

(Convenience Translation into English from the
Original Previously Issued in Portuguese)

**Greenbrier Maxion
Equipamentos e Serviços
Ferroviários S.A.**

Financial Statements for the Year Ended
December 31, 2018 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Executive Committee of
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Opinion

We have audited the accompanying financial statements of Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. ("Company"), which comprise the balance sheet as at December 31, 2018, and the statements of profit and loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Basis for opinion

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 financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("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 audit opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other matters

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, April 15, 2019



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Fernando Augusto Lopes Silva
Engagement Partner

GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

BALANCE SHEETS AS AT DECEMBER 31, 2018 AND 2017

(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>	<u>LIABILITIES AND EQUITY</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	4	18,112	44,435	Borrowings and financing	11	99,152	50,042
Trade receivables	5	25,940	42,922	Trade payables	12	94,420	65,808
Inventories	6	171,593	69,936	Taxes payable		1,484	1,556
Recoverable taxes	7	22,229	16,099	Payroll and related taxes	13	21,099	21,522
Prepaid expenses		505	1,062	Advances from customers		17	-
Other receivables		<u>1,170</u>	<u>470</u>	Other payables		<u>6,728</u>	<u>9,899</u>
Total current assets		<u>239,549</u>	<u>174,924</u>	Total current liabilities		<u>222,900</u>	<u>148,827</u>
NONCURRENT ASSETS				NONCURRENT LIABILITIES			
Trade receivables	5	656	765	Borrowings and financing	11	784	563
Recoverable taxes	7	365	965	Provision for tax, civil and labor risks	14	11,376	12,045
Deferred income tax and social contribution	8	14,490	16,005	Other payables		<u>816</u>	<u>1,133</u>
Escrow deposits	15	6,478	4,007	Total noncurrent liabilities		<u>12,976</u>	<u>13,741</u>
Other receivables		1,000	1,000	EQUITY			
Property, plant and equipment	10	<u>58,621</u>	<u>55,872</u>	Share capital	15	87,707	87,707
Total noncurrent assets		<u>81,610</u>	<u>78,614</u>	Capital reserve		-	9,952
				Valuation adjustments to equity	15	1,340	1,564
				Accumulated losses		<u>(3,764)</u>	<u>(8,253)</u>
				Total equity		<u>85,283</u>	<u>90,970</u>
TOTAL ASSETS		<u>321,159</u>	<u>253,538</u>	TOTAL LIABILITIES AND EQUITY		<u>321,159</u>	<u>253,538</u>

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

GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

STATEMENTS OF PROFIT AND LOSS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of Brazilian reais - R\$, except earnings (loss) per share)

	Note	2018	2017
NET SALES REVENUE	16	567,024	711,499
COST OF SALES AND SERVICES	19	(511,069)	(629,682)
GROSS PROFIT		55,955	81,817
OPERATING EXPENSES			
Selling expenses	19	(25,957)	(30,886)
General and administrative expenses	19	(17,912)	(18,609)
Management fees	19	(4,396)	(3,741)
Other operating expenses, net	20	(5,188)	(6,873)
INCOME BEFORE FINANCE INCOME (COSTS)		2,502	21,708
Finance income	17	900	1,727
Finance costs	17	(5,145)	(15,896)
Foreign exchange gains (losses), net	18	(2,359)	421
PROFIT (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		(4,102)	7,960
INCOME TAX AND SOCIAL CONTRIBUTION			
Current	8.b	-	(2,460)
Deferred	8.b	(1,538)	2,934
PROFIT (LOSS) FOR THE YEAR		(5,640)	8,434
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED - R\$	16.c	(0.11671)	0.17452

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

GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R\$)

	<u>2018</u>	<u>2017</u>
PROFIT (LOSS) FOR THE YEAR	(5,640)	8,434
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(5,640)</u>	<u>8,434</u>

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

GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R\$)

	Note	Share capital	Capital reserve	Valuation adjustments to equity	Accumulated losses	Total
BALANCES AS AT DECEMBER 31, 2016		24,013	9,952	2,199	(16,906)	19,258
Capital increase		63,694	-	-	-	63,694
Realization of deemed cost, net of taxes		-	-	(635)	635	-
Derecognized assets at deemed cost		-	-	-	(416)	(416)
Profit for the year		-	-	-	8,434	8,434
BALANCES AS AT DECEMBER 31, 2017		<u>87,707</u>	<u>9,952</u>	<u>1,564</u>	<u>(8,253)</u>	<u>90,970</u>
Allocation of the capital reserve		-	(9,952)	-	9,952	-
Realization of deemed cost, net of taxes		-	-	(224)	177	(47)
Loss for the year		-	-	-	(5,640)	(5,640)
BALANCES AS AT DECEMBER 31, 2018		<u>87,707</u>	<u>-</u>	<u>1,340</u>	<u>(3,764)</u>	<u>85,283</u>

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

GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R\$)

	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Profit (loss) for the year		(5,640)	8,434
Adjustments to reconcile profit (loss) for the year to cash provided by (used in) operating activities:			
Depreciation	19	7,873	7,602
Deferred income tax and social contribution		1,538	(2,934)
Interest on borrowings and financing	11	4,180	8,549
Residual value of property, plant and equipment items written off	10	1,534	2,118
Reversal of the allowance for inventory losses	6	(1,749)	2,219
Allowance for doubtful debts	5	-	(740)
Exchange rate changes on borrowings and financing	11	5	1,084
Provision for tax, civil and labor risks, net of reversals	14	(669)	2,123
Other			-
Decrease (increase) in assets:			
Trade receivables	5	17,091	(10,681)
Inventories	6	(99,908)	41,025
Recoverable taxes	7	(5,530)	5,483
Escrow deposits		(2,471)	(2,599)
Other receivables and other assets		143	(841)
(Decrease) increase in liabilities:			
Trade payables	12	28,612	6,881
Advances from customers		17	(1,880)
Payroll and related taxes	13	(423)	(7,956)
Other payables and other liabilities		(3,916)	7,503
Cash provided by (used in) operating activities		(59,313)	65,390
Payment of income tax and social contribution		-	(2,460)
Payment of interest on borrowings and financing	11	(1,487)	(9,107)
Cash provided by (used in) operating activities		(60,800)	53,823
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(12,156)	(9,710)
Cash used in investing activities		(12,156)	(9,710)
CASH FLOW FROM FINANCING ACTIVITIES			
Capital payment		-	63,694
Borrowings and financing	11	68,235	141,645
Repayment of borrowings and financing - principal	11	(21,602)	(207,221)
Cash provided by (used in) financing activities		46,633	(1,882)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(26,323)	42,231
Cash and cash equivalents at the beginning of the year		44,435	2,204
Cash and cash equivalents at the end of the year		18,112	44,435
DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS		(26,323)	42,231

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

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GREENBRIER MAXION EQUIPAMENTOS E SERVIÇOS FERROVIÁRIOS S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

1.1. Corporate data

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. ("Company") is a privately-held corporation, incorporated on September 16, 2014, with registered head office at Rua Dez, s/n, Área Sítio São João, Jardim São Camilo, in the city of Hortolândia, State of São Paulo.

The Company started its operations on May 1, 2015. The Company is engaged in the manufacturing, milling, assembly, distribution, and sale of any type of railroad machinery, as well as import and export transactions.

The Company is jointly managed by two shareholders: Amsted Maxion Fundação e Equipamentos Ferroviários S.A. holding 40% stake, and Greenbrier do Brasil Participações Ltda. holding 60% stake.

1.2. Operational plan and actions implemented by the Company's Management

The actions taken by Management to improve revenues and increase liquidity include:

- a) Realignment of the production processes and product development involving major technological efficiency actions (reduction of part numbers etc.).
- b) Implementation of a service line engaged in railcar review/maintenance activities, allowing better distribution and absorption of labor and supplying a specific market demand.
- c) Implementation of a segment specialized in railway services involving the review, maintenance, refurbishment and transformation of cargo railcars. Such new service line primarily seeks to offer the market complete solutions in cargo railcar operations through a proposal ensuring greater benefits to customers. This allows operators to be free from concerns and high costs regarding the maintenance of their railcars, concentrating efforts on their actual core business. The main advantages to customers include: greater reliability and availability; higher productivity; maintenance backlog reduction; reduction of overheads, materials management and train-to-stop, in addition to recycling and reuse of materials and parts.

The shareholders are regularly informed about the Company's results, supporting its operations with guarantees and credit facilities, thus maintaining the commitment to finance operations and provide the financial support necessary to comply with its obligations, if necessary. With the actions and scenarios presented, Management did not identify any circumstance that may affect the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

a) Statement of compliance

The Company's financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which comprise the policies set out in the Brazilian Corporate Law and the technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM).

b) Measurement basis

The financial statements have been prepared using the historical cost, except for certain property, plant and equipment items measured at deemed cost and, when applicable, financial instruments measured at their fair values. The historical cost is generally based on the fair value of the consideration given in exchange for an asset.

c) Functional and reporting currency

Items in the Company's financial statements are measured in Brazilian reais (R\$), the functional and reporting currency, which represents the currency of the main economic environment where the Company operates.

d) Use of estimates and judgments

In applying the accounting policies described in note 3, Management makes judgments and estimates regarding the reported assets' and liabilities' carrying amounts, which are not easily obtained from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. The effects from the revisions to accounting estimates are recognized in profit or loss for the current year.

Areas that involved estimates and judgments are as follows:

- Note 5 - Allowance for doubtful debts.
- Note 6 - Allowance for inventory losses.
- Note 8 - Deferred income tax and social contribution.
- Note 14 - Provision for tax, civil and labor risks.
- Note 21 - Risk and financial instrument management.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Adoption of new and revised IFRS that are effective for the current year

3.1.1. Impact arising on the first-time adoption of IFRS 9 (CPC 48) – Financial Instruments

The Company adopted IFRS 9 - Financial Instruments (revised in July 2014) and related amendments that are relevant to other IFRSs in the current year, which are effective for annual reporting periods beginning on or after January 1, 2018. The IFRS 9 transitional provisions do not require the Company to restate any comparative information. Accordingly, the Company elected not to restate the comparative information on the classification and measurement of financial instruments.

IFRS 9 has introduced new requirements for: 1) The classification and measurement of financial assets and financial liabilities; 2) Impairment of financial assets; and 3) General hedge accounting. The Company adopted IFRS 9 in accordance with the transitional provisions set out in IFRS 9. Such new requirements and their impact on the Company's financial statements are detailed below.

Classification and measurement of financial assets

- (a) The first-time adoption date (i.e., the date on which the Company measured its financial assets and financial liabilities under IFRS 9) was January 1, 2018.

All financial assets recognized under IFRS 9 must be subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and their contractual cash flow characteristics.

Specifically:

The financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal amount are subsequently measured at amortized cost.

The financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal amount are subsequently measured at fair value through other comprehensive income;

All other investments in financial assets and investments in equity instruments are subsequently measured at fair value through profit or loss.

Financial assets

Classification

The Company classifies its financial assets at: (i) amortized cost; and (ii) fair value through profit or loss. These classifications are based on the business model adopted to manage assets and the contractual cash flow characteristics.

(i) Amortized cost

Financial assets held in a business model intended to maintain financial assets to receive contractual cash flows are recognized at amortized cost. These flows are received on specific dates and exclusively refer to payment of principal and interest. Assets classified in this category include: "Cash and cash equivalents", "Trade receivables" and "Other receivables".

(ii) Fair value through profit or loss

Those assets that (i) are not included in the business models for which classification at amortized cost or at fair value through other comprehensive income would be possible; (ii) equity instruments designated at fair value through profit or loss; and (iii) are managed so as to obtain cash flow from the sale of assets are recognized at fair value through profit or loss.

Initial measurement

Upon initial recognition, the Company measures its financial assets and financial liabilities at fair value, considering the transaction costs attributable to the acquisition or issuance of the financial asset or financial liability. For trade receivables, initial measurement is performed based on the transaction price.

Subsequent measurement

Based on the classification of assets, the subsequent measurement will be as follows:

(i) Amortized cost

These assets are accounted for using the effective interest method less the amount related to the expected credit loss. Additionally, the amount of principal paid is considered for calculation of the amortized cost.

(ii) Fair value through profit or loss

Assets classified within such business model are accounted for through the recognition of the gain and loss in profit or loss for the period.

(iii) Impairment of financial assets

Regarding the impairment of financial assets, IFRS 9 supersedes the "incurred credit loss" model set out in IAS 39 (CPC 38) with the "expected credit loss" model. Under the "expected credit loss" model, the Company is required to recognize expected credit losses and related variations at each reporting date to reflect any changes in the credit risk occurred since the initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. IFRS 9 specifically requires the Company to recognize an allowance for expected credit losses on trade receivables. In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument in an amount equivalent to lifetime expected credit losses if the credit risk underlying such financial instrument has increased significantly since the initial recognition, or if the financial instrument corresponds to an acquired or originated financial asset that might be impaired. Nevertheless, if the credit risk underlying a financial instrument has not increased significantly since the initial recognition (except for acquired or originated financial assets that might be impaired), the Company is required to measure the loss allowance for that financial instrument in an amount equivalent to 12-month expected credit losses. IFRS 9 also sets a simplified approach to measure a loss allowance in an amount equivalent to lifetime expected credit losses for trade receivables, contract assets and lease receivables under certain circumstances.

Trade receivables, among the financial assets held by the Company, are subject to recognition of the allowance for impairment (note 5). The Company's operations are focused on the railroad segment, and the large majority of its receivables derive from a few customers with appropriate financial soundness; for this reason, the loss on collection of receivables in the year ended 2018 accounted for 0.08% of its revenue (0.07% in 2017). Accordingly, the Company's profit or loss did not have significant impacts on the adoption of the recognition of expected credit losses.

Financial liabilitiesClassification

The Company's financial liabilities are classified at:

(i) Amortized cost, comprised of trade payables, and borrowings and financing.

Initial recognition

Financial liabilities are initially recognized at fair value, plus transaction costs (in the case of borrowings, financing and debentures and trade payables). The Company's financial liabilities include: trade payables, borrowings and financing. The Company does not have any derivative financial instruments.

Subsequent measurement

Based on the classification of liabilities, the subsequent measurement will be as follows:

(i) Amortized cost

Liabilities classified at amortized cost are accounted for using the effective interest method, where gains and losses are recognized in profit or loss upon derecognition of liabilities and recognition of amortization.

(ii) Fair value through profit or loss

Liabilities classified at fair value through profit or loss are accounted for through the recognition of the gain and loss in profit or loss for the period.

The new classification is summarized as follows:

<u>Financial asset/financial liability</u>	<u>Previous classification</u>	<u>Classification under IFRS 9</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Escrow deposits	Loans and receivables	Amortized cost
Trade payables	Loans and receivables	Amortized cost
Borrowings and financing	Loans and receivables	Amortized cost
Other financial liabilities	Loans and receivables	Amortized cost

3.1.2. Impact arising on the adoption of IFRS 15 (CPC 47) – Revenue from Contracts with Customers

In the current year, the Company adopted IFRS 15 – Revenue from Contracts with Customers (as amended in April 2016), which is effective for annual reporting periods beginning on or after January 1, 2018. IFRS 15 introduced a five-step revenue recognition approach. Much stricter guidance has been added to IFRS 15 to address specific scenarios. Such new requirements and their impact on the Company's consolidated financial statements are detailed below. The Company adopted the pronouncement using the modified retrospective approach and has noted that the recognition and measurement criteria were not significantly changed and the sales reported in note 16 did not have significant impact on the adoption of such standard beginning January 1, 2018. The adoption of IFRS 15 did not have any impact on the Company's financial position and/or financial performance.

While adopting IFRS 15, the Company did not identify any material impacts for 2018 and 2017.

3.2. Other accounting policies

a) General revenue recognition principles and criteria

CPC 47, equivalent to IFRS 15, supersedes CPC 30 - Revenue (equivalent to IAS 18) and related interpretations and is applicable, with some limited exceptions, to all revenue from contracts with customers. CPC 47 establishes a five-step model to account for revenues from contracts with customers and requires that revenue be recognized in an amount that reflects the consideration an entity expects to receive in exchange for transferring goods or services to a customer.

Under CPC 47, the Company is required to exercise judgment, based on all the relevant facts and circumstances, when applying each step of the model to contracts with its customers.

Revenue from product sales

Revenue is recognized to the extent it is probable that economic benefits will flow to the Company and when it can be reliably measured, regardless of when payment will be received, and when the relevant control is transferred to the buyers. Revenue is measured based on the fair value of the consideration received, less any discounts, rebates and taxes or charges on sales. The Company assesses revenue transactions based on specific criteria to determine whether it is acting as an agent or a principal, and finally concluded that it is acting as a principal under all of its revenue agreements. The Company does not provide any warranties other than those prescribed by law, in accordance with the industry's policy.

b) Foreign currency-denominated transactions

These are translated into the Company's functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting periods are retranslated into the functional currency at the rates prevailing at that date. Foreign exchange gains or losses on monetary items correspond to the difference between the amortized cost of the functional currency at the beginning of the year, and the amortized cost in foreign currency at the exchange rate prevailing at the end of each year. Foreign currency-denominated nonmonetary assets and liabilities that are measured at fair value are retranslated into the functional currency at the exchange rate prevailing at the date their fair values were determined.

c) Cash and cash equivalents

Comprise cash, banks and highly liquid short-term investments maturing within up to 90 days from investment date, immediately convertible into a known amount of cash and subject to an insignificant risk of change in value, which are carried at cost plus income earned through the end of each reporting period, which does not exceed their fair or realizable values.

d) Trade receivables and allowance for doubtful debts

Recognized and held in the balance sheet at the original amount of the receivables, less the allowance for doubtful debts, which is recognized taking into account the expected credit loss criteria. The breakdown of trade receivables is analyzed as a whole, and an allowance is recognized for all receivables that are not expected to generate future economic benefits for the Company.

e) Inventories

Stated at average acquisition or production cost, adjusted to their net realizable value and probable losses, when applicable. The average cost includes all costs incurred on purchase, production and processing costs, and costs incurred in bringing the inventories to their present location and condition. In the case of finished product and work in process inventories, cost includes a proportional share of manufacturing overheads based on normal production capacity.

The net realizable value is the estimated sales price in the normal course of business less estimated completion costs and selling expenses.

The Company makes estimates to determine the allowance for losses on inventories, which it considers to be in an amount considered sufficient to cover probable losses on inventories, based on the policy set by Management. The allowance for losses on inventories is recognized based on the history of consumption on an item-by-item basis for the past 12 months compared to the existing balance of inventories for the current year. The allowance for losses on inventories that exceed historical consumption for the past 12 months and for which no future sales are expected is recognized.

f) Property, plant and equipment

1) Recognition and measurement

Stated at purchase or construction cost and, when applicable, interest capitalized during the construction period, in the case of qualifying assets, less accumulated depreciation and allowance for impairment losses on discontinued assets without expectation of reuse or realization.

Machinery spare parts necessary to the regular operation of the items of property, plant and equipment and that result in an increase of an asset's useful life by more than twelve months, are classified as property, plant and equipment.

2) Subsequent costs

The cost of replacement of an item of property, plant and equipment is recognized at the carrying amount of the item when it is probable that the economic benefits arising from the item will flow to the Company and its cost can be reliably measured. Current regular maintenance costs are recognized in profit or loss as incurred.

3) Depreciation

Calculated on the depreciable amount, which is the purchase cost of an asset or another cost value after deducting its residual value.

Depreciation is recognized in profit or loss on a straight-line basis, based on the estimated useful lives of each part of an item of property, plant and equipment, as this method is more representative of the time pattern in which economic benefits from the asset are consumed. Land is not depreciated.

The depreciation rates estimated based on the useful lives are disclosed in note 10.

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and possible adjustments are subsequently recognized as changes in accounting estimates.

g) Leases

Operating leases are not recognized in the balance sheet.

The payments carried out under operating leases are recognized in profit or loss based on the straight-line method for the term of the lease. When applicable, lease incentives received are recognized as an integral part of the total lease expenses for the term of the lease agreement.

The minimum lease payments under finance leases are allocated between finance costs and the reduction of the outstanding liability. Finance costs are allocated in each period during the lease term in order to generate a constant effective interest rate over the remaining balance of the liability. Contingent lease payments are recognized based on the review of the minimum lease payments over the remaining lease term when the lease adjustment is confirmed.

h) Impairment testing

1) Fixed assets

The Company analyzes on an annual basis whether there is evidence that the carrying amount of an asset might be impaired. If there is any evidence of impairment, the recoverable amount of the asset is estimated, which is the higher of its fair value less costs to sell and its value in use. The value in use is equivalent to pretax discounted cash flows arising from the continuing use of the asset. When the residual value of the asset exceeds its recoverable amount, an impairment loss is recognized.

For impairment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units, or CGUs).

2) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at the end of each fiscal year to determine whether there is any objective evidence that it is impaired.

i) Provisions

1) Provision for tax, civil and labor risks

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of funds will be required to settle the obligation, and the obligation amount can be reliably estimated. The provision is quantified at the present value of the expected disbursement to settle the obligation using the appropriate discount rate, according to related risks.

It is adjusted up to the end of each fiscal year for the probable loss amount, according to the nature of each contingency and based on the opinion of the Company's legal counsel. The bases for and nature of the provisions for tax, civil, and labor risks are described in note 14.

2) Provision for warranties

The provision for expected warranty costs related to products sold is recognized on the date the respective products are sold, based on Management's best estimate of the expenses required to settle the Company's obligation.

k) Taxation

k.1) Current taxes

The provision for income tax and social contribution is based on the taxable income for the year. Taxable income differs from the income in the statement of profit and loss as it excludes income or expenses taxable or deductible in other years, and also nontaxable or nondeductible items on a permanent basis. The provision for income tax and social contribution is calculated at the rates prevailing at the end of each year, of 15%, plus a surtax of 10% on the taxable income above R\$240 (annual basis) for income tax and 9% on the taxable income for social contribution, considering the offset of income and social contribution taxes loss carryforwards, limited to 30% of the taxable income.

k.2) Deferred taxes

Deferred income tax and social contribution ("deferred taxes") arise from temporary differences at the end of each fiscal year between the balances of assets and liabilities recognized in the financial statements and their tax bases used in the determination of taxable income, including tax losses where applicable. Deferred tax liabilities are usually recognized on all temporary taxable differences and deferred tax assets are recognized on all temporary deductible differences, only when it is probable that the Company will present future taxable income in a sufficient amount so that these temporary deductible differences can be utilized.

The recovery of deferred tax assets is reviewed at the end of each fiscal year, and when it is no longer probable that future taxable income will be available to allow the recovery of all or part of the assets, the asset balance is adjusted based on the expected recoverable amount.

Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially enacted. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of each year, to recover or settle the carrying amount of these assets and liabilities.

Deferred tax assets and liabilities are offset when, and only when, there is the legal right to offset the tax asset against the tax liability and when they are related to the taxes managed by the same tax authority, and the Company intends to settle the net value of its tax assets and liabilities.

l) Earnings (loss) per share

Basic earnings (loss) per share are calculated by means of the profit or loss for the year attributable to the Company's owners and noncontrolling interests and the weighted average number of common shares outstanding in the related year. Diluted earnings (loss) per share are calculated by means of the average number of shares outstanding, adjusted by instruments potentially convertible into shares, with diluting effect, in the reported years.

m) New standards and interpretations issued and not yet adopted

(a) General impact arising on the adoption of IFRS 16 – Leases

IFRS 16 introduces a comprehensive model for the identification of lease agreements and their recognition in the financial statements applicable to lessors and lessees. IFRS 16 will supersede the current lease guidance, including IAS 17 (CPC 06 (R1)) – Leases and related interpretations and is effective for annual reporting periods beginning on or after January 1, 2019. For the Company, the IFRS 16 first-time adoption date will be January 1, 2019.

The Company elected to adopt such standard using the modified retrospective approach in accordance with IFRS 16:C5(b). Consequently, the Company will not restate the comparative information.

Differently from the accounting criteria applicable to lessees, IFRS 16 substantially transfers the lessor accounting requirements set out in IAS 17 (CPC 06 (R1)).

(b) Impact of the new lease definition

The Company will use the practical expedient available in the transition to IFRS 16 so as not to reassess whether a contract is or contains a lease. Therefore, the lease definition set out in IAS 17 and IFRIC 4 (equivalent to ICPC 03) will remain applicable to leases contracted or modified prior to January 1, 2019.

The lease definition changes mainly relate to the concept of control. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Control is achieved if the customer has:

- The right to obtain substantially all of the economic benefits from use of an identified asset.
- The right to control the use of an identified asset.

The Company will apply the lease definition and related guidance described in IFRS 16 to all lease agreements entered into or modified on or after January 1, 2019 (for both parties to a contract (lessors and lessees)).

Prior to the first-time adoption of IFRS 16, the Company conducted an implementation project. Such project indicated that the new definition set out in IFRS 16 will not significantly change the scope of agreements qualifying for the lease concept for the Company.

(c) Impact on lessee accounting

Operating leases

Upon the first-time adoption of IFRS 16, for all leases (except as described below), the Company is required to:

- a) Recognize right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments.
- b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit and loss.
- c) Segregate the total amount of cash paid into a principal portion (reported within financing activities) and interest (reported within operating activities) in the statement of cash flows.

Under IFRS 16, right-of-use assets will be tested for impairment pursuant to IAS 36 - Impairment of Assets (CPC 01 (R1)). Such standard will supersede the prior requirements for recognition of a provision for onerous lease agreements.

For short-term leases (i.e., when the lease term is 12 months or less) and leases of low-value assets (for instance, personal computers and office furniture), the Company will recognize lease expenses on a straight-line basis pursuant to IFRS 16.

As at December 31, 2018, the Company has non-cancelable operating lease commitments, in the amount of R\$79,376. The impact on profit or loss for 2019 will comprise a decrease of R\$25,147 in "Other expenses", a depreciation increase of R\$21,985, as well as an increase of R\$3,162 in interest expenses.

4. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
Cash and banks	11,537	36,164
Highly liquid short-term investments	<u>6,575</u>	<u>8,271</u>
Total	<u>18,112</u>	<u>44,435</u>

As at December 31, 2018, the Company's short-term investments are represented by Bank Certificates of Deposit (CDBs), executed with several financial institutions, with yield equivalent to 95.63% of the Interbank Certificate of Deposit rate (CDI) (96.50% in December 2017) and are classified as cash and cash equivalents for being redeemable within 90 days after the purchase date and being considered financial assets with immediate redemption guarantee, subject to an insignificant risk of change in value.

5. TRADE RECEIVABLES

a) Breakdown

	<u>2018</u>	<u>2017</u>
In Brazil	27,074	44,165
Allowance for doubtful debts	<u>(478)</u>	<u>(478)</u>
Total	<u>26,596</u>	<u>43,687</u>

	<u>2018</u>	<u>2017</u>
Current assets	25,940	42,922
Noncurrent assets	656	765

Aging list

	<u>2018</u>	<u>2017</u>
Current	26,557	43,456
Past-due:		
1 to 30 days	37	216
31 to 60 days	-	12
61 to 90 days	-	3
91 to 180 days	2	-
Over 181 days	478	478
Total	<u>27,074</u>	<u>44,165</u>

The variation in allowance for doubtful debts is as follows:

	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	(478)	(1,218)
Reversals	-	1,744
Additions	-	(1,004)
Balance at the end of the year	<u>(478)</u>	<u>(478)</u>

6. INVENTORIES

	<u>2018</u>	<u>2017</u>
Finished products	121,254	24,217
Work in process	7,316	5,302
Raw materials	42,822	41,693
Auxiliary materials	1,633	1,099
Advances to suppliers	11	733
Imports in transit	57	141
Allowance for inventory losses	(1,500)	(3,249)
Total	<u>171,593</u>	<u>69,936</u>

Variations in the allowance for inventory losses are as follows:

	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	(3,249)	(1,030)
Allowances	(2,533)	(5,995)
Reversals	4,282	3,776
Balance at the end of the year	<u>(1,500)</u>	<u>(3,249)</u>

7. RECOVERABLE TAXES

	<u>2018</u>	<u>2017</u>
State VAT (ICMS)	10,541	4,142
Tax on revenue (COFINS)	3,813	6,188
Tax on revenue (PIS)	1,244	1,273
Corporate Income Tax (IRPJ)	6,612	5,037
Federal VAT (IPI)	384	381
Other	-	43
Total	<u>22,594</u>	<u>17,064</u>
Current assets	22,229	16,099
Noncurrent assets	365	965

8. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

	<u>2018</u>	<u>2017</u>
Tax loss carryforwards	5,008	4,130
Social contribution tax (loss) carryforwards	1,803	1,487
Provision for tax, civil and labor risks	3,868	3,830
Allowance for inventory losses	510	1,105
Allowance for doubtful debts	162	163
Accrued profit sharing	1,884	2,674
Provision for warranties and reviews	1,031	1,041
Other	1,067	2,515
Total deferred income tax and social contribution assets	<u>15,333</u>	<u>16,945</u>
Deemed cost of property, plant and equipment	(690)	(806)
Difference in depreciation criterion	<u>(153)</u>	<u>(134)</u>
Total deferred income tax and social contribution liabilities	<u>(843)</u>	<u>(940)</u>
Deferred tax assets, net	<u>14,490</u>	<u>16,005</u>

Based on taxable profit projections approved by Management, the Company estimates to recover the tax credit arising on tax loss carryforwards, as well as on temporary differences, in the following years:

<u>Year</u>	<u>R\$</u>
2019	16
2020	2,747
2021	2,921
2022	3,324
2023	3,956
2024 onwards	1,526
Total	<u>14,490</u>

The estimated recoverability of tax credits was based on the taxable profit projections, considering several financial and business assumptions.

b) Reconciliation of statutory income tax rates with the effective tax rates

	<u>2018</u>	<u>2017</u>
Profit (loss) before income tax and social contribution	(4,102)	7,960
Combined rate	<u>34%</u>	<u>34%</u>
Income tax and social contribution credit (expense) at combined rate	1,395	(2,706)
Permanent differences	<u>(2,933)</u>	<u>3,180</u>
Income tax and social contribution in profit or loss	<u>(1,538)</u>	<u>474</u>
Current	-	(2,460)
Deferred	(1,538)	2,934
Effective rates	(37%)	(6%)

9. RELATED PARTIES

- a) The amounts referring to the compensation of key Management personnel, pursuant to the bylaws, are as follows:

	<u>2018</u>	<u>2017</u>
Key Management personnel (salaries and benefits)	<u>4,396</u>	<u>3,741</u>

- b) In the normal course of business, the Company conducted intragroup transactions under prices, terms, finance charges and other conditions agreed upon among the parties. The main asset and liability balances as at December 31, 2018, as well as the transactions that impacted profit or loss for the year then ended, regarding the transactions with related parties are as follows:

	<u>2018</u>			
	<u>Assets</u>	<u>Liabilities</u>	<u>Profit or loss</u>	
	<u>Trade receivables</u>	<u>Trade payables</u>	<u>Sales</u>	<u>Purchases</u>
Amsted Rail Company, Inc. (*)	-	5	-	18,741
Amsted Rail Brasil Equipamentos Ferroviários S.A. (*)	115	23,762	-	40,358
Amsted Maxion Fundição e Equipamentos Ferroviários S.A. (*)	156	486	365	119,737
Iochpe Maxion S.A. (*)	-	-	-	-
Total	<u>271</u>	<u>24,253</u>	<u>365</u>	<u>178,836</u>

	<u>2017</u>			
	<u>Assets</u>	<u>Liabilities</u>	<u>Profit or loss</u>	
	<u>Trade receivables</u>	<u>Trade payables</u>	<u>Sales</u>	<u>Purchases</u>
Amsted Rail Company, Inc. (*)	-	59	797	38,968
Amsted Rail Brasil Equipamentos Ferroviários S.A. (*)	43	13,871	108	51,489
Amsted Maxion Fundição e Equipamentos Ferroviários S.A. (*)	308	976	1,468	134,237
Iochpe Maxion S.A. (*)	-	1	-	-
Total	<u>351</u>	<u>14,907</u>	<u>2,373</u>	<u>224,694</u>

- (*) The Company acquires raw materials and railroad components (mainly railroad axles, bearings, wheels, and casts) from Amsted Maxion Fundição e Equipamentos Ferroviários S.A. and from Amsted Rail Brasil Equipamentos Ferroviários S.A., a subsidiary of Amsted Industries, Inc.

c) Shared services agreement

On May 6, 2015, the Company and Amsted Maxion Fundição e Equipamentos Ferroviários S.A., entered into an agreement that regulates the sharing of the management infrastructure comprising, but not limited to, employees, technicians, contractors, equipment, and materials (back office) aimed at reducing costs and expenses. This agreement covers sharing the expenses of the following corporate functions: Executive Board, IT, Accounting, Treasury, Sales, Marketing, and Strategic Planning. Infrastructure and facility expenses related to this agreement, recorded in line item "General and administrative expenses", amounted to R\$1,840 for the year ended December 31, 2018 (R\$2,860 as at December 31, 2017).

10. PROPERTY, PLANT AND EQUIPMENT

	Average annual depreciation rate - %	2018		
		Cost	Accumulated depreciation	Net
Buildings and improvements	5.55	6,777	(2,001)	4,776
Machinery and equipment	11.00	45,680	(22,882)	22,798
Tooling	11.00	590	(324)	266
Molds	18.00	27,575	(11,662)	15,913
Furniture and fixtures	7.00	4,678	(1,678)	3,000
Company cars	22.22	1,110	(606)	504
IT equipment	31.50	4,847	(3,319)	1,528
Other property, plant and equipment	2.25	89	(85)	4
Construction in progress	-	9,832	-	9,832
Total		<u>101,178</u>	<u>(42,557)</u>	<u>58,621</u>

	Average annual depreciation rate - %	2017		
		Cost	Accumulated depreciation	Net
Buildings and improvements	5.55	6,359	(1,380)	4,979
Machinery and equipment	11.00	44,234	(20,814)	23,420
Tooling	11.00	966	(576)	390
Molds	18.00	27,554	(9,670)	17,884
Furniture and fixtures	7.00	3,685	(1,387)	2,298
Company cars	22.22	1,110	(207)	903
IT equipment	31.50	4,594	(2,820)	1,774
Other property, plant and equipment	2.25	89	(82)	7
Construction in progress	-	4,217	-	4,217
Total		<u>92,808</u>	<u>(36,936)</u>	<u>55,872</u>

Variations in the cost of property, plant and equipment

	2017	2018			
	Cost	Additions	Write-offs	Transfers	Cost
Buildings and improvements	6,359	-	-	418	6,777
Machinery and equipment	44,234	675	(352)	1,123	45,680
Tooling	966	-	-	(376)	590
Molds	27,554	-	(2,408)	2,429	27,575
Furniture and fixtures	3,685	-	(7)	1,000	4,678
Company cars	1,110	-	-	-	1,110
IT equipment	4,594	-	(56)	309	4,847
Other property, plant and equipment	89	-	-	-	89
Construction in progress	4,217	11,481	(963)	(4,903)	9,832
Total	<u>92,808</u>	<u>12,156</u>	<u>(3,786)</u>	<u>-</u>	<u>101,178</u>

	2016	2017			
	Cost	Additions	Write-offs	Transfers	Cost
Buildings and improvements	5,015	78	-	1,266	6,359
Machinery and equipment	42,193	308	(3,245)	4,977	44,234
Tooling	1,736	7	(776)	-	967
Molds	27,353	290	(477)	388	27,554
Furniture and fixtures	3,536	420	(663)	392	3,685
Company cars	531	-	(531)	1,110	1,110
IT equipment	3,919	42	(107)	739	4,594
Other property, plant and equipment	93	-	(4)	-	89
Construction in progress	4,608	8,564	(83)	(8,872)	4,217
Total	<u>88,984</u>	<u>9,710</u>	<u>(5,886)</u>	<u>-</u>	<u>92,808</u>

Variations in depreciation of property, plant and equipment

	2017	2018		
	Accumulated depreciation	Additions	Write-offs	Accumulated depreciation
Buildings and improvements	(1,380)	(621)	-	(2,001)
Machinery and equipment	(20,814)	(2,456)	388	(22,882)
Tooling	(576)	(44)	296	(324)
Molds	(9,670)	(3,506)	1,514	(11,662)
Furniture and fixtures	(1,387)	(295)	4	(1,678)
Company cars	(207)	(406)	7	(606)
IT equipment	(2,820)	(542)	43	(3,319)
Other property, plant and equipment	(82)	(3)	-	(85)
Total	<u>(36,936)</u>	<u>(7,873)</u>	<u>2,252</u>	<u>(42,557)</u>

	2016		2017	
	Accumulated depreciation	Additions	Write-offs	Accumulated depreciation
Buildings and improvements	(692)	(688)	-	(1,380)
Machinery and equipment	(19,692)	(3,124)	2,002	(20,814)
Tooling	(978)	(92)	494	(576)
Molds	(7,390)	(2,547)	267	(9,670)
Furniture and fixtures	(1,491)	(377)	481	(1,387)
Company cars	(374)	(258)	425	(207)
IT equipment	(2,407)	(509)	96	(2,820)
Other property, plant and equipment	(78)	(7)	3	(82)
Total	<u>(33,102)</u>	<u>(7,602)</u>	<u>3,768</u>	<u>(36,936)</u>

In the year ended December 31, 2018, the Company did not find any indicators that the carrying amounts of some of its assets could be higher than their recoverable amounts; thus, no allowance for impairment was recognized in the financial statements.

11. BORROWINGS AND FINANCING

	Index	Effective annual interest rate - %	Final maturity date	2018	2017
Local currency:					
Working capital	CDI	12.50	05/17/2018	-	14,135
NCE	CDI+1.66%	8.17	07/06/2019	10,176	-
NCE	CDI+3.04%	9.63	07/15/2019	11,488	-
Finame	-	10.87	12/15/2022	812	-
Intercompany financing	-	0.17	01/31/2019	30,241	35,558
Intercompany financing	CDI	6.40	03/27/2019	35,490	-
Intercompany financing	CDI+7.39%	14.26	04/22/2019	11,193	-
Leases	-	10.91	02/24/2019	43	111
Leases	-	10.92	04/02/2019	182	387
Leases	-	8.42	08/17/2020	311	414
Total				<u>99,936</u>	<u>50,605</u>
Current liabilities				99,152	50,042
Noncurrent liabilities				784	563

Variations in borrowings and financing

	2018	2017
Balance as at December 31	50,605	115,655
Funding	68,235	141,645
Accrued interest	4,180	8,549
Principal repayment	(21,602)	(207,221)
Payment of interest	(1,487)	(9,107)
Exchange rate changes on translation	5	1,084
Balance as at December 31	<u>99,936</u>	<u>50,605</u>

12. TRADE PAYABLES

	<u>2018</u>	<u>2017</u>
In Brazil	70,010	50,245
Abroad	157	656
Related parties (note 9)	<u>24,253</u>	<u>14,907</u>
Total	<u>94,420</u>	<u>65,808</u>

13. PAYROLL AND RELATED TAXES

	<u>2018</u>	<u>2017</u>
Related taxes	3,745	4,627
Accrued vacation pay	11,666	8,883
Profit sharing	5,540	7,865
Other	148	147
Total	<u>21,099</u>	<u>21,522</u>

14. PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Company is a party to lawsuits and administrative proceedings before various courts and governmental bodies, arising in the normal course of business and involving tax, civil, labor and other matters.

Management, based on information from its legal counsel, analyzed ongoing proceedings and, as regards labor lawsuits, based on past experience regarding the amounts claimed, has recognized a provision in an amount considered sufficient to cover probable losses on ongoing proceedings, as follows:

	<u>2018</u>	<u>2017</u>
Labor lawsuits	9,622	11,265
Tax lawsuits - Federal	<u>1,754</u>	<u>780</u>
Total	<u>11,376</u>	<u>12,045</u>

Variations in the year were as follows:

	<u>Balance in 2017</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Write- offs</u>	<u>Balance in 2018</u>
Labor lawsuits	11,265	3,127	427	(5,197)	9,622
Tax lawsuits - Federal	780	974	-	-	1,754
Total	<u>12,045</u>	<u>4,101</u>	<u>427</u>	<u>(5,197)</u>	<u>11,376</u>

	<u>Balance in 2016</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Write- offs</u>	<u>Balance in 2017</u>
Labor lawsuits	9,845	1,211	806	(597)	11,265
Tax lawsuits - Federal	77	701	2	-	780
Total	<u>9,922</u>	<u>1,912</u>	<u>808</u>	<u>(597)</u>	<u>12,045</u>

The following is a summary of the lawsuits to which the Company is a party, broken down by type:

Labor lawsuits

As at December 31, 2018, the Company was a party to 583 labor lawsuits (449 in 2017). The main claims in these lawsuits refer to occupational illnesses, accidents, health hazard and hazardous duty premiums, overtime, salary parity and severance pay, among others, and there are no lawsuits whose amounts are individually relevant. The total amount under litigation is R\$91,067 (R\$87,710 in 2017) for which a provision in the amount of R\$9,622 (R\$11,265 in 2017) was recognized based on historical information representing the best estimate of probable losses. There are other lawsuits whose likelihood of loss was assessed by the Company's legal counsel as remote, for which no provision was recognized since accounting practices adopted in Brazil do not require its recognition or disclosure.

Possible risks

The Company is a party to several ongoing tax and civil lawsuits, whose likelihood of loss, based on the Company's estimates and its legal counsel's opinion, is assessed as possible; therefore, no provisions were recorded. As at December 31, 2018, tax lawsuits amounted to R\$2,889 (R\$2,662 as at December 31, 2017), whereas civil lawsuits amounted to R\$855 (R\$703 as at December 31, 2017).

Appeal escrow deposits

Represent restricted assets of the Company and are related to amounts deposited and held by the courts until a final decision of the related litigation is reached.

As at December 31, 2018, the balance of R\$6,478 (R\$4,007 as at December 31, 2017) refers to escrow deposits related to labor, tax and civil lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with the lawsuits. Based on Management's and its legal counsel's opinion, the likelihood of loss is not considered as probable and, therefore, no provision for tax, civil and labor risks was recognized.

15. EQUITY

a) Share capital

As at December 31, 2018 and 2017, subscribed and paid-in capital amounts to R\$87,707.

	<u>Country</u>	<u>Number of shares</u>	<u>Equity interest %</u>	<u>Total</u>
Amsted Maxion Fundição e Equipamentos Ferroviários S.A.	Brazil	19,330,272	40.0	19,330
Greenbrier do Brasil Participações Ltda.	Brazil	28,995,406	60.0	68,377
Total		<u>48,325,678</u>	<u>100.0</u>	<u>87,707</u>

b) Valuation adjustments to equity

Recognized as a result of the revaluations of items of property, plant and equipment (deemed cost) based on a valuation report prepared by independent valuers. The corresponding income tax and social contribution are classified in noncurrent liabilities and are realized through depreciation or disposal of the revalued assets against tax loss carryforwards, net of taxes.

c) Earnings (loss) per share

Basic and diluted earnings (loss) per share was calculated based on the profit or loss for the year attributable to the Company's shareholders and on the respective average number of outstanding shares, as shown below:

	<u>2018</u>	<u>2017</u>
Profit (loss) attributable to the Company's owners	(5,640)	8,434
Weighted average number of shares	<u>48,325,678</u>	<u>48,325,678</u>
Basic and diluted earnings (loss) per share – R\$	<u>(0.11671)</u>	<u>0.17452</u>

The Company does not have diluted instruments; therefore, the basic earnings (loss) per share is equal to the diluted earnings (loss) per share.

16. NET SALES REVENUE

	<u>2018</u>	<u>2017</u>
Gross sales revenue		
Product sales	597,598	752,564
Services rendered	4,856	4,726
Deductions:		
Taxes on sales and services	(32,566)	(43,745)
Returns and cancelations in the year	<u>(2,864)</u>	<u>(2,046)</u>
Net sales revenue	<u>567,024</u>	<u>711,499</u>

17. FINANCE INCOME (COSTS)

	<u>2018</u>	<u>2017</u>
Finance income:		
Discounts obtained and interest receivable	900	1,727
Total	<u>900</u>	<u>1,727</u>
Finance costs:		
Interest and finance charges	(4,693)	(13,514)
Commissions on guarantee	-	(876)
Tax on Financial Transactions (IOF)	(231)	(661)
Other	<u>(221)</u>	<u>(845)</u>
Total	<u>(5,145)</u>	<u>(15,896)</u>

18. FOREIGN EXCHANGE GAINS (LOSSES), NET

	<u>2018</u>	<u>2017</u>
Foreign exchange gains on foreign currency-denominated assets and liabilities	846	1,542
Foreign exchange losses on foreign currency-denominated assets and liabilities	<u>(3,205)</u>	<u>(1,121)</u>
Total	<u>(2,359)</u>	<u>421</u>

19. COSTS AND EXPENSES BY NATURE

	<u>2018</u>	<u>2017</u>
Raw materials	(333,638)	(410,049)
Salaries, charges and benefits	(143,964)	(176,762)
Supplies and maintenance	(21,412)	(23,541)
Electric power	(2,221)	(2,556)
Depreciation	(7,873)	(7,602)
Outside services	(9,950)	(10,646)
Freight	(20,011)	(18,253)
Commissions	(1,483)	(1,412)
Warranties	(2,522)	(7,206)
Transportation and communication	(3,008)	(3,666)
Other costs	(13,252)	(21,225)
Total	<u>(559,334)</u>	<u>(682,918)</u>
Classified as:		
Cost of sales and services	(511,069)	(629,682)
Selling expenses	(25,957)	(30,886)
Management fees	(4,396)	(3,741)
General and administrative expenses	(17,912)	(18,609)
Total	<u>(559,334)</u>	<u>(682,918)</u>

A substantial portion of the Company's sales is carried out in accordance with the incoterms categories known as Freight On Board (FOB), under which the Company is responsible for making goods available for pickup at its location and the customer assumes full responsibility for the collection (both financially and in terms of safeguarding the assets). At this time, control over goods is transferred to the customer and, consequently, revenue is recognized.

20. OTHER OPERATING EXPENSES, NET

	<u>2018</u>	<u>2017</u>
Other income:		
ICMS untimely credits	-	235
Tax Reintegration Regime for Exporting Companies (REINTEGRA)	530	70
Proex	442	-
Technical cooperation agreement	303	-
Other	129	130
	<u>1,404</u>	<u>435</u>
Other expenses:		
Contingencies and legal costs	(4,256)	(5,120)
Project Formare (Fundação Iochpe)	(180)	(153)
Municipal Property Tax (IPTU)	(388)	(213)
Federal and state taxes	(27)	(937)
Trade association dues	(214)	(128)
Organizational consulting	(676)	-
Audit	(134)	-
Other	(717)	(757)
	<u>(6,592)</u>	<u>(7,308)</u>
Total other operating expenses, net	<u>(5,188)</u>	<u>(6,873)</u>

21. RISK AND FINANCIAL INSTRUMENT MANAGEMENT

a) General considerations and policies

The Company conducts transactions involving financial instruments, when applicable, all of which recorded in balance sheet accounts, which are intended to meet its operating and financial needs. These instruments are represented by short-term investments and borrowings and financing.

These financial instruments are managed based on policies, strategies, and control systems seeking to ensure liquidity, profitability and security.

The policy related to entering into financial instrument contracts for hedging purposes is also approved by the Board of Directors of Iochpe-Maxion S.A., which is then regularly reviewed as to the risk exposure that the Management intends to hedge (foreign exchange exposure). The Company does not make speculative investments in derivatives or any other risk assets. Gains or losses on these transactions are consistent with the policies and strategies designed by the Company's Management.

The estimated realizable value of the Company's financial assets and financial liabilities has been determined based on available market information and appropriate valuation methodologies. Judgments have been required to interpret market inputs in order to develop the most appropriate realizable value estimates. Therefore, the estimates provided below are not necessarily indicative of the amounts that could be realized in a current exchange market. The use of different market methodologies may have a material effect on the estimated realizable values.

Classification of financial instruments - by category

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Financial assets-			
Amortized cost:			
Cash and cash equivalents	4	18,112	44,435
Trade receivables (include due from related parties)	5	<u>26,596</u>	<u>43,687</u>
Total		<u>44,708</u>	<u>88,122</u>
Financial liabilities-			
Amortized cost:			
Borrowings and financing	11	99,936	50,605
Trade payables (include due to related parties)	12	<u>94,420</u>	<u>65,808</u>
Total		<u>194,356</u>	<u>116,413</u>

b) Fair values

The Company adopts hierarchy rules to measure the fair value of its financial instruments, according to the accounting policies of the technical pronouncement CPC 40/IFRS 7 – Financial Instruments: Disclosure, for financial instruments measured in the balance sheet, which requires the disclosure of fair value measurements based on the following hierarchy level:

- Level 1 - Prices quoted (unadjusted) in active markets for identical assets or liabilities.

- Level 2 - Other inputs, except for those included in Level 1, where prices are quoted (unadjusted) for similar assets or liabilities, either directly (as prices) or indirectly (that is, derived from prices) in inactive markets, or other available data or that may be confirmed by market information for substantially all terms of the assets and liabilities.
- Level 3 - Unavailable inputs, due to little or no market activity, that is significant for the definition of fair value of assets and liabilities (unobservable inputs).

A market is considered active if quoted prices are readily and regularly available from a stock exchange or regulatory agency, among others, and those prices represent actual market transactions that occur regularly on a purely arm's-length basis. Therefore, the fair value of the financial instruments traded in active markets is based on market values, quoted at the balance sheet dates, being included in Level 1.

The fair value of financial instruments not traded in active markets (e.g., over-the-counter derivatives) is determined using valuation techniques.

In the case of the Company, the financial instruments disclosed in balance sheets, such as bank accounts, short-term investments, trade receivables and trade payables, approximate their market values.

These valuation techniques make maximum use of market inputs and rely as little as possible on Company-specific estimates.

If all material inputs required for measuring the fair value of an instrument are obtained in the market, the instrument is included in Level 2. If the information is provided by the Company's internal data, the instrument will be included in Level 3.

As at December 31, 2018, the Company had no financial instruments stated at fair value.

c) Financial risk management

The Company's operations are subject to the following risk factors:

Credit risk

Arises from the possibility of the Company incurring losses as a result of default by its counterparties or financial institutions that are depositaries of funds or financial investments. To mitigate this risk, the Company adopts the procedure of analyzing the financial position of its counterparties, as well as establishing credit limits, and constantly monitoring its balances. Concerning the financial institutions, the Company only conducts transactions with financial institutions highly rated by credit rating agencies.

Almost all revenues are allocated between the railway and mining logistics operators. The Company's Management believes that the allowances recognized are sufficient to cover potential default, and there are no differences between the fair value and the carrying amounts of these allowances (see the allowance for doubtful debts amount in note 5).

In addition, a significant portion of its purchases is made with related parties, as described in note 9.

Liquidity risk

Effectively managing liquidity risk implies maintaining sufficient cash and securities, funds available through committed credit facilities and the ability to settle market positions. Due to the active nature of the Company's businesses, the treasury area is flexible in raising funds through the maintenance of committed credit facilities.

Management monitors the Company's liquidity level considering the expected cash flow against unused credit facilities and cash and cash equivalents. This forecast takes into consideration the Company's debt financing plans, fulfillment with internal balance sheet ratio goals and, when applicable, external regulatory or legal requirements (e.g., currency restrictions). Through its Risk Management Policy, the Company establishes a minimum cash limit and debt management financial indicators.

The table below illustrates the Company's nonderivative financial liabilities, by maturity ranges, corresponding to the remaining period in the balance sheet through the contractual maturity date:

	2018	
	Up to 1 year	1 to 2 years
Trade payables	94,420	-
Borrowings and financing	99,152	784
Total	<u>193,572</u>	<u>784</u>

Interest rate risk

Arises from the possibility of the Company incurring gains or losses due to fluctuations in the interest rates applied to its financial assets and financial liabilities. To mitigate this risk, the Company tries to diversify its borrowings into fixed and floating rates.

Foreign exchange risk

Arises from possible fluctuations in the exchange rates of the foreign currencies used by the Company to purchase inputs, sell products, and contract financial instruments, besides payables and receivables in foreign currencies. The Company has a specific policy to conduct hedging transactions aimed at mitigating these risks. The main assets and liabilities exposed to foreign exchange risks are:

- Trade payables: the Company has a balance of foreign payables amounting to R\$157 (note 12), equivalent to US\$42 as at December 31, 2018.
- Derivative financial instruments: in the year ended December 31, 2018, the Company did not enter into derivative transactions.

Sensitivity analysis to foreign exchange and interest rate fluctuations

Financial instruments, including derivatives, are exposed to fair value changes due to fluctuations in exchange rates and interest rates (CDI). The sensitivity analyses of the financial instruments to these variables are shown below:

(i) Selection of risks

The Company selected as the market risk that could have a higher impact on the value of financial instruments held by it as the interest rate risk: (1) CDI rates; and (2) U.S. dollar/Brazilian real exchange rate.

(ii) Selection of scenarios

The following table considers three risk scenarios for the currency indexes of these financial liabilities, with the Company adopting the probable scenario. In addition to the probable scenario, two additional scenarios are shown, with stresses of 25% and 50% in the risk variables as at December 31, 2018.

Management did not consider the sensitivity analysis for the probable scenario, with reference to the depreciation of the Brazilian real against the US dollar and the euro, because it understands that this scenario substantially reflects the exchange rate changes already recognized in the financial statements for the year ended December 31, 2018.

The possible and remote scenarios consider fluctuations of 25% and 50%, respectively, in CDI interest rates against the closing quotations as at December 31, 2018:

	Scenarios		
	Probable	Possible -25%	Remote -50%
<u>Short-term investments - CDI</u>			
CDI as at December 31, 2018	6.12%	4.59%	3.06%
Indexed short-term investments – 95.63% of CDI - R\$6,575:			
Carrying amount considering the estimated finance income	402	302	201
Effect	-	(100)	(201)
	Scenarios		
	Probable	Possible +25%	Remote +50%
<u>Borrowings and financing - CDI</u>			
CDI as at December 31, 2018	6.42%	8.03%	9.63%
Loan – CDI +1.66%, R\$10,176, CDI + 3.04%, R\$11,488, CDI - R\$35,490, CDI+7.39% - R\$11,193			
Carrying amount considering the estimated finance costs	4,388	5,485	6,582
Effect - loss	-	(1,097)	(2,194)

For the sensitivity analysis to foreign exchange exposure as at December 31, 2018, the Company used the foreign exchange exposure balances reported in item "Foreign exchange risk".

Considering these foreign exchange exposures as at December 31, 2018, the sensitivity analysis of outstanding position is as follows:

<u>Company risk</u>	Losses	
	Possible scenario	Remote scenario
U.S. dollar rate appreciation	41	81

The possible scenario considers a 25% appreciation of the U.S. dollar against the Brazilian real over the exchange rate as at December 31, 2018 of R\$3.8748/US\$1.00 (R\$4.8435/US\$1.00), and the remote scenario considers a 50% appreciation (R\$5.8122/US\$1.00).

In light of the parities considered, results would correspond to losses of R\$41 and R\$81 in the possible and remote scenarios, respectively.

22. CAPITAL MANAGEMENT

It is the Management's policy to sustain a solid capital basis to ensure the confidence of investors, creditors and the market and to maintain the business' future development. The Executive Board monitors the returns on capital, defined by the Company as the operating activities' results divided by total equity. The Executive Board also monitors the level of dividends distributed to common shareholders.

The Company's Management seeks to strike a balance between the possible highest returns with more appropriate financing levels and the benefits and security provided by a healthy capital position. The goal is to reach a return compatible with its cost of capital reviewed annually based on the Weighted Average Cost of Capital - WACC approach.

The debt-to-capital ratio at the end of each year is as follows:

	<u>2018</u>	<u>2017</u>
Total borrowings and financing	99,936	50,605
(-) Cash and cash equivalents	<u>(18,112)</u>	<u>(44,435)</u>
Net debt	<u>81,824</u>	<u>6,170</u>
 Total equity	 <u>85,283</u>	 <u>90,970</u>
 Net debt-to-equity ratio	 <u>104.2%</u>	 <u>1,474.4%</u>

23. COMMITMENTS ASSUMED

The Company has a ten-year lease agreement, dated June 13, 2013, of the property where its plant in Hortolândia is located.

As at December 31, 2018, the estimated future lease obligation is limited to the aggregate amounts described in the table below; the amounts will be adjusted based on the fluctuation of the General Market Price Index (IGP-M) or, if not available, the General Price Index - Domestic Availability (IGP-DI), both published by Fundação Getúlio Vargas - FGV:

	R\$
2019	16,020
2020	16,020
2021	16,020
2022	16,020
2023	<u>7,298</u>
Total	<u>71,378</u>

24. INSURANCE COVERAGE

The Company has an insurance policy that considers mainly the risk concentration and its materiality, according to the type of its activities and advice of the insurance brokers. Insurance coverage as at December 31, 2018 is as follows:

	<u>2018</u>	<u>2017</u>
Loss of profits	175,306	203,289
Buildings	172,677	83,618
Property damages	161,678	150,000
D&O insurance	40,800	43,620
Leases	13,776	18,527
Civil liability	13,600	14,460

25. CAPITAL RESERVE

On December 7, 2018, the Company allocated its capital reserve amounting to R\$9,952 to absorb accumulated losses.

26. AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Company's Executive Board and authorized for disclosure and issue at the meeting held on April 15, 2019.
