(A free translation of the original in Portuguese)

Indústrias Romi S.A.

Parent Company and Consolidated
Financial statements at December, 31 2019
And independente auditor's report

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INDEPENTENT 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 individual and consolidated financial statements of Romi S.A. (the "Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019 and the statements 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, 2019, 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, during the year ended at December 31, 2019, as a result of favorable final decision on the lawsuit, the Company reversed the provision 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 March 2019 but were deposited in court. Considering the manifestation of the Federal Supreme Court (STF) of March 15, 2017, regarding the general repercussion effect, which understood that the ICMS tax is not to be included in the PIS and COFINS contribution tax bases and based on the guidelines of the CPC 25 / IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, we understood that it was no longer probable that an outflow would be required to settle this obligation and, therefore, this provision should have been reversed in that year . As a consequence, at December 31, 2019, individual and consolidated net income for year then ended are overstated by R$ 56.302 thousand, and the individual and consolidated noncurrent assets, total assets, equity and net income at December 31, 2018, presented for comparison purposes, are understated by R$85.306 thousand and R$56.302 thousand and R$2.613 thousand, net of tax, respectively.

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 qualified opinion.

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$23,817 thousand at December 31, 2019. 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 2.10 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, 2019, 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 NBC TG – 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.

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

Management is responsible for such other information, which comprise 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 reversal of 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 should have been recorded in a previous year. As a consequence, at December 31, 2019, individual and consolidated net income for year then ended are overstated by R$ 56.302 thousand, and the individual and consolidated noncurrent assets, total assets, equity and net income at December 31, 2018, presented for comparison purposes, are understated by R$85.306 thousand and R$56.302 thousand and R$2.613 thousand, net of tax, respectively. 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.

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:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.

- Obtained 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.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded 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.

- Evaluated 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.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and 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 scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided 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.

Building a better working world

From the matters communicated with those charged with governance, we determined 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 11, 2020

ERNST & YOUNG
Auditores Independentes 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 December 31, 2019	Parent December 31, 2018	Consolidated December 31, 2019	Consolidated December 31, 2018
CURRENT					
Cash and cash equivalents	3	102,838	67,284	147,807	100,428
Short-term investments	3	683	489	683	489
Trade accounts receivable	4	73,377	82,006	140,395	168,213
Onlending of FINAME manufacturer financing	5	97,053	87,482	97,053	87,482
Inventories	6	239,476	203,133	344,878	300,547
Related parties	8	65,169	60,397	-	-
Taxes recoverable		8,058	22,614	15,347	25,267
Other receivables		11,029	12,574	14,019	14,931
		597,683	535,979	760,182	697,357
NON-CURRENT					
Trade accounts receivable	4	11,489	13,618	11,489	13,618
Onlending of FINAME manufacturer financing	5	166,959	128,584	166,959	128,584
Taxes recoverable		54,401	18,998	54,401	18,998
Deferred income tax and social contribution	15	23,577	43,595	24,822	43,948
Judicial deposits	14 (e)	1,930	2,110	1,930	2,110
Other receivables		5,353	1,849	5,681	2,172
		263,709	208,754	265,282	209,430
Investment in subsidiary and associated companies	7	140,715	147,669	-	-
Property, plant and equipment	10	191,596	187,860	269,235	258,921
Investment properties	9	13,500	13,500	18,181	18,398
Intangible assets	11	600	879	54,361	57,981
		610,120	558,662	607,059	544,730
TOTAL ASSETS		1,207,803	1,094,641	1,367,241	1,242,087

LIABILITIES AND EQUITY	Note	Parent December 31, 2019	Parent December 31, 2018	Consolidated December 31, 2019	Consolidated December 31, 2018
CURRENT					
Borrowings	12	78,723	90,419	91,649	102,547
FINAME manufacturer financing	13	82,177	63,326	82,177	63,326
Trade accounts payable		35,123	26,853	51,451	44,261
Payroll and related taxes		15,450	21,858	21,490	27,504
Taxes payable		9,567	6,799	15,553	7,847
Advances from costumers		12,186	14,824	68,200	71,466
Profit sharing		1,205	2,195	1,205	2,195
Dividends and interets on capital		39,523	23,785	39,523	23,785
Other payables		3,762	2,978	24,181	19,821
Related parties	8	1,679	4,472	-	-
		279,395	257,509	395,429	362,752
NON-CURRENT					
Borrowings	12	13,468	20,118	22,866	31,438
FINAME manufacturer financing	13	152,786	116,278	152,786	116,278
Provision for tax, labor and divil risks	14	454	2,100	454	2,100
Other payables		12	6	5,194	130
Provision for net capital deficiency - subsidiary	7	4,404	2,653	-	-
Deferred income tax and social contribution	15	-	-	31,630	31,786
		171,124	141,155	212,930	181,732
TOTAL LIABILITIES		450,519	398,664	608,359	544,484
PATRIMÔNIO LÍQUIDO					
Capital	16	492,025	492,025	492,025	492,025
Reitaned reserve	16	219,482	160,218	219,482	160,218
Cumulative translation adjustments	16	45,777	43,734	45,777	43,734
		757,284	695,977	757,284	695,977
NON CONTROLLING INTEREST		-	-	1,598	1,626
TOTAL EQUITY		757,284	695,977	758,882	697,603
TOTAL LIBILITIES AND EQUITY		1,207,803	1,094,641	1,367,241	1,242,087

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)

		Parent		Consolidated	
	Note	2019	2018	2019	2018
Net Operating revenue	22	501,124	507,639	765,506	743,462
Cost of sales and services		(364,314)	(367,440)	(556,808)	(537,083)
Gross profit		136,810	140,199	208,698	206,379
Operation income (expenses)					
Selling		(44,758)	(43,747)	(85,621)	(79,801)
General and administrative		(32,063)	(26,309)	(70,138)	(59,300)
Research and development		(20,470)	(17,379)	(20,470)	(17,379)
Management profit sharing and fees	8	(7,210)	(7,751)	(7,305)	(7,846)
Equity in earnings of subsidiaries	7	(7,148)	(2,793)	-	-
Other operating income (loss), net	25	78,209	2,666	79,329	3,995
		(33,440)	(95,313)	(104,205)	(160,331)
Operating profit		103,370	44,886	104,493	46,048
Financial income (expenses)					
Financial income	24	67,646	42,214	69,942	43,740
Financial expenses	24	(2,611)	(6,401)	(4,741)	(8,831)
Foreign exchange gains, net		(2,904)	6,527	(3,601)	6,212
		62,131	42,340	61,600	41,121
Profit before taxation		165,501	87,226	166,093	87,169
Income tax and social contribution	15	(35,837)	(3,225)	(36,183)	(2,919)
Profit for the period		129,664	84,001	129,910	84,250
Attributable to:					
Controlling interests				129,664	84,001
Non-Controlling interests				246	249
				129,910	84,250
Basic and diluted earnings per share (R$)	16	2.06	1.34		

The accompanying notes are na 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)

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Profit for the period	129,664	84,001	129,910	84,250
Foreign currency translation effects	2,043	12,750	2,043	12,750
Comphensive profit for the period	131,707	96,751	131,953	97,000
Attributable to:				
Controlling interests			131,707	96,751
Non-Controlling interests			246	249
			131,953	97,000

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

STATEMENT OF CHANGES IN EQUITY

(In thousands of reais unless otherwise stated)

		Attributable to the controlling interests								
			Income reserve							
	Note	Capital	Reitaned reserve	Legal reserve	Total	Other comprehensive income	Profit for the year	Total	Non-controlling interests	Total
At December 31, 2017		**492,025**	**75,322**	**43,638**	**118,960**	**30,984**	**-**	**641,969**	**1,531**	**643,500**
Profit for the year		-	-	-	-	-	84,001	84,001	249	84,250
Foreign currency translation effects		-	-	-	-	12,750	-	12,750		12,750
Total comprohensive income for the period		-	-	-	-	12,750	84,001	96,751	249	97,000
Mandatory dividends	17	-	-	-	-	-	(42,743)	(42,743)	-	(42,743)
Dividends paid by subsidiary		-	-	-	-	-	-	-	(154)	(154)
Transfers between reserves		-	37,058	4,200	41,258	-	(41,258)	-	-	-
Total contribuitions by and dristibuitions 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**
Profit for the year		-	-	-	-	-	129,664	129,664	246	129,910
Foreign currency translation effects		-	-	-	-	2,043	-	2,043	-	2,043
Total comprohensive income for the period		-	-	-	-	2,043	129,664	131,707	246	131,953
Mandatory dividends	17	-	-	-	-	-	(70,400)	(70,400)	-	(70,400)
Dividends paid by subsidiary		-	-	-	-	-	-	-	(274)	(274)
Transfers between reserves		-	52,781	6,483	59,264	-	(59,264)	-	-	-
Total contribuitions by and dristibuitions to controlling interests		-	52,781	6,483	59,264		(129,664)	(70,400)	(274)	(70,674)
At December 31, 2019		**492,025**	**165,161**	**54,321**	**219,482**	**45,777**	**-**	**757,284**	**1,598**	**758,882**

INDÚSTRIAS ROMI S.A.

STATEMENT OF CASH FLOW
YEARS ENDED DECEMBER 31
(In thousands of reais unless otherwise stated)

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit before taxation	**165,501**	**87,226**	**166,093**	**87,169**
Adjustments from:				
Finance expenses and exchange rate	(59,211)	(38,522)	(59,094)	(36,894)
Depreciation and amortization	21,742	24,454	33,548	33,286
Allowance for doubtful accounts and for other receivables	439	(3,570)	722	(3,939)
Provision for inventory losses	(2,506)	(4,093)	(4,280)	(2,252)
Cost of property, palnt and equipment and disposals of intangible assets	(2,802)	(3,629)	(3,214)	390
Equity in earnings of subsidiaries	7,148	2,793	-	-
Provision for contingent liabilities	(61,149)	2,074	(61,149)	894
Change in operating assets and liabilities				
Financial investments	(194)	13,181	(194)	13,181
Trade accounts receivable	15,388	(1,975)	34,294	(37,869)
Related parties (assets and liabilities)	(7,629)	(15,333)	-	-
Onlending of Finame manufacturer financing	(57,122)	(42,011)	(57,122)	(42,011)
Inventories	(33,837)	(36,523)	(40,050)	(56,403)
Taxes receivable	(9,976)	(31,106)	20,327	(26,229)
Judicial deposits	96,825	(3,988)	96,825	(3,988)
Other credits	21,340	48,557	20,702	48,326
Trade accounts payable	6,091	(250)	5,011	10,761
Payroll and related taxes	(3,973)	1,718	(3,579)	(300)
Taxes payable	6,056	5,426	(33,935)	(923)
Advances from costumers	(2,638)	2,069	(3,266)	14,954
Other payables	(432)	(964)	8,208	5,386
Cash by operations	99,061	5,534	119,847	3,539
Income tax and social contribuition paid	(3,288)	(3,545)	(3,791)	(3,834)
Cash by (used in) operations	95,773	1,989	116,056	(295)
Cash flow from investing activities				
Purchase of property, plant and equipment	(25,918)	(21,778)	(36,888)	(24,879)
Intangible increase	(30)	(71)	(80)	(3,213)
Unrealized profit	-	-	-	451
Disposal of property, plant and equipment	3,551	4,261	4,301	977
Dividends received	3,688	2,060	-	-
Capital increase	(88)	(56)	-	-
Net cash used in investing activities	(18,797)	(15,584)	(32,667)	(26,664)
Fluxos de caixa das atividades de financiamento				
Interest on capital and dividends paid	(54,723)	(27,296)	(45,904)	(21,760)
New borrowings	55,743	79,740	71,412	93,754
Financing repaid	(76,839)	(76,678)	(94,096)	(84,918)
Interest paid	(1,940)	(4,708)	(1,657)	(4,539)
New Finame - manufacturer financing	124,937	110,767	124,937	110,767
Payment of Finame - manufacturer financing	(71,149)	(59,433)	(71,149)	(59,433)
Interest paid of Finame - manufacturer financing	(17,451)	(11,319)	(17,451)	(11,319)
Cash by (used in) financing activities	(41,422)	11,073	(33,908)	22,552
Increase (decrease) in cash and cash equivalents	35,554	(2,522)	49,481	(4,407)
Cash and cash equivalents at the beginning of the year	67,284	69,806	100,428	105,682
Foreign exchange losses of cash equivalents of foreign subsidiaries	-	-	(2,102)	(847)
Cash and cash equivalents at the end of the year	102,838	67,284	147,807	100,428

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

INDÚSTRIAS ROMI S.A.

STATEMENT OF VALUE ADDED
YEARS ENDED DECEMBER 31
(In thousands of reais unless otherwise stated)

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Revenues				
Sales of products and services	596,145	603,524	860,639	839,426
Allowance for doubtful accounts and for other receivables	(4,845)	171	75	(1,500)
Other operating revenues (expenses), net	78,209	2,666	79,329	3,995
	669,509	606,361	940,043	841,921
Inputs acquired from third parties				
Materials used	(333,017)	(286,842)	(460,441)	(385,297)
Other costs of products and services	(19,548)	(18,275)	(40,303)	(34,556)
Elecritcy, third-party services and other expenses	(42,448)	(36,532)	(54,095)	(44,576)
	(395,013)	(341,649)	(554,839)	(464,429)
Gross value added	274,496	264,712	385,204	377,492
Depreciation and amortization	(21,742)	(24,454)	(33,548)	(33,286)
Net value added generated by the Company	252,754	240,258	351,656	344,206
Value added received through transfers				
Equity in earnings of subsidiaries	(7,148)	(2,793)	-	-
Finance income (costs) and net foreign exchange gains	67,645	48,738	69,942	43,888
Total value added to distribute	313,251	286,203	421,598	388,094
Distribution of value added				
Employees				
Payroll and related changes	108,291	112,395	210,478	208,405
Sales commission	3,221	4,194	3,221	4,194
Managment profit sharing and fees	7,210	7,751	7,305	7,846
Participation in results	4,601	7,896	4,601	7,896
Gain sharing	656	677	656	677
Taxes	51,755	60,970	52,545	61,852
Interests	5,515	6,401	8,342	8,831
Rentals	2,338	1,918	4,814	4,297
Interest on own capital already distributed	25,142	15,714	25,142	15,714
Declared and not yet distributed dividends	45,258	27,029	45,258	27,029
Non-controlling interests	-	-	(28)	95
Profit for the year	59,264	41,258	59,264	41,258
Value added distributed	313,251	286,203	421,598	388,094

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

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 rough 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 11, 2020.

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.

Changes in accounting policies and disclosures

There are no amendments or interpretations effective for the financial year beginning on January 1, 2019 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. Information on control is described in Note 7 - Investments in 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 are changed where necessary to ensure consistency with the policies adopted by the Company.

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

(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. With the exception of trade accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs. Trade accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, as disclosed in Note 2.16 - Revenue recognition for sales of goods.

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, 2019, 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)

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 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; or

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.

(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).

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 receivables, trade accounts payable. 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 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) Financial liabilities at amortized cost (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 Notes 12 and 13.

(e) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled 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, rough 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.

Subsequent costs are included in the 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".

2.10 Impairment of 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, 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 date.

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 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 future taxable profit will be available against which the temporary differences and/or the 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.

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 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/CPC 47, which will continue to be accounted for under IAS 37/CPC 25 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, 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.

(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 (f).

(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 Leases

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 standard includes two recognition exemptions for lessees - leases of low value assets (i.e. personal computers) and short-term leases (that is, leases with a period of 12 months or less). At the beginning of a lease, the lessee recognizes a liability for the payments (a lease liability) and an asset representing the right to use the underlying asset over the lease term (a right-of-use asset). The lessees should record separately the interest expenses on the lease liability and the depreciation expense of the right-of-use asset. The impacts were analyzed and the effects are shown in the table below:

In thousands of Reais, unless otherwise stated

	Consolidated
Initial recognition, at January 1, 2019	6,283
Acquisitions	2,878
Depreciation	(1,877)
Foreign exchange difference	195
At December 31, 2019, net	7,479

2.20 Standards with initial adoption in 2019 not described in the prior items

CPC 48: Prepayment features with negative compensation

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 became effective on January 1, 2019. These amendments had no impact on the consolidated financial statements of the Company in the periods presented.

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. These amendments had no impact on the consolidated financial statements of the Company in the periods presented.

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 became effective on January 1, 2019. These amendments had no impact on the consolidated financial statements of the Company in the periods presented.

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 solution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The amendments had no impact on the individual and consolidated financial statements of the Company, except for those already presented in Note 14 - Provision for tax, labor and civil risks, in the periods presented.

Amendments to CPC 36 (R3) equivalent to the international standard IFRS 10: Sale or contribution of assets between an investor and its associate or joint venture

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 amendments had no impact on the consolidated financial statements of the Company in the periods presented.

2.21 Standards issued but not yet effective

CPC 11 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 - Insurance Contracts (a standard not yet issued by CPC in Brazil, but which will be codified as CPC 50 - Insurance Contracts and will replace CPC 11 - Insurance Contracts), a new comprehensive accounting standard for insurance contracts that includes recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 - Insurance Contracts, issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Some scope exceptions apply. The general objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are largely based on local accounting policies effective in prior periods, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The focus of IFRS 17 is the general model, complemented by:

i. A specific adaptation for contracts with characteristics of direct participation (floating rate approach).

ii. A simplified approach (premium allocation approach) mainly for short-term contracts.

IFRS 17 will be effective for periods beginning on or after January 1, 2021, requiring the presentation of comparative figures. Early adoption is permitted if the entity also adopts IFRS 9 and IFRS 15 on the same date or before the initial adoption of IFRS 17. The Company did not opt for early adoption. The Company is assessing the impacts of its adoption.

Amendments to CPC 15 (R1): Definition of business

In October 2018, the IASB issued amendments to the definition of business in IFRS 3, these amendments were reflected in revision 14 of the CPC, amending CPC 15 (R1) to help entities determine whether an acquired set of activities and assets consists of or not in a business. They clarify the minimum requirements to define a business combination, eliminate the assessment of whether market participants are able to replace any missing elements, include guidelines to help entities assess whether an acquired process is substantive, better define business and product definitions and introduce an optional fair value concentration test. New illustrative cases were provided with the changes. As the changes apply prospectively to transactions or other events that occur on the date or after the first application, the Company will not be affected by these changes on the transition date.

Amendments to CPC 33 (R1) and IAS 8: Definition of material omission

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, these amendments were reflected in CPC revision 14, amending CPC 26 (R1) and CPC 23 to clarify the definition of "material omission" or "materially distorted disclosure" in all standards. The new definition states that: "The information is material if its omission, distortion or obscurity can reasonably influence decisions that the main users of the general-purpose financial statements make based on these financial statements". These amendments are not expected to have a significant impact on the Company's individual and consolidated financial statements.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors, responsible for allocating resources, assessing the performance of the operating segments and making strategic decisions for the Company (Note 20).

In thousands of Reais, unless otherwise stated

3 Cash and cash equivalents and financial investments

	Parent		Consolidated	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Cash and banks	3,176	2,957	35,961	23,923
Bank deposit certificates (CDB) (a)	94,067	1,312	106,251	13,485
Short-term investments backed by debentures (a)	367	53,249	367	53,249
Investment funds in DI and fixed income	5,143	9,672	5,143	9,672
Other	85	94	85	99
Total cash and cash equivalents	102,838	67,284	147,807	100,428
Bank deposit certificates (CDB) (a)	683	489	683	489
Total assets held for trading	683	489	683	489

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

In thousands of Reais, unless otherwise stated

4 Trade accounts receivable

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, 2019 and 2018, parent and consolidated, is distributed as follows:

		Parent		Consolidated
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Current				
Domestic customers (Brazil)	66,504	70,897	67,178	72,140
Foreign customers	8,250	11,532	77,098	101,473
Allowance for doubtful accounts	(1,377)	(423)	(3,881)	(5,400)
	73,377	82,006	140,395	168,213
Noncurrent				
Domestic customers (Brazil)	7,508	9,477	7,508	9,477
Foreign customers	4,040	4,149	4,040	4,149
Allowance for doubtful accounts	(59)	(8)	(59)	(8)
	11,489	13,618	11,489	13,618

In thousands of Reais, unless otherwise stated

	Parent		Consolidated	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Falling due	59,948	72,619	112,993	145,380
Past due:				
1 to 30 days	8,923	6,490	17,412	14,843
31 to 60 days	2,054	321	4,073	1,432
61 to 90 days	92	220	984	388
91 to 180 days	705	68	3,900	1,905
181 to 360 days	245	249	744	1,868
Over 360 days	2,787	2,462	4,170	7,797
	14,806	9,810	31,283	28,233
Total	74,754	82,429	144,276	173,613
Allowance for doubtful accounts	(1,377)	(423)	(3,881)	(5,400)
Total current	73,377	82,006	140,395	168,213

As at December 31, 2019, trade accounts receivable amounting to R$ 13,370 (2018 – R$ 9,379 - Parent) and R$ 27,343 (2018 – R$ 22,825 - 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 has guarantees.

The balance of noncurrent trade accounts receivable as at December 31, 2019, parent and consolidated, is distributed as follows:

In thousands of Reais, unless otherwise stated

	Parent and Consolidated
Falling due:	
2021	8,135
2022	2,705
2023 onward	708
Allowance for doubtful accounts	(59)
Total - noncurrent	11,489

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

	Parent		Consolidated	
	2019	2018	2019	2018
At January 1	431	1,102	5,408	5,224
Receivables recognized for the period	2,790	20	4,033	413
Receivables written off	(1,785)	(691)	(5,561)	(834)
Foreign exchange difference	-	-	60	605
At December 31	1,436	431	3,940	5,408

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

In thousands of Reais, unless otherwise stated

5 Onlending of FINAME manufacturer financing

		Parent and Consolidated
	December 31, 2019	December 31, 2018
Current		
FINAME falling due	87,284	65,344
FINAME awaiting release (a)	2,841	1,944
FINAME past due (b)	14,912	27,005
	105,037	94,293
Allowance for doubtful accounts	(7,984)	(6,811)
	97,053	87,482
Noncurrent		
FINAME falling due	153,515	117,994
FINAME awaiting release (a)	13,787	10,713
	167,302	128,707
Allowance for doubtful accounts	(343)	(123)
	166,959	128,584
Total	264,012	216,066

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 refers to financing specifically linked to sales transactions, 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 the 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 repossessed 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, 2019, the balance of repossessed machinery, included under the line item of "Other receivables", parent and consolidated, amounted to R$ 1,188 (R$ 6,594 as at December 31, 2018) in current assets and R$ 4,645 (R$ 1,173 as at December 31, 2018) in noncurrent assets.

In thousands of Reais, unless otherwise stated

As at December 31, 2019 and 2018, the balances of "Onlending of FINAME manufacturer financing", parent and consolidated, were as follows:

		Parent and Consolidated
	December 31, 2019	**December 31, 2018**
Falling due	90,125	67,288
Past due:		
1 to 30 days	894	914
31 to 60 days	601	565
61 to 90 days	147	473
91 to 180 days	396	1,208
181 to 360 days	352	2,883
Over 360 days	12,522	20,962
	14,912	27,005
Total - current	105,037	94,293

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:	
2021	79,103
2022	57,446
2023	27,311
2024 onward	3,442
Total - noncurrent	167,302

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

In thousands of Reais, unless otherwise stated

	Parent and Consolidated
At December 31, 2018	6,934
Allowance recognized (or written off) for the year	1,393
At December 31, 2019	8,327

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

	Parent		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Finished products	39,542	22,160	81,315	69,696
Used machinery	13,130	12,271	13,130	12,271
Work in progress	75,561	61,388	116,195	85,183
Rough materials and components	105,043	105,233	127,572	129,571
Imports in transit	6,200	2,081	6,666	3,826
Total	239,476	203,133	344,878	300,547

The inventory balances, parent and consolidated, as at December 31, 2019 are net of provision for slow-moving inventories and inventories posing a remote probability of being realized through sale or use, amounting to R$ 27,312 and R$ 30,468 (R$ 29,818 Parent and R$ 34,748 Consolidated as at December 31, 2018), respectively.

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

In thousands of Reais, unless otherwise stated

	Parent	Consolidated
At January 1, 2019	29,818	34,748
Inventory sold or written off	(17,238)	(20,675)
Provision recorded	7,065	8,136
Foreign exchange difference		592
Transfer of provision resulting from machines repossessed during the period	7,667	7,667
At December 31, 2019	27,312	30,468

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

	Parent		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Finished products	2,485	2,890	5,641	7,820
Used machinery	6,321	9,488	6,321	9,488
Work in progress	5,224	4,859	5,224	4,859
Rough materials and components	13,282	12,581	13,282	12,581
Total	27,312	29,818	30,468	34,748

The cost of inventory recognized in profit or loss and included in "Cost of sales and services" amounted to R$ 364,314 (2018 - R$ 367,440) for the Parent, and R$ 556,808 (2018 – R$ 537,083) for the Consolidated.

7 Investments in subsidiaries

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.	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.	Mexico	Sale of machines for plastics and machine tools, spare parts and technical support.

In thousands of Reais, unless otherwise stated

At December 31, 2019

	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor Comércio (3)	Romi Machine Tools (4)	Rominor Empreendimentos (5)	Romi A.L. (6)	IRSA Máq. Mexico (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	54,295	122,271	23,228	16,025	2,522	8,391	14,083	
Noncurrent assets	7,629	118,663	74	104	-	-	137	
Current liabilities	46,640	106,826	239	19,305	-	2	15,448	
Noncurrent liabilities	12,069	28,984	-	-	-	-	-	
Equity (equity deficit) of subsidiary	3,215	105,124	23,063	(3,176)	2,522	8,389	(1,228)	
Changes in investment:								
Investment balance as at December 31, 2018	7,576	108,010	21,845	(2,108)	2,449	7,789	(545)	145,016
Foreign exchange variations on foreign investments	343	1,596	-	(173)	-	318	(41)	2,043
Dividends proposed and paid (b)	-	-	(3,688)	-	-	-	-	(3,688)
Equity pickup	(4,704)	(4,482)	3,308	(895)	(15)	282	(642)	(7,148)
Capital increase in subsidiary	-	-	-	-	88			88
Equivalent value - closing balance	**3,215**	**105,124**	**21,465**	**(3,176)**	**2,522**	**8,389**	**(1,228)**	**136,311**
Investment in subsidiaries	3,215	105,124	21,465	-	2,522	8,389	-	140,715
Provision for equity deficit of subsidiaries	-	-	-	(3,176)	-	-	(1,228)	(4,404)

(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 by the Board of Directors at the meeting held on February 12, 2019 and July 26, 2019, in the amounts of R$ 2,448 and R$ 1,515, related to the second half of 2018 and the first half of 2019, respectively. From such payment, the Company received R$ 2,278 and R$ 1,410, respectively.

In thousands of Reais, unless otherwise stated

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 variations 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.

In thousands of Reais, unless otherwise stated

At December 31, 2019

	Romi Italy and subsidiaries (1)	Romi Europe and subsidiaries (2)	Rominor Comércio (3)	Romi Machine Tools (4)	Rominor Empreendimentos (5)	Romi A.L. (6)	IRSA Máq. Mexico (7)
Investments:							
Ownership interest	100%	100%	93.07%	100%	100%	100%	100%
Profit or loss before IRPJ and CSLL	(4,704)	(3,463)	4,673	(895)	(14)	282	(435)
Income tax and social contribution expense	-	(1,019)	(1,087)	-	(1)	-	(207)
Profit (loss) for the year	(4,704)	(4,482)	3,586	(895)	(15)	282	(642)
Company's share of profit (loss) for the year	(4,704)	(4,482)	3,308	(895)	(15)	282	(642)
Total comprehensive income							
Other comprehensive income	(145)	-	-	-	-	-	-
Total comprehensive income	(4,849)	(4,482)	3,308	(895)	(15)	282	(642)
Dividends paid to non-controlling interests	-	-	274	-	-	-	-
Dividends received from subsidiary	-	-	3,688	-	-	-	-

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 Máq México (7)
Investments:							
Ownership interest	100%	100%	93.07%	100%	100%	100%	100%
Profit or loss before IRPJ and CSLL	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	-	-	-	-

In thousands of Reais, unless otherwise stated

8 Related party transactions and balances

The balances and transactions with related parties as at December 31, 2019 and 2018 are as follows:

(i) Statement of financial position accounts – Parent

	Receivables		Payables	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Direct subsidiaries				
Romi Europe	2,425	783	188	263
Romi Italy	10,464	9,672	-	-
Romi Machine Tools	18,300	17,034	722	-
Romi A.L.	-	-	431	934
Irsa Maquinas Mexico	11,635	6,787	-	-
Rominor	4	-	-	-
Indirect subsidiaries				
B+W - Burkhardt+Weber	2,023	1,803	338	3,275
Romi France S.A.S.	8,678	7,393	-	-
Romi Máquinas España S.A.	4,129	3,464	-	-
Romi Machines UK	7,511	13,461	-	-
Total	65,169	60,397	1,679	4,472

In thousands of Reais, unless otherwise stated

(ii) Transactions

	Sales revenue		Operating expense and finance income (costs)	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Romi Europe	6,076	4,180	1,442	1,328
Rominor Comércio	17	12	-	153
Romi Italy	7,198	11,674	-	329
Romi Machine Tools	10,657	7,655	-	-
Romi France S.A.S.	5,678	7,142	-	-
Romi A.L.	-	-	388	861
Romi Machines UK	7,273	12,881	-	-
IRSA Machinery Mexico	5,001	4,180	30	14
B+W - Burkhardt + Weber	4,167	5,896	362	-
Romi Máquinas Espãna	1,828	1,044	-	-
Total	47,895	54,664	2,222	2,685

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 2019 was R$ 167 (2018 – R$ 148).

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$ 865 (2018 – R$ 920).

Management compensation for the years ended December 31, 2019 and 2018 was as follows:

In thousands of Reais, unless otherwise stated

	December 31, 2019	December 31, 2018
Fees and charges	5,497	5,098
Profit sharing	1,205	2,195
Private pension plan	259	234
Healthcare plan	249	224
Parent	7,210	7,751
Fees and charges of subsidiaries	95	95
Consolidated	7,305	7,846

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 19, 2019.

9 Investment property

Based on the prospects for expanding its activities, the Company's Management classified part of the properties under the line item "Investment property", maintaining them for the purpose of capital appreciation. The amounts classified as investment property are R$ 13,500 (R$ 13,500 – as at December 31, 2018) at the parent and R$ 18,181 (R$ 18,398 – as at December 31, 2018) in the consolidated.

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 as well as recent transactions with similar property and assessed the fair value less cost to sell of this property at R$ 44,982 in the parent and R$ 126,420 in the consolidated.

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. The amounts were received in full. The proceeds from the sale were classified in the line item other operating income, with an impact of R$ 1,276 on operating income (expense) and R$ 1,232 on profit for the year, disclosed on the financial statements for 2018.

On December 17, 2019, 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 327 m², located in Porto Alegre-RS (BR), for R$ 750. Up to the issue date of these financial statements, R$ 75 had been received 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$ 468 on operating income (expenses) and R$ 451 profit or loss for the year.

In thousands of Reais, unless otherwise stated

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 fittings**	**Vehicles**	**Information technology**	**Construction in progress**	**Advances and estimated losses**	**Total**
Cost of property, plant and equipment, gross									
At January 1, 2018	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)	-	-
At December 31, 2018	3,997	190,327	262,135	8,359	3,745	26,474	28,822	(83)	523,776
Additions	-	1,225	9,394	399	247	592	14,061	-	25,918
Disposals	-	-	(4,143)	(49)	(49)	(28)	-	1	(4,268)
Transfers	-	7,831	29,016	-		-	(36,847)	-	-
At December 31, 2019	3,997	199,383	296,402	8,709	3,943	27,038	6,036	(82)	545,426
Accumulated depreciation									
At January 1, 2018	-	93,724	196,252	7,540	2,871	24,820	-	-	325,207
Depreciation	-	9,235	13,955	203	239	506	-	-	24,138
Disposals	-	-	(13,321)	(43)	(64)	(2)	-	-	(13,429)
At December 31, 2018	-	102,959	196,886	7,700	3,046	25,324	-	-	335,916
Depreciation	-	7,701	12,846	157	275	454	-	-	21,433
Disposals			(3,403)	(48)	(50)	(18)	-	-	(3,519)
At December 31, 2019	-	110,660	206,329	7,809	3,271	25,760	-	-	353,830
Useful lives	-	25 and 10 years	10 and 15 years	10 years	5 years	5 years	-	-	
Property, plant and equipment, net									
At January 1, 2018	4,053	95,595	68,188	822	686	1,199	20,392	(83)	190,852
At December 31, 2018	3,997	87,368	65,249	659	699	1,150	28,822	(83)	187,860
At December 31, 2019	3,997	88,723	90,073	900	672	1,278	6,036	(82)	191,596

In thousands of Reais, unless otherwise stated

									Consolidated
	Land	Buildings and yards	Machinery and equipment	Furniture and fittings	Vehicles	Information technology	Construction in progress	Advances and estimated losses	Total
Cost of property, plant and equipment, gross									
At January 1, 2018	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	-	7,589
At December 31, 2018	25,124	234,763	296,565	19,909	5,294	30,532	32,691	(83)	644,795
Additions	-	5,646	10,352	1,563	4,474	2,180	14,060	-	38,275
Disposals	-	(48)	(4,144)	(145)	(210)	(248)	-	1	(4,794)
Transfers	-	7,831	29,016	-	-	-	(36,846)	-	-
Foreign exchange difference	436	1,207	(264)	165	191	56	89	-	1,881
							-		
At December 31, 2019	25,560	249,399	331,525	21,492	9,749	32,520	9,994	(82)	680,157
Accumulated depreciation									
At January 1, 2016	-	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
At December 31, 2018	-	113,946	224,000	15,002	4,172	28,754	-	-	385,874
Depreciation		9,649	15,389	1,383	1,398	946			28,766
Disposals		(5)	(3,462)	(71)	(159)	(227)			(3,924)
Foreign exchange difference		56	68	32	38	13			207
At December 31, 2019	-	123,646	235,995	16,346	5,449	29,486	-	-	410,922
Useful lives	-	25 and 10 years	10 and 15 years	10 years	5 years	5 years	-	-	
Property, plant and equipment, net									
At January 1, 2018	22,909	126,725	76,095	4,944	1,097	1,768	24,484	(83)	257,939
At December 31, 2018	25,124	120,817	72,565	4,907	1,122	1,778	32,691	(83)	258,921
At December 31, 2019	25,560	125,753	95,530	5,146	4,300	3,034	9,994	(82)	269,235

Due to the financing agreements with the BNDES for investments in property, plant and equipment, the Company pledged as collateral property, plant and equipment items amounting to R$ 67,531 at December 31, 2019 (R$ 68,195 at December 31, 2018). 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$ 21,433 (2018 - R$ 24,138) related to depreciation expense, R$ 19,814 (2018 - R$ 19,814) was recognized in profit or loss in "Cost of sales and services", R$ 1,006 (2018 - R$ 1,072) in "Selling expenses", R$ 1,132 (2018 - R$ 3,161) in "General and administrative expenses", and R$ 111 (2018 - R$ 91) in “Research and development” – Parent.

Of the amount of R$ 28,766 (2018 - R$ 297,699) related to depreciation expense, R$ 21,108 (2018 - R$ 21,691) was recognized in the statement of profit or loss in "Cost of sales and services", R$ 6,415 (2018 - R$ 4,756) in "Selling expenses", R$ 1,132 (2018 - R$ 3,161) in "General and administrative expenses", and R$ 111 (2018 - R$ 91) in “Research and development” – Consolidated.

In thousands of Reais, unless otherwise stated

11 Intangible assets

Changes in intangible assets are as follows:

Gross cost	Technology	Other	Total	Technology	Customer relationship	Trademarks	Other	Total
At January 1, 2018	934	4,916	9,267	24,421	19,306	20,862	6,109	77,454
Additions	-	71	71	2,777	-	-	436	3,213
Foreign exchange difference	-	-	-	2,868	2,288	2,473	257	8,282
At December 31, 2018	934	4,987	9,338	30,066	21,594	23,335	6,802	88,949
Additions	20	10	30	944	-	-	(864)	80
Foreign exchange difference	-	-	-	625	445	482	419	2,048
Transfers	(427)	427	-	(427)	-	-	427	-
At December 31, 2019	527	5,424	9,368	31,208	22,039	23,817	6,784	91,077
Accumulated amortization								
At January 1, 2018	75	4,651	8,143	7,819	5,709	-	4,996	25,280
Amortization	101	215	316	2,007	1,078	-	502	3,587
Foreign exchange difference	-	-	-	977	676	-	52	2,101
At December 31, 2018	176	4,866	8,459	10,803	7,463	-	5,550	30,968
Amortization	104	205	309	2,669	1,072	-	1,041	4,782
Foreign exchange difference	-	-	-	590	182	-	116	965
At December 31, 2019	280	5,071	8,768	14,062	8,717	-	6,707	36,715
Useful lives	5 years	5 years		5 years	5 years	Indefinite	5 years	
Intangible assets, net								
At January 1, 2018	859	265	1,124	16,602	13,597	20,862	1,113	52,174
At December 31, 2018	758	121	879	19,263	14,131	23,335	1,252	57,981
At December 31, 2019	247	353	600	17,146	13,322	23,817	77	54,361

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$ 309 (2018 - R$ 316) related to amortization expense, R$ 9 (2018 - R$ 21) was recognized in the statement of profit or loss in "Cost of sales and services", R$ 198 (2018 - R$ 194) in "General and administrative expenses", and R$ 102 (2018 - R$ 101) in “Research and development” – Parent.

Of the amount of R$ 4,782 (2018 - R$ 3,587) related to amortization expense, R$ 9 (2018 - R$ 21) was recognized in the statement of profit or loss in "Cost of sales and services", R$ 4,473 (2018 - R$ 3,271) in "Selling expenses", R$ 198 (2018 - R$ 194) in "General and administrative expenses", and R$ 102 (2018 - R$ 101) 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.

In thousands of Reais, unless otherwise stated

12 Borrowings

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

	Current		Noncurrent			Principal	Financial	
	2019	**2018**	**2019**	**2018**	**Maturity**	**amortization**	**charges**	**Collateral**
Export financing - ACC/ ACC (a)	13,571	46,771	-	-	01/10/2020	Export-to-maturity order application	Rates of 1.34 % to 1.55% p.a. + foreign exchange difference	Surety of Rominor
Investment Support Program - BNDES (b)	5,564	5,570	11,534	17,071	16/01/2023	Quarterly/Monthly	Rates up to 4.00% p.a.	Collateral transfers of machinery and mortgages of buildings and land
Sundry FINAME	1,120	1,534	1,934	3,047	15/01/2024	Quarterly/Monthly	Rates of 3.50% to 10.53% p.a. + TLP	Collateral transfer of financed machinery/Surety of Rominor/Promissory note
Import financing (FINIMP)	26,871	34,413	-	-	16/12/2020	Bullet payment	Rates of 1.09 % p.a. to 1.80 % p.a.	No collateral/Surety of Rominor
Export Financing (NCE)	31,597	-	-	-	16/06/2020	Bullet payment	Interest of 0.86 % p.a.	No collateral/Surety of Rominor
Finep URTJ-01	-	2,131	-	-	15/05/2019	Monthly	TLP + 5 % p.a. - Deducted 6,00%	Bank guarantee
Parent	**78,723**	**90,419**	**13,468**	**20,118**				
Burkhardt + Weber (B+W) - Technology center and ad office construction financing - € ©	-	-	9,398	11,320	30/06/2027	Quarterly	Quarterly 2.40% p.a.	Property, plant and equipment (buildi
Others - Working capital	12,926	12,128	-	-	-	-	-	N/A
Consolidated	**91,649**	**102,547**	**22,866**	**31,438**				

In thousands of Reais, unless otherwise stated

(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 advances on exchange contracts (ACC) facilities, with rates of up to 2.5% p.a. plus foreign exchange difference. On October 22, 2019, the Board of Directors approved the conversion of the residual value of the financing to advance on export contracts (ACE), with rates of 1.34% p.a. plus foreign exchange difference, with a 10-month term, with a guarantee provided by its 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, 2019, the Company complied with all the covenants of the above item.

(c) On July 5, 2012, Burkhardt + Weber entered into a Financing Agreement with Commerzbank in Reutlingen (Germany) in the amount of R$ 9,398 (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, 2019, in the parent and consolidated, were as follows:

	Parent	**Consolidated**
2021	6,394	6,900
2022	6,130	7,384
2023	906	2,160
2024 onward	38	6,422
Total	13,468	22,866

In thousands of Reais, unless otherwise stated

13 FINAME manufacturer financing

	Parent and Consolidated	
	December 31, 2019	December 31, 2018
Current		
FINAME manufacturer financing	82,177	63,326
Noncurrent		
FINAME manufacturer financing	152,786	116,278
Total	234,963	179,604

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 transactions.

The balances of the line item “FINAME manufacturer financing” and, consequently, of the line item “ Onlending of FINAME manufacturer financing” as at December 31, 2019 and December 31, 2018, were adjusted for inflation through the end of the reporting period. The difference of R$ 29,049 between these line items as at December 31, 2019 (R$ 36,462 as at December 31, 2018) 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, 2019, parent and consolidated, were as follows:

	Parent and Consolidated
2021	73,937
2022	52,715
2023	23,470
2024 onward	2,664
Total	152,786

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

In thousands of Reais, unless otherwise stated

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 and Consolidated
	December 31, 2019	**December 31, 2018**
Tax	52	57,916
Civil	604	332
Labor	604	3,039
(-) Judicial deposits / other receivables	-	(57,334)
Total	1,260	3,953
Current liabilities	806	1,853
Noncurrent liabilities	454	2,100
	1,260	3,953

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:

In thousands of Reais, unless otherwise stated

	December 31, 2019	December 31, 2018
Tax		
Excess of IRPJ and CSLL on interest on capital	38,349	32,456
Disallowance of PIS and COFINS credits	16,430	16,393
Disallowance of estimated IR/CSLL payable	4,972	-
Social security contribution credit on payment of profit to the Management	3,373	3,256
Negative balance of IRPJ and CSLL	4,056	3,851
Disallowance of IPI credits	5,707	5,508
Isolated fine - Offsetting not approved	502	478
Disallowance of REINTEGRA	122	118
Civil		
Losses and damages	7,410	6,806
Labor	38	3,349
Total	80,959	72,215

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, 2018	Additions	Utilizations/ reversals	Monetary restatement	December 31, 2019
Tax	57,916	808	(58,672)	-	52
Civil	332	545	(328)	55	604
Labor	3,039	379	(2,736)	(78)	604
(-) Judicial deposits / other receivables	(57,334)	(442)	57,776	-	-
Total Parent and Consolidated	**3,953**	**1,290**	**(3,960)**	**(23)**	**1,260**

(a) Tax proceedings

Refer to the provisions for:

(i) As at December 31, 2018, PIS and COFINS balances levied on ICMS on sales were R$ 10,322 and R$ 47,543, respectively.

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, as well as for refund for overpayment retroactively to 5 years.

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, the motions to clarify are pending analysis by the STF. In view of these facts, Management decided to maintain the present obligation derived from past events in the financial statements for the year ended December 31, 2018.

On March 13, 2019, the Company obtained a favorable final decision on the lawsuit on the subject. As a result, the then present obligation derived from a past event was no longer considered as an obligation and, therefore, the Company recorded in the financial statements for the first quarter of 2019 the effects of the favorable outcome on such lawsuit, amounting to R$ 138,008, before taxes, of which R$ 74,321 recorded in "Other operating income (expenses), net", and R$ 63,686 in line item "Finance income". The impact on profit for the period was R$ 105,564, already considering the effects of income tax and social contribution on the gain, which was reduced by the use of the interest on capital, proposed in March 2019, in the amount of R$ 29,542, as per the Shareholder Notice dated March 26, 2019. On September 20, 2019, judicial deposits in the amount of R$ 88,456 were released and included in the Company's cash and cash equivalents.

(ii) The other tax proceedings total R$ 52 (R$ 51 as at December 31, 2018).

(b) Tax proceedings (Plano Verão)

In 2017, the Company obtained a favorable outcome in the proceedings 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 (Plano Verão). 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 2018 the effects from the favorable outcome on the tax proceeding "Plano Verão", which impacted the profit or loss of 2018 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 period: 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.

(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's 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.

(e) Judicial deposits

The Company has judicial deposits amounting to R$ 1,930 at December 31, 2019 (R$ 2,110 - December 31, 2018) 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 and social contribution taxes 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, 2019 and 2018 is as follows:

In thousands of Reais, unless otherwise stated

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Profit before income tax and social contribution	165,501	87,226	166,093	87,169
Statutory rate (income tax and social contribution)	34%	34%	34%	34%
Income tax and social contribution expense at statutory rates	(56,270)	(29,657)	(56,472)	(31,504)
Reconciliation to the effective rate:				
Interest on capital	23,936	15,864	23,936	15,864
IR/CSLL Tax proceedings (Plano Verão)	(1,569)	10,740	(1,569)	10,740
Research and development	1,686	3,000	1,686	3,000
Transfer price	(1,190)	(1,730)	(1,190)	(1,730)
Equity pickup	(2,430)	(950)	-	-
Unrecorded deferred income tax and social contribution at subsidiaries	-	-	(2,574)	131
Management profit sharing	(497)	(606)	(497)	(606)
Other additions (deductions), net	497	114	497	1,186
Current and deferred income tax and social contribution income (expense)	(35,837)	(3,225)	(36,183)	(2,919)

(i) The amount in the consolidated financial information 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 subsidiaries Rominor and Rominor Empreendimentos opted to calculate tax based on lucro presumido in the years presented, and for non-recognition of deferred income taxes on the tax losses of foreign subsidiaries, except for BW.

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

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Current	(19,648)	2,606	(20,652)	(1,681)
Deferred	(16,189)	(5,831)	(15,531)	(1,238)
Total	(35,837)	(3,225)	(36,183)	(2,919)

In thousands of Reais, unless otherwise stated

				2019				**2018**
	Differences differences	**Income tax**	**Social contribution**	**Total**	**Temporary differences**	**Income tax**	**Social contribution**	**Total**
Assets (i):								
Inventories – provision for losses	29,604	7,382	2,664	10,046	31,863	7,956	2,868	10,824
Repossession of machinery	2,699	673	243	916	1,874	468	169	637
Tax loss	55,776	10,534	3,097	13,631	59,607	11,353	5,216	16,569
Discount to present value - trade receivables and trade payables	1,071	267	96	363	1,607	401	145	546
Provision for tax, labor and civil risks	1,260	314	113	427	61,287	15,307	308	15,615
Contingent commissions	428	107	39	146	713	178	64	242
Management profit sharing	1,205	-	108	108	2,195	-	198	198
Other temporary differences in assets	1,733	432	156	588	2,117	529	191	720
Deferred income tax and social contribution, net - parent company and consolidated	**93,776**	**19,709**	**6,516**	**26,225**	**161,263**	**36,192**	**9,159**	**45,351**
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	**89,213**	**18,684**	**6,138**	**24,822**	**156,700**	**35,167**	**8,781**	**43,948**
Write-off of negative goodwill on acquisition of subsidiary (ii)	19,029	12,044	-	12,044	19,029	11,799	-	11,799
Goodwill on the acquisition of Burkhardt + Weber (B+W)	67,252	19,586	-	19,586	68,622	19,987	-	19,987
Deferred income tax and social contribution liability - consolidated	**86,281**	**31,630**	**-**	**31,630**	**87,651**	**31,786**	**-**	**31,786**

In thousands of Reais, unless otherwise stated

(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 Comércio 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, 2019, the expected realization of deferred income tax and social contribution, recorded in noncurrent assets, parent and consolidated, was as follows:

	Parent and Consolidated
Year of realization	
2020	9,491
2021	9,252
2022	3,068
2023 onward	3,011
Total	24,822

In thousands of Reais, unless otherwise stated

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

	Asset		Liabilities
	Parent	**Consolidated**	**Consolidated**
At December 31, 2018	43,595	43,948	31,786
Changes in the year			
Additions	462	1,325	-
Realization	(20,480)	(20,480)	(791)
Foreign exchange difference	-	29	635
At December 31, 2019	23,577	24,822	31,630

16 Equity

Capital

As at December 31, 2019 and 2018, 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, 2019 were submitted for analysis at the Board of Director's 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 in March 17, 2020. The Company distributed, in relation to the profit for the year, the amount of R$ 70,400. The excess amount not distributed (R$ 52,781) will be incorporated into the reserve balance, totaling R$ 165,161.

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 Shareholder's Meeting is as follows:

	2019	**2018**
Adjusted profit for the year	129,664	84,001
(-) Recognition of legal reserve	(6,483)	(4,200)
Profit available for distribution	123,181	79,801
Mandatory dividends (Interest on capital) - 25%	(70,400)	(42,743)
Recognition of earnings reserve	52,781	37,058

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.

	December 31, 2019	**December 31, 2018**
Profit for the year attributable to the controlling shareholders	129,664	84,001
Weighted average number of shares outstanding in the year (in thousands)	62,858	62,858
Basic and diluted earnings per share	2.06	1.34

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, 2019 was R$ 911 (R$ 906 in the year ended December 31, 2018). The amount incurred on the private pension plan was recorded in the statements for the years ended December 31, 2019 and 2018 in the line items "Cost of sales and services", "Selling expenses", "General and administrative expenses" and "Research and development", based on the reference cost center of each employee.

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, 2019, the insurance coverage for fire, windstorm, electrical damages and theft was comprised as follows: (i) buildings - R$ 170,285; (ii) machines and equipment - R$ 358,591; (iii) inventory and machines pending repossession - R$ 282,248; (iv) construction works - R$ 7,148; (v) assets held by third parties – R$ 9,817 and (vi) others – R$ 1,107.

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 rough 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 rough 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.

In thousands of Reais, unless otherwise stated

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.

	Consolidated			
	Less than one year	**Between one and two years**	**Between two and five years**	**Over five years**
At December 31, 2019				
Borrowings	91,649	6,900	15,966	-
Trade payables	51,451			
As at December 31, 2018				
Borrowings	102,547	10,459	17,261	3,718
Trade payables	44,261			

In thousands of Reais, unless otherwise stated

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.

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
(-) Total borrowings	327,154	290,141	349,478	313,589
Cash and cash equivalents (Note 3)	(102,838)	(67,284)	(147,807)	(100,428)
Financial investments (Note 3)	(683)	(489)	(683)	(489)
Onlending of FINAME manufacturer financing (Note 5).	(264,012)	(216,066)	(264,012)	(216,066)
Net debt (Cash)	(40,379)	6,302	(63,024)	(3,394)
Total equity	757,284	695,977	757,284	695,977
Total capital	716,905	702,279	694,260	692,583
Gearing ratio - %	-5.6 %	0.9 %	-9.1 %	-0.5 %

In thousands of Reais, unless otherwise stated

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, 2019, 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:

	Parent
Cash and cash equivalents	827
Trade accounts receivable	12,161
Receivables from related parties	65,426
Other receivables	240
Payables to related parties	(1,711)
Borrowings	(71,313)
Trade payables	(6,535)
Advances from customers	(551)
Other payables	(1,012)
Net liability exposure	(2,468)

Presented below is the loss that would have been recognized in profit or loss for the year ended December 31, 2019 according to the following scenarios:

	Parent		
	Probable scenario	Scenario II	Scenario III
Net asset exposure	(1,857)	(2,321)	(2,785)

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 2020. 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”.

In thousands of Reais, unless otherwise stated

(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, 2019, 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.

	Parent	Consolidated
Total cash and cash equivalents linked to CDI	100,260	112,444
Total borrowings linked to TLP	3,054	3,054
Net asset exposure	103,314	115,498

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 or loss for the year ended December 31, 2019 according to the following scenarios:

			Parent
	Probable scenario	Scenario II	Scenario III
Net asset exposure	4,165	5,206	6,247

			Consolidated
	Probable scenario	Scenario II	Scenario III
Net asset exposure	4,652	5,815	6,978

The probable scenario considers the future interest rates according to quotations obtained from B3 – Brasil, Bolsa, Balcão, considering the rates projected for December 31, 2020. Scenarios I and II consider an increase in interest rates of 25% and 50%, 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.

In thousands of Reais, unless otherwise stated

(c) Financial instruments by category

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

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Loans and receivables:				
Cash and cash equivalents	102,838	67,284	147,807	100,428
Financial investments	683	489	683	489
Trade accounts receivable	84,866	95,624	151,884	181,831
Onlending of FINAME manufacturer financing	264,012	216,066	264,012	216,066
Related parties	65,169	60,397	-	-
Other receivables, except advances and machines pending repossession	8,764	475	12,082	3,155
Judicial deposits	1,930	2,110	1,930	2,110
Financial liabilities at amortized cost:				
Borrowings	92,191	110,537	114,515	133,985
FINAME manufacturer financing	234,963	179,604	234,963	179,604
Trade payables	35,123	26,853	51,451	44,261
Other payables	3,774	2,984	29,375	19,951
Related parties	1,679	4,472	-	-

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

In thousands of Reais, unless otherwise stated

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, 2019 was prepared and is being presented on a comparative basis with the year ended December 31, 2018, according to the Company's new segments:

					At December 31, 2019
	Máquinas Romi	**Burkhardt + Weber Machinery**	**Cast and machined products**	**Eliminations between segments**	**Consolidated**
Net operating revenue	390,794	223,438	151,274		765,506
Cost of sales and services	(209,641)	(183,941)	(163,226)		(556,808)
Transfers remitted	1,983	-	27,958	(29,941)	-
Transfers received	(27,958)	-	(1,983)	29,941	-
Gross profit	155,178	39,497	14,023	-	208,698
Operating (expenses) income:					
Selling expenses	(63,584)	(16,628)	(5,409)		(85,621)
General and administrative expenses	(34,035)	(25,534)	(10,569)		(70,138)
Research and development	(16,767)	-	(3,703)		(20,470)
Management fees	(4,929)	-	(2,376)		(7,305)
Other operating income, net	57,664	855	20,810		79,329
Operating profit (loss) before finance income (costs)	93,527	(1,810)	12,776		104,493
Inventories	243,065	58,895	42,918		344,878
Depreciation and amortization	11,505	9,689	12,354		33,548
property, plant and equipment, net	87,039	65,532	116,664		269,235
Intangible assets	584	53,760	17		54,361

	Europe	**Latin America**	**North America**	**Asia**	**Total**
Net operating revenue by geographic region	239,269	445,078	29,992	51,167	765,506

In thousands of Reais, unless otherwise stated

At December 31, 2018

	Romi Machinery	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	(25,655)	-	(3,130)	28,785	-
Gross profit	150,166	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 operating income (expenses), net	3,995	-	-		3,995
Operating profit (loss) before finance income (costs)	48,280	(4,532)	2,300		46,048
Inventory	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

In thousands of Reais, unless otherwise stated

21 Future commitments

On April 10, 2017, the Company 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. On May 30, 2019, the Company entered into an electric energy purchase agreement with Engie Brasil Energia Comercializadora LTDA - Engie, for the periods following the ongoing agreement with CDSA. As a result, the supply of electric energy has been extended for further three years, up to December 31, 2023, and has reflected the following commitments that will be adjusted annually by the General Market Price Index (IGP-M):

Year of supply	Amount
2020	11,987
2021	15,396
2022	14,743
2023	14,528
Total	56,654

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, 2019 and 2018 is broken down as follows:

	Parent		Consolidated	
	2019	2018	2019	2018
Domestic market	515,081	510,640	518,178	512,805
Foreign market	81,064	92,884	342,461	326,621
Gross sales revenue	596,145	603,524	860,639	839,426
(-) Taxes on sales	(95,021)	(95,885)	(95,133)	(95,964)
Net sales revenue	501,124	507,639	765,506	743,462

In thousands of Reais, unless otherwise stated

23 Expenses by nature

	Parent		Consolidated	
	2019	**2018**	**2019**	**2018**
Depreciation and amortization	21,741	24,454	33,551	33,286
Personnel expenses	134,147	128,933	235,748	223,330
Rough materials and consumables	274,247	237,616	376,200	335,176
Freight	27,857	26,022	33,965	32,600
Other expenses	10,823	45,601	60,878	77,017
Total	468,815	462,626	740,342	701,409
Classified as:				
Cost of sales and services	364,314	367,440	556,808	537,083
Selling expenses	44,758	43,747	85,621	79,801
General and administrative expenses	32,063	26,309	70,138	59,300
Research and development	20,470	17,379	20,470	17,379
Management profit sharing and fees	7,210	7,751	7,305	7,846
Total	468,815	462,626	740,342	701,409

In thousands of Reais, unless otherwise stated

24 Finance income (costs)

	Parent		Consolidated	
	2019	2018	2019	2018
Finance income:				
Income from financial investments	3,395	2,592	4,692	3,931
Interest on trade accounts receivable	5,207	5,344	5,207	5,344
Finance income (costs) in Lawsuit	62,426	32,115	62,426	32,115
Other	(3,382)	2,163	(2,383)	2,350
Total	67,646	42,214	69,942	43,740
Finance costs:				
Interest on financing	(2,057)	(5,170)	(4,185)	(7,753)
Other	(554)	(1,231)	(556)	(1,078)
Total	(2,611)	(6,401)	(4,741)	(8,831)

25 Other operating income, net

	Parent		Consolidated	
	2019	2018	2019	2018
Gains on sales of assets	2,800	3,683	3,269	5,043
Successful outcome in Lawsuit	74,321	-	74,321	-
Other	1,088	(1,017)	1,739	(1,048)
Total	78,209	2,666	79,329	3,995

* * *

INDÚSTRIAS ROMI S.A.
MANAGEMENT REPORT - 2019

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, 2019, accompanied by the Independent Auditors' Report. .

2019 began with continued economic recovery and increased optimism in the industry. Some macroeconomic data indicates 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. The volume of business opportunities also recovered over these months, mainly from the second half of the year, when a stronger recovery can be identified. This improvement in macroeconomic data and the general environment mainly began to materialize at the Romi Machinery business unit, which, given the more stable scenario, encouraged customers to resume their investments. Incoming orders for that business unit in 2019 increased 14.4% when compared to 2018.

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 improvements, mainly in indirect structures. We reiterated our focus on cost and expense reduction projects and have invested in automation and productivity, focusing on increasing profitability, observable since 2017. Strategically, we have established 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 2019 was R$ 765.5 million, 3% higher than in 2018, 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 and 2019, a gradual recovery of the industry, which reflected positively on the volume of new orders, which in the same comparison period also continued to grow.

In 2019, the domestic market accounted for 56% 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 (IRSA Mexico, United States, United Kingdom, France, Italy, Germany, and Spain) was US$ 86 million, 0.2% higher than in 2018.

In 2019, the order entry was R$ 739.8 million, 3.9% higher than the amount achieved in 2018.

Margins

The adjusted operating margin recorded in 2019 was positive at 3.9%, which represented a decrease of 2.5% when compared to 2018, due to the drop in the volume of billing from the Cast and Machined unit and the product mix of the Romi Machinery unit.

Profit

The profit for 2019 was R$ 129.9 million.

2. INVESTMENTS

In 2019, R$ 29.1 million was invested, the greater part intended for automation, 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, 2019, 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 or 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 – 56.720.428/0014-88/NIRE 35.300.036.751

PUBLICLY-HELD COMPANY

SUPERVISORY BOARD OPINION

In accordance with relevant legal and statutory provisions, the Supervisory Board 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, 2019, as well as the Capital Budget for 2020. Based on the information submitted and having received the clarifications provided by Management and the Independent Auditors, the Supervisory Board believes that said documents are appropriate to be submitted to the Annual Shareholders' Meeting.

Santa Bárbara d'Oeste, February 10, 2020

Alfredo Ferreira Marques Filho

Clóvis Ailton Madeira

Walter Luis Bernardes Albertoni

INDÚSTRIAS ROMI S.A.
CNPJ – 56.720.428/0014-88/NIRE 35.300.036.751

PUBLICLY HELD COMPANY

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 11, 2020

Luiz Cassiano Rando Rosolen – Chief Executive Officer
William dos Reis - Vice-President
Fábio Barbanti Taiar – Executive Officer
Francisco Vita Júnior – Executive Officer
Fernando Marcos Cassoni – Executive Officer

INDÚSTRIAS ROMI S.A.

Corporate Taxpayer Number (CNPJ) No. 56.720.428/0014-88 and State Registry (NIRE) No. 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, 2019.

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/FRS) and, in addition, to the clarifications and guidelines on the issue provided by the Securities and Exchange Commission (CVM) in its CIRCULAR LETTER/CVM /SNC/SEP/No. 01/2019, dated January 11, 2019, it would only be possible to recognize gains related to ICMS on sales included in the PIS and COFINS tax base when a final and unappealable decision has been handed down by the Supreme Federal Court regarding analysis of the motions for clarification filed by the Federal Government or even upon obtaining a final and unappealable decision on its own specific lawsuit.

In fact, a final and unappealable decision was handed down on March 13, 2019, the date on which the Company obtained the final and unappealable decision on its individual lawsuit on the issue. As a consequence of the final and unappealable decision on its lawsuit, the then present obligation arising from a past event is no longer considered an obligation and, therefore, the Company recognized in the financial statements for the first quarter of 2019, the effects of the success in this judicial proceedings, which totaled R$ 138,008, before taxes, of which

R$ 74,321 was recognized in line item “Other operating income (expenses)” and R$ 63,686 in line item “Finance income”. The impact on profit for the period was R$ 105,564, which considers the effects of income tax and social contribution on the gain, which were reduced by the use of interest on equity, declared in March 2019, according to the Notice to Shareholders dated March 26, 2019. On September 20, 2019, escrow deposits in the amount of R$ 88,456 were released and integrated into the Company's cash and cash equivalents.

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, 2020;

Santa Barbara d'Oeste, February 11, 2020

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