CRT CASE STUDY: ACCOUNTING OF FINANCIAL INSTRUMENTS

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(Free translation from the portuguese version)

ABSTRACT

This case was developed for learning the accounting concepts regarding the recognition and classification of hybrid financial instruments of capital, as well as for a reflection about the process of preparing financial statements of a company that follows the International Accounting Standards. In 2014, the Rio-Teresópolis Concessionaire (CRT) disclosed a Current Report informing about the voluntary change of the independent audit firm due to a disagreement on the accounting treatment of convertible debentures. The case requires that the student, acting as a consultant, assessing the characteristics of the convertible debentures issued vis-à-vis the guidance contained in accounting standards, and present a proposal of accounting treatment to be adopted by the company. Additionally, the student must: a) elaborate the accounting statements using the alternative accounting treatment (different from the draft presented by the company); b) demonstrate the possible impacts on the financial indicators of indebtedness; and c) present the possible economic consequences that a change in accounting practice may generate. The tasks requested in the case have the objective of broadening the knowledge of undergraduate or graduate students of the Financial Accounting courses on the practical applications of a relevant accounting standard, as well as recognize the importance of the application of professional judgment in the accounting process.

Keywords: Accounting. Liabilities. Hybrid Financial Instruments of Capital. Convertible Debentures.

1 INTRODUCTION

The year of 2014 was ending and the Financial and Investor Relations Director needed to solve quickly the problem to conclude the preparation of the annual financial statements to be appreciated by the Administrative Council and the Debenture Holder Assembly.

After the performance of the mandatory rotation of the independent audit company as required by the Securities Commission, the Financial and Investor Relations Director was taken aback by the disagreement of the new independent auditors regarding the accounting treatment adopted by the Company upon the accounting of convertible debentures issued in 2001.

The following topics present in detail the information about the problem and the context in which the company was inserted.

2 COMPANY HISTORY

The Rio-Teresópolis Concessionaire (CRT), a special-purpose entity (SPE) public company established in Magé, Rio de Janeiro, Brazil, was constituted on November 7th, 1995. The company is a public-service concessionaire that performs in the sector of "transport and logistics services", responsible for the "administration, operation, and conservation of highways".

The primary stockholder is an infrastructure investment and participation company that belonging to the civil construction sector. It won a Government bid for the administration of the highway in August 1995.

![Figure 1. Images of the highway infrastructure of the company.](source: CRT (2018a)).

The company manages 142.5 kilometers of the Santos Dumont Highway (BR-116/RJ), in the state of Rio de Janeiro, Brazil, and is responsible for the recovery, operation, maintenance, monitoring, conservation, implantation of improvements, and expansion of the highway system, besides making services available to highway users. The company has 920 collaborators, 370 of whom are employees, most of whom live in the cities of the region serviced by the highway.

The concession encompasses a region located in the cities of Duque de Caxias (from the junction with BR-040/RJ), Magé, Guapimirim, Teresópolis, São José do Vale do Rio Preto, and Sapucaia, going to the border with the state of Minas Gerais, near the city of Além Paraíba, as established in the Notice for Tariff Proposals no. 0293/93-00 (Phase III) and in the Contract of Public Service Concession Preceded by Public Works PG-156/95-00.

The Contract of Public Service Concession between the Union, through the National Department of Roadways (DNER, in Portuguese, Departamento Nacional de Estradas de Rodagem) - current National Land Transportation Agency (ANTT, in Portuguese, Agência
Nacional de Transportes Terrestres) - and CRT was signed on November 22nd, 1995, valid a non-extendable period of 25 years. With the beginning of its activities on March 22nd, 1996, the contract is due to be closed on March 21st, 2021.

Up to the moment, four contractual additions were signed (on October 29th, 1996, July 16th, 1997, December 28th, 1999, and August 27th, 2012). The fourth contractual addition altered the form of calculating the readjustment of the basic toll tariff, establishing that, from 2012, the tariff would begin to be readjusted annually according to the variation of the Broad National Consumer Price Index (IPCA, in Portuguese, Índice Nacional de Preços ao Consumidor Amplo), calculated by the Brazilian Institute of Geography and Statistics (IBGE, in Portuguese, Instituto Brasileiro de Geografia e Estatística).

The company essentially performs the exploration of the infrastructure and public service provision, being remunerated through the charging of a toll tariff and other revenue sources, whose duration term is the same as the concession contract, as established in the fourth article of its Bylaws.

The basic toll tariff is subjected to the terms of the Concession Contract and is readjusted annually (in September) through the use of a specific formula, contained in contract, with the possibility of being reviewed at a later time so to assure the economic-financial balance of the contract. The company wholly assumed the transit risk inherent to the exploration of the highway, including the risk of reduction of traffic volume due to its transfer to other existing roads, according to the established in Clause 20 of the Concession Contract.

As defined in the bylaws, the company is managed by an Administration Council composed of at least five and at most seven effective members and equal numbers of alternates elected by the General Assembly, as well as a Board composed of two members: a Presiding Director and a Financial and Investor Relations Director, with two-year mandates with possible reelection.

Figure 2 presents the company organogram.

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**Figure 2. Summarized company organogram.**

Source: Elaborated by the authors based on information made available in the 2015 Reference Form, available at the website of the Securities Commission (CVM, 2018).

The Administration Council and the Board of Directors have their own attributions defined in the bylaws. Notably, the Board is responsible for "elaborating the Administration Report, the Financial Statements, and the other documents to be presented to the General
Assembly”, while the Administration Council is responsible for "manifesting itself previously about the Administration Report, the Board accounts, the financial statements of the term, and examine the monthly balance” and for "choosing debenture bonds and ousting the independent auditors of the Company” (Company Bylaws, CVM, 2018).

The bylaws, in their 38th article, also establishes that the Financial and Investor Relations Director is responsible for the implementation of the directives of the economic-financial policy of the company, having as basic functions:

a) the planning, proposal, and implementation of the economic-financial plan of the company;
b) the coordination of the accounting area;
c) the implementation of the tax planning policy of the company;
d) the coordination of the elaboration of the financial statements of the company;
e) the management of the financial resources of the company; f) the supporting of the operational area of the company in whatever is necessary for its smooth running;
g) the coordination of occasional company projects; and
h) the representation of the company in face of the Brazilian Securities and Exchange Commission (CVM, in Portuguese, Comissão de Valores Mobiliários), stockholders, investors, stock exchange, the Central Bank of Brazil, and other agencies related to the activities developed in the capital market.

Although the company had a business register open at the CVM since December 26th, 2001, its shares were not negotiated in the stock market.

The company was required to follow the international accounting standards translated by the Brazilian Accounting Pronouncements Committee (CPC, in Portuguese, Comitê de Pronunciamentos Contábeis) and referenced by the securities commission. Such norms are applicable to the companies that raise funds in the capital market.

For being a regulated business, the company also must elaborate the financial statements in conformance with ANTT Resolution no. 3847 of June 20th, 2012, which approved the Manual of Public Service Accounting of Granted Exploitation of the Federal Roadway Infrastructure.

3 THE FUNDRAISING OPERATION THROUGH THE CONVERTIBLE DEBENTURES

The first public emission of debentures convertible into shares of the company was approved by the securities commission on December 26th, 2011, and by the Extraordinary General Assembly at the meetings conducted on August 27th, November 5th, and December 5th of 2001.

On September 24th, 2002, the public distribution of convertible debentures under code CRTE11 was closed in the Brazilian National Debenture System (SND, in Portuguese, Sistema Nacional de Debentures). The operation also counted with the support of Bradesco, the bank that was responsible for the bookkeeping of the debentures and which also acted as the mandatory bank of the operation. Pavarini DTVM was the company hired to act as the fiduciary agent of the operation.

The initial number of debenture bonds of the emission was of 23,100, corresponding to the value of R$ 62,963.2 thousand, with R$ 12,948.7 thousand referring to the nominal value and R$ 50,014.5 thousand referring to the premium.

The distribution reached the amount of R$ 37,287.3 thousand, with R$ 7,668.3 thousand referring to the nominal value and R$ 29,618.13 thousand referring to the premium, totaling the emission of 13,680 debenture bonds. Thus, on the emission date, the price of the subscription included the nominal value of R$ 560.55 and a premium in the value of R$ 2,165.13 per debenture. Naturally, the 9,420 unsubscribed debentures were canceled on December 31st, 2002.
The issuance indenture is summarized in item "a" of chapter 8, entitled "Complementary information".

In 2014, the debenture bonds were distributed over six institutional investor debenture holders which were Private Investment or Complementary Welfare Funds.

The debentures issued, in a single series, of subordinated type and in a nominative book-entry way did not provide for personal, real, or floating guarantee. The raised funds were destined for the liquidation of contractual obligations of the company and the redemption, without capital reduction, the capital reserve account formed with the issuing premiums of the debentures and of Class A preference shares, representative of the share capital of the issuing company.

The debentures included the right of conversion of the debenture bonds into Class A preference shares, with no voting rights, nominative, and without par value of the issuing company. Also, the debentures had no maturity date and were settled by the issuer on the date of dissolution of the company, and provided for remuneration based exclusively on profit sharing, not being entitled to interest or any other fixed or variable remuneration. Profit sharing was made quarterly as an advance.

Debenture investors could request the conversion of their debenture bonds into shares from May 15th, 2002, with the maximum deadline for the option being up to thirty days before March 22nd, 2012, the date of termination of the concession granted to the Company.

4 FINANCIAL POSITION OF THE COMPANY IN 2014

The year of 2014 was another year of common operation of the company. In this year, only one Current Report was disclosed (on September 8th, 2014) to the market, informing about the signature of the fifth contractual additive of tariff revision with ANTT, to promote the economic-financial rebalancing of the concession contract.

In April 28th, 2014, the Ordinary General Assembly (AGO) took place, re-electing half of the counselors for two years. Two days later, the Administration Council Meeting (RCA, in Portuguese, Reunião do Conselho de Administração) also re-elected for two years the Presiding Director and the Financial and Investor Relations Director at the time.

The two Extraordinary General Assemblies (AGEs) held during the year dealt with usual issues such as the approval of the payment of interim dividends.

During the 2014 financial year, three Debenture-Holder Assemblies also took place (April 14th, September 5th, and December 30th) to handle societal matters, including the proposal of the Investment Budget for 2015.

Many RCAs were carried out throughout 2014, dealing with several subjects relevant to company management. The RCA held on February 26th, 2014, for example, discussed the result of the audit of the collection process, performed by the Internal Audit of the company that controls the Company, and approved the strategy of rebalancing the concession contract of 2014.

On August 13th, 2014, the RCA discussed: a) the progress of the project of adaptation of the company's code of conduct; b) the result of the internal audit of the collection process; c) the volume of tax contingencies of the company and its degree of provisioning; d) the result of the Quarterly Information of June 2014, with the proposal of distribution of dividends and remuneration of debenture holders.

The RCA of September 3rd, 2014, for example, presented the following deliberations in Chart 1:


SUMMOS AND PRESENCE: Summons in compliance with Article 27 of the Company Bylaws.

ORDER OF THE DAY AND DELIBERATIONS: The Board of the Company presented the current stage of the proposal of rebalancing of the concession contract with ANTT, the results up to August/14, the planning of the elaboration of the interim financial statements of 09/30/2014, the chronogram of the 2015 budget, and the proposal of complementary payment of dividends and remuneration of debentures to achieve 75% of the result of 2013. By unanimous voting, it was deliberated:

(i) To approve the payment of dividends to shareholders with share position on 09/12/2014 of R$ 23,019,4700 per preference share and R$ 20,926,7909 per ordinary share, in the total value of R$ 1,888,508.05, as well as approve the payment of R$ 1,296,789.85 to the debenture holders at referendum of the Extraordinary General Assembly to be held on November, 2014;

(ii) To approve the calendar of elaboration of the interim financial statements of 09/30/2014;

(iii) To approve the chronogram of the 2015 Budget;

CLOSING: There being no further business to discuss, this Minute was drawn up, read, approved, and signed.


Chart 1. Minute of the Administrative Council Meeting

The debentures maintained a regular flow of quarterly payments since their subscription, and the rating reports issued by company Fitch (November 14th, 2012, November 8th, 2013, and November 5th, 2014) presented a stable risk assessment in AA(bra). The Par Unit Price of the debentures, calculated by the Fiduciary Agent, was of 560.55 for the whole financial year, corresponding to the same value ascertained on the subscription date.

The payment flow of the convertible debenture remunerations is presented in Table 1.

<table>
<thead>
<tr>
<th>Date</th>
<th>Installment</th>
<th>Reference</th>
<th>Remuneration (R$)</th>
<th>Remuneration/debenture (R$)</th>
<th>Payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1 to 6</td>
<td>Various</td>
<td>1,638,272.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>7 to 10</td>
<td>Various</td>
<td>3,156,473.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>11 to 13</td>
<td>Except 2nd quarter</td>
<td>5,010,316.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>14 to 17</td>
<td>Various</td>
<td>5,322,314.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>18 to 21</td>
<td>Various</td>
<td>6,589,094.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>22 to 25</td>
<td>Various</td>
<td>7,373,826.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>26 to 29</td>
<td>Various</td>
<td>8,350,512.02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>30 to 34</td>
<td>Various</td>
<td>14,446,762.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>35 to 38</td>
<td>Various</td>
<td>13,641,464.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>39 to 44</td>
<td>Various</td>
<td>14,896,691.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>45 to 50</td>
<td>Various</td>
<td>17,297,784.29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>51 to 54</td>
<td>Various</td>
<td>16,262,575.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>1st Quarter 2014</td>
<td>1,556,912.06</td>
<td>113.809361</td>
<td></td>
<td>05/21/2014</td>
</tr>
<tr>
<td>55</td>
<td>2nd Quarter 2014</td>
<td>8,231,794.38</td>
<td>601.739355</td>
<td></td>
<td>08/21/2014</td>
</tr>
<tr>
<td>56</td>
<td>Complement 2013</td>
<td>1,296,789.85</td>
<td>94.79458</td>
<td></td>
<td>09/12/2014</td>
</tr>
<tr>
<td>57</td>
<td>3rd Quarter 2014</td>
<td>4,756,114.16</td>
<td>347.669164</td>
<td></td>
<td>11/18/2014</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td>15,841,610.45</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: (1) The payments were grouped per reference period, not by effective payment year.

Source: Elaborated by the authors from data extracted from the Annual report of the Fiduciary Agent: 3rd issuance of debentures (Simplific Pavarini, 2014).
In the annual report of 2014, the Fiduciary Agent emphasized that other agents of the financial market could present different Unit Price values (according to the curve of assessment and remuneration established in the issuance indenture) depending on the calculation methodology applied.

The Company systematically monitors the financial leverage index (net debt divided by the total capital). In 2014, the company revised the strategy compared to 2013, relaxing the financial leverage index between 0.2 and 1. The financial leverage indices for December 31st of 2013 and 2014 were:

### Table 2

<table>
<thead>
<tr>
<th>Liability composition and financial leverage index of the Company</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debentures</td>
<td>13,686</td>
<td>10,461</td>
</tr>
<tr>
<td>Total loans</td>
<td>69,656</td>
<td>71,502</td>
</tr>
<tr>
<td>Cash and Cash equivalents</td>
<td>(26,706)</td>
<td>(12,042)</td>
</tr>
<tr>
<td>Net debt</td>
<td>56,636</td>
<td>69,921</td>
</tr>
<tr>
<td>Total equity</td>
<td>156,347</td>
<td>131,549</td>
</tr>
<tr>
<td>Total capital</td>
<td>212,983</td>
<td>201,470</td>
</tr>
</tbody>
</table>

Financial leverage index | 0.27 | 0.35 |

**Note.** The net debt corresponds to the total loans and finance debts (including short and long-term loans), subtracted of the working capital and working capital equivalent amount. The total capital is ascertained by the sum of the Equity with the net debt.  
Source: Footnotes (p. 22) of the Financial Statements (DFP) of 12/31/2014.

Plot 1 presents the evolutions of the profitability and indebtedness indices of the company from the year of funding of the convertible debentures.

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The Share Capital, which was completely subscribed and paid-in, in the value of R$ 86 million, was divided into 48,786 ordinary shares and 37,680 Class A preference shares, totaling 86,466 shares. Each ordinary share had the right to one vote in the General Assembly deliberations.

According to article 5 of the Bylaws, the class A preference shares did not have the right to vote nor to minimal or fixed dividends, with it being assured to them a priority over the...
ordinary shares upon reimbursement of their equity value, at the time, in case of liquidation of the company, without premium.

Additionally, the company could yet issue class B preference shares, all normative and with no nominal value. Class B preference shares are subordinate to class A preference shares and convertible in an equal number of ordinary shares; however, they have no right to vote nor to minimal or fixed dividends, with it being assured to them a priority over the ordinary shares upon reimbursement of their equity value, at the time, in case of liquidation of the company, without premium.

The bylaws established that preference shares were entitled to the perception of dividends ten percent higher than those paid to ordinary shares.

5 THE MANDATORY ROTATION OF THE INDEPENDENT AUDIT FIRM

In December 2013, meeting the demands of the mandatory rotation of the independent audit firm, the Company announced to the market the replacement of the audit firm.

ANNOUNCEMENT TO THE MARKET
INDEPENDENT AUDITOR SUBSTITUTION
Announces to its shareholders and the market in general that it entered into a contract with Deloitte Touche Tohmatsu Independent Auditors, which will be the new independent auditor of the Company from January 1st, 2014.

The hiring, approved at the General Assembly of Debenture Holders of November 21st, 2013, aims to meet, in advance, to the disposed of in article 31 of the securities commission Instruction 308/99, which determines the rotation of independent auditors every five years, and counted with the approval of our current auditors, Ernst & Young Terco Auditors.


Financial and Investor Relations Director

Chart 2. Announcement to the Market about the mandatory change of independent auditor.
Source: CRT (2014b)

The mandatory rotation had been established by the securities commission, in Instruction no. 509 of November 16th, 2011, with the objective of contributing to the increase in independence from independent auditors. This norm limited the provision of services to the maximum term of five consecutive years, requiring a minimum interval of three years for rehiring. Companies which have a Statutory Audit Committee in operation have a maximum term of up to ten years but are required to proceed to the rotation of the responsible technician, director, manager, and any other members of the audit team with a management role, in a period not over five consecutive years.

The new audit company responsible for the provision of services was hired on January 1st, 2014. The previous auditing company - Ernst & Young (E&Y) - had been hired for providing audit services on April 1st, 2010.

6 THE PROBLEM STEMMING FROM THE SUBSTITUTION OF THE INDEPENDENT AUDITOR

The Financial Statements of December 31st, 2013, of the company, were audited by a Big Four company (E&Y), and the unqualified opinion had been issued on February 5th, 2014.

In 2014, the company elaborated its financial statements following the same accounting procedures usually applied.
Upon the review of the financial information from the first and second quarters of the company (quarter information from March 31st and June 30th, 2014, issued on April 30th and August 13th, 2014, respectively), the new independent audit firm did not present any reservations regarding the accounting practices adopted by the company, as indicated in the partial transcription shown next.

**Special Review Report – An unqualified opinion of 03/31/2014**

(...) Conclusion about the interim financial information

Based on our review, we have no knowledge of any fact that leads us to believe that the interim financial information included in the quarterly information previously mentioned were not elaborated, in all relevant aspects, according to CPC 21(R1), applicable to the elaboration of Quarterly Information and presented accordingly with the standards issued by the Brazilian Securities and Exchange Commission.

(...) Rio de Janeiro, April 30th, 2014
DELOITTE TOUCHE TOHMATSU

**Chart 3. Annual Report of the Fiduciary Agent, 2013: 6th issuance of simple debentures.**

During 2014, the first year of work of the new auditors hired, they disagreed with the accounting treatment adopted by the company on the accounting treatment of convertible debentures into shares issued in 2002.

Based on the accounting standards issued by the CPC - and referenced by the securities commission -, the new auditors manifested a new understanding about the way of accounting for the convertible debentures of the company.

In general lines, the independent auditors understood that the convertible debentures, according to the international accounting standards applicable in Brazil since 2010, could not be classified simply as a liability. Hence, the accounting statements regarding the financial year of 2014 should be elaborated adopting the new classification, while accounting information from 2013 should be reprocessed for comparability purposes of the disclosed information.

The minute of the Financial Statements and the respective explicative notes of the company relative to the financial year of 2014 are presented in item "b" of chapter 8, entitled "Complementary Information".

**7 ISSUES FOR DISCUSSION**

On November 26th, 2014, an RCA was scheduled to handle the problem. At this meeting, the Financial and Investor relations Director should present a proposal of solution that, after being approved by the Administration Council, would follow for the appreciation of the Debenture-Holder Assembly in the month of November 2014.

In this context, the Financial and Investor Relations Director hired a specialized accounting consulting firm and requested that you (the consultant) do a presentation about the following topics:

1) Which accounting standards issued by the Accounting Pronouncements Committee (CPC) and by the International Accounting Standards Board (IASB) handle the subject? Which are the main related concepts?
2) Which characteristics present in the debenture bond regarding the issuance of convertible debentures should be considered in the accounting classification?
3) What are the alternative accounting treatments possible for the Convertible Debentures (different from the draft presented by the company)?
4) How would the financial statements and the financial indicators of indebtedness (Liability/Equity, Equity/Total Liability, and Liability/Total Assets) and profitability (net income/Equity) be impacted in case the company adopted an alternative accounting procedure?

5) Discuss the possible economic consequences that a change in accounting treatment may generate.

6) Indicate, according to the standards, which should be the proper accounting procedure for the convertible debentures with the characteristics of the issuance of the company.

8 COMPLEMENTARY INFORMATION

Item “a”: main clauses of the indenture of Public Issuance of Debentures

<table>
<thead>
<tr>
<th>Prospect of the 1st Emission of Debentures, Subordinated, Convertible into Class A Preference Shares, with Profit Sharing, in Single Series</th>
</tr>
</thead>
</table>
| The Debentures will have the characteristics specified ahead and will be issued according to the following conditions:

1) **Series**: The issuance will be in a single series.

2) **Number of debenture bonds**: 23,100 (twenty-three thousand and one hundred) Debentures will be issued.

3) **Type**: The debentures have no personal, real, or floating guarantees, and will be subordinated to the other creditors of the Company.

4) **Form**: The debentures will be book-in, nominative, and in a deposit account on behalf of its holders.

5) **Issuance date**: December 31st, 2001.

6) **Issuance value**: The current issuance has the total value, nominal value, and issuance premium of R$ 62,963,208.00 at the issuance date.

7) **Nominal value**: The debentures have nominal unit values of R$ 560.55, at the issuance date, making up the total nominal value of R$ 12,948,705.00.

8) **Issuance premium**: The debentures were issued with a unit premium of R$ 2,165.13 at the issuance date, making up the total of R$ 50,014,503.00.

9) **Convertibility**: The debentures may be converted into Class A Preference Shares under the terms and conditions contained in the indenture and prospect of Issuance. The term for the beginning of the conversion of the debentures into Class A preference shares of the Issuer shall begin on the last week of the following dates: (a) the first business day after May 15th, 2002; (...) Once started the term in the form of item 2.11.1 above, the conversion of Debentures into shares of the ISSUER must be carried out until 30 (thirty) days before March 22nd, 2021, the date of the end of the concession granted to the ISSUER.

Each of the Debentures will be convertible into 4 (four) class A preference shares, nominative and with no nominal value, representative of the share capital of the Issuer, with no voting rights, with the same characteristics of the class A preference shares provided for in the Bylaws of the Issuer on the signature date of the Issuance Indenture. At the end of the conversion of the Debentures, 92,400 (ninety-two thousand and four hundred) class A preference shares will have been issued. Class A preference shares of the ISSUER that are issued as a result of the conversion will have the bylaw-guaranteed rights, preferences, and advantages as the class A preference shares provided for in the Bylaws of the Issuer on the signature date of the present Indenture, and will be entitled to all the dividends, bonuses, and other advantages that come to be declared in societary acts of the ISSUER from the date of request of the conversion by the Debenture Holder, except, however, that class A preference shares stemming from Debenture conversion will participate in dividends that come to be distributed relatively to profits ascertained at the financial year in which the conversion occurred, pro rata temporis, based on the time period between the conversion date and the end of the financial year.

10) **Right to Preference**: There will be no right to preference for the shareholders of the Issuer for the subscription...
of Debentures.

11) Remuneration:

11.1) Remuneration: The remuneration of Debentures will be exclusively that established in Clause 2.16 infra, not being entitled to interest or any other remuneration, fixed or variable.

11.2) Profit Sharing: Each Debenture will have the right to participate in the profits of the ISSUER, to be paid under the same conditions and up to the date of the effective payment by the ISSUER of any dividend, bonus in cash, or any other pecuniary advantage that comes to be attributed by the ISSUER to its shareholders, inclusively as interest on own capital, redemption or amortization of shares, except as provided for in Clause 2.17 of this Indenture, always so that each Debenture holder receives the same gross remuneration that they would be entitled to if they had already converted the totality of their Debentures into class A preference shares of the ISSUER, at the conversion bases established in Clause 2.11.5, with profit sharing being calculated according to the following formula observing the disposed in Clause 2.14.1 of this Indenture:

\[ R = 4 \times D \]

a. For profit sharing of the financial years ending until 12/31/2013: \[ R = 4 \times D \]

b. For profit sharing from the financial years starting on 01/01/2004: \[ R = 4.1233189 \times D \]

c. For profit sharing from the financial years starting on 01/01/2005: \[ R = 4.1180175 \times D \]

Where:

- \( R \) = total remuneration of each Debenture; and
- \( D \) = amount, per share, of any dividend, bonuses in cash, or any pecuniary advantage that comes to be attributed by the ISSUER to its shareholders, inclusively as interest on own capital, redemption or amortization of shares, except as provided for in Clause 2.16 of this Indenture.

The distributions of dividends and Issuer profit sharing that occur during the debenture placement period and before the effective redemption of the Class A preference shares of the Issuer will have as base the number of shares in which the share capital of the Issuer would be divided if, cumulatively: (a) the redemption of Class A preference shares of issuance by the Company had already taken place as originally provided for by Clause 2.12 of the Issuance Indenture; and (b) all the debenture holders had converted their debentures into Class A preference shares of the Issuer.

12) Distribution Commitment: The Issuer will distribute to its shareholders and Debenture holders, jointly, a global amount corresponding to at least 75% (seventy-five percent) of what would have been its net income of the financial year - after the compensation of cumulative losses and the provision for payment of the income taxes, social contribution on profit, and any other taxes that come to be created -, with the adjustments of article 202 of Law no. 6404/76 and observing the disposed of in paragraph 5 of article 202 of Law no. 6404/76. The distributions to which the Clause refers will be performed quarterly on account of the annual distribution, that will be by occasion of the approval of the balance of each financial year, respected the legal determinations and the financial availability and/or contractual or investment commitments of the Issuer.

13) Final maturity: As provided by article 55, paragraph 3 of Law 6404/76, the debentures will only mature upon the dissolution or liquidation of the ISSUER, for any reason, except as provided for in item 2.21.

14) Anticipated maturity: In the event of the dissolution of the Issuer or non-compliance with the obligations provided for in Clause 2.11, the Fiduciary Agent may declare the Debentures as matured in advance. However, this declaration of maturity in advance shall be forbidden to the Fiduciary Agent in case the default by the Issuer of the obligations provided for in Clause 2.16 stems from that fact that such obligations are incompatible: (i) with the financial availability of the Issuer (provided that, in this event, the default by the Issuer of the obligations provided for in Clause 2.16 does not occur for a period over three consecutive financial years); and/or (ii) with the contractual and/or investment commitments of the Issuer stemming from the Financing Contract and/or the Concession Contract.

In the event of anticipated maturity of the Debentures, as provided for in Clause 2.19 above, the ISSUER will pay to the Debenture holders, at the time in circulation, the nominal value of the Debentures, corrected according to the variation of the General Market Price Index (IGP-M, in Portuguese, Índice Geral de Preços do Mercado) ascertained by the Getúlio Vargas Foundation or on its extinction or invalidation by any other index that, similar to IGP-M, comes to safeguard the economic value of the nominal value of the debentures.

**Notes.** (1) This Indenture does not include information of the 1st through the 7th Addendums. (2) The complete conditions of the Debenture Indenture and its respective additions are available for consultation at the website of the Company, in the section of investor relations.

**Item “b”: Summarized Financial Statements of December 31st, 2014**

**CRT**

### Balance sheet of December 31st, 2014 and 2013

(Amounts expressed in thousands of R$)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current asset</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash</td>
<td>26,706</td>
<td>12,042</td>
<td>3,367</td>
<td>1,388</td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial applications</td>
<td>1,049</td>
<td>8,947</td>
<td>888</td>
<td>1,665</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from related parties</td>
<td>823</td>
<td>808</td>
<td>1,105</td>
<td>1,096</td>
</tr>
<tr>
<td>Stocks</td>
<td>390</td>
<td>639</td>
<td>15,078</td>
<td>10,571</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,863</td>
<td>3,904</td>
</tr>
<tr>
<td>Recoverable taxes</td>
<td>430</td>
<td>419</td>
<td>236</td>
<td>285</td>
</tr>
<tr>
<td>Advances to suppliers</td>
<td>847</td>
<td>612</td>
<td>6,018</td>
<td>2,793</td>
</tr>
<tr>
<td>Anticipated expenses</td>
<td>2,236</td>
<td>2,466</td>
<td>7,276</td>
<td>10,859</td>
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<tr>
<td>Indemnities receivable</td>
<td>2,385</td>
<td>2,693</td>
<td>37,837</td>
<td>32,567</td>
</tr>
<tr>
<td>Others</td>
<td>1,073</td>
<td>1,180</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>45,620</td>
<td>30,855</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current asset</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial applications</td>
<td>1,760</td>
<td></td>
<td>7,668</td>
<td>7,668</td>
</tr>
<tr>
<td>Judicial deposits</td>
<td>2,047</td>
<td>1,932</td>
<td>1,544</td>
<td>1,839</td>
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<tr>
<td>Other accounts</td>
<td>1,274</td>
<td>1,728</td>
<td>3,243</td>
<td>2,766</td>
</tr>
<tr>
<td>receivable</td>
<td></td>
<td></td>
<td>2,218</td>
<td>2,008</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>5,821</td>
<td>4,992</td>
<td>69,251</td>
<td>75,212</td>
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<tr>
<td>Intangible assets</td>
<td>206,913</td>
<td>199,821</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>217,815</td>
<td>208,473</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>72,470</td>
<td>63,320</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital reserves</td>
<td>5,024</td>
<td>7,836</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit reserves</td>
<td>78,853</td>
<td>60,393</td>
<td></td>
<td></td>
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<tr>
<td>Total Equity</td>
<td>156,347</td>
<td>131,549</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liability and equity</strong></td>
<td>263,435</td>
<td>239,328</td>
<td>263,435</td>
<td>239,328</td>
</tr>
</tbody>
</table>

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Revista Catarinense da Ciência Contábil, ISSN 2237-7662, Florianópolis, SC, v. 18, n. 1-23, e2819, 2019
### COMPANY CRT

#### Statements of the results of the financial years ending on December 31st, 2014 and 2013

(Amounts expressed in thousands of R$, except when otherwise indicated)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service revenue</td>
<td>184,087</td>
<td>173,821</td>
</tr>
<tr>
<td>Extraordinary revenue</td>
<td>754</td>
<td>399</td>
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<tr>
<td>Construction revenue</td>
<td>28,409</td>
<td>43,683</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>213,250</td>
<td>217,903</td>
</tr>
<tr>
<td>Service cost</td>
<td>-66,403</td>
<td>-56,577</td>
</tr>
<tr>
<td>Construction cost</td>
<td>-28,409</td>
<td>-43,683</td>
</tr>
<tr>
<td>Gross profit</td>
<td>118,438</td>
<td>117,643</td>
</tr>
<tr>
<td><strong>Operating income (expenses)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall and administrative</td>
<td>-20,371</td>
<td>-18,573</td>
</tr>
<tr>
<td>Depreciations and amortizations</td>
<td>-763</td>
<td>-596</td>
</tr>
<tr>
<td>Employee participation</td>
<td>-2,308</td>
<td>-1,700</td>
</tr>
<tr>
<td>Other operating incomes – net</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Operating profit before the financial result</td>
<td>95,028</td>
<td>96,806</td>
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<tr>
<td>Financial income</td>
<td>2,746</td>
<td>714</td>
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<tr>
<td>Financial expenses</td>
<td>-4,118</td>
<td>-4,370</td>
</tr>
<tr>
<td>Remuneration of debenture holders</td>
<td>-19,982</td>
<td>-16,263</td>
</tr>
<tr>
<td>Net income before income taxes and social contribution</td>
<td>73,674</td>
<td>76,887</td>
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<tr>
<td><strong>Income taxes and social contribution</strong></td>
<td></td>
<td></td>
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<tr>
<td>Current</td>
<td>-24,267</td>
<td>-26,073</td>
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<tr>
<td>Deferred</td>
<td>-210</td>
<td>-378</td>
</tr>
<tr>
<td>Net income of the financial year</td>
<td>49,197</td>
<td>50,436</td>
</tr>
<tr>
<td><strong>Earnings per share – basic and diluted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preference shares (in R$)</td>
<td>599.74</td>
<td>614.84</td>
</tr>
<tr>
<td>Ordinary shares (in R$)</td>
<td>545.22</td>
<td>558.95</td>
</tr>
</tbody>
</table>

The management footnotes are an integral part of the financial statements.

### FOOTNOTES

2. Summary of the primary accounting practices

The primary accounting practices applied in the preparation of these Financial Statements are defined next. Such policies have been being applied consistently in all the financial years presented.

2.1. Preparation bases

The financial statements were prepared considering the historic cost as value basis, which, in the case of financial assets available for sale and other financial assets and liabilities, is adjusted to reflect the measuring to the fair value.

The preparation of financial statements requires the use of specific critical accounting estimates and also the exercise of judgment by the management of the Company in the process of applying the accounting policies of the Group. Those areas that require higher levels of judgment and present greater complexity, as well as areas in which the premises and estimates are significant for the financial statements, are disclosed in Note 3.

(a) Financial statements
The Financial statements were elaborated and are being presented according to the accounting practices adopted in Brazil, which include the dispositions contained in the Law of Equity Companies, as well as accounting standards and procedures issued by the securities commission and the Brazilian Accounting Pronouncements Committee (CPC), along with the specific law emanated by the Brazilian National Land Transportation Agency - ANTT.

2.6. Intangible assets
(a) Infrastructure
Intangible assets built as a result of the concession contract are registered according to the Technical Interpretation ICPC 01 - Concession Contracts.

The initial recognition of the intangible assets is done by the cost of acquisition/construction, which also contemplates the costs of loans, including the interest incurred stemming from the loans raised by the Company that qualify as financial costs of the operation, necessary to the formation of infrastructure items posteriorly deduced from the accumulated amortization and losses of the recoverable value, when applicable.

The amortization of such intangible assets is recognized based on the economic lifespan estimated or concession term, whichever occurs first, and, when indications of loss of their recoverable value are identified, they are submitted to testing for the analysis of loss of their recoverable value.

Intangible assets in development correspond to the costs incurred and capitalized that are directly related to the activities of building the infrastructure object of highway concession. Also, the interest incurred stemming from loans raised by the Company is capitalized insofar as they qualify as financial costs of the operation, necessary to the formation of the concession infrastructure.

2.14. Share capital
The ordinary and preference shares are classified in the Equity. The incremental costs, when applicable, directly attributable to the issuance of new shares, are demonstrated in the Equity as a deduction of the value raised, net of taxes.

2.16. Dividend distribution
The dividend distribution for shareholders of the Concessionaire is recognized as a liability in the Accounting Statements of the Concessionaire at the end of the financial year, based on its bylaws observing the anticipations. Any value above the minimum required is only provisioned on the date in it is approved by the shareholders, in a General Assembly, upon the prior recommendation/validation by the Administration Council.

3. Judgments, estimates, and significant accounting premises
a) Judgments
The preparation of the financial statements of the Company requires that the management make judgments and estimates, as well as adopt premises that affect the values presented in revenues, expenses, assets, and liabilities, also disclosing contingent liabilities, on the base date of the financial statements. However, the uncertainty regarding such premises and estimates could lead to results that require a significant adjustment to the accounting value of the asset or liability affected in future periods.

b) Estimates and premises
The accounting estimates and premises are continuously assessed and based on the historical experience and other factors, including expectations of future events, considered reasonable for the circumstances. (…)

b.3) Fair value of financial instruments
When the fair value of financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined using evaluation techniques, including the method of discounted cash flow. The data for such methods are based on those practiced by the market, when possible; however, when this is not viable, a given
level of judgment is required to establish the fair value.

The judgment includes considerations about the data used such as, for example, the risk of liquidity, risk of credit, and volatility. Changes to the premises about such factors could affect the presented fair value of the financial instruments.

(…)

14. Loans and finance debts

The loan regards a Financing Contract raised with the Brazilian National Bank of Social Development (BNDES) destined to the improvement of Highway BR-116, the stretch of Além Paraíba - Teresópolis - junction with BR-040, in the period from 2008 to 2012. The totality of credit granted is divided into sub-credit A - R$ 27,752, B - R$ 11,894, C - R$ 8,542, and D - R$ 3,661. (…)

The Company entered into financing contract upon opening credit with BNDES, destined to the performance of extension, modernization, and structural recovery works of Highway BR-116, the stretch of Além Paraíba - Teresópolis - junction with BR-040. This loan contract signed in December of 2013 is subjected to restrictive clauses. The main summarized ones are:

- Not granting mutuals to any shareholder without previous and express authorization of BNDES;
- Not presenting, without previous and express authorization of BNDES, a debit balance that represents over 15% of the gross revenue of the Company. Excluded from the calculation this clause refers to the values regarding the contracting of finance debt whose purpose is exclusively the acquisition of equipment for the operation of the beneficiary; the debit balance regarding the credit stemming from this contract; the contracting of financing with BNDES and Automatic BNDES; the issuance of debentures.
- During the term of the contract, not performing the distribution of dividends above the minimum required, when the ration between Equity and Total Liability is lower than 20% or the debt service coverage index is lower than 1.3.
- Requesting previous and express approval of BNDES for altering its existing shareholding at the signature date of the present contract that implies the entry of a new shareholder with participation equal or over 20% of the share capital of the beneficiary.

The other contracts and finance debt of the Company are not subjected to restrictive clauses (covenants). On December 31st, 2014, all the covenants were met.

(…)

18. Debentures

At the Extraordinary General Assembly held on December 30th, 2005, CRT decided, after the approval of the General Assembly of Debenture Holders, to alter the convertibility factor of the debentures to 4.1225 preference shares per debenture, and the remuneration factor to 4.1180175 per debenture.

Convertible debentures represent a financial instrument composed in compliance with the essence of the contractual terms and definitions of CPC 39. AG30 & AG31, for containing the characteristics of Equity and debt. The conversion option that is embedded into convertible debentures and whose fair value on the issuance date corresponds to the premium of the options constitutes an equity instrument, in an application of CPC 39.

Regarding the subsequent measuring of the equity instrument (conversion option), the Company meets CPC 39.36, which indicates that the alterations of the fair value of the equity instruments must not be recognized in the...
accounting statements. (...)

Summary chart of the placement of debentures:

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Nominal Value</th>
<th>Premium Amount</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Unitary</td>
<td>Total</td>
<td>Unitary</td>
</tr>
<tr>
<td>Debentures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued</td>
<td>23.100</td>
<td>0.56055</td>
<td>12.949</td>
<td>2.16513</td>
</tr>
<tr>
<td>Debentures</td>
<td>9.420</td>
<td>0.56055</td>
<td>5.280</td>
<td>2.16513</td>
</tr>
<tr>
<td>in Place</td>
<td>13.680</td>
<td>0.56055</td>
<td>7.668</td>
<td>2.16513</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The total nominal value of R$ 7,668 corresponds to the commitment of the Company with the debenture holders in the case of the non-conversion of debentures and is registered in the non-concurrent liability.

19. Equity

a) Share capital

The share capital is of R$ 72,470, divided into 48,786 ordinary shares and 37,680 Class A preference shares, with no voting right, totaling 86,466 shares, all nominative and without nominal value.

In an Ordinary and Extraordinary General Assembly held on April 28th, 2014, it was deliberated the increase of R$ 9,150 in the authorized share capital of the Company, becoming R$ 72,470 upon the use of the Profit Reserve and Capital Reserve. (...)

b) Dividend

It is assured to the shareholders of the Company a minimum mandatory dividend of 25% of the net income adjusted legally.

According to the bylaws, the Company will raise a quarterly and semesterly balance and could, per the deliberation of the Administration Council, declare the distribution of dividends based on the profits ascertained in such balances, observing the provided for in Law.

It is also stated in the bylaws that the intermediary dividend will always be considered as an advancement of the mandatory dividend. (...)

Source: DFP of 12/31/2014, explicative notes, available on the website of the CVM.
### Item “c” – Evolution of the main accounting numbers and financial indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Operating Revenue</th>
<th>Net Income of the Period</th>
<th>Debenture holder remuneration (Expense)</th>
<th>Total Assets</th>
<th>Equity</th>
<th>Debentures (Liability)</th>
<th>ROA</th>
<th>ROE</th>
<th>Debt/Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>213,250</td>
<td>49,197</td>
<td>19,982</td>
<td>263,435</td>
<td>156,347</td>
<td>20,366</td>
<td>19.6%</td>
<td>34.2%</td>
<td>40.7%</td>
</tr>
<tr>
<td>2013</td>
<td>217,903</td>
<td>50,436</td>
<td>16,263</td>
<td>239,328</td>
<td>131,549</td>
<td>12,953</td>
<td>23.0%</td>
<td>41.9%</td>
<td>45.0%</td>
</tr>
<tr>
<td>2012</td>
<td>203,157</td>
<td>48,379</td>
<td>17,308</td>
<td>199,852</td>
<td>109,272</td>
<td>13,686</td>
<td>26.2%</td>
<td>49.3%</td>
<td>45.3%</td>
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<tr>
<td>2011</td>
<td>177,263</td>
<td>42,997</td>
<td>14,897</td>
<td>170,142</td>
<td>87,060</td>
<td>14,200</td>
<td>27.2%</td>
<td>56.5%</td>
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<td>2010</td>
<td>149,112</td>
<td>27,907</td>
<td>18,654</td>
<td>146,426</td>
<td>65,198</td>
<td>13,820</td>
<td>21.2%</td>
<td>43.3%</td>
<td>55.5%</td>
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<tr>
<td>2009</td>
<td>122,197</td>
<td>26,619</td>
<td>16,324</td>
<td>117,277</td>
<td>63,757</td>
<td>13,342</td>
<td>26.3%</td>
<td>43.2%</td>
<td>45.6%</td>
</tr>
<tr>
<td>2008</td>
<td>98,371</td>
<td>20,008</td>
<td>8,351</td>
<td>85,527</td>
<td>59,498</td>
<td>7,668</td>
<td>24.6%</td>
<td>36.1%</td>
<td>30.4%</td>
</tr>
<tr>
<td>2007</td>
<td>84,633</td>
<td>17,424</td>
<td>7,374</td>
<td>77,100</td>
<td>51,342</td>
<td>7,668</td>
<td>23.4%</td>
<td>36.5%</td>
<td>33.4%</td>
</tr>
<tr>
<td>2006</td>
<td>78,236</td>
<td>14,303</td>
<td>6,589</td>
<td>71,958</td>
<td>44,226</td>
<td>7,668</td>
<td>20.0%</td>
<td>34.4%</td>
<td>38.5%</td>
</tr>
<tr>
<td>2005</td>
<td>69,300</td>
<td>12,553</td>
<td>5,322</td>
<td>71,115</td>
<td>38,884</td>
<td>7,668</td>
<td>17.4%</td>
<td>34.4%</td>
<td>45.3%</td>
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<td>2004</td>
<td>64,306</td>
<td>11,630</td>
<td>5,010</td>
<td>72,962</td>
<td>34,103</td>
<td>7,668</td>
<td>15.9%</td>
<td>37.9%</td>
<td>53.3%</td>
</tr>
<tr>
<td>2003</td>
<td>49,887</td>
<td>6,078</td>
<td>3,394</td>
<td>73,631</td>
<td>27,206</td>
<td>7,668</td>
<td>8.3%</td>
<td>24.4%</td>
<td>63.1%</td>
</tr>
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<td>2002</td>
<td>47,982</td>
<td>6,075</td>
<td>1,400</td>
<td>73,563</td>
<td>22,711</td>
<td>7,668</td>
<td>8.2%</td>
<td>27.8%</td>
<td>69.1%</td>
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<td>2001</td>
<td>45,470</td>
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<td>N/A</td>
<td>75,371</td>
<td>20,976</td>
<td>N/A</td>
<td>7.0%</td>
<td>23.8%</td>
<td>72.2%</td>
</tr>
<tr>
<td>2000</td>
<td>38,413</td>
<td>4,281</td>
<td>N/A</td>
<td>59,296</td>
<td>18,585</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Note: (a) Until 2008, the Financial Statements were prepared based on the Corporate Legislation. From 2008 on, the IFRSs began to be adopted in Brazil. (b) Until 2008, the Sales Revenues corresponded to the "Gross Revenue of Sales and/or Services", and the expenses with debentures, the "Expenses with Participations of Debenture Holders". (c) ROA (Net Income divided by the Total Assets) and ROE (Net Income divided by the mean equity). (d) N/A - Non-Applicable.

Source: Financial Statements archived at the CVM on September 22nd, 2018.
9 TEACHING NOTES

The Teaching Notes were elaborated to help professors in using this case study. They present the learning objectives, the target audience, the form of utilization, and the recommended additional literature.

9.1 Learning objectives

This case study was developed to provide the learning of the accounting concepts relative to the recognition and classification of hybrid financial instruments, in a real context, as well as a critical reflection about the process of preparation of the financial statements of a public company.

Naturally, the analysis of the case goes through the identification and discussion of the definitions of financial liabilities and equity instruments, as well as the assessment and discussion under the proper application of the accounting standards in place and the subjacent theoretical concepts.

This is an extraordinary case in which a Current Report was disclosed with information about the voluntary change of the independent audit firm as a result of a disagreement of the accounting treatment of a hybrid financial instrument.

It should be emphasized that the accounting theme under analysis is fairly important and has also caused discussions in other companies. At the website of the securities commission, there is information about the determination of redoing of the Financial Statements of other public companies regarding the classification of hybrid or composite financial instruments. One case refers to the accounting classification of "Perpetual Notes" and two cases handle "Debentures Mandatorily Convertible into shares".

It should also be emphasized that the discussion of this proposed case refers to a modern context, in which the International Accounting Standards - issued by IASB - were already in full application in Brazil.

9.2 Target audience

This case was elaborated to be used in an Finance Accounting course, in the discussion of financial liabilities and equity instruments. The discussion about the technical treatment seems appropriate for end-of-course students, adjusting the level of detail of the discussion to the degree of knowledge of the group.

This case may also be applied in postgraduate courses in Accounting, enabling a more deepened analysis of the case.

Although the focus of this case is a advanced accounting issue, it may also be used with students or professionals with interest in the areas of valuation, management control, investor relations, and others related courses. In this case, it is recommended that the students have at least basic accounting knowledge and some notions about the financial accounting standards.

9.3 Case Implementation

Although the dynamics of use of the case study in the classroom is fairly flexible, the case was elaborated to be used in only one class with a duration of up to three hours.

In the first part of the class, it is recommended that the students read and analyze the case. Alternatively, the professor may request that the students do, individually, the previous preparation of the case before the day of class. In this situation, one may request that they also previously read the related accounting standards and consult other similar controversial cases - disseminated on the media through the Internet.

Before the discussion of the case, some videos about the company available on its corporate website may be shown (CRT, 2018b).
Initially, it is recommended that the professor perform a survey in which the students must present, through writing or not, their initial opinion about the proper classification for the convertible debentures of the company.

Next, it is recommended that the professor promote the preliminary discussion of the case in small groups (of up to four students) and, in sequence, perform a discussion with the entire class.

Finally, the professor must present in a structured way the concepts related to the accounting standards applicable and the possible solutions to the questions.

Additionally, the professor may opt to perform an additional discussion about the disclosure of the announcement to the Market which informed about the decision of replacing the independent auditor and the subsequent events.

The estimated times for the activities are the following: a) individual reading and analysis of the case (60 minutes); b) presentation of the institutional video of the Company (15 minutes); discussion of the small groups (15 minutes); d) free general discussion (30 minutes); e) presentation by the professor about the main points addressed in the case (30 minutes); f) presentation by the professor of the subsequent events of the case (30 minutes).

9.4 Analysis of the case and recommended reading

The first question proposed in the activity requires that the student identify the concepts of liability, financial instrument, financial liability, equity instrument, composed financial instrument, and hybrid financial instrument, contained in The Conceptual Framework for Financial Reporting (CPC, 2011) - and in Technical Announcement CPC 39 (CPC, 2009) about financial instruments. This is a relevant and fundamental task to answer the remaining questions.

For the second question, the student is guided to analyze the content of the "Prospect of Public Distribution of the 1st Issuance of Debentures, Subordinated, Convertible into Class A Preference Shares, with Profit Sharing, in Single Series" approved by the company (Simplific Pavarini, 2018). Based on the analysis of Clauses 10.11 through 10.17 of the Indenture, the student will notice that the convertible debentures mentioned contain characteristics of a debt instrument (financial liability) and equity instrument.

In the third question, the student is stimulated to analyze the essential characteristics of the debenture bonds issued by the company (option of conversion into shares, variable remuneration based on the profit of the financial year, and the absence of maturity date) and evaluate preliminarily which is the more appropriate framing. According to the Technical Announcement CPC 39 - "Financial Instruments: Presentation", the analyzed debenture bonds may be treated as a) financial liability, b) equity instrument, or c) composed-capital financial instrument, as a result of its characteristics.

At this moment, the instructor will have the opportunity to discuss the definitions of financial liabilities, capital instruments, and hybrid capital instruments contained in the normative mentioned in the previous question, and confront them with the contractual terms presented in the debenture bond issued by the company.

In this activity, it is advisable that the instructor recommends that the students perform searches on the Internet about similar cases published on the media and also about documents made available by the CVM on the theme.

For example, one may discuss the content of the following news: a) "Energisa will have to restatement balance sheets" (Falcão, 2012); b) "Marfri will have to reclassify accounts of the balance sheets of 2012 and 2012" (Viri & Torres, 2012); c) "Minerva may restatement balance sheets of 2011 and 2012" (Viri, 2013); d) "Perpetual debentures and hybrid instruments" (Couto & Martins, 2014); and e) "Autarchy calls attention for hybrid" (Torres, 2016).

Under the conceptual perspective, it is recommended that the instructor perform a discussion about Hybrid Financial Instruments present in the book Accounting Theory by professors Eldon S. Hendriksen and Michael F. Van Breda (2015, p. 419-422).
It is also recommended the reading of the papers by Silva and Costa Jr (2014) and Costa Jr, Silva, and Neto (2015), which present a conceptual analysis about the approaches available for the classification of the analyzed debenture bond, with emphasis on the Narrow Equity Approach (NEA) and the Strict Obligation Approach (SOA), considered by the IASB upon the issuance of IAS 32.

Additionally, the text by Amendola, Batista, and Szuster (2015) is recommended, for it discusses the case of a Brazilian company of the energy sector, as well as the Practical Guide elaborated by audit firm Grant Thornton, entitled “Liability or Equity?” (2013). Finally, it is recommended the reading of the international papers by King, Ortegren, and King (1990) and Schmidt (2013), which handle the issue in another economic context.

In the fourth question, the students must be able to calculate the effects of the classification of convertible debentures as (a) financial liability (current situation), (b) equity instrument, or (c) composed-capital financial instrument (partly classified in the liability and partly classified in equity), in the balance sheet of 2014, in the indicators of indebtedness (liability/equity and liability/total assets) and profitability (net income/equity) of the company.

To simplify the activity, the instructor may inform the hypothetical fair value of the debenture bond and that of the right of conversion of debentures into preference shares. For more advanced classes, it might be asked that students present an estimate of fair value for the debenture bond.

In the fifth question, it is expected that the students analyze, from the company's perspective, the costs and benefits stemming from the decision of maintaining or changing the accounting procedures used. In this case, it is expected that the respondents discuss: a) the image risks for the company; b) the costs of reprocessing the financial statements; c) the work of elaborating the explicative note with the explanation of the motives for the change of accounting treatment; d) the costs related to explaining to the shareholders and creditors about the motives that led to making said decision; e) the possibility of questionings by the securities commission; f) the risks and costs inherent to the possible voluntary substitution of the independent auditor.

Regarding the last question, considering the complexity of the financial operation that originated the controversy as well as the complexity of the accounting standard associated with the theme, it is not possible to state with confidence what the most adequate accounting treatment is.

Notably, past experiences in real situations and the weight that might be given to specific characteristics of the operation may alter the understanding of what is the most adequate solution for the case. Consequently, it is possible that part of the answers follows the understanding adopted by the company and the other part is compatible with the perspective of the independent auditor.

10 DATA SOURCE

This case was elaborated from public information of the company available on the website of the securities commission (Company Registration with the securities commission no. 19208), on the website of Fiduciary Agent Simplific Pavarini (2018), and on the website of the CRT company itself, accessed on September 22nd, 2018.

It is emphasized that this case study was developed exclusively for teaching purposes and does not make any judgment about the positions assumed by the professionals of the companies involved. The information presented represents only part of the public data available, which were selected with the objective of enabling a proper discussion in the classroom.
11 LISTING OF DOCUMENTS CONSULTED ON THE WEBSITE OF THE BRAZILIAN SECURITIES AND EXCHANGE COMMISSION

• Minute of the Ordinary General Assembly (AGO) held on April 28th, 2014.
• Minutes of the Assemblies of Debenture Holders held on November 21st, 2013, and on April 14th, September 5th, November 27th, and December 30th, 2014.
• Minutes of the RCAs held on February 26th, August 13th, and September 3rd of 2014 at 10A.M. and 2P.M., on October 3rd (archived on October 13th), November 26th (archived on December 9th) of 2014, and on January 28th and March 6th of 2015.
• Announcement to the Market, archived on December 20th (referring to December 31st, 2013) and December 14th, 2014 (referring to December 9th, 2014).
• Current Report archived on September 8th, 2014.
• Quarterly information from March 31st, June 30th, September 30th of 2014, archives on May 9th and August 14th of 2014 and January 30th, 2015, respectively, and restatements of the quarterly information from September 30th 2014 archived in February 2nd and 6th of 2015.
• Annual Reports of Fiduciary Agent Simplific Pavarini Distribuidora de Títulos e Valores Mobiliários Ltda. about the 1st Issuance of Debentures Convertible into Shares of the Company from 2001 to 2015 (Simplific Pavarini, 2018).
• Report of the Special Review – No Reservations of March 31st of 2014, issued on April 30th of 2014 by the independent auditors.
• Positioning of the rating issued by Fitch on November 14th of 2012, November 8th of 2013, November 5th of 2014, and November 25th of 2016.
• Prospect of Public Distribution of the 1st Issuance of Debentures, Subordinated, Convertible into Class A Preference Shares, with Profit Sharing, in Single Series (of December 26th of 2001); Issuance Indenture (August 27th of 2001); Amendments: First (November 6th, 2001), Second (December 5th, 2001); Third (June 14th, 2002), Fourth (July 10th, 2002), Fifth (January 17th, 2003), and Sixth (January 17th, 2006) (Simplific Pavarini, 2018).

REFERENCES


