	Balance at December 31, 2016	Additions	Disposal	Transfers	Balance at December 31, 2017
Buildings	(2,647)	(721)	-	-	(3,368)
Agricultural machinery and equipment	(1,159)	(317)	-	-	(1,476)
Storage	(1,602)	(209)	240	-	(1,571)
Vehicles	(2,556)	(384)	-	-	(2,940)
Aircrafts	(1,082)	(399)	-	-	(1,481)
Leasehold improvements	(3,376)	(702)	2	-	(4,076)
	(12,422)	(2,732)	242	-	(14,912)
Net book value	24,836	(1,698)	(121)	-	23,017

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

13. Property, plant and equipment (Continued)

Guarantee

As of December 31, 2017, assets given in guarantee, such as the Company's machinery, equipment and buildings, are linked to first-rank mortgages as guarantee to credit facility contracted from financial institutions.

Improvements to third-party property

Depreciation rate of leasehold improvements is 10% p.a., which is defined over contract period, normally 10 years.

Impairment of cash generating units

The Management of Company and its subsidiaries did not identify any evidence that would justify the need of provision for recoverability on December 31, 2017.

Sale of warehouses

On December 2, 2017, the Company sold warehouses of Querência, São Felix and Canarana for the amount of R\$51,338, in the amount of R\$50,069 and received in cash.

14. Suppliers

	Consolidated		Company	
	2017	2016	2017	2016
Suppliers - Third parties	221,023	347,666	201,371	320,003
Suppliers – Related parties (Note 10)	53,735	105,415	50,749	97,423
(-) Adjustment to present value	(4,700)	(22,727)	(5,963)	(21,076)
	270,058	430,354	246,157	396,350

The exposure of the Company and its subsidiaries to liquidity risks related to accounts payable is disclosed in note 23.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

15. Loans and financing

Modalidade	Currency	Average interest rate (p.a.) in 2017	Maturity	Consolidated		Company	
				2017	2016	2017	2016
CCB/CCE/CDCA e NCC	R\$	12,59%	2018	16,122	159,367	15,278	157,701
NCE	R\$	2,60%	2018-2022	146,888	70,293	146,888	70,293
FCO	R\$	8,50%	2017-2024	8,227	9,712	8,227	9,712
FINAME	R\$	6,03%	2018-2022	8,664	18,757	8,664	18,754
Total				179,901	258,129	179,057	256,460
4131	US\$	3,24%	2018	58,907	-	58,907	-
PPE	US\$	12,98%	2018	8,035	15,662	8,035	15,660
Total				66,942	15,662	66,942	15,660
				246,842	273,791	245,999	272,120
Current liabilities				221,403	231,574	220,560	230,737
Non-current liabilities				25,439	42,217	25,439	41,383

Guarantees

Loans and financing are guaranteed by commercial pledge, partners' collaterals, fiduciary lien and assignment, mortgage, pledge of crop and real guarantee.

16. Provision for contingencies

The Company, based on the opinion of its external legal advisors, evaluates the likelihood of an unfavorable outcome as the defendant in lawsuits of a labor, social security, tax, civil nature or other. The provision to cover probable future losses is set up with basis on the likelihood of an unfavorable outcome in the related issues, and the Company's practice is to record a full provision for the probable liabilities, until the settlement or reversal due to new evaluations by the legal counsel.

Based on information from its legal advisors, an analysis of the outstanding legal proceedings, and in respect of labor claims previous experience with regards to amounts claimed, management recorded provisions for amounts considered sufficient to cover probable losses from the current lawsuits, as follows:

	Consolidated		Company	
	2017	2016	2017	2016
Balance at the beginning of the year	2,349	2,809	1,999	2,501
Additions/Write-offs. net	100	(460)	100	502
Closing balance at the end of the year	2,449	2,349	2,099	1,999

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

16. Provision for contingencies (Continued)

Unrecognized contingent liabilities

Unrecognized contingent liabilities are assessed as possible losses by legal advisors and amount to R\$24,159 as of December 31, 2017 (R\$27,187 as of December 31, 2016) for which no provision was recognized since the accounting practices adopted in Brazil do not require their recognition.

17. Deferred tax assets and liabilities

a) Taxes and contribution to be paid

	Consolidado		Controladora	
	2017	2016	2017	2016
Funrural	33.388	40	33.388	-
FETHAB/FACS/SENAR	4.647	4.181	4.647	4.181
Installment	4.844	4.983	2.299	2.317
Others	439	924	399	327
	43.318	10.128	40.733	6.825
Current liability	39.448	6.389	38.929	5.146
Non Currently Liability	3.870	3.739	1.804	1.679

b) Recognized deferred tax assets and liabilities

The origin of deferred income and social contribution taxes is presented below:

	2017			2016		
	Sinagro	Seara	Total	Sinagro	Seara	Total
Assets						
Tax losses	-	-	-	2,931	575	3,506
Foreign exchange variation not settled	1,136	(9)	1,127	91	-	91
Adjustment to present value	2,699	552	3,251	5,261	226	5,487
Other	18,105	4,317	22,422	11,439	4,138	15,577
	21,940	4,860	26,800	19,722	4,939	24,661
Liabilities						
Foreign exchange variation not settled	(582)	-	(582)	-	(86)	(86)
Adjustment to present value	(2,028)	-	(2,028)	(10,842)	(561)	(11,403)
Gains/losses with derivative instruments	(588)	-	(588)	(5,841)	-	(5,841)
Reimbursement of expenses (Note 10)	(33,522)	(6,622)	(40,144)	(23,262)	(7,967)	(31,229)
Other	-	-	-	2,344	165	2,509
	(36,720)	(6,622)	(43,342)	(37,601)	(8,449)	(46,050)
Net	(14,780)	(1,762)	(16,542)	(17,879)	(3,510)	(21,389)

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Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

17. Deferred tax assets and liabilities (Continued)

c) Reconciliation of the effective rate

Effective rate reconciliation	Consolidated		Company	
	2017	2017	2016	2016
Income for the year before taxes	(113,861)	(109,261)	25,550	26,528
Nominal rate	34%	34%	34%	34%
Tax credit at nominal rate	38,713	37,148	(8,687)	(9,020)
Adjustment of income and social contribution taxes				
Net permanent expenses	(4,360)	(4,357)	(11,932)	(11,082)
Equity in net income of subsidiaries	70	(844)	(348)	1,826
Temporary additions, net	(33,414)	(33,414)	16,099	10,464
Offsetting of tax loss and negative basis	-	-	4,152	4,004
Other	161	889	2,654	813
	1,170	(578)	1,938	(2,995)
Current income and social contribution taxes	1,170	(578)	11,708	6,460
Deferred income and social contribution taxes	-	-	(9,770)	(9,455)

18. Other accounts payable

	Consolidated		Company	
	2017	2016	2017	2016
Acquisition of ownership interest (Note 10)	-	71,609	-	71,609
Debts with shareholders (note 10)	5,143	2,437	5,143	2,437
Renegotiation of debts	7,318	6,388	7,318	6,388
Other	2,102	4,927	1,667	4,545
	14,563	85,361	14,128	84,979
Current liabilities	14,563	25,687	14,128	25,305
Non-current liabilities	-	59,674	-	59,674
	14,563	85,361	14,128	84,979

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

19. Shareholders' equity

a) Capital

The Company's subscribed and paid-up capital was represented by 151,435,719 common nominative shares with no par value, and the capital corresponds to R\$ 155,528 (109,769,053 shares, with no par value as of December 31, 2015) and distributed as follows:

The subscribed and paid-up capital is represented by 178,159,671 nominative ordinary shares and without face value and 3 preferred shares, whose capital corresponds R\$277,984 (151,435,719 shares, without face value at December 31, 2016) and is distributed as follows:

	2017			2016	
	Shares	Preferred Shares	%	Shares	%
S3B Fundo de Investimento em Participações	90,861,432	-	51,00%	90,861,432	60,00%
United Phosphorus Holdings Brazil B.V.	87,298,237	-	49,00%	60,574,287	40,00%
Marcos Antônio Vimercati	1	-	-	-	-
Ademir Ortiz de Goes	1	-	-	-	-
3SB Produtos Agrícolas	-	3	-	-	-
	178,159,671	3	100,00%	151,435,719	100,00%

b) Distribution of dividends

In compliance with clause 6 of shareholders' agreement, the Company does not recognize minimum mandatory dividends.

c) Capital reserve

Refers to adjustment to present value of loan transaction with United Phosphorus Holdings Brazil B.V., net of deferred taxes.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

20. Net operating income

	Consolidado		Controladora	
	2017	2016	2017	2016
Domestic market				
Pesticides	236,386	397,073	215,175	366,243
Seeds	87,932	92,173	87,005	84,001
Corn	9,471	16,312	9,471	16,312
Soy	278,501	194,135	277,173	192,542
Fertilizers	84,168	130,740	82,740	130,590
Other	16,957	21,524	15,277	19,001
Gross income	713,415	851,957	686,841	808,689
Foreign market				
Corn	46,529	51,273	46,529	51,273
Soy	311,564	376,154	311,564	376,154
Soy bran	22,648	-	22,648	-
Gross income	380,741	427,427	380,741	427,427
AVP Clients	7,946	(3,227)	7,642	(3,626)
(-) Returns	(62,660)	(62,461)	(61,193)	(56,719)
(-) Sales tax	(7,696)	(2,281)	(7,498)	(2,071)
Net income	1,031,746	1,211,415	1,006,533	1,173,700

21. Costs and expenses by nature

	Consolidado		Controladora	
	2017	2016	2017	2016
Cost of goods for resale	(975,334)	(1,016,012)	(952,339)	(985,539)
Reimbursement of expenses	(155)	8,283	(155)	8,283
Salaries and wages	(28,057)	(26,902)	(26,597)	(25,233)
Agronomic technical assistance	(3,008)	(8,667)	(3,101)	(7,993)
Fuels and lubricants	(1,981)	(2,239)	(1,797)	(1,960)
Directors fee	(1,348)	(1,404)	(937)	(869)
Rent of vehicles	(2,072)	(1,747)	(1,839)	(1,472)
Notary services	(1,012)	(1,721)	(925)	(1,517)
Lawyers' fees	(1,075)	(1,657)	(899)	(1,146)
Audit fees	(570)	(275)	(570)	(218)
Freight	(34,500)	(63,043)	(34,393)	(62,917)
Income (loss) from disposal of property, plant and equipment	(119)	7,126	(119)	7,126
Reversals/provision for expired goods' losses	(1,067)		(2,076)	
Allowance for doubtful receivables	(32,251)	683	(27,592)	24
Others	(23,211)	(34,537)	(20,388)	(37,495)
	(1,105,760)	(1,142,112)	(1,073,727)	(1,110,926)
Classified as:				
Cost of products and services rendered	(975,334)	(1,016,012)	(952,339)	(985,539)
Commercial expenses	(38,699)	(63,937)	(38,377)	(63,811)
General and administrative expenses	(65,431)	(64,809)	(61,600)	(61,249)
Other operating income (expenses), net	(26,296)	2,646	(21,411)	(327)
	(1,105,760)	(1,142,112)	(1,073,727)	(1,110,926)

(*) Substantial represented by provision for allowance for doubtful receivables, returned checks and write-off of credits.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

22. Net financial

	Consolidado		Controladora	
	2017	2016	2017	2016
Financial income				
Interest	8,600	4,880	7,502	2,980
Rebate	849	3,225	842	3,000
Discounts obtained	2,137	7,075	2,137	7,075
Derivative financial instruments	9,182	1,757	9,182	1,757
Price index variation	1,586	1,109	1,457	1,137
	22,354	18,046	21,120	15,949
Financial expenses				
Interest on loans and financing	(30,852)	(41,040)	(30,201)	(40,395)
Other interest	(5,720)	(5,119)	(5,066)	(4,027)
Discounts granted	(4,054)	(3,753)	(4,032)	(3,113)
Price index variation	-	(18,517)	-	(18,517)
Derivative financial instruments	(1,625)	(3,752)	(1,625)	(3,692)
Other	(5,013)	(8,437)	(4,942)	(8,008)
	(47,264)	(80,618)	(45,866)	(77,752)
Net foreign exchange rate	(15,144)	19,843	(14,838)	20,187
Net financial income	(40,054)	(42,729)	(39,584)	(41,616)

23. Financial instruments

a) Overview

The Group presents exposure to the following risks arising from the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Market risk; and
- Operating risk.

This note presents information on the exposure of the Company and its subsidiaries to each one of the abovementioned risks, the goals, policies and processes for the measurement and management of risk, and the Company's capital management. Additional quantitative disclosures are included throughout these financial statements.

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework*

Risk management is conducted by the treasury of the Company and its subsidiaries, which, together with the directors, identifies, evaluates and seeks to minimize the financial risks arising from commercial and operating activities in association with the Executive Board. Strategies taken regarding indebtedness are discussed and approved at monthly Board of Directors meetings. Other strategies adopted are presented at the shareholders' meeting, where they are informed of decisions taken. The Executive Board establishes guidelines for the future, mainly based on harvest production planning and sales strategies.

The risk management policies, albeit not formally documented, reflect the risk management principles defined by the Executive Board.

Credit risk

The policy of the Company and its subsidiaries considers the level of credit risk it is willing to accept in the course of its business. In this context, historically, the Company and its subsidiaries have not recorded losses on trade accounts receivables.

The credit limits for advances to suppliers are assessed and approved on an individual basis, based on the inspection of the related rural properties, an assessment of the crops and, consequently, on the estimated yield potential.

Regarding financial investments, the policy of the Company and its subsidiaries is working with the most reputable financial institutions.

The maximum value exposed by the Company to credit risk is as follows:

	Nota	Consolidated		Company	
		2017	2016	2017	2016
Cash and cash equivalents	5	12,001	20,590	11,186	19,483
Interest earnings bank deposits		147	516	147	137
Trade accounts receivable	6	203,617	332,140	196,485	320,071
Financial loans	10	4,242	3,417	5,751	3,921
Derivative assets		11,887	36,033	11,887	36,033
Other credits	11	157,319	158,870	137,785	132,531
		389,213	551,566	363,241	512,176

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

The Directors of Company and its subsidiaries manage liquidity risk in order to assure compliance with the obligations associated with financial liabilities, whether by liquidation in cash or other financial assets, maintaining, whenever possible, the planning to meet these obligations under normal market conditions or under specific conditions, according to the degree of risk.

The Company's cash flow estimate continuously monitors liquidity. This estimate considers the Company's debt financing plans and compliance with its goals.

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements of currencies by the net position.

Consolidated	Book value	Contractual cash flow	Up to 12 months	1-2 years	2-5 years	>5 years
December 31, 2017						
Suppliers	270,058	280,293	274,427	2,366	3,500	-
Loans and financing	246,843	254,139	225,930	8,340	19,870	-
Derivative financial instruments	8,018	8,018	8,018	-	-	-
Financial loans	41,258	41,258	11,573	29,685	-	-
Other accounts payable	14,564	14,564	14,564	-	-	-
	580,741	598,272	534,512	40,391	23,370	-
	Book value	Contractual cash flow	Up to 12 months	1-2 years	2-5 years	>5 years
December 31, 2016						
Suppliers	430,354	430,354	430,354	-	-	-
Loans and financing	273,791	293,661	246,531	18,559	27,727	844
Derivative financial instruments	20,081	20,081	20,081	-	-	-
Financial loans	84,705	84,705	19,012	65,693	-	-
Other accounts payable	85,361	85,361	25,687	59,674	-	-
	894,292	914,162	741,665	143,926	27,727	844

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Liquidity risk (Continued)

Parent company	Book value	Contractual cash flow	Up to 12 months	1–2 years	2–5 years	>5 years
December 31, 2017						
Suppliers	246,157	256,415	255,549	866	-	-
Loans and financing	245,999	252,982	224,772	8,340	19,870	-
Derivative financial instruments	8,018	8,018	8,018	-	-	-
Financial loans	41,258	41,258	11,573	29,685	-	-
Other accounts payable	14,128	14,128	14,128	-	-	-
	527,304	544,545	485,784	38,891	19,870	-
	Book value	Contractual cash flow	Up to 12 months	1–2 years	2–5 years	>5 years
December 31, 2016						
Suppliers	420,564	420,564	420,564	-	-	-
Loans and financing	272,120	295,719	247,623	19,525	27,727	844
Derivative financial instruments	20,081	20,081	20,081	-	-	-
Financial loans	84,707	84,707	19,014	65,693	-	-
Other accounts payable	84,979	84,979	25,305	59,674	-	-
	882,451	906,050	732,587	144,892	27,727	844

Market risk

Market risks are mainly related to the risk of changes in prices of products and services offered by the Company and its subsidiaries, as well as foreign exchange and interest rates, and other rates that may influence its income, as well as assets and liabilities' values. Management objective is to manage and control the exposure of the Company and its subsidiaries to market risks, within compatible limits, secluding obstacles to business growth,

Foreign exchange risk

The Company's transactions are exposed to foreign exchange fluctuation risk deriving from assets and liabilities indexed in foreign currency – US Dollar,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Foreign exchange risk (Continued)

The net exposure of assets and liabilities directly indexed to a foreign currency in the parent company, is as follows:

	Consolidated		Company	
	2017	2016	2017	2016
Accounts receivable	37.239	95,240	29.807	77,513
Suppliers	(36.343)	(108,858)	(35.162)	(105,326)
Loans and financing	(2.600)	(15,660)	(2.600)	(15,660)
	(1.704)	(29,278)	(7.955)	(43,473)

- Foreign exchange sensitivity analysis

The Company and its subsidiaries adopted three scenarios for the sensitivity analysis, being one of them the probable scenario presented and four other scenarios that may present the impairment of the Company's financial instruments' fair values,

Probable scenario was internally defined by the Company and represents expected indicator variation for the next 12 months, Possible and Remote scenarios were prepared with risk worsened by -25%, -50%, 25% and 50%, respectively,

The methodology used was to recalculate present value of US dollar transactions with the stress of each scenario on market rate as of December 31, 2017, less amount already recognized, and to calculate income value for which the Company would be affected according to each scenario, The analysis considers that all the remaining variables, especially interest rates, are kept constant,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Foreign exchange risk (Continued)

- Foreign exchange sensitivity analysis (Continued)

	Decrease in		Consolidated 2017	Increase in	
	50%	25%		25%	50%
Accounts receivable	18,620	27,929	37,239	46,549	55,859
Suppliers	(18,172)	(45,429)	(36,343)	(45,429)	(54,515)
Loans and financing	(1,300)	(1,950)	(2,600)	(3,250)	(3,900)
Effect on income	852	426		(426)	(852)

	Decrease in		Consolidated 2017	Increase in	
	50%	25%		25%	50%
Accounts receivable	14,904	22,355	29,807	37,259	44,711
Suppliers	(17,581)	(26,372)	(35,162)	(43,953)	(52,743)
Loans and financing	(1,300)	(1,950)	(2,600)	(3,250)	(3,900)
Effect on income	3,978	1,989		(1,989)	(3,978)

	Decrease in		Consolidated 2016	Increase in	
	50%	25%		25%	50%
Accounts receivable	(47,620)	(71,430)	95,240	119,050	142,860
Suppliers	54,429	81,644	(108,858)	(136,073)	(163,287)
Loans and financing	7,830	11,745	(15,660)	(19,575)	(23,490)
	14,639	21,959	(29,278)	(36,598)	(43,917)
Effect on income	(14,639)	(7,319)		(7,320)	(14,639)

	Decrease in		Consolidated 2016	Increase in	
	50%	25%		25%	50%
Accounts receivable	(38,757)	(58,135)	77,513	96,891	116,270
Suppliers	52,663	78,995	(105,326)	(131,658)	(157,989)
Loans and financing	7,830	11,745	(15,660)	(19,575)	(23,490)
	21,736	32,605	(43,473)	(54,342)	(65,209)
Effect on income	(21,737)	(10,868)		(10,869)	(21,736)

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Interest rate risk

The Company and its subsidiaries do not seek to keep its exposure to changes in interest rates at acceptable levels, The exposure to that risk is related to loans and investments,

Operating risks

Operating risks are the risks of direct and indirect losses arising from a variety of causes associated with the processes of the Company and its subsidiaries, as well as employees, technology and infrastructure, as well as external market factors and liquidity, such as those arising from legal actions and regulatory requirements,

The objective of the Company and its subsidiaries is to manage operating risks, and avoid financial losses and damage to the reputation of the Companies and its subsidiaries through procedures and policies aligned with the activities and business of the Company and its subsidiaries,

The Executive Board of the Company and its subsidiaries is responsible for developing, implementing and monitoring controls to address operating risks area, mainly regarding internal controls and policies' periodic reviews, to ensure proper implementation and operation,

Fair value vs. book value

A number of accounting policies and disclosures of the Company and its parent companies require the determination of fair value, for both financial and non-financial assets and liabilities, Fair values have been determined for measurement and/or disclosure purposes,

The book values referring to the financial instruments contained in the balance sheet, when compared with the amounts that could be obtained in their trading in an asset market or, in the absence hereof, with the net present value adjusted with a basis on the current interest rate in the market, are substantially close to their corresponding market values,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Statement of financial instruments and their respective category classification

All the operations with financial instruments are classified and recognized in the financial statements of the Company, as the tables below:

• Consolidated

December 31, 2017	Note	Fair value through profit or loss	Loans and receivables	Other liabilities
Cash and cash equivalents	5	12,001	-	-
Trade accounts receivable	6	-	203,617	-
Interest earnings bank deposits		147	-	-
Derivative financial instruments		11,887	-	-
Financial loans	10	-	4,242	-
Other credits	11	-	157,319	-
Suppliers	14	-	-	(270,058)
Loans and financing	15	-	-	(246,842)
Derivative financial instruments		(8,018)	-	-
Financial loans	10	-	-	(35,251)
Other accounts payable	18	-	-	(14,128)
		24,035	365,178	(566,279)
December 31, 2016	Note	Fair value through profit or loss	Loans and receivables	Other liabilities
Cash and cash equivalents	5	20,590	-	-
Trade accounts receivable	6	-	332,140	-
Interest earnings bank deposits		516	-	-
Derivative financial instruments		36,033	-	-
Financial loans	10	-	3,417	-
Other credits	11	-	158,870	-
Suppliers	14	-	-	(430,354)
Loans and financing	15	-	-	(273,791)
Derivative financial instruments		(20,081)	-	-
Financial loans	10	-	-	(84,705)
Other accounts payable	18	-	-	(85,361)
		37,058	494,427	(874,211)

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Statement of financial instruments and their respective category classification (Continued)

• Parent company

December 31, 2017	Note	Fair value through profit or loss	Loans and receivables	Other liabilities
Cash and cash equivalents	5	11,186	-	-
Trade accounts receivable	6	-	196,485	-
Interest earnings bank deposits		147	-	-
Derivative financial instruments		11,887	-	-
Financial loans	10	-	5,751	-
Other credits	11	-	137,785	-
Suppliers	14	-	-	(246,157)
Loans and financing	15	-	-	(245,999)
Derivative financial instruments		(8,018)	-	-
Financial loans	10	-	-	(41,258)
Other accounts payable	18	-	-	(14,128)
		15,202	340,021	(547,542)
December 31, 2016	Note	Fair value through profit or loss	Loans and receivables	Other liabilities
Cash and cash equivalents	5	19,483	-	-
Trade accounts receivable	6	-	320,071	-
Interest earnings bank deposits		137	-	-
Derivative financial instruments		36,033	-	-
Financial loans	10	-	3,921	-
Other credits	11	-	132,531	-
Suppliers	14	-	-	(396,350)
Loans and financing	15	-	-	(272,120)
Derivative financial instruments		(20,081)	-	-
Financial loans	10	-	-	(84,707)
Other accounts payable	18	-	-	(84,979)
		35,572	456,523	(838,156)

During the years, there were no changes regarding classifications presented in the chart above,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)
December 31, 2017
(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Derivative financial instruments

The Company carried out operations with derivative financial instruments,

	Consolidated		Parent company	
	2017	2016	2017	2016
Assets				
Forward/future soybean contracts	7,461	33,485	7,461	33,485
Forward/ Future corn contracts	2,289	2,548	2,289	2,548
Swap contracts	2,137	-	2,137	-
	11,887	36,033	11,887	36,033
Liabilities				
Forward/future soybean contracts	(5,723)	19,189	(5,723)	(19,189)
Forward/ Future corn contracts	(2,295)	892	(2,295)	(892)
	(8,018)	20,081	(8,018)	(20,081)

The Company conducts, at fixed prices, commodities forward purchase and sale transactions that are considered derivative financial instruments, To manage the risk deriving from these exposures, Management contracts transactions in the futures, options and periodic accumulators' markets,

The Company maintains transactions with financial instruments for the purpose of hedging assets, decreasing exposures related mainly to foreign exchange risks, interest rates and commodities' prices, The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security, The contracting of financial instruments with the objective of offering protection is performed by means of a periodic analysis of the risk exposure that Management intends to mitigate, and occurs according to the business areas' demand, The control consists of the continuous monitoring of the agreed conditions versus the conditions prevailing in the market, The results obtained from such operations are consistent with the policies and strategies defined by Company's management,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

a) Overview (Continued)

i) *Risk management framework* (Continued)

Derivative financial instruments (Continued)

In order to put its risk management policy in practice, the Company contracts financial instruments such as NDF and Swaps to hedge costs determined in foreign currency and possible currency mismatches, It also contracts transactions with commodities in future and option markets to manage forward purchase and sale positions traded with suppliers and clients, thus managing possible exposures and seeking to maximize financial income deriving from strategies defined by Management, Not mitigated exposures are monitored and managed by Management, always keeping known and admitted exposure levels,

The Company's management permanently monitors its derivative financial instruments through its internal controls,

The following derivative instruments are used by the Company:

Forward purchase and sale of commodities: Contracts deriving from the Company's operating activities, but due to the negotiation characteristics of fixed price and delivery or receipt of commodities in a future date and no initial cash flow, they are considered as derivative financial instruments,

The counterparty of forward purchase and sale contracts are the Company's domestic and foreign suppliers and clients,

These contracts' book values are estimated based on information that can be observed in the market and relevant information internally generated by the Company, which may not be observed in market sources, these information inputs include:

- (a) Commodities prices: traded in stock exchange and adjusted by market price quotations disclosed by the Chicago Board of Trade (CBOT);
- (b) Premium prices: price quotations disclosed by market sources, according to shipment port;
- (c) Freight price: since there is not a active market for such variable, the Company adopts the following policy; for road transportation: freight history, current market (competition), total commitment value, required rhythm, pickup deadline, and road conditions; and
- (d) Budget cost: operating costs annually projected based on budget of the Company,

Sinagro Produtos Agropecuários S.A.

Notes to financial statements (Continued)

December 31, 2017

(In thousands of reais, unless otherwise stated)

24. Firm commitments

As of December 31, 2016, the Company has several purchase and sale commitments for soybeans and corn in the grain harvest of 2016/2017, All the volumes arise from forward contracts and most are sold in the domestic market for large trading companies, On December 31, 2016, all purchase and sale forward contracts are recognized in the financial statements at fair value, as are the financial derivatives used as a hedge for grain commercial transactions,

25. Subsequent events

On February 23, 2018 Sinagro Produtos Agropecuários S.A. authorized an increase in the Company's Capital through the issuance of 831,411,818 of ordinary shares without nominal value at the total issue price of R\$39,900 and price of issuance per share of R\$0.04. The shareholder equity increases from R\$277.984 divided into 178,159,671 ordinary shares and 3 preferred shares to R\$317,884, divided into 1,009,571,489 ordinary shares and 3 preferred shares.

The new shares are subscribed and paid up as follows:

- (a) The shareholder UNITED PHOSPHORUS HOLDING BRAZIL B.V, subscribes 367.008.933 of ordinary shares and without nominal value at the total price of R\$17,600 that was paid up in national currency on February 28, 2018.
- (b) GLOBAL CAPITAL FUND LIMITED, Society duly organized under the laws of British Virgin Islands, with the Headquarter in Nerine Chambers, PO Box 905, Quastisky Building, Road Town, Tortola, registered under CNPJ/MF nº 29.668.823/0001-71, joining the company, subscribes 464.402.885 ordinary shares without nominal value at the price of R\$22,300 that was paid up in national currency on February 28, 2018.

The new Shareholder Equity structure is shown in the figure below:

	2017			2018		
	Shares	Preferred shares	%	Shares	Preferred shares	%
S3B Fundo de Investimento em Participações	90.861.432	-	51,00%	90.861.432	-	9,00%
United Phosphorus Holdings Brazil B.V.	87.298.237	-	49,00%	454.307.170	-	45,00%
Global Capital Fund Limited	-	-	-	464.402.885	-	46,00%
Marcos Antônio Vimercati	1	-	-	1	-	0,00%
Ademir Ortiz de Goes	1	-	-	1	-	0,00%
3SB Produtos Agrícolas	-	3	-	-	3	0,00%
	178.159.671	3	100,00%	1.009.571.489	3	100,00%