

# **INTERIM FINANCIAL STATEMENTS Q3 2019**

**LUPATECH S.A. – EM RECUPERAÇÃO JUDICIAL**  
**CNPJ/MF nº 89.463.822/0001-12**  
**NIRE 35.3.0045756-1**  
**Companhia Aberta de Capital Autorizado – Novo Mercado**

# Management Report

**THIS IS A FREE TRANSLATION OF THE ORIGINAL TEXT IN PORTUGUESE  
IN CASE OF DIVERGENCE OF INTERPRETATION, THE PORTUGUESE TEXT WILL  
PREVAIL**

## Message from the Administration

### Context

In 3Q19, the performance of our activities reflected the pale economic recovery and the lack of buoyancy in the oil sector.

Our sales of industrial valves are close to the investment, especially the spending on machinery and equipment in general (Gross Fixed Capital Formation - machinery and equipment). Investment, in turn, has historically had a multiplier effect on GDP growth of around 3.7 times, up or down, according to our estimates.

In the period, the IPEA noted that GFCF of nationally sourced machinery and equipment increased by only 1.3% over 3Q18 and down 4.7% over 2Q19. Demand for imported goods expanded strongly in these metrics, a number influenced by the importation of oil rigs.

Gross Fixed Capital Formation - monthly Ipea indicator growth rates  
(Em %)

|                        | Against previous seasonally adjusted period |        |        |      | Against the same period of the previous year |        |        |      | Accumulated |                 |
|------------------------|---|--------|--------|------|--|--------|--------|------|-------------|-----------------|
|                        | Jul/19                                      | Aug/19 | Sep/19 | Q2   | Jul/19                                       | Aug/19 | Sep/19 | Q    | Year        | In Twelve month |
| GFCF                   | 1.2   | -0.3   | 1.4    | 2.1  | 0.5  | 1.2    | 7.5    | 3.0  | 3.0         | 3.0             |
| Machines and equipment | 1.8   | -0.8   | 1.6    | 2.5  | -4.5   | -0.9   | 14.3   | 2.3  | 4.5         | 5.0             |
| Nationals              | 6.1   | -2.7   | -18.5  | -4.7 | 11.7   | 8.8    | -15.9  | 1.3  | 2.4         | 1.3             |
| Imported               | 10.7  | 9.9    | 40.5   | 42.5 | -24.3  | -14.7  | 130.0  | 10.5 | 11.0        | 15.4            |
| Civil Construction     | 2.4   | -1.1   | 1.2    | 1.4  | 3.0  | 1.2    | 3.8    | 2.6  | 1.0         | -0.1            |
| Others                 | 2.2   | 0.6    | -3.0   | 0.6  | 7.0  | 7.3    | 2.6    | 5.6  | 5.5         | 5.3             |

Source: IPEA

These fluctuations in demand for domestic goods in opposite directions and in unimportant percentages are consistent with our empirical finding that the industry is moving (read: there are quotations) but not doing business.

Demand for imported goods, driven by the acquisition of oil rigs, mirrors the reality that Petrobras has shifted much of its equipment overseas to the detriment of the local shipping industry. As the old bad news is known, the positive evidence remains that the oil industry is moving. Although Lupatech does not base its strategy on governmental benefits or yearn for protectionism, it must be understood that the crisis of the sector originated in the mismanagement of public affairs and that the State should look for the reparation of the social damage it caused.

### Services x Demobilization

As anticipated, we have concluded the sale of Lupatech Colombia to Exen. This was undoubtedly the most relevant transaction in the demobilization of the services business, due to the reinforcement it provided to the company's cash position.

The negotiation of demobilized equipment in the period allowed the vacancy of two operating bases in Espírito Santo and Sergipe, which contributes to the reduction of legacy costs. Thus, today there remains only one unit intended exclusively for the storage of materials in Macaé.

## Judicial Recovery

Between the last report and the present, we persist in the search for measures and procedural movements relevant to the conclusion of the judicial recovery. While some of the requests are awaiting court ruling, others have made progress. Here are the main recent movements:

- We obtained from the Brazilian court the necessary decisions to instrument the issuance of the new notes and warrants to the noteholders, after ratification of those decisions in Chapter 15 at the New York court.
- We continue to take measures to regulate the company's tax, today hindered by some debts that are being irregularly demanded and against which we are taking the appropriate judicial measures to suspend the liability.
- In the dispute with BNDES about extra-competitive credits, we obtained favorable moves to the company that led to the remeasurement of the liability by the legal advisors in charge.
- Several requests for cancellation of encumbrances, protests and credit notes related to credits subject to Recovery granted.

## Asset Recovery and Recapitalization

With the capital call made in June, the sale of the Dutch parent company of Lupatech Colombia and the negotiation of some equipment, we secured cash for the company's short-term needs, especially working capital for immediate resumption of business.

Regarding the necessary medium-term sources, we expect equipment demobilization inflows - an estimated US \$ 5-7 million in assets for sale - as well as good prospects for credits from tax refunds and active contingencies.

We have credits already approved for restitution by RFB in the amount of R \$ 27 million, whose realization depends mainly on administrative and judicial measures to suspend the enforceability and / or prohibit the offsetting of debts settled under PERT.

Last October there was the partial res judicata of a writ of mandamus filed by Lupatech S.A. to exclude ICMS from the PIS and COFINS tax base. The partially guaranteed right refers to the refund of taxes collected from Dec / 2001 to Dec / 2014. The amount of claims associated with the cause is estimated at around R\$ 28 million, which can be offset against future debts or refunded to the company, after taking appropriate administrative and / or judicial measures, which take the necessary time to come up. The company is still litigating for the right to reimburse overpayments from 2015 on by Lupatech S.A., as well as other current orders relating to other group companies and merged companies.

The company has several active contingencies. Some of these, which involve arbitration proceedings in the face of acquisition counterparties and dealt with different situations of breach of contract, must be resolved shortly and discuss substantial amounts. In particular, the proceeding against Cordoaria São Leopoldo was rendered lengthy and disclosed to the parties last September. The procedure still needs to go beyond the clarification stage (in progress), and, once the credits verified in favor of the company are confirmed, the judicial execution should be followed..

Rafael Gorenstein  
Director President and of Investor Relations

## Financial-Economic Performance

### Net Revenue

| Net Revenue (R\$ thd)    | 3Q18         | 3Q19         | Chg. R\$       | 2Q19         | 3Q19         | Chg. R\$     | 9M18          | 9M19          | Chg. R\$       |
|--------------------------|--------------|--------------|----------------|--------------|--------------|--------------|---------------|---------------|----------------|
| <b>Products</b>          | <b>9,648</b> | <b>8,005</b> | <b>(1,643)</b> | <b>6,765</b> | <b>8,005</b> | <b>1,240</b> | <b>24,587</b> | <b>23,122</b> | <b>(1,465)</b> |
| Oil&Gas Valves           | 2,687        | 2,186        | (501)          | 2,099        | 2,186        | 87           | 6,480         | 7,522         | 1,042          |
| Industrial Valves        | 6,550        | 5,819        | (731)          | 4,666        | 5,819        | 1,153        | 16,336        | 15,600        | (736)          |
| Tubular                  | 411          | -            | (411)          | -            | -            | -            | 1,771         | -             | (1,771)        |
| <b>Services</b>          | <b>16</b>    | <b>91</b>    | <b>75</b>      | <b>26</b>    | <b>91</b>    | <b>65</b>    | <b>247</b>    | <b>189</b>    | <b>(58)</b>    |
| Oilfield Services Brazil | 16           | 91           | 75             | 26           | 91           | 65           | 247           | 189           | (58)           |
| <b>Total</b>             | <b>9,664</b> | <b>8,096</b> | <b>(1,568)</b> | <b>6,791</b> | <b>8,096</b> | <b>1,305</b> | <b>24,834</b> | <b>23,311</b> | <b>(1,523)</b> |

For comparison purposes, as of the 2Q18 we changed the composition of the business segments, starting to treat the Tubular division as part of the Products business.

### Product Segment

Comparing 3Q19 versus 3Q18 there is a reduction in Net Revenue. Two factors contributed to the comparative reduction: the stoppage of activities in the Tubular Business after the conclusion of a contract in 3Q18, and the fact that in 3Q18 there was an accumulation of valve sales that would have occurred in 2Q18 were it not for the truckers strike.

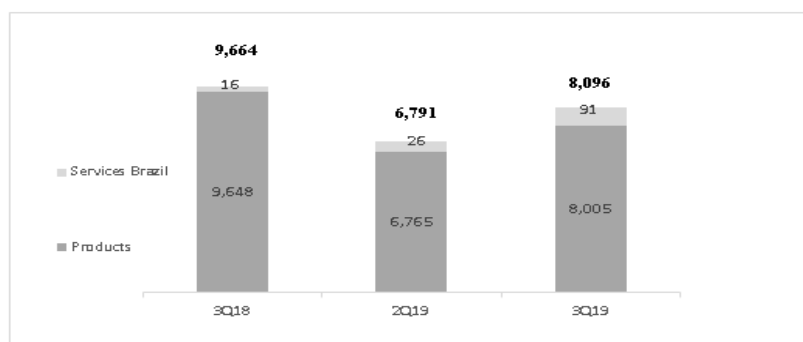
In the comparison between 3Q19 and 2Q19, we had an increase in sales mainly in Industrial Valves, reflecting the company's better performance in a market that is still relatively stagnant.

Comparing 9M19 with 9M18, the reduction is mainly explained by the standstill of the Tubular business, with the valve business at the same level.

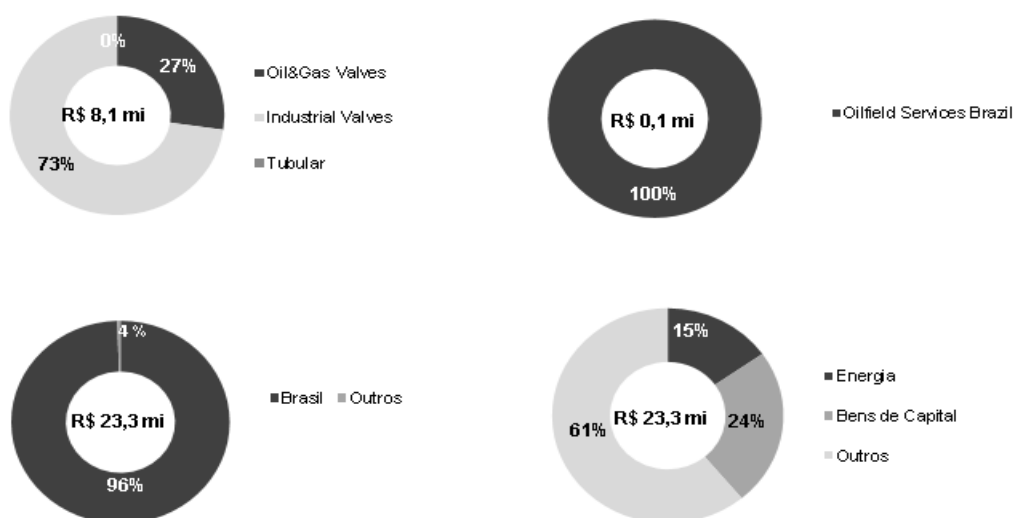
### Services Segment

The lack of revenues in the Oilfield Services Brazil division reflects the discontinuation of business in the Segment. Billing in 3Q19, 3Q18 and 2Q19 is not due to operations, refers to the sale of inventories under the demobilization process.

### Operational Net Revenue (R\$ thousand)



### Revenue Distribution - 3Q19



On September 30, 2019, the Company's Order Backlog in Brazil amounted R\$ 10.6 million. This figure does not include expired bids for which no orders have been issued or any contracts without obligation to purchase. This portfolio volume represents almost the double of the one registered comes mainly from the portfolio of products intended for the Oil & Gas Valves market.

### Gross Profit and Gross Margin

| Gross Profit (R\$ thd)                   | 3Q18         | 3Q19         | Chg. R\$     | 2Q19           | 3Q19         | Chg. R\$     | 9M18         | 9M19           | Chg. R\$       |
|--|--------------|--------------|--------------|----------------|--------------|--------------|--------------|----------------|----------------|
| <b>Products</b>                          | <b>51</b>    | <b>596</b>   | <b>545</b>   | <b>294</b>     | <b>596</b>   | <b>302</b>   | <b>646</b>   | <b>1,950</b>   | <b>1,304</b>   |
| % Gross Margin - Products                | 0.5%         | 7.4%         | 6,9 p.p      | 4.3%           | 7.4%         | 3,1 p.p      | 2.6%         | 8.4%           | 5,8 p.p.       |
| <b>Services</b>                          | <b>(7)</b>   | <b>(95)</b>  | <b>(88)</b>  | <b>(1,160)</b> | <b>(95)</b>  | <b>1,065</b> | <b>(414)</b> | <b>(3,356)</b> | <b>(2,942)</b> |
| % Gross Margin - Services                | -43.8%       | -104.4%      | - 60,6 p.p   | -4461.5%       | -104.4%      | 4,357,1 p.p  | -167.6%      | -1775.7%       | -1,608,0 p.p.  |
| <b>Total</b>                             | <b>44</b>    | <b>501</b>   | <b>457</b>   | <b>(866)</b>   | <b>501</b>   | <b>1,367</b> | <b>232</b>   | <b>(1,406)</b> | <b>(1,638)</b> |
| % Gross Margin - Total                   | 0.5%         | 6.2%         | 5,7 p.p      | -12.8%         | 6.2%         | 18,9 p.p     | 0.9%         | -6.0%          | - 7,0 p.p.     |
| <b>Depreciation</b>                      | <b>2,005</b> | <b>1,779</b> | <b>(226)</b> | <b>1,828</b>   | <b>1,779</b> | <b>(49)</b>  | <b>5,614</b> | <b>5,512</b>   | <b>(102)</b>   |
| Products                                 | 1,721        | 1,745        | 24           | 1,583          | 1,745        | 162          | 4,988        | 4,982          | (6)            |
| Services                                 | 284          | 34           | (250)        | 245            | 34           | (211)        | 626          | 530            | (96)           |
| <b>Gross Profit without Depreciation</b> | <b>2,049</b> | <b>2,280</b> | <b>231</b>   | <b>962</b>     | <b>2,280</b> | <b>1,318</b> | <b>5,846</b> | <b>4,106</b>   | <b>(1,740)</b> |

### Product Segment

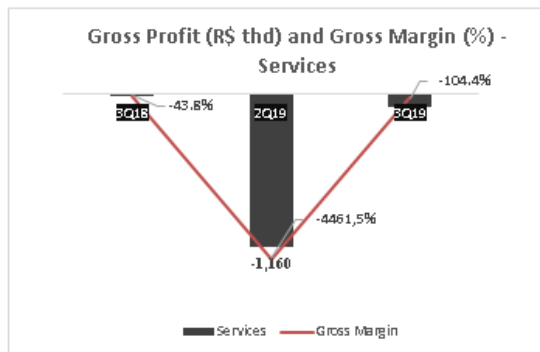
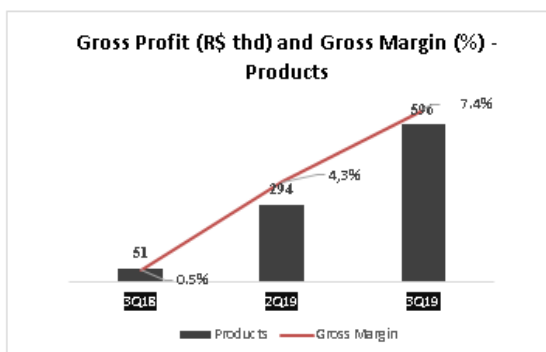
Comparing 3Q19 with 3Q18 and 2Q19, there is an improvement in gross profit and gross margin, as a result of progressive efforts to achieve better sales profitability. Comparing 9M19 and 9M18 gross profit was also better. Note that the increase occurred in the year-on-year comparison, even with the reduction in revenue.

Depreciation expense has a heavy weight on our margins due to high fixed assets in a low activity scenario. Excluding depreciation that does not matter in disbursement of funds, the margin in 3Q19 compared to 2Q19 increased by 1.5% representing an effective positive contribution to cash generation. Compared to the previous year, the increase was even more significant, from 10.9% in the quarter and 2.5% in the 9 months.

## Services Segment

The margins of the services segment do not come from the company's productive activities, but from the sale of inventories for the demobilization of the plant.

### Gross Profit (R\$ thousand) and Gross Margin (%)



## Expenses

| Expenses (R\$ thd)                                      | 3Q18         | 3Q19         | Chg. R\$     | 2Q19         | 3Q19         | Chg. R\$     | 9M18          | 9M19          | Chg. R\$     |
|---|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| <b>Total Sales Expenses</b>                             | <b>1,462</b> | <b>1,270</b> | <b>(192)</b> | <b>1,199</b> | <b>1,270</b> | <b>71</b>    | <b>4,192</b>  | <b>3,862</b>  | <b>(330)</b> |
| Sales Expenses - Products                               | 1,472        | 1,299        | (173)        | 1,302        | 1,299        | (3)          | 4,176         | 3,999         | (177)        |
| Sales Expenses - Services                               | (10)         | (29)         | (19)         | (103)        | (29)         | 74           | 16            | (137)         | (153)        |
| <b>Total Administrative Expenses</b>                    | <b>4,585</b> | <b>4,588</b> | <b>3</b>     | <b>5,290</b> | <b>4,588</b> | <b>(702)</b> | <b>15,793</b> | <b>15,768</b> | <b>(25)</b>  |
| Administrative Expenses - Products                      | 1,886        | 2,043        | 157          | 2,109        | 2,043        | (66)         | 5,959         | 6,269         | 310          |
| Administrative Expenses - Services                      | 2,357        | 2,186        | (171)        | 3,082        | 2,186        | (896)        | 8,776         | 8,564         | (212)        |
| Administrative Expenses - Corporate                     | 342          | 359          | 17           | 99           | 359          | 260          | 1,058         | 935           | (123)        |
| <b>Management Fees</b>                                  | <b>720</b>   | <b>705</b>   | <b>(15)</b>  | <b>710</b>   | <b>705</b>   | <b>(5)</b>   | <b>2,140</b>  | <b>2,135</b>  | <b>(5)</b>   |
| <b>Total Sales, Administratives and Management Fees</b> | <b>6,767</b> | <b>6,563</b> | <b>(204)</b> | <b>7,199</b> | <b>6,563</b> | <b>(636)</b> | <b>22,125</b> | <b>21,765</b> | <b>(360)</b> |

## Sales Expenses

In 3Q19 versus 3Q18, in the Product Segment, expenses reduced due to Net Revenue. In the comparative 3Q19 vs. 2Q19 expenses were at similar levels.

In the Services Segment, the results are effects of the change of estimate regarding the loss of credit of clients acquiring demobilized assets.

## Administrative Expenses

In the Product Segment, administrative expenses were at similar levels.

In the services segment, the reduction in 3Q19 compared to 2Q19 is mainly due to the terminations in 2Q19.

In the comparison with 3Q19 versus 2Q19, corporate administrative expenses increased mainly due to software license renewal and attorney fees in the period.

## Management Fees

There is no significant variation in Management Fees.

### Operating Expenses (R\$ thousand)



### Other Revenues and Operational (Expenses)

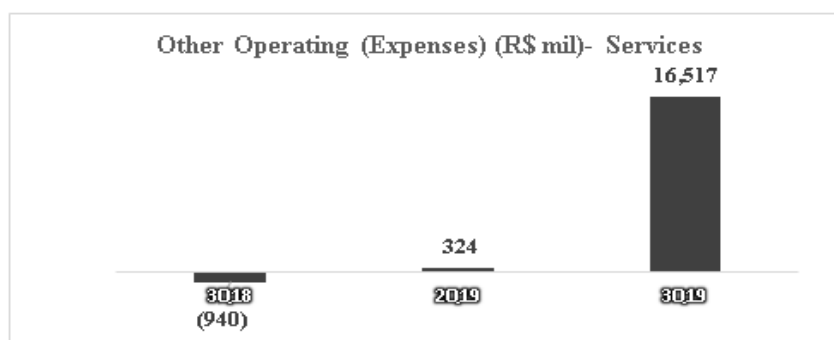
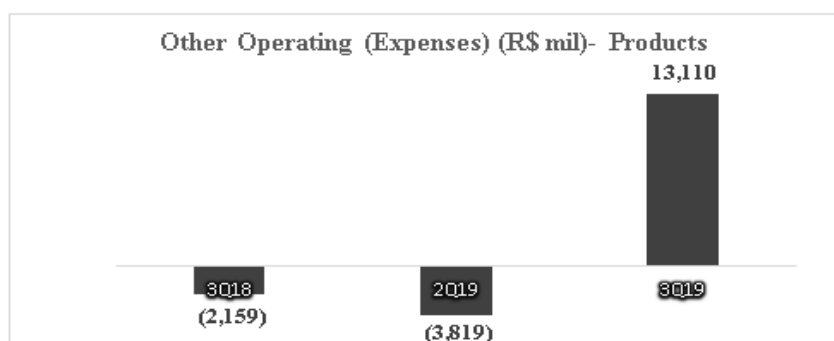
| Other Operating (Expenses) (R\$ mil) | 3Q18           | 3Q19          | Chg. R\$      | 2Q19           | 3Q19          | Chg. R\$      | 9M18           | 9M19          | Chg. R\$      |
|--------------------------------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|---------------|
| Products                             | 164            | 15,971        | 15,807        | (719)          | 15,971        | 16,690        | 2,441          | 14,991        | 12,551        |
| Expenses with Idleness - Products    | (2,323)        | (2,861)       | (538)         | (3,100)        | (2,861)       | 239           | (7,101)        | (8,350)       | (1,250)       |
| Services                             | (298)          | 17,127        | 17,425        | 795            | 17,127        | 16,332        | 920            | 15,776        | 14,856        |
| Expenses with Idleness - Services    | (642)          | (610)         | 32            | (471)          | (610)         | (139)         | (1,989)        | (1,830)       | 159           |
| <b>Total</b>                         | <b>(3,099)</b> | <b>29,627</b> | <b>32,726</b> | <b>(3,495)</b> | <b>29,627</b> | <b>33,122</b> | <b>(5,729)</b> | <b>20,587</b> | <b>26,316</b> |

In 3Q19, the following factors stand out:

- (i) R\$ 6.8 million gain on disposal of investments;
- (ii) R\$ 3.5 million of idle production;
- (iii) R\$ 3.0 million from contingent process updates (mainly labor) according to the analysis of legal advisors;
- (iv) R\$ 1.3 million net loss on disposal of assets;
- (v) R\$ 3.0 million write-off of non-recoverable taxes;
- (vi) R\$ 14.2 million from the recovery of taxes and contributions;
- (vii) R\$ 19.3 million for review of the amount of contingent liabilities.



### Other (Revenues) Operational Expenses (R\$ thousand)



## Financial Result

| Financial Results (R\$ thd)  | 3Q18            | 3Q19            | Chg. R\$       | 2Q19           | 3Q19            | Chg. R\$        | 9M18            | 9M19            | Chg. R\$       |
|--|-----------------|-----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Income from Financial Investments                                  | 24              | 49              | 25             | 25             | 49              | 24              | 71              | 95              | 24             |
| Monetary Variation   | 310             | 14,957          | 14,647         | 357            | 14,957          | 14,600          | 1,014           | 15,609          | 14,595         |
| Ajuste a Valor Presente  | -               | -               | -              | -              | -               | -               | -               | -               | -              |
| Ajuste a Valor Justo   | -               | -               | -              | -              | -               | -               | -               | -               | -              |
| Interest on Receivables  | (311)           | 3               | 314            | 2              | 3               | 1               | 8               | 8               | -              |
| Revenue (reduction of fine, interest and charges adherence to PER) | -               | -               | -              | -              | -               | -               | -               | -               | -              |
| Others   | 106             | (302)           | (408)          | 31             | (302)           | (333)           | (114)           | 995             | 1,109          |
| <b>Financial Revenue**</b>   | <b>129</b>      | <b>14,707</b>   | <b>14,578</b>  | <b>415</b>     | <b>14,707</b>   | <b>14,292</b>   | <b>979</b>      | <b>16,707</b>   | <b>15,728</b>  |
| (Expense) Reversal of Interest Expenses                            | (2,676)         | (2,523)         | 153            | (3,022)        | (2,523)         | 499             | (8,997)         | (8,959)         | 38             |
| Adjustment to fair value   | (329)           | 2,437           | 2,766          | (1,696)        | 2,437           | 4,133           | 5,181           | (1,379)         | (6,560)        |
| Ajuste a Valor Justo   | -               | -               | -              | -              | -               | -               | -               | -               | -              |
| Discount Granted   | (75)            | (1)             | 74             | (24)           | (1)             | 23              | (102)           | (25)            | 77             |
| (Provision) Reversal of Provision for Interest on Suppliers        | (2,651)         | (3,790)         | (1,139)        | 146            | (3,790)         | (3,936)         | (2,867)         | (2,545)         | 322            |
| Fines and Interest on Taxes  | (266)           | (198)           | 68             | (731)          | (198)           | 533             | (2,004)         | (1,134)         | 870            |
| IOF, Banking Expenses and Others                                   | 1,175           | 1,511           | 336            | (1,076)        | 1,511           | 2,587           | (988)           | (1,322)         | (334)          |
| <b>Financial Expense*</b>  | <b>(4,822)</b>  | <b>(2,564)</b>  | <b>2,258</b>   | <b>(6,403)</b> | <b>(2,564)</b>  | <b>3,839</b>    | <b>(9,777)</b>  | <b>(15,364)</b> | <b>(5,587)</b> |
| <b>Net Financial Results*</b>                                      | <b>(4,693)</b>  | <b>12,143</b>   | <b>16,836</b>  | <b>(5,988)</b> | <b>12,143</b>   | <b>18,131</b>   | <b>(8,798)</b>  | <b>1,343</b>    | <b>10,141</b>  |
| Exchange Variance Revenue  | 30,290          | 14,174          | (16,116)       | 5,255          | 14,174          | 8,919           | 76,326          | 29,384          | (46,942)       |
| Exchange Variance Expenses   | (42,850)        | (31,129)        | 11,721         | (2,954)        | (31,129)        | (28,175)        | (131,405)       | (46,230)        | 85,175         |
| <b>Net Exchange Variance</b>                                       | <b>(12,560)</b> | <b>(16,955)</b> | <b>(4,395)</b> | <b>2,301</b>   | <b>(16,955)</b> | <b>(19,256)</b> | <b>(55,079)</b> | <b>(16,846)</b> | <b>38,233</b>  |
| <b>Net Financial Results - Total</b>                               | <b>(17,253)</b> | <b>(4,812)</b>  | <b>12,441</b>  | <b>(3,687)</b> | <b>(4,812)</b>  | <b>(1,125)</b>  | <b>(63,877)</b> | <b>(15,503)</b> | <b>48,374</b>  |

\* Excluding Exchange Variance

## Financial Revenue

The variation in Financial Revenues in the comparison of 3Q19 and 3Q18 is mainly due to the monetary restatement portion of contingent assets of tax credits recognized in the period.

## Financial expenses

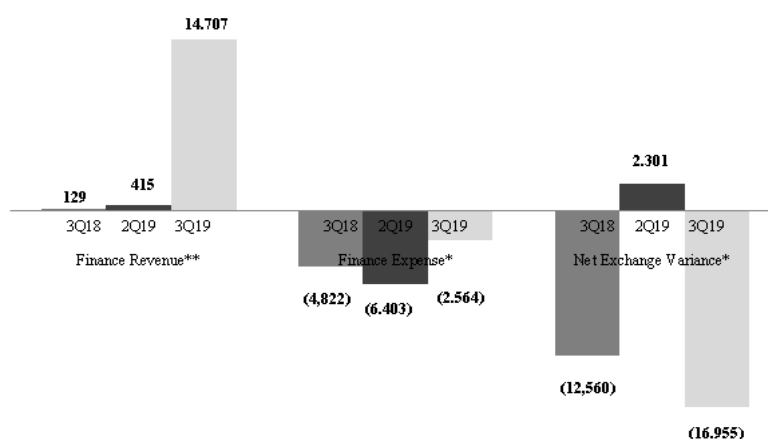
The reduction in financial expenses in 3Q19 compared to 3Q18 and 2Q19 is mainly due to the recognition of the adjustment to present value of debt subject to judicial recovery and updating of fines and default interest on tax debts.



## Net Exchange Variation

In 3Q19 versus 3Q18 and 2Q19, the Net Exchange Variation resulted in expenses, due to the 4.01% increase of the dollar (3Q19 against 3Q18) and 8.7% (3Q19 compared to 2Q19).

### Composition of the Financial Result (R\$ thousand)



\* Excluding Exchange Variance

## EBITDA Adjusted from Activities

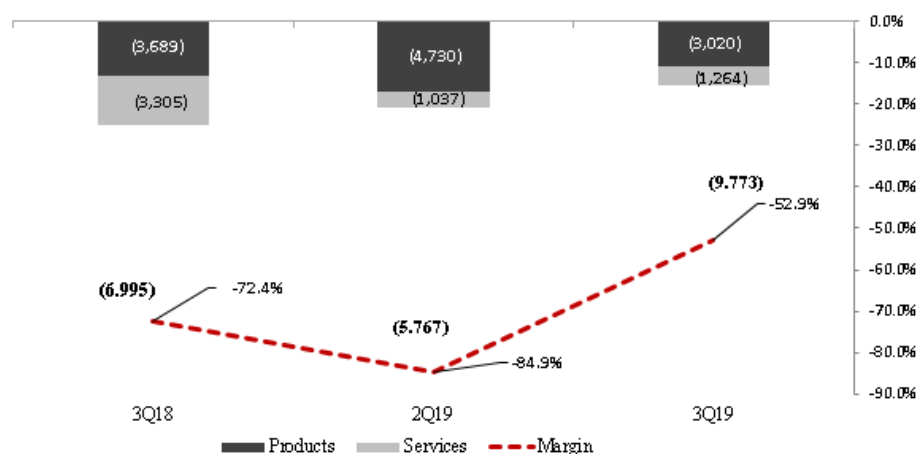
| EBITDA Adjusted (R\$ mil) | 3Q18           | 3Q19           | Chg. R\$     | 2Q19           | 3Q19           | Chg. R\$     | 9M18            | 9M19            | Chg. R\$     |
|---------------------------|----------------|----------------|--------------|----------------|----------------|--------------|-----------------|-----------------|--------------|
| <b>Products</b>           | <b>(3,689)</b> | <b>(3,020)</b> | <b>670</b>   | <b>(4,730)</b> | <b>(3,020)</b> | <b>1,710</b> | <b>(10,848)</b> | <b>(10,588)</b> | <b>261</b>   |
| Margin                    | -38.2%         | -37.7%         | 0,5 p.p      | -69.9%         | -37.7%         | 32,2 p.p     | -44.1%          | -45.8%          | -1,7 p.p.    |
| <b>Services</b>           | <b>(3,305)</b> | <b>(1,264)</b> | <b>2,041</b> | <b>(1,037)</b> | <b>(1,264)</b> | <b>(227)</b> | <b>(7,684)</b>  | <b>(5,037)</b>  | <b>2,647</b> |
| <b>Total</b>              | <b>(6,995)</b> | <b>(4,284)</b> | <b>2,711</b> | <b>(5,767)</b> | <b>(4,284)</b> | <b>1,483</b> | <b>(18,533)</b> | <b>(15,625)</b> | <b>2,908</b> |
| Margin                    | -72.4%         | -52.9%         | -19,5 p.p    | -84.9%         | -52.9%         | -32,0 p.p    | -74.6%          | -67.0%          | 7,6 p.p.     |

Adjusted Product EBITDA in 3Q19 improved compared to 3Q18 and 2Q19 due to better profitability in sales. The same is true when comparing 9M19 with 9M18.

In the Services Segment, EBITDA in 3Q19 improved compared to 3Q18 due to lower legacy management costs.

**3Q19**

| <b>Adjusted Ebitda Reconciliation (R\$ thd)</b>              | <b>Produtos</b> | <b>Serviços</b> | <b>Total</b>   |
|--|-----------------|-----------------|----------------|
| Gross Profit   | 596             | (95)            | 501            |
| Expenses with Sales, General and Administrative              | (3,693)         | (2,165)         | (5,858)        |
| Management Fees  | (692)           | (13)            | (705)          |
| Depreciation, Amortization and Realization of assets         | 1,744           | 34              | 1,778          |
| Other Operating Expenses                                     | 13,110          | 16,517          | 29,627         |
| <b>Activity Ebitda</b>                                       | <b>11,065</b>   | <b>14,278</b>   | <b>25,343</b>  |
| Provisions with Legal Proceedings                            | 1,070           | 1,908           | 2,978          |
| Fines with Customers   | 65              | -               | 65             |
| Expenses with Restructuring and Other Extraordinary Expenses | (18,690)        | (9,358)         | (28,048)       |
| Result of disposal or write-off of assets                    |                 | (8,093)         | (8,093)        |
| Idleness Expenses  | 3,470           |                 | 3,470          |
| <b>Adjusted Ebitda</b>                                       | <b>(3,020)</b>  | <b>(1,264)</b>  | <b>(4,284)</b> |

**EBITDA Adjusted (R\$ thousand)**


| <b>Adjusted Ebitda Reconciliation (R\$ thd)</b>              | <b>3Q18</b>    | <b>2Q19</b>    | <b>3Q19</b>    |
|--|----------------|----------------|----------------|
| Gross Profit   | 44             | (866)          | 501            |
| Expenses with Sales, General and Administrative              | (6,047)        | (6,489)        | (5,858)        |
| Management Fees  | (720)          | (710)          | (705)          |
| Depreciation, Amortization and Realization of assets         | 1,602          | 3,682          | 1,778          |
| Other Operating Expenses                                     | (2,633)        | (3,495)        | 29,627         |
| <b>Activity Ebitda</b>                                       | <b>(7,754)</b> | <b>(7,878)</b> | <b>25,343</b>  |
| Provisions with Legal Proceedings                            | 543            | 1,373          | 2,978          |
| Minority Interest  | -              | -              | -              |
| Fines with Customers   | 116            | 83             | 65             |
| Expenses with Restructuring and Other Extraordinary Expenses | 100            | 655            | (32,670)       |
| <b>Adjusted Ebitda</b>                                       | <b>(6,995)</b> | <b>(5,767)</b> | <b>(4,284)</b> |

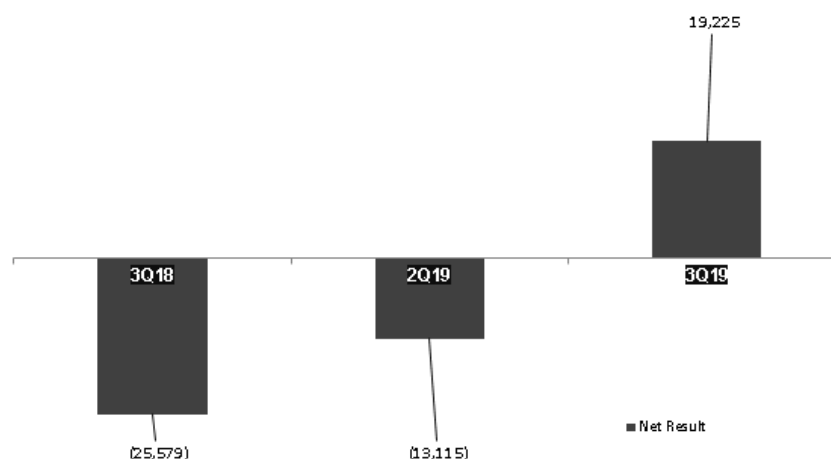
In 3Q19, we highlight the remaining sale of equity interest of Lupatech OFS Cooperatief, parent company of Lupatech Colombia, the recovery of taxes and contributions and also the effect of the review of contingent liabilities. Other extraordinary expenses refer to losses on the sale of fixed assets.

## Net Result

| Net Result (R\$ thd)                             | 3Q18            | 3Q19          | Chg. R\$      | 2Q19            | 3Q19          | Chg. R\$      | 9M18            | 9M19            | Chg. R\$      |
|--|-----------------|---------------|---------------|-----------------|---------------|---------------|-----------------|-----------------|---------------|
| Result Before Income Tax and Social Contribution | (28,257)        | 18,832        | 47,089        | (15,272)        | 18,832        | 34,104        | (94,897)        | (18,046)        | 76,851        |
| Income Tax and Social Contribution - Current     | 393             | -             | (393)         | (2)             | -             | 2             | 390             | (4)             | (394)         |
| Income Tax and Social Contribution - Deferred    | 78              | (580)         | (658)         | 403             | (580)         | (983)         | (875)           | 328             | 1,203         |
| Discontinued Operations Result                   | 2,207           | 973           | (1,234)       | 1,756           | 973           | (783)         | 3,088           | 4,236           | 1,148         |
| <b>Net Result</b>                                | <b>(25,579)</b> | <b>19,225</b> | <b>44,804</b> | <b>(13,115)</b> | <b>19,225</b> | <b>32,340</b> | <b>(92,294)</b> | <b>(13,486)</b> | <b>78,808</b> |
| Net Result per 1,000 shares                      | (1.68)          | 6.86          | 8.54          | (2.42)          | 6.86          | 9.28          | (6.06)          | (4.81)          | 1.25          |

In net income we highlight the gain of R\$ 6.8 related to the sale of equity interest, R\$ 28.2 from tax recovery; R\$ 10.1 from effects of judicial contingencies. In addition to current expenses, R\$ 17.0 million of negative exchange variation contributed to the 3Q19 result; R\$ 3.5 million of idleness; R\$ 3.0 thousand with contingent process updates according to the analysis of legal advisors; R\$ 3.7 million update of interest on loans and debts of judicial recovery and R\$ 0.2 million update of taxes and contributions due to installment applications.

### Composition of the Financial Result (R\$ thousand)

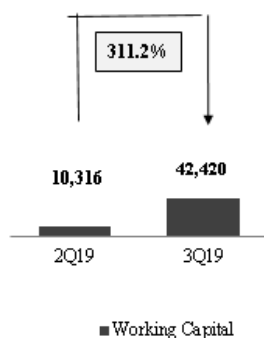
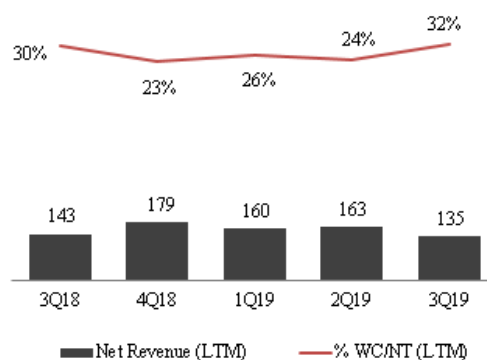


## Operational Working Capital

| Working Capital (R\$ thd)       | 2Q19          | 3Q19          | Chg. R\$      | Chg. R\$      |
|---------------------------------|---------------|---------------|---------------|---------------|
| Accounts Receivable             | 9,764         | 10,659        | 9.2%          | 895           |
| Inventories                     | 25,803        | 28,024        | 8.6%          | 2,221         |
| Advances of suppliers           | 12,048        | 11,287        | -6.3%         | (761)         |
| Recoverable taxes               | 9,859         | 38,096        | 286.4%        | 28,237        |
| Suppliers                       | 20,530        | 17,473        | -14.9%        | (3,057)       |
| Advances from Customers         | 4,611         | 5,653         | 22.6%         | 1,042         |
| Taxes payable                   | 12,127        | 12,353        | 1.9%          | 226           |
| Payroll and charges             | 9,890         | 10,167        | 2.8%          | 277           |
| <b>Employed Working Applied</b> | <b>10,316</b> | <b>42,420</b> | <b>311.2%</b> | <b>32,104</b> |
| Working Capital Variance        | (3,447)       | 32,104        |               |               |
| % Working Capital/Net Revenue*  | 24%           | 32%           |               |               |

\*LTM: last 12 months

When comparing 3Q19 with 2Q19, the main variations refer to tax credits that can be offset or reimbursed in the short term.

**Working Capital (R\$ thd)**

**Net Revenue x Working Capital (R\$ thd)**


## Cash and Cash Equivalents

| Cash and cash equivalents (R\$ t) | 2Q19       | 3Q19          | Chg. R\$       | Chg. R\$      |
|-----------------------------------|------------|---------------|----------------|---------------|
| Cash and Cash Equivalents         | 308        | 13,597        | 4317.7%        | 13,289        |
| <b>Total</b>                      | <b>308</b> | <b>13,597</b> | <b>4317.7%</b> | <b>13,289</b> |

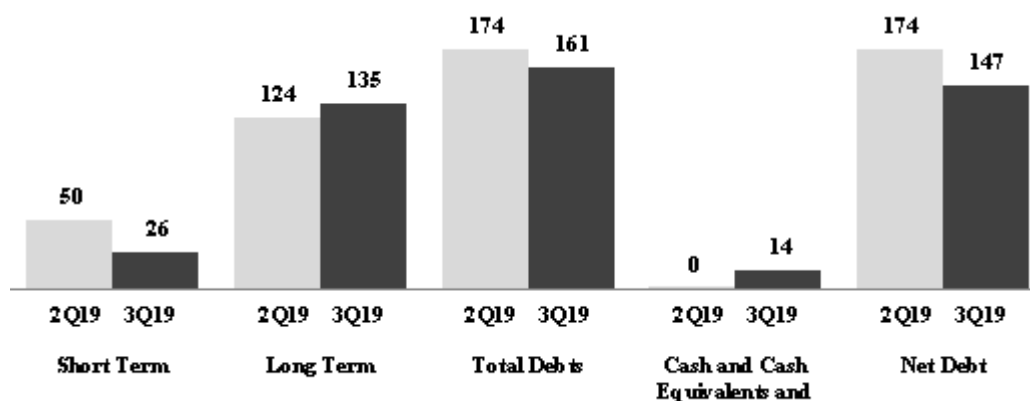
The variation in 3Q19 versus 2Q19 refers to the inflow of funds related to the sale of the Oielfield Services Colombia equity interest.

## Debt

| Debts (R\$ ths)                          | 2Q19           | 3Q19           | Chg. R\$      | Chg. R\$        |
|--|----------------|----------------|---------------|-----------------|
| <b>Short Term</b>                        | <b>50,197</b>  | <b>26,334</b>  | <b>-47.5%</b> | <b>(23,863)</b> |
| Credits subject to Judicial Recovery     | 10,414         | 6,295          | -40%          | (4,119)         |
| Credits not subject to Judicial Recovery | 32,522         | 13,815         | -58%          | (18,707)        |
| Debentures Convertible into Shares       | 7,262          | 6,224          | -14%          | (1,037)         |
| <b>Long Term</b>                         | <b>123,773</b> | <b>134,654</b> | <b>9%</b>     | <b>10,881</b>   |
| Credits subject to Judicial Recovery     | 123,773        | 134,654        | 9%            | 10,881          |
| <b>Total Debts</b>                       | <b>173,970</b> | <b>160,988</b> | <b>-7.5%</b>  | <b>(12,982)</b> |
| Cash and Cash Equivalents                | 308            | 13,597         | 4318%         | 13,289          |
| <b>Net Debt</b>                          | <b>173,662</b> | <b>147,391</b> | <b>-15.1%</b> | <b>(26,271)</b> |

The main reduction in the short term is due to the favorable decision due to the revision of contingent liabilities. The inflow of funds also contributed positively to the reduction of net debt.

### Debt Composition (R\$ million)

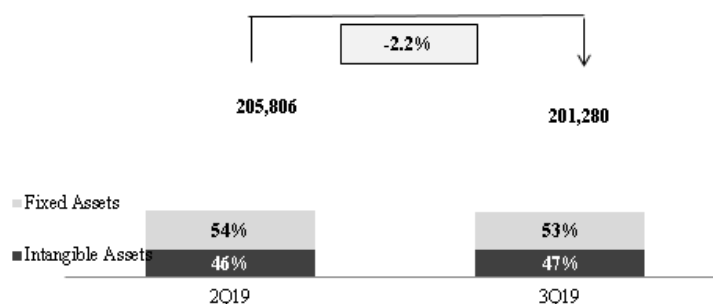


### Investment Balances

The variation presented in the investment balances also refers to the sale of the equity interest Oilfield Services Colombia division.

| Investments (R\$ thd) | 2Q19           | 3Q19           | Chg. R\$     | Chg. R\$       |
|-----------------------|----------------|----------------|--------------|----------------|
| Others Investments    | 587            | 587            | 0.0%         | -              |
| Fixed Assets          | 110,547        | 106,351        | -3.8%        | (4,196)        |
| Intangible Assets     | 94,672         | 94,342         | -0.3%        | (330)          |
| <b>Total</b>          | <b>205,806</b> | <b>201,280</b> | <b>-2.2%</b> | <b>(4,526)</b> |

### Investment Balances (R\$ thousand)



## Discontinued Operations:

On 12 September 2019, the entities comprising the Oilfield Services Colombia division were no longer part of the company. For purposes of analysis, all the results obtained by it were no longer included in the previous tables.

Below summary of the result generated by it. The variations may be justified by the partial result, which excluded the last month of the quarter, when the sale occurred.

| <b>Oilfield Services Colômbia</b>      | <b>3Q18</b>  | <b>3Q19</b>  | <b>Chg. R\$</b> | <b>2Q19</b>  | <b>3Q19</b>  | <b>Chg. R\$</b> | <b>9M18</b>  | <b>9M19</b>   | <b>Chg. R\$</b> |
|--|--------------|--------------|-----------------|--------------|--------------|-----------------|--------------|---------------|-----------------|
| <b>Services</b>                        |              |              |                 |              |              |                 |              |               |                 |
| Net Revenue (R\$ thousand)             | 28,045       | 18,521       | (9,524)         | 29,806       | 18,521       | (11,285)        | 65,552       | 73,663        | 8,111           |
| Gross Profit (R\$ Thousand)            | 6,546        | 4,330        | (2,216)         | 8,127        | 4,330        | (3,797)         | 11,279       | 18,963        | 7,684           |
| Administrative Expenses (R\$ Thousand) | 1,253        | 821          | (432)           | 1,258        | 821          | (437)           | 3,216        | 3,163         | (53)            |
| Sales Expenses (R\$ Thousand)          | 164          | 216          | 52              | 373          | 216          | (157)           | 477          | 845           | 368             |
| Management Fees (in R\$ Thousand)      | 557          | -            | (557)           | 579          | -            | (579)           | 1,623        | 1,119         | (504)           |
| Depreciation                           | 1,569        | 948          | (621)           | -            | 948          | 948             | 1,569        | 948           | (621)           |
| <b>Activities EBITDA</b>               | <b>3,003</b> | <b>2,345</b> | <b>- 658</b>    | <b>5,917</b> | <b>2,345</b> | <b>- 3,572</b>  | <b>4,394</b> | <b>12,888</b> | <b>8,494</b>    |

## Annexes

### Annex I - Financial Statements (R\$ thousand)

|   | 2Q19     | 3Q19     | % Change |
|---|----------|----------|----------|
| Net Revenue From Sales                                  | 6,791    | 8,096    | 19%      |
| Cost of Goods and Services Sold                         | (7,657)  | (7,595)  | -1%      |
| Gross Profit  | (866)    | 501      | -158%    |
| Operating Income/Expenses                               | (10,719) | 23,143   | -316%    |
| Selling   | (1,199)  | (1,270)  | 6%       |
| General and Administrative                              | (5,290)  | (4,588)  | -13%     |
| Management Fees   | (710)    | (705)    | -1%      |
| Equity pick-up  | (25)     | 79       | -416%    |
| Other Operation Income (Expenses)                       | (3,495)  | 29,627   | -948%    |
| Net Financial Result                                    | (3,687)  | (4,812)  | 31%      |
| Financial Income  | 415      | 14,707   | 3444%    |
| Financial Expenses                                      | (6,403)  | (2,564)  | -60%     |
| Net Exchange Variance                                   | 2,301    | (16,955) | -837%    |
| Loss Before Income Tax and Social Contribution          | (15,272) | 18,832   | -223%    |
| Provision Income Tax and Social Contribution - Current  | (2)      | -        | -100%    |
| Provision Income Tax and Social Contribution - Deferred | 403      | (580)    | -244%    |
| Prejuízo das Operações Descontinuadas                   | 1,756    | 973      | n/a      |
| Result for the Period                                   | (13,115) | 19,225   | -247%    |



**Annex II - Reconciliation of EBITDA Adjusted (R\$ thousand)**

|  | <b>2Q19</b> | <b>3Q19</b> | <b>% Change</b> |
|--|-------------|-------------|-----------------|
| Adjusted EBITDA from Continuing Operations                             | (5,767)     | (4,284)     | -26%            |
| Provisão para Remuneração Variável                                     | -           | -           | n/a             |
| Expenses with Restructuring and Other Extraordinary Expenses           | (655)       | 32,670      | -5088%          |
| Provisions for Losses, Impairment and Net Result on Disposal of Assets | (1,373)     | (2,978)     | 117%            |
| Fines with Costumers   | (83)        | (65)        | -22%            |
| EBITDA from Operations   | (7,878)     | 25,343      | -422%           |
| Depreciation and Amortization  | (3,682)     | (1,778)     | -52%            |
| Equity Pick-up   | (25)        | 79          | -416%           |
| Net Financial Result   | (3,687)     | (4,812)     | 31%             |
| Income Tax and Social Contribution - Current and Deferred              | 401         | (580)       | -245%           |
| Net Income (Loss)  | 1,756       | 973         | n/a             |
| Result from Continuing Operations                                      | (13,115)    | 19,225      | -247%           |

**Annex III - Consolidated Balance Sheets (R\$ thousand)**

|   | <b>2Q19</b>    | <b>3Q19</b>    | <b>% Change</b> |
|---|----------------|----------------|-----------------|
| <b>Total Asset</b>  | <b>564,433</b> | <b>498,233</b> | <b>-12%</b>     |
| <b>Current Assets</b>   | <b>211,127</b> | <b>199,415</b> | <b>-6%</b>      |
| Cash and Cash Equivalents   | 1,921          | 13,597         | 608%            |
| Accounts Receivable   | 33,704         | 10,659         | -68%            |
| Inventories   | 39,374         | 28,024         | -29%            |
| Recoverable Taxes   | 30,081         | 38,096         | 27%             |
| Other Accounts Receivable   | 27,395         | 28,072         | 2%              |
| Prepaid Expenses  | 1,459          | 1,213          | -17%            |
| Advances to Suppliers   | 13,939         | 11,287         | -19%            |
| Assets Classified as Held for Sale  | 63,254         | 68,467         | 8%              |
| <b>Non-Current Assets</b>   | <b>353,306</b> | <b>298,818</b> | <b>-15%</b>     |
| Other Credits   | 1              | 1              | n/a             |
| Securities-restricted   | 1,755          | 1,773          | 1%              |
| Judicial Deposits   | 25,541         | 25,008         | -2%             |
| Recoverable Taxes   | 54,064         | 54,131         | 0%              |
| Deferred Income Tax and Social Contribution                                 | 3,646          | -              | n/a             |
| Other Accounts Receivable   | 13,071         | 13,026         | 0%              |
| Assets Classified as Held for Sale  | 3,817          | 3,599          | -6%             |
| Investments   | 587            | 587            | 0%              |
| Property, Plant and Equipment   | 135,499        | 106,351        | -22%            |
| Intangible Assets   | 115,325        | 94,342         | -18%            |
| <b>Total Liabilities and Shareholders' Equity</b>                           | <b>564,433</b> | <b>498,233</b> | <b>-12%</b>     |
| <b>Current Liabilities</b>  | <b>141,812</b> | <b>79,484</b>  | <b>-44%</b>     |
| Suppliers - Not Subject to Judicial Recovery                                | 23,156         | 8,045          | -65%            |
| Suppliers - Subject to Judicial Recovery - Class I                          | 737            | 737            | 0%              |
| Suppliers - Subject to Judicial Recovery                                    | 7,468          | 8,691          | n/a             |
| Loans and Financing - Not Subject to Judicial Recovery                      | 37,520         | 13,815         | -63%            |
| Loans and Financing - Subject to Judicial Recovery                          | 10,414         | 6,295          | n/a             |
| Debentures Convertible into Shares  | 7,262          | 6,224          | n/a             |
| Provisions Payroll and Payroll Payable                                      | 15,098         | 10,167         | -33%            |
| Commissions Payable   | 437            | 456            | 4%              |
| Taxes Payable   | 27,592         | 12,353         | -55%            |
| Obligations and Provisions for Labor Risks - Subject to Judicial Recovery   | 1,638          | 1,638          | 0%              |
| Advances from Customers   | 4,656          | 5,653          | 21%             |
| Employee's Profit Sharing   | 291            | -              | -100%           |
| Other Accounts Payable  | 4,654          | 4,481          | -4%             |
| Provision for Contractual Fines   | 889            | 929            | 4%              |
| <b>Non-Current Liabilities</b>  | <b>321,124</b> | <b>334,113</b> | <b>4%</b>       |
| Suppliers - Subject to Judicial Recovery                                    | 59,107         | 60,550         | 2%              |
| Loans and Financing - Subject to Judicial Recovery                          | 123,773        | 134,654        | 9%              |
| Loans and Financing - Not Subject to Judicial Recovery                      | 1,054          | -              | -100%           |
| Taxes Payable   | 15,317         | 15,559         | 2%              |
| Deferred Income Tax and Social Contribution                                 | 51,047         | 51,600         | 1%              |
| Provision for Contingencies   | 56,065         | 56,490         | 1%              |
| Obligations and Provisions Labor Risks - Subject to Judicial Reorganization | 8,184          | 8,184          | 0%              |
| Other Accounts Payable  | 1,624          | 2,227          | 37%             |
| Provision for Negative Equity in Subsidiaries                               | 4,953          | 4,849          | -2%             |
| <b>Shareholders' Equity</b>   | <b>101,497</b> | <b>84,636</b>  | <b>-17%</b>     |
| Non-Controlling Interests   | 53,552         | -              | -100%           |
| Capital Stock   | 1,875,983      | 1,884,113      | 0%              |
| Capital reserve   | 2,875          | 2,875          | 0%              |
| Capital Transaction Reserve   | 136,183        | 136,183        | 0%              |
| Stock Options   | 13,549         | 13,549         | 0%              |
| Equity Valuation Adjustment   | 115,508        | 124,844        | 8%              |
| Accumulated Losses  | (2,096,153)    | (2,076,928)    | -1%             |

**Annex IV - Statements of the Consolidated Cash Flows (R\$ thousand)**

|  | 2Q19           | 3Q19            | % Change       |
|--|----------------|-----------------|----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                           |                |                 |                |
| Result for the Period  | (13,115)       | 19,225          | -247%          |
| Adjust:  |                |                 |                |
| Depreciation and Amortization  | 3,230          | (992)           | -131%          |
| Equity Pick-up   | 25             | (79)            | -416%          |
| Income from sale of property, plant and equipment                    | 2,772          | 5,365           | 94%            |
| Extraordinary losses, idleness and inventory market value adjustment | 149            | (149)           | n/a            |
| Financial charges and exchange variation on financing                | 1,966          | 22,986          | 1069%          |
| Reversal of impairment loss  | 102            | (5,226)         | n/a            |
| Deferred income tax and social contribution                          | (915)          | 4,199           | -559%          |
| Inventory Obsolescence   | 2,235          | (402)           | -118%          |
| (Reversal) Estimated losses for doubtful accounts                    | (107)          | (549)           | 413%           |
| Adjustment to present value  | 1,695          | (2,438)         | -244%          |
| Fair value adjustment  | 2,976          | (44,297)        | 4170%          |
| Changes in Assets & Liabilities                                      |                |                 | n/a            |
| (Increase) Decrease in Accounts Receivable                           | 815            | 23,467          | 2779%          |
| (Increase) Decrease in Inventories                                   | (3,240)        | 11,939          | -468%          |
| (Increase) Decrease in Recoverable Taxes                             | (3,916)        | (7,184)         | 83%            |
| (Increase) Decrease in Other Assets                                  | (5,261)        | 2,943           | -156%          |
| (Increase) Decrease in Suppliers                                     | 3,009          | (17,206)        | -672%          |
| (Increase) Decrease in Taxes Payable                                 | 4,394          | (14,800)        | -437%          |
| (Increase) Decrease in Others Accounts Payable                       | 3,773          | (15,968)        | -523%          |
| <b>Net cash used in operating activities</b>                         | <b>587</b>     | <b>(19,166)</b> | <b>-3365%</b>  |
| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>                          |                |                 |                |
| Capital payment in subsidiary  | 1,119          | 8,130           | n/a            |
| Caixa das operações descontinuadas                                   | -              | 38,451          | n/a            |
| Securities - restricted account                                      | 7              | 32              | n/a            |
| Resources from sale of fixed assets                                  | (34)           | 4,827           | -14297%        |
| Property Acquisition   | (1,552)        | (1,569)         | 1%             |
| Intangible Acquisition   | -              | (1)             | n/a            |
| <b>Net cash provided by (used) in investing activities</b>           | <b>(460)</b>   | <b>49,870</b>   | <b>-10941%</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                           |                |                 |                |
| Borrowing and Financing  | 24,055         | (55,516)        | -331%          |
| Payment of loans and financing                                       | (24,497)       | 36,492          | n/a            |
| Convertible Debentures in Shares                                     | (1,037)        | (1,038)         | n/a            |
| Payment of loans and financing                                       | (588)          | 1,034           | -276%          |
| <b>Net cash provided by financing activities</b>                     | <b>(2,067)</b> | <b>(19,028)</b> | <b>820%</b>    |
| <b>(Decrease) Net Increase in Cash Balance and Cash Equivalents</b>  | <b>(1,940)</b> | <b>11,676</b>   | <b>-702%</b>   |
| Cash and Cash Equivalent at Year End                                 | (1,940)        | 11,676          | -702%          |

### About Lupatech – In Judicial Recovery

Lupatech S.A. - In Judicial Recovery is a Brazilian company of products and services of high added value focusing the oil and gas sector. The businesses are organized in two segments: Products and Services. The Products Segment offers, mainly for the oil and gas sector, valves, anchoring cables for production platforms, industrial valves and equipment for well completion and pipe coating, as well as a relevant participation in the gas compressor segment company natural vehicle. The Service Segment offers services, workover, well intervention, inspection and repair.

LUPATECH S.A. - IN JUDICIAL RECOVERY

BALANCE SHEET  
(In R\$ Thousands)

|   |      | Parent     |            | Consolidated |            |
|---|------|------------|------------|--------------|------------|
| ASSETS                                      | Note | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| CURRENT ASSETS                              |      |            |            |              |            |
| Cash and cash equivalents                   | 4    | 155        | 135        | 13,597       | 1,245      |
| Securities-restricted                       | 4    | -          | 847        | -            | 847        |
| Accounts receivables                        | 5    | 5,097      | 6,704      | 10,659       | 31,357     |
| Inventories                                 | 6    | 21,039     | 19,043     | 28,024       | 38,950     |
| Recoverable taxes                           | 7    | 1,089      | 2,736      | 38,096       | 23,637     |
| Advances to suppliers                       |      | 760        | 1,088      | 11,287       | 13,877     |
| Other accounts receivable                   | 8    | 8,875      | 6,037      | 28,072       | 26,938     |
| Prepaid expenses                            |      | 1,202      | 1,136      | 1,213        | 1,580      |
| Accounts receivable - related parties       | 15.1 | 63,362     | 95,505     | -            | -          |
| Assets classified as held for sale          | 28   | 3,236      | -          | 68,467       | 89,401     |
| Total current assets                        |      | 104,815    | 133,231    | 199,415      | 227,832    |
| NON-CURRENT ASSETS                          |      |            |            |              |            |
| Other Credits                               |      | 1          | -          | 1            | -          |
| Judicial deposits                           | 17.3 | 1,688      | 2,149      | 25,008       | 25,410     |
| Securities-restricted                       | 4    | 1,773      | 961        | 1,773        | 961        |
| Recoverable taxes                           | 7    | 39,872     | 12,944     | 54,131       | 53,736     |
| Deferred income tax and social contribution |      | -          | -          | -            | 3,932      |
| Accounts receivable - related parties       | 15.1 | 22,651     | 27,858     | -            | -          |
| Other accounts receivable                   | 8    | 7,098      | 7,098      | 13,026       | 13,505     |
| Assets classified as held for sale          | 28   | 3,400      | 3,449      | 3,599        | 3,855      |
| Investments                                 |      |            |            |              |            |
| Direct and indirect associated companies    | 9.1  | 216,466    | 190,087    | -            | -          |
| Other investments                           |      | 1          | 1          | 587          | 587        |
| Fixed assets                                | 10   | 63,716     | 67,717     | 106,351      | 135,937    |
| Intangibles                                 |      |            |            |              |            |
| Goodwill                                    | 11   | 55,414     | 55,414     | 82,166       | 102,802    |
| Other intangibles                           | 11   | 11,852     | 12,753     | 12,176       | 13,168     |
| Total Non-current assets                    |      | 423,932    | 380,431    | 298,818      | 353,893    |
| TOTAL ASSETS                                |      | 528,747    | 513,662    | 498,233      | 581,725    |

The notes are an integral part of the financial statements.

LUPATECH S.A. - IN JUDICIAL RECOVERY

BALANCE SHEET

(In R\$ Thousands)

| LIABILITIES AND SHAREHOLDERS' EQUITY                                    | Note | Parent      |             | Consolidated |             |
|---|------|-------------|-------------|--------------|-------------|
|   |      | 09/30/2019  | 12/31/2018  | 09/30/2019   | 12/31/2018  |
| CURRENT LIABILITIES   |      |             |             |              |             |
| Suppliers - not subject to Judicial Recovery                            | 12   | 3,935       | 6,132       | 8,045        | 25,538      |
| Suppliers - subject to Judicial Recovery Class I                        | 12   | 737         | 730         | 737          | 730         |
| Suppliers - subject to Judicial Recovery                                | 12   | 8,691       | 4,836       | 8,691        | 4,836       |
| Loans and financing - not subject to Judicial Recovery                  | 13   | 8,895       | 18,600      | 13,815       | 37,197      |
| Loans and financing - subject to Judicial Recovery                      | 13   | 2,382       | 4,062       | 6,295        | 6,507       |
| Debenture   | 14   | 6,224       | 9,336       | 6,224        | 9,336       |
| Provisions payroll and payroll payable                                  |      | 7,639       | 6,505       | 10,167       | 12,381      |
| Commissions payable   |      | 455         | 955         | 456          | 958         |
| Taxes payable   |      | 7,392       | 5,164       | 12,353       | 20,127      |
| Obligations for labor risks and creditors- subject to Judicial Recovery |      | 1,638       | 1,638       | 1,638        | 1,638       |
| Advances from customers   |      | 2,741       | 2,770       | 5,653        | 3,528       |
| Provision contratual fines  |      | 770         | 1,082       | 929          | 1,241       |
| Employee's profit sharing   |      | -           | -           | -            | 613         |
| Other accounts payable  |      | 3,326       | 1,832       | 4,481        | 3,359       |
| Related Parties - mutual and loans                                      | 15.1 | 42,347      | 41,062      | -            | -           |
| Total current liabilities   |      | 97,172      | 104,704     | 79,484       | 127,989     |
| NON-CURRENT LIABILITIES   |      |             |             |              |             |
| Suppliers - subject to Judicial Recovery                                | 12   | 60,550      | 59,827      | 60,550       | 59,827      |
| Loans and financing - subject to Judicial Recovery                      | 13   | 73,222      | 65,000      | 134,654      | 121,570     |
| Loans and financing - not subject to Judicial Recovery                  | 13   | -           | -           | -            | 1,121       |
| Deferred income tax and social contribution                             | 16   | 28,446      | 29,035      | 51,600       | 54,482      |
| Taxes payable   |      | 11,650      | 9,629       | 15,559       | 13,032      |
| Provision for contingencies   | 17.1 | 8,525       | 6,107       | 56,490       | 53,913      |
| Obligations and provisions labor risks - subject to judicial Recovery   |      | 8,184       | 8,184       | 8,184        | 8,184       |
| Other accounts payable  |      | -           | 1,080       | 2,227        | 3,506       |
| Related Parties - mutual and loans                                      | 15.1 | 151,513     | 140,583     | -            | -           |
| Provision for negative equity in subsidiaries                           | 9.2  | 4,849       | 4,906       | 4,849        | 4,906       |
| Total non-current liabilities   |      | 346,939     | 324,351     | 334,113      | 320,541     |
| SHAREHOLDERS' EQUITY  |      |             |             |              |             |
| Capital stock   | 18   | 1,884,113   | 1,873,761   | 1,884,113    | 1,873,761   |
| Capital reserve to be realized  |      | 2,875       | 2,875       | 2,875        | 2,875       |
| Capital transaction reserve   |      | 136,183     | 136,183     | 136,183      | 136,183     |
| Stock options   |      | 13,549      | 13,549      | 13,549       | 13,549      |
| Equity valuation adjustments  |      | 124,844     | 121,681     | 124,844      | 121,681     |
| Retained earnings / Accumulated losses                                  |      | (2,076,928) | (2,063,442) | (2,076,928)  | (2,063,442) |
| Parents company's interest  |      | 84,636      | 84,607      | 84,636       | 84,607      |
| Non-controlling interests   |      | -           | -           | -            | 48,588      |
| Total shareholders' equity  |      | 84,636      | 84,607      | 84,636       | 133,195     |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                              |      | 528,747     | 513,662     | 498,233      | 581,725     |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT OF INCOME  
ON SEPTEMBER 30, 2019 AND 2018  
(In R\$ Thousands)

|  | Note | Parent     |            | Consolidated |            |
|--|------|------------|------------|--------------|------------|
|  |      | 09/30/2019 | 09/30/2018 | 09/30/2019   | 09/30/2018 |
| NET REVENUE FROM SALES                         | 22   | 22,369     | 20,078     | 23,311       | 24,834     |
| COST OF GOODS AND SERVICES SOLD                | 26   | (19,157)   | (19,465)   | (24,717)     | (24,602)   |
| Profit (loss) gross                            |      | 3,212      | 613        | (1,406)      | 232        |
| OPERATING INCOME/EXPENSES                      |      |            |            |              |            |
| Selling  | 26   | (3,946)    | (3,485)    | (3,862)      | (4,192)    |
| General and administrative                     | 26   | (6,455)    | (5,393)    | (15,769)     | (15,792)   |
| Management compensation                        | 15.2 | (2,135)    | (2,140)    | (2,135)      | (2,140)    |
| Equity pick-up                                 | 9.1  | (10,107)   | (10,821)   | 42           | (3,399)    |
| Other operating income (expenses)              | 25   | 18,958     | (5,356)    | 20,587       | (5,729)    |
| OPERATING LOSS BEFORE FINANCIAL RESULTS        |      | (473)      | (26,582)   | (2,543)      | (31,020)   |
| FINANCIAL RESULTS                              |      |            |            |              |            |
| Financial income                               | 24   | 15,616     | 420        | 16,707       | 979        |
| Financial expenses                             | 24   | (15,193)   | (13,653)   | (15,364)     | (9,777)    |
| Exchange variation, net                        | 24   | (14,025)   | (53,326)   | (16,846)     | (55,079)   |
| LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION |      | (14,075)   | (93,141)   | (18,046)     | (94,897)   |
| INCOME TAX AND SOCIAL CONTRIBUTION             |      |            |            |              |            |
| Current  | 16   | -          | -          | (4)          | 390        |
| Deferred                                       | 16   | 589        | 847        | 328          | (875)      |
| LOSS FOR THE PERIOD                            |      | (13,486)   | (92,294)   | (17,722)     | (95,382)   |
| PROFIT FROM DISCONTINUED OPERATIONS            | 29   | -          | -          | 4,236        | 3,088      |
| LOSS FOR THE PERIOD                            |      | (13,486)   | (92,294)   | (13,486)     | (92,294)   |
| NET INCOME (LOSS) PER SHARE (In Reais)         |      |            |            |              |            |
| Parent company's interest                      |      | (13,486)   | (92,294)   | (13,486)     | (92,294)   |
| Non-controlling interest                       |      | -          | -          | -            | -          |
| LOSS PER SHARE (In Reais)                      |      |            |            |              |            |
| BASIC earnings per share                       | 23   | (4.81250)  | (6.0647)   | (4.81250)    | (6.06471)  |
| Diluted per share                              | 23   | (4.81250)  | (6.0647)   | (4.81250)    | (6.06471)  |

The notes are an integral part of the financial statements.



LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT OF COMPREHENSIVE INCOME  
ON SEPTEMBER 30, 2019 AND 2018  
(In R\$ Thousands)

|   | Note | Parent          |                 | Consolidated    |                 |
|---|------|-----------------|-----------------|-----------------|-----------------|
|   |      | 09/30/2019      | 09/30/2018      | 09/30/2019      | 09/30/2018      |
| LOSS FOR THE PERIOD                               |      | (13,486)        | (92,294)        | (13,486)        | (92,294)        |
| OTHER COMPREHENSIVE INCOME                        |      |                 |                 |                 |                 |
| Exchange variation on investments abroad          | 9.1  | 8,064           | 57,285          | 8,064           | 57,285          |
| Implementation of the equity valuation adjustment |      | (4,901)         | -               | (4,901)         | -               |
| COMPREHENSIVE INCOME OF THE PERIOD                |      | <u>(10,323)</u> | <u>(35,009)</u> | <u>(10,323)</u> | <u>(35,009)</u> |
| TOTAL COMPREHENSIVE INCOME ALLOCATED TO:          |      |                 |                 |                 |                 |
| Participation of controlling shareholders         |      | (10,323)        | (35,009)        | (10,323)        | (35,009)        |
| Non-controlling interests                         |      | -               | -               | -               | -               |

The notes are an integral part of the financial statements.

## LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT CASH FLOW - INDIRECT METHOD  
ON SEPTEMBER 30, 2019 AND 2018  
(In R\$ Thousands)

|  |         | Parent          |                 | Consolidated    |                 |
|--|---------|-----------------|-----------------|-----------------|-----------------|
|  | Note    | 09/30/2019      | 09/30/2018      | 09/30/2019      | 09/30/2018      |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                           |         |                 |                 |                 |                 |
| Loss for the period  |         | (13,486)        | (92,294)        | (13,486)        | (92,294)        |
| Depreciation and amortization  | 10 e 11 | 4,912           | 5,029           | 5,507           | 10,277          |
| Reversal (Provision) for losses by non-recoverability of assets      | 10 e 11 | -               | -               | (8,932)         | (4,738)         |
| Equity pick-up   | 9.1     | 10,107          | 10,821          | (42)            | 3,399           |
| Result on sale of fixed assets                                       |         | 126             | (85)            | 21,147          | 3,922           |
| Financial expenses, net  |         | 24,549          | 58,980          | 29,995          | 68,823          |
| Extraordinary losses and adjustment to market value with inventories |         | (550)           | -               | -               | (802)           |
| Deferred income tax and social contribution                          |         | (589)           | (847)           | 1,050           | 75              |
| Inventory Obsolescence   | 6       | (318)           | (802)           | (253)           | (588)           |
| Provision of contractual fines                                       |         | -               | 112             | -               | 368             |
| (Reversal) Estimated losses for doubtful accounts                    | 5       | 40              | (14)            | (613)           | 34              |
| (Reversal) Effective losses with doubtful debtors                    | 5       | -               | -               | -               | (101)           |
| Present value adjustment   | 24      | (1,463)         | 3,558           | 1,378           | (3,750)         |
| Adjustment to fair value   |         | (1,621)         | -               | (43,267)        | -               |
| (Increase) decrease in operating assets:                             |         |                 |                 |                 |                 |
| Accounts receivable  |         | 1,553           | (1,297)         | 21,320          | (6,255)         |
| Inventories  |         | (1,128)         | 3,534           | 11,179          | 21,600          |
| Recoverable taxes  |         | (25,281)        | 1,958           | (14,192)        | 8,297           |
| Other assets   |         | (2,111)         | (4,976)         | 2,770           | 7,690           |
| (Increase) decrease in operating liabilities:                        |         |                 |                 |                 |                 |
| Suppliers  |         | (1,233)         | (2,708)         | (15,197)        | 1,179           |
| Taxes payable  |         | 3,898           | 2,653           | (5,971)         | (3,994)         |
| Others accounts payable  |         | 3,126           | (15,041)        | (12,047)        | (33,197)        |
| <b>Cash flow from operating activities</b>                           |         | <b>531</b>      | <b>(31,419)</b> | <b>(19,654)</b> | <b>(20,055)</b> |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                           |         |                 |                 |                 |                 |
| Cash from discontinued operations                                    |         | -               | -               | 38,451          | -               |
| Payment of capital in subsidiaries                                   |         | (31,758)        | -               | 10,352          | 18,991          |
| Sale of interest in subsidiary and return                            |         | -               | 5,244           | -               | -               |
| Proceeds from sale of investments                                    |         | -               | 89              | -               | 89              |
| Securities-restricted  | 4       | 78              | -               | 130             | 15              |
| Resources from sale of fixed assets                                  |         | -               | 85              | 12,170          | 2,201           |
| Asset Acquisition  | 10      | (3,281)         | (44)            | (3,432)         | (2,663)         |
| Additions to the intangible  | 11      | (42)            | (79)            | (43)            | (79)            |
| <b>Net cash provided by (used in) investment activities</b>          |         | <b>(35,003)</b> | <b>5,295</b>    | <b>57,628</b>   | <b>18,554</b>   |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                           |         |                 |                 |                 |                 |
| Proceeds from loans and financing                                    |         | 4,340           | (6,058)         | (7,452)         | 65,060          |
| Proceeds from loans and financing - Related parties                  |         | 37,254          | (2,653)         | -               | -               |
| Capital Increase (Reduction)   | 18      | 10,352          | 18,991          | -               | -               |
| Payments of loans and financing                                      |         | (14,342)        | 5,526           | (15,058)        | (73,424)        |
| Convertible debentures in share                                      | 14      | (3,112)         | 10,323          | (3,112)         | 10,323          |
| Payments of loans and financing - Interest                           |         | -               | -               | -               | (1,427)         |
| <b>Net cash provided by financing activities</b>                     |         | <b>34,492</b>   | <b>26,129</b>   | <b>(25,622)</b> | <b>532</b>      |
| <b>(REDUCTION) NET INCREASE OF CASH AND CASH EQUIVALENTS</b>         |         |                 |                 |                 |                 |
|  |         | <b>20</b>       | <b>5</b>        | <b>12,352</b>   | <b>(969)</b>    |
| Cash and cash equivalents at the beginning of period                 |         | 135             | 6               | 1,245           | 2,135           |
| Cash and cash equivalents at the end of period                       |         | 155             | 11              | 13,597          | 1,166           |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

CONSOLIDATED STATEMENT OF CHANGES SHAREHOLDER'S EQUITY  
ON SEPTEMBER 30,2019 AND 2018

(In R\$ Thousands)

|   | Note | Capital stock    | Capital reserves,<br>options granted | Accumulated<br>profit/loss | Equity valuation<br>adjustments | Parents company's<br>interest | Non-controlling<br>interest | Total<br>shareholders'<br>equity |
|---|------|------------------|--------------------------------------|----------------------------|---------------------------------|-------------------------------|-----------------------------|----------------------------------|
| <b>BALANCE ADJUSTMENT IN DECEMBER 31, 2017 (restated)</b> |      | <b>1,853,684</b> | <b>156,073</b>                       | <b>(1,962,131)</b>         | <b>65,962</b>                   | <b>113,588</b>                | <b>26,325</b>               | <b>139,913</b>                   |
| Capital increase  |      | 18,991           | -                                    | -                          | -                               | 18,991                        | -                           | 18,991                           |
| Loss of period  |      | -                | -                                    | (92,294)                   | -                               | (92,294)                      | (2,625)                     | (94,919)                         |
| Exchange variation on investments abroad                  | 9.1  | -                | -                                    | -                          | 57,285                          | 57,285                        | -                           | 57,285                           |
| Non-controlling interest                                  |      | -                | -                                    | -                          | -                               | -                             | 18,303                      | 18,303                           |
| <b>BALANCE ADJUSTMENT IN SEPTEMBER 30,2018</b>            |      | <b>1,872,675</b> | <b>156,073</b>                       | <b>(2,054,425)</b>         | <b>123,247</b>                  | <b>97,570</b>                 | <b>42,003</b>               | <b>139,573</b>                   |
| <b>BALANCE ADJUSTMENT IN DECEMBER 31, 2018</b>            |      | <b>1,873,761</b> | <b>152,607</b>                       | <b>(2,063,442)</b>         | <b>121,681</b>                  | <b>84,607</b>                 | <b>48,588</b>               | <b>133,195</b>                   |
| Capital increase  |      | 10,352           | -                                    | -                          | -                               | 10,352                        | -                           | 10,352                           |
| Net loss of period  |      | -                | -                                    | (13,486)                   | -                               | (13,486)                      | -                           | (13,486)                         |
| Exchange variation on investments abroad                  | 9.1  | -                | -                                    | -                          | 8,064                           | 8,064                         | -                           | 8,064                            |
| Non-controlling interest                                  |      | -                | -                                    | -                          | -                               | -                             | (48,588)                    | (48,588)                         |
| Implementation of equity valuation adjustment             |      | -                | -                                    | -                          | (4,901)                         | (4,901)                       | -                           | (4,901)                          |
| <b>BALANCE ADJUSTMENT IN SEPTEMBER 30,2019</b>            |      | <b>1,884,113</b> | <b>152,607</b>                       | <b>(2,076,928)</b>         | <b>124,844</b>                  | <b>84,636</b>                 | <b>-</b>                    | <b>84,636</b>                    |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT OF ADDED VALUE  
ON SEPTEMBER 30, 2019 AND 2018  
(Em milhares de Reais)

|  | Note    | Parent          |                 | Consolidated     |                 |
|--|---------|-----------------|-----------------|------------------|-----------------|
|  |         | 09/30/2019      | 09/30/2018      | 09/30/2019       | 09/30/2018      |
| REVENUE  |         |                 |                 |                  |                 |
| Sales of goods, products and services (IPI including)                | 22      | 27,056          | 24,624          | 102,597          | 96,337          |
| Revenue on sale of investments                                       | 25      | 28,343          | 6,393           | 28,343           | 6,828           |
| Reversal of provision for losses due to non-recoverability of assets |         | -               | -               | 1,276            | 4,738           |
| Other revenues   | 25      | 25,680          | 2,777           | 61,055           | 4,590           |
| Reversal (estimated) of losses on doubtful accounts                  | 5       | (40)            | 14              | 117              | (33)            |
| Effective losses on doubtful account                                 | 5       | -               | -               | -                | 102             |
|  |         | <b>81,039</b>   | <b>33,808</b>   | <b>193,388</b>   | <b>112,562</b>  |
| ACQUIRED FROM THIRD PARTIES  |         |                 |                 |                  |                 |
| Cost of products, goods and services sold                            |         | (4,384)         | (6,128)         | (15,421)         | (14,619)        |
| Materials, energy, and other outsourced services                     |         | (5,533)         | (4,891)         | (30,491)         | (29,852)        |
| Provision for impairment of assets                                   |         | -               | -               | (1,898)          | -               |
| Low investment for sale  | 25      | (21,584)        | (7,234)         | (21,584)         | (7,234)         |
| Other expenses   | 25      | (13,481)        | (7,292)         | (50,689)         | (16,841)        |
|  |         | <b>(44,982)</b> | <b>(25,545)</b> | <b>(120,083)</b> | <b>(68,546)</b> |
| GROSS ADDED VALUE  |         | 36,057          | 8,263           | 73,305           | 44,016          |
| DEPRECIATION AND AMORTIZATION  | 10 e 11 | (4,912)         | (5,029)         | (9,226)          | (10,277)        |
| NET ADDED VALUE GENERATED BY THE COMPANY                             |         | <b>31,145</b>   | <b>3,234</b>    | <b>64,079</b>    | <b>33,739</b>   |
| ADDED VALUE RECEIVED IN TRANSFER                                     |         |                 |                 |                  |                 |
| Equity pick-up   | 9.1     | (10,107)        | (10,821)        | 42               | (3,399)         |
| Financial income   | 24      | 42,678          | 43,968          | 47,086           | 77,389          |
|  |         | <b>32,571</b>   | <b>33,147</b>   | <b>47,128</b>    | <b>73,990</b>   |
| <b>TOTAL ADDED VALUE TO BE DISTRIBUTED</b>                           |         | <b>63,716</b>   | <b>36,381</b>   | <b>111,207</b>   | <b>107,729</b>  |
| <b>DISTRIBUTION OF ADDED VALUE</b>                                   |         | <b>63,716</b>   | <b>36,381</b>   | <b>111,207</b>   | <b>107,729</b>  |
| Staff:   |         | <b>15,168</b>   | <b>13,180</b>   | <b>47,181</b>    | <b>46,467</b>   |
| Direct compensation  |         | 11,153          | 9,787           | 35,652           | 34,927          |
| Benefits   |         | 3,016           | 2,536           | 7,464            | 8,217           |
| FGTS   |         | 999             | 857             | 4,065            | 3,323           |
| Taxes and contributions:   |         | <b>5,629</b>    | <b>4,801</b>    | <b>12,108</b>    | <b>9,585</b>    |
| Federal  |         | 3,139           | 2,340           | 8,714            | 5,718           |
| States   |         | 2,397           | 2,377           | 3,301            | 3,360           |
| Municipal  |         | 93              | 84              | 93               | 507             |
| Remuneration of third party capital:                                 |         | <b>56,405</b>   | <b>110,694</b>  | <b>65,404</b>    | <b>143,971</b>  |
| Interest and other financial expenses                                | 24      | 56,280          | 110,527         | 64,962           | 143,308         |
| Rent   |         | 125             | 167             | 442              | 663             |
| Remuneration (loss) from equity:                                     |         | <b>(13,486)</b> | <b>(92,294)</b> | <b>(13,486)</b>  | <b>(92,294)</b> |
| Loss for the period  |         | (13,486)        | (92,294)        | (13,486)         | (89,669)        |
| Non-controlling interests  |         | -               | -               | -                | (2,625)         |

The notes are an integral part of the financial statements.

# **Lupatech S/A – In Judicial Recovery**

## **Explanatory notes to interim financial statements, individual and consolidated, contained in the information of September 30, 2019**

*(In thousands of Reais, except net Loss per share, or when indicated)*

### **1 Operational context**

Lupatech S/A – In Judicial Recovery (“Company”) and its subsidiaries and associates (jointly “Group”) is an anonymous society with headquarters in Nova Odessa, State of São Paulo, with shares negotiated at the stock market of São Paulo (“B3” LUPA3) and at the counter market on USA by means of its ADR (LUPAQ). The group that performs in two segments of business: **Products** and **Services** and counts with 256 collaborators.

In the **Segment of Product**, the Company produces industrial valves, oil and gas valves, production platform anchor lines, well completion and coating valves, pipe inspection and repair.

In the **Services of Segment**, the Company continues to demobilize its activities through equipment sales.

#### **1.1 Operational Continuity**

The Lupatech Group seeks to overcome the economic-financial crisis and restructure its business through the process of judicial recovery, according to the plan of judicial recovery presented to its creditors, with the goal of preserving its entrepreneurial activity, recover its position of prominence as one of the most relevant economic groups on Brazil related to the sector of oil and gas, as well as to keep itself as a source of generation of riches, tributes and jobs.

The Company was successful in certain measures since the filing of the request of Judicial Recovery which rendered viable the injection of substantial resources in its operations. Between such measures, is highlighted the receipt of substantial amounts of its main customer, the sale of equity participations and sales of property, plant and equipment.

Also, relevant to the recovery process were the creation of a Specific Purpose Company and the issue of debentures in the first quarter of 2018 (R\$29,313) for the primary purpose of effecting the payment of Class I creditors, and the issuance of subscription warrants (R\$340,453) in the last quarter of 2018, to promote the payment of Class II, III and IV creditors of the Judicial Reorganization.

In the scenarios developed by management, estimates indicate the need to obtain additional financial resources to raise working capital levels to support the resumption of operations. Such resources could come from, for example, and not limited to, new credit lines, capital increase with or without conversion of debt, sale of assets or equity interests, restitution of tax credits and re profiling of liabilities. Management pursues all these options.

In this sense, the Company promoted a call in a private offer to its shareholders, raising on August 8, 2019 the amount of R\$6,994.

In September 12, 2019, the negotiation of the remaining equity interest in Lupatech Holandesa was completed, which controls the Colombian Services company worth \$ 5,500 in cash and \$ 1,098 in equipment. With the conclusion of the Transaction, the Company no longer has any corporate relationship with such companies.

In September, the Company obtained favorable motions in relation to the dispute with BNDES over extra-competitive credits, which led to the remeasurement of the liability by the legal counsel in charge.

In the same period, Lupatech S / A was entitled to the reimbursement of PIS and COFINS about the ICMS, referring to taxes paid from December 2001 to December 2014, which may be offset against future debts or refunded to the company, after the appropriate administrative and / or judicial measures have been taken, which take the necessary time to take effect. The partial res judicata from this decision occurred in October, and the company continues to dispute the right to reimburse overpaid taxes from 2015.

The above-mentioned fundraising measures, if carried out as expected, will provide the working capital needed to raise the level of activity and service debt in the short term. In the longer term, the Company may require additional funds to finance its resumption, in amounts that will depend on the speed of the resumption itself. To meet this need, the Company undertakes measures that may have substantial effects in the medium term, such as the restitution of tax credits and the arbitral or judicial pursuit of contractual rights and reparations with various counterparties. To meet this need, the Company undertakes measures that could have a substantial effect in the medium term.

Certain business units have had their operations substantially affected by oil and gas market conditions, the economic crisis in Brazil and the repercussions of the Judicial Reorganization process, with their level of activity and limited operational performance. In the Company's assessment, these units will resume operating at higher levels as the business environment normalizes, whenever the resources required for their working capital are granted.

Strategic opportunities to accelerate business resumption and / or mitigate continuity risks through mergers and acquisitions are continuously monitored by management.

During the nine-month period ended September 30, 2019, the Company incurred loss before income tax and social contribution of R\$14,075 in the parent company and R\$18,046 in consolidated (loss before income tax and social contribution of R\$93,141 in the parent company and R\$94,897 in the consolidated in the nine-month period ended September 30, 2018) and as of September 30, 2019, the Company's total current assets exceeded the current liabilities of R\$7,643 in the parent company and total current assets exceeded total current liabilities by R\$119,931 (At December 31, 2018 total current assets exceeded total current liabilities by R\$28,527 in the parent company, and in consolidated total current assets exceeded total of current liabilities at R\$99,843). Despite the improved results, continuity depends not only on improving performance, but also on the Company's success in obtaining the additional resources needed to provide working capital and debt service.

## 1.2 Judicial recovery

### *I. Process of Judicial Recovery of the Lupatech Group*

On May 25, 2015, Lupatech S / A and its direct and indirect subsidiaries (Lupatech Group) obtained the approval of the Board of Directors for the judicial reorganization of the Company, pursuant to Article 122, sole paragraph, of Law 6.404/76.

On that same date, Lupatech S/A and its subsidiaries: Lupatech Finance Limited; Amper Amazonas Perfurações Ltda; Itacau Agenciamentos Marítimos Ltda; Lochness Participações S/A; Lupatech – Equipamentos e Serviços para Petróleo Ltda; Lupatech – Perfuração e Completação Ltda; Matep S/A Máquinas e Equipamentos; Mipel Indústria e Comércio de Válvulas Ltda; Prest Perfurações Ltda; Sotep Sociedade Técnica de Perfuração S/A, have brought, in the district of São Paulo, the request for judicial recovery before the judgment of the 1st Court of Bankruptcy and Judicial Recoveries of the district of São Paulo, which was granted on June 22, 2015. Alta Administração Judicial Ltda was appointed as the judicial administrator.

Initially, the Lupatech Group filed a Judicial Recovery Plan, approved by the creditors at the General Meeting and ratified by Judgment of the 1st Court of Bankruptcy, Judicial Recovery and Arbitration Related Disputes of the Capital of São Paulo on December 11, 2015. Subsequently, in June 27, 2016, the 2nd Reserved Chamber of Business Law of the Court of Justice of the State of São Paulo granted court injunctions filed by two creditors, annulling the approval decision of the Lupatech Group's Judicial Recovery Plan.

The Company continues to pursue, by special appeal, the cancellation of a fine for delaying litigation improperly applied by the São Paulo Court of Justice, which annulled the Judicial Recovery Plan previously presented.

On September 5, 2016, a new Lupatech Group Judicial Reorganization plan was submitted to the court of origin, meeting the criteria established in the judgments of the 2nd Chamber of Business Law of the São Paulo State Court of Justice, which had been approved. on November 8, 2016, by the Lupatech Group General Meeting of Creditors, having been ratified by the Court of First Instance, Judicial Reorganization and Arbitral Conflicts of the State of São Paulo, without reservations, on February 15, 2017. In view of the final approval of the court, the indemnity period against the approval of the plan expired on March 13, 2017. The Group Management assessed that the absence of subsequent damages fully confirmed the legality of the plan and its effects from the approval of the sovereign decision of the Company. Therefore, the Lupatech Group and all creditors are subject to the fulfillment of the plan and legally required to comply with the plan from this date.

On July 2, 2019, the Lupatech Group Judicial Administrator submitted the General Table of Credits to the Court, to which the Lupatech Group filed a list of labor and civil creditors illiquid by ongoing lawsuits, which was upheld with subsequent court decision that such credits, insofar as they originate before the application for Judicial Reorganization, are subject to the terms of the Plan.

The Company used three strategies to settle commitments with Class I creditors. The first, corresponding to up to five minimum wages related to strictly salary credits maturing in the three months preceding the date of the request, was paid in cash to the respective labor creditors. duly complied with article 54, sole paragraph, of the Bankruptcy Law. The second, without attribution of relevance, was the payment of creditors through the conversion of credit into debentures of Lupatech



S/A, and the third occurred through the awarding of the shares of the special purpose company (SPE), in the form of art. 50 XVI of Law No. 11,101.

In this context, on November 28, 2017, the Company announced the 3rd issue of mandatorily convertible debentures of Lupatech S / A in the amount of up to R\$30,000. The issue was completed on January 31, 2018 with a subscription of R\$29,313. The charge was directed to Class I creditors and creditors not subject to Judicial Reorganization, and the preemptive right was granted to shareholders.

On October 29, 2018, the Lupatech Group submitted a proposal for adjustments to the payment flow of the Class III unsecured creditors, which consisted in deferring part of the initial payments in exchange for a 0.3% increase in the interest rate. RT + 3.3% per year). The General Meeting of Creditors met on November 30, 2018 and approved the company's proposal. The AGC's decision was submitted to the appellate court and it was ratified, with the respective approval decision being final and without any appeal being filed within the term.

On that same date, the Board of Directors approved the issuance of three million, four hundred and four thousand, five hundred and twenty-eight (3,404,528) Subscription Warrants for payment of 50% of Class III and IV creditors' debt and 35% of Class II creditors. The Bonds were issued and registered in the name of the creditors entitled to such, and the Judicial Recovery Judgment authorizing the Company to hold in treasury the securities corresponding to the creditors who, due to lack of information, due to operational impossibility or lack of liquidity in their could not have their Bonus book entry.

## ***II. Regarding the Judicial Reorganization Plan, approved by the creditors at the general meeting held on November 08, 2016, and ratified on February 15, 2017, by the court of the 1st Bankruptcy, Judicial Reorganization and Arbitration Conflict Court of the State of São Paulo Paulo.***

The adoption of following recovery measures of the envisaged by the Plan has as objectives: (i) carry out the rescheduling of liabilities from the Lupatech Group, allowing their future discharge; (ii) allow the entry of cash flow to maintain and promote the activities of the Lupatech Group; (iii) to alienate certain assets considered non-essential to the economic activities of the Lupatech Group; (iv) obtain new resources from the capital market to accelerate the recovery; and (v) through the uplift of the Lupatech Group, allow the generation of jobs and the payment of taxes.

### ***a. Recovery measures***

The Plan uses the following means of recovery, in the form of article 50 of the Bankruptcy Law: (i) granting of special terms and conditions for payment of the obligations of the Lupatech Group, with the equalization of financial charges, taking as a starting point the date of the distribution of the request of judicial recovery; (ii) increase of social capital by issuing securities, with possible changes in corporate control; (iii) partial sale, sale or lease of assets of the Lupatech Group; (iv) constitution of a society of specific purpose for the transfer of goods intended for the payment of creditors; and (v) other measures to be eventually subject to prior approval of the Judgment of Recovery.

**Increase of capital:** In order to allow the injection of new capital, at any time after the Judicial approval of the Plan, the Lupatech Group can perform one or more calls for increase of social capital of Lupatech, which may be intended to creditors under the Plan, creditors that are not subject to the Plan, and/or third party investors, as the case may be.

The Plan provides for the delivery of warrants to class II, III and IV creditors. To date, Lupatech 3,404,528 (three million, four hundred and four thousand, five hundred and twenty-eight), which, if exercised, will be converted into the same number of shares, part of which remains in treasury waiting for the credits to be paid to become liquid or operationally possible for their delivery. Credits are exchanged by granting a subscription bonus for every one hundred reais of credit - proportionally changeable ratio in the event of a reverse split, split or stock bonus. The exercise price of the issued securities is R\$0.88 per share.

In the event of any capital increase allowing the capitalization of credits subject to the Plan, the exercise of the right to participate in said capital increase will be, always, optional to the creditors, and will always be granted in an equal manner to each of the classes of creditors subject to the plan or the whole basis of creditors under the Plan. In the event of a capital increase contemplating both creditors subject to the Plan and third party investors, the conditions of the subscription of shares offered should be the same for both.

**Warranties:** To ensure the acquisition of new resources, preserved the rights of creditors with real warranty, the Group Company may, in addition to giving personal guarantees, constitute real and fiduciary warranties: (i) from the consolidation of ownership in favor of the Lupatech Group, over the property located in São Leopoldo; and (ii) from the eventual elimination of warranties given to Creditors with Real Warranty, over any of the unencumbered assets.

**Sale of assets:** The Lupatech Group, upon the judicial approval of the Plan, may dispose of the permanent assets described in the Plan, through (i) competitive procedure; (ii) private contract signed at a price not lower than that stated in appraisal reports prepared by a specialized company; or (iii) private auction, to be held by a company specializing in the valuation and sale of assets through face-to-face auctions or via the Internet. The net proceeds from such disposals will be used to pay obligations arising from labor law, tax and social security charges, and obligations set forth in the Plan.

**Disposal of Isolated Productive Units (UPIs):** The Lupatech Group, from the Judicial homologation of the Plan, may sell the UPIs described in the Plan. The sale of UPIs may be made jointly or separately, through a competitive procedure including, including, one or more UPIs or permanent assets. The net proceeds from such disposals will be used to pay obligations arising from labor law, tax and social security charges, and obligations set forth in the Plan.

Any alienation of UPIs by means of competitive procedure shall be carried out respecting the provisions of the respective notices, in accordance with the Bankruptcy Law, and met the other conditions provided for in this Plan. It is at the discretion of the Lupatech Group opt for any of the modalities of competitive procedure provided for in articles 142 to 145 of the Bankruptcy Law.

The UPIs that are sold by competitive procedure will be free of any liens, and their respective purchasers will not respond to any debt or contingency of the Lupatech Group, including those of tax and labor nature, in accordance with Article 60 and 141 of the Bankruptcy Law.

In the event of disposal of any of UPIs envisaged in the Plan by means of a competitive procedure, the Lupatech Group may include, as an integral part of the IPU, accession of any rights of use, costly and temporary in nature, about the buildings in which are located the equipment which constitute the UPIs alienated.

**Disposal of assets of businesses not rehabilitating:** The Lupatech Group may also divest assets

owned by foreign societies in which holds participation or control, not members of the Judicial Recovery. The net proceeds arising from such disposals will join in the cash of those rehabilitating, and shall be used for the payment of obligations arising out of labor legislation, tax burden and social welfare, and obligations laid down in the Plan.

**Disposal of assets given in real or fiduciary warranty:** Upon the prior consent of the creditor holding the collateral and / or in accordance with the law or the Plan, the Lupatech Group may sell to third parties goods given in real or fiduciary warranty. The resources arising from the alienation of such goods will be used for the discharge of credits held by the creditor with real warranty or by the creditor with fiduciary warranty. Eventual surplus values shall be used for the payment of obligations arising out of labor legislation, tax burden and social welfare, and obligations laid down in the Plan.

**Constitution of SPEs:** In order to enable or facilitate the sale of any goods of the permanent asset or of the UPIs described in the Plan, as the case may be, the Lupatech Group may, individually or jointly, transfer one or more of these assets or UPIs to societies of specific purpose constituted by the Lupatech Group.

**Approval for alienation of assets:** Without prejudice to the hypotheses of alienation of assets and alienation of assets given in real guarantee or fiduciary, will be permitted any other modality of alienation, replacement or encumbrance of goods upon authorization of Judgment of Recovery or approval by the General Meeting of Creditors, complied with the terms of the laws and contracts applicable to such assets. Closed the Judicial Recovery, the Lupatech Group may freely alienate any goods of its circulating or permanent asset, observed the charges borne on such goods, not being applicable anymore the restrictions provided for in this Plan or in art. 66 of the Bankruptcy Law, being, however, subject to the usual restrictions contained in the social contracts and statutes of the societies in the Lupatech Group and new debt instruments, as the case may be.

**Termination of Judicial Reorganization:** Upon completion of the Judicial Reorganization, Lupatech Group may dispose of its assets and resources without imposing the restrictions and limitations set forth in the Plan.

**b. *Restructuring of credits subject to the Plan***

Observing the provisions in Article 61 of the Bankruptcy Law, all Credits Subject to the Plan, which will be paid by Lupatech and by Lupatech Finance as main debtors, as the case may be, in solidarity with the other societies in the Lupatech Group, which remain as co-obligated and debtors in solidarity, with express waiver of any benefit of order.

The credits subject to the Plan shall be paid within the time limits and forms set out in the Plan, for each class of Creditors Subject to the Plan, even if the contracts which gave rise to Credits Subject to the Plan have laid down in a different way. With the referred novation, all obligations, covenants, financial indexes, hypotheses of netting, fines, as well as any other contractual obligations that are incompatible with the conditions of this Plan, shall cease from being applicable.

The credits not subject to the Plan would be paid in the form originally contracted or in the form that is agreed between the Lupatech Group and its respective creditor, additionally, if applicable, through the implementation of measures envisaged in the Plan.

In order to reduce payment administration costs, a minimum amount of payment to creditors subject to the Plan of two hundred and fifty reais per creditor subject to the Plan qualified in the list of creditors in classes III and IV, limited to the balance shall be respected. of their respective credit subject to the Plan.

The payment methods provided to creditors of Classes II, III, and IV are intended not only to reschedule a substantial part of the credit to be made in cash; but also, allow lenders to benefit from the economic uplift pursued by the Lupatech Group through the exercise of the subscription bonuses offered in exchange for part of their credit.

Credits that have their rating contested by the Lupatech Group or any interested party under the Bankruptcy Law can only be paid after the judgment determining the qualification of the disputed claim has been finalized, subject to the terms of the Bankruptcy Law, the deadlines for payment start only after the final decision has been passed.

In the event of an increase in any credit, or the inclusion of new credit as a result of any credit challenge or judgment of any lawsuit, the respective amount (in case of inclusion) or additional amount (in case of increase) will be paid through proportional distribution of the value in future installments. Any increase or inclusion of any Credit in the list of creditors during the payment term will not give the creditor whose credits are increased any right to retroactive or proportional payment of installments already paid.

**c. *Restructuring of Labor Credits***

The payment measures provided to the Labor creditors were and have been fulfilled as presented in the Judicial Reorganization Plan.

The disputed labor claims to be settled by the Labor Court must be paid in the manner established in the respective agreements duly approved by the Labor Court in a final decision. Under no circumstances can the disputed labor claims be treated more beneficially than that given to undisputed labor claims.

**d. *Restructuring of credits with real warranty***

In addition to the payment provided for above, the Lupatech Group may, at any time and upon the consent of the respective collateralised creditor, make the total or partial payment of the balance of the respective collateralised credit through: (i) the payment in kind any of the assets pledged as collateral in favor of the collateralised creditor; (ii) the payment of credits held by the Lupatech Group, in an amount sufficient to cover the balance of the respective collateralised Credit; or (iii) the delivery of proceeds from the disposal of any of the assets pledged as collateral to the creditor with collateral, either under the Plan, upon court authorization, or under Article 60 of the Bankruptcy Law.

In the event that the alternative payment occurs only partially, the respective collateralised creditor shall release excessive collateral in favor of the Lupatech Group under the Plan.

**e. *Restructuring of unsecured credits***

Unsecured credits denominated in foreign currencies will be calculated in reais based on the exchange rate on the date of the request and will be paid under conditions similar to those provided



for in the Plan, subject to the variation of the Central Bank's official exchange rate on the business of the day prior to the exchange. payment. Exchange variation will be calculated as the difference between the original amount of the foreign currency unsecured credit and the amounts actually paid in foreign currency.

The Lupatech Group will ensure the payment, in cash, of at least two thousand reais per unsecured creditor, both in domestic and foreign currency, up to the limit of the value of their respective unsecured credit. In the event that such minimum amount exceeds 50% of unsecured credit, only the remaining balance of unsecured credit will be paid for the delivery of Subscription Bonus.

The payment of the unsecured credits of the Noteholders will be made under conditions similar to those provided for in the Plan, subject to exchange variation, upon payment of 50% of the amount of the respective unsecured credit, including principal and interest and charges, through the delivery of New Notes. And payment of 50% of the value of the respective unsecured credit, equivalent to the remaining balance of the principal, through the payment of Warrants.

**Cancellation of current Notes:** Upon judicial approval of the Plan, and after obtaining a court decision in Chapter 15 recognizing the effectiveness of the Plan in US territory, the Notes currently held by the Noteholders will be deemed to be canceled in their entirety, which will be replaced by the New Notes, to be issued within 180 days of obtaining the court decision in Chapter 15.

*f. Restructuring of Credits from Micro Enterprises (ME) and Small Businesses (SB)*

The Lupatech Group will guarantee the payment, in cash, of at least two thousand reais per ME and EPP lender, up to the amount of its respective ME and EPP credit. In the event that such minimum amount exceeds 50% of the ME and EPP credit, only the remaining balance of the ME and EPP credit will be paid for the delivery of the Subscription Bonuses.

## **2 Basis of preparation**

### **2.1 Declaration of conformity (with respect to the IFRS and CPC Standards)**

The consolidated quarterly information has been prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil (BR GAAP).

The individual quarterly information of the parent company was drawn up according to the BR GAAP.

The Management of the Company states that all the relevant information proper for the financial statements, and only these, are being demonstrated, and that they correspond to those used in management.

The issuance of the Company's information for the period ended September 30, 2019 was authorized by the Board of Directors on November 14, 2019.

In compliance with CVM Circular Letter nº 003/2011, of April 28, 2011, we present the following explanatory notes included in the most recent annual financial statements (exercise ended in December 31, 2018), of which, due to the absence of material changes in the nine-month period ended September 30, 2019, are not being repeated or included in full in the quarterly information:

| <b>Explanatory notes not included for the period of nine months ended September 30, 2019</b> | <b>Location of the note in full annual financial statements for the fiscal year 2018</b> |
|--|--|
| Main accounting practices  | Note nº 3  |
| Other accounts payable   | Note nº 19   |
| Taxes payable  | Note nº 21   |
| Liabilities at fair value  | Note nº 22   |

### 2.1.1 *Earnings Statement Previously disclosed*

In view of the existence of discontinued operations for the nine-month period ended September 30, 2019, due to the trading of remaining equity interest of Lupatech OFS Coöperatief U.A. and Lupatech OFS S.A.S, the Company is presenting in Note 29 the income statement for the nine-month period ended September 30, 2018 and 2019, to separately classify the result of discontinued operations.

## 2.2 **Functional currency and presentation currency**

The quarterly information is presented in Reais, which is the functional currency of the Company. All balances have been rounded to the nearest thousand, except where indicated otherwise.

## 2.3 **Measurement basis**

The quarterly information has been prepared on a historical cost basis, except for certain financial instruments measured by their fair values.

## 2.4 **Basis of consolidation na investments in subsidiaries**

The consolidated quarterly information includes the financial statements of Lupatech S/A - In Judicial Recovery and its subsidiaries.

### 2.4.1 *Controlled companies*

The Group controls an entity when it is exposed to, or has rights over, the variable returns arising from their involvement with the entity and has the ability to affect those returns by exerting its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the Group obtains control until the date that the control ceases to exist.

In the individual financial statements of the parent company, the financial information of subsidiaries are recognized by means of the equity method.

In the period of nine-months ending September 30, 2019, the subsidiaries of Lupatech S / A - In Judicial Recovery had no alterations of direct or indirect Holdings.

The consolidated financial statements include the financial statements of Lupatech S/A - In Judicial Recovery and its direct or indirect subsidiaries, as shown below:

| <b>Direct and indirect subsidiaries</b>  | <b>Direct and indirect participation (%)</b> |                   |
|--|--|-------------------|
|  | <b>09/30/2019</b>                            | <b>12/31/2018</b> |
| <b><u>Direct participation</u></b>   |  |                   |
| Mipel Ind. e Com. de Válvulas Ltda. - In Judicial Recovery - (Brazil)                  | 100.00                                       | 100.00            |
| Lupatech Equipamentos e Serviços para Petróleo Ltda. - In Judicial Recovery - (Brazil) | 100.00                                       | 100.00            |
| Lupatech Finance Limited - In Judicial Recovery - (Cayman)                             | 100.00                                       | 100.00            |
| Lupatech II Finance Limited - (Cayman)   | 100.00                                       | 100.00            |
| Recu S.A. - (Argentina)  | 95.00  | 95.00             |
| Lupatech OFS Coöperatief U.A. - (Netherlands)*   | -  | 50.00             |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda)  | 5.00   | 5.00              |
| Lochness Participações S/A - In Judicial Recovery - (Brazil)                           | 100.00                                       | 100.00            |
| <b><u>Indirect participation</u></b>   |  |                   |
| Recu S.A. - (Argentina)  | 5.00   | 5.00              |
| Lupatech OFS S.A.S. - (Colombia)*  | -  | 51.00             |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda)  | 95.00  | 95.00             |
| Lupatech Perfuração e Completação Ltda. - In Judicial Recovery - (Brazil)              | 100.00                                       | 100.00            |
| Sotep Sociedade Técnica de Perfurações S/A - In Judicial Recovery - (Brazil)           | 100.00                                       | 100.00            |
| Prest Perfurações Ltda. - In Judicial Recovery - (Brazil)                              | 100.00                                       | 100.00            |
| Itacau Agenciamentos Marítimos Ltda. - In Judicial Recovery - (Brazil)                 | 100.00                                       | 100.00            |
| Matep S.A. Máquinas e Equipamentos - In Judicial Recovery - (Brazil)                   | 100.00                                       | 100.00            |
| Amper Amazonas Perfurações Ltda. - In Judicial Recovery - (Brazil)                     | 100.00                                       | 100.00            |
| UNAP International Ltd. - (Cayman)   | 100.00                                       | 100.00            |

\* On September 12, 2019, the full sale of ownership and control was delivered to EXEN Technology Corp.

### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized revenues or expenses arising from intragroup transactions, are eliminated. Unrealized gains arising from transactions with subsidiaries accounted for under the equity method are eliminated against the investment in the proportion of the Group's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

### *2.4.2 Companies jointly controlled*

Jointly controlled are all entities whose financial and operating policies can be conducted by the Group, in conjunction with other shareholder(s), normally operated through agreements of the shareholders. On the financial statements of the parent company and in the consolidated, the participations in jointly controlled entities are recognized by using the equity method.

The Company owns participation in the following jointly controlled companies: Luxxon Participações Ltda e Aspro do Brasil Sistemas de Compressão p/ GNV Ltda., as shown below, in September 30 of 2019:

| <b>Jointly-owned subsidiaries</b>                           | <b>Direct and indirect participation (%)</b> |                   |
|---|--|-------------------|
|   | <b>09/30/2019</b>                            | <b>12/31/2018</b> |
| <b><u>Direct participations</u></b>                         |  |                   |
| Luxxon Participações Ltda. - (Brazil) (*)                   | 45.20  | 45.20             |
| <b><u>Direct participations</u></b>                         |  |                   |
| Aspro do Brasil Sistemas de Compressão Ltda. - (Brazil) (*) | 45.20  | 45.20             |
| (*) Joint Venture   |  |                   |



### 2.4.3 *Business Combination*

Business combinations are registered using the acquisition method when the control is transferred to the Group. The consideration transferred is usually measured at fair value, as well as the net identifiable assets acquired. Any gain that arises on the transaction is tested annually for evaluation of loss by reducing the amount recoverable. Gains in an advantageous purchase are recognized immediately in the result. The transaction costs are recorded in the result as they are incurred, except the costs related to the issuance of debt instruments or assets.

The consideration transferred does not include amounts relating to the payment of pre-existing relations. These amounts are generally recognized in the result of the period.

Any contingent consideration payable is measured at its fair value at the date of acquisition. If the contingent consideration is classified as equity instrument, then she is not remeasured and the settlement is registered within the net worth. The remaining contingent considerations are remeasured at fair value on each date of report and subsequent changes to fair value are recorded in the result of the period.

If any event of business combination or other transaction or similar corporate event that affects the Options with the dilution of shareholding position that the Beneficiary would do justice, the Administrative Council shall amend the Contract of Option of Purchase of Ordinary Shares, in up to 30 days from the date of the referred event, to ensure that the Beneficiaries remain with sufficient Options for the acquisition of the prescribed percentage of shares of the Company hired, in compliance with the new shareholding composition, and the purchase price of the Options not yet exercised shall be adjusted to be the lowest between R\$2.35 and 80% of the price established on the Corporate Event, where the schedule of exercise of the Options provided for in the contract is preserved, kept the percentages and deadlines of exercise defined therein. The above provisions reach only the Corporate Events contracted in the period of 36 months from the signing of the Contract, limited to operations of up to R\$150,000.

## 3 **Standards, amendments and interpretation of standards**

### *In force*

The following new standards were approved and issued by the IASB, effective January 1, 2019. The Company adopted the new standards and management assessed the impacts of its adoption, not identifying adjustments for disclosure.

#### (i) *IFRS 16 Leases* (CPC 06 R2 - Leasing Operations)

The new standard replaces IAS 17 - "Leasing Operations" and corresponding interpretations and determines that the tenants will have to recognize the liability of future payments and the right of usage of the leased asset for virtually all leasing contracts, including the operational, which may place outside the scope of this new standard certain short-term contracts or contracts of small amounts. The recognition criteria and measurement of leases in the financial statements of lessors are substantially maintained.

Management evaluated the new pronouncement and, considering its quarterly transactions, did not identify changes that could have an impact on the Company's financial statements.

The following technical interpretation was approved by the Accounting Pronouncements Committee:

## ICPC 22 / IFRIC 23 - Uncertainties Concerning Tax Treatment

This interpretation clarifies how to apply the recognition and measurement requirements of CPC 32 Income Taxes (IAS 12 Income Taxes) when there is uncertainty about the treatment of income tax. In such circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities, applying the requirements of CPC 32 / IAS 12 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined on the basis of this interpretation.

This interpretation came into effect from annual periods beginning on or after January 1, 2019 and its impacts are being evaluated by the Company's Management.

There are no other standards, changes and interpretations of standards issued and not yet adopted that may, in Management's opinion, have a significant impact on the results or shareholders' equity disclosed by the Company.

## 4 Cash and cash equivalents and titles and restricted securities

### Cash and cash equivalents

The balances of cash and cash equivalents are composed as follows:

|                              | <b>Parent</b>     |                   | <b>Consolidated</b> |                   |
|------------------------------|-------------------|-------------------|---------------------|-------------------|
|                              | <b>09/30/2019</b> | <b>12/31/2018</b> | <b>09/30/2019</b>   | <b>12/31/2018</b> |
| <u>Cash and banks</u>        |                   |                   |                     |                   |
| Brazil                       | 26                | 10                | 35                  | 57                |
| Abroad                       | -                 | -                 | -                   | 259               |
| Total                        | 26                | 10                | 35                  | 316               |
| <u>Financial Investments</u> |                   |                   |                     |                   |
| Bank deposit certificate     | 129               | 125               | 13,562              | 929               |
| Total                        | 129               | 125               | 13,562              | 929               |
| Cash and cash equivalents    | 155               | 135               | 13,597              | 1,245             |

The values of cash equivalents are related to applications of immediate liquidity, with insignificant risk of change in value and refer to resources invested in fixed income and a certificate of deposit. The rates of remuneration of financial applications of certificate of deposit have as parameter the Interbank Certificate of Deposit - CDI.

### Bonds and securities – Restricted

On September 30, 2019, the Company has R\$1,773, recorded as "Securities" in noncurrent assets (R\$847 in current assets and R\$961 in noncurrent assets on December 31, December 2018), in the parent company and consolidated, related to the deposit of guarantee for payment of any indemnifiable liabilities, according to the contractual clause of the purchase and sale of the Metalúrgica Ipê unit for Duratex, called Escrow Account, invested in CDB.

## 5 Accounts receivable from customers

|                                       | Parent     |            | Consolidated |            |
|---------------------------------------|------------|------------|--------------|------------|
|                                       | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Local market                          | 8,917      | 10,326     | 14,688       | 35,901     |
| Export                                | 536        | 694        | 873          | 971        |
|                                       | 9,453      | 11,020     | 15,561       | 36,872     |
| Less: allowance for doubtful accounts | (4,356)    | (4,316)    | (4,902)      | (5,515)    |
|                                       | 5,097      | 6,704      | 10,659       | 31,357     |
| Current                               | 5,097      | 6,704      | 10,659       | 31,357     |
| Non-Current                           | -          | -          | -            | -          |

In the nine-month period ended September 30, 2019, the estimated loss for doubtful accounts in the amount of R\$40 in the parent company was reversed and R\$613 reversed from the consolidated income.

In the nine-month period ended September 30, 2018, reversals of estimated losses on doubtful accounts in the amount of R\$14 in the parent company and provision of R\$67 in the consolidated were recognized in profit or loss.

## 6 Inventory

|                                  | Parent     |            | Consolidated |            |
|----------------------------------|------------|------------|--------------|------------|
|                                  | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Finished goods                   | 4,267      | 2,735      | 5,720        | 10,282     |
| Goods for resale                 | 677        | 887        | 2,493        | 3,072      |
| Work in progress                 | 7,151      | 7,222      | 11,628       | 12,045     |
| Raw material                     | 15,379     | 14,952     | 43,446       | 49,067     |
| Losses on inventory obsolescence | (6,435)    | (6,753)    | (35,263)     | (35,516)   |
| Total                            | 21,039     | 19,043     | 28,024       | 38,950     |

In the nine-month period ended September 30, 2019, there was a reversal in the result related to inventory obsolescence losses in the amount of R\$318 in the parent company and consolidated was recognized R\$253.

In the nine-month period ended September 30, 2018, there was a reversal in the respective result to losses with inventory obsolescence in the amount of R\$802 in the parent company and in the consolidated R\$588.

## 7 Recoverable taxes

|   | Parent     |            | Consolidated |            |
|---|------------|------------|--------------|------------|
|   | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Value-added Tax on Sales and Services (ICMS) recoverable              | 10,648     | 12,090     | 11,048       | 12,462     |
| PIS and COFINS on ICMS  | 28,485     | -          | 28,485       | -          |
| Excise Tax (IPI) recoverable  | 1,384      | 1,462      | 1,639        | 1,765      |
| Social Integration Program (PIS) recoverable                          | 6          | 290        | 389          | 678        |
| Social Contribution on Revenues (COFINS) recoverable                  | 28         | 1,379      | 1,678        | 3,107      |
| Corporate Income Tax (IRPJ) advances                                  | -          | -          | 5            | 11,966     |
| IRF and IRPJ recoverable  | 213        | 241        | 41,455       | 40,510     |
| CSLL recoverable  | 80         | 102        | 6,947        | 6,002      |
| National Institute of Social Security (INSS) Contribution recoverable | 44         | 44         | 362          | 644        |
| Service tax (ISS) recoverable   | -          | -          | 34           | 34         |
| Other   | 73         | 72         | 185          | 205        |
| Total   | 40,961     | 15,680     | 92,227       | 77,373     |
| Current   | 1,089      | 2,736      | 38,096       | 23,637     |
| Non-Current   | 39,872     | 12,944     | 54,131       | 53,736     |

The origin of the credits listed above is as follows:

- **IPI, PIS and COFINS to recover** – stem, basically, from credits over purchases of raw materials used in the exported products and sale of products taxed at zero rate. The realization of these credits has been performed through compensation with other federal taxes.
- **Income tax and social contribution to recover** - are arising from taxes over profit, paid the largest over previous years, or in the form of anticipation in the current exercise, and of tax withheld at the source over financial transactions and services provided by third parties. These taxes are being compensated with payable taxes determined of the same nature r request for refund, where applicable.
- **ICMS** - refers to credits over acquisitions of inputs used in the manufacturing of products whose sale is subject to the reduced basis of calculation of ICMS, as well as claims over acquisitions of inputs used in the manufacturing of products intended for export.
- **PIS and COFINS about the ICMS** - refers to the amount raised by the company due to the decision favorable to the reimbursement of PIS and COFINS about the ICMS.

Actions are being taken to use these accumulated tax credits, especially involving strategies and logistics of acquisition of inputs

## 8 Other receivable accounts

As of September 30, 2019, the Company has the following balances recorded as other accounts receivable in current and non-current assets, as shown below:

|  | Parent       |              | Consolidated  |               |
|--|--------------|--------------|---------------|---------------|
|  | 09/30/2019   | 12/31/2018   | 09/30/2019    | 12/31/2018    |
| <b>Other accounts receivable - Current</b>     |              |              |               |               |
| Travel advances                                | 28           | 49           | 52            | 75            |
| Advances to employees                          | 142          | 259          | 144           | 445           |
| Advance guarantee of electricity supply        | -            | -            | 199           | 199           |
| Profits and dividends receivable               | -            | -            | 1,664         | 1,664         |
| Receiving insurance and accident               | 138          | 138          | 138           | 138           |
| Accounts receivable related to property sale   | 200          | 200          | 200           | 200           |
| Other receivables                              | 4,008        | 5,391        | 4,120         | 24,217        |
| Convertible debentures in share                | 4,359        | -            | 21,555        | -             |
| <b>Total</b>                                   | <b>8,875</b> | <b>6,037</b> | <b>28,072</b> | <b>26,938</b> |
| <b>Other accounts receivable - Non-current</b> |              |              |               |               |
| Loans receivable from related Unifit           | 6,935        | 6,935        | 6,935         | 6,935         |
| Loans receivable from related Luxxon           | 163          | 163          | 6,091         | 6,091         |
| Other receivables                              | -            | -            | -             | 479           |
| <b>Total</b>                                   | <b>7,098</b> | <b>7,098</b> | <b>13,026</b> | <b>13,505</b> |

## 9 Investments

### 9.1 Investments in subsidiaries and affiliates

|  | Parent         |                | Consolidated |            |
|--|----------------|----------------|--------------|------------|
|  | 09/30/2019     | 12/31/2018     | 09/30/2019   | 12/31/2018 |
| In affiliates                          | 210,401        | 184,022        | -            | -          |
| <b>Total</b>                           | <b>210,401</b> | <b>184,022</b> | <b>-</b>     | <b>-</b>   |
| Goodwill on acquisition of investments | 6,065          | 6,065          | -            | -          |
| <b>Total</b>                           | <b>216,466</b> | <b>190,087</b> | <b>-</b>     | <b>-</b>   |

|                                     | Parent       |            |               |               |              |          |               | Parent         |                |
|-------------------------------------|--------------|------------|---------------|---------------|--------------|----------|---------------|----------------|----------------|
|                                     | Mipel        | Recu       | LESP          | Finance       | LO&G         | LOFS     | Lochness      | 09/30/2019     | 12/31/2018     |
| <b>Investment</b>                   |              |            |               |               |              |          |               |                |                |
| <b>Amount of share or quotas</b>    |              |            |               |               |              |          |               |                |                |
| Ordinary shares (thd)               | -            | 3,000      | -             | -             | -            | -        | 688,507       | -              | -              |
| Capital stock quotas (thd)          | 21,425       | -          | 391,430       | 50            | -            | -        | -             | -              | -              |
| Participation %                     | 100          | 95         | 100           | 100           | 5            | -        | 100           | -              | -              |
| <b>Shareholders' equity</b>         | <b>3,572</b> | <b>325</b> | <b>37,279</b> | <b>83,779</b> | <b>2,872</b> | <b>-</b> | <b>62,894</b> | <b>-</b>       | <b>-</b>       |
| Income (Loss) for the year          | (3,786)      | -          | 92            | 179           | (1,223)      | 4,236    | (9,526)       | -              | -              |
| Unrealized profits                  | (280)        | -          | -             | -             | -            | -        | -             | -              | -              |
| <b>Changes in investments</b>       |              |            |               |               |              |          |               |                |                |
| Starting balance in period          | 7,078        | 439        | 36,758        | 78,907        | 196          | 15,924   | 44,720        | 184,022        | 370,397        |
| Advance for future capital increase | -            | -          | 1             | -             | -            | -        | 22,705        | 22,706         | (131,241)      |
| Capital increase                    | -            | -          | 252           | -             | -            | -        | 27,462        | 27,714         | 55,862         |
| Sale of interest in subsidiary      | -            | -          | -             | -             | -            | (18,662) | -             | (18,662)       | (17,450)       |
| Equity income                       | (3,786)      | -          | 92            | 1,014         | (61)         | 2,118    | (9,526)       | (10,149)       | (134,736)      |
| Equity valuation adjustment         | -            | (130)      | 177           | 3,858         | 9            | 620      | 236           | 4,770          | 41,190         |
| <b>Final balance in the period</b>  | <b>3,292</b> | <b>309</b> | <b>37,280</b> | <b>83,779</b> | <b>144</b>   | <b>-</b> | <b>85,597</b> | <b>210,401</b> | <b>184,022</b> |

The social reasons of subsidiaries and affiliates are the following: Mipel - Mipel Ind. Com. Válvulas Ltda. - In Judicial Recovery; Recu - S/A; LESP - Lupatech - Equipamentos e Serviços para Petróleo



Ltda. - In Judicial Recovery; Finance - Lupatech Finance Limited - In Judicial Recovery; Finance II - Lupatech II Finance Limited; LNC - Lupatech Netherlands Coöperatief U.A.; LOFS - Lupatech OFS Coöperatief U.A. and Lochness Participações S/A - In Judicial Recovery.

The result of the equity is composed as follows:

|                  | Parent                     |            |                           |            |
|------------------|----------------------------|------------|---------------------------|------------|
|                  | For the three months ended |            | For the nine months ended |            |
|                  | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| In affiliates    | 2,849                      | (1,901)    | (10,149)                  | -          |
| In joint venture | 79                         | (1,181)    | 42                        | (10,821)   |
| Total            | 2,928                      | (3,082)    | (10,107)                  | (10,821)   |

|                  | Consolidated               |            |                           |            |
|------------------|----------------------------|------------|---------------------------|------------|
|                  | For the three months ended |            | For the nine months ended |            |
|                  | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| In affiliates    | -                          | -          | -                         | -          |
| In joint venture | 79                         | (1,181)    | 42                        | (3,399)    |
| Total            | 79                         | (1,181)    | 42                        | (3,399)    |

## 9.2 Investments in jointly controlled (*joint venture*)

Luxxon Participações Ltda is the jointly controlled entity of the Lupatech Group with Axxon Group. The Company shares with the other partners the joint management of the relevant activities of this entity.

On September 30, 2019, the Company recognized investments in joint venture (Luxxon Participações Ltda), as a provision for unrecognized liabilities, in the amount of R\$4,849 (R\$4,906 on December 31, 2018).

The investments jointly controlled are measured by the equity method.

## 10 Fixed Assets

|  | Weighted average<br>rate of depreciation<br>% p.p. | Parent     |            | Consolidated |            |
|--|--|------------|------------|--------------|------------|
|  |  | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
|  |  | net        | net        | net          | net        |
| Land                                   | -  | 11,313     | 11,366     | 11,445       | 12,639     |
| Building and construction              | 2%   | 26,906     | 27,599     | 35,912       | 37,316     |
| Machinery and equipment                | 9%   | 18,237     | 20,863     | 25,638       | 49,458     |
| Molds and matrixes                     | 15%  | 426        | 512        | 531          | 599        |
| Industrial facilities                  | 5%   | 5,596      | 5,989      | 7,253        | 7,670      |
| Furniture and fixtures                 | 9%   | 715        | 809        | 892          | 1,082      |
| Date processing equipments             | 14%  | 53         | 78         | -            | 255        |
| Improvements                           | 2%   | 148        | 157        | 781          | 804        |
| Vehicles                               | 19%  | 48         | 70         | 52           | 790        |
| Casks                                  | -  | -          | -          | 2            | 3          |
| Advances for fixed assets acquisitions | -  | -          | -          | 9,596        | 9,917      |
| Construction in progress               | -  | 274        | 274        | 14,249       | 15,404     |
| Total                                  |  | 63,716     | 67,717     | 106,351      | 135,937    |

Synthesis of movement of the Fixed Assets:

| Parent                                    |        |                           |   |  |                        |                            |                          |        |
|---|--------|---------------------------|---|--|------------------------|----------------------------|--------------------------|--------|
|   | Land   | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others |
| Gross Cost                                |        |                           |   |  |                        |                            |                          |        |
| Balance on December 31, 2018              | 11,366 | 35,882                    | 89,611                                      | 11,721                                 | 3,848                  | 3,884                      | 274                      | 484    |
| Additions                                 | -      | -                         | 3,280                                       | -                                      | -                      | 1                          | -                        | -      |
| Disposal                                  | (53)   | (93)                      | (2)   | (3)                                    | -                      | -                          | -                        | -      |
| Reclassification for assets held for sale | -      | -                         | (3,236)                                     | -                                      | -                      | -                          | -                        | -      |
| Balance on September 30, 2019             | 11,313 | 35,783                    | 89,653                                      | 11,718                                 | 3,848                  | 3,885                      | 274                      | 484    |

| Parent                                    |      |                           |   |  |                        |                            |                          |        |
|---|------|---------------------------|---|--|------------------------|----------------------------|--------------------------|--------|
|   | Land | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others |
| Accumulated depreciation                  |      |                           |   |  |                        |                            |                          |        |
| Balance on December 31, 2018              | -    | (8,283)                   | (68,236)                                    | (5,575)                                | (3,039)                | (3,806)                    | -                        | (414)  |
| Additions                                 | -    | (673)                     | (2,754)                                     | (400)                                  | (94)                   | (26)                       | -                        | (22)   |
| Disposal                                  | -    | 30                        | -   | 1                                      | -                      | -                          | -                        | 31     |
| Reclassification for assets held for sale | -    | 49                        | -   | -                                      | -                      | -                          | -                        | 49     |
| Balance on September 30, 2019             | -    | (8,877)                   | (70,990)                                    | (5,974)                                | (3,133)                | (3,832)                    | -                        | (436)  |

| Parent                        |        |                           |   |  |                        |                            |                          |        |
|-------------------------------|--------|---------------------------|---|--|------------------------|----------------------------|--------------------------|--------|
|                               | Land   | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others |
| Net fixed assets              |        |                           |   |  |                        |                            |                          |        |
| Balance on December 31, 2018  | 11,366 | 27,599                    | 21,375                                      | 6,146                                  | 809                    | 78                         | 274                      | 70     |
| Balance on September 30, 2019 | 11,313 | 26,906                    | 18,663                                      | 5,744                                  | 715                    | 53                         | 274                      | 48     |

| Consolidated  |         |                           |   |  |                        |                            |                          |         |
|---|---------|---------------------------|---|--|------------------------|----------------------------|--------------------------|---------|
|   | Land    | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others  |
| Gross Cost  |         |                           |   |  |                        |                            |                          |         |
| Balance on December 31, 2018                        | 12,639  | 50,448                    | 173,064                                     | 15,728                                 | 5,943                  | 10,831                     | 15,404                   | 17,536  |
| Additions   | -       | -                         | 3,430                                       | -                                      | -                      | 2                          | -                        | -       |
| Disposal  | (53)    | (235)                     | (63,628)                                    | (10)                                   | (714)                  | (512)                      | (31)                     | (1,159) |
| Transfer  | -       | -                         | 2,951                                       | -                                      | -                      | -                          | (2,655)                  | (307)   |
| Effect of the conversion of subsidiaries abroad     | -       | -                         | -   | -                                      | -                      | -                          | -                        | 54      |
| Reversal of provision for impairment of assets      | -       | -                         | 8,932                                       | -                                      | -                      | -                          | -                        | 8,932   |
| Reclassification for assets held for sale           | -       | (345)                     | 52,619                                      | -                                      | 294                    | (3,186)                    | 3,939                    | 1,159   |
| Effect of conversion of foreign subsidiaries        | -       | -                         | 3,095                                       | -                                      | -                      | -                          | (1,285)                  | -       |
| Effect of disposal of equity interest in subsidiary | (1,141) | (372)                     | (70,764)                                    | -                                      | (583)                  | (1,674)                    | (1,123)                  | (7,313) |
| Balance on September 30, 2019                       | 11,445  | 49,496                    | 109,699                                     | 15,718                                 | 4,940                  | 5,461                      | 14,249                   | 9,970   |

| Consolidated  |      |                           |   |  |                        |                            |                          |         |
|---|------|---------------------------|---|--|------------------------|----------------------------|--------------------------|---------|
| Accumulated depreciation                            | Land | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others  |
| Balance on December 31, 2018                        | -    | (13,132)                  | (123,007)                                   | (7,254)                                | (4,861)                | (10,576)                   | -                        | (6,826) |
| Additions   | -    | (1,014)                   | (2,850)                                     | (449)                                  | (103)                  | (31)                       | -                        | (26)    |
| Disposal  | -    | 166                       | 30,553                                      | 8                                      | 656                    | 512                        | -                        | 1,159   |
| Transfer  | -    | -                         | (20)  | -                                      | -                      | -                          | -                        | -       |
| Effect of the conversion of subsidiaries abroad     | -    | -                         | (1,241)                                     | -                                      | -                      | -                          | -                        | (1,241) |
| Reclassification for assets held for sale           | -    | 214                       | (35,181)                                    | 11                                     | (235)                  | 3,062                      | -                        | (1,159) |
| Effect of disposal of equity interest in subsidiary | -    | 182                       | 48,216                                      | -                                      | 495                    | 1,572                      | -                        | 6,532   |
| Balance on September 30, 2019                       | -    | (13,584)                  | (83,530)                                    | (7,684)                                | (4,048)                | (5,461)                    | -                        | (320)   |

| Consolidated                      |        |                           |   |  |                        |                            |                          |        |
|-----------------------------------|--------|---------------------------|---|--|------------------------|----------------------------|--------------------------|--------|
| Net property, plant and equipment | Land   | Building and construction | Machinery and equipment, molds and matrixes | Industrial facilities and improvements | Furniture and fixtures | Date processing equipments | Construction in progress | Others |
| Balance on December 31, 2018      | 12,639 | 37,316                    | 50,057                                      | 8,474                                  | 1,082                  | 255                        | 15,404                   | 10,710 |
| Balance on September 30, 2019     | 11,445 | 35,912                    | 26,169                                      | 8,034                                  | 892                    | -                          | 14,249                   | 9,650  |

There are property, plant and equipment linked to guarantees of liabilities as of September 30, 2019, liabilities in the following amounts:

| Guaranteed liabilities    | Fixed assets |              |
|---------------------------|--------------|--------------|
|                           | Parent       | Consolidated |
| Taxation (Tax executions) | 14,791       | 14,949       |
| Loans and financing       | 37,641       | 42,053       |
| Total                     | 52,432       | 57,002       |

## Commercial leases

On September 30, 2019, the Company does not have a finance lease, but as of December 31, 2018, through the indirect subsidiary Lupatech OFS S.A.S. had the amount of R\$5,527.

## 11 Intangible

|                             | Weighted rates of amortization % p.p. | Parent     |            | Consolidated |            |
|-----------------------------|---------------------------------------|------------|------------|--------------|------------|
|                             |                                       | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
|                             |                                       | net        | net        | net          | net        |
| Goodwill (*)                | -                                     | 55,414     | 55,414     | 82,166       | 102,802    |
| Software and other licenses | 20%                                   | 2,762      | 3,442      | 2,832        | 3,597      |
| New projects developments   | 20%                                   | 9,090      | 9,311      | 9,344        | 9,571      |
| Total                       |                                       | 67,266     | 68,167     | 94,342       | 115,970    |

(\*) In the Parent Company represents the balance of gain of the incorporated subsidiaries.

Synthesis of movement of the intangible:



|                               | Parent                                 |                              |                             |        |
|-------------------------------|--|------------------------------|-----------------------------|--------|
| Gross Cost                    | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total  |
| Balance on December 31, 2018  | 55,414                                 | 13,239                       | 17,287                      | 85,940 |
| Additions                     | -                                      | 5                            | 37                          | 42     |
| Balance on September 30, 2019 | 55,414                                 | 13,244                       | 17,324                      | 85,982 |

|                               | Parent                                 |                              |                             |          |
|-------------------------------|--|------------------------------|-----------------------------|----------|
| Acculated Amortization        | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total    |
| Balance on December 31, 2018  | -                                      | (9,797)                      | (7,976)                     | (17,773) |
| Additions                     | -                                      | (685)                        | (258)                       | (943)    |
| Balance on September 30, 2019 | -                                      | (10,482)                     | (8,234)                     | (18,716) |

|                               | Parent                                 |                              |                             |        |
|-------------------------------|--|------------------------------|-----------------------------|--------|
| Net Intangible Assets         | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total  |
| Balance on December 31, 2018  | 55,414                                 | 3,442                        | 9,311                       | 68,167 |
| Balance on September 30, 2019 | 55,414                                 | 2,762                        | 9,090                       | 67,266 |

|   | Consolidated                           |                              |                             |          |
|---|--|------------------------------|-----------------------------|----------|
| Gross intangible cost                           | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total    |
| Balance on December 31, 2018                    | 102,802                                | 16,300                       | 18,634                      | 137,736  |
| Additions                                       | -                                      | 6                            | 37                          | 43       |
| Effect of the conversion of subsidiaries abroad | (22,912)                               | -                            | -                           | (22,912) |
| Balance on September 30, 2019                   | 79,890                                 | 16,306                       | 18,671                      | 114,867  |

|   | Consolidated                           |                              |                             |          |
|---|--|------------------------------|-----------------------------|----------|
| Acculated Amortization                            | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total    |
| Balance on December 31, 2018                      | -                                      | (12,703)                     | (9,063)                     | (21,766) |
| Additions   | -                                      | (771)                        | (263)                       | (1,034)  |
| Effect of the conversion of subsidiaries abroad   | -                                      | -                            | (1)                         | (1)      |
| Effect of change in equity interest of subsidiary | 2,276                                  | -                            | -                           | 2,276    |
| Balance on September 30, 2019                     | 2,276                                  | (13,474)                     | (9,327)                     | (20,525) |

|                               | Consolidated                           |                              |                             |         |
|-------------------------------|--|------------------------------|-----------------------------|---------|
| Net Intangible Assets         | Goodwill on acquisition of investments | Softwares and other licenses | Development of new products | Total   |
| Balance on December 31, 2018  | 102,802                                | 3,597                        | 9,571                       | 115,970 |
| Balance on September 30, 2019 | 82,166                                 | 2,832                        | 9,344                       | 94,342  |

Below is a summary of the allocation of the balance of gain by level of the Cash-Generating Unit:

| UGCs   | Goodwill on acquisition of investments |            |              |            |
|--|--|------------|--------------|------------|
|  | Investments (Note nº 9)                |            | Intangible   |            |
|  | Parent                                 |            | Consolidated |            |
|  | 09/30/2019                             | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Products Segment   |  |            |              |            |
| Mipel Industria e Comércio de Válvulas Ltda (Group of units) | 6,065                                  | 6,065      | 6,065        | 6,065      |
| Lupatech S/A - CSL unit                                      | 55,414                                 | 55,414     | 55,414       | 55,414     |
| Services Segment   |  |            |              |            |
| Fiberware Unit   | -                                      | -          | 20,687       | 20,687     |
| Lupatech OFS Coöperatief U.A. Unit (Netherlands)*            | -                                      | -          | -            | 20,636     |
| Total  | 61,479                                 | 61,479     | 82,166       | 102,802    |
| Investment   | 6,065                                  | 6,065      | -            | -          |
| Intangible Assets  | 55,414                                 | 55,414     | 82,166       | 102,802    |

\* Company sold on 09/12/2019

The gain is allocated to the cash-generating units for which may be identified in the cash flows of the Cash-Generating Units – "UGC".

The gain allocated to the group of units Carbonox and Valmicro is not relevant in comparison with the total book value of the gains, reason for which is not being presented individual information of these UGCs.

Below is a summary of the values recorded as a loss for non-recoverability of gain by the Cash-Generating Unit:

| UGCs  | Goodwill on acquisition of investments | Impairment | Net Goodwill |
|---|--|------------|--------------|
| Products Segment  |  |            |              |
| Mipel Industria e Comércio de Válvulas Ltda (Group of units)                | 6,065                                  | -          | 6,065        |
| Lupatech S/A - CSL Unit   | 125,414                                | (70,000)   | 55,414       |
| Lupatech – Equipamentos de Serviços para Petróleo – Oil Tools Unit          | 9,149                                  | (9,149)    | -            |
| Tecval Unit   | 55,680                                 | (55,680)   | -            |
| Lupatech - Equipamentos de Serviços para petróleo - Monitoring Systems Unit | 9,884                                  | (9,884)    | -            |
| Services Segment  |  |            |              |
| Lupatech – Equipamentos de Serviços para petróleo Unit                      | 59,227                                 | (59,227)   | -            |
| Fiberware Unit  | 20,687                                 | -          | 20,687       |
| Total   | 286,106                                | (203,940)  | 82,166       |

## 12 Suppliers

|   | 09/30/2019    |               |               |               |               |               | 12/31/2018    |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | Parent        |               |               | Consolidated  |               |               | Parent        |               |               | Consolidated  |               |               |
|   | Current       | Non-current   | Total         | Current       | Non-current   | Total         | Current       | Non-current   | Total         | Current       | Non-current   | Total         |
| <b>Suppliers</b>                        |               |               |               |               |               |               |               |               |               |               |               |               |
| <b>Subject to Judicial Recovery</b>     |               |               |               |               |               |               |               |               |               |               |               |               |
| Domestic Suppliers                      | 9,002         | 102,144       | 111,146       | 9,002         | 102,144       | 111,146       | 4,695         | 107,824       | 112,519       | 4,695         | 107,824       | 112,519       |
| Export Suppliers                        | 426           | 16,612        | 17,038        | 426           | 16,612        | 17,038        | 871           | 8,746         | 9,617         | 871           | 8,746         | 9,617         |
| (-) Present value adjustment            | -             | (58,206)      | (58,206)      | -             | (58,206)      | (58,206)      | -             | (56,743)      | (56,743)      | -             | (56,743)      | (56,743)      |
|   | <u>9,428</u>  | <u>60,550</u> | <u>69,978</u> | <u>9,428</u>  | <u>60,550</u> | <u>69,978</u> | <u>5,566</u>  | <u>59,827</u> | <u>65,393</u> | <u>5,566</u>  | <u>59,827</u> | <u>65,393</u> |
| <b>Not Subject to Judicial Recovery</b> |               |               |               |               |               |               |               |               |               |               |               |               |
| Domestic Suppliers                      | 3,802         | -             | 3,802         | 7,890         | -             | 7,890         | 6,013         | -             | 6,013         | 24,144        | -             | 24,144        |
| Export Suppliers                        | 133           | -             | 133           | 155           | -             | 155           | 119           | -             | 119           | 1,394         | -             | 1,394         |
|   | <u>3,935</u>  | <u>-</u>      | <u>3,935</u>  | <u>8,045</u>  | <u>-</u>      | <u>8,045</u>  | <u>6,132</u>  | <u>-</u>      | <u>6,132</u>  | <u>25,538</u> | <u>-</u>      | <u>25,538</u> |
| <b>Total suppliers</b>                  | <u>13,363</u> | <u>60,550</u> | <u>73,913</u> | <u>17,473</u> | <u>60,550</u> | <u>78,023</u> | <u>11,698</u> | <u>59,827</u> | <u>71,525</u> | <u>31,104</u> | <u>59,827</u> | <u>90,931</u> |

Under the current Judicial Recovery plan, 50% of the unsecured creditors of suppliers will be paid through the payment of subscription bonuses and the remaining 50% will be paid in cash within 15 years, with interest and correction at a variable rate equivalent to TR + 3% per year for Class IV and TR + 3.3% per year for Class III, to be paid respectively 30 days or in four quarterly installments after the maturity of the last principal proposed in the terms of payments of the unsecured creditors of the new Plan.

In September 30, 2019, the adjustment to present value was made on suppliers subject to judicial reorganization in the amount of R\$1,463 (R\$2,164 on December 31, 2018).

The balance of adjustment to present value on suppliers subject to judicial reorganization on September 30, 2019 is R\$58,206 (R\$56,743 on December 31, 2018) in the parent company and consolidated, considering the discount rate of 13.65% per year.

## 13 Loans and financing

|   |       |                         | 09/30/2019    |               |                 | 12/31/2018    |                |                 |               |               |                 |               |                |                 |
|---|-------|-------------------------|---------------|---------------|-----------------|---------------|----------------|-----------------|---------------|---------------|-----------------|---------------|----------------|-----------------|
|   |       |                         | Parent        |               |                 | Consolidated  |                |                 | Parent        |               |                 | Consolidated  |                |                 |
| Description                             | Index | Weighted interest rates | Current       | Non-current   | Total           | Current       | Non-current    | Total           | Current       | Non-current   | Total           | Current       | Non-current    | Total           |
| <b>Subject to Judicial Recovery</b>     |       |                         |               |               |                 |               |                |                 |               |               |                 |               |                |                 |
| <b>Local currency</b>                   |       |                         |               |               |                 |               |                |                 |               |               |                 |               |                |                 |
| Secured creditors                       | FIXO  | 3,00% a.a. + TR         | 1,494         | 39,714        | <b>41,208</b>   | 1,494         | 39,714         | <b>41,208</b>   | 1,245         | 39,910        | <b>41,155</b>   | 1,245         | 39,910         | <b>41,155</b>   |
| Working capital / expansion             |       |                         | 1,494         | 39,714        | <b>41,208</b>   | 1,494         | 39,714         | <b>41,208</b>   | 1,245         | 39,910        | <b>41,155</b>   | 1,245         | 39,910         | <b>41,155</b>   |
| (-) Present value adjustment            |       |                         | -             | (18,259)      | <b>(18,259)</b> | -             | (18,259)       | <b>(18,259)</b> | -             | (19,963)      | <b>(19,963)</b> | -             | (19,963)       | <b>(19,963)</b> |
| Unsecured creditors                     | FIXO  | 3,3% a.a. + TR          | 888           | 94,825        | <b>95,713</b>   | 4,801         | 193,524        | <b>198,325</b>  | 2,817         | 90,343        | <b>93,160</b>   | 5,262         | 183,087        | <b>188,349</b>  |
| Working capital / expansion             |       |                         | 112           | 13,504        | <b>13,616</b>   | 112           | 13,504         | <b>13,616</b>   | 401           | 12,866        | <b>13,267</b>   | 401           | 12,866         | <b>13,267</b>   |
| Working capital / expansion             |       |                         | 95            | 11,559        | <b>11,654</b>   | 95            | 11,559         | <b>11,654</b>   | 343           | 11,012        | <b>11,355</b>   | 343           | 11,012         | <b>11,355</b>   |
| Working capital / expansion             |       |                         | 192           | 15,388        | <b>15,580</b>   | 192           | 15,388         | <b>15,580</b>   | 457           | 14,661        | <b>15,118</b>   | 457           | 14,661         | <b>15,118</b>   |
| Research and development funding        |       |                         | 47            | 5,665         | <b>5,712</b>    | 47            | 5,665          | <b>5,712</b>    | 168           | 5,397         | <b>5,565</b>    | 168           | 5,397          | <b>5,565</b>    |
| Guarantee provided by guarantee letter  |       |                         | 99            | 8,943         | <b>9,042</b>    | 99            | 8,943          | <b>9,042</b>    | 266           | 8,520         | <b>8,786</b>    | 266           | 8,520          | <b>8,786</b>    |
| Debentures                              |       |                         | 343           | 39,766        | <b>40,109</b>   | 343           | 39,766         | <b>40,109</b>   | 1,182         | 37,887        | <b>39,069</b>   | 1,182         | 37,887         | <b>39,069</b>   |
| Noteholders                             |       |                         | -             | -             | -               | 3,913         | 98,699         | <b>102,612</b>  | -             | -             | -               | 2,445         | 92,744         | <b>95,189</b>   |
| (-) Adjustment to present value         |       |                         | -             | (43,058)      | <b>(43,058)</b> | -             | (80,325)       | <b>(80,325)</b> | -             | (45,290)      | <b>(45,290)</b> | -             | (81,464)       | <b>(81,464)</b> |
|   |       |                         | <b>2,382</b>  | <b>73,222</b> | <b>75,604</b>   | <b>6,295</b>  | <b>134,654</b> | <b>140,949</b>  | <b>4,062</b>  | <b>65,000</b> | <b>69,062</b>   | <b>6,507</b>  | <b>121,570</b> | <b>128,077</b>  |
| <b>Not subject to Judicial Recovery</b> |       |                         |               |               |                 |               |                |                 |               |               |                 |               |                |                 |
| <b>Local currency</b>                   |       |                         |               |               |                 |               |                |                 |               |               |                 |               |                |                 |
| Working capital / expansion             | CDI   | 6,80% a.a.              | 2,615         | -             | <b>2,615</b>    | 2,615         | -              | <b>2,615</b>    | 2,376         | -             | <b>2,376</b>    | 2,376         | -              | <b>2,376</b>    |
| Working capital / expansion             | TJLP  | 4,84% a.a.              | 5,034         | -             | <b>5,034</b>    | 8,648         | -              | <b>8,648</b>    | 11,790        | -             | <b>11,790</b>   | 21,353        | -              | <b>21,353</b>   |
| Discounted titles                       | -     | 2,00% a.m.              | 31            | -             | <b>31</b>       | 31            | -              | <b>31</b>       | 1,694         | -             | <b>1,694</b>    | 1,853         | -              | <b>1,853</b>    |
| Credit limit                            | FIXO  | 7,00% a.m.              | 1             | -             | <b>1</b>        | 1             | -              | <b>1</b>        | 48            | -             | <b>48</b>       | 99            | -              | <b>99</b>       |
| <b>Foreign currency</b>                 |       |                         |               |               |                 |               |                |                 |               |               |                 |               |                |                 |
| Working capital / expansion             | DÓLAR | 7,48% a.a.              | 1,214         | -             | <b>1,214</b>    | 2,520         | -              | <b>2,520</b>    | 2,692         | -             | <b>2,692</b>    | 4,478         | -              | <b>4,478</b>    |
| Working capital / expansion             | PESO  | 12,55% a.a.             | -             | -             | -               | -             | -              | -               | -             | -             | -               | 7,038         | 1,121          | <b>8,159</b>    |
|   |       |                         | <b>8,895</b>  | -             | <b>8,895</b>    | <b>13,815</b> | -              | <b>13,815</b>   | <b>18,600</b> | -             | <b>18,600</b>   | <b>37,197</b> | <b>1,121</b>   | <b>38,318</b>   |
|   |       |                         | <b>11,277</b> | <b>73,222</b> | <b>84,499</b>   | <b>20,110</b> | <b>134,654</b> | <b>154,764</b>  | <b>22,662</b> | <b>65,000</b> | <b>87,662</b>   | <b>43,704</b> | <b>122,691</b> | <b>166,395</b>  |

Under the Judicial Recovery Plan in force, 35% of the secured claims subject to the Judicial Recovery must be paid through the payment of subscription bonuses and the remaining 65% will be paid in cash within 15 years, with interest increase and monetary restatement at a variable rate equivalent to TR + 3% per annum, to be paid 30 days after the maturity of the last installment of the principal, as proposed in the terms of payments of the secured creditors of the new Plan.

In the case of unsecured loans and financing, in accordance with the Judicial Recovery Plan in force, 50% will be paid through the payment of subscription bonuses and the remaining 50% will be paid in cash within 15 years, with (Class IV) or TR + 3.3% pa and 0.4% in foreign currency (Class III), to be paid in 30 days (Class IV) or four quarterly installments (Class III) after the maturity of the last installment of the principal, as proposed in the terms of payments of the unsecured creditors of the new Plan.

In the nine months ended September 30, 2019, there was an adjustment to present value of loans and financing subject to judicial recovery in the amount of R\$3,936 in the parent company (R\$3,840 on December 31, 2018) and R\$2,843 in the consolidated. (R\$956 as of December 31, 2018).

The adjustment to present value on loans and financing subject to judicial reorganization as of September 30, 2019, is R\$ 61,317 (R\$ 65,253 as of December 31, 2018) in the parent company and R\$98,584 (R\$ 101,427 on December 31, 2018) in the consolidated, considering the discount rate of 13.65% per year.

The maturities of the non-current installments of financing are as follows:

| <b>Maturity</b> | <b>Parent</b>     |                   | <b>Consolidated</b> |                   |
|-----------------|-------------------|-------------------|---------------------|-------------------|
|                 | <b>09/30/2019</b> | <b>12/31/2018</b> | <b>09/30/2019</b>   | <b>12/31/2018</b> |
| 2019            | 439               | 2,088             | 808                 | 4,876             |
| 2020            | 805               | 2,508             | 1,481               | 4,841             |
| 2021            | 1,245             | 2,508             | 2,289               | 4,691             |
| 2022            | 1,684             | 2,508             | 3,097               | 4,691             |
| 2023            | 2,416             | 2,508             | 4,444               | 4,691             |
| From 2024       | 66,633            | 52,880            | 122,535             | 98,901            |
|                 | <b>73,222</b>     | <b>65,000</b>     | <b>134,654</b>      | <b>122,691</b>    |

The guarantees of loans and financing were granted as follows, with position as of September 30, 2019:

|   |                         | <b>Value of the guarantee</b> |                                 |                     |                                 |
|---|-------------------------|-------------------------------|---------------------------------|---------------------|---------------------------------|
|   |                         | <b>Parent</b>                 |                                 | <b>Consolidated</b> |                                 |
|   |                         | <b>Book value*</b>            | <b>Appraisal report value**</b> | <b>Book value*</b>  | <b>Appraisal report value**</b> |
| <b>Subject and not subject to Judicial Recovery</b> |                         |                               |                                 |                     |                                 |
| <b>Local currency</b>                               |                         |                               |                                 |                     |                                 |
|   | <b>Garantee</b>         |                               |                                 |                     |                                 |
| Working capital / expansion                         | Mortgage / Buildings    | 34,147                        | 112,207                         | 34,544              | 134,149                         |
| Working capital / expansion                         | Machinery and equipment | 3,494                         | 2,755                           | 7,509               | 9,141                           |
|   |                         | <b>37,641</b>                 | <b>114,962</b>                  | <b>42,053</b>       | <b>143,290</b>                  |

\* Net values of depreciation.

\*\* Evaluation according to the reports prepared by Appraisal Avaliações e Engenharia Limitada, in July 2015, presented to the Judicial Recovery Court, shown in the table above for reference. With the new reports made in December 2018, there was no change in the valuation value.

In September 30, 2019, the Company has the balance of R\$4,850 (R\$4,865 as of December 31, 2018) for the collection notification by Banco Votorantim S / A related to the settlement of collateral - guarantee by letter of guarantee requested by the Banco do Nordeste do Brasil S/A S for loan disbursement between Unifit - Unidade de Fios Industriais de Timbaúba Ltda and BNB, in the amount of R\$31,180, of which the Company was guarantor in 50%. The debt is included in the debt subject to the Judicial Recovery, and if it is sated by Unifit, Lupatech is released.

Due to the Plan of Judicial Recovery, the bonds and debentures started being treated and registered with the loans subject to judicial recovery, on non-current liabilities, due to its classification as unsecured creditors of the Plan, where they accrue interest and monetary correction at a variable rate equivalent to TR + 3.3% per year in Reais, as determined for payment of these creditors in the New Plan of Judicial Recovery.

## 14 Debentures

### *Third Issuance of Debentures*

Aiming the payment of part of the credits of labor nature, and other credits not subject to the Plan of Judicial Recovery, the Board has approved, in a meeting held in November 28 of 2017, the 3<sup>rd</sup> issuance of debentures convertible into ordinary stocks of issuing of the Company, in a single series, of the unsecured kind, for private placement, within the limit of the authorized capital, in the amount of thirty million reais, upon issuance of 30.000.000 of Debentures.

The Issuance respected the preemptive right of the Company's shareholders and was directed to the payment of Class I Judicial Reorganization credits and to holders of other credits.

On February 5 of 2018, was held at RCA, the partial approval of the 3rd Issuance of Debentures of the Company, as approved in the meeting of the Administrative Council held on November 28 of 2017, in the amount of R\$29,313, upon the issuance of 29,313,394 Debentures, within the limit of the authorized capital of the Company.

Considering the total amount of the issuance of 30,000,000 of Debentures, still remained 686,606 unsubscribed Debentures, which were canceled by the Company, in accordance with the Issuance.

The conclusions of the Company's stock conversion processes were as follows:



| Event   | Conversion Date   | Common shares (units) | Conversion of Debentures into RS |
|---|-------------------|-----------------------|----------------------------------|
| Completion of the process of converting debentures into shares of the Company | February 28, 2018 | 5,265,949             | 15,482                           |
| 1st Mandatory Conversion of Debentures into Company Shares                    | February 28, 2018 | 470,456               | 1,383                            |
| 2nd Mandatory Conversion of Debentures into Company Shares                    | June 18, 2018     | 358,682               | 1,055                            |
| 3rd Mandatory Conversion of Debentures into Company Shares                    | August 20, 2018   | 364,282               | 1,070                            |
| 4th Mandatory Conversion of Debentures into Company Shares                    | November 21, 2018 | 369,542               | 1,087                            |
| 5th Mandatory Conversion of Debentures into Company Shares                    | February 27, 2019 | 375,225               | 1,103                            |
| 6th Mandatory Conversion of Debentures into Company Shares                    | May 29, 2019      | 380,467               | 1,119                            |
| 7th Mandatory Conversion of Debentures into Company Shares                    | August 30, 2019   | 386,318               | 1,136                            |

The balance of remaining Debentures as of September 30, 2019, recorded in Current Liabilities is R\$6,224 (R\$9,336 as of December 31, 2018).

**The main characteristics of the 3rd issuance of debentures are:**

**Series:** Only  
**Date of issue:** 12/18/2017 (for all legal purposes)  
**Expiration Date:** Without time of expiration  
**Quantity issued:** 29.313.394  
**Par value:** R\$1.00  
**Value of the issue:** R\$29.313

**Convertibility:**

The Debentures are mandatorily convertible into ordinary shares issued by the Company, at the discretion of the debenture holders, in accordance with the conditions and options below:

- in up to 10 working days counted from the Date of Payment of Debentures, the debenture holders could request the conversion of up to 100% of the Debentures held by them in shares, of R\$2.94 per share. The calculation for conversion of Debentures resulted from the division between (i) the nominal unit value of the Debentures, plus the remuneration and (ii) the conversion price of \$2.94 per ordinary share issued by the Company. Any fractions resulting from the calculation for conversion were disregarded; or
- within 10 working days from the date of payment of Debentures, if the debenture holders have not requested the convertibility of its Debentures pursuant to the terms and conditions set forth in the item (a) above, the Debentures will be mandatorily converted into Shares, according to the periodicity, percentage and price indicated below:

| Conversion dates  | Percentage to be converted from each debenture holder's debenture | Price per share in R\$ |
|-------------------|---|------------------------|
| February 15, 2018 | 10%   | 2,94                   |
| May 15, 2018      | 7,5%  | 2,94                   |
| August 15, 2018   | 7,5%  | 2,94                   |
| November 15, 2018 | 7,5%  | 2,94                   |
| February 15, 2019 | 7,5%  | 2,94                   |
| May 15, 2019      | 7,5%  | 2,94                   |
| August 15, 2019   | 7,5%  | 2,94                   |
| November 15, 2019 | 7,5%  | 2,94                   |
| February 15, 2020 | 7,5%  | 2,94                   |
| May 15, 2020      | 7,5%  | 2,94                   |
| August 15, 2020   | 7,5%  | 2,94                   |
| November 15, 2020 | 7,5%  | 2,94                   |
| February 15, 2021 | 7,5%  | 2,94                   |

In the event of the Action completing 22 consecutive trading sessions with closing values above the price of the last conversion performed, the debenture holder may, at his sole discretion, during the 10 calendar days following, anticipate the last conversion provided in accordance with the schedule above. Closed the period of 10 calendar days for the exercise of the faculty of early conversion, if the conditions for early conversion are cleared again, the debenture holders may, at his sole discretion, make new conversions in advance on the same terms. In these cases, the Debentures will be converted in accordance with the schedule, with the remuneration calculated on a pro rata temporis up to the date of early conversion.

The debenture holder that holds more than one Debenture can group the fractions of shares that he has rights over, with the aim of achieving an integer, so as to receive the largest possible number of shares. After the fractional shares resulting from the conversion of Debentures of each debenture holder being grouped, only whole quantities of shares shall be delivered to the referred debenture holder, disregarding any fraction.

The number of shares to be delivered per Debenture will be simultaneous and proportionally adjusted to capital increases by subsidy, splitting or groupings of ordinary and/or preferred shares issued by the Company, any title, which might occur starting from the date of issuance, without any cost to the holders of Debentures and the same proportion established for such events.

### Subscription and payment:

The Debentures subscribed were paid on January 31, 2018 ("Date of Subscription"), the subscription price corresponding to its nominal value per unit, without monetary updating, interest or other charges. The Debentures were paid in cash, upon the act of subscription ("Date of Payment"), outside the scope of B3, with Undisputed labor credits, as defined in the Plan of Judicial Recovery, or credits held by a society of specific purpose as a result of the assumption of labor credits, or with other credits, in all cases held in regards to the Company, upon the payment with the corresponding credits. The sums paid by holders of right of preference, in accordance with Article 171, paragraph 2 and paragraph 3 of the Corporation Law, must be delivered in proportion to holders of paid credits.

For each R\$1.00 (one real) in undisputed labor credits, loans held by the SPE or other credits, was subscribed and paid R\$1.00 (one real) of nominal value of Debenture, disregarding fractions of the



real so that the payment of the whole number of debentures immediately below the value of the credit.

The Debentures that were not subscribed, as well as Debentures subscribed which have not been paid pursuant to the terms and conditions set forth in the Scripture of Issuance, have been canceled.

### **Remuneratory Interest:**

Each Debenture does justice to the remuneration, as from the date of payment, calculated by the referential rate, calculated and published by the Central Bank of Brazil ("TR"), increased exponentially from a spread or surcharge of 6% per year, calculated on the basis of 252 working days, calculated in a composed form, annually, pro rata temporis per day, on the par value per unit of the Debentures, since the date of payment (additionally) until the date of notice to shareholders, which must occur at the end of each period of capitalization, to be calculated in accordance with the Scripture of Issuance.

The Remuneration pro rata temporis will be added to the percentage of the par value per unit of the Debentures for the purpose of conversion on each date of conversion, as described in the table above, occurring in the last payment on February 15, 2021, the date on which, mandatorily, any remaining balance will be converted into shares. This provision also applies to early conversion.

### **Optional early redemption total or partial and partial optional amortization:**

The Company may, at its sole discretion and regardless of the willingness of the debenture holders perform, at any time, (i) the total early redemption; and/or (ii) the partial early redemption of the Debentures, limited to 98% of the balance of the par value per unit of the Debentures.

On the occasion of the optional early redemption or the optional early amortization, the Debenture Holders will make justice to the receipt the par value per unit of the Debentures, plus the remuneration of Debentures, calculated pro rata temporis since the date of payment until the date of effective payment of the optional early redemption or the optional early amortization. There will be no payment of prizes.

The optional early redemption or the optional early amortization may only occur through the sending of communication from the Company to the debenture holders, with minimum prior notice of 5 working days from the date envisaged for the execution of the optional early redemption or the optional early amortization, stating (i) the amount to be paid for the Debentures to be redeemed or amortized, as applicable; (ii) the date of execution of the optional early redemption or the optional early amortization; and (iii) other information necessary for the operationalization of the redemption or amortization of the Debentures.

In the event of execution of optional early redemption optional early amortization, the Company may make the compensation with eventual credits that it holds against the Debenture Holders, in accordance with Article 368 and following of the Civil Code, outside the scope of the B3.

### **Dilution:**

As was assured to the current shareholders of the Company their right of preference pursuant to Article 57, paragraph 1, and Article 171, paragraph 3, of the Law of Corporations, only dilution occurred by not exercising the right of preference. Otherwise, the shareholders have maintained their

respective shares in the social capital. The price of conversion of Debentures into shares issued by the Company in the context of the Issuance was fixed without undue dilution to the current shareholders of the Company, under the terms of Section III of the paragraph 1 of article 170 of the Law of Corporations.

## 15 Related parties

### 15.1 Parent Company

The balances and transactions between the Company and its subsidiaries, which are its related parties, have been eliminated in the consolidation. The details in regards to transactions between the parent company and its subsidiaries are presented below:

|                           | Parent        |              |                  |               |          | 09/30/2019        | 12/31/2018        |
|---------------------------|---------------|--------------|------------------|---------------|----------|-------------------|-------------------|
|                           | SABR          | Miprel Sul   | Lupatech Finance | LESP          | OFS      |                   |                   |
| <b>Assets</b>             |               |              |                  |               |          |                   |                   |
| <b>Current</b>            |               |              |                  |               |          |                   |                   |
| Accounts receivable       | -             | 1,081        | -                | -             | -        | 1,081             | 1,865             |
| Other accounts receivable | 6,172         | 2,075        | -                | 54,034        | -        | 62,281            | 93,640            |
| <b>Non-current</b>        |               |              |                  |               |          |                   |                   |
| Mutual and loans          | 22,651        | -            | -                | -             | -        | 22,651            | 27,858            |
|                           | <u>28,823</u> | <u>3,156</u> | <u>-</u>         | <u>54,034</u> | <u>-</u> | <u>86,013</u>     | <u>123,363</u>    |
| <b>Liabilities</b>        |               |              |                  |               |          |                   |                   |
| <b>Current</b>            |               |              |                  |               |          |                   |                   |
| Accounts payable          | -             | 497          | -                | -             | -        | 497               | 1,928             |
| Other accounts payable    | -             | -            | 1,251            | 1,205         | -        | 2,456             | 2,480             |
| Mutual and loans          | -             | -            | -                | 39,394        | -        | 39,394            | 36,654            |
| <b>Non-current</b>        |               |              |                  |               |          |                   |                   |
| Mutual and loans          | -             | -            | 151,513          | -             | -        | 151,513           | 140,583           |
|                           | <u>-</u>      | <u>497</u>   | <u>152,764</u>   | <u>40,599</u> | <u>-</u> | <u>193,860</u>    | <u>181,645</u>    |
|                           |               |              |                  |               |          | <u>09/30/2019</u> | <u>09/30/2018</u> |
| <b>Income</b>             |               |              |                  |               |          |                   |                   |
| Sales                     | -             | -            | -                | -             | -        | -                 | 2,628             |
| Purchases                 | -             | 3,799        | -                | -             | -        | 3,799             | 3,119             |
| Financial income          | 18            | -            | -                | -             | -        | 18                | 15                |
| Financial expenses        | -             | -            | 397              | -             | -        | 397               | 750               |
|                           | <u>18</u>     | <u>3,799</u> | <u>397</u>       | <u>-</u>      | <u>-</u> | <u>4,214</u>      | <u>6,512</u>      |

|                           | Parent           |               |                  |                |               |                |                |
|---------------------------|------------------|---------------|------------------|----------------|---------------|----------------|----------------|
|                           | Transaction date | Duration      | Interest rate    | Amount R\$     | Balance US\$  | 09/30/2019     | 12/31/2018     |
| <b>Assets mutual</b>      |                  |               |                  |                |               |                |                |
| <b>Foreign currency</b>   |                  |               |                  |                |               |                |                |
| Contract 1                | 14 - july        | Indeterminate | 105% do DI-Cetip | 20,992         | 5,387         | 22,434         | 27,674         |
| Contract 2                | 14 - december    | Indeterminate | 12,000% a.a.     | 288            | 52            | 217            | 184            |
|                           |                  |               |                  | <u>21,280</u>  | <u>5,439</u>  | <u>22,651</u>  | <u>27,858</u>  |
| <b>Liabilities mutual</b> |                  |               |                  |                |               |                |                |
| <b>Foreign currency</b>   |                  |               |                  |                |               |                |                |
| Contract 4                | 15 - december    | Indeterminate | -                | 36,951         | 9,460         | 39,394         | 36,654         |
| Contract 5                | 18 - january     | Indeterminate | 0,4%a.a          | 225,416        | 36,383        | 151,513        | 140,583        |
|                           |                  |               |                  | <u>262,367</u> | <u>45,843</u> | <u>190,907</u> | <u>177,237</u> |
|                           |                  |               |                  | <u>262,367</u> | <u>45,843</u> | <u>190,907</u> | <u>177,237</u> |

Transactions are performed in accordance with the terms agreed between the parties.

Loans and agreements in foreign currency between Parent Company and Lupatech Finance are presented on September 30, 2019 for the net amount of R\$151,513 (remaining balance of R\$140,583 on December 31, 2018) in Parent Company's liabilities.

On September 30, 2019, the Company had a loan agreement with Unifit - Industrial Wire Unit of Timbaúba Ltda in the amount of R\$6,935, the same balance presented on December 31, 2018. This amount is recorded in other accounts receivable in noncurrent assets.

The Company has a loan agreement with the jointly-owned subsidiary Luxxon Participações Ltda in the amount of R\$6,091 on September 30, 2019, the same balance was presented on December 31, 2018. This amount is recorded in other accounts receivable non-current assets.

**a. *Clearances granted***

The operations with related parties have no warranties related to the operation, limiting itself to ordinary commercial transactions (purchase and sale of inputs), which are not backed by warranties, as well as mutual operations with Group companies, which also have no warranties in their composition.

**b. *Condition of prices and charges***

Intercompany loan agreements in Brazil are monetarily restated at the monthly DI-Cetip market funding rate.

## **15.2 Key Personel of the Administration**

**a. *Remuneration of the Administration***

Lupatech S / A - In Judicial Reorganization recorded a total of R\$2,135 in the nine-month period ended September 30, 2019 related to Management compensation (R\$2,140 in the nine-month period ended September 30, 2018) approved at the Annual and Extraordinary General Meeting, held on May 13, 2019, the annual global fixed and variable compensation of the Company's management for the year 2019 in the amount of up to R\$5,840, which is subdivided: up to R\$2,406 for the overall fixed compensation of the Board, including benefits and charges; up to R\$2,224 for the global variable compensation of the Board of Executive Officers; and up to R\$1,210 for the global fixed compensation of the Board of Directors.

In 2017 and 2018, the Company had no effect on the Company. However, provision is made for the amounts for which the options are as follows: 2017 and 2018 of R\$1,600 and R\$1,920 to meet the contracted objectives.

## **15.3 Loans with shareholders**

On September 30, 2019, the amount of the loan with GPCM, LLC (Oilfield Services Holdco LLC) is R\$8,356 (R\$8,371 at December 31, 2018) and is recorded in noncurrent liabilities with loans subject to judicial recovery.

## **16 Income tax and social contribution**

For companies based in Brazil, depending on the situation of each company, if taxed by the real profit, the provision for income tax is calculated and accounted for at the rate of 15% on the taxable profit, plus an additional of 10%, and to social contribution the rate of 9%, calculated and entered on the profit before the income tax, adjusted in the form of tax legislation. The companies taxed on the

basis of presumed profit calculate income tax at the rate of 15%, plus an additional of 10%, and social contribution at the rate of 9%, over an estimated profit of 8% to 32% for income tax and 12% for social contribution levied on the gross revenue from sales and services of subsidiaries, observed the tax rules in force.

#### a. Income tax and social contribution deferred

As of September 30, 2019, in the parent company and consolidated, all active balances were recognized in the proportionality of the existing liabilities. The current non-current deferred income and social contribution taxes are presented as follows:

| NON-CURRENT LIABILITIES   | Parent          |                 | Consolidated    |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 09/30/2019      | 12/31/2018      | 09/30/2019      | 12/31/2018      |
| Adjustment to present value of suppliers, fines, loans and debentures | (28,446)        | (29,035)        | (37,316)        | (37,644)        |
| Assigned Cost   | -               | -               | (14,284)        | (16,809)        |
| Others  | -               | -               | -               | (29)            |
| <b>Deferred income tax and social contribution</b>                    | <b>(28,446)</b> | <b>(29,035)</b> | <b>(51,600)</b> | <b>(54,482)</b> |

Deferred income tax and social contribution on September 30, 2019 is recorded in the result for the nine months ended 2019, in the amounts of R\$589 in the parent company and R\$328 in the consolidated (R\$847 in the parent company and R\$875 in the consolidated for the nine months ended 2018).

#### b. Conciliation of the expenditure of income tax and social contribution

|  | Parent                     |                 |                           |                 |
|--|----------------------------|-----------------|---------------------------|-----------------|
|  | For the three months ended |                 | For the nine months ended |                 |
|  | 09/30/2019                 | 09/30/2018      | 09/30/2019                | 09/30/2018      |
| <b>Income (loss) before taxes from continuing operations</b> | 19,019                     | (25,947)        | (14,075)                  | (93,141)        |
| <b>Loss before tax</b>                                       | <b>19,019</b>              | <b>(25,947)</b> | <b>(14,075)</b>           | <b>(93,141)</b> |
| <b>Additions and exclusions</b>                              |                            |                 |                           |                 |
| Equity pick-up   | (2,928)                    | 3,082           | 10,107                    | 10,821          |
| Provision of losses on inventory obsolescence                | (301)                      | (501)           | (318)                     | (802)           |
| (Reversal) Allowance for doubtful accounts                   | (5)                        | (77)            | (613)                     | (14)            |
| Non-deductible Interest                                      | -                          | 3,686           | -                         | 9,670           |
| Provision for contingency losses                             | 771                        | 5               | 2,746                     | 683             |
| Adjustment to present value                                  | 862                        | 1,545           | 2,473                     | 3,558           |
| Investment valued at equity                                  | (29,401)                   | -               | (29,401)                  | -               |
| Provision for interest on suppliers                          | 4,552                      | 2,468           | 4,481                     | 2,574           |
| Exchange variation provision                                 | 16,676                     | 11,823          | 13,667                    | 53,331          |
| Others   | (5,487)                    | 2,042           | (5,058)                   | (6,067)         |
| <b>Calculation basis</b>                                     | <b>3,758</b>               | <b>(1,874)</b>  | <b>(15,991)</b>           | <b>(19,387)</b> |
| Combined Tax Rate  | 34%                        | 34%             | 34%                       | 34%             |
| <b>Deferred income tax and social contribution</b>           | <b>206</b>                 | <b>368</b>      | <b>589</b>                | <b>847</b>      |

|   | Consolidated               |            |                           |            |
|---|----------------------------|------------|---------------------------|------------|
|   | For the three months ended |            | For the nine months ended |            |
|   | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| Income (loss) before taxes from continuing operations           | 18,832                     | (28,257)   | (18,046)                  | (94,897)   |
| Pre-tax loss on discontinued operations                         | 1,975                      | 2,328      | 8,526                     | 3,405      |
| Loss before tax   | 20,807                     | (25,929)   | (9,520)                   | (91,492)   |
| Additions and exclusions  |                            |            |                           |            |
| Equity pick-up  | (79)                       | 1,181      | (42)                      | 3,399      |
| Provision of losses on inventory obsolescence                   | (402)                      | (201)      | (253)                     | (588)      |
| Provision for impairment losses                                 | (1,871)                    | (1,770)    | (1,871)                   | (4,738)    |
| (Reversal) Allowance for doubtful accounts                      | (549)                      | (16)       | (613)                     | 34         |
| Non-deductible Interest   | -                          | 3,686      | -                         | 3,686      |
| Provision for contingency losses                                | 6,205                      | (371)      | 9,162                     | 685        |
| Adjustment to present value                                     | (2,437)                    | 329        | 1,378                     | -          |
| Fair value adjustment   | -                          | -          | -                         | (789)      |
| Investment valued at equity                                     | (29,401)                   | -          | (29,401)                  | -          |
| Provision for interest on suppliers                             | 3,790                      | 2,435      | 3,790                     | 2,651      |
| Exchange variation provision                                    | 18,443                     | 54,238     | 16,761                    | 53,625     |
| Others  | (17,707)                   | (50,742)   | (19,149)                  | (6,425)    |
| Calculation basis   | (3,202)                    | (17,160)   | (29,758)                  | (39,952)   |
| Combined Tax Rate   | 34%                        | 34%        | 34%                       | 34%        |
| Current income tax and social contribution of subsidiaries with | -                          | 393        | (4)                       | 390        |
| Deferred income tax and social contribution                     | (580)                      | 78         | 328                       | (875)      |

## 17 Contingent process and judicial deposits

### 17.1 Provision for tax, labor and civil risks

The Company, through its lawyers, has discussed some issues of tax nature, labor and civil in the judicial sphere. The provision for tax, labor and civil risks was ascertained by the Administration based on available information and supported by the opinion of their lawyers regarding the expectation of outcome, at an amount considered sufficient to cover losses considered likely that may occur on the basis of unfavorable judicial decisions.

|   |       | Parent              |          | Consolidated        |          |
|---|-------|---------------------|----------|---------------------|----------|
|   |       | Expectation of loss |          | Expectation of loss |          |
|   |       | Possible            | Probable | Possible            | Probable |
| Tax (i)   |       |                     |          |                     |          |
| ICMS - Tax on Circulation of Goods and Services             | (i.1) | 81,257              | -        | 81,910              | -        |
| CSLL - Social Contribution on Net Income                    | (i.2) | -                   | -        | 7,806               | -        |
| IRPJ - Imposto de Renda Pessoa Juridica                     | (i.3) | 23,419              | -        | 115,960             | -        |
| INSS - National Institute of Social Security                | (i.4) | -                   | -        | 1,668               | -        |
| IRRF - Imposto sobre a Renda Retido na Fonte                | (i.5) | 47,898              | -        | 47,898              | -        |
| IPI - Excise Tax  |       | 492                 | -        | 492                 | -        |
| COFINS - Tax for Social Security Financing                  | (i.6) | -                   | -        | 501                 | -        |
| ISS - Services Tax  | (i.7) | -                   | -        | 6,732               | 151      |
| CIDE - Contribution for Intervention in the Economic Domain | (i.8) | -                   | -        | 1,057               | -        |
| Other tax provisions  | (i.9) | 527                 | 1,037    | 4,960               | 2,110    |
|   |       | 153,593             | 1,037    | 268,984             | 2,261    |
| Labor (ii)  |       | 7,617               | 7,301    | 24,188              | 44,935   |
| Civil (iii)   |       | 13,414              | 187      | 27,873              | 9,294    |
| Total on September 30, 2019                                 |       | 174,624             | 8,525    | 321,045             | 56,490   |
| Total on December 31, 2018                                  |       | 138,723             | 6,107    | 226,352             | 53,913   |

These figures cover the entirety of the Group's companies and include values in judicial and administrative discussion as well as situations incurred where, even without the existence of releases or formal questioning by the authorities, may signify risks of future losses.



The provision for funds involved in the lawsuits in the above amounts (R\$8,525 in the parent company and R\$56,490 in the consolidated on September 30, 2019 and R\$6,107 in the parent company and R\$53,913 in the consolidated on December 31, 2018) and referring to the following spheres the risk of loss is probable, and this is defined as an outflow of economic benefits is presumed in the case discussed, the judgments made in each lawsuit and the jurisprudential understanding of each case.

The demands with probability of possible loss are excluded from the provision.

The judicial demands are divided into three spheres, being:

(i) *Tax Contingences*

Discussions involving tributes in the state and federal spheres, among these IRPJ, PIS, COFINS, INSS, ICMS and IPI. There are suits in all procedural stages, since the initial instance until the Upper Courts, STJ and STF. The main suits and values are as below:

**Main contingent proceedings classified as possible loss as of September 30, 2019**

- (i.1) Annulment action aimed at waiving ICMS credit, in the amount of R\$61,482, issued due to Lupatech SA - In Judicial Recovery, for not having paid the tax on the occasion of the taxed exportation of goods under REPETRO, since such operation is immune to the tax, as provided for in art. 155, X, "a", of the Constitution of the Republic and art. 6 of Law No. 9,826 / 99. We have filed special and extraordinary appeals against the judgment that dismissed your appeal, which are pending the examination of admissibility. Claims for suspensive effect were also filed against the Special and Extraordinary Appeals, which were rejected, which led to the filing of an Interlocutory Appeal.

Tax execution of the Public Treasury of the State of São Paulo, against Lupatech S/A- in Judicial Recovery distributed in October 22, 2015, with the objective of collecting ICMS due over importation, and non-inclusion of additional freight for renewal of the merchant navy (AFRMM) on the basis of calculation of the due tax. On June 4, 2019, an order was issued for the São Paulo State Treasury to speak. Process subject to possible loss of R\$8,664.

Annulling Action of Tax Debt against Lupatech S/A- in Judicial Recovery by the State of São Paulo distributed in October 22, 2015. On May 17, 2016, was granted the tutelage of urgency, suspending the enforceability of the credits. Suit subject to possible loss of R\$3,040.

Tax execution of the Treasury of the State of São Paulo on the levying of debit of ICMS and fine, of the infringement proceeding with the imposition of a fine nº 3149008 against Lupatech S/A - In Judicial Recovery, in the amount of R\$1,666, distributed on September 26, 2012 subject to possible losses.

Annulment action distributed on February 6, 2017 against the State of Rio Grande do Sul by Lupatech S/A - In Judicial Recovery, which seeks to suspend the liability of the tax credit regardless of the presentation of the guarantee. The tax debt consists of amounts of ICMS, interest arrears and fine for material tax infraction found in the tax action of the State Revenue Auditors. It is verified in the release note that the author company stopped exporting the imported goods under the special customs regime of Drawback Suspension and, therefore, stopped collecting the ICMS within the legal term. Process subject to possible loss of R\$2,357.

Fiscal Execution of the National Treasury against Lupatech S/A - Unit MNA Nova Odessa Distributed in March 3, 2010. Suit subject to possible loss of R\$1,427.

Tax Execution of the Treasury of the State of São Paulo against Lupatech S/A - In Judicial Recovery distributed in March 3, 2010. Suit subject to possible loss of R\$931.

- (i.2) Ordinary Suit of the Federal Union against Lupatech Perfuração e Completação Ltda. – In Judicial Recovery distributed in December 14, 2011, regarding federal taxes. Suit subject to possible loss of R\$2,845.

Manifest of unconformity of Lupatech Perfuração e Completação Ltda. – In Judicial Recovery distributed in May 25, 2017, with the Federal Revenue of Brazil. Suit subject to possible loss of R\$1,984.

Infringement proceeding of the Federal Revenue of Brazil against Sotep - Sociedade Técnica de Perfuração S/A - In Judicial Recovery distributed in July 13, 2011, regarding the charging of social contributions levied on the payroll typified in art. 22 of Law 8.212/91, as well as incidents on the remuneration paid, owed or credited to individual contributors to their services. Suit subject to possible loss of R\$1,970.

Manifest of unconformity of the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda - In Judicial Recovery distributed in November 18, 2011 Suit subject to possible loss of R\$827 and is awaiting trial of the demonstration of non-compliance presented by the Company.

- (i.3) Infraction proceeding recorded by the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda. – In Judicial Recovery. Suit subject to possible loss of R\$25,311.

Lupatech Perfuração e Completação - In Judicial Recovery, against the Sindiccional Office of the National Treasury of Cabo Frio and Others. Process distributed on June 18, 2017 subject to possible loss of R\$28,849.

Infraction proceeding of the Federal Revenue of Brazil, drawn up as a result of arbitration of the profit of the company Lupatech Perfuração e Completação Ltda - in Judicial Recovery, in calendar year 2010 due to deficiencies in the transmission of Digital Bookkeeping (ECD). Suit subject to possible loss of R\$14,133.

Infraction proceeding recorded by the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda. – In Judicial Recovery. Suit subject to possible loss of R\$9,529.

Suit of request for compensation of the Federal Revenue of Brazil against Lupatech Equipamentos de Serviços para Petróleo Ltda - In Judicial Recovery, regarding a negative balance of IRPJ where, in August 19, 2015, was presented a manifestation of unconformity. Since December 13, 2016, the suit is at the service of reception and screening DRJ-RJO-RJ. Suit subject to possible loss of R\$5,928.

Infraction proceeding recorded by the Federal Revenue of Brazil against Prest Perfurações Ltda – in Judicial Recovery. On march 21 of 2019, the suit was received to the National Center for Process Management. Suit subject to possible loss of R\$1,664.

Administrative suit of the Federal Revenue of Brazil, regarding the request of tax compensation by Sotep - Sociedade Técnica de Perfuração S/A - In Judicial Recovery. Suit subject to possible loss of R\$3,400.

Notice of Infringement drawn up by the Federal Revenue Service of Brazil against Lupatech S / A - In Judicial Recovery for constitution of tax credit. Case subject to possible loss of R\$17,225.

- (i.4) Infraction proceeding recorded for levying of DEBCAD nº 37,142,030-0, related to the conversion of accessory obligation into main obligation, consistent of the lack of declaration on GFIP of contributions due in the period between January 1999 and June 2007 in the company Sotep - Sociedade Técnica de Perfuração S/A - In Judicial Recovery. Suit subject to possible loss of R\$1,688.
- (i.5) Fiscal Execution of the National Treasury against Lupatech S/A. - In Judicial Recovery, regarding the levying of debit of IRRF. Suit subject to possible loss of R\$47,898.
- (i.7) Fiscal Execution of the District of Três Rios – RJ, against Sotep - Sociedade Técnica de Perfuração S/A – In Judicial Recovery. Suit subject to possible loss of R\$3,144.
- (i.8) Fiscal Administrative Suit of the Secretariat of the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda – In Judicial Recovery, for the charge of debits of CIDE incident over remittances abroad. Suit subject to possible loss of R\$1,057.
- (i.9) Fiscal Administrative Suit of the Secretariat of the Federal Revenue of Brazil against Sotep - Sociedade Técnica de Perfuração S/A – In Judicial Recovery. Suit subject to possible loss of R\$ 2,525.

(ii) *Labor contingences*

The Company and its subsidiaries are parties to lawsuits of a labor nature related to discussions involving, mainly, overtime claims, material and moral damages, unhealthiness and dangerousness, among others. None of the claims relate to individually significant amounts.

(iii) *Cível contingences*

**The main discussions in this area, classified as possible losses, at September 30, 2019 are related to:**

- (iii.1) Ordinary lawsuit filed by Weatherford Indústria e Comércio Ltda. and Weus Holding INC in which they claim misappropriation of confidential technical drawings of their property. The lawsuit has a loss risk classification as probable approximate of R\$624, as a possible loss of R\$2,710 and a remote loss of R\$57,498. It is currently in the execution phase of the judgment, pending completion of engineering expert work.
- (iii.3) Action of return for loss and damage, company Aerótero Táxi Aéreo S/A, subject to possible loss of R\$4,123.
- (iii.4) Extrajudicial Execution of Title made by Banco Pine S/A against Lupatech S/A - In Judicial Recovery. Suit subject to possible loss of R\$2,675.



- (iii.5) Suit of levying of Smith International do Brasil Ltda. Suit subject to possible loss of R\$2,696.
- (iii.7) Implementation of Extrajudicial Title moved by STMS Manutenção Comércio e Serviços de Máquinas Ltda-ME against Lupatech S/A - In Judicial Recovery. Subject to possible loss of R\$2,431.

**The main discussions in this area, classified as probable losses, at September 30, 2019 are related to:**

- (iii.8) Indemnifying suit of Meio dia Refeições Industriais Ltda - SB, against Lupatech Perfuração e Completação Ltda - In Judicial Recovery. Case subject to the probable loss of R\$4,545.
- (iii.9) Indemnifying suit of the company Aeróleo Taxi Aéreo S/A. Case subject to the probable loss of R\$3,084.

The movement of the balance of provision, on September 30 of 2019, is as follows:

|                               | Parent |       |       |       | Consolidated |         |       |          |
|-------------------------------|--------|-------|-------|-------|--------------|---------|-------|----------|
|                               | Tax    | Labor | Civil | Total | Tax          | Labor   | Civil | Total    |
| Balance on December 31, 2018  | 214    | 5,718 | 175   | 6,107 | 4,645        | 41,083  | 8,185 | 53,913   |
| Additions                     | 823    | 1,863 | 12    | 2,698 | 1,838        | 10,704  | 1,053 | 13,595   |
| Write-offs                    | -      | (280) | -     | (280) | (4,222)      | (6,852) | 56    | (11,018) |
| Balance on September 30, 2019 | 1,037  | 7,301 | 187   | 8,525 | 2,261        | 44,935  | 9,294 | 56,490   |

## 17.2 Contingent Assets

The statement containing information on contingent assets, according to the opinion of its legal advisors, is detailed below with the possibility of gain.

|                                      | Probability of probable gain |               |
|--------------------------------------|------------------------------|---------------|
|                                      | Parent                       | Consolidated  |
| Tax (i)                              | 1,704                        | 7,271         |
| Civil (ii)                           | 14,398                       | 64,474        |
| <b>Balance on September 30, 2019</b> | <b>16,102</b>                | <b>71,745</b> |
| <b>Balance on December 31, 2018</b>  | <b>4,441</b>                 | <b>93,782</b> |

### (i) Tax Contingencies

The Company is the author of several lawsuits at the state and federal levels, in which the following matters are discussed:

Main active contingent proceedings refer to:

- The Lupatech Group has lawsuits seeking recognition of the exclusion of ICMS from the PIS and COFINS calculation basis. The matter was decided by the STF in general repercussion, reason why the company expects that these processes deal with favorable decisions. Because they are still subject to dispute, subject to effects of possible modulation in response to opposing tax liens by the Treasury, the accounting treatment of contingent assets is maintained until the elements are present to recognize the corresponding tax credits.

## (i) Civil Contingences

Main active contingent proceedings refer to:

- Arbitration proceedings filed against Cordoaria São Leopoldo and José Teófilo Abu Jamra aiming at the application of contractual penalties for breach of a non-competition agreement arising from the acquisition of the Anchored Cables unit.
- The Company is entitled to be financially compensated to the limit of R\$50,000 for losses that might incur in San Antonio Brasil S/A arising from any eventual unknown contingencies, in accordance to the guarantee clause in the Agreement of Investment. Contingencies not known at the time of the transaction may result that this warranty being triggered in the future.

On April 4 of 2017, the Company presented before the Arbitration Chamber of the Market the request for establishment of arbitration against the GP Investments and their vehicles seeking compensation for losses incurred by the Company and from (i) contingencies not known of San Antonio Brasil S/A, and (ii) breach of obligations and breach of statements and warranties. The arbitration is also requested to increase the nominal limit of R\$50,000 for the indemnities.

## 17.3 Judicial deposits

The Company presents the following balances of judicial deposits, on September 30 of 2019, which are tied to the contingent liabilities:

|                                      | Judicial deposits |               |
|--------------------------------------|-------------------|---------------|
|                                      | Parent            | Consolidated  |
| Tax Contingencies                    | 3                 | 3,020         |
| Labor contingencies                  | 1,551             | 20,638        |
| Civil contingencies                  | 134               | 1,350         |
| <b>Balance on September 30, 2019</b> | <b>1,688</b>      | <b>25,008</b> |
| <b>Balance on December 31, 2018</b>  | <b>2,149</b>      | <b>25,410</b> |

## 18 Net equity

### a. Capital stock

The current paid social capital is composed only by ordinary shares, with 100% of right to Tag Along:

|  | Parent and Consolidated       |                      |
|--|-------------------------------|----------------------|
|  | Quantity of share<br>Thousand | Capital stock<br>R\$ |
| <b>Balance on December 31, 2018</b>            | <b>16,223</b>                 | <b>1,873,761</b>     |
| Mandatory conversion of debentures into shares | 1,142                         | 3,358                |
| Issuance of new shares                         | 4,758                         | 6,994                |
| <b>Balance on September 30, 2019</b>           | <b>22,123</b>                 | <b>1,884,113</b>     |

In accordance with the Plan of Judicial Recovery approved on February 16 of 2017, the Group used as one of their strategies to settle the commitments with Class I Creditors the Conversion of credits into debentures of Lupatech S/A. As a result of the conversion of debentures into Company shares, capital increased by R\$23,435 from February 28, 2018 to August 30, 2019.

On August 8, 2019, New Shares were issued totaling R\$6,994.

**b. Dividends**

To shareholders is ensured, annually, the mandatory distribution of minimum dividends corresponding to 25% of the adjusted net profit in the terms of corporate legislation.

**c. Asset evaluation adjustments**

The Company recognizes in this rubric the effect of exchange rates over the investments in subsidiaries abroad and over the gains arising on acquisitions of investments abroad, whose functional currency follows that on which the operation abroad is being subject to. The cumulative effect will be reversed towards the result of the exercise as gain or loss only in case of alienation or low investment. On September 30 of 2019, the balance of adjustment to equity valuation is R\$124,844 (R\$121.681 on December 31, 2018).

**d. Option granted**

In the period of nine-months ending on September 30, 2019, there were no changes of balance of R\$13,549 for booking of options granted.

**e. Capital reserve**

In accordance with the Plan of Judicial Recovery of the Lupatech Group, was hired in definitive character the exchange of part of the liabilities subject to the Plan for subscription bonuses to be issued within 2 years of the judicial approval of the Plan. In this way, with the sole purpose of complying with the accounting standards, the Company has applied the provisions of ICPC 16. Thus, the values of passive exchanged per subscription bonus (R\$298,493 in December 31, 2016) and adjustment to the estimated fair value (R\$292,152 in December 31, 2016) were recorded as capital reserve to be executed in the net amount of R\$6,341.

On October 29, 2018 Lupatech S.A. - In Judicial Recovery announced to its shareholders and the general public that its Board of Directors approved the 1st Issue of Subscription Warrants in a single and onerous series in the amount of R\$340,453. The issue occurred within the scope of the Judicial Recovery Plan of the Company and other companies of its group, to promote the payment of creditors of Classes II, III and IV of the Judicial Recovery whose credits came to pay off the Subscription Warrants.

A total of 3,404,528 of subscription bonuses were issued, at the ratio of 1 bonus for each R\$100.00 (one hundred reais) in debt. The bonds were subscribed and paid up on December 11, 2018 ("Subscription Term").

The Subscription Warrants may be exercised, during their term, by the fixed price of R\$0.88 per Share.

Following the Judicial Recovery Plan, of the total amount issued, R\$326,746 was allocated to creditors, and part remains in the Company's possession until it is operationally possible to surrender

to creditors, in which a fair value of R\$0.88 per bond, and a capital reserve of R\$2,875 was recorded. The remaining balance of R\$13,707 refers to the reserve subscribed for gross contingencies subject to recovery.

## 19 Financial Instruments

### 19.1 Financial risk management

#### *Financial risk factors*

The Company's activities expose it to several financial risks: market risk (including currency risk, interest rate risk of fair value, interest rate risk of cash flow and price risk), credit risk and liquidity risk. The program of global risk management of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group, through the use of derivative financial instruments to protect certain exposures.

Risk management is performed by the central treasury, according to the established principles, except for the jointly controlled, which are shared with other controlling shareholders. The treasury of the Group identifies and evaluates the Company's position against eventual financial risks in cooperation with the operational units of the Group. The Administrative Council establishes principles for the management of global risk, as well as for specific areas, such as foreign exchange risk, interest rate risk, and usage of derivative and non-derivative financial instruments.

#### (i) *Exchange rate risk*

The Company operates internationally and is exposed to foreign exchange risk arising from exposures of some currencies, especially regarding the American dollar and the Colombian peso

The exchange rate risk stems from commercial and financial operations, assets and liabilities recognized and liquid investments in operations abroad.

The Administration has established principles of management of exchange rate risk that require the Company to manage its exchange rate risk in relation to its functional currency. To manage its foreign exchange risk arising from commercial operations, the Company seeks to even out its trade balance between purchases and sales in currencies other than the functional currency. The credit availabilities and restrictions faced by the Company, limit significantly the possibilities of hiring foreign exchange derivatives, commonly used in the management of exchange rate risk.

The Company has certain investments in overseas operations, whose net assets are exposed to foreign exchange risk.

On September 30 of 2019, and December 31 of 2018, the Company and its subsidiaries had assets and liabilities denominated in U.S. dollars according to the tables below:

| Items                         | Amounts in US dollar thousands |            |              |            |
|-------------------------------|--------------------------------|------------|--------------|------------|
|                               | Parent                         |            | Consolidated |            |
|                               | 09/30/2019                     | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Accounts receivable           | 114                            | 151        | 118          | 151        |
| Other assets                  | -                              | -          | 14,915       | 20,863     |
| Related parties - Assets      | 5,439                          | 7,190      | -            | -          |
| Loans and financing           | (292)                          | (695)      | (25,245)     | (25,722)   |
| Related parties - Liabilities | (45,843)                       | (45,741)   | -            | -          |
| Other obligations             | (17)                           | (20)       | (204)        | (850)      |
| Net exposure in Dollar        | (40,599)                       | (39,115)   | (10,416)     | (5,558)    |

On September 30, 2019, the quotation of the US dollar against the Real was US\$1.00 = R\$4.1644 (US\$1.00 = R\$3.8748 as of December 31, 2018). If the real currency depreciates 10% against the US dollar at the year-end official, all other variables being retained, the impact on the result is a loss of approximately R\$11,158 in the parent company and R\$2.863 in the consolidated.

#### **Sensitivity analysis of variations in foreign currency, the variations in the rate of interest and the risks involving operations with derivatives**

As mentioned above, the Company is exposed to risks of fluctuation of the interest rate and to foreign currencies (different from its functional currency, the "Real"), mainly to the US dollar on their loans and financing. The analysis takes into consideration 3 fluctuation scenarios on these variables. In the definition of the scenarios used, the Administration believes that the following assumptions can be made, with their respective odds, however it should be noted that these assumptions are exercises of judgment made by the Administration and that can generate significant variations in relation to actual results calculated on the basis of market conditions, which cannot be estimated with certainty on this date for the complete profile of the estimates.

As determined by the CVM by means of the Instruction 475, the Administration of the Company presents the sensitivity analysis, considering:

#### **Scenario of interest rate and parity of the North American dollar (US\$) in relation to the real (R\$) likely, estimated by the Administration:**

Interest rate for the year of 2019: 5.0%

US\$: 3.80

#### **Scenario of interest rate and parity of the North American dollar (US\$) in relation to the real (R\$) possible, with deterioration of 25% (twenty five percent) on the risk variable considered as likely:**

Interest rate for the year of 2019: Increase to 6.3%

US\$: 4,75

#### **Scenario of interest rate and parity of the North American dollar (US\$) in relation to the real (R\$) remote, with deterioration of 50% (fifty per cent), on the risk variable considered as likely:**

Interest rate for the year of 2019: Increase to 7.5%

US\$: 5.70



The impact presented in the table below refers to the period of 1 year of projection:

|                     |                    | Scenario as per description above |          |        |              |          |        |
|---------------------|--------------------|-----------------------------------|----------|--------|--------------|----------|--------|
| Operating           | Risk               | Parent                            |          |        | Consolidated |          |        |
|                     |                    | Probable                          | Possible | Remote | Probable     | Possible | Remote |
| Loans and financing | US\$ hike          | (115)                             | 182      | 479    | (240)        | 377      | 994    |
| Loans and financing | Interest rate hike | 22                                | 27       | 33     | 33           | 41       | 49     |
| Mutual contracts    | US\$ hike          | (18,599)                          | 29,289   | 77,176 | -            | -        | -      |
| Total (gain) loss   |                    | (18,692)                          | 29,498   | 77,688 | (207)        | 418      | 1,043  |

(ii) *Risk of cash flow or fair value associated with interest rate*

The interest rate risk of the Group stems from long-term loans. The loans obtained at variable rates expose the Group to the interest rate risk of cash flow. The Group's loans at variable rates were mainly kept in "real". To minimize possible impacts arising from these fluctuations, the Company adopts the practices of diversification, alternating the contracting of their debts, envisioning their adaptation to the market.

The Group analyzes its exposure to interest rate in a dynamic way. Are simulated different scenarios considering refinancing, renovation of existing positions, financing and hedge alternatives. On the basis of these scenarios, the Group defines a reasonable change in the interest rate and calculates the impact over the outcome. For each simulation is used the same change in interest rate for all currencies. The scenarios are designed only for the liabilities that represent the main positions with interest.

On the basis of simulations carried out, considering the profile of the indebtedness of the Group on September 30 of 2019, the impact on the outcome, after the calculation of the income tax and social contribution, with a variation around 0.11 percentage points in interest rate variables, considering that all other variables were kept constant, would correspond to an increase of approximately R\$46 in the year of the expenditure with interest. The simulation is performed on a quarterly basis to verify if the maximum potential of injury is within the limit determined by the Administration.

The credit availability and restrictions faced by the Company, limit significantly the possibilities of management of the interest rate risk.

(iii) *Credit risk*

The credit risk is managed corporately. The credit risk arises from cash and cash equivalents, derivative financial instruments, deposits in banks and financial institutions, as well as exposures of credit to customers. For banks and financial institutions are accepted titles of entities classified by the Company's Administration as first line. The individual risk limits are determined based on internal or external ratings in accordance with limits set by the Administration. The use of credit limits is monitored regularly and recorded when applicable provision for credits of dubious settlement.

The selectivity of its clients, as well as the monitoring of sales financing terms by business segment and individual position limits, are procedures adopted in order to minimize eventual problems of default in their accounts receivable. Our revenues represent amounts directly and indirectly involving Petrobrás customers, which responded in the nine-month period ended September 30, 2019 by approximately 13.7% (10% in the nine-month period ended September 30, 2018) of total revenues of the Company and its subsidiaries.

(iv) *Liquidity risk*

The prudent management of liquidity risk implies maintaining cash, bonds and sufficient securities, availabilities of capture by means of revolving credit facilities and the ability to liquidate market positions. Because of the dynamic nature of the Group's businesses, the treasury maintains flexibility in capturing through the maintenance of revolving credit facilities.

The board monitors the level of liquidity of the Group, considering the expected cash flow, which comprehends unused credit lines, cash and cash equivalents. This is typically done at corporate level on the Group, in accordance with the practice and the limits established by the Group. These limits vary by location to take into account the liquidity of the market in which the Company operates. Furthermore, the principles of liquidity management of the Group involve the projection of cash flows in the major currencies and the consideration of the level of liquid assets necessary to achieve these projections, the monitoring of indexes of liquidity of the financial statement in relation to internal and external regulatory requirements and the maintenance of plans for debt financing.

## 19.2 Fair Value Estimation

The fair value of financial assets and liabilities, which have standard terms and conditions and are traded in active markets, is determined on the basis of observed prices in those markets.

The fair value of other financial assets and liabilities (with the exception of derivative instruments) is determined in accordance with pricing models that use as a basis the estimated discounted cash flows, from the prices of similar instruments practiced on transactions performed in an observable current market.

The fair value of derivative instruments is calculated using quoted prices. When these prices are not available, is used the analysis of discounted cash flow through the yield curve, applicable in accordance with the duration of the instruments for the derivatives without options. For the derivatives containing options, pricing models of options are used.

The main financial assets and liabilities of the Company are described below, as well as the criteria for its appreciation/evaluation:

**a. *Cash, cash equivalents and titles and securities – restricted***

The estimated value of the market was calculated based on the present value of future cash disbursement, using interest rates that are available to the Company and the evaluation indicates that the market values, in relation to the accounting balances, are as below, on September 30, 2019:

| Items                     | Parent     |            | Consolidated |            |
|---------------------------|------------|------------|--------------|------------|
|                           | Book value | Fair Value | Book value   | Fair Value |
| Cash and cash equivalents | 155        | 155        | 13,597       | 13,597     |
| Marketable securities     | 1,773      | 1,773      | 1,773        | 1,773      |

**b. *Loans and financing***

The balances in cash and cash equivalents and in titles and securities have their values similar to accounting balances, considering the swing and liquidity that they present. The table below presents this comparison, on September 30, 2019:



| Items                                     | Parent     |            | Consolidated |            |
|---|------------|------------|--------------|------------|
|   | Book value | Fair Value | Book value   | Fair Value |
| Loans and financing not judicial recovery | 8,895      | 18,734     | 13,815       | 38,111     |
| Loans and financing judicial recovery     | 73,222     | 73,222     | 134,654      | 134,654    |
| Total                                     | 82,117     | 91,956     | 148,469      | 172,765    |

## 19.3 Financial Instruments by Category

Synthesis of the financial instruments by category:

|                           | Parent         |                      |                |                      |
|---------------------------|----------------|----------------------|----------------|----------------------|
|                           | 09/30/2019     |                      | 12/31/2018     |                      |
|                           | Amortized cost | Fair Value by Result | Amortized cost | Fair Value by Result |
| <b>Financial Assets</b>   |                |                      |                |                      |
| Securities-restricted     | 1,773          | 1,773                | 1,808          | 1,808                |
| Accounts receivable       | 5,097          | 5,097                | 6,704          | 6,704                |
| Cash and cash equivalents | 155            | 155                  | 135            | 135                  |
| Related parties           | 86,013         | 86,013               | 123,363        | 123,363              |
| Total                     | 93,038         | 93,038               | 132,010        | 132,010              |

|                       | Parent                           |   |                   |                                  |   |                   |
|-----------------------|----------------------------------|---|-------------------|----------------------------------|---|-------------------|
|                       | 09/30/2019                       |   |                   | 12/31/2018                       |   |                   |
|                       | Not subject to Judicial Recovery |   | Judicial Recovery | Not subject to Judicial Recovery |   | Judicial Recovery |
|                       | Creditors list                   | Financial liabilities at amortized cost |                   | Creditors list                   | Financial liabilities at amortized cost |                   |
| Financial Liabilities |                                  |   |                   |                                  |   |                   |
| Loans and financing   | 73,222                           | 8,895                                   | 82,117            | 65,000                           | 18,600                                  | 83,600            |
| Suppliers             | 61,287                           | 3,935                                   | 65,222            | 60,557                           | 6,132                                   | 66,689            |
| Related parties       | -                                | 193,860                                 | 193,860           | -                                | 181,645                                 | 181,645           |
| Total                 | 134,509                          | 206,690                                 | 341,199           | 125,557                          | 206,377                                 | 331,934           |

|                           | Consolidated   |                      |                |                      |
|---------------------------|----------------|----------------------|----------------|----------------------|
|                           | 09/30/2019     |                      | 12/31/2018     |                      |
|                           | Amortized cost | Fair Value by Result | Amortized cost | Fair Value by Result |
| <b>Financial Assets</b>   |                |                      |                |                      |
| Securities-restricted     | 1,773          | 1,773                | 1,808          | 1,808                |
| Accounts receivable       | 10,659         | 10,659               | 31,357         | 31,357               |
| Cash and cash equivalents | 13,597         | 13,597               | 1,245          | 1,245                |
| Total                     | 26,029         | 26,029               | 34,410         | 34,410               |

|                       | Consolidated                     |   |                   |                                  |   |                   |
|-----------------------|----------------------------------|---|-------------------|----------------------------------|---|-------------------|
|                       | 09/30/2019                       |   |                   | 12/31/2018                       |   |                   |
|                       | Not subject to Judicial Recovery |   | Judicial Recovery | Not subject to Judicial Recovery |   | Judicial Recovery |
|                       | Creditors list                   | Financial liabilities at amortized cost |                   | Creditors list                   | Financial liabilities at amortized cost |                   |
| Financial Liabilities |                                  |   |                   |                                  |   |                   |
| Loans and financing   | 134,654                          | 13,815                                  | 148,469           | 121,570                          | 38,318                                  | 159,888           |
| Suppliers             | 61,287                           | 8,045                                   | 69,332            | 60,557                           | 25,538                                  | 86,095            |
| Total                 | 195,941                          | 21,860                                  | 217,801           | 182,127                          | 63,856                                  | 245,983           |

## 20 Insurance Coverage

Is the principle of the Company, to maintain insurance coverage to for goods of the immovable asset and stocks which are subject to risks, in the "Comprehensive Business" modality. Also, possesses coverage of insurance against general civil liability, as shown below:

| Insurance purpose                        | Amount secured |        |
|--|----------------|--------|
|  | 09/30/2019     |        |
| - Comprehensive business insurance       | R\$            | 68,834 |
| - General civil responsibility insurance | R\$            | 8,136  |
| - International freight insurance *      | US\$           | 400    |

\* Amounts in US dollar thousands.

The scope of our auditors' work does not include the issuance of an opinion on the sufficiency of insurance coverage, which was determined by the Company's Management and considers it sufficient to cover eventual claims.

## 21 Purchase option plan of shares– “Stock option”

On May 19 of 2017, at a Meeting of the Administrative Council, was approved the granting of options to Mr. Rafael Gorenstein and Mr. Paulo Prado da Silva, in accordance with the Plan of Concession of Option of Share Purchasing approved at an Extraordinary General Meeting held on April 12 of 2017, being the contracts of Option of Purchase of Ordinary Shares celebrated in individual form, with each of the beneficiaries and the Company.

The general conditions proposed in the Plan of Option and the main objectives are the following:

- Encourage the resumption of historic levels of operational activity of the Company and the attendance of the established business goals, through the creation of incentives for alignment of the interests and objectives of key professionals of the Company with its shareholders, in particular the fulfillment of the obligations contained in its Plan of Judicial Recovery;
- Enable the Company to obtain and keep the services of its key professionals, offering them as an added benefit, the opportunity to become shareholders of the Company, in the terms, conditions and forms envisioned in this Plan; and
- Promote the good performance of the Company and of the interests of shareholders through a long-term commitment on the part of its key professionals.

The Common Stock Option, pursuant to the Extraordinary General Meeting, was granted under the following main terms and conditions, already considering changes in quantity and price, for corporate events such as capital increase upon subscription of new shares, or conversion of securities. in shares (such as debentures), all as contracted and communicated to the market:

To Mr. Rafael Gorenstein, current Director President and of Relations with Investors of the Company, option to subscribe up to 5% of the social capital of the Company that, as of September 30, 2019, amounts to 1.106.145 ordinary shares; and

To Mr. Paulo Prado da Silva, current Officer without specific designation, has the option to subscribe up to 1.5% of the Company's capital stock, which as of September 30, 2019, is equivalent to 331,844 common shares.

For both of them, the acquisition price of the shares is R\$1.176 (one real and one hundred and seventy-six hundredths of reais) per share and must be paid in national currency within 10 days from the date the Board of Directors Board of Directors to approve the capital increase, with a term to exercise the 7-year option, from April 27, 2017.

The obtention of the right to exercise the Option will be provided in successive and annual installments of 20%, being the first installment exercisable from the date of signing of the contract, and the other 80% may be exercised at the end of the subsequent years, counting from the first year additionally, therefore totaling 4 years for the acquisition of the right over the total amount of Options. The deadlines shall be counted from April 27, 2017.

Due to the issuance of Debentures as per Note 14, made on December 18, 2017 by the Company, part of which may still be converted, as well as the capital increase approved at the Board of Directors' Meeting, held on June 12 2019, the Company's Officers Rafael Gorenstein and Paulo Prado da Silva were granted future options for the acquisition of shares, subject to the suspensive condition of the effective conversion of the Debentures into Company Shares by their respective owners, pursuant to the Debentures. Considering the proportion granted of the Capital Stock of each Officer, options are granted for the acquisition of 141,258 shares to Mr. Rafael Gorenstein and 42,407 shares to Mr. Paulo Prado Silva.

The percentages of capital granted will be protected against dilution by corporate events, subject to the other provisions of the grant agreements, until May 19, 2020.

On May 13, 2019, the Extraordinary General Meeting approved the New Stock Option Plan to enable the attraction and retention of key professionals, enabling and encouraging the subscription of shares with credits held. against the Company arising from fixed or variable compensation, with the consequent preservation of cash. The 2019 Plan complements the 2017 Plan by consisting of shorter term options.

The Board of Directors shall have autonomy to administer the 2019 Plan. The terms and conditions of each option granted shall be set forth in an Option Agreement signed by the Beneficiary, defining, among others: the number of common shares, the conditions for the acquisition of the right to exercise, the deadline for the exercise, the subscription or purchase price of the shares and the conditions for their payment and any restrictions on trading of the common shares subject to the Option suspended or acquired upon exercise of the option.

The Company's shareholders shall not have preemptive rights in the granting of the Option or in the subscription or acquisition, as the case may be, of shares subject to the Option, pursuant to Article 171, Paragraph 3 of Law No. 6,404, of December 15, 1976, pursuant to amended.

The shares that are the object of the Option, subscribed or acquired under this Plan 2019, will have the same rights and advantages as the common shares held by the Company's shareholders. The Option may be exercised over all or part of the shares during the exercise period of the Option to be determined by the Board of Directors in accordance with the guidelines of this Plan. The Board of Directors may also determine other conditions, beyond the term, for the exercise of the Options.

The Options granted under Plan 2019 will have a maximum exercise period of 24 (twenty-four) months from the date of the Option Agreement, and the Board of Directors is authorized to set shorter terms, at its discretion.

The maximum number of shares that may be issued under this Plan 2019 shall not exceed 3,000,000 shares, all common, registered, book-entry and without par value.

At the Board of Directors Meeting held on July 11, 2019, the Company's Board of Executive Officers approved the granting of new shares, within the limit established in the 2019 Plan, all common, nominal, book-entry shares with no par value:

- Mr. Rafael Gorenstein, CEO and Investor Relations Officer, option to subscribe up to 2,687,103 (two million, six hundred eighty-seven thousand, one hundred and three);
- Mr. Paulo Prado da Silva, Officer without specific designation of the Company, option to subscribe up to 312,897 (three hundred twelve thousand, eight hundred and ninety-seven).

For both Officers, the purchase price of the shares is R\$1.176 and must be paid in local currency within 10 days from the date the board of directors approves the capital increase. The term for exercising the option is 24 months, beginning July 11, 2019.

## 22 Demonstration of net revenues

|                                    | Parent                     |              |                           |               |
|------------------------------------|----------------------------|--------------|---------------------------|---------------|
|                                    | For the three months ended |              | For the nine months ended |               |
|                                    | 09/30/2019                 | 09/30/2018   | 09/30/2019                | 09/30/2018    |
| <b>Gross sales and/or services</b> |                            |              |                           |               |
| In Brazil                          | 9,148                      | 11,961       | 26,688                    | 24,290        |
| Export                             | 99                         | 131          | 368                       | 334           |
|                                    | 9,247                      | 12,092       | 27,056                    | 24,624        |
| <b>Deductions for gross sales</b>  |                            |              |                           |               |
| Taxes on sales                     | (1,488)                    | (2,348)      | (4,687)                   | (4,546)       |
| <b>Net sales and/or services</b>   | <u>7,759</u>               | <u>9,744</u> | <u>22,369</u>             | <u>20,078</u> |
|                                    | Consolidated               |              |                           |               |
|                                    | For the three months ended |              | For the nine months ended |               |
|                                    | 09/30/2019                 | 09/30/2018   | 09/30/2019                | 09/30/2018    |
| <b>Gross sales and/or services</b> |                            |              |                           |               |
| In Brazil                          | 9,325                      | 11,338       | 27,171                    | 29,357        |
| Export                             | 293                        | 319          | 918                       | 661           |
|                                    | 9,618                      | 11,657       | 28,089                    | 30,018        |
| <b>Deductions for gross sales</b>  |                            |              |                           |               |
| Taxes on sales                     | (1,522)                    | (1,993)      | (4,778)                   | (5,184)       |
| <b>Net sales and/or services</b>   | <u>8,096</u>               | <u>9,664</u> | <u>23,311</u>             | <u>24,834</u> |

## 23 Loss per share

### a. Basic

Basic loss per share is calculated by dividing the profit attributable to the Company's controlling shareholders by the weighted average number of common shares outstanding during the period.

| Itens  | Parent                     |            |                           |            |
|--|----------------------------|------------|---------------------------|------------|
|  | For the three months ended |            | For the nine months ended |            |
|  | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| Net Income (Loss) from Continuing and Discontinued Operations        | 19,225                     | (25,579)   | (13,486)                  | (92,294)   |
| Profit (Loss) attributable to the Company's controlling shareholders | 19,225                     | (25,579)   | (13,486)                  | (92,294)   |
| Weighted average number of issued common shares (thousands)          | 2,802                      | 15,218     | 2,802                     | 15,218     |
| Basic Earnings (Loss) per share - R\$                                | 6.86                       | (1.68)     | (4.81)                    | (6.06)     |

| Itens  | Consolidated               |            |                           |            |
|--|----------------------------|------------|---------------------------|------------|
|  | For the three months ended |            | For the nine months ended |            |
|  | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| Net Income (Loss) from Continuing and Discontinued Operations        | 19,225                     | (25,579)   | (13,486)                  | (92,294)   |
| Profit (Loss) attributable to the Company's controlling shareholders | 19,225                     | (25,579)   | (13,486)                  | (92,294)   |
| Weighted average number of issued common shares (thousands)          | 2,802                      | 15,218     | 2,802                     | 15,218     |
| Basic Earnings (Loss) per share - R\$                                | 6.86                       | (1.68)     | (4.81)                    | (6.06)     |

## b. Diluted

The diluted loss per share is calculated by adjusting the weighted average number of outstanding common shares to presume the conversion into common shares of the instruments that may cause dilution.

Equity instruments have a dilutive effect when they result in the issuance of shares for a value lower than the prevailing share price.

On September 30, 2019, were verified the dilutive effects related to the stock options of the administrators, as explained in Note 21, to the subscription bonus of the creditors subject to the Judicial Recovery, as described in note 1.2, not yet issued, and to the debentures convertible debentures of the Company's third issuance, as described in note 14. No dilutive effect was observed due to these instruments, either due to the respective exercise prices or due to the impossibility of exercising them.

## 24 Financial Result

| Itens  | Parent                     |            |                           |            |
|--|----------------------------|------------|---------------------------|------------|
|  | For the three months ended |            | For the nine months ended |            |
|  | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| <b>Financial Income</b>                      |                            |            |                           |            |
| Income from financial investments            | 20                         | 19         | 43                        | 56         |
| Related-party interest income (mutual contra | 7                          | 6          | 18                        | 15         |
| Monetary variance                            | 14,595                     | 21         | 14,595                    | 292        |
| Interest on receivables                      | 1                          | -          | 5                         | 2          |
| Other financial income                       | (302)                      | 9          | 955                       | 55         |
| Total financial income                       | 14,321                     | 55         | 15,616                    | 420        |
| <b>Financial Expenses</b>                    |                            |            |                           |            |
| Interest on loans and financing              | (1,848)                    | (1,946)    | (6,630)                   | (5,497)    |
| Interest on Debentures                       | (98)                       | -          | (245)                     | -          |
| Present value adjustment                     | (862)                      | (1,545)    | (2,473)                   | (3,558)    |
| Interest of mutual contract                  | (148)                      | (276)      | (397)                     | (750)      |
| Discount granted                             | (2)                        | (75)       | (14)                      | (101)      |
| Provision of interest on suppliers           | (4,552)                    | (2,468)    | (4,481)                   | (2,574)    |
| Fines and interest on taxes                  | (214)                      | (179)      | (351)                     | (713)      |
| IOF, banking expenses and others             | 2,503                      | 1,431      | (602)                     | (460)      |
| Total financial expenses                     | (5,221)                    | (5,058)    | (15,193)                  | (13,653)   |
| Gain on exchange variance                    | 7,803                      | 22,301     | 27,062                    | 43,548     |
| Loss on exchange variance                    | (23,526)                   | (34,113)   | (41,087)                  | (96,874)   |
| Exchange variance, net                       | (15,723)                   | (11,812)   | (14,025)                  | (53,326)   |



| Items                              | Consolidated               |                 |                           |                 |
|------------------------------------|----------------------------|-----------------|---------------------------|-----------------|
|                                    | For the three months ended |                 | For the nine months ended |                 |
|                                    | 09/30/2019                 | 09/30/2018      | 09/30/2019                | 09/30/2018      |
| <b>Financial Income</b>            |                            |                 |                           |                 |
| Income from financial investments  | 49                         | 24              | 95                        | 70              |
| Monetary variance                  | 14,957                     | 310             | 15,609                    | 1,014           |
| Interest on receivables            | 3                          | (311)           | 8                         | 8               |
| Other financial income             | (302)                      | 106             | 995                       | (113)           |
| <b>Total financial Income</b>      | <b>14,707</b>              | <b>129</b>      | <b>16,707</b>             | <b>979</b>      |
| <b>Financial Expenses</b>          |                            |                 |                           |                 |
| Interest on loans and financing    | (2,324)                    | (2,577)         | (8,424)                   | (7,299)         |
| Interest on bonds                  | (100)                      | (99)            | (290)                     | (267)           |
| Interest on Debentures             | (98)                       | -               | (245)                     | -               |
| Present value adjustment           | 2,437                      | (329)           | (1,378)                   | 3,750           |
| Discount granted                   | (1)                        | (75)            | (25)                      | (102)           |
| Provision of interest on suppliers | (3,790)                    | (2,651)         | (3,790)                   | (2,651)         |
| Fines and interest on taxes        | (198)                      | (266)           | (724)                     | (626)           |
| IOF, banking expenses and others   | 1,510                      | 1,175           | (488)                     | (2,582)         |
| <b>Total financial expenses</b>    | <b>(2,564)</b>             | <b>(4,822)</b>  | <b>(15,364)</b>           | <b>(9,777)</b>  |
| Gain on exchange variance          | 14,174                     | 30,290          | 29,384                    | 76,255          |
| Loss on exchange variance          | (31,129)                   | (42,850)        | (46,230)                  | (131,334)       |
| <b>Exchange variance, net</b>      | <b>(16,955)</b>            | <b>(12,560)</b> | <b>(16,846)</b>           | <b>(55,079)</b> |

## 25 Other revenues and operational expenses

| Items  | Parent                     |                |                           |                 |
|--|----------------------------|----------------|---------------------------|-----------------|
|  | For the three months ended |                | For the nine months ended |                 |
|  | 09/30/2019                 | 09/30/2018     | 09/30/2019                | 09/30/2018      |
| <b>Other operating income</b>                              |                            |                |                           |                 |
| Reversal of provision for loss of lawsuit                  | -                          | (46)           | 34                        | 1,641           |
| Process Recipe - BNDES                                     | 10,727                     | -              | 10,727                    | -               |
| Gain on disposal of fixed assets                           | -                          | -              | -                         | 85              |
| Reversal of provision for losses on inventory obsolescence | 392                        | 659            | 550                       | 1,038           |
| Investment Sale Revenue                                    | 28,343                     | 6,393          | 28,343                    | 6,393           |
| Recovery of taxes and contributions                        | 14,194                     | -              | 14,205                    | 1               |
| Other  | 1                          | 2              | 164                       | 12              |
| <b>Total other operating income</b>                        | <b>53,657</b>              | <b>7,008</b>   | <b>54,023</b>             | <b>9,170</b>    |
| <b>Other operating expenses</b>                            |                            |                |                           |                 |
| Provision for loss of lawsuit                              | (771)                      | (5)            | (2,746)                   | (683)           |
| Loss on disposal of fixed assets                           | (2)                        | -              | (126)                     | -               |
| Loss on non-recoverable taxes                              | (2,947)                    | -              | (2,947)                   | -               |
| Provision for losses on inventory obsolescence             | (91)                       | (158)          | (232)                     | (236)           |
| Cost of idle production                                    | (2,625)                    | (2,061)        | (7,391)                   | (6,168)         |
| Investment cost sold                                       | (21,584)                   | (7,234)        | (21,584)                  | (7,234)         |
| Taxes and contributions                                    | -                          | (2)            | (21)                      | (4)             |
| Other  | (4)                        | (4)            | (18)                      | (201)           |
| <b>Total other operating expenses</b>                      | <b>(28,024)</b>            | <b>(9,464)</b> | <b>(35,065)</b>           | <b>(14,526)</b> |
| <b>Other net operating expenses</b>                        | <b>25,633</b>              | <b>(2,456)</b> | <b>18,958</b>             | <b>(5,356)</b>  |

| Itens   | Consolidated               |            |                           |            |
|---|----------------------------|------------|---------------------------|------------|
|   | For the three months ended |            | For the nine months ended |            |
|   | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| Other operating income  |                            |            |                           |            |
| Reversal of provision for loss of lawsuit                       | 3,224                      | (74)       | 3,820                     | 2,495      |
| Process Recipe - BNDES  | 19,084                     |            | 19,084                    |            |
| Gain on disposal of fixed assets                                | 3,576                      | 872        | 12,201                    | 3,071      |
| Reversal of provision for losses on inventory obsolescence      | 392                        | 624        | 550                       | 1,211      |
| Receita de venda de investimento                                | 28,343                     | 6,393      | 28,343                    | 6,393      |
| Recovery of taxes and contributions                             | 14,194                     | -          | 14,205                    | 1          |
| Reversal of provision for impairment of assets                  | 5,280                      | 1,276      | 8,887                     | 4,738      |
| Other   | (3,179)                    | 10         | 3,584                     | 437        |
| Total other operating income                                    | 70,914                     | 9,101      | 90,674                    | 18,346     |
| Other operating expenses  |                            |            |                           |            |
| Provision for loss of lawsuit                                   | (6,205)                    | 371        | (9,162)                   | (685)      |
| Loss on disposal of fixed assets                                | (10,190)                   | (1,898)    | (25,820)                  | (6,125)    |
| Loss on non-recoverable taxes                                   | (2,947)                    |            | (2,947)                   |            |
| Provision for losses on inventory obsolescence                  | 10                         | (423)      | (297)                     | (623)      |
| Extraordinary losses and fair value adjustment with inventories | -                          | (1)        | -                         | (1)        |
| Cost of idle production   | (3,470)                    | (2,965)    | (10,181)                  | (9,089)    |
| Investment cost sold  | (21,584)                   | (7,234)    | (21,584)                  | (7,234)    |
| Taxes and contributions   | (13)                       | (43)       | (48)                      | (46)       |
| Other   | 3,112                      | (7)        | (48)                      | (272)      |
| Total other operating expenses                                  | (41,287)                   | (12,200)   | (70,087)                  | (24,075)   |
| Other net operating expenses                                    | 29,627                     | (3,099)    | 20,587                    | (5,729)    |

## 26 Expenditure by nature

| Itens   | Parent                     |            |                           |            |
|---|----------------------------|------------|---------------------------|------------|
|   | For the three months ended |            | For the nine months ended |            |
|   | 09/30/2019                 | 09/30/2018 | 09/30/2019                | 09/30/2018 |
| Depreciation and amortization                       | (1,604)                    | (1,749)    | (4,912)                   | (5,029)    |
| Salaries, social charges and benefits               | (4,817)                    | (4,435)    | (11,204)                  | (11,891)   |
| Raw materials and materials for use and consumption | (2,248)                    | (4,967)    | (5,754)                   | (6,659)    |
| Services provided by third parties                  | (1,316)                    | (1,082)    | (4,685)                   | (3,599)    |
| Provision for contingency losses                    | (771)                      | (5)        | (2,746)                   | (683)      |
| Losses from inventory obsolescence                  | (91)                       | (158)      | (231)                     | (236)      |
| Cost of idle production                             | (2,625)                    | (2,061)    | (7,391)                   | (6,168)    |
| Investment cost sold                                | (21,584)                   | (7,234)    | (21,584)                  | (7,234)    |
| Other (expenses) revenues                           | (3,646)                    | (1,111)    | (8,251)                   | (3,510)    |
|   | (38,702)                   | (22,802)   | (66,758)                  | (45,009)   |
| Classified as:                                      |                            |            |                           |            |
| Cost of sales                                       | (6,670)                    | (9,557)    | (19,157)                  | (19,465)   |
| Selling expenses                                    | (1,291)                    | (1,282)    | (3,946)                   | (3,485)    |
| General and administrative expenses                 | (2,012)                    | (1,779)    | (6,455)                   | (5,393)    |
| Management fees                                     | (705)                      | (720)      | (2,135)                   | (2,140)    |
| Other operating expenses                            | (28,024)                   | (9,464)    | (35,065)                  | (14,526)   |
|   | (38,702)                   | (22,802)   | (66,758)                  | (45,009)   |



| Items   | Consolidated               |                 |                           |                 |
|---|----------------------------|-----------------|---------------------------|-----------------|
|   | For the three months ended |                 | For the nine months ended |                 |
|   | 09/30/2019                 | 09/30/2018      | 09/30/2019                | 09/30/2018      |
| Depreciation and amortization                       | (1,779)                    | (2,005)         | (5,507)                   | (5,801)         |
| Salaries, social charges and benefits               | (3,807)                    | (2,739)         | (20,134)                  | (17,545)        |
| Raw materials and materials for use and consumption | (4,989)                    | -               | (14,803)                  | -               |
| Services provided by third parties                  | (1,927)                    | (1,701)         | (6,397)                   | (5,917)         |
| Provision for contingency losses                    | (6,205)                    | 371             | (9,162)                   | (685)           |
| Residual value in asset retirement                  | (10,190)                   | (1,899)         | (25,820)                  | (6,125)         |
| Losses from inventory obsolescence                  | 9                          | (423)           | (298)                     | (624)           |
| Cost of idle production                             | (3,470)                    | (2,966)         | (10,181)                  | (9,089)         |
| Investment cost sold                                | (21,584)                   | (7,234)         | (21,584)                  | (7,234)         |
| Other (expenses) revenues                           | (1,503)                    | (9,992)         | (2,684)                   | (17,781)        |
|   | <u>(55,445)</u>            | <u>(28,588)</u> | <u>(116,570)</u>          | <u>(70,801)</u> |
| Classified as:                                      |                            |                 |                           |                 |
| Cost of sales                                       | (7,595)                    | (9,620)         | (24,717)                  | (24,602)        |
| Selling expenses                                    | (1,270)                    | (1,463)         | (3,862)                   | (4,192)         |
| General and administrative expenses                 | (4,588)                    | (4,585)         | (15,769)                  | (15,792)        |
| Management fees                                     | (705)                      | (720)           | (2,135)                   | (2,140)         |
| Other operating expenses                            | (41,287)                   | (12,200)        | (70,087)                  | (24,075)        |
|   | <u>(55,445)</u>            | <u>(28,588)</u> | <u>(116,570)</u>          | <u>(70,801)</u> |

## 27 Information by business segment and geographic region

The Administration of the Company has defined the operating segments of the Group, based on the reports used for taking strategic decisions, reviewed by the Administrative Council and considers that the operation markets are segmented on the lines of Products and Services, same composition presented in the explanatory note nº 1.

Geographically, the Administration considers the performance of markets in Brazil and South America in general. The distribution by region is considered to be the location of the Group's companies and not the location of the customer.

The revenue generated by the operating segments reported is derived primarily from:

- Products:** anchoring ropes for platforms in deep waters, automated and manual valves for use in application, exploration, production, transportation and refining of petroleum and hydrocarbon chain, equipment for completion of petroleum wells, coating and inspection of drilling and production pipes.
- Services:** services of probes of drilling and workover, intervention in wells and drilling. Discontinued activities due to the demobilization of the unit.

The sales between the segments were performed as sales between independent parties. The revenue from external parties informed the Executive Directorate was measured in a way consistent with that presented in the demonstration of the result.

The figures relating to the total of the asset are consistent with the balances recorded in the financial demonstrations. These assets are allocated on the basis of the operations of the segment and the physical location of the asset.

The figures relating to the total liabilities are consistent with the balances registered in the financial demonstrations. These liabilities are allocated on the basis of the operations of the segment.

The information by segment are demonstrated below:

|  | For the three months ended |                |                |                |                |                 |
|--|----------------------------|----------------|----------------|----------------|----------------|-----------------|
|  | Products                   |                | Services       |                | Consolidated   |                 |
|  | 09/30/2019                 | 09/30/2018     | 09/30/2019     | 09/30/2018     | 09/30/2019     | 09/30/2018      |
| <b>Net sales</b>                                       | <b>8,005</b>               | <b>9,648</b>   | <b>91</b>      | <b>16</b>      | <b>8,096</b>   | <b>9,664</b>    |
| Cost of sales  | (7,409)                    | (9,614)        | (186)          | (6)            | (7,595)        | (9,620)         |
| <b>Gross Profit (Loss)</b>                             | <b>596</b>                 | <b>34</b>      | <b>(95)</b>    | <b>10</b>      | <b>501</b>     | <b>44</b>       |
| Selling expenses                                       | (1,299)                    | (1,472)        | 29             | 9              | (1,270)        | (1,463)         |
| General and administrative expenses                    | (2,394)                    | (2,096)        | (2,194)        | (2,489)        | (4,588)        | (4,585)         |
| Management fees  | (692)                      | (528)          | (13)           | (192)          | (705)          | (720)           |
| Equity pick-up   | 79                         | -              | -              | (1,181)        | 79             | (1,181)         |
| Other operating income (expenses), net                 | 26,808                     | (2,866)        | 2,819          | (233)          | 29,627         | (3,099)         |
| <b>Operating Profit (Loss) before financial result</b> | <b>23,098</b>              | <b>(6,928)</b> | <b>546</b>     | <b>(4,076)</b> | <b>23,644</b>  | <b>(11,004)</b> |
|  |                            |                |                |                |                |                 |
|  | Products                   |                | Services       |                | Consolidated   |                 |
|  | 09/30/2019                 | 12/31/2018     | 09/30/2019     | 12/31/2018     | 09/30/2019     | 12/31/2018      |
| <b>Identifiable assets (1)</b>                         | <b>211,771</b>             | <b>183,887</b> | <b>109,429</b> | <b>204,340</b> | <b>321,200</b> | <b>388,227</b>  |
| <b>Identifiable liabilities (2)</b>                    | <b>83,861</b>              | <b>32,211</b>  | <b>140,235</b> | <b>220,279</b> | <b>224,096</b> | <b>252,490</b>  |
|  |                            |                |                |                |                |                 |
|  | Products                   |                | Services       |                | Consolidated   |                 |
|  | 09/30/2019                 | 09/30/2018     | 09/30/2019     | 09/30/2018     | 09/30/2019     | 09/30/2018      |
| <b>Depreciation and amortization</b>                   | <b>(1,745)</b>             | <b>(1,874)</b> | <b>(34)</b>    | <b>(131)</b>   | <b>(1,779)</b> | <b>(2,005)</b>  |
| <b>Acquisition of Property, plants and equipment</b>   | <b>3,429</b>               | <b>113</b>     | <b>2</b>       | <b>2,550</b>   | <b>3,431</b>   | <b>2,663</b>    |

(1) Identifiable Assets: Customers, Inventories, Property, Plant, Goodwill, Recoverable Taxes and Restricted Application

(2) Identifiable Liabilities: Suppliers and Loans

|  | For the nine months ended |                 |                |                |                |                 |
|--|---------------------------|-----------------|----------------|----------------|----------------|-----------------|
|  | Products                  |                 | Services       |                | Consolidated   |                 |
|  | 09/30/2019                | 09/30/2018      | 09/30/2019     | 09/30/2018     | 09/30/2019     | 09/30/2018      |
| <b>Net sales</b>                                       | <b>23,122</b>             | <b>24,587</b>   | <b>189</b>     | <b>247</b>     | <b>23,311</b>  | <b>24,834</b>   |
| Cost of sales  | (21,203)                  | (23,952)        | (3,514)        | (650)          | (24,717)       | (24,602)        |
| <b>Gross Profit (Loss)</b>                             | <b>1,919</b>              | <b>635</b>      | <b>(3,325)</b> | <b>(403)</b>   | <b>(1,406)</b> | <b>232</b>      |
| Selling expenses                                       | (3,999)                   | (4,176)         | 137            | (16)           | (3,862)        | (4,192)         |
| General and administrative expenses                    | (7,516)                   | (6,795)         | (8,253)        | (8,997)        | (15,769)       | (15,792)        |
| Management fees  | (2,113)                   | (1,816)         | (22)           | (324)          | (2,135)        | (2,140)         |
| Equity pick-up   | 42                        | (3,399)         | -              | -              | 42             | (3,399)         |
| Other operating income (expenses), net                 | 19,012                    | (5,753)         | 1,575          | 24             | 20,587         | (5,729)         |
| <b>Operating Profit (Loss) before financial result</b> | <b>7,345</b>              | <b>(21,304)</b> | <b>(9,888)</b> | <b>(9,716)</b> | <b>(2,543)</b> | <b>(31,020)</b> |
|  |                           |                 |                |                |                |                 |
|  | Products                  |                 | Services       |                | Consolidated   |                 |
|  | 09/30/2019                | 12/31/2018      | 09/30/2019     | 12/31/2018     | 09/30/2019     | 12/31/2018      |
| <b>Identifiable assets (1)</b>                         | <b>211,770</b>            | <b>183,887</b>  | <b>109,430</b> | <b>204,340</b> | <b>321,200</b> | <b>388,227</b>  |
| <b>Identifiable liabilities (2)</b>                    | <b>83,861</b>             | <b>32,211</b>   | <b>140,235</b> | <b>220,279</b> | <b>224,096</b> | <b>252,490</b>  |
|  |                           |                 |                |                |                |                 |
|  | Products                  |                 | Services       |                | Consolidated   |                 |
|  | 09/30/2019                | 09/30/2018      | 09/30/2019     | 09/30/2018     | 09/30/2019     | 09/30/2018      |
| <b>Depreciation and amortization</b>                   | <b>(5,398)</b>            | <b>(5,528)</b>  | <b>(109)</b>   | <b>(273)</b>   | <b>(5,507)</b> | <b>(5,801)</b>  |
| <b>Acquisition of Property, plants and equipment</b>   | <b>3,430</b>              | <b>114</b>      | <b>2</b>       | <b>2,549</b>   | <b>3,432</b>   | <b>2,663</b>    |

(1) Identifiable Assets: Customers, Inventories, Property, Plant, Goodwill, Recoverable Taxes and Restricted Application

(2) Identifiable Liabilities: Suppliers and Loans

The information by segment are demonstrated below:

|  | For the three months ended |                 |              |            |               |                 |
|--|----------------------------|-----------------|--------------|------------|---------------|-----------------|
|  | Brazil                     |                 | Others       |            | Consolidated  |                 |
|  | 09/30/2019                 | 09/30/2018      | 09/30/2019   | 09/30/2018 | 09/30/2019    | 09/30/2018      |
| Net sales  | 8,096                      | 9,664           | -            | -          | 8,096         | 9,664           |
| Cost of sales  | (7,595)                    | (9,620)         | -            | -          | (7,595)       | (9,620)         |
| <b>Gross Profit (Loss)</b>                             | <b>501</b>                 | <b>44</b>       | <b>-</b>     | <b>-</b>   | <b>501</b>    | <b>44</b>       |
| Selling expenses                                       | (1,270)                    | (1,463)         | -            | -          | (1,270)       | (1,463)         |
| Administrative costs                                   | (4,588)                    | (4,578)         | -            | (7)        | (4,588)       | (4,585)         |
| Management remuneration                                | (705)                      | (720)           | -            | -          | (705)         | (720)           |
| Equity   | 79                         | (1,181)         | -            | -          | 79            | (1,181)         |
| Other income (expenses), net                           | 30,381                     | (3,099)         | (754)        | -          | 29,627        | (3,099)         |
| <b>Operating Profit (Loss) before financial result</b> | <b>24,398</b>              | <b>(10,997)</b> | <b>(754)</b> | <b>(7)</b> | <b>23,644</b> | <b>(11,004)</b> |

|                              | Brazil     |            | Others     |            | Consolidated |            |
|------------------------------|------------|------------|------------|------------|--------------|------------|
|                              | 09/30/2019 | 12/31/2018 | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
|                              | 09/30/2019 | 12/31/2018 | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Identifiable assets (1)      | 321,200    | 298,061    | -          | 90,166     | 321,200      | 388,227    |
| Identifiable liabilities (2) | 220,183    | 232,899    | 3,913      | 19,591     | 224,096      | 252,490    |

|   | Brazil     |            | Others     |            | Consolidated |            |
|---|------------|------------|------------|------------|--------------|------------|
|   | 09/30/2019 | 09/30/2018 | 09/30/2019 | 09/30/2018 | 09/30/2019   | 09/30/2018 |
|   | 09/30/2019 | 09/30/2018 | 09/30/2019 | 09/30/2018 | 09/30/2019   | 09/30/2018 |
| Depreciation and amortization                 | (1,779)    | (2,005)    | -          | -          | (1,779)      | (2,005)    |
| Acquisition of Property, plants and equipment | 3,431      | 127        | -          | 2,536      | 3,431        | 2,663      |

1 - Identifiable assets: Customers, inventories, fixed assets, goodwill, taxes recoverable and restricted application

2 - Identifiable Liabilities: Suppliers and Loans

|  | For the nine months ended |                 |                |            |                |                 |
|--|---------------------------|-----------------|----------------|------------|----------------|-----------------|
|  | Brazil                    |                 | Others         |            | Consolidated   |                 |
|  | 09/30/2019                | 09/30/2018      | 09/30/2019     | 09/30/2018 | 09/30/2019     | 09/30/2018      |
| Net sales  | 23,311                    | 24,834          | -              | -          | 23,311         | 24,834          |
| Cost of sales  | (24,717)                  | (24,602)        | -              | -          | (24,717)       | (24,602)        |
| <b>Gross Profit (Loss)</b>                             | <b>(1,406)</b>            | <b>232</b>      | <b>-</b>       | <b>-</b>   | <b>(1,406)</b> | <b>232</b>      |
| Selling expenses                                       | (3,862)                   | (4,192)         | -              | -          | (3,862)        | (4,192)         |
| Administrative costs                                   | (15,769)                  | (15,745)        | -              | (47)       | (15,769)       | (15,792)        |
| Management remuneration                                | (2,135)                   | (2,140)         | -              | -          | (2,135)        | (2,140)         |
| Equity   | 42                        | (3,399)         | -              | -          | 42             | (3,399)         |
| Other income (expenses), net                           | 21,642                    | (6,074)         | (1,055)        | 345        | 20,587         | (5,729)         |
| <b>Operating Profit (Loss) before financial result</b> | <b>(1,488)</b>            | <b>(31,318)</b> | <b>(1,055)</b> | <b>298</b> | <b>(2,543)</b> | <b>(31,020)</b> |

|                              | Brazil     |            | Others     |            | Consolidated |            |
|------------------------------|------------|------------|------------|------------|--------------|------------|
|                              | 09/30/2019 | 12/31/2018 | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
|                              | 09/30/2019 | 12/31/2018 | 09/30/2019 | 12/31/2018 | 09/30/2019   | 12/31/2018 |
| Identifiable assets (1)      | 321,200    | 298,061    | -          | 90,166     | 321,200      | 388,227    |
| Identifiable liabilities (2) | 220,183    | 232,899    | 3,913      | 19,591     | 224,096      | 252,490    |

|   | Brazil     |            | Others     |            | Consolidated |            |
|---|------------|------------|------------|------------|--------------|------------|
|   | 09/30/2019 | 09/30/2018 | 09/30/2019 | 09/30/2018 | 09/30/2019   | 09/30/2018 |
|   | 09/30/2019 | 09/30/2018 | 09/30/2019 | 09/30/2018 | 09/30/2019   | 09/30/2018 |
| Depreciation and amortization                 | (5,507)    | (5,801)    | -          | -          | (5,507)      | (5,801)    |
| Acquisition of Property, plants and equipment | 3,432      | 127        | -          | 2,536      | 3,432        | 2,663      |

1 - Identifiable assets: Customers, inventories, fixed assets, goodwill, taxes recoverable and restricted application

2 - Identifiable Liabilities: Suppliers and Loans

## 28 Assets classified as held for sale

As of September 30, 2019, it is recorded as assets held for sale, property, plant and equipment of the services segment, in which they are not in operation and are being negotiated for sale. These assets amount to a total net of depreciation recorded in the parent company's current assets of R\$3,236 and noncurrent assets of R\$3,400 and R\$72,066 in the consolidated (R\$68,467 in current assets and R\$3,599 in noncurrent assets). As of December 31, 2018, the balance presented in the parent

company's noncurrent assets is R\$3,449 and R\$93,256 in the consolidated (R\$89,401 in current assets and R\$3,855 in noncurrent assets).

In the context of the actions for restructuring the Company's operations, the Administration has conducted actions and negotiations which may result in the alienation of certain assets. The alienation of such assets will only be considered highly likely to the extent that there is a prior understanding between the parties and, specially, there is a judicial authorization for the implementation of the business, since such authorization is an essential requirement in the process of judicial recovery.

## 29 Result of discontinued operation

In the nine-month period ended September 30, 2019 and 2018, the Company presents as a result of discontinued operations the companies Lupatech OFS Coöperatief U.A and Lupatech OFS S.A.S., due to the sale of the remaining equity interest, concluded in September 2019.

|  | 09/30/2019 | 09/30/2018 |
|--|------------|------------|
| NET REVENUE FROM SALES                           | 73,662     | 65,550     |
| COST OF GOODS AND SERVICES SOLD                  | (54,670)   | (54,221)   |
| Profit gross                                     | 18,992     | 11,329     |
| OPERATING INCOME/EXPENSES                        |            |            |
| Selling  | (845)      | (475)      |
| General and administrative                       | (3,163)    | (3,217)    |
| Other operating income (expenses)                | -          | 435        |
| OPERATING PROFIT BEFORE FINANCIAL RESULTS        | 14,984     | 8,072      |
| FINANCIAL RESULTS                                |            |            |
| Financial income                                 | 223        | 67         |
| Financial expenses                               | (2,602)    | (2,055)    |
| Exchange variation, net                          | 5          | (54)       |
| Non-controlling interest                         | (4,084)    | (2,625)    |
| PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION | 8,526      | 3,405      |
| INCOME TAX AND SOCIAL CONTRIBUTION               |            |            |
| Current  | (4,290)    | (317)      |
| Deferred   | -          | -          |
| PROFIT FROM DISCONTINUED OPERATIONS              | 4,236      | 3,088      |

## 30 Cash flow from discontinued operations

Cash flow from discontinued operations is as follows:

|   | <b>Consolidated</b> |                   |
|---|---------------------|-------------------|
|   | <b>09/30/2019</b>   | <b>09/30/2018</b> |
| Cash flow from operating activities       | 11,142              | 10,442            |
| Cash From Investing Activities            | (4,587)             | (2,484)           |
| Cash From Financing Activities            | (61,825)            | (8,419)           |
| Net increase in cash and cash equivalents | 55,270              | 461               |

### 31 Subsequent events

As presented in Note 7, in October 2019, the partial res judicata from of the writ of mandamus requested by Lupatech S.A occurred, aiming to ensure the right to exclude ICMS from the PIS and COFINS tax base. In a decision issued by the TRF4 in September, in which there was no appeal from the National Treasury, the right was guaranteed, covering the periods from December 2001 to December 2014. The company persists in litigation for the right to tax exclusion from the year 2015.



## REPORT ON THE REVIEW OF QUARTERLY INFORMATION – ITR

To the  
Board of Directors and Management  
Lupatech S.A. - Under In-Court Reorganization  
Nova Odessa – SP

### Introduction

We have reviewed the individual and consolidated interim financial information of Lupatech S.A. - Under In-Court Reorganization ("Company"), contained in the Quarterly Information (ITR) for the quarter ended on September 30, 2019, which comprise the balance sheet on September 30, 2019 and the related statements of income and comprehensive income, changes in shareholders' equity and cash flows for the nine-month period then ended, including the notes to the financial statements.

The Company's management is responsible for preparing the interim individual financial information in accordance with CPC 21 (R1) - Interim Financial Statements and the consolidated interim financial information in accordance with CPC 21 (R1) and IAS 34 - Interim Financial Reporting, Issued by the International Accounting Standards Board (IASB), as well as for presenting this information in a manner consistent with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on these interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with Brazilian and international standards for review of interim information (NBC TR 2410 - Review of Interim Financial Information Performed by the Entity's Auditor and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of inquiries, mainly to persons responsible for financial and accounting matters, and in the application of analytical procedures and other review procedures. The scope of a review is significantly less than that of an audit conducted in accordance with auditing standards and therefore has not enabled us to obtain assurance that we are aware of all material matters that could be identified in an audit. Therefore, we do not express an audit opinion.





### **Conclusion on the individual interim financial information**

Based on our review, we are not aware of any fact that would lead us to believe that the individual interim financial information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 (R1) applicable to Quarterly Information (ITR) and presented in a manner consistent with the standards issued by the Brazilian Securities Commission (CVM).

### **Conclusion on consolidated interim financial information**

Based on our review, we are not aware of any facts that may lead us to believe that the consolidated interim financial information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, issued by the IASB applicable to the preparation of Quarterly Information (ITR) and presented in a manner consistent with the standards issued by the Brazilian Securities Commission (CVM).

### **Emphasis of matter**

#### *In-court reorganization*

As mentioned in Note 1.2 to the interim financial information, on November 8, 2016, Lupatech S.A. and its direct and indirect subsidiaries had their new in-court reorganization plan approved by the Lupatech Group's Creditors General Meeting, and the plan was ratified by the Judge of the 1st Bankruptcies and In-Court Reorganizations Court of the State of São Paulo, without any restrictions, on December 1, 2016. The Company filed motions to clarify since the notice of ratification did not mention one of the Group companies under in-court reorganization. On February 15, 2017, the court corrected its notice of ratification including the company not mentioned. During the quarter ended on September 30, 2019, no appeal was filed against the ratified plan. Our conclusion is not qualified in respect of this matter.

#### *Material uncertainty related to going concern*

As mentioned in Note 1.1 to the interim financial information, the Company and its subsidiaries have generated recurring losses and during the nine-month period ended on September 30, 2019 incurred a loss before tax and social contribution of R\$ 18.046 thousand and have not generated cash in amount sufficient to settle their obligations. These conditions, together with the fact that the Company and its subsidiaries filed for in-court reorganization plan, indicate the existence of material uncertainty that may raise significant doubt about the Company's and its subsidiaries' ability to continue as a going concern. The reversal of this situation of recurring losses and the difficulty in cash generation, as well as the capacity to realize their assets and settle their liabilities in the normal course of the Company's business, depend on the success of the plans to adjust the financial and equity structure of the Company and its subsidiaries, as well as the compliance with the in-court reorganization plan, described in Note 1.2 to the financial statements. Our conclusion is not qualified in respect of this matter.

*Material uncertainty regarding the adhesion to the Tax Debt Refinancing Program - PERT*

During 2018, the Company carried out the adhesion of several subsidiaries and investees of the Lupatech Group to the Tax Debt Refinancing Program - PERT, established by Provisional Executive Act No. 783/2017 and Law No. 13,496/2017. The Company, through this action, reorganized the amount of R\$ 123,000 of its liabilities related to tax contingencies and obligations, which included discounts on interest, fines and charges in the total amount of R\$ 48,000. Due to operational issues in the adhesion processes and information processed by Brazilian Federal Revenue Office, until the issue of this report, a significant part (77%) of the adhered liabilities were not consolidated by the Brazilian Federal Revenue Office. The Company, advised by its legal counselors, timely took the required administrative and legal preventive measures to ensure the right to the adhesion process, considered as probable by the legal counselors. Our conclusion is not qualified in respect of this matter.

**Other Matter**

*Statement of value added*

We have also reviewed the individual and consolidated statements of value added (DVA) for the nine-month period ended on September 30, 2019, prepared under the responsibility of the Company's management, whose presentation in the interim information is required in accordance with the standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of the Quarterly Information (ITR) and considered supplementary information under IFRSs, which do not require the presentation of the DVA. These statements have been subject to the same review procedures described above and, based on our review, we are not aware of any facts that may lead us to believe that they have not been prepared, in all material respects, in a manner consistent with the interim accounting information Individual and consolidated financial statements taken as a whole.

São Paulo, November 14, 2019.

**Crowe Macro Auditores Independentes**

CRC-2SP033508/O-1



**Diego Del Mastro Monteiro**  
Accountant – CRC-1SP302957/O-3



**Sérgio Ricardo de Oliveira**  
Accountant – CRC-1SP186070/O-8

## **Management's declaration of the financial statements**

In accordance with section VI of article 25 of CVM Instruction 480, of December 7, 2009, Management declares that reviewed, discussed and agreed with the Quarterly Information (ITR) for the quarter ended on September 30, 2019.

Nova Odessa, November 14, 2019.

Rafael Gorenstein - Chief Executive Officer and Investor Relations Officer  
Paulo Prado da Silva - Director without specific designation

## **Management's declaration of the independent auditor's report**

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In accordance with section VI of article 25 of CVM Rule 480 of December 7, 2009, Management declares that it has reviewed, discussed and agreed with the independent auditors' report on the Company's Financial Statements for the quarter ended September 30, 2019.

Nova Odessa, November 14, 2019.

Rafael Gorenstein - Chief Executive Officer and Investor Relations Officer  
Paulo Prado da Silva - Director without specific designation