Videolar-Innova S.A.

Financial statements
December 31, 2018

KPDS 449104

Contents

Barueri, February 25, 2019.

MANAGEMENT REPORT

Dear Shareholders,

The management of Videolar-Innova S/A, in accordance with the legal and statutory provisions, hereby submits the **Management Report and the Financial Statements for the Year 2018** with its respective explanatory notes, accompanied by the Independent Auditors' Report for the years ended December 31, 2018 and 2017, which include the pronouncements issued by the Accounting Pronouncements Committee (CPC) applicable to its operations.

INNOVA: CAPITAL INTENSIVE, CONSTANT EVOLUTION

PETROCHEMICAL LEADING COMPANY IN STYRENE PRODUCTS AND PROCESSED PLASTICS

The Company celebrated its 30th anniversary in 2018 with intensive investments for the expansion of all its productive areas. It is worth highlighting the doubling of the styrene monomer (SM) plant capacity to 420 thousand tons/year. The works in Unit II, Triunfo Petrochemical Complex (Rio Grande do Sul), mobilized over R$ 500 million and will be completed in May 2019.

Styrene monomer (SM) is a core paper product present in important applications, such as asphalt, tires, paints, rubbers. It is also an essential raw material for the petrochemical resins produced by Innova: general purpose polystyrene (GPPS), high impact polystyrene (HIPS) and expandable polystyrene (EPS).

Polystyrene (PS) is very present in the lives of families in different forms: from pens, cups, plates and disposable cutlery to TV cabinets and refrigerators. From rulers, buttons, hangers, foam trays to cold cuts, cups and yogurt containers to washing machines.

Our Styrene Products Technology Center (CTE), located in Unit II in Triunfo (Rio Grande do Sul), is an international benchmark in the generation of technical expertise. In 2018, we obtained the Clear HIPS R 350L patent, a class of polystyrene with unique characteristics of transparency, brightness and flexibility without similar competing products produced in Brazil. Innova's CTE has gained a specific area for the development of expandable polystyrene (EPS), offering state-of-the-art equipment and a pilot plant.

PACE OF INVESTMENTS AND EXTENSIONS

In the first half of 2018, we concluded a new production line for expanded polystyrene (EPS) petrochemical resin: only two years after the launch of the product, we doubled its production capacity to 50,000 tons/year. Expandable polystyrene (EPS) is used in the thermal packaging within the pharmaceutical industry, in the technical packaging for the transportation of items such as white goods and electronics, as well as for civil construction in the filling of slabs, in addition to infrastructure works, in soil stabilization. Its market potential is huge, both to replace imports (Brazil imports half of what it consumes) and for exports. Innova expandable polystyrene (EPS) has already been approved by major consumers in the global scenario.

The year was also marked by strategic expansions in the plastic transformation segment: the construction of the third Biaxially Oriented Polypropylene (BOPP) plastic film production line was completed, with a technology capable of producing products with up to five layers. BOPP films are produced in our Unit I, where we have a state-of-the-art plant in Manaus (AM) with 65 thousand square meters and over R$ 600 million invested.

The breadth of this product line is understandable when we look at the aisles of a supermarket: BOPP is everywhere, ubiquitous in flexible packaging, 100% recyclable and providing an effective barrier against oxygen. It preserves freshness and properties of foods such as chocolates, cookies, snacks, cereal bars, popsicles, among others. It is also present in tapes, bottle labels and a wide range of applications.

The Company manufactures BOPP by transforming the polypropylene resin (PP) into plastic films that are stretched in both directions (width and length); that is, bi-oriented. Besides offering protection, BOPP plastic films deliver the best visual result by keeping up to date with increasingly bold graphics.

In Unit I, in Manaus (AM), the Company also has a manufacturing plant that produces plastic caps for mineral water, juices and soft drinks, with a capacity of 300 million units/month. From Manaus, it meets the most prestigious brands in the Brazilian market and obtained the rigorous FSSC 22000 certification in risk management focused on food safety. In 2018, the Company started the implementation of a new line for mineral water bottles, a market the presents a remarkable growth.

All Innova's industrial plants were recertified in the ISO 9001 and 14000 standards.

The year 2018 also marked an important public recognition for Innova: it was featured as an Outstanding Company in the North Region by the *Estadão Empresas Mais 2018* Yearbook, a ranking prepared by the newspaper O Estado de S. Paulo with technical support from Austin Rating and Fundação Instituto de Administração, from University of São Paulo (FIA USP).

Another important highlight: we won the Supplier Award Quality Excellence award from Whirlpool, the company that manufactures Brastemp and Cônsul brand products and the largest household appliances corporation in the world. Such award evaluates standards of excellence in quality, zero defect, stability and technical performance of the polystyrene (PS) resin produced by Innova in Triunfo (RS) and Manaus (AM).

Since May, the production capacity of the styrene monomer (SM) has been doubled and we completed all the remaining expansions. Innova will be even more prepared to follow and drive market growth, always under the perspective of sustainability, capital intensive and technology advances.

CORPORATE THINKING:

MISSION:

Leading in our businesses, providing trust and strong relationships with customers, a sustainable attitude towards the environment and the desired return to shareholders.

VISION:

Knowing how to listen, develop and deliver: there is always a clear need. A leading Company presents solutions.

VALUES:

Committed and immaculate conduct;
Adaptation capacity;
Total focus on customer demands.

GOVERNANCE & ORGANIZATION

Innova continuously seeks to improve its corporate governance practices. Acting as an example of good practices and transparency towards its employees, shareholders, customers and the community is at the core of the Company’s business philosophy. In this sense, the Company maintains a Compliance center managed by the Legal Department.

Innova's governance structure includes an Internal Audit area responsible for monitoring such Company's good practices and evaluating internal control systems.

Innova's Employee Manual, made available to all employees, aims to be a benchmark for personal and professional conduct, based on the values and principles that underpin the Company's Mission, Vision and Values.

Ethics in practice

As always, and also considering the enactment of the Brazilian Anti-corruption Law in 2014, Company has always developed internal initiatives to give its employees a broad knowledge of the aforementioned legal document, disseminating the required guidance for the best practical understanding and adherence to the spirit that drove the enactment of said law.

Even though it is privately-held corporation, Innova insists on having an external audit firm (that is one of the Big Four) to analyze its results.

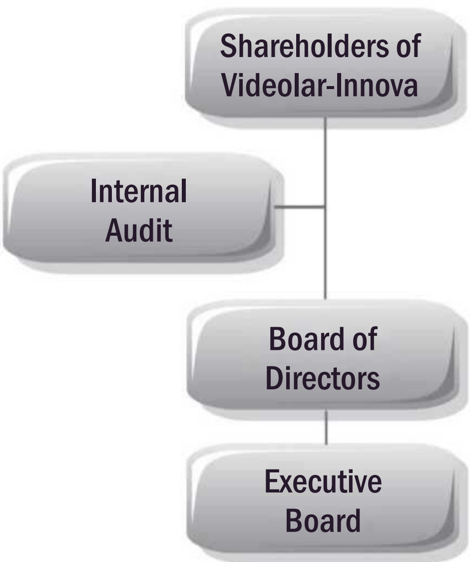
The Company's policy towards independent auditors is based on principles that preserve the autonomy of these professionals. In accordance with internationally accepted standards they are:

(A) the auditor should not audit his own work;

(B) the auditor must not operate as manager of its client; and

(c) the auditor must not promote its clients' interest.

Innova's organizational structure is designed to integrate the critical processes in the management of the Company:



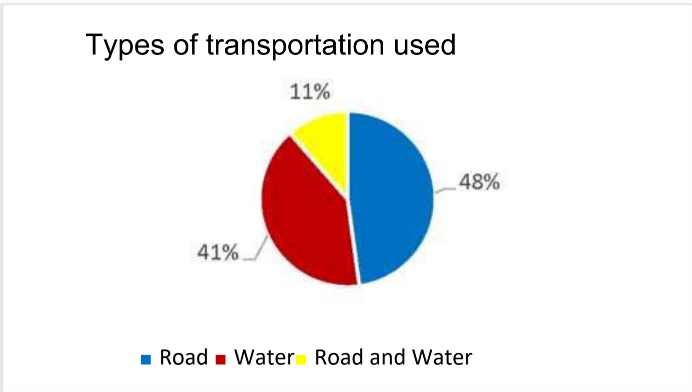
The Board of Directors is the guiding and senior management body of the Company. It is responsible for setting the general direction of the businesses and define the mission, objectives, strategies and guidelines.

Executive Board operates like a collegiate body and performs business management according to the mission, goals, strategies and guidelines defined by the Board of Directors.

COMMERCIAL PERFORMANCE

Total annual sales exceeded 430,000 tons.

The distribution of volumes sold during the year contracted approximately 18,000 shipments. The chart below shows the percentage of each type of transportation:



ECONOMIC AND FINANCIAL PERFORMANCE

VIDEOLAR INNOVA S/A • Economic and financial performance (In thousands of Reais)

	2018	2017
TOTAL ASSETS	3,238,156	2,636,429
SHAREHOLDERS' EQUITY	1,819,583	1,691,292
INDEBTEDNESS (NET DEBT/EBITDA)	1.37x	1.34x
GROSS OPERATING INCOME	3,041,503	2..551.79G
NET OPERATING INCOME	2,597,630	2,191,921
GROSS PROFIT	412,538	400,717
EBITDA (LAJIDA)	409,668	357,461
EBITDA margin (%)	15.77%	16.30%
FINANCIAL INCOME (LOSS)	(130,218)	(16,879)
NET PROFIT	132,817	157,939
INVESTMENTS MADE (CAPEX)	330,999	145,858

OUTLOOK FOR 2019

In the first semester of the year, after the doubling of the styrene monomer (SM) plant capacity, we reached an unprecedented level of total productive capacity.

In the polystyrene (PS) business, we are planning to launch new types (or grades) that will guarantee a performance increase in the production lines of the transforming customers as a whole. In this challenge, we are backed by our Styrene Products Technology Center (CTE).

In the Biaxially Oriented Polypropylene (BOPP) segment, the new line of five-layer plastic films expands our portfolio, making it even more comprehensive and focused on higher performance and value-added applications for the entire chain.

In the area of plastic caps for mineral water, juices and soft drinks, this will be the year of consolidation of our brand and to reach leadership in the domestic market.

All investments and expansions are based on long-term strategies that converge to the sustainability pillar: in 2019, the Company will improve its energy matrix in the Triunfo (RS) petrochemical complex, through the adoption of natural gas to replace fuel oil. Natural gas is a clean energy and has less impact to the environment regarding emissions of CO_2, nitrogen oxide and particulates. The measure produces a significant reduction in atmospheric emissions, replacing consumption of around 10,000 tonnes of fuel oil per year. The change in the energy matrix is in line with the set of sustainability guidelines established in Innova's strategic planning.
Thus, adopting a long-term vision, the Company adds value for its customers, shareholders, employees and, above all, the society, with a virtuous social and economic impact in the regions where it operates, increasing competitiveness throughout the petrochemical production chain and processed plastics without losing the focus on the financial discipline.

ACKNOWLEDGMENT

We would like to thank our shareholders for their confidence and encouragement; our clients for their preference; our suppliers and financial institutions for the support and partnership, and our employees for the commitment and dedication, fundamental for our success.

KPMG Auditores Independentes
Av. Dionysia Alves Barreto, 500 - 10º andar - Cj. 1001 - Centro
06086-050 - Osasco/SP - Brazil
Caixa Postal 79518 - CEP 04707-970 - São Paulo/SP - Brazil
Telephone: +55 (11) 2856-5300
kpmg.com.br

Independent auditors' report on financial statements

To the Shareholders and Directors of
Videolar Innova S.A.
Manaus - AM

Opinion

We have reviewed financial statements of Videolar-Innova S.A. ("Company"), comprising the balance sheet as of December 31, 2018 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as the corresponding explanatory notes, comprising the significant accounting policies and other clarifying information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Videolar-Innova S.A. as of December 31, 2018, the performance of its operations and its respective cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, in conformity with these standards, are described in the following section denominated "Auditors' responsibilities for the audit of the financial statements". We are independent in relation to the Company, according to the relevant ethical principles established in the Accountants' Professional Code of Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

The key audit matters are those who, in our professional judgment, were the most significant in our audit of current year. These matters were addressed in the context of our audit of financial statements as a whole and in expressing our opinion on these financial statements and, therefore, we do not express a separate opinion on these issues.

Intangible assets recoverable value with undefined useful life (goodwill) and deferred tax assets - notes 6,7, 6.10, 15.1 and 25

The Company maintains a significant balance of intangible assets with undefined useful lives (goodwill) and deferred tax assets, whose recoverability is based on cash flow analyses and projections, and income generation. The Company makes significant judgment in the determination of cash flow projections and future taxable income which are based on assumptions that includes its economic and operational environment, especially the estimates of production and sales, inflation, and discount and economic growth rates. Due to the significant degree of judgment of estimates used in cash flow projects and future taxable income and effect in possible changes could have in financial statements, we consider this matter as significant in our audit.

How our audit conducted this issue
We understood the evaluation process of recoverable value of goodwill and determination of deferred tax asset and evaluated the design and of key internal controls related to the preparation and review of business plan, budgets and impairment analysis and deferred tax assets provided by the Company. We can count with the help of our experts in corporate finance, we have evaluated assumptions and methodologies used, such as production and sales estimates, inflation, and the discount and economic growth rates used by the Company in cash flow and future taxable income projections. In addition, with the aid of our tax experts, we evaluated the fairness of tax basis used to calculate deferred taxes using prevailing tax law as reference. We also evaluated disclosures made by the Company regarding goodwill and deferred taxes and related to sensitivity analysis, which demonstrate the impact on recoverable value resulting from possible and reasonable changes in key assumptions used by the Company.

As a result of evidence from the procedures summarized above, we consider that recognition of intangible asset with undefined useful life (goodwill) and deferred tax asset is acceptable in the context of financial statements for the year ended December 31, 2018 taken as a whole.

Other information accompanying the financial statements and auditors' report

The Company's management is responsible for such other information that comprise the Management Report.

Our opinion on the financial statements does not include the Management Report and we do not express any form of audit conclusion on such report.

Regarding the audit of financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, in a material way, inconsistent with the financial statements or with our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the performed work, we conclude that there is material misstatement in the Management Report, we are required to report such fact. We do not have anything to report on this respect.

Management's responsibility for the financial statements

The Management is responsible for the preparation and adequate presentation of the financial statements in accordance with the accounting practices adopted in Brazil, and the internal controls it deemed necessary to enable the preparation of financial statements free of material misstatements, regardless of whether caused by fraud or error.

In the preparation of the financial statements, management is responsible for evaluating the Company's ability to continue as a going concern, disclosing, when applicable, the issues related to the going concern and the use of this accounting base in the preparation of financial statements, unless management intends to settle the Company or discontinue its operations, or has no realistic alternative to prevent the discontinuance of operations.

The ones responsible for the Company's management are those with responsibility for overseeing the process of preparation of financial statements.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, regardless of whether any such misstatement is caused by fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that the audit conducted pursuant to Brazilian and international auditing standards will always detect any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- We identified and assessed the risks of material misstatement in the financial statements (regardless of whether any such misstatement is caused by fraud or error), we planned and performed audit procedures in response to such risks, and we obtained audit evidence that is appropriate and sufficient to underpin our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that arising from error, once the fraud may involve the act of dodging the internal controls, collusion, falsification, omission or false intentional representations.
- We obtained an understanding of the internal controls relevant to the audit to design auditing procedures suitable to the circumstances, but not with the aim of expressing an opinion on the effectiveness of the Company's internal controls.
- We assessed the adequacy of the accounting procedures used and the reasonableness of the accounting estimates and the respective disclosures made by the management.
- We reached a conclusion as to the suitability of Management's use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the Company's capacity for going concern. If we conclude that there is material uncertainty, we will call attention in our audit report to the respective disclosures in the financial statements or include any change in our opinion, if the disclosures are inappropriate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company not to continue as going concern.
- We assessed the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that is consistent with the objective of proper reporting.
- We communicated with management regarding planned scope, audit period and significant audit findings, including possible significant internal control deficiencies identified during our work.

Of the matters that were subject of communication with those charged with Management, we determine those that were considered the most significant in the audit of the financial statements for the current year and, thus, represent the key audit matters. We describe these issues in our audit report, unless a law or regulation has prohibited the public disclosure of the issue, or when, under extremely rare circumstances, we determine that the issue shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

Osasco, February 25, 2019

KPMG Auditores Independentes
CRC SP-028567/F
Original report in Portuguese signed by
Juliana Leonam de Araujo Braga
Accountant CRC 1SP251062/O-5

Videolar-Innova S.A.

Balance sheets at December 31, 2018 and 2017

(In thousands of Reais)

Assets	Note	2018	2017
Current assets			
Cash and cash equivalents	8	11,309	6,080
Accounts receivable	9	480,787	462,307
Inventories	10	534,680	264,084
Income tax and social contribution, recoverable	25.c	3,152	583
Recoverable taxes	11	29,316	18,980
Other accounts receivable	12	4,607	3,825
Advances to suppliers		54,281	12,324
Prepaid expenses		4,267	3,471
		1,122,399	771,654
Non-current assets			
Deferred income tax and social contribution	25.a	158,640	189,754
Accounts receivable	9	8,826	8,404
Recoverable taxes	11	46,382	16,723
Other accounts receivable	12	2,234	5,206
Judicial deposits	18	15,433	13,588
		231,515	233,675
Investment property	13	204,354	185,312
Property, plant and equipment	14	1,418,853	1,160,830
Intangible assets	15	261,035	284,958
		1,884,242	1,631,100
		3,238,156	2,636,429

Liabilities	Note	2018	2017
Current liabilities			
Loans and financing	16	286,651	198,821
Financial instruments	28	517	12,623
Suppliers	17	734,867	351,365
Labor obligations and social charges		26,344	24,151
Tax liabilities		11,824	8,121
Other liabilities		41,568	36,621
		1,101,771	631,702
Non-current assets			
Loans and financing	16	283,502	275,126
Provision for contingencies	18	18,689	16,262
Other liabilities		14,611	22,047
		316,802	313,435
Shareholders' equity			
Capital	19.a	686,832	686,832
Tax incentive reserves	19.e	954,802	781,646
Legal reserve	19.c	40,193	33,552
Profit reserves	19.f	40,909	92,254
Equity valuation adjustment	19.b	96,847	97,008
Shareholders' equity		1,819,583	1,691,292
		3,238,156	2,636,429

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of income

Years ended December 31, 2018 and 2017

(In thousands of Reais)

	Note	2018	2017
Net operating income	20	2,597,630	2,191,921
Cost of goods sold	21	(2,185,092)	(1,791,204)
Gross operating income		**412,538**	**400,717**
Operating income (expenses)			
Administrative and sales expenses	22	(179,750)	(169,264)
Realization of goodwill		(23,290)	(31,683)
Other operating income, net	23	90,865	43,700
		(112,175)	(157,247)
Financial income	24	33,999	41,597
Financial expenses	24	(52,748)	(110,660)
Net inflation adjustment and exchange-rate change	24	(111,469)	52,184
Net financial income (expenses)		(130,218)	(16,879)
Income (loss) before taxes		**170,145**	**226,591**
Current income tax and social contribution	25.b	5,867	(10,808)
Deferred income tax and social contribution	25.b	(43,195)	(57,844)
Net income (loss) for the year		**132,817**	**157,939**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of comprehensive income

Years ended December 31, 2018 and 2017

(In thousands of Reais)

	2018	2017
Income (loss) for the year	132,817	157,939
Comprehensive income	-	-
Other comprehensive income, net of income tax and social contribution	-	-
Total comprehensive income	132,817	157,939
Comprehensive income attributable to		
Controlling shareholders	132,817	157,939
Total comprehensive income	**132,817**	**157,939**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2018 and 2017

(In thousands of Reais)

			Profit reserve				
	Capital	Equity valuation adjustments	Legal	Tax incentives	Profit retention	Retained earnings/(losses)	Total
Balances at December 31, 2016	**686,832**	**97,170**	**25,655**	**672,794**	**42,943**	**-**	**1,525,394**
Equity valuation adjustment	-	83	-	-	-	-	**83**
Realization of tax incentive reserve - IRPJ	-	-	-	7,876	-	-	**7,876**
Net income for the year	-	-	-	-	-	157,939	**157,939**
Realization of equity adjustment	-	(245)	-	-	-	245	**-**
Formation of legal reserve	-	-	7,897	-	-	(7,897)	**-**
Formation of reserve for tax incentives	-	-	-	100,976	-	(100,976)	**-**
Reserve for retained earnings	-	-	-	-	49,311	(49,311)	**-**
Balances at December 31, 2017	**686,832**	**97,008**	**33,552**	**781,646**	**92,254**	**-**	**1,691,292**
Equity valuation adjustment	-	84	-	-	-	-	**84**
Decrease in tax incentive reserve - IRPJ 2017	-	-	-	(4,610)	-	-	**(4,610)**
Use of profit reserve for the formation of tax incentive reserve	-	-	-	32,803	(32,803)	-	**-**
Income for the period	-	-	-	-	-	132,817	**132,817**
Realization of equity adjustment	-	(245)	-	-	-	245	**-**
Formation of legal reserve (Note 19.c)	-	-	6,641	-	-	(6,641)	**-**
Formation of tax incentive reserve (Note 19.e)	-	-	-	144,963	(18,542)	(126,421)	**-**
Balances at December 31, 2018	**686,832**	**96,847**	**40,193**	**954,802**	**40,909**	**-**	**1,819,583**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of cash flows

Years ended December 31, 2018 and 2017

(In thousands of Reais)

	Note	2018	2017
Cash flows from operating activities			
Net income for the year		132,817	157,939
Adjustments for reconciliation of net income to operating income			
Depreciation and amortization	14 | 15	77,261	74,353
Realization of goodwill		23,544	31,683
Deferred and current income tax		37,328	68,652
Write-off of fixed and intangible assets		(2,104)	36,078
Provision (reversal) of provision for contingencies	18	2,427	(2,344)
Allowance for estimated credit loss for allowance for doubtful accounts	9	102	(207)
Provision for obsolescence	10	(15)	(393)
Gain from adjustments to fair value on investment property		(32,575)	-
Financial charges and foreign exchange variation on balances with associated companies, financing, tax obligations, judicial deposits, accounts payable and receivable, net		74,044	24,905
		312,829	390,666
Increase (decrease) in assets			
Accounts receivable		(19,433)	(40,612)
Inventories		(270,581)	(17,255)
Recoverable taxes		(39,995)	(2,417)
Other		(42,048)	98
		(372,057)	(60,186)
Increase (decrease) in liabilities			
Suppliers		335,312	45,506
Labor obligations and social charges		2,193	(5,156)
Other		(1,022)	16,002
		336,483	56,352
Cash generated by operating activities		277,255	386,832
Income taxes paid		(3,151)	(2,349)
Net cash flow from operating activities		274,104	384,483
Cash flow from investment activities			
Acquisition of property, plant and equipment		(288,757)	(145,858)
Acquisitions of intangible assets		(44)	(1,092)
Cash flow used in investment activities		(288,801)	(146,950)
Cash flow from financing activities			
Funding financing		265,138	140,603
Payment of financing and interest		(245,212)	(420,782)
Net cash used in financing activities		19,926	(280,179)
Increase (decrease) in cash and equivalents		5,229	(42,646)
Cash and cash equivalents at the beginning of the year		6,080	48,726
Cash and cash equivalents at the end of the year		11,309	6,080
Change in cash and cash equivalents for the year		5,229	(42,646)
Additional disclosure – non-cash transactions			
Acquisition of property, plant and equipment on credit		42,242	-

See the accompanying notes to the financial statements.

Notes to the financial statements

1 Operations

Videolar-Innova S.A. (“Videolar-Innova” and “Company) is a privately-held company domiciled in Brazil. Registered address of the Company’s head office is Avenida Torquato Tapajós, nº 5.555, Bloco B, Tarumã, CEP 69041-025, located in Manaus - AM.

The Company is engaged in the Plastic Resins sector (Styrene and Polystyrene and Expandable Polystyrene), supplying the needs of clients in the Electric and Electronic Appliance, Plastic, Disposable goods, Food and other sectors, as well as operating in transformed plastics such as for example: Plastic Caps and BOPP (Biaxially oriented polypropylene).

On October 31, 2014, upon acquisition of 60% shareholding interest in Innova S.A. (“Innova”), which formerly belonged to Petroleo Brasileiro S.A. (“Petrobrás”), the Company, has well established itself in the petrochemical sector.

Videolar S.A. on September 30, 2015 effectively formalized the merger of Innova and the Company now does business under the name, Videolar-Innova S.A.

After a corporate reorganization, the Company now encompasses three manufacturing plants, two located in Manaus in the state of Amazonas and one in the city of Triunfo in Rio Grande do Sul.

2 Preparation basis

Statement of conformity (regarding the Accountant Statements Committee - CPC standards)

The financial statements were prepared in accordance with accounting practices adopted in Brazil.

The issuance of financial statements was authorized by the Executive Board on February 22, 2019. After their issuance, only the shareholders have the power to change the financial statements.

Details on the Company’s accounting policies are shown in Note 6.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by company Management.

This is the first set of annual financial statements of the Company in which CPC 47 - Revenue from Contracts with Customers and CPC 48 - Financial Instruments has been applied. Changes in significant accounting policies are described in Note 6.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by company Management.

3 Functional and presentation currency

These financial statements are being presented in Brazilian Real, functional currency of the Company. All balances have been rounded to the nearest value, except otherwise indicated.

4 Use of estimates and judgments

In the preparation of these financial statements, Management used judgments and estimates that affect the application of accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews of estimates are recognized on a prospective basis.

(i) Use of estimates and judgments

Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information on uncertainties as to assumptions and estimates as of December 31, 2018 that pose a high risk of resulting in a material adjustment in book balances of assets and liabilities in the next fiscal year are included in the following
notes:

- **Note 9** - measurement of estimated credit loss for accounts receivable;
- **Note 14** - Fixed assets - review of useful life;
- **Note 15** - Impairment test of intangible assets and goodwill: main assumptions regarding recoverable values;
- **Note 18** - recognition and measurement of provisions and contingencies: main assumptions on the probability and magnitude of outflows of funds;
- **Note 25** - Recognition of deferred tax assets: Availability of future taxable income against which deductible temporary differences and tax losses may be used.

5 Measuring basis

The financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Investment properties which are measured at fair value.

6 Significant accounting policies

We present below a table of contents of the significant accounting policies which have been consistently applied to all the periods presented in these financial statements.

- **6.1** - Amendments in significant accounting policies
- **6.2 -** Business combination
- **6.3** - Operating income
- **6.4** - Government grants and assistance

- **6.5** - Financial income and expenses
- **6.6 -** Foreign currency
- **6.7** - Income tax and social contribution
- **6.8 -** Inventory
- **6.9 -** Property, plant and equipment
- **6.10** - Intangible assets
- **6.11 -** Investment property
- **6.12 -** Financial instruments
- **6.13 -** Impairment
- **6.14 -** Provisions
- **6.15** - Employee benefits
- **6.16** - New standards and interpretations not yet effective

6.1 Changes in significant accounting policies

The Company initially adopted the CPC 47 and CPC 48 as of January 1, 2018. A series of other new standards also became effective as of January 1, 2018, but without material impact on Company's financial statements.

Due to the transition methods selected by the Company for the application of these standards, comparative information on these financial statements has not been restated to reflect the requirements of the new standards.

a. CPC 47 - Revenue with contract with customer

CPC 47 establishes a comprehensive framework for determining whether and when an income is recognized, and how income is measured. It replaced the CPC 30 - Revenues, CPC 17- Construction Contracts and related interpretations. According to CPC 47, income is recognized when the client obtains control of the goods or services.

Determining the moment of the transfer of control - at a specific point in time or over time - requires judgment.

The Company adopted CPC 47 using the cumulative effect method (with no practical expedients), with effect of the first-time adoption of the standard as of January 1, 2018.

Consequently, the information presented for 2017 was not restated and, accordingly, it is presented as formerly reported according to CPC 30 and related interpretations. Moreover, the disclosure requirements of CPC 47 in general were not applied to comparative information.

In compliance with CPC 30, operating income from sale of goods in the normal course of business was measured at the fair value of the consideration received or receivable. Operating income was recognized when there was convincing evidence that the risks and rewards inherent to the ownership of the assets have been transferred to the purchaser, it is probable that the financial economic benefits flowed to the Company, the related costs and potential return of products could be reliably estimated, there was no continued involvement with the goods sold, and the amount of operating income could be reliably measured. In the event that it is probable that discounts would be granted and their amounts can be reliably measured, discounts are recognized as a reduction to sales. Pursuant to CPC 47, income is recognized to the extent that it is probable that there will be no significant reversal in the amount of accumulated income.

Due to the characteristics of the Company's sales operations and the treatment previously adopted in income recognition, no impacts were identified in the adoption of CPC 47, because the transfer of control of the Company's products to clients occurs at the same time when the risks and rewards were transferred to customers upon adoption of CPC 30. Moreover, with rare exceptions, there are no variable adjustments in sales operations.

b. CPC 48 - Financial instruments

CPC 48 establishes requirements to recognize and measure financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces CPC 38 - Financial Instruments: Recognition and measurement.

(i) Classification and measurement of financial assets and liabilities

CPC 48 contains three main classification categories for financial assets:

Measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The classification of financial assets pursuant to CPC 48 is usually based on the business model in which a financial asset is managed and on its characteristics of contractual cash flows. CPC 48 eliminates the old categories in CPC 38 of securities held-to-maturity, loans and receivables, and available for sale. In compliance with CPC 48, embedded derivatives in which the main contract is a financial asset within the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is evaluated for its classification.

CPC 48 retains a large part of the existing requirements of CPC 38 for the classification and measurement of financial liabilities.

The adoption of CPC 48 had no material impact on Company's accounting policies regarding financial assets and liabilities and derivative financial instruments (for derivatives used as hedge instruments).

The following table and notes below explain the original measurement categories in CPC 38 and the new measurement categories of CPC 48 for each class of financial assets and liabilities of the Company as of January 1, 2018.

	Original classification in accordance with CPC 38	**New classification in accordance with CPC 48**	**Original book value in accordance with CPC 38**	**New book value in accordance with CPC 48**
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	5,560	5,560
Interest earnings bank deposits	Loans and receivables	Amortized cost	520	520
Accounts receivable	Loans and receivables	Amortized cost	470,711	470,711
Other accounts receivable and advances to suppliers	Loans and receivables	Amortized cost	21,355	21,355
Total			**498,146**	**498,146**
Financial liabilities				
Loans and financing	Other financial liabilities	Other financial liabilities	268,316	268,316
Debentures	Other financial liabilities	Other financial liabilities	205,631	205,631
Financial instruments	Other financial liabilities	Other financial liabilities	12,623	12,623
Suppliers	Other financial liabilities	Other financial liabilities	351,365	351,365
Total			**837,935**	**837,935**

(ii) Impairment of financial assets

CPC 48 replaces the “incurred loss” model of IAS 39 with a prospective “estimated credit losses” model. The new impairment model is applicable to financial assets measured at amortized, contract assets and debt instruments measured at fair value through comprehensive income (FVTOCI) with the exception of investments in equity instruments. Pursuant to CPC 48, credit losses are recognized earlier than under CPC 38.

6.2 Business combination

Business combinations are recorded using the acquisition method when control is transferred to the Company. The consideration of the transferred acquisition is usually measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising from the transaction is annually tested for impairment. Transaction costs are recorded in profit or loss as incurred, except the costs related to the issue of debt or equity instruments.

Any contingent consideration payable is measured at its fair value on acquisition date. If the payment is classified as an equity instrument, it is not remeasured and the liquidation is recorded in quotaholders' equity. For other payments, subsequent changes in the fair value of the contingent consideration are recorded in income for the year.

6.3 Operating income

(i) Goods sold

Income is recognized when products are delivered and accepted by the clients and also to the extent that it is highly likely that a significant reversal in the value of accumulated income recognized will not occur. Therefore, the value of the recognized income is adjusted for the expected returns, which are estimated based on historical data In these circumstances, the Company recognizes a liability for the return and a right to recover the asset to be returned.

(ii) Tax incentives

Income deriving from tax incentives described in Note 27, received as monetary asset, is recognized in income for the year on a systematic basis, throughout the period corresponding to incurred expenses, which is the object of this incentive. Conditions established for the maintenance of tax incentives were duly complied with by the Company.

(iii) Income earned from rental of investment property

The income from investment property lease is recognized in statement of operations on a straight-line basis, over the lease period. Granted lease incentives are recognized as an integral part of the total rental income, over the lease period. Income from the rental of other properties is recognized as “Other income”.

6.4 Government grants and assistance

Government grants and assistances are recognized when there is reasonable assurance that conditions established by the Federal, State and Municipal Governments have been met and that they will be earned and are recorded as revenue in income for the period necessary to confront them with the expense that the government grant or assistance intends to offset.

Videolar-Innova is beneficiary of the following tax incentives granted by Amazonas, Rio Grande do Sul State, and Federal Government:

a. ICMS

In the state of Amazonas

Tax incentive credits related to ICMS reimbursement, from State of Amazonas, were accounted for in the Company’s income (loss) for the year as a counterparty to ICMS payable in the amount of R$ 108,840 (R$ 100,976 in 2017), as Note 27.

In the State of Rio Grande do Sul
The Company has Financial Benefits from FUNDOPEM/RS - Fundo Operação Empresa/RS (Rio Grande do Sul Company Operation Fund) and from INTEGRAR/RS - Programa de Harmonização de Desenvolvimento da Indústria do Rio Grande do Sul (Rio Grande do Sul State Industry Development Harmonization Program), provided for in Decree 49205/12 and the presumed ICMS credit for the interstate resale of ABS granted by means of Decree 46070/2008 amended by Decree 51832/2014.

The Company complied with the requirements of CPC 07 - "Government grants and assistance" for its recognition and this reserve for investments was recorded in the Company's income (loss) for the year in the amount of R$ 34,944 for FUNDOPEM and R$ 1,179 for a presumed ICMS credit to ABS (R$24,886 of Fundopem in 2017), as Notes 23 and 20, respectively.

b. Income tax
The Company, in the units of Manaus, has approval of its project by the Superintendency of development for the Amazon - SUDAM, and is entitled to exemption from or reduction of income tax and any non-refundable surtaxes, being obliged to capitalize the amount of the tax benefit according to the Provisional Measure 2199-14, Article 1, amended by Law 12715, 2012, article 69.

As of December 31, 2018 and 2017, the Company complied with all legal requirements to receive such benefits.

c. IPI
Excise tax - Products produced in the Manaus Free Trade Zone, Decree 7212/10, article 81, item II.

d. PIS/Cofins
PIS/COFINS - Law 10996/2004, ariticles 3 and 4.

e. Import tax
Decree-Law 288/1967, article 7

6.5 Financial income and expenses
Financial income includes interest income on invested funds. Interest income is recognized in profit or loss using the effective interest method.

Financial expenses include expenses with interest on loans, discount at present value adjustments on provisions and contingent compensation, changes in financial assets fair value measured at fair value through profit or loss and impairment losses recognized in financial assets (except for receivables). Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are accounted for in profit or loss using the effective interest rate method.

Exchange gains and losses are reported on a net basis.

6.6 Foreign currency

Transactions in foreign currency are translated into the respective functional currencies of the Company at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the year, adjusted by interest and effective payments during the year, and the amortized cost in foreign currency at the exchange rate at the end of the presentation year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the foreign exchange rate on the date the fair value was determined.

Exchange differences arising from the reconversion are charged to income.

6.7 Income tax and social contribution

The income tax and social contribution of the year, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income.

Expense with income tax and social contribution comprises both current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss unless they are related to the business combination, or items directly recognized in shareholders' equity or other comprehensive income.

(i) Current tax

Current taxes are the taxes payable or receivable on the taxable income or loss for the year, at tax rates enacted or substantively enacted on the date of preparation of the financial statements, and any adjustments to taxes payable in relation to prior years. Current tax also includes any tax liability arising from the declaration of dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred income tax and social contribution are calculated on existing temporary differences in tax bases of assets and liabilities and book values, determined by using current rates on closing dates of financial statements and that must be applied when the respective deferred income and social contribution tax assets were realized or when the deferred income and social contribution tax liabilities are settled.

Deferred income and social contribution tax assets are recognized only in the proportion of the probability that the future taxable income and which temporary differences can be used against it. Future taxable income is determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary differences is insufficient to fully recognize a deferred tax asset, the future taxable income, adjusted for reversals of the existing temporary differences, will be considered, based on Company's business plans.

Deferred tax assets are reviewed at each balance sheet date and reduced when their realization is no longer probable.

Deferred tax assets and liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates decreed up to reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences of how the Company expects to recover or settle its assets or liabilities.

The amount of asset and liability income tax and social contribution are offset only when the rights to it can be legally executed to offset tax assets/credits against the tax liabilities.

(iii) Tax exposures

When determining current and deferred income tax, the Company takes into consideration the impact of uncertainties related to tax positions taken and whether additional taxes and interest may be due. The Company believes that the provision for income tax recorded in liabilities is adequate for all outstanding tax periods, based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and assumptions and may involve several judgments on future events. New information may be provided, making the Company change its judgment on the existing provision adequacy; such changes of provision will impact income tax expenses for the year in which they are made.

6.8 Inventories

Stated at the average cost of acquisition, net of recoverable taxes, when applicable.

The cost of finished products and work in process comprises raw materials, other production materials, cost of labor, other direct costs and a portion (allocation) of the fixed and variable costs, based on the normal operating capacity. The evaluation of inventories does not exceed its market value. Provisions for slow-moving or obsolete inventories are formed when considered necessary by Management.

6.9 Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the Company itself include:

- The cost of materials and direct labor;
- Any other costs attributable to bringing the assets to the location and condition required for them to operate in the manner intended by the Management;
- The costs for dismantling and restoration of the site where these assets are located; and
- Borrowing costs on qualifiable assets.

The cost of a fixed asset may include reclassifications of other comprehensive income of qualifiable cash flow hedge instruments for the purchase of fixed assets in foreign currency. Purchased software that is integral to the functionality of a piece of equipment is capitalized as part of that equipment.

When parts of a property, plant and equipment item have different useful lives, they are accounted for as separate items (major components) of PP&E.

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment) are recognized in other operating income (expenses) in profit or loss.

(ii) Reclassification for investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain on from this remeasurement is recognized in income (loss) as the gain reverses a impairment loss on the specific property, and any remaining gain recognized as other comprehensive income and presented under equity valuation adjustment account. Any loss is immediately recognized in income (loss).

(iii) Subsequent costs

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company. Maintenance expenses and recurring repairs are recorded in the income.

(iv) Depreciation

Fixed assets items are depreciated using the straight-line method in the income for the year based on the estimated economic useful life of each component. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset, unless it is reasonably certain that the Company will obtain ownership at the end of the lease term. Land is not depreciated.
Items of fixed assets are depreciated as of the date they are installed and are available for use,

or, in the case of assets constructed internally, as of the date the construction is concluded and the asset is available for use.

The depreciation methods, useful lives and residual values are revised at the reporting date of the financial statements and any adjustments are recognized as changes to accounting estimates.

Depreciation of other assets is calculated using the straight-line method, with the costs of other assets being allocated to their residual values over the estimated useful life in years, as follows:

	2018	**2017**
Equipment	5	5
Improvements / facilities	10	10
Machinery, equipment and tools	10	10
Furniture and fixtures	10	10
Vehicles	5	5
Other	20	20

6.10 Intangible assets

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is presented with intangible assets in the financial statements.

Subsequent measurement
Goodwill is measured at cost, less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets acquired by the Company with finite useful lives are carried at cost, less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally-generated goodwill and trademarks and patents, are recognized in profit or loss as incurred.

(iv) Amortization

Except for the goodwill, the intangible assets are amortized on the straight-line method and the amortization is recognized in income based on the estimated useful life of the assets as of the date they are available for use.

Trademarks and patents	5 years
Software	5 years

The amortization methods, useful lives and residual values are reviewed at each reporting date, and adjusted if appropriate.

6.11 Investment property

Investment property is initially measured at cost and, subsequently, at fair value, and changes to fair value are recognized in the income (loss).

Gains and losses in the sale of an investment property (calculated by the difference between the net value received in the sale and the item book value) are recognized in the statement of income. When an investment property previously recognized as a fixed asset is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

The income from rental of investment properties is recognized under the straight-line method over the lease period. Granted lease incentives are recognized as part of the total rental income, over the lease period.

Income from the rental of other properties is recognized as other income.

6.12 Financial instruments

(i) Recognition and initial measurement

Trade accounts receivable and debt securities issued are initially recognized on the date that they were originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the instrument's contractual provisions.

A financial asset (unless it is trade accounts receivable without a material financing component) or a financial liability is initially measured at fair value, plus, for an item not measured at FVTPL (fair value through profit or loss), transaction costs which are directly attributable to its acquisition or issue. A trade accounts receivable without a significant financing component is initially measured at the price of the transaction.

(ii) Subsequent classification and measurement

Financial instruments - Policy applicable as of January 1, 2018

Upon initial recognition, a financial asset is classified as measured: at amortized cost; fair value through other comprehensive income (FVTOCI); or fair value through profit or loss (FVTPL) - equity instruments; or at fair value through profit or loss (FVTPL).

Financial assets are not reclassified after initial recognition, unless the Company changes the business model for the management of financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period subsequent to the change in the business model.

A financial asset is measured at amortized cost if it meets both conditions below and is not designated as measured at fair value through profit or loss (FVTPL):

- it is held within a business model whose purpose is to maintain financial assets to receive contractual cash flows; and

- its contractual terms generate, on specific dates, cash flows only related to the payment of principal and interest on outstanding principal value.

A debt instrument is measured at fair value through other comprehensive income (FVTOCI) if it meets both conditions below and is not designated as measured at fair value through profit or loss (FVTPL):

- it is maintained within a business model whose purpose is achieved by both the receipt of contractual cash flows and the sale of financial assets; and

- its contractual terms generate, on specific dates, cash flows which are only payments of principal and interest on outstanding principal value.

In the initial recognition of an investment in an equity instrument not held for trading, the Company may irrevocably choose to present subsequent changes in the fair value of the investment in other comprehensive income (“OCI”). This choice is made on an investment basis.

All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income (FVTOCI), as described above, are classified at fair value through profit or loss (FVTPL). This includes all derivative financial assets. At initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income (FVTOCI), as fair value through profit or loss (FVTPL) if it eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales, which is consistent with the ongoing recognition of the Company's assets.

Financial assets held for trading or managed with a performance evaluated based on fair value are measured at fair value through profit or loss.

Financial assets - evaluation whether the contractual cash flows represent solely payments of principal and interest: Policy applicable as of January 1, 2018
For this evaluation purposes, “principal” is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as a consideration for the amount of cash at the time and for the credit risk associated to the outstanding principal value during a certain period and for other risks and base costs of loans (for example, liquidity risk and administrative costs), as well as for the profit margin.

The Company considers the contractual terms of the instruments to evaluate whether the contractual cash flows are only payments of principal and interest. It includes evaluating whether the financial asset contains a contractual term that could change the time or amount of the contractual cash flows so that it would not meet this condition. In making this evaluation, the Company considers the following:

- contingent events that change the amount or timing of cash flows;
- terms that may adjust the contractual rate, including variable rates;
- the prepayment and the extension of the term; and
- the terms that limit the Company's access to cash flows of specific assets (for example, based on the performance of an asset).

Financial assets - Subsequent measurement and gains and losses: Policy applicable as of January 1, 2018

- **Financial assets at fair value through profit or loss (FVTPL):** These assets are subsequently measured at fair value. Net income, plus interest or dividend income, is recognized in income (loss).
- **Financial assets at amortized cost:** These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is impaired. Interest income, foreign exchange gains and impairment losses are recognized in the income statement. Any gain or loss on derecognition is recognized in income (loss).
- **Debt instruments at fair value through other comprehensive income (FVTOCI):** These assets are subsequently measured at fair value. Income from interest calculated using the effective interest method, foreign exchange gains and losses and impairment loss are recognized in the income (loss). Other net income (loss) recognized in other comprehensive income (ORA). In derecognition, the retained earnings in other comprehensive income (OCI) are reclassified to the income (loss).
- **Equity instruments at fair value through other comprehensive income (FVTOCI):** These assets are subsequently measured at fair value. Dividends are recognized as gain in income (loss), unless the dividend clearly represents a recovery of part of the investment cost. Other net income (loss) are recognized in other comprehensive income (OCI) and are never reclassified to the income (loss).

Financial assets - Policy applicable before January 1, 2018.
The Company classified financial assets in the category of loans and receivables.

Financial assets - Subsequent measurement and gains and losses: Policy applicable before January 1, 2018.

- **Financial assets at fair value through profit or loss (FVTPL):** Measured at fair value and changes in fair value, including interest or income from dividends were recognized in profit or loss.

- **Financial assets held to maturity:** Measured at amortized cost using the effective interest rate method.

- **Loans and receivables:** Measured at amortized cost using the effective interest rate method.

- **Assets held for sale:** Measured at fair value, and changes in fair value, except for impairment losses, interest and foreign exchange differences on debt instruments have been recognized in other comprehensive income (OCI) and accumulated in the fair value reserve. When these assets are derecognized, the accumulated gains and losses in the quotaholders' equity were reclassified to income (loss).

Financial liabilities - classification, subsequent measurement and gains and losses.
Financial liabilities were classified as measured as amortized cost or at fair value through profit or loss (FVTPL). A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, if it is a derivative or assigned as such in initial recognition. Financial liabilities measured at fair value through profit or loss (FVTPL) are measured at fair value and net income (loss), plus interest, is recognized in income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, foreign exchange gains and losses are recognized in income (loss). Any gain or loss on derecognition is also recognized in income (loss).

(iii) Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flow of the asset expire, or when the Company transfers the contractual rights to the reception of contractual cash flows over a financial asset in a transaction in which essentially all the risks and rewards of ownership of the financial asset are transferred or in which the Company nor transfers or maintains all ownership risks and rewards of the financial assets and also does not hold the control over the financial asset.

The Company carries out transactions in which it transfers assets recognized in the balance sheet, but retains all or substantially all risks and rewards of the assets transferred. In such cases, financial assets are not derecognised.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or expired. The Company also derecognizes a financial liability when terms are modified, and the cash flows of the modified liability are substantially different if a new financial liability based on the terms changed is recognized at fair value.

In the derecognition of a financial liability, the difference between the extinct book value and the consideration paid (including assets transferred that do not pass through the cash or assumed liabilities) is recognized in the profit or loss.

(iv) Offsetting

Financial assets and liabilities are offset and the net value reported in the balance sheet only when the Company has a legally enforceable right to offset and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(v) Derivative financial instruments

Derivative financial instruments - Policy applicable as of January 1, 2018
The Company holds derivative financial instruments to hedge its exposure to foreign currency and interest rate changes.

Derivatives are initially measured at fair value. After the initial recognition, derivatives are measured at fair value and changes are normally recorded in profit or loss.

The Company designates certain derivatives as hedging instruments to hedge the variability of cash flows associated with highly likely forecasted transactions resulting from changes in exchange and interest rates.

(vi) Capital

Common shares
Additional costs directly attributable to the issue of shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

Preferred shares
The Company did not issue redeemable preferred shares in the period.

The compulsory minimum or priority dividends, as established in the By-laws, are recognized as liabilities.

6.13 Impairment

(i) Non-derivative financial assets - Policy applicable as of January 1, 2018

Financial instruments and contractual assets
The Company recognizes the contractual terms for estimated credit losses regarding:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income (FVTOCI); and
- contract assets.

The Company measures the provision for loss in an amount equal to credit loss expected for the whole life time, except for the items described below, which are measured as credit loss expected for 12 months:

- debt securities with low credit risk on balance sheet date; and
- other debt securities and bank balances for which the credit risk (i.e., default risk throughout the expected life of financial instrument) has not significantly increased since the beginning of initial recognition.

Provisions for trade accounts receivable losses and contract assets are measured at a value equal to a credit loss estimated for the instrument's entire life.

When determining if the credit risk of a financial asset has significantly increased since the initial recognition and when estimating expected credit losses, the Company considers reasonable and tolerable information that is relevant and available without excessive cost or effort. This includes quantitative and qualitative information and analysis, based on the Company's historical experience, credit assessment, and considering forward-looking information.

The Company assumes that the credit risk in a financial asset increased significantly if it is more than 90 days overdue.

The Company considers a financial asset in default when:

- it is very unlikely that the debtor will fully pay its credit obligations to the Company, without having to resort to actions like the realization of guarantee (if any); or
- Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument.
- Estimated credit losses for 12 months are credit losses that result from potential delinquency events within 12 months after the balance sheet date (or in a shorter period if the estimated life of the instrument is lower than 12 months).

The maximum period considered in the estimate of expected credit loss is the maximum contractual period during which the Company is exposed to credit risk.

Measurement of estimated credit losses
Expected credit losses are estimates weighted by the probability of credit losses. Credit losses are measured at present value based on all cash insufficiencies (that is, the difference between the cash flows owed to the Company in accordance with the contract and the cash flows that the Company expects to receive).

Financial assets with recovery problems
On each balance sheet date, the Company assesses whether the financial assets accounted for at amortized cost and the debt securities measured through other comprehensive income (FVTOCI) are experiencing recovery problems.

A financial asset has “recovery problems” when one or more events with a negative impact on the estimated future cash flows of the financial asset occur.

Objective evidence that financial assets had impairment issues includes the following observable data:

- significant financial difficulties of the issuer or borrower;
- breach of contractual clauses, delinquency or late payment of more than 90 days;
- restructuring of an amount owed to the Company at conditions that the Company would not accept under normal conditions;
- the probability that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of the estimated provision for credit loss in the balance sheet
Provision for losses for financial assets measured at amortized cost are deducted from the gross book value of the assets. For debt instruments measured at fair value through other comprehensive income, the provision for losses is debited to the result and recognized in other comprehensive income.

Write-off
The gross book value of a financial asset is written off when the Company has no reasonable expectation of recovering the financial asset in full or in part. The Company assesses, on an individual basis, the time and amount of write-off based on the existence or not of reasonable expectation of recovery. The Company does not expect any significant recovery of amount written off. However, financial assets written off may still be subject to credit collection, in compliance with procedures of the Company for the recovery of the amounts due.

Non-derivative financial assets - policy applicable before January 1, 2018.
Financial assets not classified as financial assets at fair value through profit or loss were evaluated at each balance sheet date to determine if there are objective impairment loss evidences.

Objective evidence that financial assets were impaired includes:

- debtor’s default or delays;
- restructuring of a value due to the Company under conditions that would not be accepted under normal conditions;
- indications that the debtor or issuer will face bankruptcy/Court-Ordered Reorganization;
- negative changes in payment situation of debtors or issuers;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that expected cash flow measurement of a group of financial assets decreased.

Financial assets measured at amortized cost
The Company considered as evidence of impairment of assets measured by amortized cost both individually and on an aggregate basis. All individually significant receivables were assessed for impairment. Those non-impaired on an individual basis were collectively assessed for any impairment loss not yet identified. Assets which were not individually significant were assessed on an aggregate basis in relation to impairment by grouping the assets with similar risk characteristics.

When assessing impairment on an aggregate basis the Company used historical trends of the recovery term and the amounts of losses incurred, adjusted to reflect the Management's judgment if the current economic and credit conditions were such that the actual losses would probably be higher or lower than those suggested by historical trends.

An impairment was calculated as the difference between the asset's book and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses were recognized in income (loss) and reflected in a provision account.

When the Company considered that there were no reasonable expectation of recovery, the amounts were written-off. If the impairment loss has subsequently decreased and the decrease is objectively related to an event subsequent to the recognition of the impairment loss, the provision was reversed through profit or loss.

(ii) Non-financial assets
The book values of the Company's non-financial assets, except for investment property, inventories and deferred tax assets are reviewed at each balance sheet date for indication of impairment. If such indication exists, the asset's recoverable amount is estimated. In case of goodwill, recoverable value is tested on an annual basis.

For impairment tests, assets are grouped into CGUs, that is, the smallest identifiable group of assets that can generate cash inflows by continuous use, which are highly independent from cash inflows referring to other assets or cash generating units. Goodwill in a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit combination synergy.

Recoverable value of an assets or CGU is the higher of value in use and fair value less selling costs. Value in use is based on estimated future cash flows discounted to present value using a discount rate before taxes that reflects current market evaluations of times value of money and the specific risks of the assets or CGU.

An impairment loss is recognized when the book value of an asset or its CGU exceeds its recoverable value.

Impairment losses are recognized in profit or loss. Recognized losses referring to CGUs are initially allocated to reduce any goodwill allocated to that CGU (or CGU group) and then to reduce the book value of other assets of that CGU (or CGU group) on a pro rata basis.

An impairment loss related to goodwill is not reversed. Regarding other assets, impairment losses are reversed only with the condition that the new book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

6.14 Provisions

A provision is set up when the Company has a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation. Provisions are calculated by discounting the expected future cash flows at a pre-tax rate which reflects the current market evaluations as to the value of the cash over time and the specific risks of the liability. The financial costs incurred are recorded in the statements of income.

6.15 Employee benefits

Obligations for short-term employee benefits are recognized as personnel expenses as the related service is rendered. The liability is recognized at the amount expected to be paid, if the Company has a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

6.16 New standards and interpretations not yet effective

Several new standards will become effective for the years started after January 1, 2019. The Company did not adopt these changes for preparation of these financial statements.

Among the standards that are not yet in force, CPC 06 (R2) is not expected to have a material impact on the Company's financial statements in the first-time adoption period.

a. CPC 06 (R2) Leases

The Company should adopt CPC 06 (R2) - Leases as of January 1, 2019. The Company has assessed the potential impact that the first-time adoption of CPC 06 (R2) will have on the financial statements and concluded that there are no material impacts, since there are no contracts where the Company is a lessee and which could change the financial statements as CPC 06 (R2) as of December 31, 2018.

CPC 06 (R2) 16 introduces a single model of accounting of leases in the balance sheet to lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligation to make the lease payments. Exemptions are available for short-term leases and low value items. The lessor's accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases. CPC 16 (R2) replaces the current lease standards, including CPC 06 - Lease Transactions and ICPC 03, SIC 15 and SIC 27 - Complementary Aspects of Lease Transactions.

(i) Leases in which the Company is a lessor

No significant impact is expected on leases in which the Company is a lessor.

b. Other standards

The following changed standards and interpretations should not have a significant impact on the Company's financial statements:

- ICPC 22 Uncertainty on Income Tax Treatments.
- Characteristics of prepayment with negative remuneration (Amendments in IFRS 9).
- Investment in associated company, subsidiary and joint venture (Amendments to CPC 18 (R2)).
- Changes to the plan, plan reductions or settlement (Amendments in CPC 33).
- Annual improvements cycle in IFRS 2015-2017 standards - several standards.
- Changes in the references to the conceptual framework in IFRS standards.
- **IFRS 17 - Insurance Contracts**

7 Measurement of fair value

Several Company's accounting policies and disclosures require the measurement of fair value, for financial and non-financial assets and liabilities.

The Company periodically reviews unobservable data considered significant and valuation adjustments. If third-party information, such as brokerage firms' quotes or pricing services, is used to measure fair value, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the CPC requirements, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring fair value of an asset or liability, the Company uses market observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

- **Level 1:** Prices quoted (not adjusted) in active markets for identical assets and liabilities.
- **Level 2:** Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).
- **Level 3:** Inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

Additional information on the assumptions adopted in the measurement of fair values is included in the following notes:

(i) Note 13 - Investment property

The fair value of investment properties is determined by independent external real estate appraisers, with appropriate and recognized professional qualification, and recent experience in the property location and category that is being appraised. The independent reviewers provide the fair value of the property portfolio for Company investment each year.

(ii) Note 14 - Property, plant and equipment

The fair value of property, plant and equipment recognized due to a business combination is based on market values. The market value of a property is the estimated amount for which the asset could be exchanged on the valuation date between well informed parties interested in the transaction under normal market conditions. The fair value of property, plant and equipment is based on a market approach and on a cost approach using market prices quoted for similar items, when available, and replacement costs, when applicable.

(iii) Note 15 - Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be accrued from the use and possible sale of the assets.

8 Cash and cash equivalents

	2018	**2017**
Cash and cash equivalents	7,480	5,560
Interest earning bank deposit	3,829	520
	11,309	**6,080**

The investments retained by the Company in fixed income securities reflect the usual market conditions and are remunerated at the rate of the Interbank Deposit Certificates (“CDI”). Operations with a minimum investment term of 30 days were remunerated at an average rate of 98% of the CDI (97% in 2017). Such assets are convertible into a known sum of cash and subject to an insignificant risk of change of value.

9 Accounts receivable

Amounts receivable as of December 31, 2018 and 2017 are as follows:

	2018	2017
Trade accounts receivable	532,574	513,570
	532,574	**513,570**
Allowance for doubtful accounts	(42,961)	(42,859)
	489,613	**470,711**
Current assets	**480,787**	**462,307**
Non-current assets	**8,826**	**8,404**

Pursuant to CPC 48, Management evaluated the effect of this new standard and implemented the prospective model of "expected credit losses" in the year 2018, determined according to the following practices:

- **Stage 1 -** We consider at this stage the notes that are still Performing, and the expected credit losses are calculated based on the actual write-off experience over the last three years.
- **Stage 2 -** We consider at this stage the notes with an Expressive Risk of Loss, when there is a deterioration in the customer's credit risk; that is, when the note is directed to the collection company (even when renegotiated) and notes requiring legal collection.

The table below shows the expected credit loss:

		Accounts receivable	PCLD	Percentage of estimated loss
Stage 1	Falling due	484,664	-	-
	Overdue (days):			
	1-30	4,814	-	-
	31-60	35	-	-
	61-90	36	-	-
	91-180	64	-	-
		489,613	**-**	-
Stage 2	Falling due	280	280	100%
	Overdue (days):			
	1-30	36	36	100%
	31-60	36	36	100%
	61-90	36	36	100%
	91-180	42,573	42,573	100%
		42,961	**42,961**	100%
Total		**532,574**	**42,961**	

Management evaluated the behavior of Accounts Receivable and have not identified a material event that corroborated the recording of a percentage of expected loss for Stage 1, since there was no actual write-off in the last three years and there was no significant transfer of credit risk from Stage 1 to Stage 2.

Changes in the allowance for doubtful accounts are as follows:

	2018	2017
Balance at the beginning of the year	42,859	43,066
Supplement to allowance for the year	160	532
Reversal of provision in the year	(58)	(739)
Balance at December 31	**42,961**	**42,859**

10 Inventories

	2018	2017
Raw material	264,742	107,943
Work in process	111,574	50,453
Finished goods	135,309	94,326
Packaging	3,744	3,356
Other materials	9,550	1,185
Imports in progress	9,761	6,821
	534,680	**264,084**

Changes to the provision for obsolescence are as follows:

	2018	2017
Balance at the beginning of the year	(846)	(1,239)
Supplement of provision	(15)	(1,404)
Reversal of provision	30	1,797
Balance at December 31	**(831)**	**(846)**

Inventory items with no movement for over 90 days are regarded as obsolete and then are included in the provision balance. In 2018, the main items provisioned were raw materials and finished goods from the Biaxially Oriented Polypropylene (BOPP) plastic film segment and raw materials for plastic caps.

11 Recoverable taxes

	2018	2017
ICMS recoverable	47,657	14,932
PIS/COFINS recoverable	5,532	231
PIS/COFINS tax process (i)	17,797	16,723
Withholding income tax (IRRF) recoverable	508	1,094
IPI recoverable	654	278
Other	3,550	2,445
	75,698	**35,703**
Current assets	**29,316**	**18,980**
Non-current assets	**46,382**	**16,723**

(i) The Company obtained a favorable decision for injunction no. 0060657.83.2013.4.01.0000, which addresses the exclusion of ICMS from PIS/COFINS basis; accordingly, a final decision was issued for this lawsuit, generating tax credit of R$ 17,797 (R$ 16,723 in 2017).

12 Other accounts receivable

	2018	2017
Costs to be amortized (i)	2,681	2,681
Other advances	715	671
Claims receivable	32	207
Other accounts receivable	1,179	266
Current assets	**4,607**	**3,825**
Costs to be amortized (i)	2,234	4,915
Other accounts receivable	-	291
Non-current assets	**2,234**	**5,206**

(i) The Company incurred costs with financial institutions in structuring loan contracts for the acquisition of Innova. This cost was accounted for in short and long term debt and will be amortized together with the loan contract payments.

13 Investment property

	2018	2017
Land and buildings	204,354	185,312
Balance at December 31	**204,354**	**185,312**

The investment properties are recorded at fair value, which was based on valuations made by independent external appraisers, at December 31, 2018.

The balance of investment property transactions were as shown below:

	2018	**2017**
Balance at January 1	185,312	185,312
Equity valuation adjustment (note 23)	32,575	-
Reclassification of investment property to property, plant and equipment (Note 14)	(13,533)	-
Total	**204,354**	**185,312**

Investment property is real estate (land, building or part of a building or both) retained by the proprietor to earn income from rentals or for capital appreciation or both situations with no intention to sell or use, which generates cash flows separate from other assets.

14 Property, plant and equipment

Cost	Land	Buildings and improvements	Machinery and equipment	Parts and spare assemblies	Industrial facilities	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephony equipment	Provision for impairment loss (Note 14.1)	Construction in progress (note 14.2)	Spare Parts	Goodwill - Property, plant and equipment	Total
Balances at December 31, 2016	93,647	254,534	1,046,121	305	166,655	15,539	21,514	4,162	31,910	1,163	(18,388)	63,572	34,356	203,479	1,918,569
Additions	-	-	31,713	192	27	35	36	66	36	17	(856)	114,592	-	-	145,858
Write-off	-	(440)	(595)	-	-	(8)	(329)	(30)	-	-	41	(33,062)	(2,054)	-	(36,477)
Transfer	-	359	13,906	861	879	-	696	544	-	-	-	(17,245)	-	-	-
Balances at December 31, 2017	93,647	254,453	1,091,145	1,358	167,561	15,566	21,917	4,742	31,946	1,180	(19,203)	127,857	32,302	203,479	2,027,950
Additions	-	429	2,478	23	1,248	69	33	-	-	81	(1,675)	322,893	5,420	-	330,999
PPI Reclassification (Note 13)	-	13,533	-	-	-	-	-	-	-	-	-	-	-	-	13,533
Write-off	-	(96)	(473)	-	-	(40)	-	(73)	-	-	2,691	-	-	-	2,009
Transfer	-	2,042	66,976	-	32,943	97	-	-	-	-	-	(102,058)	-	-	-
Balances at December 31, 2018	93,647	270,361	1,160,126	1,381	201,752	15,692	21,950	4,669	31,946	1,261	(18,187)	348,692	37,722	203,479	2,374,491

Depreciation

	Land	Buildings and improvements	Machinery and equipment	Parts and spare assemblies	Industrial facilities	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephony equipment	Provision for impairment loss (Note 14.1)	Construction in progress (note 14.2)	Spare Parts	Goodwill - Property, plant and equipment	Total
Balances at December 31, 2016	-	(94,204)	(538,496)	-	(71,631)	(13,221)	(19,359)	(1,147)	(26,233)	(1,065)	-	-	-	(16,410)	(781,766)
Depreciation for the year	-	(8,581)	(54,466)	-	(7,544)	(271)	(668)	(711)	(375)	(9)	-	-	-	(13,128)	(85,753)
Write-off	-	-	74	-	-	4	321	-	-	-	-	-	-	-	399
Balances at December 31, 2017	-	(102,785)	(592,888)	-	(79,175)	(13,488)	(19,706)	(1,858)	(26,608)	(1,074)	-	-	-	(29,538)	(867,120)
Depreciation for the year	-	(8,546)	(57,027)	-	(8,055)	(247)	(542)	(378)	(687)	(12)	-	-	-	(13,128)	(88,622)
Write-off	-	-	72	-	-	32	-	-	-	-	-	-	-	-	104
Balances at December 31, 2018	-	(111,331)	(649,843)	-	(87,230)	(13,703)	(20,248)	(2,236)	(27,295)	(1,086)	-	-	-	(42,666)	(955,638)
Residual value															
Balances at December 31, 2018	93,647	159,030	510,283	1,381	114,522	1,989	1,702	2,433	4,651	175	(18,187)	348,692	37,722	160,813	1,418,853
Balances at December 31, 2017	93,647	151,668	498,257	1,358	88,386	2,078	2,211	2,885	5,338	106	(19,203)	127,857	32,302	173,940	1,160,830
Annual average rate of depreciation	0.00%	3.50%	6.10%	0.00%	9.31%	7.67%	14.12%	19.30%	9.93%	9.87%	0.00%	0.00%	0.00%	0.00%	5.42%

The company offered its property in Unit I, located on Avenida Torquato Tapajós, from its fixed assets as collateral for the loans for the expansion and technological update projects for the biaxial polypropylene (BOPP) film production unit. The amount offered as collateral was R$ 314,835 in 2018 and 2017.

14.1 Provision for impairment loss - Impairment test

The provision for impairment losses is comprised of property, plant and equipment and spare parts of discontinued segments. The amount of R$ 18,187 (R419,203 in 2017) includes items that are no longer in operation as described below:

	2018	2017
Machinery and equipment	13,909	11,557
Molds and tools	2,009	2,009
Industrial facilities	1,529	717
Other	318	318
Spare parts	422	4,602
	18,187	**19,203**

In compliance with the requirements of CPC Pronouncement No. 01 (R1) dated August 6, 2010 - Asset Impairment, the Company performed the annual recovery test of its fixed assets as of December 31, 2018, which were estimated based on the values in use, using the discounted cash flows. The assets related to acquisition of Innova S.A. with a undefined useful life, as goodwill for expected future earnings is tested for impairment on an annual basis, regardless of loss indicators. The main cash flow assumptions are: prices based on the last disclosed strategic plan, production curves related to plans existing in the Company portfolio, market operating costs and investments needed to complete the projects.

14.2 Property, plant and equipment in progress

As of December 31, 2018, the construction in progress was R$ 348,692 (R$ 127,857 on December 31, 2017) and was mainly represented by the projects: Expansion of the Styrene plant (R$ 233,904); Investment for the start-up of BOPP Line 3 (R$ 25,348); Modernization and improvements in PS, SM, EB and Plastic Cap plants (R$ 9,234).

The loan costs directly related to the acquisition, construction and restatement of the manufacturing complex are capitalized as part of the project cost. The paid-in loan costs to be activated, and calculated up to December 31, 2018 were R$ 57,209 (R$ 52,597 in 2017).

All other loan costs unrelated to the acquisition of property, plant and equipment were recorded as expenses for the period.

15 Intangible assets

Details on the Company's intangible assets are presented in the tables below:

Cost	**Software**	**Brands, rights and patents**	**Goodwill due to expectation of future profitability**	**Goodwill**	**Total**
Balances at December 31, 2016	19,952	19,223	243,866	106,279	389,320
Additions	1,091	1	-	-	1,092
Write-offs	(1)	-	-	-	(1)
Balances at December 31, 2017	21,042	19,224	243,866	106,279	390,411
Additions	34	10	-	-	44
Write-offs	-	(9)	-	-	(9)
Balances at December 31, 2018	21,076	19,225	243,866	106,279	390,446
Amortization					
Balances at December 31, 2016	(11,340)	(13,915)	-	(43,595)	(68,850)
Amortization for the year	(1,728)	-	-	(34,876)	(36,604)
Write-off	1	-		-	1
Balances at December 31, 2017	(13,067)	(13,915)	-	(78,471)	(105,453)
Amortization for the year	(1,346)	(421)	-	(22,191)	(23,958)
Write-off	-	-	-	-	-
Balances at December 31, 2018	(14,413)	(14,336)	-	(100,662)	(129,411)
Residual value					
Balances at December 31, 2018	6,663	4,889	243,866	5,617	261,035
Balances at December 31, 2017	7,975	5,309	243,866	27,808	284,958
Annual average amortization rate	18.92%	0.00%	0.00%	0.00%	18.92%

15.1 Goodwill

The goodwill recognized in the Company records, as a result of the Innova S.A. acquisition, was computed as per the following:

Cost of acquisition	1,105,219
(-) Net equity - Innova on 31/10/2014	(643,381)
(-) Goodwill	(217,972)
Goodwill on acquisition	**243,866**

The acquisition resulted in goodwill based on the expectation of future profits of R$ 243,866. It is the result of several factors especially the synergy between the two companies´ businesses. There is also a high level of commercial synergy in that the absorbing company also produces Polystyrenes, but not Styrene.

Another noteworthy point is the expansion project for the construction of a second Styrene plant. This will enable Videolar-Innova to gain a higher share of the styrene, market in which there is currently a shortage in Brazil.

Cash generating unit to which goodwill was allocated is submitted annually to impairment tests or more frequently when there is indication that the unit may present indications of impairment losses of its assets. If the recoverable value of the cash-generating unit is less than its book value, the impairment loss is allocated first to reduce the book value of any goodwill allocated to this unit and then to the other assets of the unit pro rata based on the book value of each asset in the unit. An impairment loss related to goodwill is not reversed in a posterior period.

The assumptions adopted for impairment testing considered a growth rate at the perpetuity of 1.50% and actual discount rate of 9.45% in a ten-year horizon.

16 Loans and financing

Financial institution		**Charges**	**Guarantees**	**Maturity**	**2018**	**2017**
Banco do Brasil	(i)	CDI + 1.2% p.a.	Surety + Trade notes	03/21/2021	150,235	-
Banco Bradesco Europa	(ii)	Libor EUR + 3.25% p.a.	Promissory Note	07/22/2021	10,255	16,846
BNDES	(iii)	TJLP + 2.42% p.a.	Real estate	06/15/2020	10,058	15,931
Debentures	(iv)	FX + 4.96% p.a.	Aval + Alien. Fiduc.	10/20/2020	140,682	205,631
Banco Citibank	(v)	Libor USD + 3.50% p.a.	Aval + Alien. Fiduc.	09/25/2020	185,273	214,463
Other - Adto s/ Exchange Rates on Delivered goods	(vi)	1.34-3.87% p.a.	Trade Notes	04/14/2019	52,843	21,076
Banco Santander - Finex	(vii)	1.36% p.a.	Surety	03/01/2019	20,807	-
					570,153	**473,947**
Current liabilities					**286,651**	**198,821**
Non-current liabilities					**283,502**	**275,126**

(i) The Company contracted a working capital credit facility with Banco do Brasil in the amount of R$ 150,000 with a compound interest rate of CDI + 1.2% p.a. and quarterly interest payments. The principal will be settled on the contractual maturity in March 2021.

(ii) The Company has an international loan contract signed with the Banco Bradesco Europa earmarked for the acquisition of machinery and equipment which interest rate is Libor EUR + 3.25% p.a. The financing comprised several disbursements with maximum terms of 60 months, which began in February 2011 and included a six-month grace period for interest and 24 months for payment of the principal. In August 2016, the last disbursement (26th) totaled EUR 744,000.

(iii) In 2012, a credit facility from the BNDES bank in the amount of R$ 30,100 was acquired with remuneration comprising the Long Term Interest Rate + 2.42% p.a. with a grace period of two years for payment of principal and amortization in 66 months. The purpose of this financing was to expand and build an industrial unit for the production of biaxially-oriented terephthalate polyethylene film (BOPP), as well as to acquire national machinery and equipment. Properties pledged in guarantee total R$ 314,835.

(iv) On October 7, 2014, the Company signed a *Private Deed Instrument for the First Issuance of Simple Debentures* in the amount of R$ 300,000, bearing the October 25, 2014 issuance date and maturing on October 25, 2020. The debentures are corrected by the Exchange rate fluctuation factor between the Brazilian real and US dollars (PTAX800, option 5) justifying remuneration interest rate payments of 4.96% p.a., paid out in consecutive half yearly installment with no grace period beginning on the issuance date. The principal will be amortized in 9 (nine) installments, also semi-annual and consecutive, where the first one fell due on October 25, 2016.

The funds raised were used solely to pay part of the price of acquisition of Innova S.A.

At the end of each year, since 2014, the agreement has obligations related to financial indicators (covenants) measured based on the ratios of Net Financial Debt divided by EBITDA and the ratio of Total Debt divided by Shareholders' Equity.

(v) On October 23, 2014, the Company entered into a credit agreement in the amount of USD 100,004 with Banco Citibank falling due on September 25, 2020. The agreement provides for remuneration with interest rate of Libor USD + 3.50% p.a., where interest is paid on quarterly basis with grace period of two years for payment of principal.

The funds raised were used solely to pay part of the price of acquisition of Innova S.A..

The agreement has obligation related to a financial indicator (covenant) measured on a quarterly basis based on the ratio of Net Financial Debt divided by EBITDA accumulated over 12 months.

(vi) The Company has operations related to its export receivables. Advance on foreign exchange Contract (ACC) operations were contracted between April and May 2018 in the amount of USD 22,000 and Export pre-payment operation in the amount of EUR 4,523, all of them remunerated from 1.34% to 3.87% p.a. and maturity dates in April 2019.

(vii) In March 2018, the Company entered into a FINEX agreement with Banco Santander in the amount of EUR 4,630, with remuneration of 1.36% p.a. and maturing in March 2019.

Amounts recorded in non-current liabilities as of December 31, 2018 and 2017 mature as follows:

		2018	**2017**
	2019	-	160,674
	2020	132,370	113,807
	2021	151,132	645
Non-current liabilities		**283,502**	**275,126**

Equity changes in loans and financing:

Description	Balance 2017	Addition	Interest	Compound interest	IRRF	Amortization	Capitalized FX	FX	Balance 2018
Banco do Brasil	-	150,000	-	2,944	-	(2,709)	-	-	150,235
Banco Bradesco Europa	16,846	-	28	495	4	(8,855)	1,603	134	10,255
BNDES	15,931	-	1,121	-	-	(6,994)	-	-	10,058
Debentures	205,631	-	9,252	-	-	(81,072)	-	6,871	140,682
Banco Citibank	214,463	-	11,840	-	2,089	(78,107)	-	34,988	185,273
Other - Adto s/ Exchange Rates on Delivered goods	21,076	96,600	-	-	-	(67,475)	-	2,642	52,843
Banco Santander	-	18,538	253	-	-	-	-	2,016	20,807
Overall total	**473,947**	**265,138**	**22,494**	**3,439**	**2,093**	**(245,212)**	**1,603**	**46,651**	**570,153**

a. Financial ratios (Covenants)

Debt instruments for the payment of part of the price of acquisition of Innova S.A. provide for contractual limits to financial indicators used to monitor the indebtedness level (leverage) of the Company, as follows:

Debentures

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2018 equal to or lower than 3.0 times;
- Total Debt/Shareholders' equity ratio at the end of the period ended December 31, 2018 equal to or lower than 1.0 times.

Credit Agreement CITIBANK

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2018 equal to or lower than 3.5 times.

As of December 31, 2018, the Company was compliant with all indices (covenants) established by creditors.

17 Suppliers

	2018	2017
Domestic suppliers	49,209	39,444
Foreign suppliers	685,658	311,921
	734,867	**351,365**

18 Provision for contingencies and judicial deposits

Based on an individual analysis of court and administrative proceedings with regard to tax, labor and civil issues against the Company, provisions were formed for risks of losses deemed likely by our legal advisors, of sums considered sufficient as follows:

	2018	2017
Tax	-	-
Labor	6,679	3,949
Civil	1,243	1,293
Goodwill	10,767	11,020
Non-current liabilities	**18,689**	**16,262**

The provision for civil lawsuits consists chiefly in reparation suits in connection with contractual disputes.

Labor contingencies refer to outstanding lawsuits in the Labor Court which, individually, are not relevant to the Company's business.

Transactions with provisions are shown below:

Provision for contingencies	**Tax**	**Labor**	**Civil**	**Goodwill**	**Total**
Balances at December 31, 2016	**506**	**5,823**	**1,257**	**11,020**	**18,606**
(+) Supplement of provision	-	2,463	45	-	**2,508**
(-) Write-off of provision	(506)	(4,337)	(9)	-	**(4,852)**
Balances at December 31, 2017	**-**	**3,949**	**1,293**	**11,020**	**16,262**
(+) Supplement of provision	-	5,143	-	-	**5,143**
(-) Write-off of provision	-	(2,413)	(50)	(253)	**(2,716)**
Balances at December 31, 2018	**-**	**6,679**	**1,243**	**10,767**	**18,689**

Main lawsuits are commented as follows:

Tax proceedings

The forecast of possible loss not recognized in the amount of R$ 531,581 (R$ 764,057 in 2017) refers to the Company's contestation of the collection of assessment notices.

The main lawsuits are as follows: (i) lawsuit No. 4.003.845-2 - challenge to the tax assessment notice issued by SEFAZ/SP on the grounds of non-payment of ICMS (tax replacement) with a historical amount of R$ 263,633 (R$ 263,633 in 2017); (ii) lawsuit No. 2016000088 - challenge to the tax assessment notice filed by the municipal government of Manaus/AM in view of AMZ (incorporated by Videolar in 2015) related to the retention of ISSQN on remittance of Royalties with historical value of R$ 72,276 (R$ 72,276 in 2017); (iii) lawsuit No. 5044721-47.2017.4.04.7100 - annulment action of MPF tax assessment notice nº 1015400/00096/11 - PTA nº 10516.720002/2013-955, default of the commitment to export, due to non-proof of physical binding - Drawback, suspension with historical value of R$ 62,078 (R$ 62,078 in 2017).

The Company has tax judicial deposits recorded of R$ 8,911 (R$ 10,540 in 2017) for the Proceeding 2006.32.00.005992-1 of PIS/ COFINS exclusion on the calculation basis of IR and CSLL of R$ 728 (R$ 728 in 2017); Proceeding 0011620-22.2015.54.01.3200 on Non-requirement of payment of PIS/COFINS on financial income in the amount of R$ 2,226 (R$ 1,569 in 2017); and Proceeding 0007521-72.2016.4.01.3200 due to the alleged lack of collection of union contributions totaling R$ 685 (R$ 685 in 2017).

Labor proceedings

The provision for labor contingencies corresponds to losses estimated based on individual analysis of labor lawsuits.

Videolar-Innova is defendant in labor claims, in the total amount of R$ 7,114 (R$ 12,144 in 2017), for which the chance of loss is possible and, therefore, the respective provision has not been recognized, in the total amount of R$ 6,679 (R$ 3,949 in 2017), for which the chance of loss is considered probable, and the respective provision has been recognized.

Civil proceedings

Videolar-Innova is the defendant of civil lawsuits amounting to R$ 473 (R$ 11,101 in 2017) for which loss is considered as possible. The provision for civil contingencies corresponds to estimated losses related to lawsuits mainly involving commercial discussions.

Banco Fortis

In June 2008, the Company contracted a credit facility from Banco Fortis in the amount of EURO 20,400 thousand. The characteristic of this credit facility is that Banco Fortis will directly finance Darlet Merchant Technologies S.A. (“Darlet”), the supplier responsible for delivering to the Company machinery and equipment for the new BOPP production line.

Until December 31, 2009, Banco Fortis had released EURO 15,811 thousand to be used to pay Darlet.

In March 2010, the Company was notified about the bankruptcy of supplier Darlet. In the second half of 2009, Banco Fortis Bank NV/AS was acquired by Banco BNP Paribas.

On January 31, 2011, Banco BNP Paribas forwarded a letter requesting the payment of the first installment in the amount of EURO 1,695 thousand. through its legal advisors in France, Sonier & Associes; the Company rejected the payment request taking into consideration that, over five years, all advances paid by Fortis to Darlet violated the Credit Agreement and, therefore, the Company is not obliged to pay advances made to Banco BNP Paribas. This rejection is based on Article 5 of the Credit Agreement, which provides that the creditor, that is, Banco Fortis, should make advances to the Company through payments to Darlet.

As of December 31, 2010, the Company’s management, supported by its legal advisors’ opinion, made the following accounting adjustments:

	12/31/2010
Write-off of advance to supplier as a result of stated bankruptcy	(43,858)
Write-off of liabilities because likelihood of disbursement to Banco Fortis is remote.	36,163
Net loss recognized in other operating expenses	(7,695)

In November 2011, Videolar-Innova was notified by BNP Paribás on the opening of an arbitration proceeding with the International Court of Arbitration of the International Chamber of Commerce (“ICC”), in Paris, France, aimed at collecting released funds and interest incurred during the period, which were estimated as EUR 18,715,000.

On April 18, 2017, Videolar-Innova and BNP Paribas signed an agreement with a total amount of EUR 10,872 thousand (R$ 32,719), for payment by Videolar-Innova in 48 months, the first installment having been paid on April 30, 2017 and the last installment payable on March 30, 2021. Installment amounts are decreasing, beginning in EUR 246 thousand and ending in EUR 207 thousand. As of December 31, 2018, the balance payable of R$ 25,570 is recorded in other liabilities, of which R$ 10,958 and R$ 14,611 in current and non-current, respectively.

Goodwill

On the acquisition date of Innova, a surplus of existing contingent liability was recognized on the contract signature date amounting to R$ 62,888. After the partial realization of this surplus, the balance shown in 2018 is R$ 10,767.

Judicial deposits

Judicial deposits linked and not linked to proceedings for which provisions were recorded, classified in non-current assets, are as follows.

Judicial deposits	**Tax**	**Labor**	**Civil**	**Goodwill**	**Total**
Balances at December 31, 2016	**19,569**	**1,102**	**1,700**	**223**	**22,594**
(+) Addition	15,731	561	50	-	16,342
(-) Write-off	(24,760)	(588)	-	-	(25,348)
Balances at December 31, 2017	**10,540**	**1,075**	**1,750**	**223**	**13,588**
(+) Addition	1,737	1,073	3,553	-	6,363
(-) Write-off	(3,366)	(927)	(2)	(223)	(4,518)
Balances at December 31, 2018	**8,911**	**1,221**	**5,301**	**-**	**15,433**

19 Shareholders' equity

a. Capital

On December 31, 2018 and 2017, the Company's capital amounts to R$ 686,832.

Company’s capital was represented by 1,185,861 common shares, 363,859 class “A” preferred shares, totaling 1,549,720 shares. Preferred shares are not entitled to voting in Annual Shareholders' Meeting decisions.

b. Equity valuation adjustment

The equity valuation adjustments derive from equity valuation of land and buildings available at Investment Property and adoption of Deemed Cost on assets recorded in Property, plant and equipment.

Amounts recorded in equity valuation adjustments will be totally or partially reclassified to income (loss) for the year upon disposal, write-off or depreciation of assets to which they refer.

c. Legal reserve

Legal reserve is formed at 5% of net income for each year, pursuant to the terms of art. 193 of Law no. 6.404/76, up to the limit of 20% of capital. Due to income for the year of R$ 132,817, a legal reserve was recognized in the amount of R$ 6,641.

d. Dividends

In 2018, net income totaling R$ 132,817 was allocated to legal reserves (R$ 6,641) and part of tax incentive reserves (R$ 126,421). Therefore, there was no balance in net income for the year for the distribution of dividends. The Company's bylaws does not determine the distribution of a minimum mandatory dividend.

e. Tax incentive reserve

Established by assigning a portion of income for the year, equivalent to tax incentives from government grants, in conformity with Article 195-A of the Brazilian Corporate Law. This reserve may not be distributed to partners or shareholders and will comprise the company's capital reserve, which may only be used to absorb losses or increase capital (paragraph 3 of Article 19 of Decree-Law no. 1.598/1977).

The amount of R$ 100,976 was allocated to the formation of ICMS tax incentive reserve as of December 31, 2017. The income tax incentive provides a reduction in such tax expense. This incentive, calculated based on exploitation profit, is applied to the revenues of the Manaus Units. In 2017, the amount of R$ 7,876 was recognized in IRPJ tax incentive reserve.

The amount of R$ 144,963 was allocated to the ICMS tax incentive reserve as of December 31, 2018. And the amount of R$ 108,840, granted by the state of Amazonas, which increases the presumed tax credit percentage arising from regionalization so that the determined tax does not represent creditor or debtor balance. And the amount of R$ 36,123 was granted by the state of Rio Grande do Sul to companies that invest in the State, which result in the deployment or expansion of industrial units. The incentivized companies appropriated a percentage of the monthly ICMS value due generated by the operation of the deployed project.

In 2018, the amount of R$ 4,610 was identified to be reversed from IRPJ 2017 tax incentive reserve. The amount of R$ 32,803 was also allocated to the supplementation of tax incentive reserve of ICMS/RS benefits obtained in 2015 and 2017.

f. Profit retention reserve

In 2018, R$ 51,345 of the accumulated balance of the profit retention reserve was used to complement the formation of the tax incentive reserves for 2015, 2017 and 2018.
As of December 31, 2018, the profit was not sufficient to form the profit retention reserve.

20 Net operating income

	2018	**2017**
Gross operating income	3,041,504	2,551,790
Tax incentive credits (Note 27)	110,019	100,976
Taxes on revenues	(543,410)	(448,058)
Returns	(10,483)	(12,787)
	2,597,630	**2,191,921**

21 Cost of products sold

	2018	**2017**
Cost of products sold	(1,894,788)	(1,507,623)
Cost of goods resold	(14,758)	(27,062)
Manufacturing genearal expenses	(223,553)	(197,314)
Production Idleness	(49,207)	(52,759)
Other	(2,786)	(6,446)
	(2,185,092)	**(1,791,204)**

22 Administrative and selling expenses

	2018	**2017**
Payroll expenses	(51,598)	(53,732)
Depreciation	(5,183)	(5,422)
Electric power	(800)	(517)
Taxes and rates	(2,949)	(3,150)
Provisions	(3,043)	1,208
Impairment	1,016	(815)
Lawyers' fees	(4,930)	(3,554)
Preservation of assets	(130)	(212)
Travel expenses	(1,118)	(1,366)
Freight and carriage	(84,822)	(76,618)
Maintenance and repairs	(7,385)	(4,048)
Consulting and advisory	(4,107)	(5,101)
Insurance costs	(861)	(437)
Use license	(1,595)	(2,028)
Import expenses	(3,559)	(3,852)
Advertising and publicity	(1,247)	(1,060)
Other	(7,439)	(8,560)
	(179,750)	**(169,264)**

23 Other operating income (expenses), net

	2018	2017
Sale of assets	16	219
Losses and gains on write-off of property, plant and equipment	(1)	(19)
Gains and losses with claims	-	(360)
Sale of scrap	3,017	2,107
Revenue from rental	8,987	9,245
Fundopem (Note 27)	34,944	24,886
Recovery of taxes	1,476	10,380
Compensation	1,398	-
Increase in fair value of investment property	32,575	-
Other	8,453	(2,758)
	90,865	**43,700**

24 Net financial income (expenses)

	2018	2017
Financial income		
Interest and gains on investments	6,441	10,498
Inflation adjustment	1,267	13,913
Discounts obtained	90	21
Income from SWAP operations	26,201	17,165
	33,999	**41,597**
Financial expenses		
Interest on loans and other	(30,781)	(47,171)
Discounts granted	-	(4,865)
Bank expenses	(362)	(348)
Expense with swap operations	(13,264)	(44,920)
Other	(8,341)	(13,356)
	(52,748)	**(110,660)**
Net exchange-rate changes		
Foreign exchange income	265,586	169,591
Foreign exchange costs	(377,055)	(117,407)
	(111,469)	**52,184**

25 Income tax and social contribution

a. Formation of deferred income tax and social contribution

	2018	2017
Credits on tax losses	102,685	108,768
Equity valuation adjustment	(50,017)	(50,100)
Tax goodwill produced by future profitability	96,986	115,459
Deferred tax on goodwill	(52,925)	(64,923)
Corporate vs. tax depreciation	(28,257)	-
Tax credits on temporary differences:		
- credits on provisions	90,168	80,550
Total deferred income tax and social contribution, net	**158,640**	**189,754**

The Company has tax losses and negative basis of social contribution generated in Brazil amounting to R$ 302,015 (R$ 319,907 as of December 31, 2017) that may be offset against future taxable income, without statute of limitations.

Realization of deferred income tax on equity valuation adjustment is proportional to reserve realization.

As of December 31, 2018, the Company has recorded under "Deferred income tax" amounts calculated on expenses that are temporarily non-deductible from taxable income calculation for income tax purposes, which are available for future offsets against said tax.

Deferred taxes generated by these temporary differences are as follows:

	2018	2017
Net exchange-rate changes	192,534	134,410
Estimated losses for allowance for doubtful accounts	19,739	42,859
Estimated losses on recoverable values of inventories	831	846
Estimated sundry losses	41,569	53,555
Provision for judicial contingencies	10,526	5,242
Total Provisions (reversals)	265,199	236,912
IR and CS tax rate 25% and 9%	34%	34%
IR/CS on temporary differences	90,168	80,550

The Company, based on expected future taxable income determined through technical studies conducted at the end of 2018 and approved by Executive Board, recognized tax credits on tax loss carryforwards and temporary differences, with no statute of limitations. Deferred assets book value is reviewed by the Company on an annual basis.

Based on the technical study regarding estimated generation of future taxable income, Videolar-Innova foresees the recovery of tax credits in the following years:

Years	**2018**	**2017**
2018	-	32,631
2019	30,806	22,842
2020	21,564	15,989
2021	15,095	11,192
2022-2028	35,220	26,114
	102,685	**108,768**

The expected recoverability of the tax credits is based on the projections of future taxable income taking into consideration various business and financial assumptions. Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

b. Reconciliation of current and deferred income tax and social contribution

The reconciliation of income from current and deferred income tax and social contribution in the amount of (R$ 37,328) in 2018 and R$ (68,652) in 2017 is as follows:

	2018	**2017**
Income (loss) before income tax and social contribution	170,145	226,591
Combined statutory rate	34%	34%
Expense with income tax and social contribution at the combined rate	**(57,849)**	**(77,041)**
Incentives and grants	52,052	43,750
Use of tax loss for paying taxes (*)	(6,083)	(36,551)
Permanent differences	35,880	1,127
Timing differences	(61,328)	63
Total Current and Deferred Income Tax (IR)	**(37,328)**	**(68,652)**
Effective rate	34%	30%
Current income tax and social contribution	5,867	(10,808)
Deferred income tax and social contribution	(43,195)	(57,844)

(*) The use of tax loss is related to the offset related to the determination of income tax and social contribution for 2018. In 2017, the main use occurred due to the adhesion to the Special Program for Tax Regularization.

c. Income tax and social contribution, recoverable

	2018	**2017**
Income tax	1,806	-
Social contribution	1,346	583
	3,152	**583**

d. Transitory tax regime—RTT

The Company opted for the Transition Tax Regime ("RTT") established by Law No. 12.973, dated May 13, 2014, through which IRPJ (corporate income tax), CSLL (social contribution on net income), and PIS and COFINS (taxes on income) calculation continues to be determined according to accounting methods and criteria defined by Law.

Accordingly, deferred income tax and social contribution calculated on adjustments arising from the adoption of new accounting practices deriving from Law 12973/14 were recorded in the Company's financial statements, when applicable, in conformity with pronouncement CPC 32 - Income taxes. The Company confirmed this option in the Corporate Income Tax Return ("DIPJ") for 2016.

26 Related party information

Management's key personnel includes board members and officers. Management's global annual remuneration, including Board of Directors' members' fees, was established as up to R$ 5,000, as approved in the Annual and Special Shareholders' Meeting held on April 02, 2018.

Total management's remuneration for the year ended December 31, 2018 was R$ 2,829 (R$ 2,679 in 2017).

Said expenditures were accounted for under caption general and administrative expenses in the statement of income.

27 Tax incentives

Incentive	**2018**	**2017**
ICMS tax benefit on shipment of intermediate assets (Note 20);	108,840	100,976
Tax benefit of deemed ICMS credit interstate ABS (note 20)	1,179	-
Benefit of FUNDOPEM/RS (note 23)	34,944	24,886
	144,963	**125,862**

28 Financial instruments

a. Financial risk management

The Company is exposed to the following risks resulting from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operating risk
- Capital risk

This note contains information on Videolar-Innova exposure to each of the abovementioned risks, the objectives, practices and the processes for measuring and managing risk and the capital management. Additional quantitative disclosures are included throughout these financial statements.

b. Risk management structure

The main risk factors to which the Company is exposed reflect strategic operational and economic/financial aspects. Strategic-operating risks are addressed using the Company's management model.

The economic and financial risks mainly reflect the behavior of macroeconomic variables such as exchange and interest rates as well as the characteristics of the financial instruments that the Company uses. These risks are managed by means of monitoring by Management that actively participates in the Company's operational management.

Videolar-Innova has the practice of managing its existing risks in a conservative manner, aiming mainly to preserve the value and liquidity of financial assets and to guarantee financial resources for the smooth running of business.

(i) Credit risk

Credit risk is the risk of the Company incurring financial losses due to a client or financial instrument counterparty, resulting from failure in complying with contract obligations. Such risk is mainly due to Company’s trade accounts receivable, and financial instruments.

The carrying amounts of financial assets classified as loans and receivables represent the maximum credit exposure. Book value of financial assets that represent the maximum exposure to credit risk as showed:

	2018	**2017**
Cash and cash equivalents	11,309	6,080
Accounts receivable	489,613	470,711
Other accounts receivable and advances to suppliers	61,122	21,355
	562,044	**498,146**

Cash and cash equivalents

Cash and cash equivalents are maintained with banks and financial institutions, which are considered the prime line type.

Accounts receivable

The Company's exposure to credit risk is influenced, mainly, by the individual characteristics of each client. Management understands that there is no significant credit risk to which the Company is exposed, taking into consideration the characteristics of the counterparties, concentration levels and the relevance of the amounts in relation to total revenue.

In relation to the estimated loss for doubtful accounts, details are available in Note 9 - Accounts Receivable.

(ii) Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

Management's approach to liquidity risk management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements. Therefore, cannot be conciliated with the amounts of balance sheet:

		Contractual cash flow				
	Book value	**Total**	**Up to 1 year**	**2-3 years**	**4 years**	**>4 years**
Loans and financing	570,153	632,540	321,572	310,968	-	-
Suppliers	734,867	734,867	734,867	-	-	-
	1,305,020	**1,367,407**	**1,056,439**	**310,968**	**-**	**-**

The cash flows presented above are not expected to be significantly advanced.

(iii) Market risk

a. Interest rate risk

The Company has interest earning bank deposits remunerated at the CDI interest rate change. Such assets amount to R$ 3,829 as of December 31, 2018.

	2018	**2017**
Variable rate instrument		
Interest earning bank deposit	3,829	520
	3,829	**520**

Analysis of sensitivity to changes in CDI rate

To estimate the principal financial indicators for sensitivity analysis, the Company uses the Focus survey, organized by the Central Bank of Brazil and based on the analysis of forecasts of financial and non-financial institutions. As of December 31, 2018, market expects, indicated a CDI/SELIC effective average rate of 6.50% for 2019, against the effective rate of 6.40% verified in 2018.

	Probable scenario	Scenario I - 25% decrease	Scenario II - 50% decrease
Interbank Deposit Certificate annual effective rate in 2018	6.40%	4.80%	3.20%
Interest earnings bank deposits	3,829	3,829	3,829
Interbank Deposit Certificate estimated annual rate for 12 months	6.50%	4.88%	3.25%
Effect in the financial instrument			
Increase / (Decrease)	(4)	(3)	(2)

Sensitivity analysis at changes in Libor USD rate

The Company has financial liabilities indexed to the change in Libor USD on December 31, 2018. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 185,273.

The Company's estimate indicated an estimated USD Libor rate for 12 months of 3.00%, probable scenario for 2019, against the effective rate of 2.76% verified on December 31, 2018.

	Probable scenario	Scenario I - 25% increase	Scenario II - 50% increase
Annual effective rate of USD Libor in 2018	2.76%	3.45%	4.14%
Loan - Banco Citibank - USD	47,815	47,815	47,815
Estimated annual rate of USD Libor for 12 months (*)	3.00%	3.75%	4.50%
Effect in the financial instrument			
Increase / (Decrease) - USD	115	143	172

(*) The Focus survey does not disclose forecasts of interest rates of Libor USD. Accordingly, in order to determine the probable scenario, Videolar-Innova considered the 12-month LIBOR rate disclosed on 12/31/218.

Sensitivity analysis at Libor changes in EUR rate

The Company has financial liabilities indexed to the change in Libor EUR on December 31, 2018. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 10,255.

The Company's estimate indicated an estimated EUR Libor rate for 12 months of 0.0%, probable scenario for 2019, against the effective rate of (0.23%) verified on December 31, 2018.

	Probable scenario	**Scenario I - 25% increase**	**Scenario II - 50% increase**
Annual effective rate of EUR Libor in 2018	(0.23%)	(0.29%)	(0.35%)
Bradesco Europa - Loan	2,310	2,310	2,310
Estimated annual rate of EUR Libor for 12 months	(0.00%)	(0.00%)	(0.00%)
Effect in the financial instrument			
Increase / (Decrease) - EUR	(5)	(20)	(24)

Sensitivity analysis at TJLP rate changes

The Company has financial liabilities indexed to the change in TJLP on December 31, 2018. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 10,058.

Market expects, indicated a TJLP tax of 7.03%, probable scenario for 2019, against the effective rate of 6.72% verified in 2018.

	Probable scenario	**Scenario I - 25% increase**	**Scenario II - 50% increase**
Annual effective rate of TJLP (Long-term interest rate) of 2018	6.72%	5.04%	3.36%
BNDES loan	10,058	10,058	10,058
Estimated TJLP (Long-term interest rate) for 12 months (*)	7.03%	5.27%	3.52%
Effect in the financial instrument			
Increase / (Decrease)	31	39	47

(*) The probable scenario used by Videolar-Innova for TJLP considered a maintenance of current market levels, in line with the general expectations for reduction of the basic interest rates in Brazil.

b. *Exchange rate risk*

The related risk derives from the possibility of incurring losses due to fluctuations in foreign exchange rates that reduce or increase amounts raised in the market. Below we present the exposure by currency as at December 31, 2018 and 2017, which considers the book values of loans and financing and cash and cash equivalents:

		2018		2017	
		Foreign currency nominal value In $'000	**R$ thousand**	**Foreign currency nominal value In $'000**	**R$ thousand**
Bradesco Loan	EUR	2,310	10,255	4,244	16,846
Debentures	USD	36,307	140,682	62,131	205,531
Citibank loan (*)	USD	47,815	185,273	64,832	214,463
Advances on exchange contracts (ACC)	EUR	-	-	5,310	21,076
Advances on exchange contracts (ACC)	USD	12,256	47,490	-	-
Export prepayment (PPE)	EUR	1,206	5,353	5,310	21,076
Loan - Santander	EUR	4,687	20,807	-	-
Foreign suppliers	USD	94,393	365,754	90,414	299,090
Foreign suppliers	EUR	72,063	319,888	3,224	12,797
Foreign suppliers	GBP	3	16	8	34

Gains and losses involving these transactions are recognized in income for the year under caption financial income.

(*) The Company has a SWAP USD-EUR agreement with Banco Santander in amount equivalent to the loan with Banco Citibank.

Foreign exchange swap transactions

The Company realized financial derivatives in USD and EUR, in which it will receive the difference between the exchange-rate change in USD or EUR observed in the period, multiplied by the reference value (asset leg) with payment of the difference between the exchange-rate change in USD or EUR observed in the period and the reference value in USD or EUR on the date of the agreement (liability leg). On December 31, 2018, the Company recognized in the statement of income a loss of R$ 517 on this type of operation related to the agreement that was outstanding on that date and the total volume hedged is US$ 47,815 thousand and EURO 41,876 thousand.

Maturity	**Assets (USD)**	**Liabilities (EUR)**	**Parity EUR/USD**	**Amount USD**	**USD Adjustment**	**Rate USD**	**Adjustment (R$)**
09/25/2020	**47,815**	**41,876**	1.1450	47,948	(133)	3.8748	**(517)**

The Company does not have as policy to contract hedge financial instruments. The only financial instrument (hedge) that the Company contracted relates to the aforementioned SWAP, which turns the exposure in USD of the Citibank loan into a EUR exposure. As of December 31, 2018, there were no other financial instruments allocated to exchange-rate change hedge.

Sensitivity analysis - Foreign exchange

The sensitivity analysis is based on the assumption of maintaining as a probable scenario the market values as at December 31, 2018. Videolar-Innova considered the scenarios below for the volatility of the US Dollar and Euro exchange rate.

For foreign exchange transactions subject to Dollar fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2018 of R$ 3.8748 per US$1.00:

- **Scenario 1:** (25% of Brazilian real appreciation);
- **Scenario 2:** (50% of Brazilian real appreciation);
- **Scenario 3:** (25% devaluation of the Reais); and
- **Scenario 4:** (50% devaluation of the BRL);

Risk: Dollar fluctuation

		Income (expense) on exchange rate (in Reais)			
	Reference value, USD	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
USD rate		**2.9061**	**1.9374**	**4.8435**	**5.8122**
Citibank Loan	47,815	46,318	92,637	(46,318)	(92,637)
Debentures	36,307	35,171	70,341	(35,171)	(70,341)
ACC	12,256	11,872	23,745	(11,872)	(23,745)
Swap	47,815	(46,318)	(92,637)	46,318	92637
Foreign suppliers	94,393	91,438	182,877	(91,438)	(182,877)
Financial income - income (expense)		138,481	276,963	(138,481)	(276,963)

For foreign exchange transactions subject to EURO fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2018 of R$ 3.4354 per EUR$1.00:

- **Scenario 1:** (25% of Brazilian real appreciation);
- **Scenario 2:** (50% of Brazilian real appreciation);
- **Scenario 3:** (25% devaluation of the Reais); and
- **Scenario 4:** (50% devaluation of the BRL);
- **Risk:** Euro fluctuation

		Income (expense) on exchange rate (in Reais)			
	Reference value EUR	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
		3.3293	***2.2195***	***5.5488***	***6.6585***
Bradesco Loan	2,310	2,564	5,127	(2,564)	(5,127)
PPE	1,206	1,338	2,677	(1,338)	(2,677)
Loan - Santander	4,687	5,201	10,403	(5,201)	(10,403)
Swap	41,876	46,472	92,944	(46,472)	(92,944)
Foreign suppliers	72,063	79,972	159,944	(79,972)	(159,944)
Financial income - income (expense)		135,547	271,095	(135,547)	(271,095)

(iv) Operating risk

Operational risk is the risk of direct or indirect losses arising from different causes related to the Company's processes, personnel, technology and infrastructure and external factors, except credit risks, market and liquidity risks, as those arising from legal and regulatory requirements.

The Company aims at the constant maintenance, updating of processes, thus minimizing operating risks and reducing possible financial flow impacts and damage to its reputation by seeking cost effectiveness to avoid operating restriction.

(v) Capital risk

The Company's objectives in managing its capital are to safeguard its normal operations, besides maintaining a capital structure, appropriate to offer return to shareholders and benefits to the other stakeholders besides maintaining an optimal capital structure to reduce this cost.

Fair value measurement

Book values of the Company's financial assets and liabilities may suffer change. The table below presents the comparison per class of book and fair values, including fair value hierarchy levels. It does not include information on the fair value of financial assets and liabilities not measured at fair value if the book value is a reasonable approximation of fair value.

December 31, 2018:

	Rating	Book value 2018	Fair value 2018	Hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	7,480	7,480	-
Interest earnings bank deposits	Amortized cost	3,829	3,829	-
Accounts receivable	Amortized cost	489,613	489,613	
Other accounts receivable and advances to suppliers	Amortized cost	61,122	61,122	-
Total		**562,044**	**562,044**	
Financial liabilities				
Loans and financing	Other financial liabilities	429,471	429,471	
Debentures	Other financial liabilities	140,682	140,682	Level 2
Financial instruments	Other financial liabilities	517	517	Level 2
Suppliers	Other financial liabilities	734,867	734,867	
Total		**1,305,537**	**1,305,537**	

December 31, 2017:

	Rating	Book value 2017	Fair value 2017	Hierarchy
Financial assets				
Cash and cash equivalents	Loans and receivables	5,560	5,560	-
Interest earnings bank deposits	Loans and receivables	520	520	-
Accounts receivable	Loans and receivables	470,711	470,711	
Other accounts receivable and advance to suppliers	Loans and receivables	21,355	21,355	-
Total		**498,146**	**498,146**	
Financial liabilities				
Loans and financing	Other financial liabilities	268,316	268,316	
Debentures	Other financial liabilities	205,631	205,631	Level 2
Financial instruments	Other financial liabilities	12,623	12,623	Level 2
Suppliers	Other financial liabilities	351,365	351,365	
Total		**837,935**	**837,935**	

Fair value represents the amount by which the asset/liability can be exchanged in a current transaction between parties willing to negotiate.

Videolar-Innova uses the following hierarchy to determine and disclose fair value of financial assets and liabilities using the evaluation technique:

- **Level 1** - Prices quoted (not adjusted) in active markets for identical assets and liabilities.
- **Level 2 -** Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).
- **Level 3 -** Assumptions, for assets or liabilities, which are not based on observable market data (non-observable inputs).

Capital management

One of the Company's management main objective is to ensure that the Company maintains a strong credit score and capital ratio free from problems in order to support businesses and maximize shareholders' value. The Company administrates capital structure and adjusts it considering changes in economic conditions.

Objectives, policies and proceedings were not changed during years ended December 31, 2018 and 2017.

	2018	**2017**
Loans and financing	570,153	473,947
(-) Cash and cash equivalents	(11,309)	(6,080)
Net bank debt	558,844	467,867
Shareholders' equity	1,819,583	1,691,292
Shareholders' equity and net debt	**2,378,427**	**2,159,159**
Ratio of shareholders' equity and net bank debt	**0.31**	**0.28**

29 Insurance coverage

At December 31, 2018, operating a civil liability risk insurance coverage was comprised of R$ 1,555,567 for material damage and R$ 508,937 for loss of profits. Regarding Specific Risks, coverage was comprised of R$ 873,311 for material damage and R$ 92,894 for loss of profits. For commercial general liability R$ 50,000 and for environmental risk insurance R$ 50,000.

For insurance of domestic cargo transportation, the coverage was R$ 3,000 for terrestrial loading and R$ 8,000 for aerial and waterway loading. On international transportation import, the coverage is US$ 30,000 thousand exclusively for styrene monomer in bulk and polystyrene in bulk; US$ 15,000 thousand for other goods by vehicle/waterway transportation; US$ 5,000 thousand to air transportation of other goods or US$ 2,000 per vehicle/road trip; R$ 5,000 thousand for land shipments complementary to the international trip.

For insurance of export transportation, the hedge was US$ 6,000 thousand exclusively for ethylbenzene and styrene; US $ 500,000 for other goods per vehicle/vessel/aircraft/trip or accumulation; and R$ 1,500 for land shipments complementary to the international trip.

The coverage for group life insurance of the employees has salary multiple of 26 times for natural death and of 52 times for accidental death, limited to R$ 1,528 of coverage.

30 Operating leases

The commitments refer basically to the lease agreement with Petrobrás related to the Duct installed between the port of Petrobras and Videolar-Innova aimed at transporting the Styrene Monomer into the silos of Videolar-Innova at unit IV in Manaus. This agreement falls due on August 01, 2019 with monthly value of R$ 76.

The equipment lease agreement refers to the lease of nitrogen cylinder entered into with WhiteMartins for indefinite term.

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Executive board

Lírio Albino Parisotto - CEO and resident at Manaus

Claudio Rocha Filho - Operations and Human Resources Director

Rubén Eduardo Madoery - Commercial Director

Sergio de Oliveira Machado - Industrial Director

Mario Daud Filho - Legal and Compliance Director

Board of Directors

Lírio Albino Parisotto

Elie Linetzky Waitzberg

Tania Maris Vanin Parisotto

Phillip Wojdyslawski

Liz Vanin Parisotto

Accountant

Antonio Carlos de Barros
CRC SP 193.292/O-6