

(A free translation of the original in Portuguese)

INDÚSTRIAS ROMI S.A.
Parent Company and Consolidated
Financial statements at December, 31 2018
And independent auditor's report



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Independent auditor's report on individual and consolidated financial statements

The Board of Directors and Shareholders of
Indústrias Romi S.A.
Santa Bárbara d'Oeste - SP

Qualified opinion

We have audited the accompanying individual and consolidated financial statements of Romi S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2018 and the statement of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "Basis for qualified opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Indústrias Romi S.A. as at December 31, 2018, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for qualified opinion

Reversal of provision for ICMS tax on sales included in the PIS and COFINS calculation bases

As disclosed in Note 14, as at December 31, 2018, the Company recorded in its Provision for tax, labor and civil contingencies the amount of R\$57,865 thousand (R\$53,736 thousand as of December 31, 2017) related to the effect of the exclusion of State VAT (ICMS) from the Contribution Tax on Gross Revenue for Social Integration Program (PIS) and the Contribution Tax on Gross Revenue for Social Security Financing (COFINS) bases, which were not collected from November 2006 to December 2018 but were deposited in court in that period. In a high-profile decision handed down by the Federal Supreme Court (STF) on March 15, 2017, the STF justices understood that the ICMS tax is not to be included in the PIS and COFINS contribution tax bases. Accordingly, based on the guidelines set down in CPC 25/IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, we understand that it is no longer probable that an outflow of resources that incorporate future economic benefits will be required to settle this obligation and, therefore, this provision should have been reversed at the statement of financial position date. As a consequence, at December 31, 2018, the amount of individual and consolidated noncurrent assets and total assets are understated by R\$ 85,306 thousand (R\$81,320 thousand at December 31, 2017), whilst equity at December 31, 2018 are understated by R\$56,302 thousand (R\$53,671 thousand at December 31, 2017) and individual and consolidated net income for the year then ended are understated by R\$2,631 thousand (R\$53,671 in 2017), net of tax effects.



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

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for such other information, which comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report this matter.

As described in the "Basis for qualified opinion" above, the provision recorded by the Company referring to a lawsuit challenging the constitutionality of the inclusion of ICMS on sales in the PIS and COFINS bases does not meet the criteria for recognition of the provision, in accordance with accounting standards adopted in Brazil and IFRS. The maintenance of that provision significantly affects the presentation of the Company's individual and consolidated financial statements. We conclude that the other information presents material misstatement for the same reason in respect of the amounts and other aspects described in the "Basis for qualified opinion" section of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Basis for qualified opinion" section, we have determined that the matters described below are the key audit matters to be disclosed in our report. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.



We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Recoverability of intangible assets with indefinite useful lives

As detailed in Note 11, the Company has a significant balance of intangible assets with indefinite useful lives as a result of the registration of the trademark when acquiring the German subsidiary Burkhardt + Weber Fertigungssysteme GmbH, the amount of which totals R\$23,335 thousand at December 31, 2018. Accounting standards require that intangible assets with indefinite useful lives be subject to impairment testing by management at least annually, unless there is evidence that may indicate the need to test them more frequently. Management tested the recoverability of these assets using the Discounted Cash Flow method. The cash flow projections used for impairment testing purposes were carried out for the cash-generating unit of Burkhardt + Weber Machinery and took into consideration sensitive estimates and assumptions. Therefore, we have undertaken significant auditing efforts in the analysis of the cash-generating projections of this unit.

Our auditing procedures included, among others, the use of valuation experts to assist us in evaluating the assumptions and methodologies used by the Company, particularly those related to projections of future cash flows and the process by which they are prepared and we tested the main assumptions that were used as a basis, such as revenue growth rate, EBITDA margins and discount rate.

In addition, we have evaluated the disclosures in the financial statements with respect to the recoverability of the intangible assets with indefinite useful lives.

Based on the result of the audit procedures on the recoverability of the intangible assets with indefinite useful lives, which is consistent with management's assessment, we consider that the recoverable value criteria and assumptions adopted by management, as well as the respective disclosures in Notes 2.9 and 11, are acceptable, in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2018, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.



Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

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

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

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Campinas, February 12, 2019

ERNST & YOUNG
Auditores Independientes S.S.
CRC 2SP034519/O-6

José Antonio de A. Navarrete
Accountant CRC-1SP198698/O-4

INDÚSTRIAS ROMI S.A.

STATEMENT OF FINANCIAL POSITION

(In thousands of reais unless otherwise stated)

ASSETS	Note	Parent		Consolidated		LIABILITIES AND EQUITY	Note	Parent		Consolidated	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017			December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
CURRENT						CURRENT					
Cash and cash equivalents	3	67,284	69,806	100,428	105,682	Borrowings	12	90,419	71,246	102,547	74,170
Short-term investments	3	489	13,670	489	13,670	FINAME manufacturer financing	13	63,326	55,463	63,326	55,463
Trade accounts receivable	4	82,006	70,359	168,213	120,303	Trade accounts payable		26,853	27,405	44,261	33,802
Onlending of FINAME manufacturer financing	5	87,482	88,114	87,482	88,114	Payroll and related taxes		21,858	20,484	27,504	28,148
Inventories	6	203,133	162,517	300,547	241,891	Taxes payable		6,799	4,918	7,847	5,896
Related parties	8	60,397	42,052	-	-	Advances from costumers		14,824	12,755	71,466	56,512
Taxes recoverable		22,614	7,119	25,267	11,780	Dividends and interes on capital		2,195	1,551	2,195	1,551
Other receivables		12,574	8,594	14,931	10,753	Profit sharing		23,785	8,335	23,785	8,335
		<u>535,979</u>	<u>462,231</u>	<u>697,357</u>	<u>592,193</u>	Other payables		2,978	5,802	19,821	16,649
						Related parties	8	4,472	778	-	-
						Provision for net capital deficiency - subsidiary	7	2,653	664	-	-
								<u>260,162</u>	<u>209,401</u>	<u>362,752</u>	<u>280,526</u>
NON-CURRENT						NON-CURRENT					
Trade accounts receivable	4	13,618	11,310	13,618	11,310	Borrowings	12	20,118	34,748	31,438	47,066
Onlending of FINAME manufacturer financing	5	128,584	79,819	128,584	79,819	FINAME manufacturer financing	13	116,278	72,770	116,278	72,770
Taxes recoverable		18,998	778	18,998	778	Provision for tax, labor and divil risks	14	2,100	768	2,100	1,561
Deferred income tax and social contribution	15	43,595	49,426	43,948	49,426	Other payables		6	3	130	115
Judicial deposits	14	2,110	2,057	2,110	2,057	Deferred income tax and social contribution	15	-	-	31,786	29,885
Other receivables		1,849	10,835	2,172	11,125			<u>138,502</u>	<u>108,289</u>	<u>181,732</u>	<u>151,397</u>
		<u>208,754</u>	<u>154,225</u>	<u>209,430</u>	<u>154,515</u>	TOTAL LIABILITIES		<u>398,664</u>	<u>317,690</u>	<u>544,484</u>	<u>431,923</u>
Investment in subsidiary and associated companies	7	147,669	137,727	-	-	EQUITY	16				
Property, plant and equipment	10	187,860	190,852	258,921	257,939	Capital		492,025	492,025	492,025	492,025
Investment properties	9	13,500	13,500	18,398	18,602	Capital reserve		160,218	118,960	160,218	118,960
Intangible assets	11	879	1,124	57,981	52,174	Cumulative translation adjustments		43,734	30,984	43,734	30,984
		<u>558,662</u>	<u>497,428</u>	<u>544,730</u>	<u>483,230</u>			<u>695,977</u>	<u>641,969</u>	<u>695,977</u>	<u>641,969</u>
TOTAL ASSETS		<u>1,094,641</u>	<u>959,659</u>	<u>1,242,087</u>	<u>1,075,423</u>	NON CONTROLLING INTEREST		<u>-</u>	<u>-</u>	<u>1,626</u>	<u>1,531</u>
						TOTAL EQUITY		<u>695,977</u>	<u>641,969</u>	<u>697,603</u>	<u>643,500</u>
						TOTAL LIABILITIES AND EQUITY		<u>1,094,641</u>	<u>959,659</u>	<u>1,242,087</u>	<u>1,075,423</u>

The accompanying notes are an integral part of these Interim financial statements

INDÚSTRIAS ROMI S.A.

**STATEMENT OF INCOME
YEARS ENDED DECEMBER 31**

(In thousands of reais unless otherwise stated)

	Note	Parent		Consolidated	
		2018	2017	2018	2017
Net Operating revenue	22	507,639	468,502	743,462	672,873
Cost of sales and services	6	(367,440)	(340,111)	(537,083)	(483,236)
Gross profit		140,199	128,391	206,379	189,637
Operation income (expenses)					
Selling		(43,747)	(39,339)	(79,801)	(67,736)
General and administrative		(26,309)	(26,941)	(59,300)	(52,143)
Research and development		(17,379)	(16,772)	(17,379)	(16,772)
Management profit sharing and fees	8	(7,751)	(6,718)	(7,846)	(6,815)
Equity in earnings of subsidiaries	7	(2,793)	5,710	-	-
Other operating income, net		2,666	3,179	3,995	5,094
		(95,313)	(80,881)	(160,331)	(138,372)
Operating profit		44,886	47,510	46,048	51,265
Financial income (expenses)					
Financial income		42,214	13,805	43,740	15,822
Financial expenses		(6,401)	(12,926)	(8,831)	(14,840)
Foreign exchange gains, net		6,527	3,102	6,212	2,846
		42,340	3,981	41,121	3,828
Profit before taxation		87,226	51,491	87,169	55,093
Income tax and social contribution	15	(3,225)	(13,829)	(2,919)	(17,139)
Profit for the period		84,001	37,662	84,250	37,954
Attributable to:					
Controlling interests				84,001	37,662
Non-Controlling interests				249	292
				84,250	37,954
Basic and diluted earnings per share (R\$)	16	1.34	0.60		

The accompanying notes are an integral part of these Interim financial statements

INDÚSTRIAS ROMI S.A.

**STATEMENT OF INCOME
YEARS ENDED DECEMBER 31**

(In thousands of reais unless otherwise stated)

	<u>Parent</u>		<u>Consolidated</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit for the period	84,001	37,662	84,250	37,954
Foreign currency translation effects	<u>12,750</u>	<u>13,290</u>	<u>12,750</u>	<u>13,290</u>
Comprehensive profit for the period	<u>96,751</u>	<u>50,952</u>	<u>97,000</u>	<u>51,244</u>
Attributable to:				
Controlling interests			96,751	50,952
Non-Controlling interests			<u>249</u>	<u>292</u>
			<u>97,000</u>	<u>51,244</u>

The accompanying notes are an integral part of these Interim financial statements

INDÚSTRIAS ROMI S.A.

STATEMENT OF CHANGES IN EQUITY

(In thousands of reais unless otherwise stated)

	Attributable to the controlling interests								
	Capital	Income reserve			Other comprehensive income	Profit for the year	Total	Non-controlling interests	Total
		Retained reserve	Legal reserve	Total					
At December 31, 2016	492,025	48,488	41,755	90,243	17,694	-	599,962	1,570	601,532
Profit for the year	-	-	-	-	-	37,662	37,662	292	37,954
Foreign currency translation effects	-	-	-	-	13,290	-	13,290	-	13,290
Total comprehensive income for the period	-	-	-	-	13,290	37,662	50,952	292	51,244
Mandatory dividends	-	-	-	-	-	(8,945)	(8,945)	-	(8,945)
Dividends paid by subsidiary	-	-	-	-	-	-	-	(331)	(331)
Transfers between reserves	-	26,834	1,883	28,717	-	(28,717)	-	-	-
Total contributions by and distributions to controlling interests	-	26,834	1,883	28,717	-	(37,662)	(8,945)	(331)	(9,276)
At December 31, 2017	492,025	75,322	43,638	118,960	30,984	-	641,969	1,531	643,500
Profit for the period	-	-	-	-	-	84,001	84,001	249	84,250
Foreign currency translation effects	-	-	-	-	12,750	-	12,750	-	12,750
Total comprehensive income for the year	-	-	-	-	12,750	84,001	96,751	249	97,000
Mandatory dividends	-	-	-	-	-	(42,743)	(42,743)	-	(42,743)
Dividends paid by subsidiary	-	-	-	-	-	-	-	(154)	(154)
Transfers between reserves	-	37,058	4,200	41,258	-	(41,258)	-	-	-
Total contributions by and distributions to controlling interests	-	37,058	4,200	41,258	-	(84,001)	(42,743)	(154)	(42,897)
At December 31, 2018	492,025	112,380	47,838	160,218	43,734	-	695,977	1,626	697,603

The accompanying notes are an integral part of these Interim financial statements

INDÚSTRIAS ROMI S.A.

STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31

(In thousands of reais unless otherwise stated)

	Parent		Consolidated	
	2018	2017	2018	2017
Cash flows from operating activities				
Profit before taxation	87,226	51,491	87,169	55,093
Adjustments from:				
Finance expenses (revenue) and exchange rate	(38,522)	4,785	(36,894)	6,895
Depreciation and amortization	24,454	23,675	33,286	30,255
Allowance for doubtful accounts and for other receivables	(3,570)	(630)	(3,939)	(2,638)
Provision for inventory losses	(4,093)	(9,184)	(2,252)	(11,190)
Cost of property, plant and equipment and disposals of intangible assets	(3,629)	(4,106)	390	(5,151)
Equity in earnings of subsidiaries	2,793	(5,710)	-	-
Provision for contingent liabilities	2,074	1,695	894	1,169
Change in operating assets and liabilities				
Financial investments	13,181	7,161	13,181	7,161
Trade accounts receivable	(1,975)	(1,617)	(37,869)	(15,564)
Related parties (assets and liabilities)	(15,333)	(5,560)	-	-
Onlending of Finame manufacturer financing	(42,011)	6,708	(42,011)	6,708
Inventories	(36,523)	28,882	(56,403)	33,887
Taxes receivable	(31,106)	7,840	(26,229)	21,179
Judicial deposits	(3,988)	(2,776)	(3,988)	(2,776)
Other credits	48,557	9,065	48,326	8,564
Trade accounts payable	(250)	(1,167)	10,761	(1,087)
Payroll and related taxes	1,718	5,757	(300)	9,956
Taxes payable	5,426	3,914	(923)	(8,918)
Advances from costumers	2,069	4,437	14,954	2,725
Other payables	(964)	522	5,386	2,851
Cash from operations	5,534	125,182	3,539	139,119
Income tax and social contribution paid	(3,545)	(1,317)	(3,834)	(2,038)
Net cash from operations	1,989	123,865	(295)	137,081
Cash flow from investing activities				
Purchase of property, plant and equipment	(21,778)	(22,317)	(24,879)	(29,432)
Intangible increase	(71)	(652)	(3,213)	(5,747)
Unrealized profit	-	-	451	-
Disposal of property, plant and equipment	4,261	5,630	977	7,981
Dividends received	2,060	4,442	-	-
Capital increase	(56)	-	-	-
Net cash used in investing activities	(15,584)	(12,897)	(26,664)	(27,198)
Fluxos de caixa das atividades de financiamento				
Interest on capital and dividends paid	(27,296)	-	(21,760)	(331)
New borrowings	79,740	14,038	93,754	14,112
Financing repaid	(76,678)	(93,814)	(84,918)	(96,644)
Interest paid	(4,708)	(10,962)	(4,539)	(10,839)
New Finame - manufacturer financing	110,767	66,975	110,767	66,975
Payment of Finame - manufacturer financing	(59,433)	(70,122)	(59,433)	(70,122)
Interest paid of Finame - manufacturer financing	(11,319)	(7,948)	(11,319)	(7,948)
Net cash used in financing activities	11,073	(101,833)	22,552	(104,797)
Increase (decrease) in cash and cash equivalents	(2,522)	9,135	(4,407)	5,086
Cash and cash equivalents at the beginning of the year	69,806	60,671	105,682	101,510
Foreign exchange losses of cash equivalents of foreign subsidiaries	-	-	(847)	(914)
Cash and cash equivalents at the end of the year	67,284	69,806	100,428	105,682

The accompanying notes are an integral part of these Interim financial statements

INDÚSTRIAS ROMI S.A.

**STATEMENT OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31**

(In thousands of reais unless otherwise stated)

	Parent		Consolidated	
	2018	2017	2018	2017
Revenues				
Sales of products and services	603,524	546,356	839,426	750,788
Allowance for doubtful accounts and for other receivables	171	(1,064)	(1,500)	(1,064)
Other operating revenues, net	2,666	3,179	3,995	5,094
	<u>606,361</u>	<u>548,471</u>	<u>841,921</u>	<u>754,818</u>
Inputs acquired from third parties				
Materials used	(286,842)	(273,403)	(385,297)	(361,966)
Other costs of products and services	(18,275)	(23,358)	(34,556)	(37,613)
Electricity, third-party services and other expenses	(36,532)	(28,102)	(44,576)	(37,343)
	<u>(341,649)</u>	<u>(324,863)</u>	<u>(464,429)</u>	<u>(436,922)</u>
Gross value added	264,712	223,608	377,492	317,896
Depreciation and amortization	(24,454)	(23,675)	(33,286)	(30,255)
Net value added generated by the Company	<u>240,258</u>	<u>199,933</u>	<u>344,206</u>	<u>287,641</u>
Value added received through transfers				
Equity in earnings of subsidiaries	(2,793)	5,710	-	-
Finance income (costs) and net foreign exchange gains	48,738	16,905	43,888	18,668
	<u>45,945</u>	<u>22,615</u>	<u>43,888</u>	<u>18,668</u>
Total value added to distribute	<u><u>286,203</u></u>	<u><u>222,548</u></u>	<u><u>388,094</u></u>	<u><u>306,309</u></u>
Distribution of value added				
Employees				
Payroll and related changes	112,395	110,795	208,405	189,316
Sales commission	4,194	4,248	4,194	4,248
Management profit sharing and fees	7,751	6,718	7,846	6,812
Participation in results	7,896	5,649	7,896	5,649
Gain sharing	677	685	677	685
Taxes	60,970	41,635	61,852	42,715
Interests	6,401	12,926	8,831	14,840
Rentals	1,918	2,230	4,297	4,421
Interest on own capital already distributed	15,714	5,029	15,714	5,029
Declared and not yet distributed dividends	27,029	3,916	27,029	3,916
Non-controlling interests	-	-	95	(39)
Profit for the period	<u>41,258</u>	<u>28,717</u>	<u>41,258</u>	<u>28,717</u>
Value added distributed	<u><u>286,203</u></u>	<u><u>222,548</u></u>	<u><u>388,094</u></u>	<u><u>306,309</u></u>

The accompanying notes are an integral part of these Interim financial statements

Indústrias Romi S.A.

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In thousands of Reais, unless otherwise stated

1 General information

Indústrias Romi S.A. (Parent), listed on the "New Market" of B3 S.A. - Brasil, Bolsa, Balcão, since March 23, 2007, and headquartered in Santa Bárbara d'Oeste, São Paulo, and its subsidiaries (jointly referred to as "Company") are engaged in the manufacture and sale of capital goods in general, including machine tools, plastic injection molding machines, industrial equipment and accessories, tools, castings and parts, as well as providing system analysis and developing data processing software related to the production, sale, and use of machine tools and plastic injectors; the manufacture and sale of raw cast parts and machined cast parts; the export, import and representation on its own account or on behalf of third parties; and the provision of related services. It also holds interest in other companies as a partner, shareholder or member in other civil or business entities, business ventures of any nature, in Brazil or abroad, as well as the management of its own and/or third-party assets.

The Company's industrial facilities consist of 11 plants in three units located in the city of Santa Bárbara d'Oeste, in the State of São Paulo, and one located in the city of Reutlingen, Germany. The latter is a large tooling machine manufacturer. It also holds interest in subsidiaries in Brazil and abroad.

These financial statements were approved by the Company's Board of Directors and authorized for issue on February 12, 2019.

2 Basis of preparation and accounting policies

The parent and consolidated financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which comprise the standards of the Brazilian Securities and Exchange Commission (CVM), thus in accordance with the pronouncements issued by Brazil's FASB (CPC), as well as in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and contains all material information specific to the financial statements, which is consistent with that used by management. The accounting policies of the subsidiaries are consistent with those of the Parent.

The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The parent and consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration paid in exchange for the assets. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment calls in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.18.

The preparation of the parent and consolidated statements of value added is required by the Brazilian corporate law and the accounting practices adopted in Brazil for listed companies, but is not required by IFRS. Therefore, under IFRS, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

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Changes in accounting policies and disclosures

There are no amendments or interpretations effective for the financial year beginning on January 1, 2018 that would be expected to have a material impact on the Company's financial statements.

2.2 Investments in subsidiaries - Consolidated

(a) Parent:

Subsidiaries include all entities (including structured entities) over which the Company has control. The Parent controls an entity when it is exposed or has rights to variable returns as a result of its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent. They are deconsolidated from the date on which that control ceases.

Investments in subsidiaries are accounted for using the equity method from the date on which control is acquired. Based on this method, investments in subsidiaries are recognized in the financial statements at the acquisition cost, and are periodically adjusted to the amount corresponding to the Parent's share of the profits (losses) of the subsidiaries, with a balancing item in the operating profit (loss), except for the foreign exchange differences on the translation of these investments, which are recorded in a separate line item in equity called "Carrying value adjustments". These effects are recognized in income and expenses upon the sale or disposal of the investment.

After reducing the carrying amount of the investor's share to nil, additional losses are considered and a liability (provision for net capital deficiency) is recognized only to the extent that the investor has incurred a legal or constructive obligation to make payments on behalf of the subsidiary.

Of the acquisition price, the amount exceeding the fair value of the acquiree's equity as at the transaction date is treated as goodwill based on future earnings. Additionally, investment balances may be reduced due to the recognition of impairment losses (Note 2.10).

Dividends received from subsidiaries are recorded as a reduction of the investment balance.

(b) Consolidated:

The Company has fully consolidated the financial statements of the parent and all of its subsidiaries.

Third-party interests in the equity and profits of subsidiaries are presented separately in the consolidated statement of financial position and the consolidated statement of profit or loss, respectively, in the line item "Non-controlling interests".

Intragroup transactions and balances are eliminated upon consolidation, and any gains or losses on these transactions are also eliminated. Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

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2.3 Translation of foreign currency and of foreign subsidiaries' financial statements

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyper-inflationary economy) are translated into reais at the exchange rates prevailing at the end of the reporting period, and their statement of profit or loss accounts (income and expenses) are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing on the transaction dates). Exchange differences arising on the translation of these balances are separately recognized in equity, in the line item "Carrying value adjustments".

Fair value adjustments resulting from acquisitions of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(a) Functional and presentation currency

The Parent and Consolidated financial statements are presented in Brazilian Reais (R\$), which is the functional currency of the parent and of its subsidiaries located in Brazil. The functional currency of subsidiaries is determined based on the primary economic environment in which they operate, and when their functional currency is different from the reporting currency, the subsidiaries' financial statements are translated into reais at the end of the reporting period.

(b) Transactions and balances

Foreign currency transactions are initially recognized at the exchange rate prevailing on the transaction date. Foreign currency denominated monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the end of the reporting period. All differences are recorded in the statement of profit or loss. Non-monetary items measured at their historical costs in foreign currency are translated using the exchange rates prevailing at the dates of the initial transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate prevailing on the date when the fair value was determined.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of 90 days or less, with an immaterial risk of changes in value, and are carried at cost plus income earned through the end of the reporting period.

2.5 Financial Instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

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Notes to the financial statements at December 31, 2018 In thousands of Reais, unless otherwise stated

(a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under CPC 47.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

(b) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- i. Financial assets at amortized cost (debt instruments).
- ii. Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- iii. Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- iv. Financial assets at fair value through profit or loss.

At December 31, 2018, the Company has only financial assets classified as financial assets at amortized cost and financial assets at fair value through profit or loss.

(c) Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions are met:

- i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes trade accounts receivable, onlending of FINAME manufacturer financing, related parties and other receivables included under current and non-current financial assets.

(d) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

(e) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- i. The rights to receive cash flows from the asset have expired.
- ii. The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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(f) Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For trade accounts receivable, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Further disclosures relating to impairment of trade accounts receivable are also provided in Note 4.

Financial liabilities

(a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade accounts payable and other payables, and borrowings.

(b) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

(c) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated

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upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in CPC 48 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

(d) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 12.

(e) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.6 Inventory

Inventory is stated at the lower of its net realizable value (estimated selling price in the normal course of business less estimated costs to make the sale) and the average production cost or average purchase price. Allowances for slow-moving or obsolete inventory are recognized when they are considered necessary by management. The Company calculates the cost of its inventory by absorption, using the weighted moving average method. The cost of finished goods and work in progress includes design costs, raw materials, direct labor, other direct costs and related manufacturing overheads (based on normal operating capacity). This excludes borrowing costs.

2.7 Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation, plus capitalized interest incurred during the construction of new units, when applicable. Depreciation is calculated on a straight-line basis, taking into consideration the estimated useful lives of the assets.

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Subsequent costs are included in the asset's residual value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Company, and these benefits can be measured reliably.

The residual balance of the replaced item is derecognized. All other repairs and maintenance are charged to the statement of profit or loss in the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives of property, plant and equipment items by category are set out in Note 10.

An asset's residual value is written down immediately to the recoverable amount when it is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other operating income (expenses), net" in the statement of profit or loss.

2.8 Investment property

Investment property represents land and buildings held to earn rental income and/or for capital appreciation, as disclosed in Note 9. Investment property is recognized at its acquisition or construction cost, less accumulated depreciation, calculated using the straight-line method at rates that take into consideration the useful lives of the assets.

2.9 Intangible assets

Intangible assets are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Intangible assets are amortized based on their actual use or using a method that reflects the economic benefits of the intangible assets. The residual value of an intangible asset is written down immediately to its recoverable amount when the residual balance exceeds the recoverable amount (Note 2.10.).

Intangible assets acquired in the course of a business combination (technology, customer relationships, portfolios of orders) are carried at fair value, less accumulated amortization and impairment losses, when applicable. Intangible assets with finite useful lives are amortized over their useful lives using an amortization method that reflects the economic benefit of the intangible asset.

Intangible assets are assessed annually for indicators of impairment if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

The Company reviews the amortization period and amortization method of its intangible assets with finite useful lives at the end of each reporting period.

Expenditure on research and development is recognized in intangible assets when the development requirements are met. When these criteria are not met, such expenditure is recognized in the statement of profit or loss for the year as it is incurred, under "Research and development".

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2.10 Allowance for asset impairment and reversal of allowances – non-financial assets

At the end of the reporting period, the Company analyzes whether there is evidence that the carrying amount of an asset will not be recovered. If such evidence is identified, the Company estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of: (a) its fair value less costs to sell and (b) its value-in-use. The value-in-use is equivalent to the discounted cash flow (before tax) arising from the continuous use of the asset up to the end of its useful life.

Regardless of whether or not there is evidence of impairment, goodwill balances arising from business combinations and intangible assets with indefinite useful lives are tested for impairment at least once a year, in December. When the carrying amount of an asset exceeds its recoverable amount, the Company recognizes an impairment loss in its profit or loss account.

Except for impairment of goodwill, the reversal of previously recognized losses is permitted. Reversal in these circumstances is limited to the depreciated balance of the asset at the reversal date, assuming that the reversal has not been recorded.

2.11 Discount to present value

Assets and liabilities arising from short and long-term transactions, when they are material, are discounted to their present values based on discount rates that reflect the best assessments of market conditions. The discount rate used reflects market conditions. The adjustment to present value is measured on a “pro rata” basis, since the origin of each transaction.

The reversals of the adjustments of monetary assets and liabilities were recognized as financial income or expenses.

2.12 Current and deferred income tax and social contribution

The current income tax and social contribution expense is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries where the parent and its subsidiaries operate and generate taxable profit. Management periodically evaluates the positions taken by the Company in its income tax returns with respect to situations in which the applicable tax regulations are subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities. The current tax is the expected tax payable or receivable on the taxable profit or loss for the year, at the tax rates prevailing at the end of the reporting period.

Deferred income tax and social contribution are recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred taxes are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting nor the taxable profit or loss. Deferred income tax and social contribution are determined based on the tax rates (and laws) in effect at the end

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of the reporting period and applicable when the related income tax and social contribution are realized, and are recognized only to the extent that it is probable that there future taxable profit will be available against which the temporary differences and/or tax losses can be utilized. Deferred income tax and social contribution assets are reviewed at the end of each reporting period and written down to the extent that their realization is no longer probable.

The income tax and social contribution benefit or expense for the period include current and deferred taxes. Current and deferred taxes are recognized in the statement of profit or loss, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Deferred tax assets and liabilities are presented on a net basis in the statement of financial position when there is a legally enforceable right and an intention to offset them against the calculation of current taxes, generally when related to the same legal entity and the same tax authority. Accordingly, deferred tax assets and liabilities in different entities or in different countries are presented separately, and not on a net basis.

2.13 Employee benefits

The Company has several employee benefit plans, including pension plans (defined contributions), healthcare, dental care, and profit sharing.

Post-employment pension plans are characterized as a defined contribution plan, to which the Company has no legal obligation in the event that the plan does not have sufficient assets to pay the employees' vested benefits as a result of their past service.

Contributions to defined contribution pension plans are recognized as expenses when actually incurred, i.e. when the employees provide services to the Company (Note 17).

2.14 Share capital

Common shares are classified in equity. There are no preferred shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to the Company's shareholders is recognized as a liability in the Company's financial statements at the year-end based on the Company's bylaws. Any amount that exceeds the required minimum is only provided on the date it is approved by the Board of Directors.

The tax benefit of interest on capital is recognized in the statement of profit or loss.

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2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value added taxes, returns, rebates and discounts, after eliminating sales within the Group. Taxes on sales are recognized when sales are billed.

(a) Sales of goods

Revenue from contracts with customers is recognized when the performance obligation is met. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. Romi Machinery and B+W Machinery: Under these contracts the main performance obligation is expected to be the delivery of machines. Distinctions from other performance obligations such as technical installation/delivery and training are immaterial in the context of the contract and therefore have no significant impact on the Company's financial statements. Cast and Machined Products: Under these contracts, the sale of equipment is generally expected to be the only performance obligation, so that revenue from sale of equipment is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment.

(i) Variable consideration:

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Some contracts with customers of Cast and Machined Products provide customers with a right of volume/productivity rebates.

(ii) Warranty obligations

The Company typically provides warranties for general repairs of defects and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under IFRS 15, which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

(iii) Significant financing component

Generally, the Company receives short-term advances from its customers. Using the practical expedient in CPC 47, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. In addition,

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the Company identified that in the sale of used machines there is a financing component, since this transaction is financed to the final customer with Company resources, and the finance cost is embedded in the machine's sale price (invoice). The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Company and its customers at contract inception, to take into consideration the significant financing component.

(vi) Non-cash consideration

The Company received used machines from certain customers as part of payment from purchase of new ones. The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Company obtains control of the equipment. The Company applies the requirements of CPC 46 *Fair Value Measurement* in measuring the fair value of the noncash consideration.

(b) Interest income

Interest income is recognized on an accrual basis, using the effective interest method.

2.17 Provisions

Provision for tax, labor and civil risks is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount recognized as a provision represents the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to be required to settle the present obligation, its carrying amount is the present value of the relevant cash flow.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.18 Critical accounting estimates and judgments used in the preparation of the financial statements

The preparation of financial statements involves the use of estimates. The determination of these estimates took into consideration the experiences of past and current events, assumptions regarding future events, formal expert opinions, when applicable, and other objective and subjective factors. Significant items which are subject to these estimates and assumptions include:

- (a) Useful lives of long-lived assets: management reviews the useful lives of the main assets with finite useful lives annually.

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- (b) Impairment testing of long-lived assets and assets with indefinite useful lives: the Company tests annually the impairment of assets with indefinite useful lives and, when necessary, tests the impairment of assets with definite useful lives. The recoverable amounts of Cash-Generating Units ("CGUs") have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 2.10).
- (c) Inventory realization and obsolescence: the assumptions used are described in Note 2.6.
- (d) Analysis of the credit risk to determine the allowance for doubtful accounts: the assumptions used are described in Note 2.5.
- (e) Deferred income tax assets on tax losses carried forward (Note 2.12) and the analysis of other risks used to determine other provisions, including contingencies arising from administrative and judicial proceedings (Note 2.17).
- (f) Analysis of other risks to determine provisions, including contingencies. Provisions are recognized for all contingencies in which it is probable that an outflow of resources will be required for their settlement. The assessment of the likelihood of loss includes the assessment of available evidence, hierarchy of laws, available case laws, recent court decisions and their relevance in the legal system, as well as the assessment made by outside counselors.

The settlement of transaction involving these estimates may result in amounts different from those recognized in the financial statements due to inaccuracies inherent to the estimation process. These estimates and assumptions are periodically reviewed.

2.19 Standards, interpretations and amendments to accounting standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

CPC 06 (R2) - Leases issued by CPC is equivalent to the international standard IFRS 16 - Leases, issued in January 2016 in replacement of the previous version of said standard (CPC 06 (R1)), equivalent to the international standard IAS 17). CPC 06 (R2) sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under CPC 06 (R1).

The Company will choose to use the exemptions proposed by the standard for lease agreements ending within 12 months from the initial adoption date, and lease agreements for 'low-value' assets.

During 2018, the Company has performed a detailed assessment of the impact of CPC 06 (R2). The Company expects no significant impact of adopting CPC 06 (R2) on its financial statements.

CPC 48: Prepayment features with negative compensation

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Under CPC 48 (IFRS 9), a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to CPC 48 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Company.

Amendments to CPC 33 (R1): Plan amendment, curtailment or settlement

The amendments to CPC 33 (R1) address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Company.

Amendments to CPC 18 (R2): Long-term interests in associates and joint ventures

The amendments clarify that an entity applies CPC 48 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Company.

IFRIC 23 - Uncertainty over income tax treatments

The Interpretation (equivalent to ICPC 22) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 (CPC 32). The Interpretation requires an entity to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company will apply the interpretation from its effective date. Since the Company operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. The Company is assessing the impacts of its adoption.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

Up to the date of publication of the Company's financial statements, this revision had not yet been completed by the CPC, they had been published only for IFRS. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The Company will apply these amendments when they become effective.

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2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, responsible for allocating resources and assessing the performance of the operating segments, which has been identified as the Board of Directors, who make the Company's strategic decisions.

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3 Cash and cash equivalents and financial investments

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and banks	2,957	2,899	23,923	14,545
Bank deposit certificates ("CDBs") (a)	1,312	10,839	13,485	29,380
Short-term investments backed by debentures (a)	53,249	19,445	53,249	19,442
Investment funds DI and fixed income (a)	9,672	34,774	9,672	34,774
Short-term investments in foreign currency - US\$ (Time deposit)	-	1,819	-	7,511
Other	94	30	99	30
Total cash and cash equivalents	67,284	69,806	100,428	105,682
Bank deposit certificates ("CDBs") (a)	489	13,670	489	13,670
Total assets held for trading	489	13,670	489	13,670

(a) These investments are substantially pegged to the Interbank Deposit Certificate ("CDI") rate.

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4 Trade accounts receivable

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Current				
Domestic customers	70,897	63,443	72,140	64,243
Foreign customers	11,532	8,017	101,481	61,283
Allowance for doubtful accounts	(423)	(1,101)	(5,408)	(5,223)
	<u>82,006</u>	<u>70,359</u>	<u>168,213</u>	<u>120,303</u>
Non-current				
Domestic customers	9,477	8,399	9,477	8,399
Foreign customers	4,149	2,912	4,149	2,912
Allowance for doubtful accounts	(8)	(1)	(8)	(1)
	<u>13,618</u>	<u>11,310</u>	<u>13,618</u>	<u>11,310</u>

Trade accounts receivable are recorded at their amortized costs, which approximate their fair values.

The balance of current trade accounts receivable as at December 31, 2018 and 2017, parent and consolidated, is distributed as follows:

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	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Falling due	72,619	56,453	145,388	97,023
Past due:				
1 to 30 days	6,490	8,203	14,843	14,073
31 to 60 days	321	1,371	1,432	2,745
61 to 90 days	220	662	388	1,182
From 91 a 180 days	68	816	1,905	2,259
181 to 360 days	249	1,201	1,868	1,527
Over 360 days	2,462	2,754	7,797	6,717
	9,810	15,007	28,233	28,503
Total	82,429	71,460	173,621	125,526
Allowance for doubtful accounts	(423)	(1,101)	(5,408)	(5,223)
Total current	82,006	70,359	168,213	120,303

As at December 31, 2018, trade accounts receivable amounting to R\$9,379 (2017 – R\$ 13,906 - Parent) and R\$22,825 (2017 – R\$ 23,280 - Consolidated) were past due but not impaired. These accounts relate to a number of independent customers for whom there is no recent history of default or for which the Company does not have guarantees.

The balance of noncurrent trade accounts receivable as at December 31, 2018, parent and consolidated, is distributed as follows:

	Parent and Consolidated
Falling due:	
2020	10,110
2021	2,478
2022	473
Over 2022	565
Allowance for doubtful accounts	(8)
Total - non-current	13,618

Changes in allowance for doubtful accounts, parent and consolidated, are as follows:

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	Parent		Consolidated	
	2018	2017	2018	2017
Balance at January 1	1,102	2,774	5,224	5,658
Receivables recognized for the year	20	4,358	413	4,589
Receivables written off	(691)	(6,030)	(834)	(6,419)
Foreign exchange difference	-	-	605	1,396
Balance at December 31	<u>431</u>	<u>1,102</u>	<u>5,408</u>	<u>5,224</u>

The additions to and release of the provision for impaired receivables have been included in "General and administrative expenses".

The maximum exposure to credit risk as at the statement of financial position date is the carrying amount of each class of receivable mentioned above. The other receivables at the statement of financial position date do not contain impaired assets.

5 Onlending of FINAME manufacturer financing

	Parent and Consolidated	
	December 31, 2018	December 31, 2017
Current		
FINAME falling due	65,344	60,903
FINAME awaiting release (a)	1,944	1,635
FINAME past due (b)	27,005	36,174
	<u>94,293</u>	<u>98,712</u>
Allowance for doubtful accounts	<u>(6,811)</u>	<u>(10,598)</u>
	<u>87,482</u>	<u>88,114</u>
Non-current		
FINAME falling due	117,994	73,862
FINAME awaiting release (a)	10,713	6,540
	<u>128,707</u>	<u>80,402</u>
Allowance for doubtful accounts	<u>(123)</u>	<u>(583)</u>
	<u>128,584</u>	<u>79,819</u>
Total	<u>216,066</u>	<u>167,933</u>

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The item "Onlending of FINAME manufacturer financing" refers to sales to customers financed by funds from the Brazilian Development Bank ("BNDES") (Note 13) which are carried at their amortized costs, which approximate their fair values.

FINAME manufacturer is a line used by Romi with terms of up to 60 months with a grace period of up to six months, in accordance with the terms defined by the BNDES at the time of the financing.

The financing terms are also based on customer's characteristics. Funds are released by the BNDES on identification of a customer and sale, as well as checking that a customer has fulfilled the terms of Circular 195 dated July 28, 2006 issued by BNDES, through a financial agent, with the formalization of a financing agreement in the name of the Company and consent of the customer to be financed. The amounts, periods and charges of the transaction are fully reflected in the amounts to be received by the Company from the bank mediating the agreement to which the Company is the debtor. The Company retains title to the financed equipment until the final settlement of the obligation by the customer.

The differences between onlending of FINAME manufacturer financing receivables and payables include:

- (a) FINAME transactions awaiting release: refers to FINAME manufacturer financing transactions that meet the specified terms and have been approved by all parties involved. The preparation of documentation, the issue of the sales invoice, and the delivery of the equipment to the customer have all taken place. The crediting of the related funds to the Company's account by the agent bank is pending at the end of the reporting period, in view of the normal operating terms of the agent.
- (b) FINAME past due: refers to amounts receivable not settled by customers on their due dates. The Company records provision for possible losses on the realization of these balances, at the amount of the difference between the expected value of the sale of the collateral (machines) recovered through the enactment of covenant regarding reservation of title over the machinery sold (security interest) and the value of the receivables from defaulting customers. In instances in which the security interest cannot be located, a full loss provision is made for the balance of the receivable.

The machinery seized as part of the execution process are recorded at their carrying amount, not exceeding its fair value, under the category of "Other receivables", pending a final and unappealable court decision, after which it is repossessed and transferred to inventories. As at December 31, 2018, the balance of repossessed machinery, included under the line item of "Other receivables", parent and consolidated, amounted to R\$6,594 (R\$1,699 as at December 31, 2017) in current assets and R\$1,173 (R\$10,404 as at December 31, 2017) in noncurrent assets.

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As at December 31, 2018 and 2017, the balances of "Onlending of FINAME manufacturer financing", parent and consolidated, were as follows:

	December	Parent and Consolidated
	31,	December
	2018	31,
		2017
Falling due	67,288	62,538
Past due:		
1 to 30 days	914	1,496
31 to 60 days	565	1,082
61 to 90 days	473	885
91 to 180 days	1,208	2,718
181 to 360 days	2,883	4,579
Over 360 days	20,962	25,414
	<u>27,005</u>	<u>36,174</u>
Total - current	<u>94,293</u>	<u>98,712</u>

The expected realization of noncurrent receivables relating to the onlending of FINAME manufacturer financing, parent and consolidated, is as follows:

	Parent and Consolidated
Falling due:	
2020	56,857
2021	44,628
2022	24,025
2023 onward	3,197
Total - noncurrent	<u>128,707</u>

Changes in allowance for doubtful accounts, parent and Consolidated, are as follows:

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	<u>Parent and Consolidated</u>	<u>Parent and Consolidated</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Opening balance	11,181	13,540
Allowance recognized (or written off) for the year	(4,247)	(2,359)
Closing balance	<u>6,934</u>	<u>11,181</u>

The additions to and release of the provision for impaired receivables have been included in "General and administrative expenses".

The maximum exposure to credit risk as at the statement of financial position date is the carrying amount of each class of receivable mentioned above.

6 Inventory

	<u>Parent</u>		<u>Consolidated</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Finished products	22,160	27,389	69,696	56,620
Used machinery	12,271	16,501	12,271	16,501
Work in progress	61,388	57,515	85,183	88,709
Raw materials and components	105,233	58,806	129,571	77,499
Imports in transit	<u>2,081</u>	<u>2,306</u>	<u>3,826</u>	<u>2,562</u>
Total	<u>203,133</u>	<u>162,517</u>	<u>300,547</u>	<u>241,891</u>

The inventory balances, parent and consolidated, as at December 31, 2018 are net of R\$29,818 and R\$34,748 (R\$33,911 Parent and R\$35,325 Consolidated as at December 31, 2017), respectively, corresponding to the provision for slow-moving inventories and inventories posing a remote probability of being realized through sale or use.

The changes in the provision to bring inventories to their net realizable value, parent and consolidated, are as follows:

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	<u>Parent</u>	<u>Consolidated</u>
As at January 1, 2018	33,911	37,000
Inventory sold or written off	(18,299)	(18,915)
Provision recorded	7,836	7,836
Foreign exchange difference		2,457
Transfer of provision resulting from machines repossessed during the period	<u>6,370</u>	<u>6,370</u>
At December 31, 2018	<u><u>29,818</u></u>	<u><u>34,748</u></u>

The changes in the provision for inventory losses by class of inventory are as follows:

	<u>Parent</u>		<u>Consolidated</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Finished products	2,890	1,852	7,820	4,941
Used machines	9,488	14,542	9,488	14,542
Work in progress	4,859	4,520	4,859	4,520
Raw materials and components	<u>12,581</u>	<u>12,997</u>	<u>12,581</u>	<u>12,997</u>
Total	<u><u>29,818</u></u>	<u><u>33,911</u></u>	<u><u>34,748</u></u>	<u><u>37,000</u></u>

The cost of inventory recognized in the statement of profit or loss and included in "Cost of sales and services" amounted to R\$367,440 (2017 - R\$ 340,111) for the Parent, and R\$537,083 (2017 - R\$483,236) for the Consolidated.

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7 Investments in subsidiaries and associates

Company investments in its subsidiaries are as follows:

	Subsidiary	Country	Main activity
1.	Romi Itália S.r.l. ("Romi Italy")	Italy	Sale of machines for plastics and machine tools, spare parts and technical support.
1.1	Romi Machines UK Ltd.	United Kingdom	
1.2	Romi France SAS	France	
1.3	Romi Máquinas España S.A.	Spain	
2.	Romi Europa GmbH ("Romi Europe")	Germany	
2.1	Burkhardt + Weber Fertigungssysteme GmbH ("B+W")	Germany	Production and sale of large tooling machinery with high technology, precision and productivity, as well as machinery for specialized applications.
2.1.1	Burkhardt + Weber / Romi (Shanghai) Co., Ltd	China	Sale of machine tools produced by B+W and provision of services (spare parts and technical support).
2.1.2	Burkhardt + Weber LLC	United States of America	Sale of machine tools produced by B+W and provision of services (spare parts and technical support).
3.	Rominor Comércio, Empreendimentos e Participações S.A. ("Rominor")	Brazil	Real estate activity, including purchases and sales, lease of company-owned properties, exploration of real estate rights, intermediation of real estate businesses, and provisions of sureties and guarantees.
4.	Romi Machine Tools, Ltd. ("Romi Machine Tools")	United States of America	Sale of machine tools, spare parts, technical support and cast and machined products in North America.
5.	Rominor Empreendimentos Imobiliários S.A. (formerly named Romi Empreendimentos).	Brazil	Interest in real estate ventures.
6.	Romi A.L. S.A. ("Romi A.L.")	Uruguay	Sales representation for operations in the foreign market.
7.	Irsa Maquinas Mexico S. de R. L. de C.V. (formerly named Sandretto Mexico)	Mexico	Sale of machines for plastics and machine tools, spare parts and technical support.

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	at December 31, 2018							
	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor (3)	Romi Machine Tools (4)	Rominor Empreendimentos (5)	Romi A.L. (6)	IRSA Máq México (7)	Total
Investments:								
Number of shares held	(a)	(a)	6,191,156	3,000,000	78	13,028,000	1,188,000	
Ownership interest	100.0%	100.0%	93.1%	100.0%	100.0%	100.0%	100.0%	
Current assets	57,205	123,934	23,256	15,996	2,449	7,791	7,170	
Noncurrent assets	6,905	122,491	522	64	-	-	187	
Current liabilities	44,610	107,108	307	18,168	-	2	7,902	
Noncurrent liabilities	11,924	31,307	-	-	-	-	-	
Equity (equity deficit) of subsidiary	7,576	108,010	23,471	(2,108)	2,449	7,789	(545)	
Changes in investment:								
Investment balance as at December 31, 2017	6,274	101,671	20,566	(664)	2,405	6,137	674	137,063
Foreign exchange differences on foreign investments	505	11,802	-	(259)	-	1,131	(429)	12,750
Capital increase in subsidiary (b)	-	-	-	-	56	-	-	56
Dividends proposed and paid (c)	-	-	(2,060)	-	-	-	-	(2,060)
Equity pickup	797	(5,012)	3,339	(1,185)	(12)	521	(790)	(2,342)
Unrealized profit	-	(451)	-	-	-	-	-	(451)
Equivalent value - closing balance	7,576	108,010	21,845	(2,108)	2,449	7,789	(545)	145,016
Investment in subsidiaries	7,576	108,010	21,845	-	2,449	7,789	-	147,669
Provision for equity deficit of subsidiaries	-	-	-	(2,108)	-	-	(545)	(2,653)

(a) The subsidiaries' capital is not divided into units of interest or shares in their articles of organization.

(b) At the Board of Directors meeting held on October 23, 2018, a capital increase of the subsidiary Rominor Empreendimentos Imobiliários S.A. by R\$56 was approved. The capital increase was made through contribution of assets, appraised at book value.

(c) Payment of dividends by subsidiary ROMINOR, approved by the Board of Directors at the meeting held on February 6, 2018 and July 24, 2018, in the amount of R\$1,075 and R\$1,138, related to the second half of 2017 and the first half of 2018, respectively. From such payment, the Company received R\$1,001 and R\$1,059, respectively.

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	December 31, 2017							
	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor (3)	Romi Machine Tools (4)	Rominor Empreendimentos (5)	Romi A.L. (6)	IRSA Máq México (7)	Total
Investments:								
Number of shares held	(a)	(a)	6,191,156	3,000,000	78	13,028,000	1,188,000	
Ownership interest	100.0%	100.0%	93.1%	100.0%	100.0%	100.0%	100.0%	
Current assets	42,934	87,345	21,742	13,049	2,405	6,138	5,049	
Noncurrent assets	6,443	112,038	522	145	-	-	63	
Current liabilities	31,650	62,507	167	13,858	-	1	4,438	
Noncurrent liabilities	11,453	35,205	-	-	-	-	-	
Equity (equity deficit) of subsidiary	6,274	101,671	22,097	(664)	2,405	6,137	674	
Changes in investment:								
Investment balance as at December 31, 2016	5,566	85,025	21,093	1,530	2,423	5,747	1,121	122,505
Foreign exchange differences on foreign investments	505	12,593	-	(57)	-	(163)	412	13,290
Dividends proposed and paid (b)	-	-	(4,442)	-	-	-	-	(4,442)
Equity pickup	203	4,053	3,915	(2,137)	(18)	553	(859)	5,710
Equivalent value - closing balance	6,274	101,671	20,566	(664)	2,405	6,137	674	137,063
Investment in subsidiaries	6,274	101,671	20,566	-	2,405	6,137	674	137,727
Provision for equity deficit of subsidiaries	-	-	-	(664)	-	-	-	(664)

a) The subsidiaries' capital is not divided into units of interest or shares in their articles of organization.

b) Payment of dividends by subsidiary ROMINOR, approved on the following dates: (i) by the Annual General Meeting on February 7, 2017, in the amount of R\$1,643, related to the second half of 2016, and (ii) by the Board of Directors at the meeting held on July 25, 2017, in the amount of R\$3,130, related to the first half of 2017. From such payment, the Company received R\$4,442 (R\$1,529 related to 2016, as a complement of the mandatory minimum dividends and R\$2,913 in 2017 as additional dividends).

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	at December 31, 2018						
	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor (3)	Romi Machine Tools (4)	Romi Empreendimentos (5)	Romi A.L. (6)	IRSA Mág México (7)
Investments:							
Ownership interest	100%	100%	93.07%	100%	100%	100%	100%
Profit (loss) before taxation	797	(3,571)	4,673	(1,185)	(11)	521	(790)
Income tax and social contribution expense	-	(1,441)	(1,087)	-	(1)	-	-
Profit (loss) for the year	797	(5,012)	3,586	(1,185)	(12)	521	(790)
Company's share of profit (loss) for the year	797	(5,012)	3,339	(1,185)	(12)	521	(790)
Total comprehensive income							
Other comprehensive income	(145)	-	-	-	-	-	-
Total comprehensive income	652	(5,012)	3,339	(1,185)	(12)	521	(790)
Dividends paid to non-controlling interests	-	-	154	-	-	-	-
Dividends received from subsidiary	-	-	2,060	-	-	-	-

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	December 31, 2017						
	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor (3)	Romi Machine Tools (4)	Romi Empreendimentos (5)	Romi A.L. (6)	IRSA Máq México (7)
Investments:							
Ownership interest	100%	100%	93.07%	100%	100%	100%	100%
Profit (loss) before taxation	211	7,268	5,292	(2,137)	(17)	553	(929)
Income tax and social contribution expense	(8)	(3,215)	(1,087)	-	(1)	-	70
Profit (loss) for the year	203	4,053	4,205	(2,137)	(18)	553	(859)
Company's share of profit (loss) for the year	203	4,053	3,915	(2,137)	(18)	553	(859)
Total comprehensive income							
Other comprehensive income	(207)	-	-	-	-	-	-
Total comprehensive income	(4)	4,053	3,915	(2,137)	(18)	553	(859)
Dividends paid to non-controlling interests	-	-	331	-	-	-	-
Dividends received from subsidiary	-	-	4,442	-	-	-	-

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8 Related party transactions and balances

The balances and transactions with related parties as at December 31, 2018 and 2017 are as follows:

(i) Statement of financial position accounts – Parent

	Receivables		Payables	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Direct subsidiaries				
Romi Europe	783	3,217	263	175
Romi Italy	9,672	5,648	-	-
Romi Machine Tools	17,034	12,944	-	-
Romi A.L.	-	-	934	603
Irsa Máquinas Mexico	6,787	3,335	-	-
Rominor	-	4	-	-
Indirect subsidiaries				
B+W - Burkhardt+Weber	1,803	173	3,275	-
Romi France S.A.S.	7,393	5,855	-	-
Romi Máquinas España S.A.	3,464	2,896	-	-
Romi Machines UK	13,461	7,980	-	-
Total	60,397	42,052	4,472	778

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(ii) Transactions

	Sales revenue		Operating expense and finance income (expenses)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Romi Europe	4,180	3,194	1,328	1,305
Rominor Comércio	12	16	153	-
Romi Italy	11,674	7,607	329	329
Romi Machine Tools	7,655	7,101	-	-
Romi France S.A.S.	7,142	3,518	-	-
Romi A.L.	-	-	861	622
Romi Machines UK	12,881	6,167	-	-
Irsa Máquinas Mexico	4,180	1,059	14	-
B+W - Burkhardt + Weber	5,896	1,110	-	-
Romi Máquinas Espãna	1,044	982	-	-
Total	54,664	30,754	2,685	2,256

The main balances and transactions with the aforementioned related parties refer to trading transactions between the parent and its subsidiaries.

The Company entered into trading transactions with certain subsidiaries for the supply and purchase of equipment, parts and pieces, but it does not have material transactions with related parties other than those described above. Decisions regarding transactions between the parent and its subsidiaries are made by management. Trade notes mature in the short term.

The Company provides administrative services, mainly accounting and legal services, to the parent Fênix Empreendimentos S.A.. The revenue for 2018 was R\$148 (2017 – R\$ 152).

The Company makes donations to Romi Foundation at amounts set in the agreement approved by the State Prosecutor's Office. Donations in 2018 totaled R\$920 (2017 – R\$895).

Management compensation for the years ended December 31, 2018 and 2017 was as follows:

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	December 31, 2018	December 31, 2017
Fees and charges	5,098	4,933
Profit sharing	2,195	1,394
Private pension plan	234	209
Healthcare plan	224	182
Parent	7,751	6,718
Fees and charges of subsidiaries	95	97
Consolidated	7,846	6,815

The amounts shown above comply with the limits established by the Board of Directors and approved at the Annual General Meeting of Shareholders held on March 13, 2018.

9 Investment property

In 2012, the Company's management decided, based on the completion of the property register review and regularization, as well as the perspectives of short and medium-term expansion of operations, to classify certain property as "Investment Property" for future capital appreciation. The amounts classified as investment property are R\$13,500 (R\$13,500 – as at December 31, 2017) at the parent and R\$18,398 (R\$18,602 – as at December 31, 2017) in the consolidated financial statements.

The investment property is stated at historical cost, and for fair value disclosure purposes the Company contracted an independent expert, who applied a methodology accepted by the Brazilian Institute of Engineering Appraisals which also use market evidence related to transaction prices for similar property and assessed the fair value less cost to sell of that property at R\$44,982 for the parent and R\$139,764 for the consolidated financial statements.

On June 13, 2017, through its subsidiary ROMINOR Comércio, Empreendimentos e Participações S.A. ("Rominor"), in which the Company holds 93.07% of the shares, the Company entered into an agreement for purchase and sale of property with third parties, involving the sale of the property (land and buildings) owned by Rominor, with a total area of 1,540m², located in Curitiba-PR (BR), for R\$ 2,350. The proceeds from the sale were classified in the line item of other operating income, with an impact of R\$1,888 on operating income (expenses) and R\$1,821 on profit (loss) for the year.

On November 28, 2018 and December 21, 2018, through its subsidiary Rominor Comércio, the Company entered into an agreement for purchase and sale of property with third parties, involving the sale of the property (land and buildings) owned by Rominor, with a total area of 336m² and 866,7m², located in Manaus-AM (BR) and Contagem-MG (BR), for R\$420 and R\$1,200, respectively. Up to the issue date of these financial statements, R\$420 had been received and the remaining amount is classified in the line item of trade accounts receivable in current assets. The proceeds from the sale were classified in the line item of other operating income, with an impact of R\$1,276 on operating income (expenses) and R\$1,232 on profit (loss) for the year.

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10 Property, plant and equipment

Changes in property, plant and equipment, parent and consolidated, are as follows:

									Parent
	Land	Buildings and yards	Machinery and equipment	Furniture and fixtures	Vehicles	Information technology	Construction in progress	Advances and estimated losses	Total
Cost of property, plant and equipment, gross									
Balance at January 1, 2017	4,053	186,862	257,507	8,530	3,473	26,852	12,588	273	500,138
Additions	-	576	6,925	24	109	329	13,842	512	22,317
Disposals	-	-	(4,469)	(192)	(25)	(1,162)	(275)	-	(6,123)
Transfers	-	1,881	4,477	-	-	-	(5,763)	(868)	(273)
Balance at December 31, 2017	4,053	189,319	264,440	8,362	3,557	26,019	20,392	(83)	516,059
Additions	-	222	9,879	41	252	459	10,925	-	21,778
Disposals	(56)	-	(13,893)	(44)	(64)	(4)	-	-	(14,061)
Transfers	-	786	1,709	-	-	-	(2,495)	-	-
Balances at December 31, 2018	3,997	190,327	262,135	8,359	3,745	26,474	28,822	(83)	523,776
Accumulated depreciation									
Balance at January 1, 2017	-	84,536	186,341	7,463	2,673	25,403	-	-	306,416
Depreciation	-	9,188	13,132	267	223	578	-	-	23,388
Disposals	-	-	(3,221)	(190)	(25)	(1,161)	-	-	(4,596)
Balance at December 31, 2017	-	93,724	196,252	7,540	2,871	24,820	-	-	325,208
Depreciation	-	9,235	13,955	203	239	506	-	-	24,138
Disposals	-	-	(13,321)	(43)	(64)	(2)	-	-	(13,430)
Balances at December 31, 2018	-	102,959	196,886	7,700	3,046	25,324	-	-	335,916
Useful lives	-	25 and 10 years	10 and 15 years	10 years	5 years	5 years	-	-	
Property, plant and equipment, net									
Balance at January 1, 2017	4,053	102,326	71,166	1,067	800	1,449	12,588	273	193,722
Balance at December 31, 2017	4,053	95,595	68,188	822	686	1,199	20,392	(83)	190,850
Balances at December 31, 2018	3,997	87,368	65,249	659	699	1,150	28,822	(83)	187,860

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	Consolidated								
	Land	Buildings and yards	Machinery and equipment	Furniture and fixtures	Vehicles	Information technology	Construction in progress	Advances and estimated losses	Total
Cost of property, plant and equipment, gross									
Balance at January 1, 2017	21,276	224,003	287,466	17,445	4,759	30,601	12,588	273	598,411
Additions	-	873	7,902	583	176	682	18,704	512	29,432
Disposals	-	-	(4,471)	(218)	(113)	(1,449)	(1,229)	-	(7,480)
Transfers	(885)	1,715	4,477	-	-	-	(5,762)	(868)	(1,323)
Foreign exchange difference	2,518	3,685	1,336	651	56	97	183	-	8,526
Balance at December 31, 2017	22,909	230,276	296,710	18,461	4,878	29,931	24,484	(83)	627,566
Additions	-	239	11,088	1,064	410	722	11,356	-	24,879
Disposals	(56)	-	(13,913)	(77)	(64)	(196)	(482)	-	(14,788)
Unrealized profit	-	-	-	-	-	-	(451)	-	(451)
Transfers	-	786	1,709	-	-	-	(2,495)	-	-
Foreign exchange difference	2,271	3,462	971	461	70	75	279	-	7,588
Balances at December 31, 2018	25,124	234,763	296,565	19,909	5,294	30,532	32,691	(83)	644,795
Accumulated depreciation									
Balance at January 1, 2016	-	93,579	208,221	12,465	3,436	28,677	-	-	346,378
Depreciation	-	9,862	15,391	1,155	425	863	-	-	27,696
Disposals	-	-	(3,222)	(190)	(92)	(1,404)	-	-	(4,908)
Foreign exchange difference	-	110	225	88	12	27	-	-	462
Balance at December 31, 2017	-	103,551	220,615	13,517	3,781	28,163	-	-	369,627
Depreciation	-	10,357	16,645	1,490	446	761	-	-	29,699
Disposals	-	-	(13,340)	(43)	(64)	(177)	-	-	(13,624)
Foreign exchange difference	-	38	80	39	8	7	-	-	172
Balances at December 31, 2018	-	113,946	224,000	15,002	4,172	28,754	-	-	385,874
Useful lives	-	25 and 10 years	10 and 15 years	10 years	5 years	5 years	-	-	
Property, plant and equipment, net									
Balance at January 1, 2017	21,276	130,424	79,245	4,980	1,323	1,924	12,588	273	252,033
Balance at December 31, 2017	22,909	126,725	76,095	4,944	1,097	1,768	24,484	(83)	257,939
Balances at December 31, 2018	25,124	120,817	72,565	4,907	1,122	1,778	32,691	(83)	258,921

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Due to the financing agreements with the BNDES for investments in property, plant and equipment, the Company pledged as collateral machines and equipment amounting to R\$68,195 as at December 31, 2018 (R\$77,920 as at December 31, 2017). These items refer to land, facilities, machinery and equipment.

During the year, the Company reviewed the recoverable amounts of long-lived assets and no impairment losses were identified.

Of the amount of R\$24,138 (2017 - R\$23,388) related to depreciation expense, R\$19,814 (2017 - R\$18,846) was recognized in the statement of profit or loss in "Cost of sales and services", R\$1,072 (2017 - R\$1,132) in "Selling expenses", R\$ 3,161 (2017 - R\$3,366) in "General and administrative expenses", and R\$91 (2017 - R\$44) in "Research and development" – Parent.

Of the amount of R\$29,699 (2017 - R\$27,696) related to depreciation expense, R\$21,691 (2017 - R\$20,417) was recognized in the statement of profit or loss in "Cost of sales and services", R\$4,756 (2017 - R\$3,871) in "Selling expenses", R\$3,161 (2017 - R\$3,364) in "General and administrative expenses", and R\$91 (2017 - R\$44) in "Research and development" – Consolidated.

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11 Intangible assets

Changes in intangible assets are as follows:

	Parent				Consolidated						
	Assignment of rights	Technology	Other	Total	Assignment of rights	Technology	Customer relationship	Portfolio of customers	Trademarks	Other	Total
Gross cost											
Balance at January 1, 2017	3,417	-	5,198	8,615	3,417	16,484	16,727	2,893	18,076	5,198	62,795
Additions	-	497	155	652	-	4,959	-	-	-	787	5,746
Foreign exchange difference	-	-	-	-	-	2,541	2,579	446	2,786	561	8,913
Transfers	-	437	(437)	-	-	437	-	-	-	(437)	-
Balance at December 31, 2017	<u>3,417</u>	<u>934</u>	<u>4,916</u>	<u>9,267</u>	<u>3,417</u>	<u>24,421</u>	<u>19,306</u>	<u>3,339</u>	<u>20,862</u>	<u>6,109</u>	<u>77,454</u>
Additions	-	-	71	71	-	2,777	-	-	-	436	3,213
Foreign exchange difference	-	-	-	-	-	2,868	2,288	396	2,473	256	8,282
Transfers	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2018	<u>3,417</u>	<u>934</u>	<u>4,987</u>	<u>9,338</u>	<u>3,417</u>	<u>30,066</u>	<u>21,594</u>	<u>3,735</u>	<u>23,335</u>	<u>6,802</u>	<u>88,949</u>
Accumulated amortization											
Balance at January 1, 2017	3,417	-	4,439	7,856	3,417	5,089	4,110	2,893	-	4,439	19,948
Amortization	-	75	212	287	-	1,039	964	-	-	557	2,560
Foreign exchange difference	-	-	-	-	-	1,691	635	446	-	-	2,772
Balance at December 31, 2017	<u>3,417</u>	<u>75</u>	<u>4,651</u>	<u>8,143</u>	<u>3,417</u>	<u>7,819</u>	<u>5,709</u>	<u>3,339</u>	<u>-</u>	<u>4,996</u>	<u>25,280</u>
Amortization	-	101	215	316	-	2,007	1,078	-	-	502	3,587
Foreign exchange difference	-	-	-	-	-	977	676	396	-	52	2,100
Balances at December 31, 2018	<u>3,417</u>	<u>176</u>	<u>4,866</u>	<u>8,459</u>	<u>3,417</u>	<u>10,803</u>	<u>7,463</u>	<u>3,735</u>	<u>-</u>	<u>5,550</u>	<u>30,968</u>
Useful lives	5 years	5 years	5 years		5 years	5 years	5 years	1 year	Indefinite	5 years	
Intangible assets, net											
Balance at January 1, 2017	-	-	759	759	-	11,395	12,617	-	18,076	759	42,847
Balance at December 31, 2017	-	859	265	1,124	-	16,602	13,597	-	20,862	1,113	52,174
Balances at December 31, 2018	-	758	121	879	-	19,263	14,131	-	23,335	1,252	57,981

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On December 22, 2011, the Company approved the acquisition of all of the shares of B+W (Burkhardt + Weber Fertigungssysteme GmbH) through its direct subsidiary Romi Europa GmbH. Accordingly, at the acquisition date, the Company carried out the measurement and allocation of the purchase price, with the following nature and characteristics:

(a) Technology: refers to the know-how related to products and processes that are technologically feasible, and which assure competitive advantages in relation to the product quality and efficiency.

(b) Portfolio of customers: refers to customer sales orders outstanding as at the acquisition date.

(c) Customer relationships: refers to contractual rights arising from: (i) the history of customer relationships; (ii) the likelihood of occurrence of new business in the future.

According to management's assessment, conducted with the support of its consultants, through the application of procedures for measuring the useful life of trademarks, the useful lives of the trademarks were considered to be indefinite and, therefore, the trademarks will be assessed annually for impairment purposes, in accordance with the applicable accounting standards.

Of the amount of R\$316 (2017 - R\$287) related to amortization expense, R\$21 (2017 - R\$18) was recognized in the statement of profit or loss in "Cost of sales and services", R\$194 (2017 - R\$181) in "General and administrative expenses", and R\$101 (2017 - R\$88) in "Research and development" – Parent.

Of the amount of R\$3,587 (2017 - R\$2,560) related to amortization expense, R\$21 (2017 - R\$18) was recognized in the statement of profit or loss in "Cost of sales and services", R\$3,271 (2017 - R\$2,273) in "Selling expenses", R\$194 (2017 - R\$181) in "General and administrative expenses", and R\$101 (2017 - R\$88) in "Research and development" – Consolidated.

Impairment testing

The impairment testing is conducted considering the CGUs, which are the same as those of the reportable segments (Note 20) - Romi Machinery, Burkhardt + Weber Machinery and Cast and Machined Products.

The calculations of the recoverable amount of each CGU use pre-income tax and social contribution cash flow projections for ten years, which represent the economic useful life of the assets, discounted to present value at the rate of 11.8%. For the five subsequent years, the growth and inflation rates are in line with the macroeconomic projections from financial institutions with significant share in the Brazilian market.

As a result of the test applied, no impairment adjustment was necessary.

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12 Borrowings

Changes in borrowings, parent and consolidated, are as follows:

	<u>Current</u>		<u>Noncurrent</u>		<u>Maturity</u>	<u>Principal amortization</u>	<u>Financial charges</u>	<u>Collateral</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>				
Export financing - BNDES PSI	-	40,098	-	-	17/12/2018	Bullet payment/Monthly with a 13-month grace period	Rates of 11.00% p.a. (fixed rate) and 50% (4.26% and 4.71% p.a. + SELIC) + 50% (4.00% and 4.45% p.a. + TJLP)	Promissory note and surety of Rominor
Export financing - ACC (a)	46,771	-	-	-	06/12/2019	Export-to-maturity order application	Rates of 1.41% to 1.55% p.a. + foreign exchange difference	Surety of Rominor
Investment Support Program - BNDES (b)	5,570	9,233	17,071	28,017	16/01/2023	Quarterly/Monthly	Rates up to 4.00% p.a.	Collateral transfers of machinery and mortgages of buildings and land
Sundry FINAME	1,534	2,303	3,047	4,615	15/01/2024	Quarterly/Monthly	Rates of 3.50% to 10.53% p.a. + TLP	Collateral transfer of financed machinery/surety of Rominor/promissory notes
Import financing (FINIMP)	34,413	14,533	-	-	13/12/2019	Bullet payment	Rates of 1.62% p.a. to 3.40% p.a.	No collateral/Surety of Rominor
Finep URTJ-01 (c)	2,131	5,079	-	2,116	15/05/2019	Monthly	TJLP + 5.00% p.a. - Deducted 6,00%	Bank guarantee
Parent	90,419	71,246	20,118	34,748				
Burkhardt + Weber (B+W) - Technology center and administrative office construction financing - € (d)	-	-	11,320	12,318	30/06/2027	Quarterly	Quarterly 2.40% p.a.	Property, plant and equipment (buildi
Others - Working capital	12,128	2,924	-	-	-	-	-	N/A
Consolidated	102,547	74,170	31,438	47,066				

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(a) In September and December 2018, the Company's officers were authorized to contract financing from financial institutions amounting to R\$14,960 and R\$31,010, respectively. Through advance on export contracts (ACC) lines, with the purpose of supporting the operations growth in the foreign market, with rates of up to 2.5% p.a. plus foreign exchange difference, payment term of 12 months and collateral provided by the subsidiary Rominor Comércio.

(b) In December 2014 the Company's officers were authorized to contract a financing from BNDES amounting to R\$35,631, with the purpose of development of new products and production of domestic prototypes in 2015 and 2016, with rate of 4.00% p.a., a grace period of 23 months, and a payment term of 96 months (including the grace period). This agreement contained the following covenants related to compliance with contractual obligations:

(i) Audited Consolidated Financial Ratio: (Equity/Total Assets) higher than or equal to 0.40

(ii) Audited Consolidated Financial Ratio: (Total Net Debt/Total Liabilities) lower than or equal to 0.25

As at December 31, 2018, the Company complied with all the covenants of the above item.

(c) Agreement entered into between the Company and FINEP on May 15, 2014, for the development of a pilot flexible manufacturing system for machining of machine tool frames to reduce the set up and machining time and the delivery time of its products.

(d) On July 5, 2012, Burkhardt + Weber entered into a Financing Agreement with Commerzbank in Reutlingen (Germany) in the amount of R\$9,361 (equivalent to € 3.6 million), which is supported by KfW Bank (Kredit-anstalt für Wiederaufbau), with quarterly installments beginning on September 30, 2014 and ending on June 30, 2027 (15 years). The amount disbursed is intended solely for the construction of the research and development facilities and support activities such as supplies and sales. The financing has a grace period of 24 months and fixed interest of 2.4% p.a., due quarterly, including during the grace period. There are no clauses stipulating compliance with financial ratios.

The maturities of financing recorded in noncurrent liabilities as at December 31, 2018, in the parent and consolidated, were as follows:

	<u>Parent</u>	<u>Consolidated</u>
2020	6,652	10,459
2021	6,393	7,770
2022	6,130	7,359
2023	906	2,132
2024 onward	37	3,718
Total	<u>20,118</u>	<u>31,438</u>

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13 FINAME manufacturer financing

	Parent and consolidated	
	December 31, 2018	December 31, 2017
Current		
FINAME manufacturer financing	63,326	55,463
Noncurrent		
FINAME manufacturer financing	116,278	72,770
Total	179,604	128,233

The agreements related to FINAME manufacturer financing are guaranteed by promissory notes and sureties, and the main guarantor is the subsidiary Rominor. Balances are directly related to the balances of "Onlending of FINAME manufacturer financing" (Note 5), considering that the loans are directly linked to sales to specific customers. The contractual terms related to the amounts, charges and periods financed under the program are on-lent in full to the financed customers and amounts received on a monthly basis under the line item "Amounts receivable - onlending of FINAME manufacturer financing" are fully used for the repayment of the related financing agreements. The Company, therefore, acts as an agent for the financing, but remains as the main debtor in these transaction.

The balances of the line item "FINAME manufacturer financing" and, consequently, of the line item "Onlending of FINAME manufacturer financing" as at December 31, 2018 and December 31, 2017, were adjusted for inflation through the end of the reporting period. The difference of R\$36,462 between these line items as at December 31, 2018 (R\$39,700 as at December 31, 2017) refers to past-due trade notes, renegotiations in progress, and FINAME transactions not yet released by the agent bank. Management understands that there are no risks to the realization of these receivables since the amounts are collateralized by the financed machinery.

The noncurrent maturities of the FINAME manufacturer financing as at December 31, 2018, parent and consolidated, were as follows:

	Parent and Consolidated
2020	52,189
2021	41,202
2022	20,648
2023 onward	2,239
Total	116,278

The fair value of the FINAME manufacturing financing is equal to the carrying amount, as the impact of discounting is not significant.

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14 Provision for tax, labor and civil risks

The Company's management, based on the opinion of legal counsel, classified the legal proceedings in accordance with the likelihood of loss, as follows:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Tax	57,916	53,805	57,916	54,598
Civil	332	1,986	332	1,986
Labor	3,039	3,383	3,039	3,383
(-) Judicial deposits / other receivables	(57,334)	(53,399)	(57,334)	(53,399)
Total	3,953	5,775	3,953	6,568
Current liabilities	1,853	5,007	1,853	5,007
Noncurrent liabilities	2,100	768	2,100	1,561
	3,953	5,775	3,953	6,568

The balance of legal proceedings recognized in current liabilities is shown in the line items "Payroll and related taxes" and "Other payables".

Based on the opinion of legal counsel, Company management classified the tax, civil and labor proceedings involving risks of loss classified by management as possible, for which no provision was recognized as follows:

	December 31, 2018	December 31, 2017
Tax		
Offsetting of IRPJ - 2002 and 2003	1,267	1,267
Excess of IRPJ and CSLL on interest on capital	32,456	31,341
Civil		
Losses and damages	6,806	3,270
Labor	3,349	3,302
Total	43,878	39,180

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For legal proceedings classified as probable losses and legal obligations for which unconstitutionality is being challenged at court, Management recognized a provision for any liabilities and payables. Changes in the provision for the year ended December 31, 2018 are as follows:

	December 31, 2017	Additions	Utilizations/ reversals	Monetary restatement	December 31, 2018
Tax	53,805	4,129	(32)	14	57,916
Civil	1,986	35	(1,804)	115	332
Labor	3,383	888	(1,915)	683	3,039
(-) Judicial deposits / other receivables	(53,399)	(3,935)	-	-	(57,334)
Total Parent	5,775	1,117	(3,751)	812	3,953
Proceedings in subsidiaries	793	-	(840)	47	-
Total Consolidated	6,568	1,117	(4,591)	859	3,953

(a) Tax proceedings

Refer to the provisions for:

- (i) Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) related to State VAT (ICMS) on sales, which amounted to R\$10,322 (R\$9,585 as at December 31, 2017) and R\$47,543 (R\$44,151 as at December 31, 2017), respectively. As at December 31, 2018, the amount of R\$531 was classified in "Taxes payable" and will be reclassified to "Judicial deposits" upon payment.

On October 24, 2006, the Company filed a common civil action challenging the constitutionality of the inclusion of ICMS on sales in the PIS and COFINS tax base. On March 15, 2017, when judging Extraordinary Appeal No. 574.706/PR, regarding the general repercussion effect, the Federal Supreme Court (STF), by majority of votes, decided that the ICMS is not to be included in the PIS and COFINS tax bases since it is intended to the State and, therefore, is not included in the concept of revenue. However, on October 19, 2017, the National Treasury Attorney General's Office (PGFN) filed Motions to Clarify in view of the Court Decision published on October 2, 2017 by the STF. In this motion, PGNF requests the correction of alleged errors in the Court Decision. The most significant ones are as follows: (i) modulation of judgment effects (ii) lack of clarity on the ICMS to be excluded (whether the tax calculated or paid), which reflects on the determination of tax credit to be recovered as well as the future exclusion procedure; and (iii) material error regarding the analysis of gross and net revenue concepts brought by Law 6,404/76. To the date of this report, the motions to clarify were pending analysis by the STF. In view of these facts, based on the opinion of its legal counsel, supported by external opinions of legal experts,

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which reinforce that in a proceeding of great economic and financial repercussion there was a modulation without evidencing the proceeding in which the matter was being discussed, management, also supported by the opinion of a professional reference in the accounting area, believes that it is more likely than not that, because of the modulation, there will be an outflow of resources. Therefore, grounded on the clarifications and guidelines brought by the regulatory agency in the OFÍCIO-CIRCULAR/CVM/SNC/SEP/No. 01/2019, item 12, of January 11, 2019, management decided to maintain the present obligation arising from past events in the financial statements. At the moment there is any new fact that changes management's understanding regarding the likelihood of a future outflow of resources, it will recognize the accounting impacts in the financial statements for the period in which the fact occurs. As the Company elected to make judicial deposits for this proceeding, in the event the final decision is unfavorable, the monetary restatement of the aforementioned amounts will have no impact on the profit for the year and on the cash flow. As at December 31, 2018, the amount recognized in the financial statements as payables for tax risks, in noncurrent liabilities, was R\$57,865 (R\$53,736 as at December 31, 2017), and the Company made judicial deposits for such proceeding that, as at that date, amounted to R\$48,247 (R\$46,741 as at December 31, 2017).

At the end of the reporting period, Management's best estimate of the restated amount of this proceeding was R\$94,629, of which R\$85,306 related to judicial deposits and R\$9,323 to tax credits.

- (ii) The other tax proceedings total R\$51 (R\$70 as at December 31, 2017).

(b) Tax proceedings (Summer Plan)

In 2017, the Company obtained a favorable outcome in the proceeding in which the Company was the plaintiff and the Federal Government is the defendant, which claims for the right to monetarily restate the statement of financial position for the calendar year 1989 by reference to the inflation for January and February of that year and to dismiss the inflation indexes of the legislation then in force (Summer Plan). On September 6, 2017, the Company filed a request with the Federal Revenue Office for use of the respective credit. On April 9, 2018, the Federal Revenue Office approved the request regarding this credit, authorizing the Company to utilize it to offset future federal taxes. The Company recognized in the financial statements of 2Q18 the effects from the favorable outcome on the tax proceeding "Summer Plan", which impacted the profit or loss in 2Q18 as follows: (i) EBITDA: reduced by R\$1,623, due to the recognition of attorney's fees, in line item "Other operating income (expenses), net"; (ii) finance income (costs): increased by R\$32,115, due to the monetary restatement of the original amount of the credits; (iii) income tax and social contribution: increased by R\$10,740, regarding the original amount of the credits; and (iv) profit for the year: increased by the impact from the net gain of R\$40,073, already including the effects of income tax and social contribution on the gain, which was reduced by the use of the interest on capital, proposed in April 2018, as per the Shareholder Notice dated April 17, 2018.

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(c) Civil proceedings

These refer to civil proceedings in which the Company is the defendant related mainly to the following claims: (i) revision/termination of contracts; (ii) damages; and (iii) annulment of protest of notes with losses and damages, among others.

(d) Labor claims

The Company has recorded a provision for contingencies for labor claims in which it is the defendant, the main causes are as follows: (i) additional overtime due to reduction of lunch break; (ii) health hazard premium/hazardous duty premium; (iii) stability prior to retirement; (iv) damages for work-related accident/disease; and (v) jointly liability over outsourced companies, among others.

The tax, civil and labor proceedings assessed as representing possible losses involve matters similar to those above. The Company management believes that the outcomes of ongoing legal proceedings shall not result in disbursements higher than those recognized in the provision. The amounts involved do not qualify as legal obligations.

(d) Judicial deposits

The Company has judicial deposits amounting to R\$50,357 (2017 – R\$48,799), of which R\$ 48,247 (2017 - R\$46,741) refers to PIS and COFINS levied on ICMS on sales, as mentioned in item (a) (i) and the other deposits are of different nature and classified in noncurrent assets.

15 Income tax and social contribution

Income tax is calculated at the rate of 15% on the taxable profits plus a 10% surtax on taxable profit exceeding R\$240, and social contribution is calculated at the rate of 9% on taxable profits, except for subsidiaries Rominor and Rominor Empreendimentos, which pay income tax and social contribution based on a percentage of gross revenue.

The reconciliation of the tax effect on the Company's profit (loss) before income tax and social contribution through application of the prevailing tax rates as at December 31, 2018 and 2017 is as follows:

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	Parent		Consolidated	
	2018	2017	2018	2017
Profit before income tax and social contribution	87,226	51,491	87,169	55,093
Statutory rate (income tax and social contribution)	34%	34%	34%	34%
Income tax and social contribution expense at statutory rates	(29,657)	(17,507)	(29,637)	(18,732)
Reconciliation to the effective rate:				
Interest on capital	15,864	1,710	15,864	1,710
IR/CSLL Tax proceedings (Summer Plan)	10,740	-	10,740	-
Research and development	3,000	2,544	3,000	2,544
Transfer pricing	(1,730)	(2,118)	(1,730)	(2,118)
Equity pickup	(950)	1,941	-	-
Unrecorded deferred income tax and social contribution at subsidiaries	-	-	(1,736)	(1,265)
Management profit sharing	(606)	(474)	(606)	(474)
Other additions (deductions), net	114	75	1,186	1,196
Current and deferred income tax and social contribution income (expense)	(3,225)	(13,829)	(2,919)	(17,139)

- (i) The amount in the Consolidated financial statements refers basically to the difference in the calculation of income tax and social contribution between taxable profit based on accounting records < *lucro real* > and profit computed as a percentage of the Company's gross revenue < *lucro presumido* >, due to the fact that the subsidiary Rominor opted to calculate tax based on *lucro presumido* in the years presented.

The breakdown of income tax and social contribution income (expense) is as follows:

	Parent		Consolidated	
	2018	2017	2018	2017
Current	2,606	(7,023)	(1,681)	(13,192)
Deferred	(5,831)	(6,806)	(1,238)	(3,947)
Total	(3,225)	(13,829)	(2,919)	(17,139)

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	2018				2017			
	Temporary differences	Income tax	Social contribution	Total	Temporary differences	Income tax	Social contribution	Total
Assets (i):								
Inventories – provision for losses	31,863	7,956	2,868	10,824	56,551	9,129	3,290	12,419
Repossession of machinery	1,874	468	169	637	2,898	724	261	985
Tax loss	59,607	11,353	5,216	16,569	68,834	13,785	6,047	19,832
Investments	263	66	24	90	452	113	41	154
Discount to present value - trade receivables and trade payables	1,607	401	145	546	1,575	393	142	535
Provision for tax, labor and civil risks	61,287	15,307	308	15,615	59,174	14,780	489	15,269
Contingent commissions	713	178	64	242	814	203	73	276
Management profit sharing	2,195	-	198	198	1,551	-	140	140
Other temporary differences in assets	1,854	463	167	630	3,587	896	323	1,219
Deferred income tax and social contribution, net - parent and consolidated	161,263	36,192	9,159	45,351	195,436	40,023	10,806	50,829
Liabilities (ii):								
Temporarily non-deductible differences in liabilities:								
Write-off of subsidiary Rominor's negative goodwill	4,563	1,025	378	1,403	4,563	1,025	378	1,403
Deferred income tax and social contribution asset - consolidated	156,700	35,167	8,781	43,948	190,873	38,998	10,428	49,426
Write-off of negative goodwill on acquisition of subsidiary (ii)	19,029	11,799	-	11,799	19,029	10,549	-	10,549
Goodwill on the acquisition of Burkhardt + Weber (B+W)	68,622	19,987	-	19,987	63,789	19,336	-	19,336
Deferred income tax and social contribution liability - consolidated	87,651	31,786	-	31,786	82,818	29,885	-	29,885

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- (i) The recorded deferred tax assets are limited to the amounts for which the utilization is supported by future taxable profit projections, which do not exceed ten years, based on management's best judgment and expectations. Future taxable profit projections include estimates related to the performance of the Brazilian and global economies, the selection of foreign exchange rates, sales volumes and prices, tax rates, etc., which may differ from the actual amounts. As the income tax and social contribution results depend not only on the taxable profits, but also on the Company's and its Brazilian and foreign subsidiaries' tax and corporate structure, the expected realization of temporarily non-deductible differences, the existence of non-taxable income, non-deductible expenses, and several other variables, there is no direct correlation between the Company's and its subsidiaries' profit and the actual income tax and social contribution payable. Accordingly, changes in the realization of temporarily non-deductible differences should not be considered indicative of the future earnings of the Company and its subsidiaries.
- (ii) Income tax and social contribution liabilities refer to the write-off of negative goodwill, recognized in accordance with the accounting practices adopted in Brazil, arising on the acquisitions of the subsidiaries Rominor and Romi Italy, as part of the adoption of CPCs. Taxes payable on gains arising from the write-off of negative goodwill will be recognized in profit or loss when the negative goodwill is realized, which will occur when the investment is sold or liquidated.

As at December 31, 2018, the expected realization of deferred income tax and social contribution, recorded in noncurrent assets, parent and consolidated, was as follows:

	Parent and Consolidated
2019	9,626
2020	11,971
2021	5,792
2022 onward	<u>16,559</u>
Total	<u><u>43,948</u></u>

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Breakdown of and changes in deferred income tax and social contribution:

	<u>Asset</u>		<u>Liability</u>
	<u>Parent</u>	<u>Consolidated</u>	<u>Consolidated</u>
Balance at December 31, 2017	49,426	49,426	29,885
Changes in the year			
Additions	1,101	2,076	-
Realization	(6,932)	(6,932)	(772)
Foreign exchange difference		(622)	2,673
At December 31, 2018	<u>43,595</u>	<u>43,948</u>	<u>31,786</u>

16 Equity

Capital

As at December 31, 2018 and 2017, the Company's subscribed and paid-up capital amounting to R\$492,025 is represented by 62,857,647 book-entry, registered common shares, without par value, all with the same rights and benefits.

Income reserve

a) Legal reserve

As required by Article 193 of Law 6,404/76, the balance of the line item "Legal reserve" is equivalent to 5% of the profit for the year, limited to 20% of the share capital.

b) Retained earnings reserve

The financial statements for the year ended December 31, 2018 were submitted for analysis at the Board of Directors' meeting held on February 12, 2019 and the proposal for profit allocation will be submitted for approval at the Annual Shareholders' Meeting to be held on March 19, 2019. The Company distributed, in relation to the profit for the year, the amount of R\$42,743. The excess amount not distributed (R\$41,258) will be incorporated into the reserve balance, totaling R\$75,332.

Dividends

The Company's bylaws provide for the payment of a minimum dividend of 25% of profit for the year adjusted as set forth by the Corporate Law. Management's proposal for the distribution of dividends and the recognition of income reserve submitted to the Annual Shareholders' Meeting is as follows:

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	<u>2018</u>	<u>2017</u>
Adjusted profit for the year	84,001	37,662
(-) Recognition of legal reserve	<u>(4,200)</u>	<u>(1,883)</u>
Profit available for distribution	79,801	35,779
Interest on capital paid	<u>(42,743)</u>	<u>(8,945)</u>
Recognition of income reserve	<u>37,058</u>	<u>26,834</u>

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of outstanding common shares in the year, excluding common shares purchased by the parent and held as treasury shares.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Profit for the year attributable to the controlling shareholders	84,001	37,662
Weighted average number of shares outstanding in the year (in thousands)	<u>62,858</u>	<u>62,858</u>
Basic and diluted earnings per share	<u>1.34</u>	<u>0.60</u>

Basic and diluted earnings per share are the same, since the Company does not have any instruments diluting the earnings per share.

17 Pension plan

The Company has a defined contribution pension plan managed by an authorized pension plan entity, effective since October 1, 2000, for all its employees and management, which are referred to as "Plano Gerador de Benefício Livre – PGBL", classified as a defined contribution (DC) plan.

The nature of the plan allows the Company, at any time and at its sole and exclusive discretion, to suspend or permanently discontinue its contributions to the plan.

The plan is funded by the Company and its participants, according to the type of benefit for which they are eligible.

The amount of contributions made by the Company in the year ended December 31, 2018 was R\$906 (R\$913 in the year ended December 31, 2017). The amount incurred on the private pension plan was recorded in the statements for the years ended December 31, 2018 and 2017 in the line items "Cost of sales and services", "Selling expenses" and "General and administrative expenses", based on the reference cost center of each employee.

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18 Insurance

The insured amounts are determined and contracted on a technical basis and are considered sufficient to cover potential losses arising from permanent assets and inventory.

As at December 31, 2018, the insurance coverage for fire, windstorm, electrical damages and theft was comprised as follows: (i) buildings - R\$150,844; (ii) machines and equipment - R\$322,935; (iii) inventory and machines pending repossession - R\$208,137; (iv) construction works - R\$14,789; (v) assets held by third parties – R\$7,177 and (vi) others – R\$1,211.

19 Financial instruments and operating risks

(a) General considerations

The Company enters into transactions with financial instruments whose risks are managed by means of financial position strategies and risk exposure limits. All transactions are recognized in the accounting records and restricted to the instruments listed below:

- Cash and cash equivalents: carried at amortized cost plus income earned through the end of the reporting period, which approximate their fair values.
- Trade accounts receivable and receivables – onlending of FINAME manufacturer financing: commented on and presented in Notes 4 and 5.
- Borrowings and FINAME manufacturer financing: commented on and presented in Notes 12 and 13.

The Company believes that the other financial instruments, such as payables of related parties, which are recognized in the financial statements at their carrying amounts, are substantially similar to those which would have been obtained if they were traded in the market. However, as there is no active market for these instruments, there may be differences if the Company decides to settle them in advance.

(b) Risk factors that may affect the Company's business

Commodity price risk: related to the possibility of fluctuations in the prices of the products sold by the Company, or of the raw materials and other inputs used in its production process. Sales revenues and mainly the cost of sales and services affected by fluctuations in the international prices of its products or raw materials may change. In order to minimize this risk, the Company constantly monitors price fluctuations in the domestic and foreign markets.

Interest rate risk: arises from the possibility of the Company incurring losses (or earning gains) due to fluctuations in the interest rates charged on the Company's assets or liabilities obtained in the market. In order to mitigate the possible impact resulting from interest rate fluctuations, the Company has a diversification policy, alternating between fixed rates and floating rates (such as LIBOR and CDI), and periodically renegotiates its contracts to adjust them to the market.

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Exchange rate risk: arises from the possibility of fluctuations in exchange rates affecting finance costs or income and the liability or asset balances of contracts denominated in a foreign currency. In addition to receivables arising from exports from Brazil and investments abroad, which form a natural hedge against currency fluctuations, the Company assesses its exchange exposure.

The Company has financial instruments pegged to the US Dollar and the Euro. The instruments exposed to foreign exchange difference are represented by trade accounts receivable, direct investments, export financing and trade accounts payable.

Credit risk: arises from the possibility of the Company and its subsidiaries not receiving amounts generated by sales transactions or receivables from financial institutions generated by financial investments.

Quality of credit: due to its customer portfolio and the fact that these customers do not have a risk rating granted by rating agencies, the Company and its subsidiaries adopt as policy a detailed analysis of the financial situation of its customers, the establishment of a credit limit and the ongoing monitoring of its debt balance. In addition, collateral is required from customers for all FINAME manufacturer financing transactions. No credit limit was exceeded during the year, and management does not expect any loss as a result of the defaults of these counterparties being higher than the amounts already accrued.

In relation to financial investments, the Company carries out transactions only with financial institutions with a low level of credit risk. Additionally, each financial institution has a maximum investment balance limit determined by the Company's management.

Liquidity risk: the Company's debt and cash management policy provides for the use of credit facilities, whether or not backed by export receivables, to manage the appropriate levels of short, medium and long-term liquidity. The maturity date of the non-current portion of the borrowings are presented in Notes 12 and 13.

The table below divides the Company's financial liabilities into the relevant maturity groupings based on the remaining period to maturity as at the statement of financial position date. The amounts disclosed in the table represent the contractual undiscounted cash flow. The balances due within 12 months are equal to the balances to be carried forward as the impact of discounting is not significant.

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	<u>Consolidated:</u>			
	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Between two and five years</u>	<u>Over five years</u>
As at December 31, 2018				
Borrowings	102,547	10,459	17,261	3,718
Trade payables	44,261			
As at December 31, 2017				
Borrowings	74,170	13,234	32,887	945
Trade payables	33,802			

Risk related to FINAME manufacturer financing transactions: liabilities related to FINAME manufacturer transactions are backed by the balances of the line item “Onlending of FINAME manufacturer financing”. In turn, the equipment related to these receivables is sold with the Company's retention of title registered at the notary's office in order to reduce the risk of loss.

Capital management risk: the Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure, including its debt-to-equity ratio, net of cash and cash equivalents, observing the approval levels and indebtedness limits established and approved by the Board of Directors, as follows. These limits are periodically reviewed by the Board of Directors.

	<u>Parent</u>		<u>Consolidated</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Total borrowings	290,141	234,227	313,589	249,469
(-) Cash and cash equivalents (Note 3)	(67,284)	(66,634)	(100,428)	(102,510)
(-) Financial investments (Note 3)	(489)	(16,842)	(489)	(16,842)
Finame manufacturer financing (Note 5)	(216,066)	(167,751)	(216,066)	(167,751)
Net debt	6,302	(17,000)	(3,394)	(37,634)
Total equity	695,977	641,969	695,977	641,969
Total capital	702,279	624,969	692,583	604,335
Gearing ratio - %	0.9%	-2.7%	-0.5%	-6.2%

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Additional sensitivity analysis required by the CVM

(i) Exchange rate fluctuations

Exchange rate fluctuations may positively or adversely affect the financial statements due to an increase or decrease in the balances of trade payables to suppliers of imported components, in trade receivables from export customers, and in borrowings denominated in foreign currency.

As at December 31, 2018, the foreign currency denominated balances were subject to foreign exchange difference. Assets and liabilities exposed to exchange rate fluctuations recognized in the statement of financial position are as follows:

	<u>Parent</u>
Cash and cash equivalents	2,325
Trade accounts receivable	11,844
Receivables from related parties	60,177
Payables to related parties	(1,160)
Borrowings	(34,119)
Trade accounts payable	(4,464)
	<hr/>
Net asset exposure	<u>34,603</u>

Presented below is the loss that would have been recognized in profit (loss) for the year ended December 31, 2018 according to the following scenarios:

	<u>Parent</u>		
	<u>Probable scenario</u>	<u>Scenario II</u>	<u>Scenario III</u>
Net asset exposure	33,104	41,380	49,656

The probable scenario considers future US Dollar and Euro rates, based on quotations obtained from the Brazilian Central Bank, considering the average quotation projected for 2017. Scenarios II and III project an increase in exchange rates of 25% and 50%, respectively. The probable scenarios, II and III, are being presented in conformity with CVM Instruction 475/08. Management uses the probable scenario in the assessment of possible changes in exchange rates and presents such scenario in compliance with IFRS 7 – “Financial Instruments: Disclosure”.

(ii) Interest rate fluctuations

Financial income from financial investments and the financial expenses on borrowing are impacted by changes in interest rates, such as the CDI, TLP and the CDI.

As at December 31, 2018, three scenarios covering an increase or decrease in interest rates were estimated. The exposure to interest rate risk of the transactions linked to the CDI and TLP variation is as follows.

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	<u>Parent</u>	<u>Consolidated</u>
Total cash and cash equivalents linked to CDI	64,722	76,895
Total borrowings linked to TLP	<u>6,712</u>	<u>6,712</u>
Net asset exposure	<u><u>71,434</u></u>	<u><u>83,607</u></u>

The sensitivity analysis considers the exposure of borrowings linked to TLP, net of financial investments, indexed to CDI.

The tables below show the incremental gain (loss) that would have been recognized in profit (loss) for the year ended December 31, 2018 according to the following scenarios:

	<u>Parent</u>		
	<u>Probable scenario</u>	<u>Scenario II</u>	<u>Scenario III</u>
Net asset exposure	4,682	5,853	7,023

	<u>Consolidated</u>		
	<u>Probable scenario</u>	<u>Scenario II</u>	<u>Scenario III</u>
Net asset exposure	5,474	6,843	8,211

The probable scenario considers the future interest rates according to quotations obtained from B3 – Brasil, Bolsa, Balcão, considering the rates projected for March 31, 2019. Scenarios I and II consider a decrease in interest rates of 50% and 25%, respectively.

As the FINAME manufacturer financing is specifically linked to sales transactions payable to the Company, but whose interest rates, under the FINAME manufacturer system rules, are fully passed on to customers, the Company understands that there is no financial impact on profits arising from fluctuations in this financing interest rate.

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(c) Financial instruments by category

The main financial assets and liabilities, parent and consolidated, are shown below:

	Parent		Consolidated	
	2018	2017	2018	2017
Loans and receivables:				
Cash and cash equivalents	67,284	66,634	100,428	102,510
Financial investments	489	16,842	489	16,842
Trade accounts receivable	95,624	81,669	181,831	131,613
Onlending of FINAME manufacturer financing	216,066	167,933	216,066	167,933
Related parties	60,397	42,052	-	-
Other receivables, except advances and machines pending repossession	475	5,426	3,155	7,875
Judicial deposits	2,110	2,057	2,110	2,057
Financial liabilities at amortized cost:				
Borrowings	110,537	105,994	133,985	121,236
FINAME manufacturer financing	179,604	128,233	179,604	128,233
Trade payables	26,853	27,405	44,261	33,802
Other payables	2,978	5,802	20,272	16,649
Related parties	4,472	778	-	-

The fair values of the financial instruments approximate their carrying amounts.

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20 Segment reporting - Consolidated

To manage its business, the Company is organized into three business units on which the Company reports its primary information by segment, namely: Romi Machinery, Burkhardt+Weber Machinery and Cast and Machined Products. The information for the year ended December 31, 2018 was prepared and is being presented on a comparative basis with the year ended December 31, 2017, according to the Company's new segments:

	December 31, 2018				
	Máquinas Romi	Burkhardt + Weber Machinery	Cast and machined products	Eliminations between segments	Consolidated
Net operating revenue	366,017	200,832	176,613		743,462
Cost of sales and services	(193,326)	(167,234)	(176,523)		(537,083)
Transfers remitted	3,130	-	25,655	(28,785)	-
Transfers received	(25,654)	-	(3,130)	28,784	-
Gross profit	150,167	33,598	22,615	-	206,379
Operating (expenses) income:					
Selling expenses	(59,991)	(14,927)	(4,883)		(79,801)
General and administrative expenses	(24,176)	(23,203)	(11,921)		(59,300)
Research and development	(17,379)	-	-		(17,379)
Management fees	(4,335)	-	(3,511)		(7,846)
Other revenues net	3,995	-	-		3,995
Profit (loss) before finance income (costs)	48,281	(4,532)	2,300		46,048
Inventories	220,300	51,668	28,579		300,547
Depreciation and amortization	12,386	8,321	12,579		33,286
Property, plant and equipment, net	132,252	14,579	112,090		258,921
Intangible assets	859	57,102	20		57,981
	Europe	Latin America	North America	Asia	Total
Net operating revenue by geographic region	187,002	444,055	23,138	89,267	743,462

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	December 31, 2017				
	Máquinas Romi	Burkhardt + Weber Machinery	Cast and machined products	Eliminations between segments	Consolidated
Net operating revenue	292,633	165,980	214,260		672,873
Cost of sales and services	(176,602)	(128,925)	(177,708)		(483,236)
Transfers remitted	5,017	-	16,226	(21,243)	-
Transfers received	(16,225)	-	(5,017)	21,242	-
Gross profit	104,822	37,055	47,762	-	189,637
Operating (expenses) income:					
Selling expenses	(49,400)	(12,241)	(6,095)		(67,736)
General and administrative expenses	(20,667)	(16,790)	(14,686)		(52,143)
Research and development	(16,772)	-	-		(16,772)
Management fees	(3,152)	-	(3,663)		(6,815)
Other income (expenses), net	5,094	-	-		5,094
Profit (loss) before finance income (costs)	19,924	8,024	23,318		51,265
Inventories	152,377	66,539	22,975		241,891
Depreciation and amortization	12,445	6,004	11,806		30,255
Property, plant and equipment, net	92,008	60,729	105,202		257,939
Intangible assets	1,124	51,050	-		52,174
	Europe	Latin America	North America	Asia	Total
Net operating revenue by geographic region	166,419	419,110	23,759	63,585	672,873

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Notes to the financial statements at December 31, 2018 In thousands of Reais, unless otherwise stated

21 Future commitments

On April 10, 2017, the Parent and Centrais Elétricas Cachoeira Dourada S.A. - CDSA, belonging to Endesa, decided to amend the agreement for the supply of electric energy entered into on May 1, 2007, which intended to contract a volume of electric energy according to the Company's needs. As a result, the supply of electric energy has been extended for further two years, up to December 31, 2020, and has reflected the following commitments that will be adjusted annually by the General Market Price Index (IGP-M).

Year of supply	Amount
2019	8,597
2020	8,597
Total	17,194

The Company's management believes that this agreement is compatible with the electricity requirements for the contracted period.

22 Net sales revenue

Net sales revenue for the years ended December 31, 2018 and 2017 is broken down as follows:

	Parent		Consolidated	
	2018	2017	2018	2017
Domestic market	510,640	477,847	512,805	479,010
Foreign market	92,884	68,509	326,621	271,778
Gross sales revenue	603,524	546,356	839,426	750,788
(-) Taxes on sales	(95,885)	(77,854)	(95,964)	(77,915)
Net sales revenue	507,639	468,502	743,462	672,873

Indústrias Romi S.A.

Notes to the financial statements at December 31, 2018

In thousands of Reais, unless otherwise stated

23 Expenses by nature

	Parent		Consolidated	
	2018	2017	2018	2017
Depreciation and amortization	24,454	23,675	33,286	30,255
Personnel expenses	128,933	123,255	223,330	169,535
Raw materials and consumables	237,616	192,886	335,176	300,248
Freight	26,022	23,981	32,600	29,508
Other expenses	45,601	66,084	77,017	97,156
Total	<u>462,626</u>	<u>429,881</u>	<u>701,409</u>	<u>626,702</u>
Classified as:				
Cost of sales and services	367,440	340,111	537,083	483,236
Selling expenses	43,747	39,339	79,801	67,736
General and administrative expenses	26,309	26,941	59,300	52,143
Research and development	17,379	16,772	17,379	16,772
Management profit sharing and fees	7,751	6,718	7,846	6,815
Total	<u>462,626</u>	<u>429,881</u>	<u>701,409</u>	<u>626,702</u>

Indústrias Romi S.A.

Notes to the financial statements at December 31, 2018 In thousands of Reais, unless otherwise stated

24 Finance income (costs)

	Parent		Consolidated	
	2018	2017	2018	2017
Finance income:				
Income from financial investments	2,592	7,464	3,931	9,347
Interest on trade accounts receivable	5,344	6,169	5,344	6,169
Monetary restatement proceeding Summer Plan	32,115	-	32,115	-
Other	2,163	171	2,350	305
Total	42,214	13,805	43,740	15,822
Finance costs:				
Interest on financing	(5,170)	(11,974)	(7,753)	(13,886)
Other	(1,231)	(952)	(1,078)	(954)
	(6,401)	(12,926)	(8,831)	(14,840)

25 Other operating income, net

	Parent		Consolidated	
	2018	2017	2018	2017
Gains on sales of assets	3,683	4,486	5,043	6,577
Other	(1,017)	(1,307)	(1,048)	(1,483)
	2,666	3,179	3,995	5,094

* * *

INDÚSTRIAS ROMI S.A.

MANAGEMENT REPORT - 2018

Dear Sirs:

We are submitting for the consideration of the Shareholders, Customers, Suppliers, Capital Market and society in general, the Management Report and the Financial Statements of Indústrias Romi S.A. ("Romi" or "Company") for the year ended December 31, 2018, accompanied by the Independent Auditor's Report.

2018 proved to be a year of significant economic recovery and despite an initial two-month period of poor economic activity, significant acceleration in the number of opportunities and business generated as of March was observed. Some macroeconomic data indicate solid signs of recovery in the Brazilian economy such as growth in confidence indexes and an improvement in the use of installed capacity when compared to the last 3 years, presented below. This improvement in macroeconomic data began to materialize in the Romi Machinery business unit, which, given the more stable scenario, encouraged customers to resume their investments.

Romi continues to implement measures to trim its structure and render its means of planning and production ever more agile and flexible to quickly respond to volatility in demand. Over the past few years we have made several optimizations, especially in indirect structures. We reiterated our focus on cost and expense reduction projects and invested in automation and productivity focusing on increasing profitability, observable since 2017. Strategically, we have defined the launch of new generations of products as a priority, and the first lines are already achieving great success in the domestic and foreign markets. This gives us great confidence that we are very well prepared for the recovery of the domestic economy.

1. OPERATING PERFORMANCE

Net Operating Revenue

Net operating revenue in 2018 was R\$ 743.5 million, 10.5% higher than in 2017, mainly due to the growth in sales of Romi machinery in the domestic market, as a result of the adequate strategy to develop new generations of products launched in 2018, gradual recovery of the industry, which reflected positively on the volume of new orders as well as exports, which in the same comparison period also continued to grow.

In 2018 the domestic market accounted for 57% of the Company's consolidated net operating revenue. The revenue obtained in the foreign market, which considers the sales made by Romi's subsidiaries abroad (Mexico, United States, United Kingdom, France, Italy, Germany, Spain and B+W) was US \$ 4.7 million, 1.1% higher than in 2017.

In 2018, the order entry was R\$ 712.2 million, 18.1% higher than the amount achieved in 2017.

Margins

In 2018, operating margins remained at levels similar to those reached in 2017, indicating consistency in operations. The Romi Machinery Business Unit was a highlight in the growth of operating margins. It posted an operating margin of 13.2% which represents growth of 6.4% in relation to 2017.

Profit

The profit for 2018 was R\$ 84,250.

2. INVESTMENTS

Investments throughout 2018 totaled R\$ 25 million, the greater part intended for the installation of an automatic molding machine for the Raw and Machined Cast Parts Unit. Other investment expenses were intended, in part, for the maintenance, productivity, flexibility and competitiveness of other units of the industrial park, within the investment plan foreseen for the year.

3. EXTERNAL AUDIT

In accordance with the provisions of CVM Instruction 381/03, the Company informs that in the year ended December 31, 2018, no services other than the audit of the financial statements were performed by the firm Ernst & Young Auditores Independentes S.S.

4. ARBITRATION

Romi's shares are listed on the B3's "New Market", a differentiated listing segment encompassing those Companies that voluntarily stand out in adopting the highest standards of corporate governance. Consequently, the Company is linked to the B3' New Market Arbitration Chamber. In this way, its shareholders, officers and members of the Supervisory Board undertake to resolve, through arbitration, any dispute or controversy that may arise among them, especially related to or resulting from the application, validity, effectiveness, interpretation, breach and its effects, of the provisions set out in the Corporate Law, its Bylaws, rules issued by the National Monetary Council, the Central Bank of Brazil and the Brazilian Securities and Exchange Commission, as well as other rules applicable to the capital market in general, besides those included in the New Market Listing Regulation, the New Market Participation Agreement and the Arbitration Regulation of the Market Arbitration Chamber.

The Management

INDÚSTRIAS ROMI S.A.
CNPJ – 56.720.428/0001-63/NIRE – 35.300.036.751
PUBLICLY-HELD COMPANY

FISCAL COUNCIL OPINION

In accordance with relevant legal and statutory provisions, the Fiscal Council of Indústrias Romi S.A. has examined the Management Report, the Financial Statements and the Proposal for Income Allocation and Dividend Distribution for the fiscal year ended December 31, 2018, as well as the Capital Budget for 2019. Based on the information submitted and having received the clarifications provided by Management and the Independent Auditors, the Fiscal Council believes that said documents are appropriate to be submitted to the Annual Shareholders' Meeting.

Santa Bárbara d'Oeste, February 12, 2019

Alfredo Ferreira Marques Filho

Clóvis Ailton Madeira

Walter Luis Bernardes Albertoni



INDÚSTRIAS ROMI S.A.
PUBLICLY HELD COMPANY
CNPJ (National Register of Legal Entities) No. 56.720.428/0001-63
NIRE (Company Registration Number) 35.300.036.751

B3 Ticker Symbol: ROMI 3

EXECUTIVE BOARD REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors mentioned below declare to have prepared, reviewed and discussed the financial statements and nothing has come to our attention that causes us to believe that any further comment besides those already described in the explanatory information of the financial statements are necessary.

Santa Bárbara d'Oeste, February 12, 2019

Luiz Cassiano Rando Rosolen – Chief Executive Officer

William dos Reis - Vice-President

Fábio Barbanti Tair - Executive Officer

Francisco Vita Júnior – Executive Officer

Fernando Marcos Cassoni – Executive Officer



INDÚSTRIAS ROMI S.A.
CNPJ – 56.720.428/0001-63/NIRE 35.300.036.751

PUBLICLY-HELD COMPANY

OFFICERS' STATEMENT ON THE INDEPENDENT AUDITOR'S REPORT

The undersigned officers hereby certify that they have reviewed and discussed the opinion expressed in the report of the independent auditors, Ernst Young, on the financial statements for the year ended December 31, 2018.

Such opinion is that the financial statements present fairly, in all material respects, the individual and consolidated financial position, the individual and consolidated financial performance and the individual and consolidated cash flows, except for the qualification on the reversal of the provision for ICMS (state VAT) on sales, included in the tax base of Pis and Cofins (taxes on gross revenue).

In the Company's opinion, based on accounting pronouncements issued by the Brazilian Accounting Pronouncements Committee and International Accounting Standards (IAS/IFRS), the possibility of shaping the effects, where a decision will be made on a temporary cut among several possible ones, as well as the possibility of changing the system to be used by taxpayers to quantify the credits, represent a great uncertainty about its final outcome. Only after these clarifications, which will possibly be brought by the final and unappealable decision to be published by the Supreme Federal Court, after having completed the analysis of the request for Amendment of Judgment filed by the Federal Government, it will be possible to conduct an analysis and reach an objective conclusion on the success and consequent accounting impact. Therefore, in the current phase of the proceeding, the Company is not able to assess what the shaping will be, or the system to be adopted in determining the PIS and COFINS amount to be paid and, consequently, the amount of the tax credits. As a conclusion, the Company understands

that the amount of such provision at December 31, 2018 should be maintained until the final outcome of the matter.

In line with this understanding, on January 29, 2018, the Company filed with the Brazilian Securities and Exchange Commission ("CVM") a consultation in which it requests for a statement from CVM on the accounting treatment regarding the effects of the Supreme Federal Court's preliminary decision on the inclusion of ICMS on sales in the Pis and Cofins tax base, as disclosed by the Company in a Release to the Market on January 30, 2018.

Relevant information on the subject has been disclosed in a note to the financial statements, specifically Note 14 – Provision for tax, labor and civil contingencies to the Financial Statements for the year ended December 31, 2018.

Santa Bárbara d'Oeste, February 12, 2019

Luiz Cassiano Rando Rosolen – Chief Executive Officer

William dos Reis – Vice President

Fábio Barbanti Taiar – Investor Relations Officer

Francisco Vita Júnior – Officer

Fernando Marcos Cassoni – Officer