

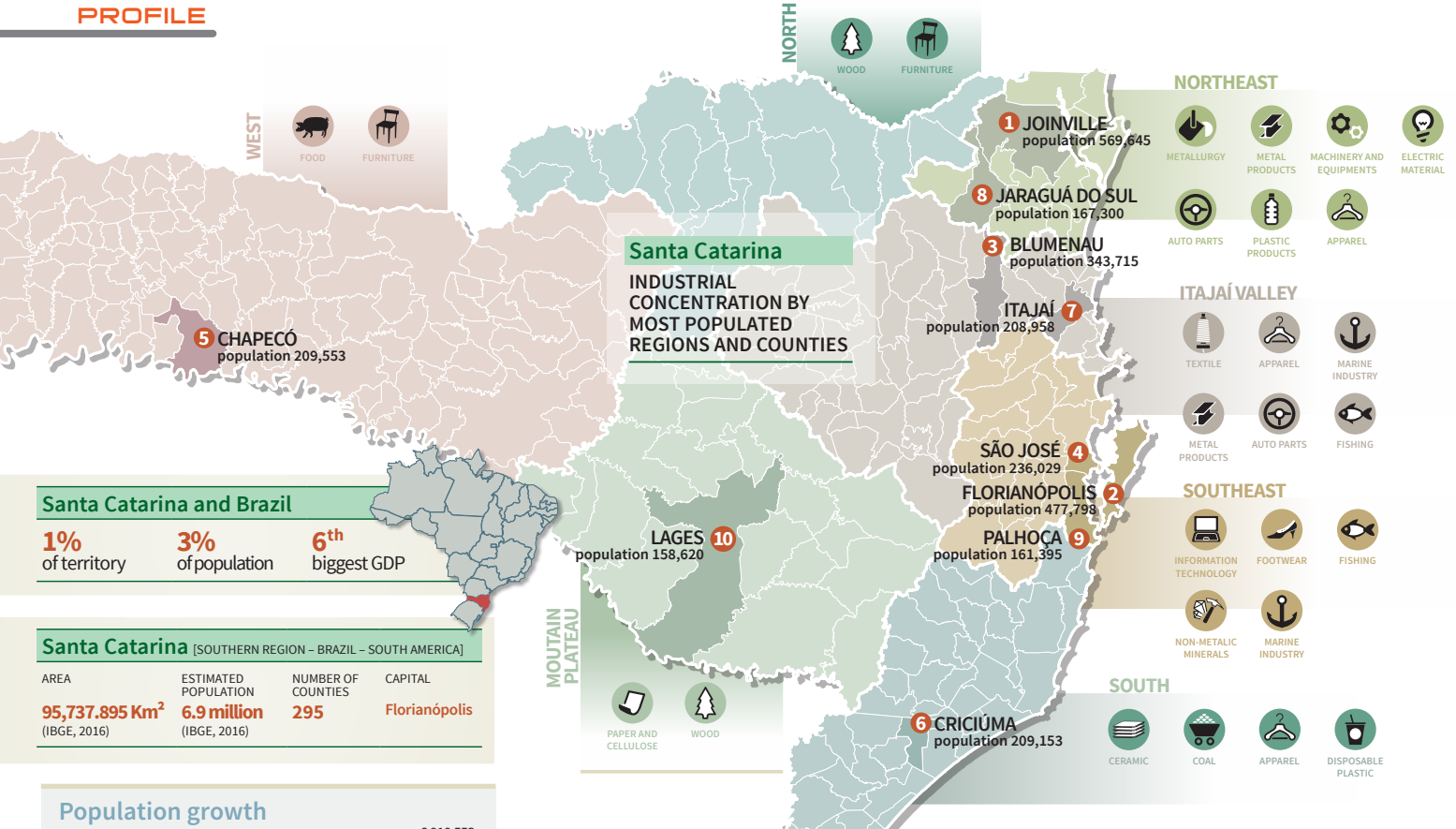


Santa Catarina, people who outperform

SANTA CATARINA IN 2016 FINANCIAL REPORT

SUMMARY

PROFILE



SANTA CATARINA is located in the southern region of Brazil and stands out as one of the states with the best economic and social indicators. The state occupies 1% of the national territory with 95.7 thousand square kilometers, and it represents 3% of the total national population with 6.9 million people. The state has 295 counties and it is the 6th biggest GDP of the country.

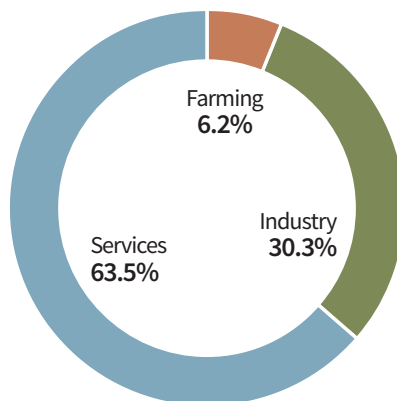
GROSS DOMESTIC PRODUCT

According to the latest survey done by the Brazilian Institute of Geography and Statistics (IBGE), the state's Gross Domestic Product (PIB) reached R\$ 242.6 billion in 2014, an increase of 2.4% and participated in 4.2% of the national GDP.

Regarding the state per capita GDP, Santa Catarina stands out with R\$ 36,056.00 for 2014. The 2014 state per capita GDP was 28% bigger than the national per capita GDP.

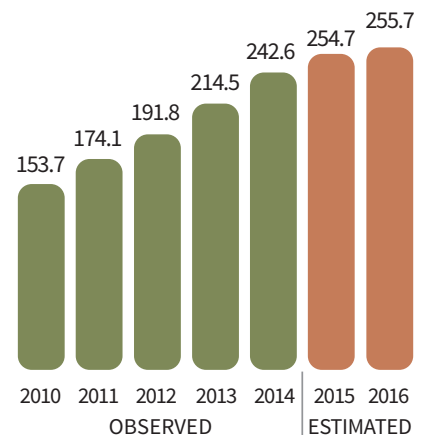
Santa Catarina GDP by sector in 2014

Source: IBGE/Regional Accounts and SPG/SC



Santa Catarina GDP Based in 2010 (R\$ billions)

Source: IBGE, SPG/SC E SEF/Budget Planning Board (estimated GDP 2015 and 2016)



Further detailed information about Santa Catarina's geography, history, colonization, the people, the culture and touristic attractions can be viewed on the State's website (<http://www.sc.gov.br>).

INDICATORS

Santa Catarina Overview

Lowest unemployment rate

6.4%

Santa Catarina

11.8%

Brazil

Source: IBGE/PNAD

State with the second biggest growth in participation in the national GDP

3.7%

2002

4.2%

2014

Top leading state in apple production

Source: IBGE

Brazil's top producer and exporter in pork meat

Source: Agribusiness Portal

Second best state for investments

Santa Catarina has 9 counties that are among the 100 best Brazilian cities for business investments

Source: Urban System

Highest life expectancy

78.7

Santa Catarina

75.5

Brazil

Source: IBGE

Third Best Human Development Index (IDHM)

0.813

Santa Catarina

0.761

Brazil

Source: IPEA

Second best performance in the State Management Challenge Index

Source: Macroplan

Entrepreneurship: three cities in Santa Catarina are among the 15 most favorable cities to invest in Brazil

Source: Endeavor

The best rated State in the Basic Education Development Index (Ideb) in junior high years (from 6th to 9th grade) with an average grade of 5.1

Source: IDEB/INEP

Biggest organ donor in the country per million population

34.9

Santa Catarina

15

Brazil

Rated 3rd in Management and Competitiveness among the States

Source: Public Leadership Center

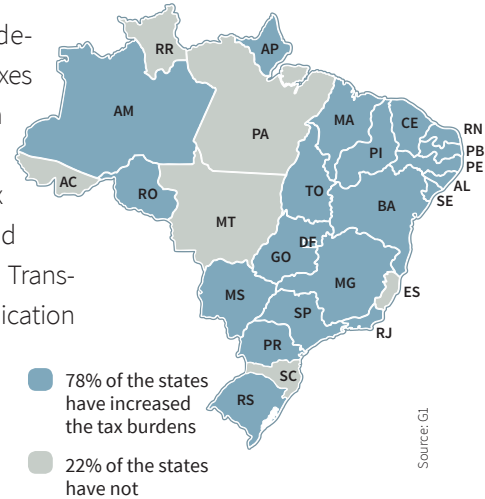
Lowest homicide rate in the country

Source: Violence Atlas 2016 - IPEA

2016 CHALLENGES AND OPPORTUNITIES

Tax burden

Santa Catarina has decided not to increase taxes and it was an exception in the country: 21 states have increased the Tax on Transit of Goods and on Intercity/interstate Transportation and Communication Services (ICMS) rates as a way to remedy the rapid decline in tax revenues.



Debt with the Union

Santa Catarina Government was the protagonist in renegotiating the State debt with the Federal Union. In February, Santa Catarina appealed to the Federal Supreme Court (STF) to question the compound interest charges on its debts with the Union. The decision made other members of the federation to do the same and this made the STF to force a decision from the Federal Government on this deadlock.

The result was a new debt renegotiation agreement, signed in June, which guaranteed financial relief to the States. Santa Catarina will postpone the payment of R\$ 2.1 billion until June of 2018 with this new agreement.

Long-term relief

R\$22.4BI ▶ R\$8.7BI

R\$13.6BI

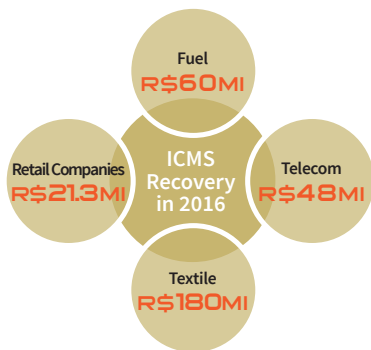
Less impact in the State treasures until Dec/2028

Administrative restructuring

In order to cut costs and increase the State's efficiency, the State has announced a new administrative and organizational restructuring stage in 2016. A legislative bill was sent to Santa Catarina Legislative Assembly proposing the termination of two State companies: the Developing Company of Santa Catarina State (CODESC) and the Housing Company of Santa Catarina State (COHAB). Additionally, the State has started the process of termination of BESC Insurance Broker and Real State Administrator (BESCOR), which already is an authorized legal order. It is estimated to be an annual saving of over R\$ 42 million to the state treasure. This decision also considers the deficit situation and the inexistence of assignments that justify the maintenance of such companies.

Tax inspection

In order to avoid a descending curve on tax revenues and an increase in tax rates, the tax administration from the State Treasury Office (SEF) has reinforced its inspections. There were 270 operations in 2016 (11 more compared to 2015). Quebra-Gelo (Ice-Breaker) was one of them, and it was one of the biggest in history in terms of recovered volume: R\$ 210 million, which is enough to pay for school meals for over 520 thousand students from the state school system for two years. The tax administration office has also improved its search on State rights over specific revenues. Along with the participation of SEF Audit Sector Specialists, the highlighted results from the operations are as follows.



New state pension

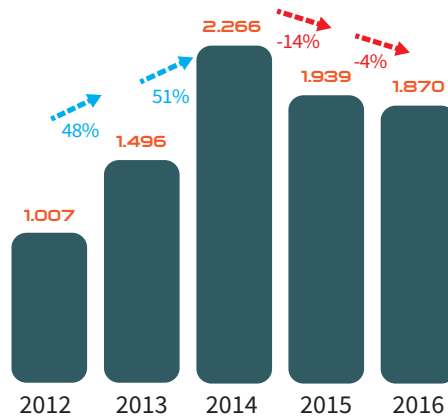
Santa Catarina has put into action the social security reform that was approved in 2015 aiming to reduce the pension deficit. Two of the laws have changed the state model. One of them increased the employee social tax contribution from 11% to 14% and the state social tax contribution from 22% to 28% gradually until 2018. The other law created the SCPrev, a complementing pension institution. With the SCPrev, the Government as well as the government employee will only make mandatory contributions of 11% to the pension fund on the limit amount from the National Social Security Institute – INSS (R\$ 5,189.82 in 2016). The government employee will have the option to contribute up to 8% on the exceeding amount to SCPrev. In this case, the State will also have to contribute with 8% of the complementing amount.

Investments

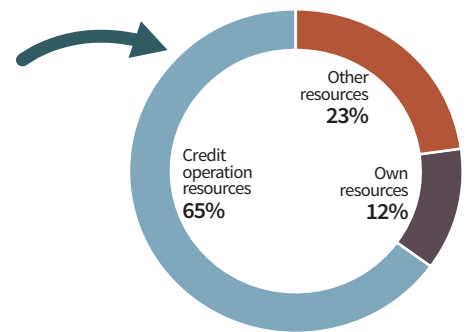
Despite all the economic difficulties experienced in 2016, Santa Catarina has strived to keep its investment policies applied in the last few years in order to ensure the regional development, to promote the reduction of the inequality gap, to increase job opportunities and

Public Investments (R\$ billions)

Source: Integrated System of Planning and Fiscal Management (SIGEF)



income growth, as well as to improve the coverage and quality of public services offered to the society. The public investments made in 2016 amounted to R\$ 1.870 billion, in other words, 7.73% of the total executed expenses.

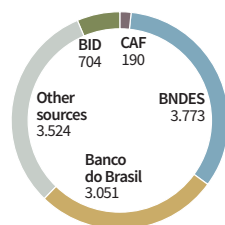


PACT for Santa Catarina

The PACT for Santa Catarina program has already reached R\$ 11.2 billion in investments since its launch. The monitoring of the completed constructions can be done through the web application Painel SC or www.painelsc.gov.br.

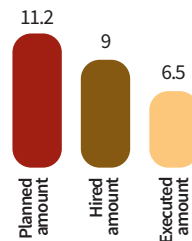
PACT for Santa Catarina Resources (R\$ millions)

Source: Pact Projects Office for Santa Catarina



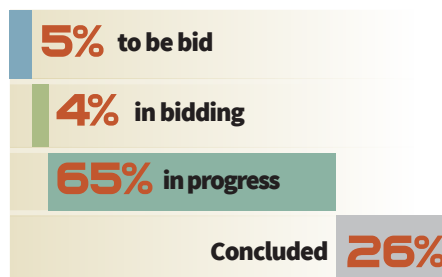
PACT accumulated execution until 2016 (R\$ billions)

Source: Pact Projects Office for Santa Catarina



Pacto Project Status

Source: Pact Projects Office for Santa Catarina



FUNDAM

The County Support Fund (FUNDAM) is a program created in 2013 aiming to upgrade the counties. This program has allotted over R\$ 606 million in investments to 295 Santa Catarina City Halls, mainly to the areas of infrastructure, health, education and sanitation.

FUNDAM IN NUMBERS

R\$ 606 MI

FOR INVESTMENTS IN 295 COUNTIES

1,358

PAVED STREETS (538 KM)

976

ACQUIRED EQUIPMENT AND VEHICLES

R\$ 591 MI

TOTAL AMOUNT OF SIGNED AGREEMENTS

59

COMPLETED CONSTRUCTIONS

R\$ 562 MI

IN TRANSFERRED AMOUNT

454

SIGNED AGREEMENTS (WITH 99% OF THE CITY HALLS)

R\$ 90 MI

AMOUNT TRANSFERRED TO THE COUNTIES ACCOUNTS IN 2016

Source: BRDE and Fund Management Board/SEF

2016 CHALLENGES AND OPPORTUNITIES

Regional competitiveness

In 2016, the State has launched the Regional Competitiveness Index (ICR-SC) of the 36 administrative units of Santa Catarina. The study proposal is to provide subsidies to Santa Catarina public policies, and it will be possible to better identify the differences and characteristics among the different regions, helping the State define developing actions and to locate opportunity areas. Florianópolis County is the most competitive region of the State (ICR-SC 7.03), followed by Blumenau (6.59), Jaraguá do Sul (6.32) and Joinville (6.07). The survey takes into account a series of 66 indicators from 10 competitive factors: basic education, college education, health, job market, social sustainability, environment sustainability, infrastructure, economy size, fiscal strength and public safety. The ICR-SC replicate, as much as possible, the methodology used to calculate the global competitiveness index in the World Economic Forum, according to the existing restrictions at the regional level. The goal is to calculate the ICR-SC annually.

Citizen audit

In 2016, Santa Catarina launched a program that caught the attention of the other Brazilian states: the Citizen Audit. The goal is to have internal auditors inspect on-site if the invested resource on a service or construction is being properly applied.

There were five operations: school meal, emergency hospitals, environment parks, entities that used voluntary resource investments and institutions for the mentally handicapped people (APAE). The program favors mainly the citizen, but it also provides the State with the opportunity to better evaluate its projects and to improve its institutional image.



Transparency Portal

The Transparency Portal from the State Executive Branch, available on www.transparencia.sc.gov.br, is a social tracking tool that enables the citizen to monitor the tax revenues and the application of Santa Catarina public resources. Even though it has significant position in the national transparency ranking, the new Transparency Portal started being developed at the end of 2015 in coordination with the General Accounting Board. In 2016, the campaigns to improve the revenue transparency and the State public expenditures greatly advanced. The new Portal was developed with the premise that the effective transparency is not only to disclose thousands of data about the revenues and budget expenses of public entities in technical language. This only answers current legal measures however, it does not improve public transparency. With a more user-friendly layout and language, the new Portal has the intention to make it simple for the citizen to easily find the wanted information and to better explore the website, enhancing his or her search.

TRANSPARENCY PORTAL IN NUMBERS

3.2 MILLION

VISITS IN 2016

8,832

DAILY VISITS

6.1

VISITS PER MINUTE

66%

CLICKS ON "PUBLIC EXPENDITURES"

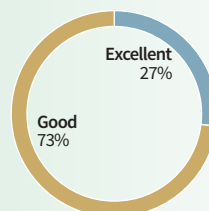


State Payment Card

Santa Catarina State Payment Card (CPESC) main objective is to allow the state administrative agencies and entities to use the card for small, extraordinary or urgent expenses with greater efficiency and transparency. The CPESC is a innovative tool for an old practice: the very common advance payment established in the federal law number 4.320/1964 and number 8.666/1993. The effective control of the expenses is the difference that the Card provides and they can be tracked in real time at the State Executive Branch Transparency Portal. Currently, it is implemented in schools, hospitals, prison and correction units, State administrative and environmental monitoring units that serve the citizens directly, which is almost 1.4 thousand users. CPESC provides responsible and transparent autonomy to the State units and consistency of essential public services.

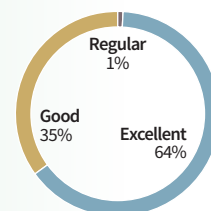
CPESC evaluation of state schools

Source: Pesquisa CPESC Educação 2016



CPESC evaluation of state hospitals

Source: Pesquisa CPESC Saúde 2016



Number of participants

860

STATE EMPLOYEES

80.2% of
CPESC users
of state schools

37

STATE EMPLOYEES

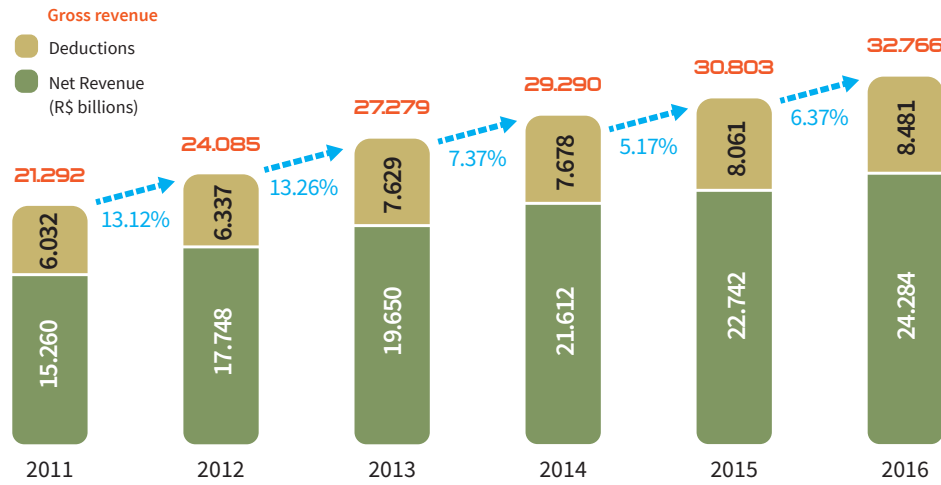
61.7% of
CPESC users in
13 state hospitals

2016 NUMBERS

2016 Budget

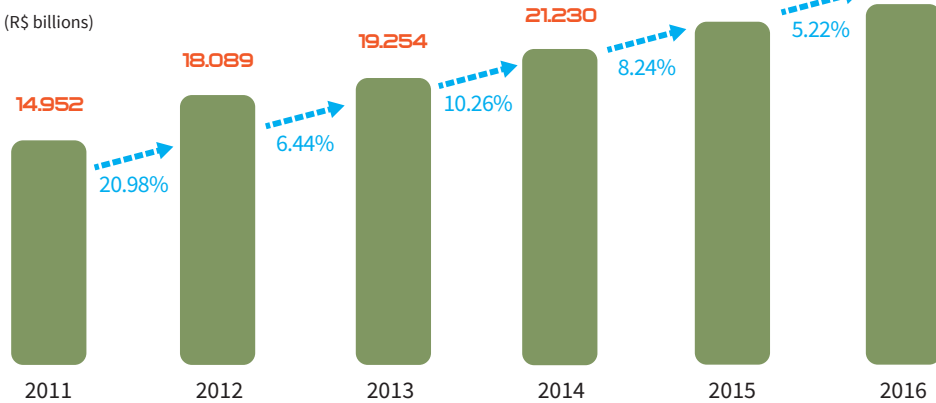
2016 (R\$ billions)	Gross Revenue	Net Revenue	Incurred Expenditure
Forecast	34.982	25.752	25.752
Execution	32.766	24.284	24.180
Execution related to forecast	93.7%	94.3%	93.9%

Collected revenue



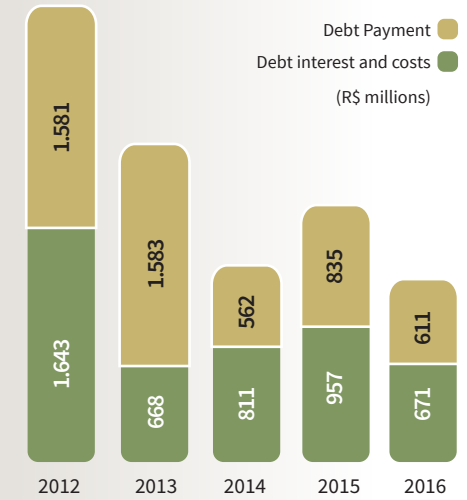
Source: Integrated System of Planning and Fiscal Management (SIGEF)

Incurred expenses



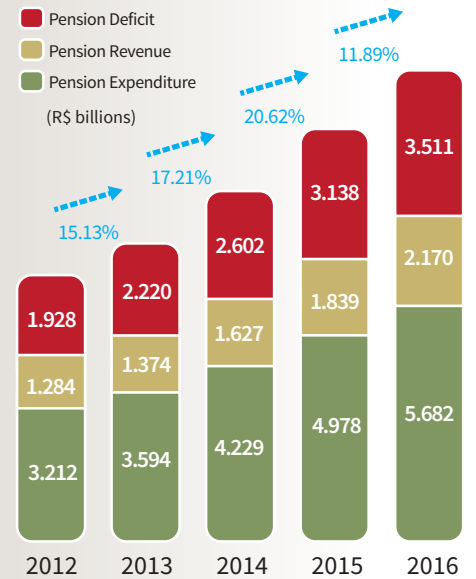
Source: Integrated System of Planning and Fiscal Management (SIGEF)

Public debt payment



Source: Integrated System of Planning and Fiscal Management (SIGEF)

State employee pension system



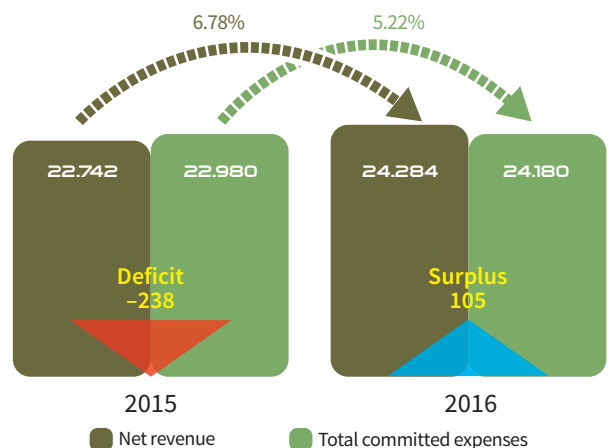
Source: Integrated System of Planning and Fiscal Management (SIGEF)

Budgetary result

Considering the total net revenue minus the total of executed spending in 2016, the budgetary result is a surplus of R\$ 105 million. In other words, the collected revenue during the fiscal year are superior to the incurred expenses. Additionally, part of these expenses, equivalent to R\$ 1.764 billion, was financed by re-

sources from available fund balance of previous financial years (financial surplus) that were used as a source for additional credit supply. In case this amount considered only the 2016 collected revenue along its expenses, the State would report an even greater budgetary surplus of R\$ 1.869 billion.

Budget execution (R\$ millions)



Source: Integrated System of Planning and Fiscal Management (SIGEF)

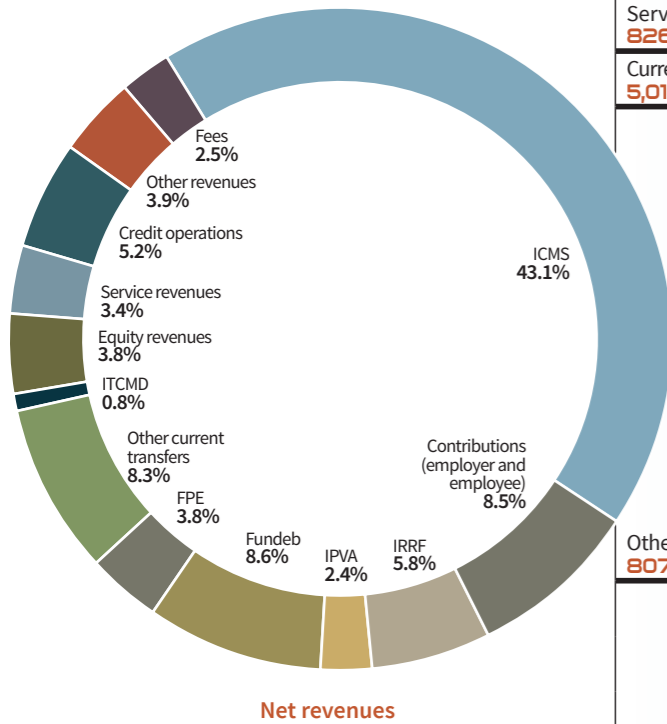
Revenues

Where did the 2016 Resources come from? (R\$ millions)

Gross revenues **32,765.63** - Deductions **8,481.37** = Net revenues **24,284.27**

Transfers to counties	5,229.46
Fundeb	3,125.60
Taxpayer Refunds and other deductions	126.30

Taxation	13,263.43	Taxes	12,660.99	ICMS	10,455.77
		Fees	602.44	IRRF	1,414.35
				IPVA	591.79
				ITCMD	199.08
				ITBI	0.001
Contributions	2,067.58	Social contributions	2,067.58	Employer	1,236.81
				Employee	830.77
Assets	920.28	Transferable securities	887.84		
		Assignment of rights	15.19		
		Property holdings	10.89		
		Concessions and permissions	4.86		
Farming	1.17	Others	1.50	Fundeb	2,082.27
Industrial	4.09			FPE	912.33
Services	826.49			SUS	541.41
Current transfers	5,016.92			FNDE	305.48
				Others	1,175.44
				ICMS	79.96
				Transit	73.94
				ITCMD	15.08
				IPVA	2.81
				Others	49.03
		Compensations and restitutions	258.69	ICMS	48.15
		Fines and default interest	220.82	ITCMD	1.85
				IPVA	1.45
				Others	28.53
		Active debt	79.98	ICMS	1,253.88
		Others	247.57	Capital transfers	57.02
				Debt payments	23.35
				Disposal of goods	9.08
				Others	33.92
Capital revenues	1,377.25	Credit operations	1,253.88		
		Capital transfers	57.02		
		Debt payments	23.35		
		Disposal of goods	9.08		
		Others	33.92		

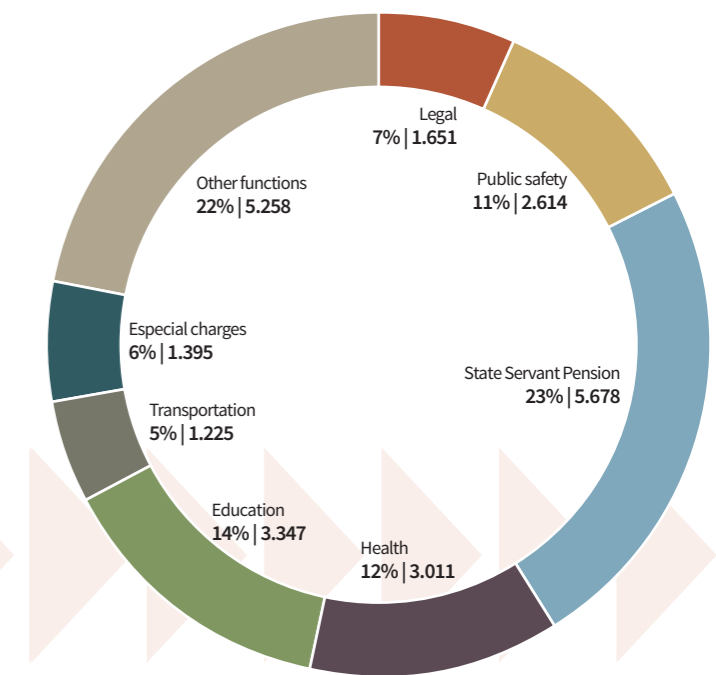
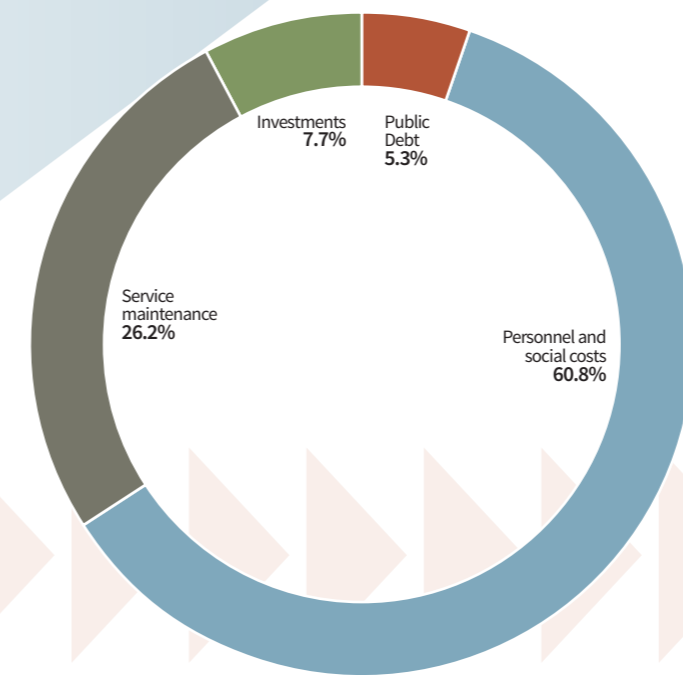


Expenses

Where did 2016 Resources go to? (R\$ millions)

Total incurred expenses **24,179.58**

Personnel and social charges	14,698.01	Salaries and stationary advantages	6,372.25
		Retirements, reforms and pensions	5,509.98
		Employer obligations	1,396.06
		Others	1,419.72
Public services maintenance	6,329.41		
Interest and debt costs	671.25		
Debt payment	610.79		
Investments	1,870.12	Construction works and facilities	1,136.18
		FUNDAM	89.72
		Permanent material and equipments	148.54
		Assistances	306.32
		Other investments	279.08
		INVESTSAÚDE	31.22
		Health equipment acquisitions	5.73
		Expansion, construction hospital renovation	17.09
		Other assistances	105.62



Expenses by type

Expenses by function

2016 NUMBERS

Statement of Financial Position

(Excluding internal budgetary operations¹)

		R\$ billions	
Assets		Liabilities	
Current Asset	13.358	Current Liabilities	8.054
Non-current Asset	27.288	Non-current Liabilities	23.446
		Net Equity	9.146
Total	40.646	Total	40.646

Asset Evaluation

				R\$ billions
Goods	12/31/2016	12/31/2015	Variation (%)	
Movable	2.163	2.080	3.99	
Property	19.496	10.837	79.90	
Intangible	0.213	0.285	-34.01	

Trade Balance

			US\$ billions
Trade balance	2016	2015	
Imports	10.368	12.613	
Exports	7.593	7.644	
Final balance	-2.774	-4.969	

Fiscal Numbers

Indicator	2016	2015
Nominal Result (R\$ millions)	-284	2.018
Primary Result (R\$ millions)	-770	330
Asset Result (R\$ millions)	613	-1.471
Financial Result (R\$ millions)	1.218	761
Budget Result (R\$ millions)	105	238
Net Equity (R\$ billions)	9.146	1.054
Current Net Revenue RCL (R\$ billions)	20.489	19.410
Tax Net Revenue RLI (R\$ billions)	17.042	15.881
Education Investments (RLI %)	26.99	27.57
Minimum investment (%)	25	25
Health Investments (RLI %)	12.82	12.86
Minimum investment (%)	12	12
Personnel Expenses (RCL %)		
General Consolidated (%)	57.45	58.35
Prudential Limit (%)	57	57
Maximum Limit (%)	60	60

¹ Internal budgetary operations are those performed among entities that are part of the Fiscal Budget and the State Social Security.

The state exports amount to 4.1% of the yearly national exports. The State has moved up two points among the largest exporting states and is now the eighth major exporter in the country.

Of the total exports, 16.4% were classified as capital goods, 41.8% as intermediate goods and 41.7% as consumer goods.

In the same year, the imports through the state ports reached the accumulated amount of US\$10.4 billion. The state imports represented 7.5% of the total Brazilian imports. Santa Catarina was the fourth major importer in the country. Of the total imports, 18.7% were classified as capital goods, 57% as intermediate goods and 23.6% as consumer goods.



Further information about the Santa Catarina 2016 performance can be found at the 2016 Financial Report available at the State Executive Branch Transparency Portal:

<http://www.transparencia.sc.gov.br>

The Report is divided in three volumes: volume 1 has the State administrative, economical, social and financial information. Volume 2 has the attachments required by the Federal Law number 4.320/64 and other legal regulations. Volume 3 has the Santa Catarina State Government Activity Report that allows the physical and financial monitoring of the government programs as well as the prioritized actions at the regional public hearings.

