UNICASA

Management Report
2016

BOARD OF DIRECTORS

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Chairman

Alexandre Grendene Bartelle
Vice Chairman

Frank Zietolie
Director

Aymar Ferreira de Almeida Júnior
Director

Daniel Ferreira Maia de Freitas
Independent Director

BOARD

Frank Zietolie
President and Commercial Officer

Kelly Zietolie
Vice President

Gustavo Dall Onder
Financial and Investor Relations Officer

FISCAL COUNCIL

Maria Tereza Casagrande
Chairwoman of the Audit Board

Carlos Osvaldo Pereira Hoff
Audit Board Member

Thiago Costa Jacinto
Audit Board Independent Member

Ivanir Moro
Acountant
CRC/RS-053351/O-7

To the Shareholders,

In compliance with applicable laws and Bylaws of the company, the Management of **Unicasa Indústria de Móveis S.A.** hereby presentes the **Management Report** and the **Financial Statements** prepared according to the *International Financial Reporting Standards* (IFRS) issued by *International Accounting Standards Board* (IASB), the generally accepted accounting principles in Brazil and the rules issued by the *Securities and Exchange Comission of Brazil* (CVM). The Company adopted all the standars, revisions of standards and interpretations issued by IASB and which are effective for the Financial Statements ended on December 31, 2016.

MESSAGE FROM MANAGEMENT

Dear Shareholders, 2016 turned out to be a very difficult year, one of the most challenging for the Company and for the economy in general. In 2016, GDP declined 3.6%, while the retail sector contracted 6.7%. The furniture market has been badly affected in recent years. Data from the Rio Grande do Sul Furniture Industries Union (Sindimóveis/RS) indicate that the furniture market in Brazil contracted 29.6% between 2013 and 2016, with small competitors, usually with low capital, shutting down their operations due to the difficult scenario. Thus, in light of the reduction in revenue and with bleak prospects for a rapid recovery in the furniture market, we had to take unorthodox decisions. Following are some of the decisions that most affected our results this year:

- Reduction in the scope of own stores project. We are convinced that the project achieved its core objective of repositioning the Dell Anno brand in the state of São Paulo and hence we decided to maintain only one of the operations and transfer the others to authorized resellers. As a result of this decision, the deferred tax asset of our subsidiary Unicasa Comércio de Móveis Ltda. was reversed – a procedure in accordance with CVM Instruction 371 – because the remaining operation is not expected to generate sufficient taxable income in the next 10 years to amortize the accrued tax loss from the operation. This reversal affected Income Tax and Social Contribution by R$6.7 million;
- Shutdown of operations located in own sales points operated by third parties. The Company had three sales points for which it had acquired operating rights from a shopping mall and granted them to third parties. The macroeconomic scenario forced these storeowners to terminate operations and contributed to the failure in attracting new investors to operate in these points. Thus, we wrote off the residual value of commercial goodwill invested, amounting to R$3.1 million, and incurred expenses with termination of agreement totaling R$0.7 million;
- Company restructuring in the Commercial, Administrative and Production areas, R$1.8 million.

The macroeconomic scenario also affected default levels and so we booked an allowance for doubtful accounts, which affected profit or loss by R$7.5 million.

The New Code of Civil Procedure (“NCPC”), which came into effect in the first quarter of 2016, caused changes in the way of classifying risks related to lawsuits, affecting the Company’s results in two main ways:

- It increased the risk of loss in lawsuits. Based on past court decisions, we revised the classification of loss in lawsuits involving us. As such, we increased the provision for losses on lawsuits by R$3.8 million.
- Settlements in lawsuits involving consumers. Based on economic studies, the Company entered into judicial settlements with several consumers that, according to the new NCPC rules, would generate higher expenses if the lawsuits were continued until the final judgment or entered the appeals phase. As such we incurred expenses of R$1.8 million.

We wish to emphasize that despite the adverse result - net loss of R$24.3 million - we believe that the worst phase of this economic scenario is behind us. Our austerity policy and the absence of debt helped build the foundation for us to pass through this phase while we seek to strengthen our brands and those of our storeowners in order to build the path to improve our products and services. We believe we have prepared the Company to achieve sustainable growth when the political and economic scenario in the country is more conducive to growth in order to reduce unemployment and household debt and, consequently confidence is regained in the country.

*All amounts in the Message from Management are expressed at their net effect on profit or loss, that is net of Income Tax and Social Contribution.

EXECUTIVE SUMMARY

Executive Summary	2015	2016	Δ
Gross Revenue ex-IPI	287,167	245,359	-14.6%
Net Revenue	**222,652**	**185,056**	**-16.9%**
Gross Income	**103,221**	**79,810**	**-22.7%**
Gross Margin	***46.4%***	***43.1%***	***-3.3 p.p.***
Selling and Administrative Expenses	(98,739)	(112,215)	+13.6%
Other Revenues and Operating Expenses	3,531	1,637	-53.6%
Operating Income	**8,013**	**(30,768)**	**-484.0%**
Operating Margin	***3.6%***	***-16.6%***	***-20.2 p.p.***
Financial Income (Expenses) Net	8,043	7,821	-2.8%
Operating Income before Income Tax and Social Contribution	**16,056**	**(22,947)**	-242.9%
Income Tax and Social Contribution	(2,951)	(1,317)	-55.4%
Net Profit/(Loss Profit)	**13,105**	**(24,264)**	-285.2%
Net Margin	***5.9%***	***-13.1%***	***-19.0 p.p.***
EBITDA	18,696	(19,824)	-206.0%
EBITDA Margin	***8.4%***	***-10.7%***	***-19.1 p.p.***

SALES PERFORMANCE

The worsening macroeconomic scenario continues to be the overriding factor behind the decline in our sales and we believe that the adverse economic scenario in our sector will have a longer recovery curve.

The Unicasa Corporate and Export Markets segments are affected by significant oscillations due to the specific aspects of the projects sold in the period.

Dell Anno and Favorita – Exclusive and Own Stores	2015	2016	Δ
Gross Revenue, ex-IPI	155,193	129,266	-16.7%
Number of Modules Sold (thousand units)	410.0	356.3	-13.1%

New and Casa Brasileira Exclusive Dealers	2015	2016	Δ
Gross Revenue, ex-IPI	80,728	67,450	-16.4%
Number of Modules Sold (thousand units)	415.4	377.5	-9.1%

Multibrands	2015	2016	Δ
Gross Revenue, ex-IPI	32,832	30,523	-7.0%
Number of Modules Sold (thousand units)	195.3	180.7	-7.5%

Unicasa Corporate	2015	2016	Δ
Gross Revenue, ex-IPI	6,345	10,019	+57.9%
Number of Modules Sold (thousand units)	24.8	35.2	+41.9%

Export Market	2015	2016	Δ
Gross Revenue, ex-IPI	9,087	5,287	-41.8%
Number of Modules Sold (thousand units)	37.8	25.4	-32.8%

Consolidated Indicators - Unicasa

Unicasa Indústria de Móveis	2015	2016	Δ
Gross Revenue, ex-IPI	287,167	245,359	-14.6%

Number of Modules Sold (thousand units)	1,114.3	1,001.0	-10.2%

Sales and Distribution Channels

Below is the breakdown of our distribution network by brand and channel:

Period	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	Δ
Exclusive and Own Stores	**619**	**574**	**522**	**480**	**463**	**448**	**433**	**410**	**(23)**
Dell Anno and Favorita	253	233	217	204	190	184	182	172	(10)
New and Casa Brasileira	366	341	305	276	273	264	251	238	(13)
Multibrand	**696**	**718**	**669**	**639**	**634**	**626**	**622**	**629**	**7**
New and Casa Brasileira Multibrand	696	718	669	639	634	626	622	629	7

(1) Variation compared to 3Q16.

Average productivity per Dell Anno and Favorita store in 2016 was R$57,300, 5.5% higher than the R$54,300 in 2015, due to the closure of less productive operations. Average productivity in the year per New and Casa Brasileira store in 2016 was R$21,900, 3.8% higher than the R$21,100 in 2015, due to the closure of less productive operations.

Financial Performance

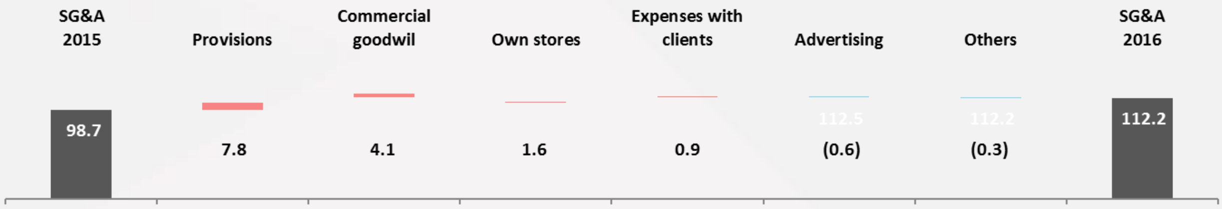
Gross Profit and Gross Margin

Gross Profit of the year was R$79.8 million. Gross margin fell 3.3 p.p. from 2015, from 46.4% to 43.1%. Around 2.0 p.p. is related to the increase in the rate of INSS on revenue, from 1.0% to 2.5% in 2016, while the remainder is mainly related to the higher share of sales to customers with higher purchasing volume and lower base of dilution of fixed expenses.

Selling, General and Administrative Expenses (SG&A)

Selling General and Administrative Expenses	2015	2016	Δ
Total	**(98,739)**	**(112,215)**	**+13.6%**
Selling Expenses	**(78,266)**	**(79,414)**	**+1.5%**
% of Net Revenue	35.2%	42.9%	+7.7 p.p.
Administrative Expenses	**(20,473)**	**(32,801)**	**+60.2%**
% of Net Revenue	9.2%	17.7%	+8.5 p.p.
SG&A % of Net Revenue	44.4%	60.6%	+16.2 p.p.

The following chart presents the evolution of Selling, General and Administrative Expenses in 2015 and 2016 (1):



(1) In Million.

In the year, expenses with provisions were R$7.8 million higher compared to the same period last year. This increase was mainly due to: (i) the provision for civil, labor and tax lawsuits, which increased R$5.8 million as a result of the change in NCPC; (ii) the allowance for doubtful accounts, which increased R$1.2 million; and (iii) other provisions, which increased R$0.8 million.

The closure of own stores operated by third parties resulted in the write-off of commercial goodwill invested in these points, amounting to R$3.1 million, as well as costs with termination of agreement, which amounted to R$1.0 million.

Expenses with own stores increased R$1.6 million, mainly due to pre-operational expenses of a new unit and to expenses with transition of stores to new operators.

Customer service expenses increased R$0.9 million, mainly due to the increase in expenses with lawsuits. In the last quarter, based on economic studies, the Company entered into judicial settlements with several consumers that, according to the new NCPC rules, would generate higher expenses if the lawsuits continued until the final judgment and hence we incurred expenses of R$2.8 million on these settlements. Thus, expenses related to freight, assembling, merchandise and lawsuits that followed their normal course, totaled R$1.9 million, lower than in 2015.

Advertising expenses decreased by R$0.6 million, due to the lower costs with publishing advertisements in magazines.

Other expenses decreased R$0.3 million, mainly due to the reduction in expenses with advisory services.

Other Operating Income and Expenses

Other operating income and expenses declined 53.6%, mainly due to the reduction in revenue from the right to use the brands that we transacted in 2015 with some exclusive resellers.

Other Operating Income and Expenses	2015	2016	Δ
Total	**3,531**	**1,637**	**-53.6%**
Operating Expenses	**(1,985)**	**(1,562)**	**-21.3%**
Operating Income	**5,516**	**3,199**	**-42.0%**
Bank Premium	2,709	2,658	-1.9%
Trademark Rights	1,924	-	-100.0%
Other Operating Income	883	541	-38.7%
% of Net Revenue	**1.6%**	**0.9%**	**-0.7 p.p.**

Financial Result

Net financial result declined 2.8%, mainly due to the reduction in revenue from exchange variation, which was partially offset by the increase in revenue from financial investments.

Financial Result	2015	2016	Δ
Net Financial Result	**8,043**	**7,821**	**-2.8%**
Financial Expenses	**(3,958)**	**(3,975)**	**0.4%**
Financial Income	**12,001**	**11,796**	**-1.7%**

Income Tax and Social Contribution

This year, as mentioned in the Message from Management, we reduced the scope of the own stores project. As a result of this decision, the deferred tax asset of our subsidiary Unicasa Comércio de Móveis Ltda. was reversed – a procedure in accordance with CVM Instruction 371 – because the remaining operation is not expected to generate sufficient taxable income in the next 10 years to amortize the accrued tax loss from the operation. This reversal affected Income Tax and Social Contribution by R$6.7 million.

EBITDA and EBITDA Margin

EBITDA	2015	2016	Δ
Net Income for the Period	**13,105**	**(24,264)**	**-285.2%**
Income Tax and Social Contribution	2,951	1,317	-55.4%
Financial Result	(8,043)	(7,821)	-2.8%
EBIT	**8,013**	**(30,768)**	**-484.0%**
Depreciation and Amortization	10,683	10,944	+2.4%
EBITDA	**18,696**	**(19,824)**	**-206.0%**
EBITDA Margin	***8.4%***	***-10.7%***	***-19.1 p.p.***

Cash flow

Cash Flow	2015	2016	Δ
Cash generated by operational activities	22,996	10,146	-55.9%
Cash generated by investment activities	(8,602)	(8,744)	+1.7%
Cash generated by financing activities	(9,069)	(6,774)	-25.3%
Cash flow (burn)	**5,325**	**(5,372)**	**-200.9%**

In 2016, the Company's cash position decreased in relation to 2015, mainly due to the reduction in revenue, which affected operating cash generation, and also because the amount invested in the maintenance of its industrial unit remained stable when compared to 2015.

Working capital

Working Capital [1]	2015	2016	Δ
Average trade accounts receivable	56,654	44,713	(11,941)
Average term for receipt of sales (days)	*71*	*66*	*(5)*
Average inventory	29,858	26,312	(3,546)
Average term for inventory replenishment (days)	*83*	*79*	*(4)*
Average trade accounts payable	30,672	25,075	(5,597)
Average term for payment of suppliers (days)	*21*	*22*	*+1*
Average advances from customers	34,358	28,485	(5,872)
Average term for advances from customers (days)	*43*	*42*	*(1)*
Working capital	**21,482**	**17,465**	(4,017)

[1] Last twelve months

The company's working capital needs declined by R$4.0 million in the period, mainly due to the drop in revenue, which affects the lower volume of accounts receivable and inventory requirements.

Net Cash

Net Cash	12/31/2015	12/31/2016	Δ
Short Term Debt	-	-	n/a
Long Term Debt	-	-	n/a
Gross Debt	**-**	**-**	**n/a**
Cash and Cash Equivalents	33,204	27,832	-16.2%
Financial Investments	4,446	4,779	+7.5%
Net Debt/(Cash Surplus)	**(37,650)**	**(32,611)**	**-13.4%**

Return on Invested Capital (ROIC)

Return on Invested Capital (ROIC)	2015	2016	Δ
EBIT (LTM)	8,013	(30,768)	-484.0%
Average of Operating Assets	170,848	154,618	-9.5%
ROIC	**4.7%**	**-19.9%**	**-24.6 p.p.**
Effective IR + CSLL rate (LTM)	18.4%	5.7%	-12.7 p.p.
ROIC, Net	**3.8%**	**-18.8%**	**-22.6 p.p.**

ALLOCATION OF NET INCOME AND INTEREST ON EQUITY

There will be no distribution of Interest on Equity or Dividends, since the Company posted net loss of R$24.3 million in 2016.

Human Resources

Unicasa ended 2016 with 577 employees, a 25% reduction from the 2015 headcount of 766 employees.

Administrative Events

The Board of Directors' Meeting held on November 8, 2016 accepted the resignation tendered by Mr. Thiago Proença Baisch as Chief Commercial Officer, citing personal reasons, and the position is now occupied by Mr. Frank Zietolie, who is also the CEO. Mr. Gustavo Dall Onder was elected to replace Mr. Frank Zietolie as the Chief Financial and Investor Relations Officer.

Sustainability

Protecting the planet means taking care of everyone’s home. Aware of that, Unicasa spares no efforts to make furniture through sustainable practices that help conserve the environment:

- We recycle the water used at our factory to reduce the amount of this resource taken from nature;

- Byproducts from our manufacturing process such as sawdust and wood, are repurposed by other sectors of the economy like local brick factories and ranchers;

- We use LPG instead of diesel oil and;

- All off the wood furniture used in our furniture is certified and comes from managed renewable forests.

Capital Markets

At the close of fiscal year 2016, Unicasa’s market capitalization was R$167.9 million, based on the Company’s stock price of R$2.54. In 2016, Unicasa stock registered 26,000 trades, for an average of 104 daily trades, and a financial volume of around R$81.0 million, for an average daily trading volume of R$352,000.

Unicasa’s UCAS3 stock is listed in the Novo Mercado segment of the São Paulo Stock Exchange (BM&FBovespa), which consists of companies with the highest corporate governance standards. Unicasa’s capital is divided into 66,086,364 shares, with a free float of 42.6%. The book value per share at the end of 2016 was R$2.64.

Independent Auditors

In compliance with article 2 of CVM Instruction 381/03, the Company informs that Ernst & Young Auditores Independentes S.S. (“EY”) provided only services related to audit of the Financial Statements in 2016, under the following terms:

- Full audit conducted in accordance with Brazilian and international audit standards of the parent company and consolidated financial statements of the Company, prepared in accordance with the accounting practices adopted in Brazil (parent company and consolidated) and with IFRS (consolidated), for the fiscal year ended December 31, 2016, and the review of the Company's Interim Quarterly Financial Information of March 31, June 30, and September 30, 2016, for total fees of R$281.000,00. Date of contract: April 24, 2016, duration until: April 23, 2017;

STATEMENT BY EXECUTIVE OFFICERS

In compliance with Article 25 of CVM Instruction 480, of December 7, 2009, the Executive Board declares that it has reviewed, discussed and agreed with the opinion expressed in the Independent Auditor's Report on the Financial Statements and with the Financial Statements related to the fiscal year ended December 31, 2016.

Commitment clause

The Company, its stockholders, its managers and the members of its Audit Board undertake to resolve by means of arbitration, before the Market Arbitration Chamber, all and any dispute or controversy that may arise between them, relating to our arising from, in particular, the application, validity, efficacy, interpretation, violation, or their effects, of the provisions contained in the Corporate Law, the Company's by-laws, the rules issued by the National Monetary Council, by the Brazilian Central Bank or by the Brazilian Securities Commission, or in the other rules applicable to the functioning of the capital market in general, as well as those contained in the Listing Regulations of the Novo Mercado, the Arbitration Regulations, the Sanctions Regulations and the Novo Mercado participation agreement.

AUDIT BOARD REPORT

The Audit Board of Unicasa Indústria de Móveis S.A., in compliance with the applicable laws and the Bylaws, examined the Management Report and the Individual Financial Statements of the Company (parent company), prepared in accordance with the accounting practices adopted in Brazil, and the Consolidated Financial Statements, prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), all of which related to the fiscal year ended December 31, 2016 and approved by the Board of Directors of the Company on March 16, 2017. Based on its own examination, and also considering the unqualified report issued by Ernst & Young Auditores Independentes S.S. on March 09, 2017, as well as the information and clarifications received throughout the fiscal year, hereby recommends the submission of said documents to the Annual Shareholders' Meeting.

ACKNOWLEDGMENT

We would like to thank our employees for their commitment, our shareholders for their support, our suppliers for their efforts and our retailers and consumers for their trust.