



Termomecanica

SUSTAINABILITY REPORT 2016

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MESSAGE FROM OUR CEO

NEW INVESTMENTS TO FIGHT THE CRISIS

Brazil has reacted slowly to the political and economic crisis that has taken hold in the country in recent years. Like the majority of companies, Termomecanica has also been feeling the impact of this moment. In order to overcome the uncertainties, we decided to bet on what we have got that is best: the strength of our brand and of our employees. Even with the difficulties that characterized 2016, Termomecanica continued with its planned investments aimed at modernizing the Company and expanding its business. This is how we react in times of crisis, by betting on our ability to permanently evolve.

In order to diversify our operations and pave the way for new business possibilities, we entered the promising aluminum market, using the synergy of the production processes as a strategy. To make the business viable, we adapted part of the existing infrastructure at one of our factories and acquired state-of-the-art equipment and technologies.

At the same time, we initiated the project to install a new factory that will be come into operation in the first half of 2017. Set up in the city of Manaus, in the State of Amazonas, the Unit will enable Termomecanica to increase its competitiveness in the refrigeration segment, given that many of the manufacturers in this sector are concentrated in this region.

The most important thing is that we have been able to make progress on key projects such as these, also maintaining investments in our main assets, whether by means of training, benefits or other initiatives that contribute to the personal and professional growth of our employees.

The following pages contain examples that illustrate Termomecanica's path over 2016, showing how the Company performed in relation to the key aspects for our development.

We are working hard in order to make sure that the Company is ready for when the economy takes off, from which we will come out even stronger, with a team that is united and ready to celebrate sound, promising results.



SUSTAINABILITY REPORT

PRESENTATION

To develop a forward-looking management strategy focused on Corporate Social Responsibility: this is Termomecnica's main objective when preparing its Sustainability Report. The document contains consistent information regarding the impacts of various initiatives that were put into practice in 2016. By disclosing the results of its actions, Termomecnica reinforces its values and confirms its commitment to continuing its activities in a way that is sustainable, prizing economic, environmental and social aspects.

In order to ensure the process' transparency and suitability, the Social Responsibility Management adopted market indicators for sustainable and responsible businesses as well as the IBASE (Brazilian Institute of Social and Economic Analyses) Chart. The Report's structure remained unchanged in relation to the 2015 edition, as did the methodology used, which includes different audiences and types of approach.

In this sense, the process continued to involve the participation of technical groups from different areas and the development of action plans to support the checking of the information, which was initially carried out with the company's executive body. This was necessary not only to assist with the performance appraisal but also in order to identify opportunities for improvement, enabling a comprehensive analysis of the activities, at the same time as strengthening the relationship with its employees.

EXPANSION AND REORGANIZATION

Founded in 1942, Termomecanica is the leading company in the processing of non-ferrous metals, copper and copper alloys into semi-finished products and finished products. It is a highly capitalized private company, which is controlled by the Salvador Arena Foundation, a non-profit organization that was set up in 1964 by the Engineer Salvador Arena.

In 2016, the Company decided to diversify its business model and also began to operate in the aluminum segment, adapting part of its existing infrastructure to accommodate the equipment for the new production line. At the same time, it started work on setting up a new factory, located in the city of Manaus (in the State of Amazonas) focused on products for the refrigeration segment, which is expected to come online in the first half of 2017.

At present, Termomecanica has roughly 1700 employees, who work at the three factories that are set up the city of São Bernardo do Campo (in the State of São Paulo), where the company also has its head office and one of its two Distribution Centers, with the other distribution being located in the municipality of Joinville (in the State of Santa Catarina). The Economic Group has two other production units in Argentina and Chile, which were acquired in 2011.

MISSION

Act in the business of processing copper and other non-ferrous metals into products, services and solutions to meet our customers' needs.

VISION

Be the Brazilian market leader and hold a growing share of the global market.

CORPORATE VALUES

- Altruism;
- Social and environmental responsibility;
- Ethics and transparency;
- Competence and discipline;
- Recognizing and respecting people;
- Continuous improvement;
- Diligence and stewardship;
- Pride in belonging to the organization.



CARRYING OUT TRANSFORMATIVE PROJECTS

Established for the purpose of attaching a different kind of meaning to the capital wealth generated by Termomecanica, the Salvador Arena Foundation became the universal heir of all the wealth accumulated by its founder Salvador Arena, who was an Engineer. A widower, who had no children of his own and who wanted to see the continuation of his humanitarian ideals, the businessman appointed a Board of Trustees, made up of employees from different sectors, to assume the leadership of the institution after his death, which occurred in 1998.

Since then, the Salvador Arena Foundation has become the controlling and sole shareholder of Termomecanica, reversing the current logic with the result that the economic activity has become nothing more than the means for the Company's real reason for existing, namely to provide support for social projects and programs.

In this way, its financial result contributes to social transformation, which puts Termomecanica in an unparalleled position in the Brazilian scenario. For example, in the space of the last ten years alone, the Salvador Arena Foundation has invested roughly R\$488 million in social gratuities linked to 762 entities, directly benefiting more than 1.505 million people and indirectly benefiting more than 2 million.

Over the same period, the Salvador Arena Foundation has trained almost 841 social leaders and technicians, providing management courses for Third Sector organizations.

SALVADOR ARENA FOUNDATION'S MAIN RESULTS IN 2016

- 107 social projects supported;
- 34,853 people directly benefited and 81,340 indirectly benefited;
- More than 2,470 students with 100% tuition grants for basic education, vocational technical training and higher education courses;
- Termomecanica School one of the three best schools in Greater São Paulo's ABC region;
- Termomecanica School of Technology one of the best in Brazil.

FOR A SUSTAINABLE FUTURE

In 2016, Termomecanica continued to focus on developing strategies aimed at its main stakeholders - customers, suppliers, community, government, employees and their families, with the objective of retaining its leadership position in its business segment and increasing its percentage share of the global market.

However, good results always go further than financial performance. For the Company, social and environmental aspects are decisive both in relation to developing its business as well as for development of a sustainable society. The maintenance of the certifications related to ISO 14001 and OHSAS 18001 standards and the systematic and continuous monitoring of the respective indicators prove the success of this strategy.



GROWTH AND VALUE CREATION

The Corporate Governance System was fully established in 2016, guiding Termomecanica in its path towards growth and value creation. Without any doubt, this is an important achievement for the Company, which since 2010 has been working tirelessly for the system's main components to be incorporated into the Organization's daily life and extended to its main stakeholders.

The three committees that provide support for the Board of Directors (the Audit, Risks and Compliance Committee, the Strategy Committee and the Governance, People and Compensation Committee) meet on a monthly basis to analyze and propose effective actions, which are always based on the basic principles of transparency, fairness, accountability and corporate responsibility. The Board of Directors also holds monthly meetings and, when necessary, convenes extraordinary meetings in order to deal with urgent matters.

ETHICAL CONDUCT AND BEHAVIOR

Throughout its history, Termomecanica's trajectory has always been guided by a set of values that indicate high ethical and moral standards, seeking not only to ensure its credibility but also to preserve the company's image with its main stakeholders. As a result, the Company uses monitoring, oversight and accountability mechanisms that reflect its way of conducting business. Included among these are the publication of the Financial Statements in newspapers having a large circulation and the disclosure of the Sustainability Report on its own site.

For example, the Customer Service Center and the Ombudsman's Office, which were set up for the purpose of receiving suggestions and criticisms, are also important channels in this context, as they value dialogue, promoting understanding and cooperation. Another fundamental instrument is the Opinion Surveys, which are undertaken in order to listen and understand the interests of those who are fundamental to the Company's survival.

The promotion and strengthening of healthy relationships should also be the basis of all relationships that involve Termomecanica. In this sense, there should always be mutual respect, as indicated in the Organization's own Code of Ethics and Conduct. This document reinforces the company's principles and indicates which practices are expressly prohibited in relation to external audiences such as bribery and kickbacks. It is an essential reading for those who share the same conduct and ethical behavior with the Company.

ANTI-CORRUPTION PRACTICES AND FAIR COMPETITION

Produced for the purpose of guiding employees' actions and explaining the Company's attitude towards its different stakeholders, Termomecnica's Code of Ethics and Conduct reflects the zero-tolerance attitude to fraud and active or passive corruption in the activities and businesses carried out. The document shows, in a clear and objective way, that the organization does not tolerate any kind of unlawful behavior.

Therefore, the lists disclosed by SERASA (credit bureau) and the Ministry of Labor and Employment ("Employer Blacklist") are checked on a regular basis, in order to verify that suppliers and customers are complying with the legislation. After all, solid partnerships can only be signed with organizations which are aware of their responsibilities.

The Code also covers the Policy on Relations with the Competition, which is aimed particularly at employees in the commercial areas. Among the instruction given in the chapter are aspects that show the behavior that is expected from those who speak on the Company's behalf in the market. As far as Termomecnica is concerned, it is unacceptable for employees to make comments that attribute defects to competitors' products or services, as a means of promoting the company.

INTEGRITY AND HEALTHY PRACTICES

In 2016, Termomecanica concluded the implementation of its Compliance System, which was created to mitigate risks and reduce operational losses. The Company has not been measuring efforts to ensure the existence and compliance of policies, standards, legislation and milestones in the processes, producing reports that are aimed at achieving improvements in internal controls and healthy practices for the management of operational risks.

Over the course of the year, multipliers were trained who understood the project as a process of continuous improvement, enabling the exchange of information in order to gain a better understanding of the current activities and its use in the future.

At the same time, the Internal Audit area has made a decisive contribution to this process, working preventively in financial and accounting operations, validating the internal controls and supporting the Corporate Governance and Compliance systems. This area also counts on the support of independent auditing companies specially contracted to act in accordance with the legislation and in the checking of the financial and accounting statements.

It is important to stress that Termomecanica's Compliance Program is being implemented in accordance with the regulations of Anti-Corruption Law (Law 12.846/13) and its regulatory decree, which brings Brazil into line with the world's most rigorous and advanced legislation for combating corruption.

INTEGRATED MANAGEMENT SYSTEM

Increased reliability, profitability and productivity. This is one of the essential objectives of the Integrated Management System implemented at Termomecnica, the main focuses of which are the Quality, Environmental, HR, Financial, Legal, Industrial, Supplies, Commercial and Engineering areas, among others.

The indicators used to evaluate the processes adopted by the Company every six months are stipulated in accordance with the goals established by the areas themselves and are monitored on a permanent basis by the company's Senior Management.

In this way, it is not only possible to stimulate the Company's growth, but also to comply with a number of commitments, as indicated in the Integrated Management System Policy.



INTEGRATED MANAGEMENT SYSTEM POLICY

Operating on the Brazilian and international markets in the processing of copper and other non-ferrous metals into products, services and solutions, Termomecanica's commitments are as follows:

- To identify, manage and prevent its risks based on social responsibility;
- To meet the needs and requirements of the customers and of the stakeholders;
- To continuously improve the performance of products and process;
- To promote the safety and health of the people involved, avoiding injuries and diseases, improving ergonomic conditions and controlling the risk of accidents;
- To preserve the environment and prevent pollution, controlling the waste generation in the process and atmospheric emissions;
- To comply with the legislation and the requirements applicable to the business.

2016 HIGHLIGHTS

- Full implementation of the Compliance Program, based on the Anti-Corruption Law;
- Start of new business, which includes operating in the aluminum market, the installation of a new factory in the refrigeration segment in Manaus and substantial investments in modernizing the manufacturing facilities.

KEY TARGETS FOR 2017

- Initiate the rotation of independent audit firms, based on good market practice;
- Expand studies for the application of the Anti-Corruption Law.

FOR A BETTER WORLD

ENVIRONMENTAL INVESTMENT (R\$)

| | |
|------|------------------|
| 2014 | R\$ 3.677.422,00 |
| 2015 | R\$ 952.375,00 |
| 2016 | R\$ 1.192.912,00 |

Termomecanica's proposition is to reconcile preservation of the environmental with social demands, as these are subjects that need to be discussed together. There is no way for society to survive without natural resources, and their indiscriminate use causes significant changes in the ecosystem. This type of concern can be seen in the Company's Values and in the various initiatives aimed at disseminating information regarding this topic.

For example, it is part of Termomecnica's daily routine to encourage employees to point out opportunities for improvements in relation to substituting inputs, reducing losses, reusing materials and reducing electricity and water consumption, among others. The results have been fantastic, and among the initiatives and projects that stand out, the following are worth highlighting:

- All the indirect emissions are mapped when necessary, and the atmospheric emissions resulting from the production processes are below the limits established by the environmental bodies;
- The correct destination of the waste generated by the production processes always involves companies that have been previously audited and which are qualified to carry out the appropriate treatment;
- Undertaken in all the sectors, Selective Collection ensures the correct separation and destination of everything that is discarded at the Factories;
- The ways to control the results include online systems, which make it easier to check documents during audits and technical visits. All the plans executed are carefully monitored and, at regular intervals, internal teams hold critical system analysis meetings in order to align the projects;
- Made clear in the Integrated Management System Policy, the quest for environmental quality involves programs defined by the Environment sector in partnership with each of the company's areas. The success of these initiatives can be witnessed from the maintenance of the ISO14001 certification, which reflects the effectiveness of the Environmental Management System developed at the Organization;
- In order to ensure that the Company remains in line with the latest environmental management practices, Termomecnica frequently assesses the need for investments and for improvements in its System, always implementing the required measures;
- In addition to investments aimed at the rational use of water and energy resources, Termomecnica also organizes awareness campaigns with a view to reducing consumption and combating waste. For this reason, all types of use involving natural resources are mapped in order to achieve a level of efficiency and productivity that is compatible with the Organization's objectives and goals.

SOCIAL AND ENVIRONMENTAL DEVELOPMENT

| WATER CONSUMPTION | | 2014 | 2015 | 2016 |
|-------------------|--|-----------------------------|-----------------------------|-----------------------------|
| Factory I | | 51.702 m ³ | 52.838 m ³ | 34.116 m ³ |
| Factory II | | 22.208 m ³ | 27.304 m ³ | 42.600 m ³ |
| TOTAL | | 73.910 m³ | 80.142 m³ | 76.716 m³ |

| ENERGY USED BY THE FACTORIES | | | | |
|---|--------------|--------------------------------|--------------------------------|-----------------------------------|
| | | 2014 | 2015 | 2016 |
| NATURAL GAS CONSUMPTION | Factory I | 1.849.996 m ³ | 2.293.978 m ³ | 1.821.570,85 m ³ |
| | Factory II | 788.985 m ³ | 792.900 m ³ | 800.771,69 m ³ |
| | TOTAL | 2.638.981 m³ | 3.086.878 m³ | 2.622.342,54 m³ |
| ELECTRIC ENERGY CONSUMPTION | Factory I | 106.539.883,20 kWh | 94.178.000,00 kWh | 86.652.453,60 kWh |
| | Factory II | 37.408.828,80 kWh | 36.850.660,00 kWh | 36.760.468,60 kWh |
| | TOTAL | 143.948.712,00 kWh | 131.028.660,00 kWh | 123.412.922,20 kWh |
| ANNUAL FOSSIL FUEL CONSUMPTION (LITERS) | Factory I | 235.140 L | 110.610 L | 124.770 L |
| | Factory II | 126.000 L | 84.400 L | 132.560 L |
| | TOTAL | 361.140 L | 195.010 L | 257.330 L |
| EMISSION RATE | Factory I | 0,0 kg/h | 0,06 kg/h | 0,0 kg/h |
| | Factory II | No measurements were taken | 0,0 kg/h | No measurements were taken |
| | TOTAL | 0 kg/h | 0,06 kg/h | 0 kg/h |

ENVIRONMENTAL EDUCATION

Termomecanica does not relinquish processes that influence responsibilities, skills and competences in relation to the environment, mainly with a view to making internal public more aware. Therefore, the positive results achieved by the Company are due to the consistent environmental education efforts made, for the most part, with the employees.

In addition to covering the issue in the internal communication vehicles, Termomecanica undertakes various types of training, many of which are designed to align the employees with their activities and the environmental effects that they produce. Among the topics that are frequently addressed are waste disposal, conscientious use of natural resources, and air pollution, challenges that are part of the factories' day-to-day routines.

2016 HIGHLIGHTS

- Installation of an exhaust system in the chip drier to collect particulate material emitted;
- Significant participation on the part of the employees and their families in the Environment Week;
- Modernization of Factory I's Effluent Treatment Station;
- Modernization of equipment taking into account the improvement of its installations and the design of the machine, with a view to optimizing the process with reduced environmental impacts.

KEY TARGETS FOR 2017

- To make the employees more aware in relation to reducing and controlling the environmental impacts of their activities, showing that everyone is jointly responsible;
- To continue the work aimed at reducing generation of waste and consumption of non-renewable resources;
- To maintain the modernization of the industrial complex and its installations.

PEOPLE MANAGEMENT ALWAYS IN THE SPOTLIGHT

Human capital is Termomecanica's main strength. For this reason, the Company makes every effort to develop differentiated strategies aimed at development, training and humanization, offering the necessary support for its employees to develop new skills and improve their potential.

For Termomecanica, prizing and respecting people should be part of the organization's daily life, as expressed by the Company's Values.

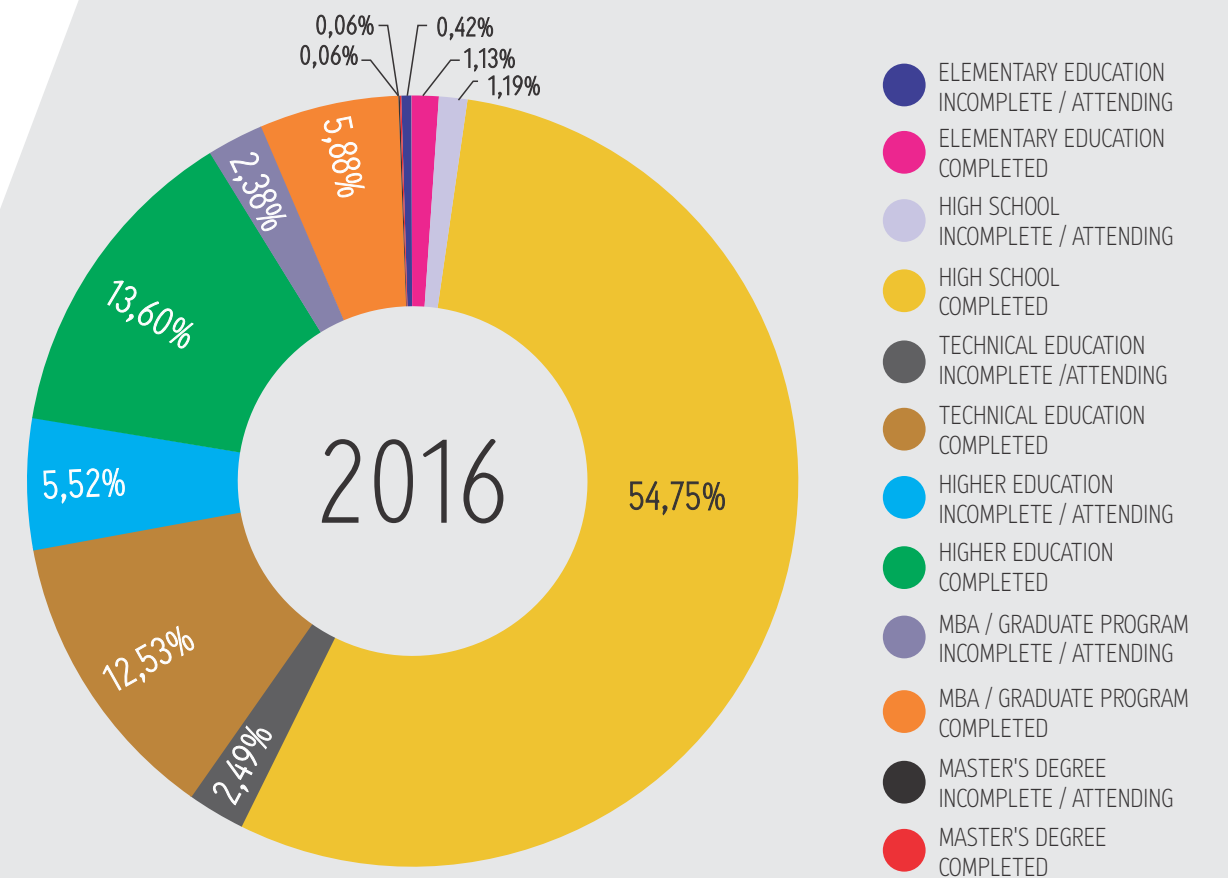
In this sense, special emphasis is given to aspects such as diversity, in all its forms, which favors inclusion and makes the environment a more dynamic one, encouraging creative interactions, exchanges and joint learning. Various positions and initiatives are put into practice in order to ensure this:

- All employees have the same opportunities to develop their potential. The hiring processes and the filling of job positions are carried out exclusively on the basis of technical criteria, without any kind of distinction or favor;
- Persons with disabilities are allocated in sectors indicated by a risk mapping report, in order to enhance each person's potential;
- A Brazilian sign language ("libras") Interpreter is maintained to meet the needs of the hearing impaired as well as to teach Brazilian Sign Language courses to managers and employees;
- In general, labor relations are carried out in an ethical and professional manner, as Termomecanica recognizes the trade unions as the employees' legal representatives. Moreover, dialogue is the alternative used to resolve any type of conflict;
- Slave labor and the use of child labor are not allowed or tolerated at the Company, a concern that also extends to its suppliers and business partners, including the posture specified in contracts for the purchase of products or services. Any breach of this can be reported by means of the email:
ouvidoria@termomecanica.com.br

| EMPLOYEE HEADCOUNT | 2014 | 2015 | 2016 |
|--------------------|-------|-------|-------|
| Trainees | 15 | 20 | 24 |
| Apprentices | 90 | 103 | 96 |
| Men | 1.723 | 1.646 | 1.585 |
| Women | 116 | 115 | 104 |
| Disabled | 88 | 83 | 75 |

| SUMMARY OF EMPLOYEE HEADCOUNT | 2014 | 2015 | 2016 |
|--|--------|-------|--------|
| Total number of employees | 1839 | 1761 | 1693 |
| Number of women in leadership positions, including President | 12 | 12 | 12 |
| % of women employees | 6,31% | 6,53% | 6,14% |
| % of women employees LEADERSHIP POSITIONS | 10,34% | 16% | 16,22% |

Breakdown of employees by education level - 2016



NEW TALENTS

| | CIEE | NURAP | SENAI | FSA |
|-------------------|------|-------|-------|-----|
| Total Apprentices | 5 | 2 | 13 | 76 |
| Admitted in 2016 | 1 | - | 7 | 76 |
| Hired | - | - | - | 29 |

Termomecanica's priorities are to identify, develop and maintain new talents and the company offers differentiated work experiences, aligned with the organization's purposes. One of the facilitators of this process is the Trainee Program, which includes the rules set forth in Law 11788/2008. All the activities carried out by the trainees are designed to identify and develop the skills and competences related to each person's area of vocational training.

Another important proposal is the Apprentices Program, which is carried out in partnership with various of the region's entities and which is aimed at preparing skilled workers to hold future positions in the Company. For some specific sectors, candidates are selected from NURAP and CIEE; for the Maintenance area, referrals come from SENAI; for the production and administrative areas, the recruitment is handled in partnership with the Salvador Arena Foundation. Specific courses linked to these two work fronts are offered, and benefit young people aged between 16 and 22 years with a maximum family income per capita of one and a half minimum wages.

After the apprenticeship period, the apprentices can take part in a training course offered by Termomecanica, which focuses on curriculum development and on preparation for job interviews. The Organization also forwards the former apprentices' CVs to companies in the region, with a view to professional opportunities.



DEVELOPMENT AND CAREER

| INVESTMENT IN TRAINING PROGRAMS | TECHNICAL (HOURS) | AWARENESS / SAFETY / INTEGRATION (HOURS) | QUALITY /JOB INSTRUCTION (HOURS) | INVESTMENT (R\$) | NUMBER OF EMPLOYEES |
|---------------------------------|-------------------|--|----------------------------------|------------------|---------------------|
| 2014 | 40.969,98 | 23.130,03 | 6.806,09 | 298.296,05 | 1.868 |
| 2015 | 40.358,38 | 25.931,55 | 8.539,96 | 331.100,78 | 1796 |
| 2016 | 27.475,50 | 149.981,41 | 3.361,68 | 261.611,10 | 1733 |

Regardless of the country's economic outlook, Termomecanica does not forgo investing in processes that add the knowledge, skills and technical skills necessary for the employees to develop, in the best way possible, the functions attributed to their job positions.

In 2016, the Company improved the way it measured development actions and henceforth also began to count the number of hours of training undertaken in the workplace, after all, practicing what has been learned in the classroom is also extremely important. As a result, on average, it achieved a figure of 49 hours of development per employee, both in internal and external courses, with a 100% effectiveness index.

The Internal Recruitment Program is another strategic process when it comes to professional development. This initiative is designed to offer career options to those employees who are committed to the organization's purposes, prioritizing their appointment when new opportunities arise. In 2016, 114 vacant positions were filled by the internal public thanks to this practice.

In this context the way of measuring the salary ranges of the job positions is also one of Termomecanica's differential as it enables the Company to maintain a compensation level that is in line with the best practices in the market and which is compatible with the career perspective.



TYPES OF TRAINING

| EDUCATION (languages, higher education, graduate programs and MBAs) | INVESTMENT (R\$) |
|---|------------------|
| 2014 | 118.134,30 |
| 2015 | 157.033,05 |
| 2016 | 182.015,16 |

Termomecanica's Annual Training Program is constantly improved, and as a result it has become a reference for other organizations. Focused on job training and qualification for the job positions, it also includes initiatives linked to the Evaluations of Skills and Individual Development Plans (PDI) of the employees.

In order to facilitate the indication and fulfillment of development actions for preparation of the employees' PDIs, in 2016, Termomecanica included options for on-site training, distance learning, books, films and games available at the Company that are focused on the development of human skills, both in order to fill gaps in the job position as well as for development at increasing levels of complexity.



TYPES OF TRAINING

The different types of training offered by the organization demonstrate the seriousness with which Termomecanica treats this subject:

- **INTERNAL** - Given by internal multipliers, these are carried out systematically at the workplace, for newly admitted employees, as part of the integration process or as training for skills in the daily activities;
- **LANGUAGES** - With an estimated reimbursement of between 85% and 100% of the cost of the course, for two years, this is limited to the sum of R\$500.00 a month and benefits those employees who use the language in their activities. In 2015, four people received this benefit, with a total investment of R\$9,906.46 between English and Spanish courses;
- **SUPPLEMENTARY COURSES** - Supplementary to training and professional development, these are fully subsidized by the company, as long as they are in alignment with the Individual Development Plan (PDI) and the Annual Training Program;
- **HIGHER EDUCATION, GRADUATE PROGRAMS, MBA AND MASTER'S DEGREE PROGRAMS** – With a reimbursement of up to 50% of the cost of the university and up to 100% of the graduate programs, MBA or Master's degree programs, this benefits those employees who have been with the company for a minimum of one year and who satisfy the following requirements: correlation of the course with the company's strategies and with professional development for the current position or career of the person in question, as well as authorization from the Executive Board/CEO;
- **"KNOWLEDGE TRAIL"** – Carried out at a distance, this is aimed at employees in the Production areas and covers procedures, work instructions and operational and safety documents. Approval of the practical part is done by the manager and makes it possible to issue a certificate and to automatically update the multi-functionality matrix.

For 2017, Termomecanica will invest in developing education tracks, based on the Company's career paths, in order to improve effectiveness in terms of guiding development actions, therefore enabling the employee to have a chance to play a decisive role in their own career decisions.

TERMOMECANICA CORPORATE UNIVERSITY

Set up in 2012 for the purpose of fostering development actions aimed at employees, partners, customers and suppliers, Termomecanica Corporate University (UCTM) offers both technical and behavioral courses and lectures, as well as other learning tools.

In just four years, 600 groups were trained at on-site courses, with 10 thousand people taking part in 3,800 class hours. The numbers for the distance learning mode are also surprising, as they include initiatives held since 2007: with 130 courses available, the on-line UCTM registers 13,000 people enrolled and more than 54,000 hours of training. The platform will be upgraded for 2017, making browsing easier, and thus leading to a significant increase in this number.

Linked to the Salvador Arena Foundation, the UCTM is considered as playing a strategic role in the Company's continuity, since it is designed, first and foremost, to develop the general skills of the employees (all job positions), management (those in management position) and functional (those in operational, technical and administrative positions), focusing on the organization's strategies and taking into account the specific education demands of the Company's business activities.

For example, last year 93 actions were carried out for this purpose, adding up to a total of 1,554 individuals taking part and more than 830 hours of on-site training. This translates into roughly five months of classroom activities. While in the case of the distance learning courses, more than 2,000 people were registered as having taken part in 10,000 hours of training.



UNIVERSIDADE CORPORATIVA TERMOMECANICA

However, its activities are not limited to the internal public. Designed to be a bridge between human and organizational skills, the UCTM works in line with the business' strategies and its structure is built on four important pillars:

- **TM ACADEMY** - Develops competencies for partners, suppliers and customers, training the participants in the proper use of the company's products. Among the courses held are: Non-Ferrous Metallurgy, Bronze TM 23 and TM 620; installation of Termomecanica Copper Tubes and Fittings; Metallurgy Applied to Copper and its Alloys; and Customer service. It also promotes the "Get to Know TM" program, which gives the students a chance to study the market for Termomecanica and its products, in addition to visiting the city of São Bernardo's industrial complex. Its focus is on ensuring the continuity of the Salvador Arena Foundation and its subsidiaries. In 2016, TM Academy registered a total of 590 people taking part, adding up to more than 167 hours of development actions for partners;
- **ORGANIZATIONAL CULTURE SCHOOL** – Its main initiatives are the "Get to Know the FSA Program", the "Get to Know TM" Program and the "Values in Action", for the purpose of spreading and increasing the employees' understanding of Termomecanica's values and history. Its main objective is to instill an appreciation of the organizational culture and its influence on day-to-day practices, reinforcing the philosophy, principles and values of the Salvador Arena Foundation and its subsidiaries. In 2016, the Organizational Culture School held 76 hours of training, with a total of 330 people taking part in 19 groups, providing visits to the Salvador Arena Foundation's Educational Center, with a focus on the Documentation, Memory and Reference Center (CDMR) and on Termomecanica's manufacturing complex;
- **MANAGEMENT SCHOOL** - Promotes the skills needed by the staff of the Salvador Arena Foundation and its subsidiaries, with the aim of consolidating the management model (processes, practices and tools), according to each institution's core activities. In 2016, the "Leaders Factory", "Management by Processes " and "Tax Management" programs were given by the employees themselves, who were selected based on their professional qualifications, which facilitated making the connection between the content and the organization's practices. In addition to this, the courses "Academic Management" and "Communication Management" were included in the program, with a total of 405 people attending a total of 260 hours, spread across 40 development actions;
- **OPERATIONS SCHOOL** – Its objective is to increase Termomecanica's employees' knowledge, particularly of those in the operational part of the company's core activities, in relation to raw material, the processing of non-ferrous metals and production processes. In 2016, the Operations School registered its 26th class of the "Basic Nonferrous Metallurgy Course" and started offering the "Physics, Chemistry and Spectrometry Laboratory Course", registering a total of 230 people taking part in 11 groups, adding up to a total of 334 hours of training.

TM CULTURAL SPACE

Set up at Termomecanica's two factories in the city of São Bernardo, each TM Cultural Space occupies an area of approximately 1,400 m². The site supports the UCTM's initiatives, as it provides access to the internet, a library, media and a film library, in addition to offering communal areas, study rooms and projection rooms.

The infrastructure was designed to integrate people and stimulate the search for knowledge. For example the brick-and-mortar library's collection contains roughly 5300 volumes and 500 media. Also available round the clock and free of charge, the university's virtual library features advanced research tools and accessibility resources for the visually impaired. It can be accessed on any one of the 38 computers that offer high-speed internet access, making it easy to take the distance learning courses offered by UCTM online.

Various types of periodicals including newspapers and magazines are also made available on a daily basis. Another resource that is used a great deal are the TVs that are installed at the place, which contribute to the relaxed environment during work breaks. There are also a number of types of games that provide entertainment, including those that help develop skills in a playful and entertaining way.

BENEFITS POLICY

In line with the strategy of attracting, retaining and engaging employees, the benefits policy offered by Termomecanica is a reference for organizations that value their human capital, since it is not limited to offering just what is laid down by the legislation, that is, many of them are granted at its own discretion, without any financial consideration.

One of the highlights is the medical assistance that is available to all employees and their legal dependents. With a monthly charge that is 100% subsidized by the Company, a nationwide accredited network and reimbursement when services are used that are not part of the aforementioned network, the Health Plan offered by Termomecanica made it possible, in 2016, to care for more than 4600 people.

With the support of the broker and the operator, last year, improvements were made to a number of programs that were already well-established in the Company, such as the Dental Plan, another outstanding benefit, which had its list of items covered expanded.

To make it easier to use the two plans, Termomecanica provides a service desk where appointments/consultations are scheduled and requests for reimbursement are made, as well as getting the green light for exams and operations. The Medicine Benefits Program (PBM) also stands out in this context. By means of this program it is possible to buy medicines with discounts that range from 60 to 100%.

BENEFITS POLICY

At the same time, Termomecanica also maintains different benefits linked to the quality of life, with the objective of bringing greater peace of mind and contributing to the physical and emotional well-being of employees and their dependents:

- **QUALITY OF LIFE CENTERS** – Located at SESI, these have courts, gymnasiums, swimming pools, kiosks, gyms and a games room, among others. The result of a cost-free partnership for the Company, this initiative provides moments of leisure, fun and integration for employees and their families;
- **DAY CARE ASSISTANCE/REIMBURSEMENT** – Provided under the category's collective agreement, this is made available to female employees, until their children reach the age of 2;
- **SUPPLEMENTARY PRIVATE PENSION** – This has different technical and financial conditions, with Termomecanica contributing 80% of the sums in relation to retirement and 100% of the amounts in relation to the risk benefit (insurance);
- **SOCIAL SECURITY** – Provides special assistance at the São Bernardo do Campo branch of the INSS (Brazil's social security agency), with the purpose of speeding up procedures in relation to sickness benefit, work accidents and retirement involving employees;
- **MEALS** – Offered at the self-service restaurants, which operate 24-hours a day. Meals are served at various times, and there is also a proper menu for those who require special diets (diabetes, hypertension and obesity), with permanent monitoring by nutritionists. Termomecanica makes great efforts to avoid waste, monitors the quality of the services and at regular intervals undertakes testing at an independent laboratory for the microbiological control of the food served;
- **STAPLE BASKET** - Granted to all Termomecanica employees, this has a differentiated value in relation to the general market practice, as it is fully subsidized by the Salvador Arena Foundation. In the month of December, at its own discretion, the Foundation doubles the benefit, contributing to the end-of-year celebrations;
- **TRANSPORTATION** – In addition to providing parking lots free of charge near the factories, a number of charter bus routes are also subsidized for the employees. Those who live more than 1.5 km from the charter routes receive a reduced discount transport voucher.

PROGRAMS IMPROVED AND/OR CONTINUED IN 2016

- **UCP (Postural Correction Unit):** This operates in the treatment and prevention of postural disorders. In 2016, the Program's fifth group was held, with 51 employees taking part;
- **MOTHER & BABY:** This focuses on the relationship and guidance for pregnant women, also offering monitoring following the baby's birth up to the age of one. The participants also receive an informational leaflet that lists all the pregnant employee's rights and duties;
- **RADAR:** It is designed to identify the largest users of the so-called low complexity events (consultations, examinations and procedures), providing guidance and referrals for the appropriate resources;
- **GPAP (High Risk Patient Management):** Identifies beneficiaries who have a high risk of developing chronic diseases. It classifies, allocates and monitors, accompanying them throughout their entire medical treatment, proactively interfering in order to enhance their quality of life.

BENEFITS OFFERED IN PARTNERSHIP WITH THE SALVADOR ARENA FOUNDATION

- **SOLIDARITY AND MOURNING PROGRAM (PSL)** - This program provides humanized professional care, as part of the corporate procedures pertinent to the circumstances of death, showing respect, solidarity and consideration. In 2016, 26 cases were attended in relation to the deaths of employees' family members;
- **HIGH-COST MEDICATIONS AND EXAMS (PMEAC)** - This program enables employees and dependents to obtain access to high-cost medications and/or exams that are not covered by government programs or by the corporate medical/dental plan. In 2016, 20 employees benefited: six through financial donations and 14 through orientation and referral to government programs and/or the medical plan;
- **SUPPORT FOR DISABLED EMPLOYEES (PAED)** - This program provides financial and technical support for the purchase of high-cost prostheses, orthoses and special appliances. In 2016, three employees were assisted: one by means of financial donations and two with advice and referrals to government programs;
- **EMERGENCY ASSISTANCE FOR FAMILIES PROGRAM (PAEF)** – It supports and encourages the employee to take part in solidarity, altruistic and humanitarian initiatives, by means of technical-social guidance and financial assistance to meet basic needs for low-income or zero-income families, which are in situations of vulnerability and social risk. In 2016, 249 employees took part in the program, which directly assisted 249 families (854 people);
- **“PROIMÓVEL”** – This is designed to reduce or eliminating bureaucratic and technical obstacles for employees to acquire a home or to regularize the situation of their property, improving their housing conditions and providing them with clarification in relation to their citizenship rights. In 2016, 160 employees took part in the program, by means of lectures, consultancy and advisory services;
- **"Straight A VOLUNTEER " CAMPAIGN** – This program offers guidance to employees regarding the allocation of the Nota Fiscal Paulista tax receipt to social entities, recommending that they be donated to Non-Governmental Organizations (NGOs) that are monitored by the Salvador Arena Foundation which, by means of technical-social visits and regular accounts, checks the application of the resources. In 2016, almost 9,301 tax and cashier's receipts were donated to four social organizations;
- **EMERGENCY ASSISTANCE FOR EMPLOYEES WHO ARE ON A LEAVE OF ABSENCE (PAEEA)** – This program is designed to minimize economic vulnerability situations for the families of employees, as a result of the loss or significant drop in family income due to a leave of absence from work on account of illness. In 2016, two employees were directly benefited by this program.



2016 HIGHLIGHTS

- 4,627 lives covered under the medical and dental health care plans;
- 117 daycare subsidies/reimbursements paid;
- 1685 active private pension plans;
- 1,073,282 meals served at the company's two restaurants;
- 20,376 food/meal vouchers given;
- 1,245 medications donated;
- Partnership with SESI, with a view to encouraging physical and leisure activities, as a means of integration and improving the quality of life.

KEY TARGETS FOR 2017

- To continue working to improve employee perception of the benefits offered by the Company;
- To enhance the benefits package without any impact on the budget.



OCCUPATIONAL SAFETY

ENCOURAGING SAFE BEHAVIOR

In order to build and maintain a safe environment, Termomecanica puts into practice an occupational safety policy that is integrated with its business and with the activities performed at the factories. By investing in a continuous improvement process, which is not limited to complying with what is laid down by the law, the Company protects its most precious asset, preserving health and well-being. Among the main aspects related to this process, it is important to highlight:



- In addition to identifying hazards and making use of risk analysis processes for change management, the Company periodically checks the legal requirements by means of internal and external audits. Activities carried out by third parties and even activities undertaken only sporadically are also continuously checked, using a specific form;
- "Safety Chain" is the name of one of the major programs used for the purpose of evaluating employees' behavior in relation to this subject. The initiative encourages employees to take an active role in identifying risks, behaviors and suggestions for corrections in the workplace;
- The emergency system created by Termomecanica has proven to be efficient when used. It includes testing, employee firefighter training, escape routes, emergency kits strategically placed throughout the factories, in addition to holding simulated emergency and evacuation drills at regular intervals;
- Various types of training, both for the purpose of complying with the legislation as well as for continuous improvement of the system, have also been important allies. These supplement the strategy of holding specific courses for newly-admitted staff and service providers;
- Another important differential is the Ergonomics Committee, which has played an important role in implementing improvements raised by the ergonomic analyses of the activities;
- Communication is another strategic differential in the search for safe behavior. This topic is constantly covered by the Company's internal communication vehicles and at the Security Dialog sessions;
- Inspection is carried out systematically by the Occupational Safety Engineering department to ensure the correct advice and proper use of personal protective equipment;
- The efforts in connection with the Internal Occupational Accident Week (SIPAT) has helped bring about an increase in the level of involvement on the part of employees. The Company also encourages employees to take part in the Emergency Brigade, which consists of representatives from various operational areas who are given proper training to ensure that the best procedures are followed in the case of an emergency.

CONTINUOUS INVESTMENTS

In addition to encouraging safe behavior, in 2016 Termomecnica invested roughly R\$1,500,000.00 in protection and purchases of machinery, training courses and awareness actions, which helped to reduce occupational accident frequency by 0.7% by comparison with 2015. Below are some of the key initiatives that have contributed to ensuring even more effective results:

- Renovation of the roof with the replacement of asbestos tiles by thermally insulated tiles;
- Renovations of floors and platforms with the aim of ergonomic improvement in the circulation areas, making it easier to transport materials and for people to move around;
- Continuity with regard to the installation of safeguards for machinery, with a view to fully complying with the Ministry of Labor's NR-12 standard;
- Deactivation of those machines that present the greatest risk to employees;
- The replacement of metal vapor lamps by LED bulbs, improving employee comfort and reducing electricity expenditure thinking about with environmental considerations;
- Development of new Personal Protection Equipment (PPE), providing better comfort and safety for the employees;
- Modernization of the industrial complex with the acquisition of new machinery and equipment in accordance with the current regulations, with a view to greater safety, comfort and practicality in the operation for the employees.

| OCCUPATIONAL SAFETY – ACCIDENTS | 2014 | 2015 | 2016 |
|--|------|--------|------|
| Accidents at work/year | 39 | 37 | 22 |
| Percentage of accidents that resulted in employees and/or service providers being temporarily absent from work | 79% | 51,35% | 36% |
| Percentage of accidents that resulted in death and/or permanent disability | 0% | 0% | 0% |

VISITORS AND THIRD PARTIES

Concern about security is not limited just to those who work at Termomecanica. The Company also has a prevention policy aimed at visitors and third parties, which confirms the importance that the organization attaches to life.

For example, at the moment they enter the Company, visitors receive a manual with guidelines on the main procedures in relation to safety and care for the environment. The process is more complex with the employees of outsourced companies.

By means of the Corporate Portal, managers record their activities in detail, which are then verified and assessed by the company's Safety, Occupational Health and HR departments. After this, third parties are then involved in safety and risk analyses guidance. Job permits will only be issued after this entire process has been concluded.

Risk analyses are validated by the managers on a daily basis and third parties are immediately informed when any problems are detected. It should be stressed that contractors have access to the information through the contract manager who is responsible for maintaining the documentation and monitoring the activities carried out as planned and approved. All third parties undergo safety guidance recycling every year.

2016 HIGHLIGHTS

- 8.33% reduction in the number of accidents in relation to 2015;
- Implementation of a new ergonomic landscape, with 20% of the ergonomics actions planned for the period being carried out;
- 44.80% reduction in the accident severity rate, a 0.7% decrease in the frequency rate and an 8.33% drop in the number of accidents in relation to 2015;
- Conclusion of 82.2% of the improvements identified as hazards and risks in 2016, on the basis of their Risk Priority Level (NPR), the highest target ever recorded by the Company.

KEY TARGETS FOR 2017

- Implement 60% of the actions related to the ergonomic landscape;
- Monitor the carrying out of the improvements in 75% of the hazards identified and rated with a risk priority level of more than 243;
- Monitor the implementation of 75% of the actions identified in the Current Safety Program, an instrument of communication between the employees and the Occupational Safety area, in order to identify risks and corrective actions;
- Reduce the number of accidents, frequency rate and severity by 10% by comparison with the cumulative result for 2016.



EMPLOYEE HEALTH

SEEKING BALANCE AND WELL-BEING

For Termomecanica, the concept of Health is viewed in a broader, more comprehensive way. In other words, health means much more than the simple absence of illness. It is the effect of socioeconomic and affective interactions of a company with the environment, its family, its work and community that can influence its physical, mental and affective health.

Therefore, Termomecanica's main objective is to prevent the development and spread of diseases by means of awareness, as the best way of minimizing the indices of health problems. In addition to the benefits already mentioned above, the Company has an employee health policy that takes into account the collective character, without losing sight of each individual's specific characteristics.

With the permanent support of its Senior Management, Termomecanica, in its ongoing quest for the best working conditions with a focus on ergonomics, the environment and best practices, seeks to maintain the balance between personal life and professional achievement. Therefore, as soon as they have joined the Company, employees undergo preventive exams that define their metabolic and hepatic profiles, the results of which will be evaluated so that, if necessary, the employees can be referred to a specific program or a specialist for medical follow-up or assistance. In 2016, 224 workers went through this process.

SEEKING BALANCE AND WELL-BEING

Another important moment relates to the broad-spectrum de-worming medication, which is donated to all the employees as part of the Company's benefits policy. Last year, 94 boxes of Secnidazole and 59 boxes of Albendazole were distributed.

Special attention is also given to people with chronic conditions such as diabetes, hypertension, obesity, dyslipidemia and smokers. Once they have been diagnosed, by means of periodic medical examination or occasional check-ups, they are referred for the necessary care and monitored on a six monthly or annual basis, by means of special programs. The more complex cases receive differentiated, faster and more effective treatment, which entails earlier exams and contact with doctors in attendance.

In accordance with NR7 standard - Occupational Health Medical Control Program, all of the company's employees undergo the occupational health exam with a comparative assessment with previous exams and overall conclusion regarding fitness, taking into account their physical, mental and psychiatric state.

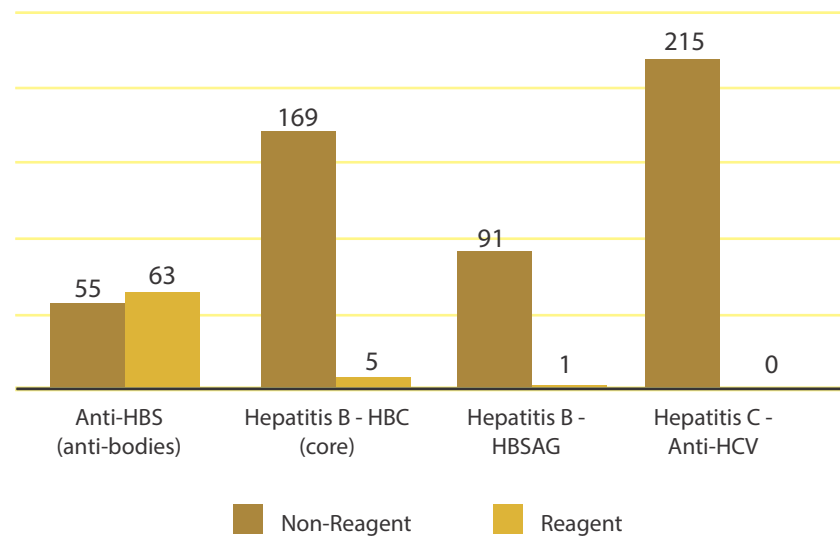
The Occupational Health area is the sector operating within SESMT, with a positive relationship with the Occupational Safety, Legal and HR departments.

SEEKING BALANCE AND WELL-BEING

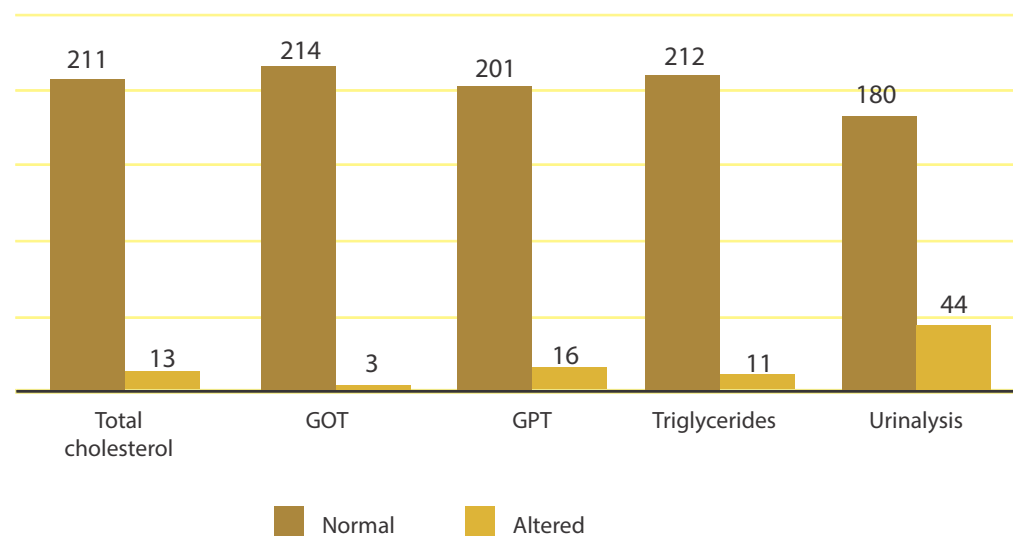
We highlight some of the actions of educational nature that are designed to promote the employees' well-being and quality of life:

- Preparation of notices and broadcasting of messages in the Company's internal communication vehicles, covering topics such as the importance of preventing AIDS and other sexually transmitted diseases, care in relation to H1N1, breast and prostate cancer, mumps, Zika, HAS, etc. in an objective, succinct and easy to understand way. In 2016, 15 notices of this type were disclosed on the Corporate Portal;
- Distribution of male and female condoms to employees and service providers;
- Awareness in relation to the prevention and early diagnosis of breast and prostate cancer, by means of specific campaigns, which for the third year in a row, were carried out in October and November. In addition to the notices, wallpapers and 8-page notice board on both topics, a number of workers used pink and blue colored clothing, so that the messages were even more evident. In support of this campaign, the health plan did not charge co-participation of workers who had appointments with gynecologists and general practitioners and urologists in the months of October (women) and November (men).

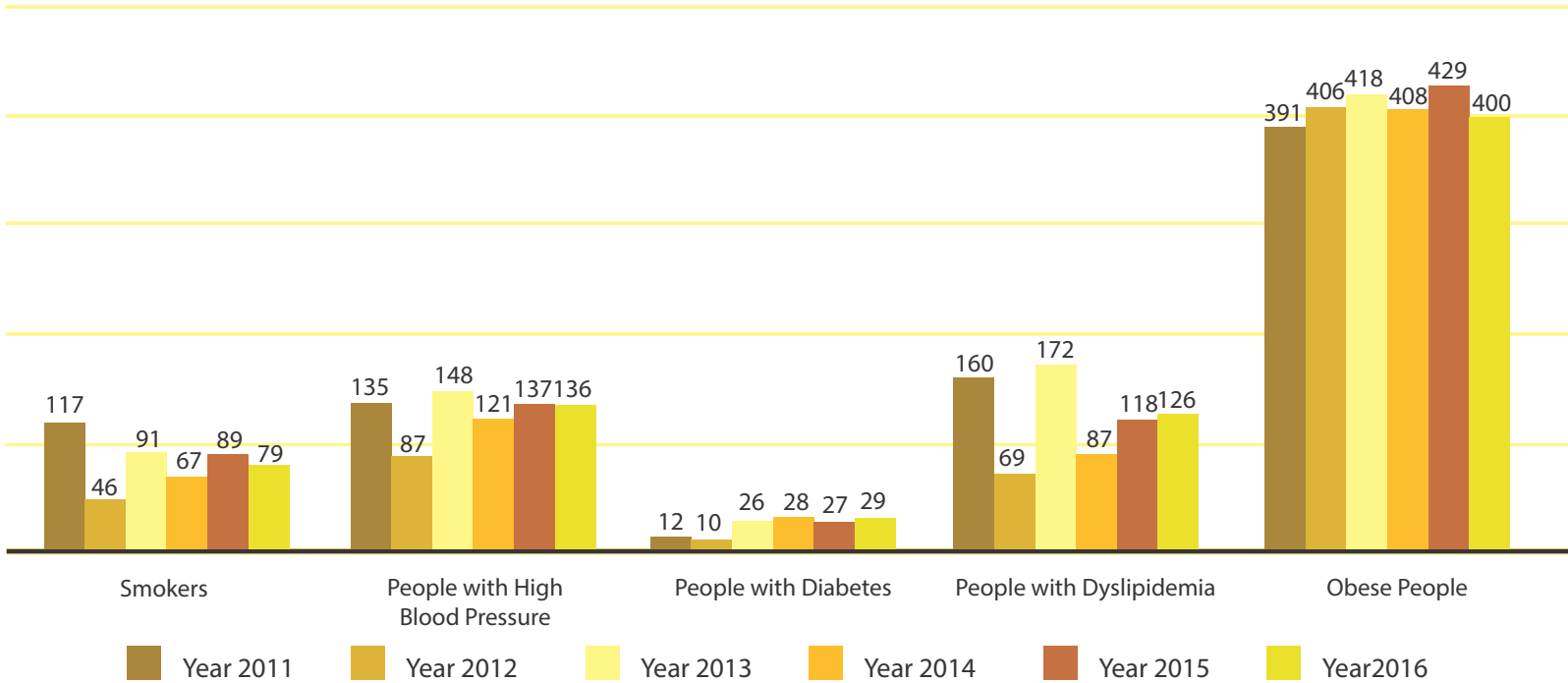
RESULTS OF SEROLOGIES CARRIED OUT IN THE HEALTH PROFILE - 2016



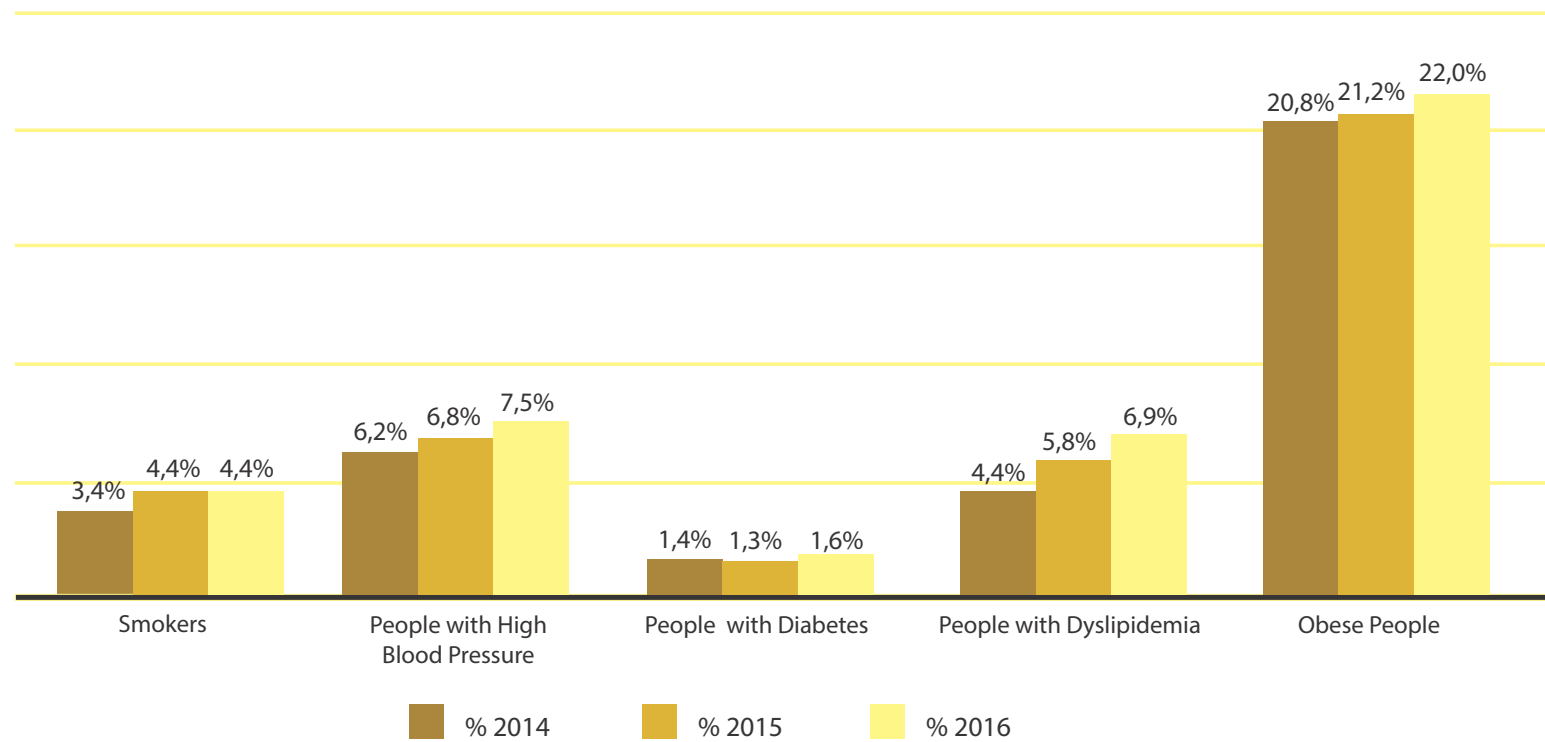
RESULTS OF EXAMS CARRIED OUT IN THE HEALTH PROFILE - 2016



BREAKDOWN OF COMORBIDITIES FLAGGED DURING YEARLY CHECK-UPS



PERCENTAGE OF EMPLOYEES SUFFERING FROM CHRONIC DISEASES AND SMOKERS PER YEAR (TMSP/FSA)

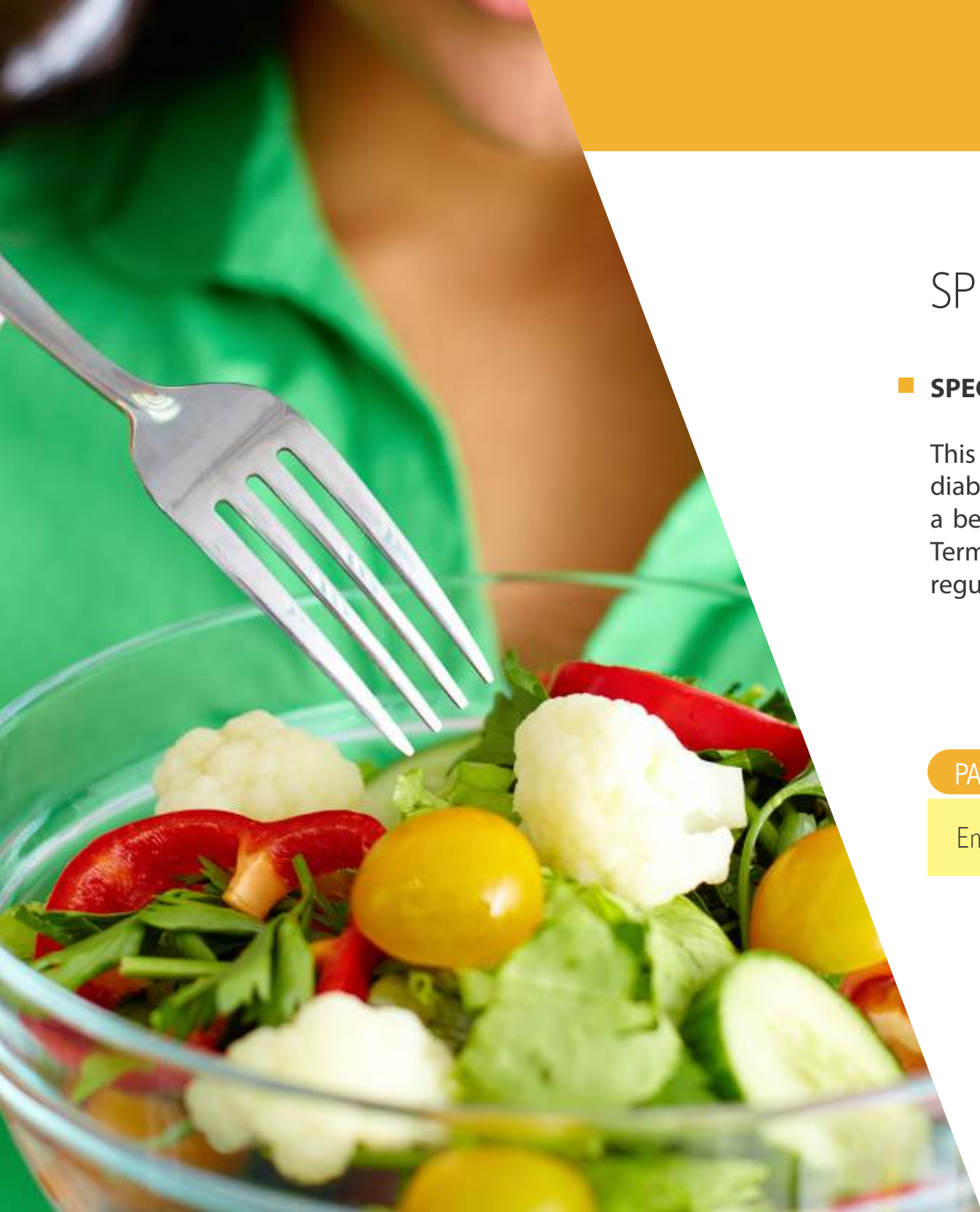


SPECIAL PROGRAMS

■ **SPECIAL MEALS/FOOD PROGRAM (PAD)**

This program is designed to improve control of indices of diseases such as hypertension, diabetes mellitus and obesity, by means of orientation and a balanced diet, in order to provide a better future quality of life for employees. In 2016, 42,119 specific diets were served at Termomecanica's two factories, which is an average of 3,500 diets/month. There have been regular return visits to the outpatient clinic, for specific checks.

| PAD | 2014 | 2015 | 2016 |
|----------|------|------|------|
| Enrolled | 283 | 298 | 319 |

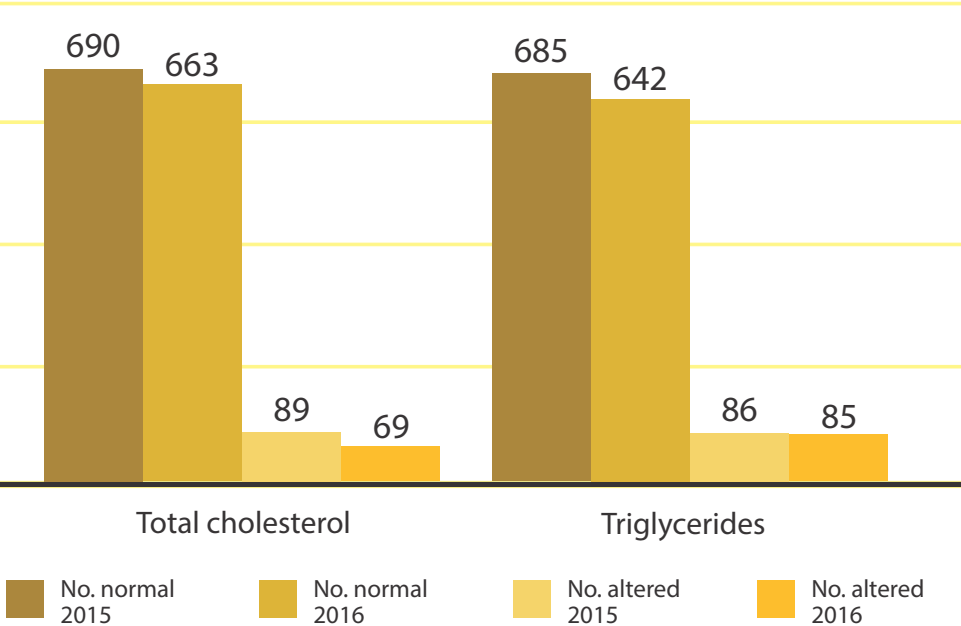


SPECIAL PROGRAMS

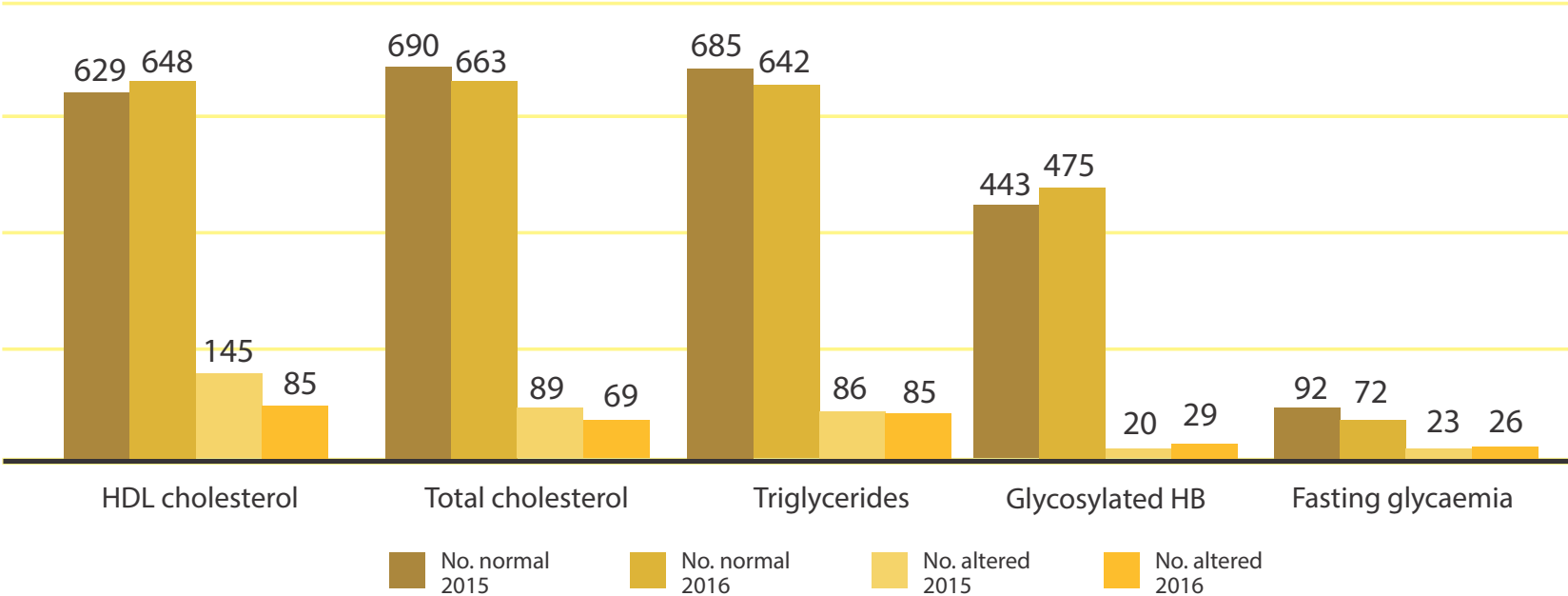
DYSLIPIDEMIA AND DIABETES EXAMS

These are recommended at the time of the annual check-up to find out, evaluate and monitor cholesterol, triglyceride and glycated hemoglobin levels. Those who show altered results are called in and directed to go on to medication or for other referrals.

DYSLIPIDEMIA EXAMS - 2015 AND 2016



DYSLIPIDEMIA AND DIABETES



SPECIAL PROGRAMS

■ ANTI-SMOKING PROGRAM

In an individual way, gives advice to smokers regarding the problems resulting from cigarette addiction, addictions mechanism, treatment options, adverse effects of medication and abstinence. In 2016, 79 employees stated that they were smokers, which represented 4.4% of the workers interviewed during the annual check-up, which was well below the 14.7% percentage found in the Brazilian population (PNS, 2013). Treatment is spontaneous, and takes place by means of use of nicotine patches, which are offered free of charge. There are a number of factors that commonly interfere in the success of the initiative, as it is an addiction that is hard to combat due to the fact that it is a legal drug, which makes it easy to get hold of. Other difficulties observed by the Program: living with family members who are smokers, a lack of determination in terms of the will to stop, along with the fact that smoking is a socially accepted addiction.



| INDICATORS | 2014 | 2015 | 2016 |
|---|------|------|------|
| Total Participants | 10 | 6 | 10 |
| Stopped Smoking When the Medication Ended | 5 | 1 | 3 |
| Number of boxes of medication distributed | 24 | 31 | 49 |

The worker may take part as many time as he wishes. It is a continuous program, totally free of charge.

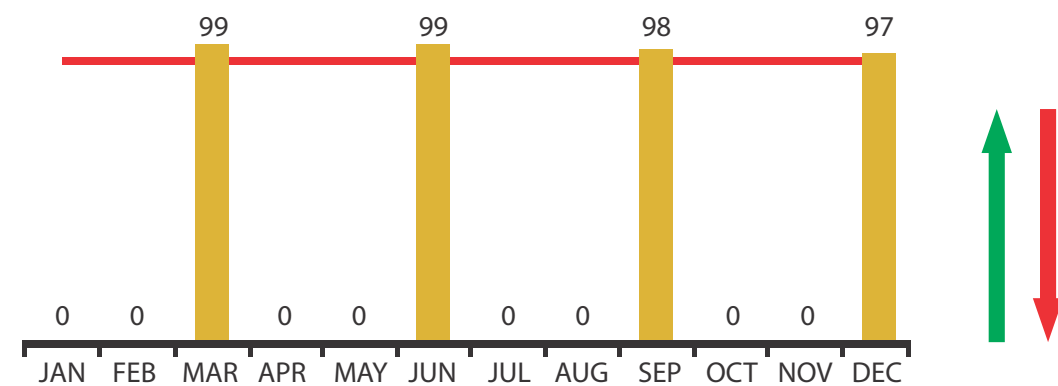
SPECIAL PROGRAMS

■ VACCINATION CONTROL

The systematic evaluation and updating of the worker's vaccination card is carried out by the Occupational Health Department, on the occasion of the annual check-up, in accordance with Brazil's National Immunization Program (PNI). All workers are required to get tetanus vaccinations under the PCMSO (Occupational Health Medical Control Program). All member of the company fire brigades and health professionals are instructed and monitored to procure the public health service with a doctor's request for vaccination against hepatitis B, which in such cases is also compulsory.

Process: Occupational Health

Index of vaccines available for employees trained in first-aid (%) - Target: 95



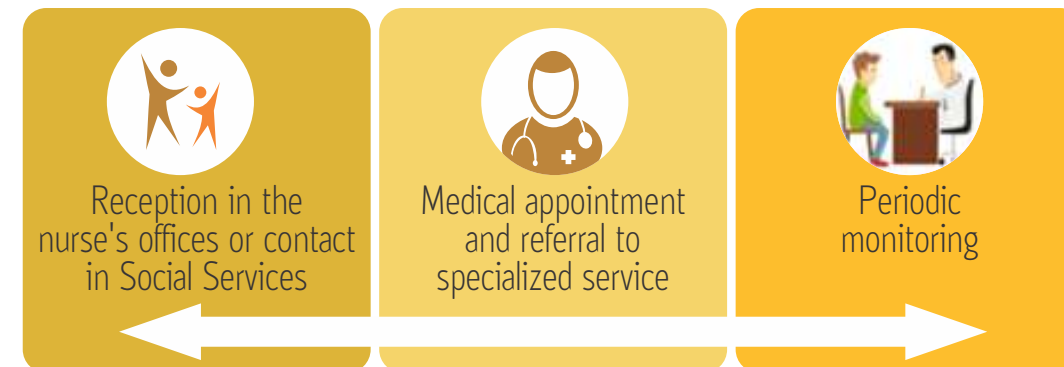
■ Indicator Value

— Target Proposed

SPECIAL PROGRAMS

■ CHEMICAL DEPENDENCE PROGRAM

This program provides outpatient, psychotherapeutic and in-patient services, resulting in a more complete, specific treatment together with long-term monitoring. Developed in partnership with a specialized health institution, it has provided satisfactory results.



Every worker who gets in touch with the health clinic or presents a certificate for behavioral disturbance is evaluated by the occupational physician

The specialized service offers:

- Hospitalization at Bezerra de Menezes - 30 days
- Outpatient care Group / family and individual psychotherapies

Totally covered by the company's health plan



2016 HIGHLIGHTS

- 100% of diabetics monitored;
- 100% of annual check-ups carried out by the proper date;
- 100% achievement of the target for drafting/disclosing health notices.

KEY TARGETS FOR 2017

- Continue monitoring of at least 90% of the diabetics;
- Continue to perform dyslipidemia exams;
- Draft and publish at least one health notice every two months;
- Continue the de-worming medication program.



SUPPLIERS

STRENGTHENING RELATIONSHIPS

For Termomecanica, it has been a permanent challenge to engage its suppliers in order to strengthen links with its entire supply chain. The alignment of purposes makes solid partnerships possible, reducing the risks and increasing the degree of collaboration, which has a direct effect on the achievement of positive results.

Therefore, the Company's relationship policy is not just based on conventional criteria, such as price, quality and prompt delivery. It also includes rules, which are valid for the entire process of appraisal, qualification and monitoring, characterized by transparency and reliability, as can be seen below:

- All supply contracts, purchase orders and contracts for the provision of service contain specific clauses repudiating forced labor, preventing the use of slave labor, child labor or degrading conditions of work. After all, in order to get approved, companies must show that they are committed to complying with the social responsibility requirements that add value and provide sustainability for the businesses;
- The company's internal supplier management system is managed via the Corporate Portal, thus ensuring efficiency and agility. It was created based on technical and legal criteria, by type of segment of the material or service to be provided;
- In addition to providing complete and up-to-date corporate documentation at the time of their registration, suppliers must satisfy a series of requirements, such as meeting the requirements in relation to the quality standards of the product or service supplied. In addition, they also have to comply with the chemical and technical specifications applicable to their product, as well as observing the basic Health and Safety and Environmental standards. In cases involving products that use controlled substances and/or components in the manufacture of certain materials, the supplier is required to show compliance with international standards and directives;
- In order to ensure satisfactory indices for its approved suppliers, the Company monitors their performance, evaluating the criteria in relation to quality and compliance with specifications, delivery dates, punctuality, assertiveness of tax documents, and compliance with the applicable legal requirements;
- Scrap suppliers follow specific guidelines related to the procurement processes, in accordance with the applicable legislation. They also receive periodic visits, at which time Termomecanica carries out checks of the operations and facilities used, with a view to giving instructions regarding the most appropriate way of packaging, sorting and classifying scrap.

| YEAR | RAW MATERIALS | INTERMEDIATE MATERIALS MONITORED |
|------|---------------|----------------------------------|
| 2014 | 98,93% | 100,00% |
| 2015 | 99,95% | 100,00% |
| 2016 | 99,74% | 100,00% |



2016 HIGHLIGHTS

- Review of the Supplier Management Procedure, for inclusion of other business segments;
- A draft of the General Terms and Conditions for the Supply of Products and Services was prepared for dissemination among all suppliers. This document is in the approval phase;
- Inclusion of the Social and Environmental Responsibility Declaration, issued by the Supplier, as a compulsory requirement for raw material and scrap suppliers.

KEY TARGETS FOR 2017

- Review the "Supplier Management Procedure", in order to update the requirements for approval, evaluation and monitoring of suppliers, as well as the inclusion of items related to environmental, safety and health and safety issues, as well as social responsibility;
- Disclose the document "General Terms and Conditions for the Supply of Products and Services";
- Implement criteria for the evaluation, qualification and monitoring of scrap suppliers;
- Establish systematic visits to qualified suppliers, as a monitoring criterion.



CUSTOMERS

MEETING THE DIFFERENT EXPECTATIONS

The investment in the manufacture of aluminum products, aimed at markets where the metal has shown great progress as a replacement for other raw materials in specific applications, is a good example which illustrates how Termomecanica is always attentive to its customers' needs.

Throughout its history, there is no shortage of examples of a pioneering approach in relation to meeting the market's demands, which has been possible thanks largely to the technical know-how acquired over the company's almost 75 years of existence.

To maintain the leading position that it occupies in its segment, Termomecanica also adopts a series of initiatives that have made the Company well-known in the market for cultivating good relationships and permanent partnerships:

- For example, in order to measure customer satisfaction levels, every two years, a survey is carried out that evaluates aspects ranging from commercial and technical service to the quality of products and commercial conditions, among other items;
- Training courses that reinforce technical matters related to metallurgy, taxation and negotiation are carried out on a regular basis, for the purpose of preparing the customer service teams. It is these teams that raise the market's needs, as a result of visits made for prospecting, commercial and technical purposes, or even visits in connection with product-related services, as well as observations and surveys in specialized publications;
- In order to evaluate market share and market trends by operating segment, Market Intelligence professionals undertake research using primary and secondary sources, such as visit reports, publications and reliable data published on the Internet. All this in order to ensure the continuous improvement of the service, in tune with each customer's needs;
- Complaints and doubts received by telephone, e-mail, the B2B TM Business Portal or even during on-site visits to customers are always registered on the SAP Customer Service Center and forwarded for evaluation by the areas in charge. When dissatisfaction or criticism is encountered, the Company raises the causes and adopts measures to correct and eliminate the problem once and for all. The confidentiality and privacy of the information provided by the customers is guaranteed, as established by Termomecanica's Information Security Policy;
- One of the main service channels, the TM B2B Business Portal is constantly being improved, in order to provide agility and reliability in the service, making contact with the customer easier. Developed to be an online shopping and relationship channel, it also makes it possible to check orders outstanding and invoiced, to visualize the statement of raw materials (primary and/or scrap) in a summarized or detailed way along with real time price quotes for materials, among other things. All events are registered in the Corporate Portal, on Salesforce and on SAP, and communicated in an integrated format to those who are responsible, in order to proceed with the requests made.

2016 HIGHLIGHTS

- 10% increase in the number of customers using the TM B2B portal;
- 359 valid complaints received by customer service channels, of which 100% were resolved.

KEY TARGETS FOR 2017

- Increase the number of customers using the "TM B2B Portal" Digital Platform by 5%;
- Add new functionalities to the TM B2B Business Portal, such as: new layout, consultation of products that are not in the portfolio, request to bring forward/postpone materials, request for material.



COMMUNITY

BENEFITTING THE WHOLE OF SOCIETY

Termomecanica's relationship with the community goes well beyond the policy of being a good neighbor and is not limited to the areas surrounding its factories. After all, it is aligned with the institutional mission of its parent company, the Salvador Arena Foundation, whose actions are focused on society in general.

Services for stakeholders, governance and decision-making processes are based on the corporate values that are common to both the organizations, including altruism. Thus, the resources generated by Termomecanica provide the basis of support for a number of initiatives carried out by the FSA, including among others:

- Social and community projects carried out across Brazil, benefiting more than 30,000 people linked to different non-profit organizations, including among others, children's homes, day care units, old people's homes, charitable hospitals, vocational training centers and other social development agencies;
- Training and education programs in management, fundraising and preparation of projects aimed at managers and technicians of social entities, as well as free technical advisory services for institutions that intend to regularize their corporate situation;
- Support for the maintenance of the Salvador Arena Foundation's Educational Center (CEFSA), which combines Termomecanica School and the Termomecanica School of Technology, where almost 2,500 students a year receive high quality education free of charge. The structure also includes the Eng. Salvador Arena Theater, the TM 23 Bronze Olympic Stadium and the Salvador Arena Aquatic Complex.



THE FSA'S MISSION

- "To follow the founder's ideals of contributing to society, especially those who are most in need, working in the areas of education, health, housing and social assistance, aiming at social transformation, using the proceeds from investment of its wealth."



COMMUNICATION

A FOCUS ON ETHICS AND SOCIAL RESPONSIBILITY

The mission of Termomecanica's corporate communications department is to create, implement and support social communication processes and actions that allow the Company to retain its positive and favorable image with its main stakeholders. The principles of Social Responsibility and Ethics are present in every initiative that is undertaken, from conception to dissemination, and from format to content, thus ensuring that there is no type of discrimination, prejudice or disrespect, even in relation to competitors.

The area's performance shows positive results and, in some cases, exceeding the targets established. In terms of visibility in the media, for example, 2016 was the best year for the Company since 2012, when it began to do press office work that was more planned and more in line with the organization's purposes. In total, 675 articles were published in the press covering issues of interest to the Company, leveraged from 11 opportunities, a number five times greater than that obtained four years earlier, when the work of measuring first began to be carried out.

In relation to internal communications, the Company spares no efforts in the sense of reinforcing positive behavior related to citizenship, the environment, community, health and finances, among other things. Last year, special attention was given to questions such as cost reduction, motivation in times of crisis, in addition to emotional and personal overcoming, with the aim of encouraging employees to do their part and help Termomecanica get through the country's political and economic crisis.

In general, the content covered in the different vehicles always provides support for the Corporate Values and the Code of Ethics and Conduct, in the same way as the formal communication, which comes from the executive boards, management and supervisors, going all the way down the hierarchical line to the employees, also following these basic premises.

In addition to the press relations and employee relations work, Termomecanica's corporate communications department also invests in advertising in specialized vehicles as well as at trade shows and events, as tools to enhance the brand.

INTERNAL COMMUNICATION

- **“Mural Newsletter”**: Publishes up-to-date information on a weekly basis, with comprehensive topics related to citizenship, health, human resources, quality, culture and leisure, among others. This vehicle is also used for urgent notifications;
- **The in-house Newspaper "Somos TM" ['we are TM]**: First published in 2006, it comes out every two months, with the content being focused on the employees and their families;
- **Corporate Portal**: it contains the same information as the “Mural Newsletter”, in addition to digital versions of “Somos TM”;
- **8-page "notice board"**: Updated twice a week, enables messages to be delivered in a clear, direct and visually attractive, mosaic format;
- **Communication Agents**: They help pass on information, clearing up doubts and acting as support for critical communication points. These employees are committed to the company and are seen as opinion makers.
- **Corporate TV**: Located in the dining areas at Factory I and Factory II, as well as in Reception, this is a modern and dynamic form of communication. It also provides other important benefits, such as speed of transmission of the information and collaboration with the environment due to the fact that it saves paper.
- **Suggestion Box**: Available in the refectories together with the blank suggestion forms, the purpose of these is to collect suggestions from the employees and give everyone the chance to come up with possible improvements.
- **Charts with classified ads**: These are available in the dining areas for use by all employees and allow goods for sale to be advertised. To publish the advert, one uses a form that has been standardized by the Communication area.
- **Totem (Touchscreen)**: Installed in the dining areas, these are used to undertake communication surveys with employees. The questions relate to the topics dealt with in the week through the 8-page notice board. This feature makes it possible to get an immediate measurement of the absorption of the topics by the team.

2016 HIGHLIGHTS

- 163% increase in the number of spontaneous media stories by comparison with 2015;
- Qualitative visibility in 175 articles, 35 of them original, 41 in the printed press and 26 in the so-called mainstream press;
- Relevant source in 17 interviews granted for specialized and business media;
- Among the issues that aroused the greatest interest were Termomecanica's entry into the aluminum market, as well as opinion articles regarding sustainability and the importance of investing in highly regarded employees. Topics relating Termomecanica with construction, refrigeration and the sugar-energy industry, for example, as well as HR, sustainability and technology were also featured in some interesting articles;
- Implementation of the Corporate TV.

KEY TARGETS FOR 2017

- Continue the area's work, always with a focus on Social Responsibility, as it is an ongoing target;
- Promote the disclosure of relevant topics aimed at engaging the internal public in motivational topics and in understanding the country's current political and economic scenario.



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