



**MARCOPOLO S/A**  
**CNPJ No. 88.611.835/0001-29**  
**CVM – 00845-1 / NIRE 43300007235**

**FINANCIAL  
STATEMENTS  
2018**

## 2018 RESULTS - Management Report

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Dear Shareholders:

The Management of Marcopolo S.A. ("Marcopolo" or "Company") hereby submits the Management Report and Financial Statements for the year closed on December 31<sup>st</sup> 2018, accompanied by the independent auditors' report and the opinions of the Fiscal Council and the Audit and Risk Committee.

The Financial Statements are presented according to the accounting policies adopted in Brazil and the IFRS – International Financial Reporting Standards as established by IASB - International Accounting Standards Board.

### **1. OPERATIONAL CONTEXT**

Marcopolo is a publicly-held corporation with registered office in Caxias do Sul, Rio Grande do Sul, founded on August 6<sup>h</sup> 1949 for the purpose of manufacturing buses, bus bodies and components.

The product line encompasses a wide variety of models made up of intercity vehicles, urban vehicles, micro and minibuses, apart from the Volare family (fully-equipped bus with chassis and body).

The buses are manufactured in seventeen plants, five of them located in Brazil (three plants in Caxias do Sul – RS, one in Duque de Caxias – RJ and one in São Mateus – ES) and eleven in foreign countries, one in South Africa, three in Australia, one in China, one in Mexico, two in Argentina, one in Colombia and two in India.

Marcopolo also has a 40% interest in the company Valeo (air-conditioning), 30% in WSUL (seat foam), 65% in Apolo (plastic), 20% in the Egyptian bus body assembly facility GB Polo and 10.8% in the Canadian company NFI Group Inc.

Marcopolo also has a controlling interest in Banco Moneo S.A., incorporated to provide financial support to the Company products.

## 2. PERFORMANCE INDICATORS

The table below lists some of the relevant indicators for the management and analysis of the Company performance in 2018.

### CONSOLIDATED FIGURES

(BRL million and percentage variation, except where otherwise stated)

| Operational Performance                                         | 2018    | 2017    | Var. % |
|-----------------------------------------------------------------|---------|---------|--------|
| Net Operating Revenue                                           | 4,197.5 | 2,876.0 | 45.9   |
| Revenue in Brazil                                               | 1,916.1 | 1,086.5 | 76.4   |
| Exports revenue from Brazil                                     | 1,360.4 | 999.5   | 36.1   |
| Revenue in foreign countries                                    | 921.0   | 790.0   | 16.6   |
| Gross Profit                                                    | 664.3   | 403.6   | 64.6   |
| EBITDA <sup>(1)</sup>                                           | 362.1   | 119.7   | 202.5  |
| Net Profit                                                      | 190.9   | 82.1    | 132.5  |
| Earnings per share in BRL                                       | 0.203   | 0.078   | 160.3  |
| Return on Invested Capital – ROIC <sup>(2)</sup>                | 11.0%   | 3.2%    | 7.8pp  |
| Return on Equity – ROE <sup>(3)</sup>                           | 10.1%   | 4.5%    | 5.6pp  |
| Investments                                                     | 161.7   | 54.3    | 197.8  |
| Shareholders' Equity                                            | 2,105.6 | 1,898.8 | 10.9   |
| <b>Financial Position: Industrial Segment</b>                   |         |         |        |
| Cash, Cash Equivalents and Financial Investments <sup>(4)</sup> | 938.5   | 1,148.6 | (18.3) |
| Short Term Financial Liabilities                                | 658.9   | 649.9   | 1.4    |
| Long Term Financial Liabilities                                 | 830.0   | 795.5   | 4.3    |
| Net Financial Liabilities                                       | 550.4   | 296.8   | 85.4   |
| <b>Financial Position: Industrial and Financial Segments</b>    |         |         |        |
| Cash, cash equivalents and financial investments                | 968.1   | 1,160.7 | (16.6) |
| Short Term Financial Liabilities                                | 834.0   | 833.9   | 0.0    |
| Long Term Financial Liabilities                                 | 1,100.2 | 1,109.6 | (0.8)  |
| Net Financial Liabilities                                       | 966.1   | 782.8   | 23.4   |
| <b>Margins</b>                                                  |         |         |        |
| Gross Margin                                                    | 15.8%   | 14.0%   | 1.8pp  |
| EBITDA Margin                                                   | 8.6%    | 4.2%    | 4.4pp  |
| Net Margin                                                      | 4.5%    | 2.9%    | 1.6pp  |

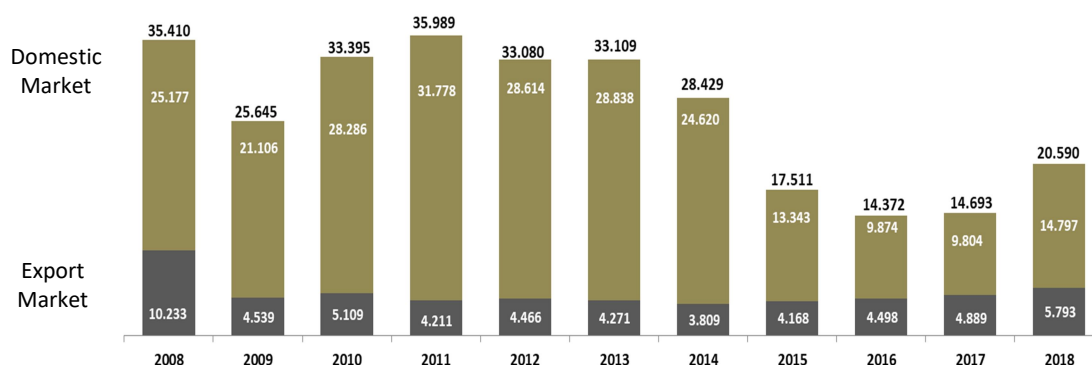
Notes: <sup>(1)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization; <sup>(2)</sup> ROIC (Return on Invested Capital) = EBIT/(inventories + customers + property, plant and equipment + intangible assets - suppliers); <sup>(3)</sup> ROE (Return on Equity) = Net Profit/Beginning Shareholders' Equity; <sup>(4)</sup> The amount also includes the account "financial assets measured at the fair price by means of the result"; pp = percentage points.

### 3. BUS INDUSTRY PERFORMANCE IN BRAZIL

The Brazilian bus production in reached 20,590 units in 2018, a volume which is 40.1% greater than the 14,693 units produced in 2017. Since the bus is sold fully-equipped, the Volare model is not computed in the Brazilian production of bodies. If the production of this kind of vehicle were considered, the domestic production would be 23,266 units per year, with a 41.2% increment compared to the 16,474 units produced in 2017.

The domestic market demand reached 14,797 units, a 50.9% greater compared to 2017, while the production targeted at the foreign market was of 5,793 units, 18.5% higher than exports in the previous year.

The chart below shows the evolution of the Brazilian bus body production in the last ten years:



#### BRAZILIAN BUS PRODUCTION – TOTAL (in units)

| PRODUCTS <sup>(1)</sup> | 2014          | 2015          | 2016          | 2017          | 2018          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Intercity               | 7,977         | 5,679         | 4,185         | 4,768         | 5,993         |
| Urban                   | 16,836        | 9,593         | 7,929         | 7,152         | 9,947         |
| Micro                   | 3,616         | 2,239         | 2,258         | 2,773         | 4,650         |
| <b>TOTAL</b>            | <b>28,429</b> | <b>17,511</b> | <b>14,372</b> | <b>14,693</b> | <b>20,590</b> |

Sources: FABUS (National Bus Manufacturers Association) and SIMEFRE (Interstate Union of the Railroad and Road Material and Equipment Industry).

Notes: <sup>(1)</sup> Includes exported KD (knocked down) units.

#### BRAZILIAN BUS PRODUCTION – DOMESTIC MARKET (in units)

| PRODUCTS <sup>(1)</sup> | 2014          | 2015          | 2016         | 2017         | 2018          |
|-------------------------|---------------|---------------|--------------|--------------|---------------|
| Intercity               | 5,644         | 3,382         | 1,654        | 2,116        | 3,416         |
| Urban                   | 15,861        | 8,291         | 6,796        | 6,199        | 7,942         |
| Micro                   | 3,123         | 1,679         | 1,419        | 1,489        | 3,439         |
| <b>TOTAL</b>            | <b>24,628</b> | <b>13,352</b> | <b>9,869</b> | <b>9,804</b> | <b>14,797</b> |

Note: <sup>(1)</sup> See notes on the table – Brazilian Bus Production – Total.

**BRAZILIAN BUS PRODUCTION – FOREIGN MARKET (in units)**

| PRODUCTS <sup>(1)</sup> | 2014         | 2015         | 2016         | 2017         | 2018         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Intercity               | 2,333        | 2,297        | 2,531        | 2,652        | 2,577        |
| Urban                   | 975          | 1,302        | 1,133        | 953          | 2,005        |
| Micro                   | 493          | 560          | 839          | 1,284        | 1,211        |
| <b>TOTAL</b>            | <b>3,801</b> | <b>4,159</b> | <b>4,503</b> | <b>4,889</b> | <b>5,793</b> |

Note: <sup>(1)</sup> See notes on the table – Brazilian Bus Production – Total.

#### 4. MARCOPOLO'S PERFORMANCE

The 2018 consolidated the recovery of the Brazilian bus market, with production rising an expressive 40.1% compared to the previous year. In Marcopolo, production was 61.7% greater, combining an increase in revenue with the recovery of margins. The consolidated net revenue reached BRL 1.9 billion in Brazil, a 76.4% rise compared to 2017.

The main catalysts in the intercity segments were greater confidence of customers in the Brazilian economy and purchases associated to the accessibility rule, which began to require the installation of elevators in intercity buses produced since October 15<sup>th</sup> 2018. Intercity buses contributed to an improvement in the Company's profitability, with a mix of heavier products, arising from a greater demand for interstate and international lines and helped push the income.

In the urban segment, the normalization of fare adjustments, which had been repressing orders since 2013, and the federal program Road to School supported the growth. The increase of physical units in the domestic market was 109.2% in the segment, with the Company's market share jumping to 49.1%, a significant increase of 18.7 percentage points compared to the previous year (30.4%).

The demand for minibuses was pushed by biddings, both for schools and for special projects, purchased by States and Cities. Volare was also helped by greater customer confidence both in the retail segment and biddings. The domestic market volume growth for minibuses and Volares was 121.2% and 51.8% respectively. In 2018, the Company produced 1,965 buses for the Road to School program: 835 minibuses, 737 urban buses and 393 Volares.

The recovery of profitability was also a positive highlight in the 2018 performance. With the evolution of projects focused on the adoption of the LEAN methodology and utilization of operational leverage, Marcopolo closed the year with an 8.6% EBITDA margin, the best performance since 2014, in recurring results (without considering the sale of its stake interest in New Flyer in 2016). Net profit reached BRL 190.9 million, an expressive increase of 132.5%.

In exports, the highlight was the projects for exportation to African countries, which helped the growth of exported physical volumes, reaching a 20.4% increase. In revenue, the restructuring efforts in the International Business field, as well as the

depreciation of the Real of approximately 17.3% in 2018, benefitted income in 36.1%, consequently improving profitability.

In foreign units, the highlight was the production increase in Australia, which rose 34.5%, however, this volume was not followed by an improvement in profit, as the unit reported a loss of BRL 3.4 million because of operational performance problems.

In 2018, the Company advanced in the plant optimization project with the construction of the Manufacturing Center, which will allow for the closing of the Planalto and the new Plastic plant going into operation. The component verticalization process in the Espírito Santo unit is still in progress, which will provide greater competitiveness to the operation.

Finally, on December 10<sup>th</sup> 2018, Marcopolo's Board of Directors approved a capital stock increase within the authorized capital limit, for private subscription, through the issuance of new book-entry preferred shares, a minimum of 4,445,977 preferred shares and at most 21,933,779 new preferred shares, at an issue price of BRL 3.20, resulting in a capital stock increase of at least BRL 14,227,126.40 and at most BRL 70,188,092.80.

#### **4.1 Units Recorded in Net Revenue**

In 2018, 15,956 units were recorded in net revenue, 10,239 of which were recorded in Brazil (64.2% of the total), 3,645 units exported from Brazil (22.9% of the total) and 2,072 units (12.9% of the total) produced in foreign countries, as shown in the table below:

| TRANSACTIONS (in units)               | 2018          | 2017          | Var. %       |
|---------------------------------------|---------------|---------------|--------------|
| <b>BRAZIL</b>                         |               |               |              |
| - Domestic Market                     | 10,239        | 5,587         | 83.3         |
| - Foreign market                      | 3,794         | 3,311         | 14.6         |
| <b>SUBTOTAL</b>                       | <b>14,033</b> | <b>8,898</b>  | 57.7         |
| Exclusion exported KDs <sup>(1)</sup> | 149           | 336           | (55.7)       |
| <b>TOTAL IN BRAZIL</b>                | <b>13,884</b> | <b>8,562</b>  | 62.2         |
|                                       |               |               |              |
| - South Africa                        | 287           | 354           | (18.9)       |
| - Australia                           | 542           | 403           | 34.5         |
| - Mexico                              | 1,020         | 1,272         | (19.8)       |
| - China                               | 223           | 175           | 27.4         |
| <b>TOTAL FOREIGN</b>                  | <b>2,072</b>  | <b>2,204</b>  | <b>(6.0)</b> |
| <b>GRAND TOTAL</b>                    | <b>15,956</b> | <b>10,766</b> | <b>48.2</b>  |

Notes: <sup>(1)</sup> (Knock Down) = Partially or totally knocked down bodies.

#### 4.2 Production

In 2018, the consolidated Marcopolo production amounted to 16,103 units, 48.3% greater than the 10,860 manufactured in 2017. Out of these total figures, 86.7% have been produced in Brazil and the remaining 13.3% in foreign countries. Marcopolo's worldwide production figures are presented on the tables below:

##### MARCOPOLO – CONSOLIDATED WORLDWIDE PRODUCTION

| TRANSACTIONS (in units)               | 2018          | 2017          | Var. %       |
|---------------------------------------|---------------|---------------|--------------|
| <b>BRAZIL <sup>(1)</sup></b>          |               |               |              |
| - Domestic Market                     | 10,274        | 5,581         | 84.1         |
| - Foreign market                      | 3,938         | 3,271         | 20.4         |
| <b>SUBTOTAL</b>                       | <b>14,212</b> | <b>8,852</b>  | 60.6         |
| Exclusion exported KDs <sup>(2)</sup> | 254           | 219           | 16.0         |
| <b>TOTAL IN BRAZIL</b>                | <b>13,958</b> | <b>8,633</b>  | <b>61.7</b>  |
| <b>FOREIGN</b>                        |               |               |              |
| - South Africa                        | 344           | 354           | (2.8)        |
| - Australia                           | 542           | 403           | 34.5         |
| - Mexico                              | 1,046         | 1,272         | (17.8)       |
| - China                               | 213           | 198           | 7.6          |
| <b>TOTAL FOREIGN</b>                  | <b>2,145</b>  | <b>2,227</b>  | <b>(3.7)</b> |
| <b>GRAND TOTAL</b>                    | <b>16,103</b> | <b>10,860</b> | <b>48.3</b>  |

Notes: <sup>(1)</sup> Includes the production of the Volare model; <sup>(2)</sup> (Knock Down) = Partially or totally knocked down bodies.

##### MARCOPOLO – CONSOLIDATED WORLDWIDE PRODUCTION BY MODEL

| PRODUCTS/MARKETS<br>(in units) | 2018          |              |               | 2017         |              |               |
|--------------------------------|---------------|--------------|---------------|--------------|--------------|---------------|
|                                | DM            | FM (1)       | TOTAL         | DM           | FM (2)       | TOTAL         |
| Intercity                      | 2,566         | 1,805        | 4,371         | 1,558        | 2,025        | 3,583         |
| Urban                          | 3,583         | 2,900        | 6,483         | 1,713        | 2,148        | 3,861         |
| Micro                          | 1,971         | 602          | 2,573         | 891          | 744          | 1,635         |
| <b>SUBTOTAL</b>                | <b>8,120</b>  | <b>5,307</b> | <b>13,427</b> | <b>4,162</b> | <b>4,917</b> | <b>9,079</b>  |
| Volares(3)                     | 2,154         | 522          | 2,676         | 1,419        | 362          | 1,781         |
| <b>TOTAL PRODUCTION</b>        | <b>10,274</b> | <b>5,829</b> | <b>16,103</b> | <b>5,581</b> | <b>5,279</b> | <b>10,860</b> |

Notes: <sup>(1)</sup> DM = Domestic Market; FM = Foreign Market; <sup>(2)</sup> The total FM production includes exported KD units (partially or totally knocked down bodies), which amounted to 254 units in 2018 against 219 units in 2017; <sup>(3)</sup> The production of Volares is not a part of the SIMEFRE and FABUS figures or the industry production.

**MARCOPOLO – PRODUCTION IN BRAZIL**

| PRODUCTS/MARKETS<br>(in units) | 2018          |              |               | 2017         |              |              |
|--------------------------------|---------------|--------------|---------------|--------------|--------------|--------------|
|                                | DM            | FM           | TOTAL         | DM           | FM           | TOTAL        |
| Intercity                      | 2,566         | 1,511        | <b>4,077</b>  | 1,558        | 1,711        | <b>3,269</b> |
| Urban                          | 3,583         | 1,303        | <b>4,886</b>  | 1,713        | 464          | <b>2,177</b> |
| Micro                          | 1,971         | 602          | <b>2,573</b>  | 891          | 734          | <b>1,625</b> |
| <b>SUBTOTAL</b>                | <b>8,120</b>  | <b>3,416</b> | <b>11,536</b> | <b>4,162</b> | <b>2,909</b> | <b>7,071</b> |
| Volares <sup>(1)</sup>         | 2,154         | 522          | <b>2,676</b>  | 1,419        | 362          | <b>1,781</b> |
| <b>TOTAL PRODUCTION</b>        | <b>10,274</b> | <b>3,938</b> | <b>14,212</b> | <b>5,581</b> | <b>3,271</b> | <b>8,852</b> |

Notes: <sup>(1)</sup> The production of Volares is not a part of the SIMEFRE and FABUS figures or the industry production.

**4.3 Market Share**

Marcopolo maintained its leading position in the market, closing the year with a 56.0%, an increase of 7.9 percentage points compared to 2017. The prominent segment was the urban bus one, with an increase of 18.7 percentage points. This is a result of a reorganization effort in the Domestic Market Business field, with focus on strengthening team work, structured processes, and adjusting the sales network.

The table below shows Marcopolo's market share in the Brazilian production by product line:

**MARKET SHARE IN BRAZILIAN PRODUCTION (%)**

| PRODUCTS <sup>(1)</sup> | 2014        | 2015        | 2016        | 2017        | 2018        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Intercity               | 57.0        | 55.0        | 65.9        | 68.6        | 68.0        |
| Urban                   | 34.0        | 35.1        | 30.1        | 30.4        | 49.1        |
| Micro                   | 27.4        | 28.3        | 35.3        | 58.6        | 55.3        |
| <b>TOTAL</b>            | <b>39.6</b> | <b>40.7</b> | <b>41.3</b> | <b>48.1</b> | <b>56.0</b> |

Source: FABUS and SIMEFRE

Note: <sup>(1)</sup> Volare is not computed for market share purposes.

**5. CONSOLIDATED NET REVENUE**

The consolidated net revenue achieved BRL 4,197.5 million in 2018, 45.9% greater than the BRL 2,876.0 million in 2017. The result is mainly an effect from the domestic market income, which was 76.4% greater than 2017. A highlight under this title is the urban bus revenue for the domestic market, which rose 109.3% compared to the previous year.

The domestic market sales yielded revenue of BRL 1,916.1 million or 45.6% of the total net revenue (37.8% in 2017). Exportation, added to foreign transactions, reached revenue of BRL 2,281.4 million or 54.4% of the total (62.2% in 2017).

Revenue by product and destination market is shown on the table below:

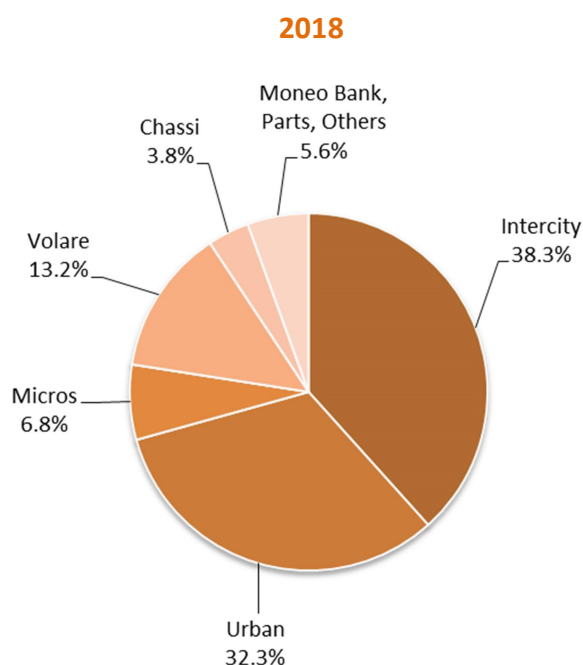
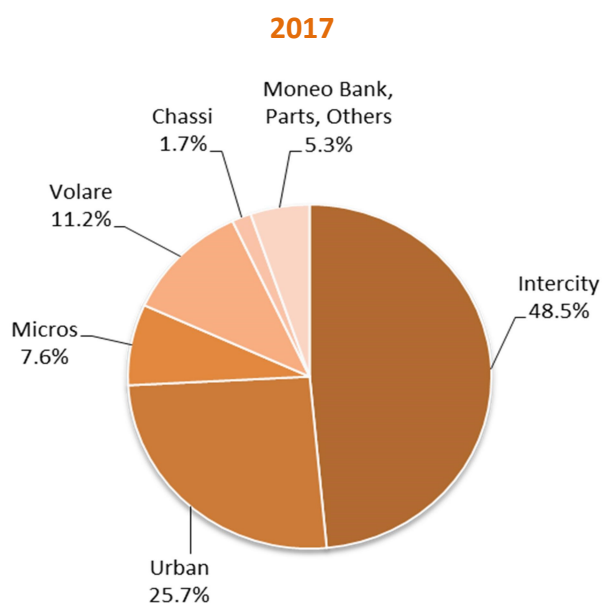
**TOTAL CONSOLIDATED NET REVENUE BY PRODUCTS AND MARKETS (BRL million)**

| PRODUCTS/MARKETS <sup>(1)</sup> | 2018           |                |                | 2017           |                |                |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                 | DM             | FM             | TOTAL          | DM             | FM             | TOTAL          |
| Intercity                       | 739.9          | 869.0          | 1,608.9        | 461.1          | 934.0          | 1,395.1        |
| Urban                           | 443.2          | 915.3          | 1,358.5        | 211.8          | 527.0          | 738.8          |
| Micro                           | 208.0          | 76.1           | 284.1          | 86.5           | 132.7          | 219.2          |
| <b>Bodies subtotal</b>          | <b>1,391.1</b> | <b>1,860.4</b> | <b>3,251.5</b> | <b>759.4</b>   | <b>1,593.7</b> | <b>2,353.1</b> |
| Volares <sup>(2)</sup>          | 434.1          | 120.3          | 554.4          | 256.5          | 65.3           | 321.8          |
| Chassis                         | 5.2            | 153.6          | 158.8          | 2.2            | 47.1           | 49.3           |
| Bank Moneo, Parts and Others    | 85.7           | 147.1          | 232.8          | 68.4           | 83.4           | 151.8          |
| <b>GRAND TOTAL</b>              | <b>1,916.1</b> | <b>2,281.4</b> | <b>4,197.5</b> | <b>1,086.5</b> | <b>1,789.5</b> | <b>2,876.0</b> |

Notes: <sup>(1)</sup> DM = Domestic Market; FM = Foreign Market; <sup>(2)</sup> The Volare revenue includes chassis.

Out of the total consolidated net revenue in 2018, 77.4% came from the sale of bodies, 13.2% from the sale of Volares and 9.4% of the revenue from parts, Banco Moneo and chassis.

The charts below show the source of the consolidated revenue in further detail (in %):



## **6. GROSS INCOME AND MARGINS**

In 2018, the gross profit totaled BRL 664.3 million, amounting to 15.8% of the net revenue. The 1.8 percentage-point improvement compared to 2017 results from greater intercity bus revenue in the domestic market, exportation of products with greater added value combined with a more favorable foreign exchange rate, especially in the segment of urban buses and Volares, as well as through improved efficiency in all manufacturing plants, arising from the Company's efforts to revitalize its production system by making use of the LEAN principles.

## **7. SALE EXPENSES**

Sale expenses totaled BRL 251.1 million in 2018 or 6.0% of the net income against BRL 168.7 million, or 5.9% of the revenue in 2017. Such increase arises mostly from a greater volume of expenses with commissions because of the greater sales volume both to the domestic and foreign market.

## **8. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses totaled BRL 181.8 million in 2018 and BRL 167.1 million in 2017, amounting to 4.3% and 5.8% of the net income respectively. The reduction in the revenue value and percentage results from actions conducted by the Company seeking to reduce indirect expenses and costs.

## **9. OTHER OPERATING REVENUE/EXPENSES**

In 2018, BRL 25.2 million was recorded as "Other Operating Expenses", against BRL 80.4 million in 2017.

The amount is made up of BRL 13.6 million of provisions for indemnification related to contract terminations with commercial representative, which are non-recurring expenses, and BRL 8.5 million related to provisions for payments of employment claims, BRL 2.6 million of provision for obsolete inventory loss and BRL 0.5 million in other expenses.

## **10. EQUITY METHOD RESULTS**

The equity method result in 2018 was BRL 95.1 million positive against BRL 86.9 million also positive in 2017. The main contribution came from NFI Group Inc., in the amount of BRL 74.0 million.

Equity was negatively impacted by the non-recurring effect of adjustment for inflation in the financial statements of the Company's subsidiary located in Argentina, Loma Hermosa, which consolidates the operations of Metalpar and Metalsur, in the amount of BRL 5.0 million, as detailed in the explanatory note 2.2. vi.

The equity method result is described in detail in Explanatory Note no. 11 to the Financial Statements.

## 11. NET FINANCIAL INCOME

The 2018 net financial income was BRL 92.0 million negative against BRL 18.7 million positive in 2017. The most relevant impact comes from exchange variation, in an amount of BRL 74.7 million, resulting from the depreciation of the Real against the U.S. Dollar, on the order backlog in dollars. Even though the foreign exchange effect is negative, it benefits the Company as the orders from exportation are invoiced, positively affecting the margins.

Apart from the aforementioned effect, the payment of interest on loans negatively affected the financial result in a net manner, i.e., by subtracting the yield of financial investments, in the amount of BRL 17.3 million.

The financial income is described in detail in Explanatory Note no. 27 to the Financial Statements.

## 12. EBITDA

EBITDA reached BRL 362.1 million in 2018, with an 8.6% margin against BRL 119.7 million and a 4.2% margin in 2017. The recovery of the EBITDA margin in 4.5 percentage points compared to 2017 is explained (i) by a greater volume and profitability of exportation, helped by the depreciation of the Real; (ii) by a greater volume of intercity buses in the domestic market; (iii) by New Flyer's equity method result, which was 37.8% greater than the same period last year; (iv) by the control of operating costs and expenses resulting from the Company's effort to reduce them; and (v) by substantial recovery of the results in the Neobus and Marcopolo Rio units.

The table below shows the accounts that make up the EBITDA:

| (BRL million)                                    | 2018         | 2017         |
|--------------------------------------------------|--------------|--------------|
| Result before Income Tax and Social Contribution | 209.3        | 92.9         |
| Financial Revenue                                | (205.1)      | (292.0)      |
| Financial expenses                               | 297.1        | 273.3        |
| Depreciation / Amortization                      | 60.8         | 45.4         |
| <b>EBITDA</b>                                    | <b>362.1</b> | <b>119.7</b> |

Within the year, EBITDA was affected by non-recurring events concerning the provision for indemnification of commercial representatives (BRL 13.6 million) and the negative equity result arising from the adjustment for inflation of Loma Hermosa's financial statements (BRL 5.0 million). The adjusted EBITDA would be BRL 380.7 million with a 9.1% margin within the period.

## 13. NET PROFIT

The 2018 net profit reached BRL 190.9 million, with a 4.5% net margin. The improvement in the net margin is explained by the same factors as in EBITDA, having been negatively affected by the foreign exchange variation in the period, as stressed above.

#### **14. FINANCIAL INDEBTEDNESS**

The net financial indebtedness amounted to BRL 966.1 million on 12.31.2018 (BRL 782.8 million on 12.31.2017). Out of this total, BRL 415.7 million came from the financial segment, while the industrial segment had net liabilities in the amount of BRL 550.4 million.

It should be noted that the financial segment indebtedness comes from the consolidation of the Bank Moneo activities and must be analyzed separately, as it has different characteristics from the indebtedness arising from the Company's manufacturing activities. The financial liabilities of the Bank Moneo have a corresponding entry in the "Customers" account in the Bank's Assets. The credit risk is properly provisioned for. Since these are transfers from the FINAME, each disbursement BNDES has a corresponding entry in the customer receivables account of the Banco Moneo, both in term and fixed rate. See Explanatory Note 29 to the Financial Statements.

On December 31st, the net financial indebtedness of the industrial segment amounted to 1.5 times the EBITDA of the last 12 months.

#### **15. CASH GENERATION**

In 2018, the operating activities raised funds in the order of BRL 225.2 million. The investment activities, minus dividends received from associated companies demanded BRL 112.8 million, while the financing activities consumed BRL 221.9 million, BRL 190.2 million net of loans and repayments, BRL 33.9 million consumed in the payment on dividend and interest on the shareholders' equity and BRL 2.2 million for the sale of treasury shares. As a result, the beginning cash balance of BRL 1,160.8 million, considering the unavailable financial investments and reducing BRL 83.2 million equivalent to the difference between foreign exchange variation and variation of unavailable financial investments, was reduced to BRL 968.1 million at the end of the year.

The cash flow statement of the industrial and financial segments is presented in detail in Explanatory Note 30 to the Financial Statements.

#### **16. PERFORMANCE OF CONTROLLED AND ASSOCIATED COMPANIES**

##### **16.1 Controlled companies in foreign countries**

In 2018, the controlled units in foreign countries produced 2,145 units. This volume amounted to 13.3% of Marcopolo's consolidated production. We stress that the Company remains engaged in expanding the application of the Lean principles in all its international operations.

Below are some of the highlights of controlled companies in foreign countries:

**MARCOPOLO SOUTH AFRICA (MASA)** – In 2018, MASA, located in Johannesburg, produced 344 units with a 2.8% reduction compared to the 2017 production (354

units). The unit recovered its profitability in spite of a reduction in volumes and the internal economic problems within the country, reporting a profit of BRL 4.9 million. The expectation for 2019 is one of growing results.

**POLOMEX** – Located in Monterrey, Mexico, Polomex produced 1,046 units in 2018 (1,272 units in 2017). In 2018, the operation managed to maintain its profit, in spite of a smaller volume of orders and a mix of products with less added value. In 2019, an increase is expected in income and profitability with a greater demand for intercity buses.

**VOLGREN** – Headquartered in Melbourne, Australia, Volgren produced 542 units in 2018 (403 units in 2017). Even though there was an increase in revenue and volumes, the unit was unable to report a profit due to operational performance problems. After operational and structural adjustments made in 2018, the operation is expected to recover profitability in 2019.

**MARCOPOLO CHINA (MAC)** – MAC has an area for sourcing, production of parts, components and knocked down bus bodies, as well as production of PKD buses for exportation. The news in 2018 was that Marcopolo China was authorized to operate in a FTZ (Free-trade Zone). For 2019, the efforts continue in the opening of new export markets.

### ***16.2 Associated companies in foreign countries***

**METALPAR/METALSUR** – The Argentinean operations of Metalpar and Metalsur suffered greatly with the economic problems in Argentina, especially those related to inflation and foreign exchange devaluation. In 2019, the vision continues to be negative and the Company has been working to mitigate the losses in that country.

**NFI GROUP INC.** NFI Group Inc., a company in which Marcopolo has a 10.8% ownership interest, is the main manufacturer of urban buses in the United States and Canada. Located in Winnipeg, Canada, the New Flyer Industries is a leading company in technology and offers a wide range of products, including clean diesel, natural gas, diesel-electricity and electricity-powered vehicles. The New Flyer results contributed in the amount of BRL 74.0 million, a 37.8% increase compared to the previous year. The expectation is for the company to continue showing good performance and thus contributing significantly to Marcopolo's results.

**SUPERPOLO** – Located in Colombia, Superpolo reported a year of increased profitability. The expectation for 2019 is one of strong expansion of revenue and earnings, with important orders from the renovation of the TransMilenio system already confirmed.

**TATA MARCOPOLO MOTORS (TMML)** – 2018 was a year of good performance of TMML with stable results, suffering less effects from the Indian market's seasonality. The expectation for 2019 is of challenges arising from the change of motors to be implemented in the country beginning this year.

### **16.3 Bank Moneo**

Banco Moneo S.A. began operating in July 2005 for the purpose of financing Marcopolo products. The Bank is authorized to operate in lease-purchase, credit, financing and investment. In 2018, the bank had a loss in the amount of BRL 8.5 million. The credit and accommodation transactions totaled BRL 653.4 million on 12.31.2018 against BRL 720.9 million on 12.31.2017. The Bank maintained a policy of prioritizing the quality of its credit portfolio by means of a strict credit assessment and approval system.

## **17. CORPORATE GOVERNANCE**

Marcopolo tries to adopt best Corporate Governance practices, following the principles of transparency, equity, accountability and corporate responsibility, and its actions are listed on Level 2 of B3's Corporate Governance since 2002. The Company is bound to the arbitration of the Market Arbitration Chamber, according to an Arbitration Clause contained in its Articles of Incorporation.

Marcopolo's management is formalized on the basis of distinction between the roles and responsibilities of the Board of Directors, the Executive Committee and the Executive Board. The Board of Directors is made up of seven members, four of which are external and independent, one elected by the minority shareholders, one by shareholders holding preferred shares and the other two by controlling shareholders. The Chairman of the Board of Directors does not take part in the Executive Board. The Board of Directors has a consulting technical committee on a permanent basis, established by its Articles of Incorporation, named Executive Committee, which assists and provides opinion on the conduct of business. The competences of each of these bodies are established by the Company's Articles of Incorporation. Furthermore, in order to support, opine and support the conduct of business, the Board of Directors also has the following Committees: (i) Audit and Risks; (ii) Human Resources and Ethics; and (iii) Strategy and Innovation. The roles of each of these supporting Committees can be found on the Company's website: <http://ri.marcopolo.com.br>, on the menu Corporate Governance/Bylaws of the Committees.

The Company also has an Audit Committee made up of three members, one appointed by the minority shareholders, one by shareholders holding preferred shares and one by the controlling shareholders. The competences of each body are established by the Company's Articles of Incorporation.

The Company treats all minorities fairly and equally, be they shareholders or other stakeholders. When reporting information, the company uses high transparency standards in order to establish an atmosphere of reliability, both internally and in the company relationship with third parties. In order to comply with legal provisions and

improve the information provided to the market in general and foreign shareholders in particular, the Financial Statements are reported according to the standards established by the IFRS - International Financial Reporting Standard. In 2018, the Company held meetings with the Stock Market Investment Analysts and Professionals Association (APIMEC) in São Paulo and Porto Alegre and non-deal road shows in Brazil and foreign countries. There was also the ninth edition of the Marcopolo Day, an event in which the Company receives analysts and investors in its Caxias do Sul facilities for a presentation about the company, its strategy, products and productive process. Marcopolo's relationship with its shareholders and potential investors is conducted by the Investor Relationship department. In 2018, analysts from Brazil and foreign countries were received and several phone calls were made. Marcopolo's Investor Relationship website (<http://ri.marcopolo.com.br>) has current information for the investing audience.

## **18. COMPLIANCE PRACTICES**

In order to supplement the good governance practices and risk management, Marcopolo implemented a Compliance department in 2014, the structure of which includes a Consulting Committee made up of the executive officers appointed by the Articles of Incorporation, by the chairman of the Board of Directors, by the Compliance Officer and by representatives of the controlling shareholders. The Compliance structure also includes a compliance analyst and internal agents. The Company revised its code of conduct to include integrity provisions, trained all its employees and representatives, enhanced internal and external communication channels, created a report channel, created an integrity policy, began to include compliance clauses in all the agreements executed by the Company, performs due diligence of integrity in partners and third parties, among other practices. Apart from that, the compliance team has taken place in outside training and benchmarking events.

## **19. INDEPENDENT AUDITORS**

### **19.1 Change of Independent Auditors**

In 2017, the company changed its auditors and engaged the services of Pricewaterhouse Coopers Auditores Independentes, with business address in Porto Alegre, RS, Rua Mostardeiro, 800, 9º andar, to replace KPMG Auditores Independentes.

### **19.2 CVM Instruction 381/03**

In compliance with the CVM Instruction 381/03, subdivisions I through IV of Section 2, Marcopolo hereby declares that it has agreements with its Independent Auditors other than for the auditing of the Company's Financial Statements. During 2018, a Pricewaterhouse Coopers Auditores Independentes was hired to provide assistance tax services and the fees were equivalent to BRL 196,500. The responsibility for the definitions inherent to the executed procedures and the application thereof are

prerogatives of the Management, so both the Company and its external auditors understand that such services do not affect professional independence.

## 20. STOCK MARKET

### 20.1 Capital Stock

On December 31st 2018 the Company's capital stock was BRL 1,264,622,468 divided into 925,196,009 shares, 341,625,744 of them being common shares (36.9%) and 583,570,265 being preferred shares (63.1%), all of them registered, book-entry and without par value.

### 20.2 Performance of the Marcopolo Shares in B3

In 2018, 1,008.2 thousand transactions were conducted with Marcopolo shares and 744.5 million shares were traded. Transactions with shares issued by Marcopolo moved BRL 2.9 million in the year. The interest of foreign investors in Marcopolo's capital stock amounted to 54.8% of the preferred shares and 35.5% of the total capital stock on 12.31.2018.

The table below shows the evolution of the main stock market indicators:

| INDICATORS                                                     | 2018    | 2017    |
|----------------------------------------------------------------|---------|---------|
| Number of transactions (thousands)                             | 1,008.2 | 1,250.5 |
| Traded Shares (million)                                        | 744.5   | 1,146.2 |
| Traded amount (BRL million)                                    | 2,853.6 | 3,360.4 |
| Market value (BRL million) <sup>(1)(2)</sup>                   | 3,774.8 | 3,691.5 |
| Book value per share (BRL)                                     | 2.28    | 2.05    |
| POMO4 quotation (last business day)                            | 4.08    | 3.99    |
| Interest on Equity Capital and dividends per share (BRL/share) | 0.09    | 0.04    |

Notes: <sup>(1)</sup> Quotation of the last transaction of the period of the Preference Book-entry share (PE), multiplied by the total number of shares (OE+PE) in the same period. <sup>(2)</sup> Out of this total, 3,977,285 preferred shares were in treasury on 21.31.2018.

## 21. DIVIDENDS/INTEREST ON EQUITY CAPITAL

On December 10th 2018, the Board of Directors approved the payment of interest on capital equity in the gross amount of BRL 82.9 million, equivalent to BRL 0.09 for each share.

The total amount proposed for payment of interest on shareholders' capital ascribed to the dividends for the year 2018 totals BRL 82.9 million. The total amount paid corresponds to 44.4% of the Company's adjusted net income in 2018 and amounts to a 2.2% yield (dividend per share/share quotation at the end of the period).

## 22. INVESTMENT/NON-CURRENT ASSETS

In 2018, Marcopolo invested BRL 161.7 million, BRL 95.7 million of which was spent in the parent company and applied towards: BRL 62.8 million in machines and equipment, BRL 20.6 million in buildings, BRL 5.6 million in computer equipment and

software and BRL 6.7 million in other non-current assets. In the controlled companies, BRL 18.3 million was invested in Volgren, BRL 17.8 million in Volare Espírito Santo, BRL 9.0 million in Polomex, BRL 8.5 million in Neobus, BRL 8.4 million in Marcopolo China, BRL 3.3 million in Marcopolo Rio and BRL 0.7 million in other units.

### **23. SOCIOENVIRONMENTAL RESPONSIBILITY**

In a constant search for best practices, Marcopolo seeks economic development, simultaneously improving the quality of life of its employees, their families and society as a whole. In 2018, the Marcopolo Way program was launched, the purposes of which include the maintenance of the Vision, Values, Policies and sharing of the best management practices in all Brazilian and foreign units. The Marcopolo Solidarity Production System – SIMPS, which is an integral part of Marcopolo Way, uses the principles and fundamentals of the LEAN philosophy in the form of methods, tools and the organization's best practices in order to optimize the performance of the processes. It also supports industrial management in the execution of the company's strategy for growth, market leadership, productivity, quality, personnel safety, workplace improvement and profitability of products and services. Marcopolo remains with international management certifications ISO 14.001 - Environment, ISO 9.001 – Quality, and OHSAS 18.001 – Health and Safety.

#### **23.1 Social Responsibility**

Marcopolo and its employees develop social responsibility by means of the Marcopolo Foundation. The projects are targeted at children and adolescents of the community in which we are present. The Schools Project is noteworthy for its purpose to contribute to the development of the entire school community. The project provides diversified activities in out of school hours such as music, choir, orchestra, sports and refresher clinic. The Marcopolo Foundation also contributes on a monthly basis to educational and healthcare charities.

Also with focus on education, all the employees' children get notebook kits through the Everyone in School project, also coordinated by the Marcopolo Foundation. The purpose is to help family economy and support in the education of their children. The program is targeted at children and adolescents aged 5-17 and eleven months taking elementary or secondary school. Nearly 23,000 customized notebooks were delivered in 2018.

The Marcopolo Foundation encourages and facilitates the allotment of 6% of their employees' Individual Income Tax to the Municipal Funds for the Rights of Children and Adolescents in the cities of Caxias do Sul (RS) and Duque de Caxias (RJ) by means of the Destine Você Também Project, creating benefits in professionalization actions for adolescents and a children connection strengthening center, serving nearly 1.500 young people in social and personal risk situation.

### **23.2 Satisfaction of Employees**

Marcopolo conducts an Internal Organizational Climate Survey every two years with all its employees. In September 2018, a Global Survey was conducted for the first time including the Brazilian and foreign units, making use of the Korn Ferry specialized consulting methodology. The general Satisfaction average of the companies in Brazil was 75%. Based on the results, general action plans will be prepared by unit and also plans to meet specific needs of the departments taking part in the Survey, which shall be monitored periodically. Also in 2018 Marcopolo's Code of Conduct was revised for the third time in order to comply with the Brazilian anticorruption act and align it with the best compliance practices, apart from improving the company's personnel management practices. The Code was disseminated to workers in Brazilian units in October.

The implementation of the same Code, with local adjustments if necessary, is expected for 2019 in the units of Mexico, Colombia, South Africa, Australia and China. The internal and external channels were revised again so that employees and other interested persons may submit comments, criticism, ideas and suggestions about the several topics involving their work or related to the Code of Conduct guidelines and the Compliance rules, with specific segregation for reporting. The external channels were unified to be used by all units in the implementation of the new version of the Code of Conduct also in foreign countries. The messages received are treated and answered according to a specific policy.

### **23.3 Education and Training**

To support the professional and personal developments of its employees and contributing to their constant qualification, Marcopolo provided training to all professional levels, which resulted in an annual average of 42 hours' training by employee. And as a way to maintain and develop the concepts of product quality, process and safety, 305,000 hours of training were conducted.

The managers took parts in actions related to the safety of their teams, with training sessions focused on accident prevention and understanding their role in the dissemination and care with safe activities. Furthermore, Marcopolo qualified the new Managers, with actions focused on conducting high-performance teams, contributing to their formation basis.

The Marcopolo Professional Education School (EFPM) maintained its industrial courses for young people in partnership with SENAI, University of Caxias do Sul and the Social Assistance Foundation (FAS). One of EFPM's main purposes is to prepare professionals for the labor market by means of the first paid job and access to the Company's career plan. In 2018, a group of 30 young people from foster homes was created to encourage them to seek qualification and recognize their roles as citizens.

Marcopolo has had an Education Incentive Program since 1981, including scholarships for high school, technical courses, graduate and postgraduate courses for employees approved in a selection process. The company also provides for the development of skills for communication in English and Spanish for workers who require this skill in their position.

#### ***23.4 Quality of Life***

The quality of life programs targeted at employees and their families are coordinated by the Marcopolo Foundation, including educational, leisure, cultural and sports activities. The Caxias do Sul and Duque de Caxias units feature their own facilities with places for events, courts and kiosks.

#### ***23.5 Environment***

Marcopolo's commitment is to protect the environment in a sustainable and balanced manner, establishing the required controls to minimize the activities' impact in compliance with the applicable law. In 2018, the San Marino Ônibus Ltda unit obtained the ISO 14.001 certification - Environmental Management System.

#### ***23.6 Compensation***

The employees' compensation is made up of a fixed part, connected to their competences and skills, and a variable part, contingent upon the attainment of the goals of the Profit-sharing Program. Wage researches are conducted periodically in order to assess whether the amounts paid to the employees are within the regional standards, so that the company can remain competitive in the labor market.

#### ***23.7 Share Purchase Option Plan***

The Regulation of the Share Purchase or Subscription Option Plan was approved by shareholders in the Extraordinary General Meeting held on December 22nd 2005, changed by the O/EGM dated March 23rd 2006 and by the Board of Directors in meetings held in the years 2006, 2007, 2011, 2012 and 2013. The plan, whose participants are executives of the Company and its controlled companies (except controlling officers) has as main purposes: (i) Align the interests of participants and shareholders; (ii) Get the participants committed to the company's short, mid and long term results; (iii) Encourage a feeling of ownership; and (iv) Attract and retain talent. The Plan is monitored by the HR and Ethics committee and approved by the Board of Directors.

The company also has a Long-Term Incentive Plan with Restricted Shares by Performance, proposed by the Board of Directors on February 12th 2015 and approved by the General Meeting on March 26th 2015. The plan has the purpose of composing the compensation package of the main executives of the company, obtain the participants' commitment to long-term results, maintain competitiveness within the

market, attract and retain the best professionals and align the interests of executives and shareholders.

## 24. MANAGERS' COMPENSATION

The aggregate amount of the fixed compensation is established by the General Meeting and paid to the managers by the Board of Directors. The greatest annual individual compensation of the Board of Directors/Executive Committee totaled BRL 2,641.9 thousand in 2018, the average compensation was BRL 967.7 thousand and the smallest was BRL 465.0 thousand. Among executive officers, the greatest individual compensation was BRL 4,681.5 thousand in 2018, the average was BRL 3,692.2 thousand and the smallest was BRL 2,702.9 thousand. In the Audit Committee, the greatest individual compensation was BRL 249.8 thousand in 2018, the average was BRL 214.7 thousand and the smallest was BRL 197.1 thousand.

## 25. PERSONNEL

| NO. OF EMPLOYEES                  | 2018          | 2017          | 2016          | 2015          | 2014          |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Controlling Company               | 7,410         | 6,255         | 6,125         | 6,236         | 7,883         |
| Controlled Companies in           | 2,826         | 2,057         | 2,135         | 1,369         | 2,776         |
| Controlled Companies in           | 1,739         | 1,645         | 1,921         | 1,666         | 1,889         |
| Associated Companies              | 3,579         | 2,403         | 2,632         | 3,200         | 4,270         |
| <b>TOTAL <sup>(1)</sup></b>       | <b>15,554</b> | <b>12,360</b> | <b>12,813</b> | <b>12,471</b> | <b>16,818</b> |
| <b>GRAND TOTAL <sup>(2)</sup></b> | <b>19,743</b> | <b>15,059</b> | <b>15,749</b> | <b>16,125</b> | <b>21,435</b> |

Notes: <sup>(1)</sup> Includes employees in the controlled/associated companies proportionally to their equity interest; <sup>(2)</sup> Refers to the total participation in controlled/associated companies.

## 26. PROSPECTS FOR 2019

For 2019, the Company has the purpose of increasing its profit and, in order to meet this challenge, it began a project named "Second Management Wave". It is a set of short-term actions focused on relevant and priority topics, such as: expansion of the sales horizon, increase of logistic efficiency, reduction of costs with materials and increase of industrial performance. It is expected that, with the project's efforts and one more year of sales recovery in Brazil, we may achieve greater profitability, still in search for the pre-crisis levels.

Among the initiatives to improve profitability is the opening of the new Manufacturing Center in January 22<sup>nd</sup>, which concentrates the production of metal parts in a single pavilion, thus expediting the production lines and improving efficiency. Continuing the plant optimization process, shutdown of the plant located in the Planalto district of Caxias do Sul shall happen this year.

The recovery of the internal economy, along with the approval of reforms by the current government, shall guide the customers' confidence in 2019, contributing to an increasing demand in the bus market. As for the domestic demand, the main specific drivers for the sector in 2019 must be, for intercity buses, the rule reducing the average fleet age in interstate and international lines to 5 years, which shall be

achieved by the end of 2019; and for urban buses, the resuming of the bidding process in the city of São Paulo, which shall result in greater confidence by the managers in the renewal of their fleets and normalization of fare adjustments.

As for the Road to School program, there is a remaining volume of nearly 1,000 units to be delivered in this 1H19 from an auction conducted in February 2018. This year, there is also the prospect of a new auction, which may favor the segments of micro buses, urban buses and Volares.

Exports still high, with an order backlog to Latin American countries, mostly due to special fleet renovation projects in the major markets. The maintenance of the current foreign exchange level shall help the company continue with its margin recovery process for 2019.

In foreign markets, a highlight is Mexico, which shows a trend to improve volumes, arising mostly from the sale of vehicles to the Iamsa Group, announced in mid-2018, and a product portfolio with greater added value. For Australia, the expectation is to increase profitability through improved efficiency resulting from a strong effort in 2018. In associated companies, a special performance is expected from the Superpolo operation in Colombia, as a result of an expected fleet renovation process in the city of Bogota.

The capital increase by means of private subscription announced in late 2018 reached an expressive volume by part of the investors. The total amount subscribed was BRL 69,429,993.60 to be approved by the Board of Directors on February 25, 2019.

In 2019, the Company will continue making efforts to recoup its historical performance levels, believing that the growing volumes combined with the initiatives and improvements implemented since 2015, especially those concerning the increase of operating efficiency, quality, stronger presence both in foreign and domestic markets, search for synergy and optimization of its plant will allow for the achievement of new excellence levels and, mainly, greater profit. We will remain attentive to new opportunities in the search for constant improvement.

## **27. ACKNOWLEDGEMENTS**

Marcopolo is honored to thank customers, suppliers, representatives, shareholders, financial institutions, government bodies, the communities and especially the employees for their effort, devotion and commitment.

Caxias do Sul, February 22<sup>nd</sup> 2019.

The Management.



(A free translation of the original in Portuguese)

## ***Independent auditor's report***

To the Board of Directors and Shareholders  
Marcopolo S.A.

### **Opinion**

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We have audited the accompanying parent company financial statements of Marcopolo S.A. (the "Company" or "Parent company"), which comprise the balance sheet as at December 31, 2018 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Marcopolo S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2018 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marcopolo S.A. and of Marcopolo S.A. and its subsidiaries as at December 31, 2018, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

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We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

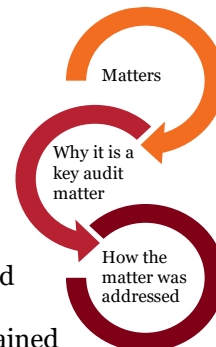
Marcopolo S.A.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our audit for the year ended December 31, 2018 was planned and executed considering that the Company and its subsidiaries operations have not changed significantly in relation to the previous year.

In this context, the key audit matters, as well as our audit approach, have remained substantially in line with those of the previous year.



| Why it is a key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | How the matter was addressed in the audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Impairment of goodwill - Consolidated (Note 14)</b></p> <p>At December 31, 2018, the Company presents in its consolidated financial statements goodwill based on the expectation of future profitability, in the amount of R\$ 212,329 thousand, referring to acquisitions made in prior years. Management annually prepares a test to assess whether or not an impairment of goodwill is necessary (impairment test). For this test, it considers each of the companies acquired, located in Brazil, Australia, Canada and Argentina, as a separate Cash Generating Unit ("CGU").</p> <p>The goodwill impairment test was considered as one of the key audit matters due to the relevance of this balance and because it involves critical judgments on the part of the Company's Management in relation to the projections of future cash flows.</p> <p>Changes in the main assumptions used, such as growth and discount rates, among others, may significantly affect the cash flows of CGUs and, consequently, the recoverable amounts of CGUs and the goodwill allocated to them.</p> <p>At December 31, 2018, the Company's Management reviewed the recoverable amount of the CGUs, and no impairment charge was required.</p> | <p>Our audit procedures included, among others, understanding and testing the methodology used by Management to project discounted cash flows. With the support of our internal valuation specialists, we discussed with management the reasonableness of the significant assumptions used by the Company, in accordance with the budgets approved by the Board of Directors, including discount rates, growth in sales and margins in the projected period and in the perpetuity by comparing the calculations with the market information available, the actual performance and the historical data.</p> <p>Also, through sensitivity analysis involving the main assumptions used, we assessed in which situations individual or cumulative changes would result in the need to record or complement the impairment recognized by the Company.</p> <p>As a result of the procedures described above, we believe that the judgments and assumptions used by management to assess the recoverable value of goodwill are reasonable and that the disclosures are consistent with the data and information obtained.</p> |

| Why it is a key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | How the matter was addressed in the audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Provisions and contingent liabilities - Parent company and Consolidated (Note 17)</b></p> <p>At December 31, 2018, the Company has provisions in the amount of R\$ 59,988 thousand in the parent company and R\$ 77,709 thousand in the consolidated, related to lawsuits for which the likelihood of loss was classified as probable, in addition to lawsuits classified as of possible losses in the amount of R\$ 317,153 thousand, in the parent company, and R\$ 387,271 thousand in the consolidated.</p> <p>Provisions and contingent liabilities have inherent uncertainty in relation to their term and their settlement value. In addition, the determination of the likelihood of loss in the ongoing lawsuits involves critical judgments by management, periodically reassessed according to the progress of the lawsuits, in the various judicial instances, and applicable laws.</p> | <p>In our audit strategy, we engaged our team of labor and tax specialists, as appropriate, to read and discuss the main lawsuits, including the classification of the loss forecast assigned by internal and external legal advisers, and obtained an understanding of the internal controls maintained in the area.</p> <p>We also evaluated the technical competence of the Company's internal and external legal advisers, carried out tests to recalculate the exposure value of the main judicial and administrative proceedings, which were classified as of probable losses, tested for the monetary correction of these lawsuits, according to applicable legislation, as well as confirmation of the lawsuits with the attorneys in charge of the cases to obtain information related to their opinions, the totality of the information and adequacy of the amount of the provision recorded or of the amount disclosed.</p> <p>Additionally, we read the information disclosed in the explanatory notes.</p> <p>We believe that the criteria and assumptions adopted by Management to determine the provision for lawsuits and contingencies, as well as the disclosures made on contingent liabilities, are consistent with the information of the internal and external legal advisers.</p> |
| <p><b>Allowance for doubtful accounts - Parent company and consolidated (Note 8)</b></p> <p>The Company has a trade receivables balance mainly subject to credit risk with the counterparty. The determination of the allowance for doubtful accounts as from January 1st, 2018 considers the expected credit losses on a prospective basis. The Company recognizes the expected losses over the due date of the asset, from the initial recognition of the receivables. Significant increase in credit risk considers the existence of objective evidence of credit impairment and use of assumptions and factors, including, but not limited to, macroeconomic conditions, guarantees, default levels and renegotiation policies.</p> <p>As this is an accounting estimate prepared by</p>                                                                                                              | <p>Our audit procedures included, among others, understanding of significant internal controls related to the credit analysis, as well as tests of controls over the information technology environment that support the Company's control structure.</p> <p>In addition, we obtained the understanding and reviewed the assumptions used to determine the allowance for doubtful accounts, considering the historical percentage for determination of expected losses, the levels of default, the existence of guarantees and possible renegotiations.</p> <p>We performed a retrospective analysis of the</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

Marcopolo S.A.

| <b>Why it is a key audit matter</b>                                                                                                                     | <b>How the matter was addressed in the audit</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Management and subject to the exercise of critical judgments, as described above, we consider the subject as an area of focus in our audit work.</p> | <p>estimate recorded in the previous year, comparing it with the actual results incurred in the current year, and tested the mathematical calculations and models that support the Management's provision, identifying and reporting adjustments deemed not relevant by Management.</p> <p>As a result of these procedures, we believe that the judgments and assumptions used by Management to determine the allowance for doubtful accounts are reasonable and the disclosures are consistent with data and information obtained throughout our work.</p> |

## **Other matters**

### **Statements of value added**

The parent company and consolidated Statements of Value Added for the year ended December 31, 2018, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements.

For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

### **Other information accompanying the parent company and consolidated financial statements and the auditor's report**

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

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the parent company and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting

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Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's responsibilities for the audit of the parent company and consolidated financial statements**

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

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the parent company and consolidated



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financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Porto Alegre, February 22, 2019

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Maurício Colombari  
Contador CRC 195838/O-3

**Marcopolo S.A.**  
**Financial statements as of**  
**December 31, 2018 and 2017**

**Balance sheets as of December 31, 2018 and 2017**  
*In thousands of Brazilian reais*

|                                                               |      | Controlling company |                  | Consolidated     |                  |
|---------------------------------------------------------------|------|---------------------|------------------|------------------|------------------|
| Liabilities and shareholders' equity                          | Note | 2018                | 2017             | 2018             | 2017             |
| Current                                                       |      |                     |                  |                  |                  |
| Suppliers                                                     |      | 259,382             | 212,993          | 418,247          | 366,399          |
| Loans and financing                                           | 16   | 354,166             | 445,258          | 833,995          | 831,071          |
| Derivative financial instruments                              | 5    | -                   | 986              | 48               | 2,811            |
| Wages and vacation payable                                    |      | 110,612             | 69,769           | 156,463          | 103,304          |
| Taxes and contributions payable                               |      | 38,362              | 43,685           | 74,549           | 88,159           |
| Deferred revenue from customers                               |      | 66,326              | 28,821           | 116,750          | 74,600           |
| Commissioned representatives                                  |      | 29,835              | 21,243           | 43,014           | 25,757           |
| Interest on shareholders' equity and dividends                |      | 34,753              | 15,325           | 34,753           | 15,325           |
| Equity Interest of directors                                  |      | 5,391               | 5,027            | 5,391            | 5,027            |
| Guaranteed provision                                          |      | 27,544              | 18,153           | 37,547           | 24,268           |
| Other accounts payable                                        |      | 38,179              | 29,904           | 107,670          | 82,545           |
|                                                               |      | <u>964,550</u>      | <u>891,164</u>   | <u>1,828,427</u> | <u>1,619,266</u> |
| Noncurrent                                                    |      |                     |                  |                  |                  |
| Loans and financing                                           | 16   | 654,963             | 569,100          | 1,100,165        | 1,109,595        |
| Provision for loss on investment                              | 11   | 7,407               | 12,510           | 4,857            | 7,636            |
| Provision for contingencies                                   | 17   | 59,988              | 51,722           | 77,709           | 64,770           |
| Other accounts payable                                        |      | <u>-</u>            | <u>-</u>         | <u>1,915</u>     | <u>2,373</u>     |
|                                                               |      | <u>722,358</u>      | <u>633,332</u>   | <u>1,184,646</u> | <u>1,184,374</u> |
| Total liabilities                                             |      | <u>1,686,908</u>    | <u>1,524,496</u> | <u>3,013,073</u> | <u>2,803,640</u> |
| Shareholders' equity attributable to controlling shareholders | 20   |                     |                  |                  |                  |
| Capital                                                       |      | 1,264,622           | 1,264,622        | 1,264,622        | 1,264,622        |
| Capital reserves                                              |      | 5,358               | 6,487            | 5,358            | 6,487            |
| Appropriated retained earnings                                |      | 681,149             | 557,985          | 681,149          | 557,985          |
| Equity valuation adjustments                                  |      | 172,936             | 91,472           | 172,936          | 91,472           |
| Treasury shares                                               |      | <u>(18,446)</u>     | <u>(21,797)</u>  | <u>(18,446)</u>  | <u>(21,797)</u>  |
|                                                               |      | <u>2,105,619</u>    | <u>1,898,769</u> | <u>2,105,619</u> | <u>1,898,769</u> |
| Non-controlling interest                                      |      | <u>-</u>            | <u>-</u>         | <u>29,012</u>    | <u>29,843</u>    |
|                                                               |      | <u>2,105,619</u>    | <u>1,898,769</u> | <u>2,134,631</u> | <u>1,928,612</u> |
| Total liabilities and shareholders' equity                    |      | 3,792,527           | 3,423,265        | 5,147,704        | 4,732,252        |

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

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## Statements of income

Years ended December 31, 2018 and 2017

In thousands of Brazilian reais, unless otherwise indicated

|                                                                                                                     |      | Controlling company |             | Consolidated |             |
|---------------------------------------------------------------------------------------------------------------------|------|---------------------|-------------|--------------|-------------|
|                                                                                                                     | Note | 2018                | 2017        | 2018         | 2017        |
| <b>Operations</b>                                                                                                   |      |                     |             |              |             |
| Net sales and service revenues                                                                                      | 25   | 2,323,244           | 1,670,994   | 4,197,468    | 2,875,993   |
| Cost of goods sold and services rendered                                                                            | 26   | (1,921,151)         | (1,407,393) | (3,533,152)  | (2,472,347) |
| <b>Gross profit</b>                                                                                                 |      | 402,093             | 263,601     | 664,316      | 403,646     |
| Selling expenses                                                                                                    | 26   | (133,217)           | (106,440)   | (251,055)    | (168,734)   |
| Administrative expenses                                                                                             | 26   | (93,472)            | (89,547)    | (181,812)    | (167,119)   |
| Other operating revenue (expenses), net                                                                             |      | (39,852)            | (65,262)    | (25,235)     | (80,397)    |
| Equity accounting results                                                                                           | 11   | 119,637             | 61,305      | 95,071       | 86,857      |
| <b>Operating profit</b>                                                                                             |      | 255,189             | 63,657      | 301,285      | 74,253      |
| Financial income                                                                                                    | 27   | 113,701             | 233,040     | 205,063      | 292,019     |
| Financial expenses                                                                                                  | 27   | (180,478)           | (213,568)   | (297,045)    | (273,299)   |
| <b>Financial result</b>                                                                                             |      | (66,777)            | 19,472      | (91,982)     | 18,720      |
| <b>Income before income tax and social contribution</b>                                                             |      | 188,412             | 83,129      | 209,303      | 92,973      |
| Income tax and social contribution                                                                                  | 19   |                     |             |              |             |
| Current                                                                                                             |      | (26,764)            | (8,565)     | (43,006)     | (33,267)    |
| Deferred                                                                                                            |      | 25,082              | (2,394)     | 24,650       | 22,406      |
| <b>Net income for the year</b>                                                                                      |      | 186,730             | 72,170      | 190,947      | 82,112      |
| <b>Attributable to:</b>                                                                                             |      |                     |             |              |             |
| Controlling Shareholders                                                                                            |      | 186,730             | 72,170      | 186,730      | 72,170      |
| Non-controlling interest                                                                                            |      | -                   | -           | 4,217        | 9,942       |
|                                                                                                                     |      | 186,730             | 72,170      | 190,947      | 82,112      |
| <b>Net income per share attributable to controlling shareholders during the year (denominated in R\$ per share)</b> |      |                     |             |              |             |
| Basic                                                                                                               | 28   | 0.20270             | 0.07841     | 0.20270      | 0.07841     |
| Diluted                                                                                                             | 28   | 0.20183             | 0.07801     | 0.20183      | 0.07801     |

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

## Marcopolo S.A.

### Comprehensive Income Years ended December 31, 2018 and 2017 *In thousands of Brazilian reais*

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|                                                                | <u>Controlling company</u> |               | <u>Consolidated</u> |               |
|----------------------------------------------------------------|----------------------------|---------------|---------------------|---------------|
|                                                                | <u>2018</u>                | <u>2017</u>   | <u>2018</u>         | <u>2017</u>   |
| Net income for the year                                        | 186,730                    | 72,170        | 190,947             | 82,112        |
| Share of comprehensive income of subsidiary                    | (1,630)                    | (5,036)       | (1,630)             | (5,036)       |
| Foreign exchange translation differences on foreign operations | 58,786                     | 11,701        | 53,738              | (506)         |
| <b>Total comprehensive result</b>                              | <u>243,886</u>             | <u>78,835</u> | <u>243,055</u>      | <u>76,570</u> |
| <b>Comprehensive income attributable to:</b>                   |                            |               |                     |               |
| Controlling Shareholders                                       | 243,886                    | 78,835        | 243,886             | 78,835        |
| Non-controlling interest                                       | -                          | -             | (831)               | (2,265)       |
| <b>Total comprehensive result</b>                              | <u>243,886</u>             | <u>78,835</u> | <u>243,055</u>      | <u>76,570</u> |

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

# Marcopolo S.A.

## Statements of changes in shareholders' equity

Years ended December 31, 2018 and 2017

In thousands of Brazilian reais

|                                                                   | Attributable to controlling shareholders |                                       |                                     |                                |                             |                                  |                                |                              |                 |                  |                            |                                                 |                            |
|-------------------------------------------------------------------|------------------------------------------|---------------------------------------|-------------------------------------|--------------------------------|-----------------------------|----------------------------------|--------------------------------|------------------------------|-----------------|------------------|----------------------------|-------------------------------------------------|----------------------------|
|                                                                   | Capital reserves                         |                                       |                                     | Appropriated retained earnings |                             |                                  |                                |                              |                 |                  |                            |                                                 |                            |
|                                                                   | Capital                                  | Gain (loss) on disposal of own shares | Reserves of transactions of capital | Legal reserve                  | For future capital increase | For payment of interim dividends | For the purchase of own shares | Equity appraisal adjustments | Treasury shares | Earnings accrued | Total shareholders' equity | Equity Interest of non-controlling shareholders | Total shareholders' equity |
| As of December 31, 2016                                           | 1,264,622                                | (5,037)                               | 12,019                              | 49,330                         | 265,641                     | 93,992                           | 93,992                         | 84,807                       | (22,957)        | -                | 1,836,409                  | 32,108                                          | 1,868,517                  |
| Comprehensive result for the year                                 |                                          |                                       |                                     |                                |                             |                                  |                                |                              |                 |                  |                            |                                                 |                            |
| Net income for the year                                           | -                                        | -                                     | -                                   | -                              | -                           | -                                | -                              | -                            | -               | 72,170           | 72,170                     | 9,942                                           | 82,112                     |
| Share of comprehensive income of subsidiary                       | -                                        | -                                     | -                                   | -                              | -                           | -                                | -                              | (5,036)                      | -               | -                | (5,036)                    | -                                               | (5,036)                    |
| Exchange rate change of investments abroad                        | -                                        | -                                     | -                                   | -                              | -                           | -                                | -                              | 11,701                       | -               | -                | 11,701                     | (12,207)                                        | (506)                      |
| Total comprehensive income                                        | -                                        | -                                     | -                                   | -                              | -                           | -                                | -                              | 6,665                        | -               | 72,170           | 78,835                     | (2,265)                                         | 76,570                     |
| Shareholder contributions and distributions to shareholders       |                                          |                                       |                                     |                                |                             |                                  |                                |                              |                 |                  |                            |                                                 |                            |
| Sale of shares in treasury                                        | -                                        | (495)                                 | -                                   | -                              | -                           | -                                | -                              | -                            | 1,160           | -                | 665                        | -                                               | 665                        |
| Allocations                                                       |                                          |                                       |                                     |                                |                             |                                  |                                |                              |                 |                  |                            |                                                 |                            |
| Legal reserve                                                     | -                                        | -                                     | -                                   | 3,609                          | -                           | -                                | -                              | -                            | -               | (3,609)          | -                          | -                                               | -                          |
| Mandatory minimum dividend                                        | -                                        | -                                     | -                                   | -                              | -                           | -                                | -                              | -                            | -               | (17,140)         | (17,140)                   | -                                               | (17,140)                   |
| Transfer between reserves                                         | -                                        | -                                     | -                                   | -                              | 35,995                      | 7,713                            | 7,713                          | -                            | -               | (51,421)         | -                          | -                                               | -                          |
| Total shareholder contributions and distributions to shareholders | -                                        | (495)                                 | -                                   | 3,609                          | 35,995                      | 7,713                            | 7,713                          | -                            | 1,160           | (72,170)         | (16,475)                   | -                                               | (16,475)                   |
| As of December 31, 2017                                           | 1,264,622                                | (5,532)                               | 12,019                              | 52,939                         | 301,636                     | 101,705                          | 101,705                        | 91,472                       | (21,797)        | -                | 1,898,769                  | 29,843                                          | 1,928,612                  |

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

# Marcopolo S.A.

## Statements of changes in shareholders' equity

Years ended December 31, 2018 and 2017

In thousands of Brazilian reais

|                                                                   | Attributable to controlling shareholders |                                       |                                     |               |                                |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
|-------------------------------------------------------------------|------------------------------------------|---------------------------------------|-------------------------------------|---------------|--------------------------------|----------------------------------|--------------------------------|------------------------------|------------------------------|-----------------|------------------|----------------------------|-------------------------------------------------|----------------------------|
|                                                                   | Capital reserves                         |                                       |                                     |               | Appropriated retained earnings |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
|                                                                   | Capital                                  | Gain (loss) on disposal of own shares | Reserves of transactions of capital | Legal reserve | For future capital increase    | For payment of interim dividends | For the purchase of own shares | Proposed additional dividend | Equity appraisal adjustments | Treasury shares | Earnings accrued | Total shareholders' equity | Equity Interest of non-controlling shareholders | Total shareholders' equity |
| As of December 31, 2017                                           | 1,264,622                                | (5,532)                               | 12,019                              | 52,939        | 301,636                        | 101,705                          | 101,705                        | -                            | 91,472                       | (21,797)        | -                | 1,898,769                  | 29,843                                          | 1,928,612                  |
| Prior year adjustments                                            |                                          |                                       |                                     |               |                                |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
| Monetary changes due to hyperinflation                            | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | 24,308                       | -               | -                | 24,308                     | -                                               | 24,308                     |
| Adjusted opening balances                                         | 1,264,622                                | (5,532)                               | 12,019                              | 52,939        | 301,636                        | 101,705                          | 101,705                        | -                            | 115,780                      | (21,797)        | -                | 1,923,077                  | 29,843                                          | 1,952,920                  |
| Comprehensive result for the year                                 |                                          |                                       |                                     |               |                                |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
| Net income for the year                                           | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | -                            | -               | 186,730          | 186,730                    | 4,217                                           | 190,947                    |
| Share of comprehensive income of subsidiary                       | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | (1,630)                      | -               | -                | (1,630)                    | -                                               | (1,630)                    |
| Exchange rate change of investments abroad                        | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | 58,786                       | -               | -                | 58,786                     | (5,048)                                         | 53,738                     |
| Total comprehensive income                                        | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | 57,156                       | -               | 186,730          | 243,886                    | (831)                                           | 243,055                    |
| Shareholder contributions and distributions to shareholders       |                                          |                                       |                                     |               |                                |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
| Sale of shares in treasury                                        | -                                        | (1,129)                               | -                                   | -             | -                              | -                                | -                              | -                            | -                            | 3,351           | -                | 2,222                      | -                                               | 2,222                      |
| Additional dividend payment                                       | -                                        | -                                     | -                                   | -             | (19,218)                       | -                                | -                              | -                            | -                            | -               | -                | (19,218)                   | -                                               | (19,218)                   |
| Allocations                                                       |                                          |                                       |                                     |               |                                |                                  |                                |                              |                              |                 |                  |                            |                                                 |                            |
| Legal reserve                                                     | -                                        | -                                     | -                                   | 9,337         | -                              | -                                | -                              | -                            | -                            | -               | (9,337)          | -                          | -                                               | -                          |
| Proposed additional dividend                                      | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | 38,561                       | -                            | -               | (38,561)         | -                          | -                                               | -                          |
| Mandatory minimum dividend                                        | -                                        | -                                     | -                                   | -             | -                              | -                                | -                              | -                            | -                            | -               | (44,348)         | (44,348)                   | -                                               | (44,348)                   |
| Transfer between reserves                                         | -                                        | -                                     | -                                   | -             | 66,138                         | 14,173                           | 14,173                         | -                            | -                            | -               | (94,484)         | -                          | -                                               | -                          |
| Total shareholder contributions and distributions to shareholders | -                                        | (1,129)                               | -                                   | 9,337         | 46,920                         | 14,173                           | 14,173                         | 38,561                       | -                            | 3,351           | (186,730)        | (61,344)                   | -                                               | (61,344)                   |
| As of December 31, 2018                                           | 1,264,622                                | (6,661)                               | 12,019                              | 62,276        | 348,556                        | 115,878                          | 115,878                        | 38,561                       | 172,936                      | (18,446)        | -                | 2,105,619                  | 29,012                                          | 2,134,631                  |

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

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## Statements of cash flows - indirect method

Years ended December 31, 2018 and 2017

In thousands of Brazilian reais

|                                                                                                     |           | Controlling company |           | Consolidated |           |
|-----------------------------------------------------------------------------------------------------|-----------|---------------------|-----------|--------------|-----------|
|                                                                                                     | Note      | 2018                | 2017      | 2018         | 2017      |
| Cash flows from operating activities                                                                |           |                     |           |              |           |
| Net income for the year                                                                             |           | 186,730             | 72,170    | 190,947      | 82,112    |
| Adjustments to reconcile net income to cash and cash equivalents generated by operating activities: |           |                     |           |              |           |
| Depreciations and amortizations                                                                     | 13 and 14 | 23,014              | 19,307    | 60,805       | 45,432    |
| Gain on the sale of investment assets, fixed assets and intangible assets                           |           | 5,007               | 14,867    | 18,888       | 33,359    |
| Write-off of property, plant and equipment due to loss                                              | 13        | -                   | 24,485    | -            | 24,485    |
| Equity method                                                                                       | 11        | (119,637)           | (61,305)  | (95,071)     | (86,857)  |
| Allowance for doubtful accounts                                                                     | 8         | 14,469              | 10,040    | 38,338       | 32,127    |
| Current and deferred income tax and social contribution                                             |           | 1,682               | 10,959    | 18,357       | 10,860    |
| Appropriated interest and changes                                                                   |           | 111,007             | 72,191    | 170,789      | 120,100   |
| Non-controlling interests                                                                           |           | -                   | -         | 4,217        | 9,942     |
| Changes in assets and liabilities                                                                   |           |                     |           |              |           |
| Reduction (increase) in trade accounts receivable                                                   |           | (191,150)           | 43,710    | (241,982)    | 108,090   |
| Reduction in securities                                                                             |           | 97,735              | 51,291    | 97,295       | 49,849    |
| Increase in inventories                                                                             |           | (52,203)            | (26,751)  | (147,951)    | (40,364)  |
| Increase in other accounts receivable                                                               |           | (8,841)             | (73,340)  | (26,120)     | (109,024) |
| Increase in suppliers                                                                               |           | 46,389              | 39,715    | 39,836       | 109,725   |
| Increase (decrease) in other accounts payable                                                       |           | 117,644             | 23,964    | 139,889      | (61,635)  |
| Cash provided by operating activities                                                               |           | 231,846             | 221,303   | 268,237      | 328,201   |
| Taxes on profit paid                                                                                |           | (26,764)            | (8,565)   | (43,006)     | (33,267)  |
| Net cash from operating activities                                                                  |           | 205,082             | 212,738   | 225,231      | 294,934   |
| Cash flows from investing activities                                                                |           |                     |           |              |           |
| Investments                                                                                         |           | (95,549)            | (204,585) | -            | (10,369)  |
| Dividends of subsidiaries, jointly-owned subsidiaries and affiliates                                |           | 47,149              | 50,751    | 47,433       | 16,366    |
| Fixed Assets additions                                                                              | 13        | (91,719)            | (30,418)  | (156,935)    | (52,465)  |
| Intangible Assets additions                                                                         | 14        | (3,964)             | (691)     | (4,808)      | (1,827)   |
| Receipts from sale of investments, property, plant and equipment and intangible assets              |           | 1,935               | 672       | 1,536        | 1,291     |
| Net cash used in investing activities                                                               |           | (142,148)           | (184,271) | (112,774)    | (47,004)  |
| Cash flows from financing activities                                                                |           |                     |           |              |           |
| Treasury shares                                                                                     |           | 2,222               | 665       | 2,222        | 665       |
| Loans from third parties                                                                            |           | 400,131             | 257,245   | 997,911      | 567,914   |
| Payment of loans - principal                                                                        |           | (470,325)           | (378,404) | (1,101,813)  | (937,213) |
| Payment of loans - interest                                                                         |           | (47,028)            | (68,299)  | (86,289)     | (118,600) |
| Payment of interest on shareholders' equity and dividends                                           |           | (33,890)            | (17,140)  | (33,890)     | (17,140)  |
| Net cash used in financing activities                                                               |           | (148,890)           | (205,933) | (221,859)    | (504,374) |
| Effect of exchange rate change on cash and cash equivalents                                         |           | -                   | -         | 14,110       | 5,744     |
| Net decrease in cash and cash equivalents                                                           |           | (85,956)            | (177,466) | (95,292)     | (250,700) |
| Cash and cash equivalents at beginning of year                                                      |           | 739,529             | 916,995   | 958,759      | 1,209,459 |
| Cash and cash equivalents at the end of the year                                                    |           | 653,573             | 739,529   | 863,467      | 958,759   |

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

# Marcopolo S.A.

## Statements of value added Years ended December 31, 2018 and 2017 In thousands of Brazilian reais

|                                                                     | Controlling company |                    | Consolidated (*)   |                    |
|---------------------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
|                                                                     | 2018                | 2017               | 2018               | 2017               |
| <b>Statements of value added</b>                                    |                     |                    |                    |                    |
| <b>Revenues</b>                                                     | <b>2,593,713</b>    | <b>1,857,250</b>   | <b>4,649,415</b>   | <b>3,136,424</b>   |
| Sales of goods, products and services                               | 2,605,888           | 1,864,800          | 4,686,220          | 3,161,015          |
| Other revenues                                                      | 2,294               | 2,490              | 1,533              | 7,536              |
| Allowance for doubtful accounts                                     | (14,469)            | (10,040)           | (38,338)           | (32,127)           |
| <b>Inputs acquired from third parties (includes ICMS and IPI)</b>   | <b>(1,937,718)</b>  | <b>(1,388,878)</b> | <b>(3,522,197)</b> | <b>(2,337,625)</b> |
| Costs of products and services provided                             | (1,693,355)         | (1,161,842)        | (3,149,461)        | (1,984,193)        |
| Materials, energy, third-party services and others                  | (202,217)           | (159,284)          | (327,165)          | (264,306)          |
| Impairment assets                                                   | (42,146)            | (67,752)           | (45,571)           | (89,126)           |
| <b>Gross added value</b>                                            | <b>655,995</b>      | <b>468,372</b>     | <b>1,127,218</b>   | <b>798,799</b>     |
| Depreciations and amortizations                                     | (23,014)            | (19,307)           | (60,805)           | (45,432)           |
| <b>Net added value produced by the entity</b>                       | <b>632,981</b>      | <b>449,065</b>     | <b>1,066,413</b>   | <b>753,367</b>     |
| <b>Added value received in transference</b>                         | <b>233,338</b>      | <b>294,345</b>     | <b>300,134</b>     | <b>378,876</b>     |
| Equity accounting results                                           | 119,637             | 61,305             | 95,071             | 86,857             |
| Financial income                                                    | 113,701             | 233,040            | 205,063            | 292,019            |
| <b>Total added value to be distributed</b>                          | <b>866,319</b>      | <b>743,410</b>     | <b>1,366,547</b>   | <b>1,132,243</b>   |
| <b>Distribution of value added</b>                                  | <b>866,319</b>      | <b>743,410</b>     | <b>1,366,547</b>   | <b>1,132,243</b>   |
| Personnel                                                           | 482,744             | 455,090            | 799,593            | 740,716            |
| Direct remuneration                                                 | 370,258             | 349,706            | 648,262            | 590,446            |
| Benefits                                                            | 78,391              | 68,805             | 106,198            | 102,131            |
| FGTS                                                                | 34,095              | 36,579             | 45,133             | 48,139             |
| Taxes, levies and contributions                                     | 10,149              | (1,422)            | 61,588             | 12,163             |
| Federal                                                             | 18,011              | 19,962             | 57,380             | 24,032             |
| State                                                               | (8,936)             | (22,557)           | 2,232              | (14,584)           |
| Municipal                                                           | 1,074               | 1,173              | 1,976              | 2,715              |
| Yield on third-party capital                                        | 186,696             | 217,572            | 314,419            | 297,252            |
| Financial expenses                                                  | 180,478             | 213,568            | 297,045            | 273,299            |
| Rents                                                               | 6,218               | 4,004              | 17,374             | 23,953             |
| Profit for the year, interest on shareholders' equity and dividends | 186,730             | 72,170             | 190,947            | 82,112             |
| Interest on shareholders' equity and dividends                      | 82,909              | 17,140             | 82,909             | 17,140             |
| Retained earnings for the year                                      | 103,821             | 55,030             | 108,038            | 64,972             |

(\*) The consolidated added value statement is not part of the consolidated financial statements in accordance with IFRS.

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

**1 Operational context**

Marcopolo S.A. (“Marcopolo”) is a publicly-held corporation with principal place of business in Caxias do Sul, State of Rio Grande do Sul. The Company’s individual and consolidated financial statements for the year ended December 31, 2018 include Marcopolo and its subsidiaries, jointly-owned subsidiaries and investments in affiliates (referred to as “Company”).

Marcopolo’s purpose is to manufacture and trade buses, motor vehicles, bodies, parts, agricultural and industrial machinery, import and export, and may also hold interest in other companies.

Marcopolo has its shares traded on B3 (Brasil, Bolsa, Balcão) under the acronyms “POMO3” and “POMO4” and is listed in the segment of corporate governance level 2.

**2 Summary of key accounting policies**

The main accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented in these individual and consolidated financial statements.

**2.1 Basis of preparation**

**(a) Declaration of Conformity**

The Company’s individual and consolidated financial statements were prepared and presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP), considering pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM) and by the provisions contained in the Brazilian Corporate Law.

The Company’s Management affirms that all relevant information specific to the financial statements, and only such information, is being evidenced, and that it corresponds to that used by it in its management.

The issuance of the individual and consolidated financial statements was authorized by the Board of Directors on February 22, 2019.

**(b) Basis of measurement**

The individual and consolidated financial statements were prepared based on historical cost as the base value which, in the case of financial assets and liabilities (including derivative instruments) is adjusted to reflect the fair value measurement as described in Note 2.6.

**(c) Use of estimates and judgments**

In preparing these individual and consolidated financial statements, Management used judgments, estimates and assumptions that affect the application of the Company’s accounting policies and reported amounts of assets, liabilities, revenues and expenses. The actual results may differ from these estimates.

Estimates and assumptions are reviewed continuously. Revisions to the estimates are recognized

prospectively.

The information on judgments made in the application of accounting policies and uncertainties on assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in the following accompanying notes:

- Accompanying note 2.2 (a, ii) – Subsidiaries;
- Accompanying note 2.2 (a, iv) – Investments in joint ventures (Joint venture - Joint operation);
- Accompanying note 8 – Allowance for doubtful accounts;
- Accompanying note 17 – Provisions for civil, labor and tax risks;
- Accompanying note 19 – Deferred taxes.

**(d) Statement of value added**

The Company prepared individual and consolidated statements of value added (DVA) in accordance with Technical Pronouncement CPC – 09 – Statement of Value Added, which are presented as an integral part of the financial statements in accordance with BR GAAP applicable to publicly-held companies, while for IFRS they represent additional financial information.

**2.2 Basis of consolidation**

**(a) Consolidated Financial Statements**

The following accounting policies are applied in preparing the consolidated financial statements.

**(i) Equity Interest of non-controlling shareholders**

The Company elected to measure any non-controlling interest in the acquiree by the proportional interest in the identifiable net assets at the acquisition date.

Changes in the Company's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

**(ii) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) in which the Company has the power to determine financial and operating policies, generally accompanied by an interest of more than half of the voting rights (voting capital). The existence and effect of possible voting rights currently exercisable or convertible are considered when evaluating whether the Company controls another entity. Subsidiaries are fully consolidated as of the date the control is transferred to the Company. Consolidation is discontinued from the date on which control ends.

The Company uses the acquisition accounting method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and equity instruments issued by the Company.

The consideration transferred includes the fair value of any asset or liability resulting from a contract of contingent consideration where applicable. Costs related to acquisition are recorded in income or loss as incurred. The identifiable assets acquired and the contingent liabilities and liabilities assumed in a business combination are initially measured at fair values at the acquisition date. The measurement of non-controlling interest to be recognized is determined on each purchase made.

The excess of the consideration transferred and the fair value at the acquisition date of any previous equity interest in the acquiree over the fair value of identifiable net assets Company's interest acquired is recorded as goodwill. In acquisitions in which the Company assigns fair value to non-controlling shareholders, the goodwill determination also includes the amount of any non-controlling interest in the acquiree, and goodwill is determined considering the Company's interest and non-controlling interest. When the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income for the year (Note 2.11).

**(iii) Transactions eliminated on consolidation**

Balances and transactions between Company's companies and any unrealized income or expenses arising from transactions between Company's companies are eliminated. Unrealized earnings arising from transactions with investees recorded under equity accounting are eliminated against the investment in proportion to the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized earnings are eliminated, but only to the extent that there is no evidence of impairment.

**(iv) Investments in joint ventures (joint venture – joint operation)**

Joint business can be classified as a joint operation or a joint venture.

Joint operation is a joint business under which the parties that have joint control of the business have rights over the assets, have obligations for the liabilities related to the business and accounts for the investment by the equity method.

A joint venture is a joint venture that occurs when an operator has rights over the net assets of the contracts and accrues the investment by the equity method.

**(v) Loss of control**

Upon loss of control, the Company no longer recognizes the assets and liabilities of the subsidiary, any noncontrolling interest and other components recorded in shareholders' equity referring to this subsidiary. Any gain or loss arising from loss of control is recognized in profit or loss. If the Company retains any interest in the former subsidiary, this interest is measured at its fair value on the date of loss of control. Subsequently, this interest is accounted for using the equity method in associates or by the cost or fair value of an asset available for sale, depending on the level of influence retained.

**(vi) Affiliates**

Affiliates are all entities over which the Company has significant influence, but not control, generally with a shareholding of 20% to 50% of the voting rights.

Investments in affiliates are accounted for using the equity method and are initially recognized at cost. The Company's investment in affiliates includes the goodwill identified in the acquisition, net of any accumulated impairment. See Note 2.11 on impairment of non-financial assets, including goodwill.

The Company's interest in the profits or losses of its post-acquisition affiliates is recognized in the income statement and its interest in the transactions in post-acquisition reserves is recognized in the reserves. Post-acquisition cumulative transactions are adjusted against the carrying amount of the investment. When the Company's interest in the losses of an affiliate is equal to or greater than its interest in the affiliate, including any other receivables, the Company does not recognize additional losses unless it has incurred obligations or made payments on behalf of the affiliate.

Unrealized gains on operations between the Company and its affiliates are eliminated in proportion to the Company's interest in the affiliates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. The accounting policies of affiliates were amended, when necessary, to ensure consistency with the policies adopted by the Company.

If the equity interest in the affiliate is reduced but significant influence is retained, only a proportionate portion of the amounts previously recognized in other comprehensive profit and loss will be reclassified to profit or loss, when appropriate.

Dilution earnings and losses of dilution on interests in affiliates are recognized in the statement of income.

**(vii) Monetary changes due to hyperinflation – IAS 29 (CPC 42)**

With cumulative inflation of more than 100% in the last three years in Argentina, the application of IAS 29 (CPC 42) – Accounting in a hyperinflationary economy – became required in 2018. According to the standard, non-monetary assets and liabilities, shareholders' equity and income statement of investees operating in highly inflationary economies are adjusted by the change in the general purchasing power of the currency, applying a general price index.

The Company carried out the adjustment for inflation in its jointly-owned subsidiary Loma, headquartered in Argentina. Non-monetary assets and liabilities recorded at historical cost and shareholders' equity were adjusted for inflation. The impacts of the adjustment for inflation were recorded as equity valuation adjustment, in shareholders' equity, in the amount of R\$24,308 and in the consolidated income statement in the amount of (R\$4,947) in equity accounting.

**2.3 Presentation of information by segments**

Information by operating segments is presented in a manner consistent with the internal report provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources and evaluating the performance of the operating segments, is the Board of Directors, which is responsible for making the Company's strategic decisions.

**2.4 Functional currency and presentation currency**

The consolidated financial statements are presented in Brazilian reais (R\$), which is the functional currency of Marcopolo and, also, the Company's presentation currency. All balances have been rounded to the nearest thousand, except when otherwise indicated.

The items included in the financial statements of each of the Company's companies are measured using the currency of the principal economic environment in which the company operates ("the functional currency").

The functional currency of each entity is listed below:

**Marcopolo S.A.**  
*Accompanying Notes of the Management to the  
financial statements as of December 31, 2018 and 2017*

*In thousands of Brazilian reais, unless otherwise indicated*

|                                                          | <b>Name</b>       | <b>Functional<br/>Currency</b> | <b>Country</b>                |
|----------------------------------------------------------|-------------------|--------------------------------|-------------------------------|
| Apolo Soluções em Plásticos Ltda.                        | Apolo             | Brazilian reais                | Brazil                        |
| Banco Moneo S.A.                                         | Banco Moneo       | Brazilian reais                | Brazil                        |
| Ciferal Indústria de Ônibus Ltda.                        | Ciferal           | Brazilian reais                | Brazil                        |
| Ilmot International Corporation.                         | Ilmot             | U.S. Dollar                    | Uruguay                       |
| Marcopolo Auto Components Co.                            | MAC               | Renminbi                       | China                         |
| Marcopolo Austrália Holdings Pty Ltd.                    | MP Australia      | Australian Dollar              | Australia                     |
| Pologren Austrália Pty Ltd.                              | Pologren          | Australian Dollar              | Australia                     |
| Volgren Austrália Pty Ltd.                               | Volgren           | Australian Dollar              | Australia                     |
| Marcopolo Canadá Holdings Corp.                          | MP Canada         | Canadian Dollar                | Canada                        |
| Marcopolo International Corp.                            | MIC               | U.S. Dollar                    | Virgin Islands<br>United Arab |
| Marcopolo Middle East and Africa FZE                     | MP Middle East    | Dirham                         | Emirates                      |
| Marcopolo (Changzhou) Bus Manufacturing Co;Ltd.          | MBC               | Renminbi                       | China                         |
| Marcopolo South África Pty Ltd.                          | Masa              | Rande                          | South Africa                  |
| Marcopolo Trading S.A.                                   | Trading           | Brazilian reais                | Brazil                        |
| Moneo Investimentos S.A.                                 | Moneo             | Brazilian reais                | Brazil                        |
| Neobus Chile SPA.                                        | Neobus Chile      | Chilean Peso                   | Chile                         |
| NewRoad México S.A. de C.V.                              | NewRoad           | Mexican peso                   | Mexico                        |
| Rotas do Sul Logística Ltda.                             | Rotas do Sul      | Brazilian reais                | Brazil                        |
| San Marino Bus de México S.A. de C.V.                    | San Marino Mexico | Mexican peso                   | Mexico                        |
| San Marino Ônibus Ltda.                                  | San Marino        | Brazilian reais                | Brazil                        |
| Syncroparts Comércio e Distribuição de Peças Ltda.       | Syncroparts       | Brazilian reais                | Brazil                        |
| Polomex S.A. de C.V.                                     | Polomex           | U.S. Dollar                    | Mexico                        |
| Volare Veículos Ltda.                                    | Volare Veículos   | Brazilian reais                | Brazil                        |
| Volare Comércio e Distribuição de Veículos e Peças Ltda. | Volare Comércio   | Brazilian reais                | Brazil                        |
| <b>Jointly controlled companies</b>                      | <b>Name</b>       | <b>Functional<br/>Currency</b> | <b>Country</b>                |
| Kamaz Marco LLC.                                         | Kamaz             | Ruble                          | Russia                        |
| Loma Hermosa S.A.                                        | Loma              | Argentinian peso               | Argentina                     |
| Metalpar S.A.                                            | Metalpar          | Argentinian peso               | Argentina                     |
| Metalsur Carrocerias S.R.L.                              | Metalsur          | Argentinian peso               | Argentina                     |
| Superpolo S.A.                                           | Superpolo         | Colombian peso                 | Colombia                      |
| Tata Marcopolo Motors Limited.                           | TMML              | Rupee                          | India                         |
| <b>Affiliates</b>                                        | <b>Name</b>       | <b>Functional<br/>Currency</b> | <b>Country</b>                |
| GB Polo Bus Manufacturing S.A.E.                         | GB Polo           | Egyptian pound                 | Egypt                         |
| Mercobus S.A.C.                                          | Mercobus          | Nuevo Sol                      | Peru                          |
| New Flyer Industries Inc.                                | New Flyer         | Canadian Dollar                | Canada                        |
| Valeo Climatização do Brasil – Veículos Comerciais S.A.  | Valeo             | Brazilian reais                | Brazil                        |
| Valeo Thermal Commercial Vehicles México, SA CV          | Valeo Mexico      | Mexican peso                   | Mexico                        |
| Spheros Thermosystems Colômbia Ltda.                     | Spheros Colombia  | Colombian peso                 | Colombia                      |
| WSul Espumas Indústria e Comércio Ltda.                  | WSul              | Brazilian reais                | Brazil                        |

## 2.5 Foreign currency

### (a) Transactions in foreign currency

Transactions in foreign currency are translated into the respective functional currencies of the Company's entities at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated and determined in foreign currencies at the balance sheet

date are converted into the functional currency at the exchange rate on that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are converted into the functional currency at the exchange rate on the date when the fair value was determined. Non-monetary items that are measured based on historical cost in foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency differences resulting from translation are generally recognized in profit or loss.

However, exchange differences resulting from the conversion of the items listed below are recognized in other comprehensive income or loss:

- financial instruments (except in the case of impairment in which the exchange differences recognized in other comprehensive income or loss are transferred to income or loss);
- financial liability designated as a hedge of the net investment in a foreign operation, to the extent that the hedge is effective; and
- a qualified and effective hedge of cash flows.

**(b) Foreign operations**

Assets and liabilities of foreign operations, including goodwill and fair value adjustments resulting from the acquisition, are translated into Brazilian reais at the exchange rates determined at the balance sheet date. Revenues and expenses from foreign operations are translated into Brazilian real at the exchange rates determined on the transaction dates.

Foreign currency differences arising from translation into presentation currency are recognized in other comprehensive income or loss and accumulated in equity valuation adjustments in shareholders' equity. If the subsidiary is not a wholly-owned subsidiary, the corresponding portion of the translation difference is attributed to non-controlling shareholders.

When a foreign operation (controlled, affiliated or jointly controlled entity) is disposed of, the amount accumulated in the equity valuation adjustment account is reclassified to profit or loss as part of the disposal result. When the disposal is only part of the investment of a subsidiary that includes a foreign operation, so that the control is maintained, the corresponding portion of such accumulated amount is reassigned to the shareholding of the non-controlling shareholders. In any other partial sale of foreign operations, the portion corresponding to the sale is reclassified to the income or loss.

**2.6 Financial Instruments**

The Company classifies financial assets and liabilities in the following categories: at fair value through profit or loss ("FVTPL" - Fair Value Through Profit or Loss), at fair value through other comprehensive income ("FVOCI" - Fair Value through Other Comprehensive Income) and at amortized cost.

**2.6.1 Non-derivative financial assets and liabilities – recognition and derecognition**

The Company recognizes loans and receivables and debt instruments initially as of the date of origination. All other financial assets and liabilities are recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the rights to the receipt of the contractual cash flows on a

financial asset in a transaction in which substantially all the risks and benefits of ownership of the financial asset are transferred. Any interest that is created or retained by the Company in such transferred financial assets is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligation is withdrawn, canceled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

## **2.6.2 Non-derivative financial assets – measurement**

### **(a) Financial assets measured at fair value through other comprehensive income**

A debt instrument is measured at the FVOCI only if it satisfies both of the following conditions:

- the asset is maintained within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that represent payments of principal and interest on the outstanding principal amount.

### **(b) Financial assets measured at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions:

- the asset is maintained within a business model with the purpose of collecting contractual cash flows; and
- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost, at FVOCI or even FVTPL. This designation has the objective of eliminating or significantly reducing a possible accounting mismatch resulting from the result produced by the respective asset.

## **2.6.3 Non-derivative financial liabilities – measurement**

### **(a) Financial liabilities measured at fair value through profit or loss**

A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading or designated as such at the time of initial recognition. Transaction costs are recognized in the result as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value and changes in the fair value of these liabilities, including interest and dividend gains, are recognized in income for the year.

### **(b) Financial liabilities measured at amortized cost**

Non-derivative financial liabilities are initially measured at fair value plus, provided that not an item measured at fair value through profit or loss, the transaction costs that are directly attributable to their acquisition or issue.

## **2.6.4 Repurchase and redemption of shares – Treasury Shares**

When shares recognized as shareholders' equity are repurchased, the consideration paid, which includes any directly attributable costs, is recognized as a deduction from shareholders' equity. The repurchased shares are classified as treasury shares and presented as a deduction from shareholders' equity. When treasury shares are subsequently sold or reissued, the amount received is recognized as an increase in shareholders' equity, and the gain or loss resulting from the transaction is presented as a capital reserve.

## **2.6.5 Impairment**

### **(a) Non-derivative financial assets**

As of January 1, 2018, the Company began to evaluate, on a prospective basis, the expected credit losses associated with debt securities recorded at amortized cost and at fair value through other comprehensive income. The applied impairment methodology depends on whether or not there has been a significant increase in credit risk.

For the trade accounts receivable, the Company applies the simplified approach as permitted by IFRS 9/CPC 48 and, therefore, recognizes the expected losses over the useful life from the initial recognition of the receivables.

Objective evidence that financial assets had significantly increase in credit risk includes:

- delinquency or late payment by the debtor;
- restructuring of a value due to the Company under conditions that would not be accepted under normal conditions;
- indications that the debtor or issuer will go into bankruptcy/court-supervised reorganization;
- negative changes in the payments situation of debtors or issuers;
- the disappearance of an active market for the instrument due to financial difficulties; or
- observable data indicating that there was a decline in the measurement of the expected cash flows of a group of financial assets.

### **(b) Financial assets measured at amortized cost**

The Company considers evidence of impairment of assets measured at amortized cost, both individually and collectively. All individually significant assets are evaluated for impairment. Those that have not individually suffered an impairment are then evaluated collectively for any impairment that may have occurred but has not yet been identified. Assets that are not individually significant are collectively assessed for impairment based on the grouping of assets with similar risk characteristics.

In evaluating the impairment on a collective basis, the Company uses historical trends of the recovery period and the amounts of loss incurred, adjusted to reflect the Management's judgment as to whether current economic and credit conditions are such that losses are likely to be higher or lower than those suggested by historical trends.

An impairment is calculated as the difference between the book value and the present value of the estimated future cash flows discounted at the original effective interest rate of the asset. Losses are recognized in the result and reflected in a provision account. When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. When a subsequent event indicates an impairment, the impairment is reversed through the result.

**(c) Investees accounted for under the equity method**

An impairment relating to an investee accounted for under the equity method is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment is recognized in profit or loss and reversed if there was a favorable change in the estimates used to determine the recoverable value.

**(d) Non-financial assets**

The carrying amounts of the Company's non-financial assets other than inventories and deferred income tax and social contribution assets are reviewed at each reporting date to determine whether there is an indication of impairment. If there is such an indication, then the asset's recoverable value is estimated. In the case of goodwill and intangible assets with indefinite useful lives, the recoverable amount is tested annually.

Impairments are recognized in the result. Recognized impairments relating to Cash Generating Units (CGUs) are initially allocated to reduce any goodwill allocated to this CGU (or CGU group), and then to reduce the book value of other CGU assets (or CGU group) on a pro rata basis.

An impairment related to goodwill is not reversed. As for other assets, the impairments are reversed only to the extent to which the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if the impairment had not been recognized.

**2.7 Derivatives measured at fair value through profit or loss**

The derivative instruments taken out do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the income statement under "financial income (expenses)."

**2.8 Trade accounts receivable**

Trade accounts receivable correspond to amounts receivable from customers for the sale of goods or services in the ordinary course of business of the Company. If the term of receipt is equivalent to one year or less (or another that meets the normal cycle of operations of the Company), accounts receivable are classified in current assets. Otherwise, they are presented in non-current assets.

Trade accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less the provision for impairment.

**2.9 Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost of inventories is based on the average cost principle and includes expenses incurred in purchasing inventories, production and processing costs, and other costs incurred in bringing them to their existing locations and conditions. In the case of manufactured inventories and products in progress, the cost includes a portion of the manufacturing overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **2.10 Fixed Assets**

### *Recognition and measurement*

Items of fixed assets are stated at historical cost of acquisition or construction, less accumulated depreciation and cumulative impairment.

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of assets built by the Company itself includes:

- The cost of materials and direct labor;
- Any other costs to place the asset in the place and condition necessary for them to be able to operate in the manner intended by Management;
- The costs of dismantling and restoring the location where these assets are located; and
- Borrowing costs on qualifying assets.

When parts of an item of fixed assets have different useful lives, they are recorded as separate items (principal components) of the fixed assets.

Any gains and losses on the disposal of an item of fixed assets are recognized in the result.

### *Reclassification for investment property*

When property use changes from owner-occupied to investment property, the property is remeasured to its fair value and reclassified as investment property. Any gain resulting from this new measurement is recognized in profit or loss to the extent that the gain reverses a previous impairment on the specific property, any remaining gain is recognized as other comprehensive income in equity in the equity valuation adjustment reserve. Any loss is recognized immediately in the result.

### *Subsequent costs*

Subsequent expenses are capitalized to the extent that it is probable that future benefits associated with the expenses will be earned by the Company. Maintenance expenses and recurring repairs are recorded in the result.

### *Depreciation*

Items of property, plant and equipment are depreciated by the straight-line method in the statement of income based on the estimated economic useful life of each component. Leased assets are depreciated for the shorter period between the estimated useful life of the asset and the term of the agreement, unless it is reasonably certain that the Company will obtain ownership of the asset at the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date they are installed and are available for use, or in case of internally constructed assets, from the day construction is completed and the asset is available for use.

The estimated useful lives for the current and comparative year are as follows:

|                                   | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings                         | 40-60        |
| Machines                          | 10-15        |
| Vehicles                          | 7-8          |
| Furniture, fixtures and equipment | 5-12         |

The depreciation methods, the useful lives and the residual values are reviewed at each balance sheet date and adjusted if appropriate.

## **2.11 Intangible assets and goodwill**

### **(a) Goodwill**

Goodwill is represented by the positive difference between the amount paid or payable and the net amount of the fair value of the assets and liabilities of the acquired entity. Goodwill on acquisitions of subsidiaries is recorded as an “intangible asset.” If the acquirer determines negative goodwill, it should record the amount as gain in the result of the period, on the date of acquisition. Goodwill is tested annually for impairment and recorded at cost less accumulated impairment, which are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

### **(b) Trademarks and licenses**

Trademarks and licenses purchased separately are stated at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the date of acquisition, since they have a defined useful life and are accounted for at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses during their estimated useful life from 10 to 20 years.

### **(c) Software**

The purchased software licenses are capitalized based on the costs incurred to acquire the software and make it ready for use. These costs are amortized over their useful life of up to 5 years.

Costs associated with maintaining software are recognized as an expense, as incurred. Development costs that are directly attributable to the project and to the testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- . it is technically feasible to complete the software so that it is available for use;
- . the management intends to complete the software and use or sell it;
- . the software may be sold or used;
- . the software will generate probable future economic benefits, which can be demonstrated;
- . adequate technical, financial and other resources are available to complete the development and to use or sell the software; and
- . the expenditure attributable to the software during its development can be measured reliably.

Other development expenses that do not meet these criteria are recognized as an expense, as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

**(d) Research and development**

Expenses on research activities are recognized in the income statement as incurred.

Development costs are capitalized only if development costs can be measured reliably, if the product or process is technically and commercially viable, if the future economic benefits are probable, and if the Company has the intention and resources sufficient to complete the development and use or sell the asset. Capitalized expenditures include the cost of materials, direct labor, manufacturing costs that are directly attributable to the preparation of the asset for its proposed use, and borrowing costs. Other development expenses are recognized in the income statement as incurred.

After initial recognition, capitalized development expenses are measured at cost, less accumulated amortization and impairments.

**(e) Other intangible assets**

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

**(f) Subsequent expenditure**

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

**(g) Amortization**

Except for goodwill, amortization is recognized in the result by the straight-line method considering the estimated useful lives of intangible assets, as of the date they are available for use.

**2.8 Investment property**

Investment property is measured at cost.

Gains and losses on the disposal of an investment property (calculated as the difference between the net value received on the sale and the carrying amount of the item) are recognized in income or loss. When an investment property previously recognized as property, plant and equipment is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

**2.12 Accounts payable to suppliers**

Accounts payable to suppliers are obligations to pay for goods or services that were purchased from suppliers in the ordinary course of business, being classified as current liabilities if payment is due in the period of up to one year (or the normal operating cycle of business, even if longer). Otherwise, accounts payable are stated as noncurrent liabilities.

They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the corresponding invoice amount.

**2.14 Loans and Financing**

Loans and financing are initially recognized at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts received (net of transaction costs) and the redemption value is recognized in the income statement during the period in which the loans and financing are in progress, using the effective interest rate method.

Loans and financing are classified as current liabilities, unless the Company has an unconditional right

to defer settlement of the liability for at least 12 months after the balance sheet date.

## **2.15 Determination of the adjustment to present value**

Items subject to discount to present value are:

- Trade accounts receivable comprised of the forward sale to customers of the Company with low credit risk. The discount rate used by Management for the discount to present value for these items is 100% of the monthly CDI for domestic market customers and the market rate of the advance of foreign exchange contract for foreign market customers. The interest rate charged in a sales transaction is determined at the time of the initial registration of the transaction and is not adjusted subsequently; and
- Accounts payable to suppliers comprised of forward purchases from suppliers of the Company. The Company performed a calculation of the present value using the same assumptions used for accounts receivable.

## **2.16 Provisions**

A provision is recognized, based on a past event, if the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an economic resource will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks for the liability. The financial costs incurred are recorded in the result.

## **2.17 Provision for warranties**

A provision for warranties is recognized when the products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes in relation to the associated probabilities.

## **2.18 Income and social contribution taxes**

Income tax and social contribution for the current financial year and deferred financial year are calculated based on the tax rates of 15%, plus a surcharge of 10% on taxable income in excess of R\$240 for income tax and 9% on taxable income for social contribution on net income in the financial year, and consider the offsetting of tax losses and negative base of social contribution limited to 30% of taxable income.

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

### **(a) Income tax and social contribution expenses - current**

Current tax expense is the tax payable or receivable estimated on the taxable profit or loss for the year and any adjustment to taxes payable in respect of prior years. The amount of current tax payable or receivable is recognized in the balance sheet as tax assets or liabilities by the best estimate of the expected value of the taxes to be paid or received that reflects the uncertainties related to their determination, if any. It is measured based on tax rates enacted at the balance sheet date.

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

**(b) Income tax and social contribution expenses - deferred**

Deferred tax assets and liabilities are recognized in relation to temporary differences between the book values of assets and liabilities for financial statement purposes and those used for taxation purposes. The changes of deferred tax assets and liabilities for the year are recognized as income tax expense and deferred social contribution. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and does not affect either taxable profit or loss or accounting result;
- temporary differences related to investments in subsidiaries, affiliates and joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future; and
- temporary taxable differences arising from the initial recognition of goodwill.

A deferred tax asset is recognized in respect of tax losses and deductible temporary differences not used, to the extent that it is probable that future taxable profits will be available against which they will be used. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that their realization is no longer likely.

Deferred tax assets and liabilities are measured based on the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the tax rates that have been enacted up to the balance sheet date.

The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Company expects to recover or settle its assets and liabilities.

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

**2.19 Pension and post-employment benefits**

The Company recognizes its obligation with employee benefit plans and related costs, net of plan assets, adopting the following practices:

- (i) The cost of pension and other post-employment benefits acquired by employees is determined actuarially using the projected credit unit method and Management's best estimate of the expected performance of the plan's investments for funds, salary growth, employee retirement age and expected health care costs. The discount rate used to determine the obligation for future benefits is an estimate of the current interest rate at the balance sheet date;
- (ii) Pension plan assets are valued at market value;
- (iii) Past service costs arising from plan corrections are amortized on a straight-line basis over the average remaining service life of the active employees at the date of correction;
- (iv) Actuarial gains and losses are recognized immediately in the comprehensive income for the year;
- (v) Plan reductions result from significant changes in the expected service life of the active employees. A net loss is recognized with reduction when the event is probable and can be estimated, while the net gain with reduction is deferred until its realization.

In accounting for pension and post-employment benefits, various statistics and other factors are used in an attempt to anticipate future events in the calculation of the expense and the obligation related to the plans.

These factors include assumptions about discount rate, expected return on plan assets, future increases in cost with health care, and rate of future compensation increases.

In addition, actuarial consultants also use subjective factors such as termination, turnover and mortality rates to estimate these factors. The actuarial assumptions used by the Company may be materially different from actual results due to changes in economic and market conditions, regulatory events, court decisions, higher or lower termination rates or shorter or longer periods of life of participants.

## **2.20 Capital**

### *Common Shares*

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

### *Preferred Shares*

They are classified in shareholders' equity if they are not redeemable, or redeemable only at the option of the Company, and any dividends are discretionary. Discretionary dividends are recognized as distributions in shareholders' equity on the date of their approval by the Company's shareholders.

The distribution of minimum dividends and interest on shareholders' equity to Marcopolo's shareholders is recognized as a liability in the Company's financial statements at the end of the year, based on Marcopolo's articles of incorporation. Any amount above the mandatory minimum is only accrued on the date they are approved by the shareholders at the Annual Shareholders' Meeting.

## **2.21 Revenue recognition**

Operating income is recognized when the performance obligation is satisfied, taking into account the following control transfer indicators: (i) the entity has a present right to pay for the asset; (ii) the client has legal ownership of the asset; (iii) the entity transferred the physical ownership of the asset; (iv) the client has the significant risks and benefits of ownership of the asset; and (v) the client accepted the asset. Revenue is measured net of returns, trade discounts and bonuses, as well as after elimination of sales between companies.

### **(a) Sale of buses**

Revenue recognition does not occur until: (i) the cars have been delivered to the client; (ii) the risks of obsolescence and loss have been transferred to the client; (iii) the client has accepted the cars in accordance with the sales contract; and (iv) the acceptance provisions have been agreed, or the Company has objective evidence that all criteria for acceptance have been met.

Sales are recorded based on the price specified in the sales contracts, and are discounted to the present value.

## **2.22 Financial income and expenses**

The Company's financial income and expenses comprise:

- revenue and interest expense;
- net gains/losses on disposal of available-for-sale financial assets;

- net gains/losses on financial assets measured at fair value through profit or loss;
- net gains/losses from exchange rate change on financial assets and liabilities;
- impairment of fair value in contingent consideration classified as financial liabilities;
- impairment on financial assets (other than accounts receivable);
- net gains/losses on hedging instruments that are recognized in profit or loss; and
- reclassifications of net gains previously recognized in other comprehensive income.

Interest income and expense are recognized in the result using the effective interest method.

The Company classifies the interest on shareholders' equity received as cash flows from investing activities.

## **2.23 Standards, amendments and interpretations of standards**

### **(a) Standards, amendments and interpretations of existing standards that are not yet in force:**

The following new standard will be effective for fiscal years beginning after January 1, 2019 and was not adopted in the preparation of these financial statements. The Company does not plan to adopt this standard in advance.

#### **IFRS 16 - Leases (CPC 06 (R2) - Lease-Purchase Agreement Operations)**

This standard replaces the previous lease-purchase agreement standard, IAS 17/CPC 06 (R1), and related interpretations, and establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is, the customers (lessees) and suppliers (lessors). The lessees are required to recognize a lease liability reflecting future lease payments and a "right to use an asset" for virtually all lease agreements, with the exception of certain short-term leases and low value asset leases. For lessors, the accounting treatment remains practically the same, with the classification of leases as operating leases or financial leases, and accounting for these two types of lease differently. The new standard is effective as of January 1, 2019. The Company estimates an impact of not more than 0.4% of total consolidated assets.

The Accounting Pronouncements Committee has not yet issued accounting pronouncement or change in existing pronouncements corresponding to all the new IFRS. Therefore, the early adoption of these IFRS is not allowed for entities that disclose their financial statements in accordance with the accounting practices adopted in Brazil.

### **(b) Standards, amendments and interpretations of existing standards that came into effect on January 1, 2018:**

New standards, amendments and interpretations became effective as of January 2018.

The impacts of adopting these new standards are described below.

#### **IFRS 9 - Financial Instruments (CPC 48 - Financial Instruments)**

The Company adopted the standard as of January 1, 2018, which had the following changes:

- (i) classification and measurement of financial assets: inclusion of additional information in the accompanying notes as to the classification of the previous six categories of financial assets, for the current three categories indicated by the standard: at amortized cost, at fair value through profit or loss and at fair value by means of comprehensive income.

- (ii) impairment of financial assets: change in the valuation model for expected loss in three stages:  
*stage 1*) The Company applied a simplified approach considering the expected losses during the life of financial assets, except for the financial segment considering all possible default events within 12 months; *stage 2*) Expected credit loss over the life of the financial asset; and *stage 3*) Effective credit loss considering the model already applied by the Company.

In applying this valuation model, the Company considered its current assessment procedure based on loss history, its credit analysis policies and the credit risk characteristics of its operations. The change in the model did not result in a material impact on its financial information.

#### **IFRS 15 - Revenue from Contracts with Customers (CPC 47 - Revenue from Contracts with Customers)**

The Company adopted the standard as of January 1, 2018. CPC 47/IFRS 15 defines that when a performance obligation is satisfied, the entity shall recognize as revenue the value of the transaction price that is allocated to that performance obligation. The Company considers the extended warranty as a performance obligation in its contracts with customers. There was no material impact on financial information in the period, since revenue is recognized when the performance obligation is met.

### **3 Critical accounting estimates and criteria**

Estimates and accounting judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are considered reasonable for the circumstances.

Based on assumptions, the Company makes estimates about the future. By definition, the resulting accounting estimates are rarely equal to their actual results. The estimates and assumptions that present a significant risk, with a probability of causing a material adjustment to the book values of assets and liabilities for the next fiscal year, are covered below.

#### **(a) Estimated impairment of goodwill**

The Company annually tests for possible impairment of goodwill, in accordance with the accounting practice presented in Note 2.11. The recoverable amounts of CGUs were determined based on calculations of the value in use, based on estimates (Note 14).

#### **(b) Income tax, social contributions and other taxes**

The Company is subject to income tax in all countries in which it operates. A significant judgment is required to determine the provision for income taxes in these various countries.

### **4 Financial risk management**

#### **4.1 Risk factors**

##### **(a) Market risk**

##### **(i) Foreign exchange risk**

The Company's results are susceptible to variations, since its assets and liabilities are linked to the volatility of the exchange rate, mainly the US dollar.

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As a strategy to prevent the reduction of the effects of exchange rate fluctuations, Management has adopted the policy of maintaining a natural hedge with the maintenance of related assets susceptible to exchange rate change.

As of December 31, 2018 and 2017, the Company had assets, liabilities and forwards denominated in foreign currency in the amounts described below:

|                      | <b>Consolidated</b>                      |                  |                |                 |
|----------------------|------------------------------------------|------------------|----------------|-----------------|
|                      | <b>2018</b>                              |                  |                |                 |
|                      | <b>Trade<br/>accounts<br/>receivable</b> | <b>Suppliers</b> | <b>Loans</b>   | <b>Forwards</b> |
| Currencies           |                                          |                  |                |                 |
| Dirhams              | 167                                      | 295              | -              | -               |
| US Dollars           | 390,502                                  | 15,941           | 664,560        | 151,411         |
| Australian Dollars   | 55,489                                   | 40,892           | 136,860        | 1,165           |
| Chilean pesos        | -                                        | 983              | 49             | -               |
| South African Randes | 39,689                                   | 2,924            | 3,363          | 9,627           |
| Chinese Renminbi     | 6,736                                    | 10,123           | 32,736         | -               |
|                      | <u>492,583</u>                           | <u>71,158</u>    | <u>837,568</u> | <u>162,203</u>  |
|                      | <b>Consolidated</b>                      |                  |                |                 |
|                      | <b>2017</b>                              |                  |                |                 |
|                      | <b>Trade<br/>accounts<br/>receivable</b> | <b>Suppliers</b> | <b>Loans</b>   | <b>Forwards</b> |
| Currencies           |                                          |                  |                |                 |
| US Dollars           | 339,614                                  | 41,172           | 332,336        | 334,117         |
| Australian Dollars   | 33,936                                   | 32,372           | 90,527         | 26,146          |
| Chilean pesos        | -                                        | -                | 3,993          | -               |
| South African Randes | 14,143                                   | 3,528            | 808            | 808             |
| Chinese Renminbi     | 8,706                                    | 10,423           | 20,262         | -               |
|                      | <u>396,399</u>                           | <u>87,495</u>    | <u>447,926</u> | <u>361,071</u>  |

**(ii) Interest rate risk**

The Company's results are susceptible to losses due to fluctuations in interest rates that increase financial expenses related to loans and financing raised in the market, or decrease financial income related to financial investments. The Company continuously monitors market interest rates in order to assess the possible need to contract new operations to hedge against the risk of volatility of these rates.

**(iii) Risks of sales price and purchases**

Considering that exports are equivalent to 34.5% of revenues expected for 2019, any exchange rate volatility actually represents a price risk that could alter the results planned by the Management.

On the other hand, purchases of raw materials considered commodities represent approximately 23% of total purchases and thus subject the Company to the effects of the oscillations in the market prices of these items.

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To mitigate these risks, the Company continuously monitors price developments.

**(b) Credit risk**

Credit risk is managed corporately. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as from credit exposures to customers, including outstanding accounts receivable and repurchase agreements. If there is no independent rating, the credit analysis area evaluates the credit quality of the customer, taking into account their financial position, past experience and other factors. The individual risk limits are determined based on internal or external classifications in accordance with the limits determined by the Board of Directors. The use of credit limits is monitored regularly.

The Company also has a provision for doubtful accounts in the amount of R\$53,939 (controlling company) and R\$151,705 (consolidated) as of December 31, 2018 (R\$39,470 and R\$120,180 as of December 31, 2017) 8.9% and 9.4%, respectively, of the balance of accounts receivable of the controlling company and the outstanding consolidated (9.5% and 8.8% as of December 31, 2017), which was set up against credit risk.

**(c) Liquidity risk**

It is the risk that the Company may not have sufficient net funds to honor its financial commitments, as a result of the mismatch of term or volume between expected receipts and payments.

In order to manage the liquidity of the cash in local and foreign currency, premises of disbursements and future receipts are established, being monitored daily by the Treasury area.

|                                             |                        | <b>Consolidated</b>       |                                  |                                   |                         |
|---------------------------------------------|------------------------|---------------------------|----------------------------------|-----------------------------------|-------------------------|
|                                             |                        | <b>2018</b>               |                                  |                                   |                         |
|                                             |                        | <b>Contract cash flow</b> |                                  |                                   |                         |
|                                             | <b>Carrying amount</b> | <b>Total</b>              | <b>Between one and two years</b> | <b>Between two and five years</b> | <b>Above five years</b> |
| <b>Non-derivative financial liabilities</b> |                        |                           |                                  |                                   |                         |
| Loans and financing                         | 1,934,160              | 2,175,322                 | 833,990                          | 1,174,668                         | 166,664                 |
| Suppliers                                   | 418,247                | 418,247                   | 418,247                          | -                                 | -                       |
| <b>Derivative financial liabilities</b>     |                        |                           |                                  |                                   |                         |
| Derivative financial instruments            | 48                     | 48                        | 48                               | -                                 | -                       |

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|                                             |                    |           |                                 |                                  | Consolidated        |
|---------------------------------------------|--------------------|-----------|---------------------------------|----------------------------------|---------------------|
|                                             |                    |           |                                 |                                  | 2017                |
|                                             |                    |           |                                 |                                  | Contract cash flow  |
|                                             | Carrying<br>amount | Total     | Between one<br>and two<br>years | Between two<br>and five<br>years | Above<br>five years |
| <b>Non-derivative financial liabilities</b> |                    |           |                                 |                                  |                     |
| Loans and financing                         | 1,940,666          | 2,175,244 | 894,605                         | 1,082,033                        | 198,606             |
| Suppliers                                   | 366,399            | 366,399   | 366,399                         | -                                | -                   |
| <b>Derivative financial liabilities</b>     |                    |           |                                 |                                  |                     |
| Derivative financial instruments            | 2,811              | 2,811     | 2,811                           | -                                | -                   |

**(d) Additional sensitivity analysis required by CVM**

The following table shows the sensitivity analysis of the financial instruments, which describes the risks that may cause material variations for the Company, with a more probable scenario (scenario I), according to an evaluation carried out by Management, considering a 12-month horizon when the next financial statements should be disclosed. In addition, two other scenarios are shown that, if they occur, may generate adverse results for the Company, scenario II being a possible deterioration of 25% and scenario III a deterioration of 50%, under the terms determined by the CVM, through Instruction No. 475/08.

| Assumptions                                                                | Effects of the accounts on the result                | Scenario<br>likely<br>(Scenario I) | (Scenario II) | (Scenario III) |
|----------------------------------------------------------------------------|------------------------------------------------------|------------------------------------|---------------|----------------|
| CDI - %                                                                    |                                                      | 6.50                               | 8.13          | 9.75           |
| TJLP (Long Term Interest Rate) - %                                         |                                                      | 7.03                               | 8.79          | 10.55          |
| Exchange Rate - US\$                                                       |                                                      | 3.80                               | 4.75          | 5.70           |
| Exchange Rate - Euro                                                       |                                                      | 4.47                               | 5.59          | 6.71           |
| LIBOR - %                                                                  |                                                      | 2.85                               | 3.57          | 4.28           |
| Cost of ACC (Advances on Foreign Exchange Contracts) negative goodwill - % |                                                      | 4.50                               | 5.63          | 6.75           |
|                                                                            | Financial investments                                | 42,318                             | 51,833        | 62,229         |
|                                                                            | Interbank accounts                                   | 76,262                             | 96,159        | 106,666        |
|                                                                            | Loans and financing                                  | (112,081)                          | (271,307)     | (431,111)      |
|                                                                            | Forwards                                             | 1,064                              | 7,060         | 22,623         |
|                                                                            | Accounts receivable subtracted from accounts payable | (9,377)                            | 110,674       | 230,725        |
|                                                                            | Gain/(Loss)                                          | (1,905)                            | (5,694)       | (9,004)        |

**4.2 Management of capital**

The Company's objective in managing capital is to safeguard the ability of its operational continuity, to guarantee return to shareholders, maintaining an optimized capital structure to reduce capital costs.

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Aiming at sustainability and perpetuation of activities, in addition to social and environmental aspects, the Company emphasizes the economic-financial results, which result in added value to the business and a return to shareholders. For performance monitoring, the methodology called Management Value Added (MVA) was adopted, starting in 2001, which directs the focus of the operational actions which result in superior financial performance. This program trained personnel in the development and use of benchmarking and control instruments to achieve goals, facilitating the simulation and analysis of efficiency in working capital management and the effects of new investments in the Company's profitability. Concomitantly, Marcopolo adopted the BSC (Balanced Score Card) concepts that translate each unit's strategy into objectives, drivers, goals and action plans, which are monitored and managed frequently. The tools related to the objectives are: WACC (Weighted Average Cost of Capital), Net Debt/EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and Debt/Equity Ratio. In recent years, these key indicators have been:

WACC - between 8% and 12% p.a.

Net Debt/EBITDA - between 1.50x and 2.50x

Debt/Equity Ratio - between 25% and 80%

The financial leverage indices as of December 31, 2018 and 2017 can be summarized as follows (Note 31):

|                                         | <u>Consolidated</u> |                  | <u>Industrial Segment</u> |                  | <u>Financial Segment</u> |                |
|-----------------------------------------|---------------------|------------------|---------------------------|------------------|--------------------------|----------------|
|                                         | <u>2018</u>         | <u>2017</u>      | <u>2018</u>               | <u>2017</u>      | <u>2018</u>              | <u>2017</u>    |
| Total loans                             | 1,934,160           | 1,940,666        | 1,488,852                 | 1,442,663        | 445,308                  | 498,003        |
| Derivative financial instruments        | 48                  | 2,811            | 48                        | 2,811            | -                        | -              |
| Minus: cash and cash equivalents        | (863,467)           | (958,759)        | (833,839)                 | (946,698)        | (29,628)                 | (12,061)       |
| Minus: financial investments            | (89,928)            | (187,373)        | (89,928)                  | (187,373)        | -                        | -              |
| Minus: derivative financial instruments | (1,453)             | (445)            | (1,453)                   | (445)            | -                        | -              |
| Net Debt (A)                            | <u>979,360</u>      | <u>796,900</u>   | <u>563,680</u>            | <u>310,958</u>   | <u>415,680</u>           | <u>485,942</u> |
| Total shareholders' equity (B)          | <u>2,134,631</u>    | <u>1,928,612</u> | <u>1,908,816</u>          | <u>1,694,943</u> | <u>225,815</u>           | <u>233,669</u> |
| Financial Leverage Ratio - % (A/B)      | 46                  | 41               | 30                        | 18               | 184                      | 208            |

### 4.3 Estimation of fair value

It is assumed that the balances of accounts receivable from customers and accounts payable to suppliers at their carrying amount, less impairment, are close to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows by the current market interest rate that is available to the Company for similar financial instruments.

The Company applies CPC 40/IFRS 7 to financial instruments measured in the balance sheet at fair value, which requires disclosure of fair value measurements by the level of the following measurement hierarchy at fair value:

- . Quoted (unadjusted) prices in active markets for identical assets and liabilities (level 1);
- . Information, in addition to the quoted prices, included in level 1 that are adopted by the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and

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- . Inserts for assets or liabilities that are not based on the data adopted by the market (i.e., unobservable inserts (level 3)).

The table below shows the Company's assets and liabilities measured at fair value as of December 31, 2018 and 2017, which were fully classified in level 2:

|                                                            | <b>Consolidated</b> |                |
|------------------------------------------------------------|---------------------|----------------|
|                                                            | <b>2018</b>         | <b>2017</b>    |
| <b>Assets</b>                                              |                     |                |
| Financial assets at fair value through income or loss      |                     |                |
| - Derivatives for trading                                  | 1,453               | 445            |
| - Related Parties                                          | 13,260              | 14,118         |
| - Certificates of bank deposits                            | 89,928              | 187,373        |
|                                                            | <u>104,641</u>      | <u>201,936</u> |
| <b>Liabilities</b>                                         |                     |                |
| Financial liabilities at fair value through profit or loss |                     |                |
| - Derivatives for trading                                  | 4,417               | 2,811          |
|                                                            | <u>4,417</u>        | <u>2,811</u>   |

#### 4.4 Other risk factors

The Company, at the initiative of the Board of Directors, may carry out internal evaluation procedures whenever external or internal factors indicate the possibility that misstatements in the financial statements may have occurred. Such procedures are performed independently, with or without the support of external experts, and their results are reported to the Board of Directors.

## 5 Financial instruments by category

### (a) Financial assets measured at fair value through profit or loss

- (i) Financial investments - Financial investments are classified as held for trading. The market value is reflected in the amounts recorded in the balance sheets; and
- (ii) Derivatives - The derivative instruments obtained by the Company are intended to protect its portfolio ordering operations and exposure to fluctuations risks in exchange rates and interest rates, and are not used for speculative purposes.

### (b) Financial assets measured at amortized cost

- (i) Cash and cash equivalents - Checking account balances held at banks have their market values similar to the accounting balances, considering their characteristics and maturities;
- (ii) Trade accounts receivable - Amounts receivable from customers for the sale of goods and provision of services; and
- (iii) Related parties – Represented by mutual loans.

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

- (i) Derivatives - The derivative instruments obtained by the Company are intended to protect its portfolio ordering operations and exposure to fluctuations risks in exchange rates and interest rates, and are not used for speculative purposes.

**(d) Financial liabilities measured at amortized cost**

- (i) Loans and financing - Loans and financing are recorded based on the contractual interest of each operation. The difference between the carrying amount and the market value, determined by the discounted cash flow method, can be summarized as follows:

| Nature of the asset | Consolidated |              |            |              |
|---------------------|--------------|--------------|------------|--------------|
|                     | 2018         |              | 2017       |              |
|                     | Book Value   | Market value | Book Value | Market value |
| Loans and financing | 1,934,160    | 1,877,767    | 1,940,666  | 1,927,858    |

- (ii) Suppliers – Represented by amounts payable for the purchase of goods and services.

The tables below show the classification of financial instruments according to IFRS 9:

|                                    | Controlling company                  |                   |           |                                      |                       |           |
|------------------------------------|--------------------------------------|-------------------|-----------|--------------------------------------|-----------------------|-----------|
|                                    | 2018                                 |                   |           | 2017                                 |                       |           |
|                                    | At fair value through profit or loss | At amortized cost | Total     | At fair value through profit or loss | Loans and receivables | Total     |
| Assets                             |                                      |                   |           |                                      |                       |           |
| Cash and cash equivalents          | -                                    | 653,573           | 653,573   | -                                    | 739,529               | 739,529   |
| Financial investments              | 89,928                               | -                 | 89,928    | 201,905                              | -                     | 201,905   |
| Trade receivables                  | -                                    | 553,646           | 553,646   | -                                    | 376,965               | 376,965   |
| Derivative assets instruments      | 417                                  | -                 | 417       | 229                                  | -                     | 229       |
| Liabilities                        |                                      |                   |           |                                      |                       |           |
| Loans                              | -                                    | 1,009,129         | 1,009,129 | -                                    | 1,014,358             | 1,014,358 |
| Derivative liabilities instruments | -                                    | -                 | -         | 986                                  | -                     | 986       |

|                                    | Consolidated                         |                   |           |                                      |                       |           |
|------------------------------------|--------------------------------------|-------------------|-----------|--------------------------------------|-----------------------|-----------|
|                                    | 2018                                 |                   |           | 2017                                 |                       |           |
|                                    | At fair value through profit or loss | At amortized cost | Total     | At fair value through profit or loss | Loans and receivables | Total     |
| Assets                             |                                      |                   |           |                                      |                       |           |
| Cash and cash equivalents          | -                                    | 863,467           | 863,467   | -                                    | 958,759               | 958,759   |
| Financial investments              | 89,928                               | -                 | 89,928    | 201,491                              | -                     | 201,491   |
| Trade receivables                  | -                                    | 1,101,973         | 1,101,973 | -                                    | 1,250,083             | 1,250,083 |
| Derivative assets instruments      | 1,453                                | -                 | 1,453     | 445                                  | -                     | 445       |
| Liabilities                        |                                      |                   |           |                                      |                       |           |
| Loans                              | -                                    | 1,934,160         | 1,934,160 | -                                    | 1,940,666             | 1,940,666 |
| Derivative liabilities instruments | 48                                   | -                 | 48        | 2,811                                | -                     | 2,811     |

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**(e) Derivative financial instruments**

The table below presents an estimate of the market value of our position with the NDFs and Forward contracts. Unrealized gains and losses on derivative transactions are recorded (if loss) under the heading of derivative financial instruments or (if gain) under derivative financial instruments and the corresponding entry in the result in the heading financial income or expenses - exchange rate change, respectively.

**Assets**

|                            |               |          |          |          | Notional<br>value | Fair value |      | Values<br>receivable |      |    |
|----------------------------|---------------|----------|----------|----------|-------------------|------------|------|----------------------|------|----|
| Company                    | Counterparty  | Position | Start    | End      | 2018              | 2018       | 2017 | 2018                 | 2017 |    |
| <b><u>Marcopolo</u></b>    |               |          |          |          | USD<br>thousand   |            |      |                      |      |    |
|                            | BRABESCO      | Sale     | 12.27.18 | 01.18.19 | 3,700             | 49         | 45   | 49                   | 45   |    |
|                            | SANTANDER     | Sale     | 12.26.18 | 01.18.19 | 3,800             | 198        | 132  | 198                  | 132  |    |
|                            | SAFRA         | Sale     | 12.26.18 | 01.18.19 | 3,800             | 170        | 52   | 170                  | 52   |    |
|                            |               |          |          |          |                   | 417        | 229  | 417                  | 229  |    |
| <b><u>Masa</u></b>         |               |          |          |          | USD<br>thousand   |            |      |                      |      |    |
|                            | STD           | Purchase | 09.27.18 | 02.04.19 | 4,919             | 183        | -    | 183                  | -    |    |
|                            |               |          |          |          |                   | 183        | -    | 183                  | -    |    |
| <b><u>MP Australia</u></b> |               |          |          |          | USD<br>thousand   |            |      |                      |      |    |
|                            | WESTERN UNION | Purchase | 11.08.18 | 12.10.19 | 4,993             | 612        | 69   | 613                  | 69   |    |
|                            | CITIBANK      | Purchase |          |          | CNY<br>thousand   | -          | 95   | -                    | 95   |    |
|                            | CITIBANK      | Purchase | 11.08.18 | 11.07.19 | CHF<br>Thousand   | 1,219      | 121  | -                    | 121  | -  |
|                            | CITIBANK      | Purchase | 11.09.18 | 10.10.19 | SGD<br>Thousand   | 1,320      | 119  | 24                   | 119  | 24 |
|                            |               |          |          |          |                   | 852        | 188  | 852                  | 188  |    |
| <b><u>San Marino</u></b>   |               |          |          |          | USD<br>thousand   |            |      |                      |      |    |
|                            | SANTANDER     | Sale     |          |          |                   | -          | 9    | -                    | 9    |    |
|                            |               |          |          |          |                   | -          | 9    | -                    | 9    |    |
| <b><u>Ciferal</u></b>      |               |          |          |          | USD<br>thousand   |            |      |                      |      |    |
|                            | BRABESCO      | Sale     |          |          |                   | -          | 19   | -                    | 19   |    |
|                            |               |          |          |          |                   | -          | 19   | -                    | 19   |    |
|                            |               |          |          |          |                   | 1,453      | 445  | 1,453                | 445  |    |

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**Liabilities**

|                     |               |          |          |          | Notional<br>value | Fair value |         | Values<br>payable |         |
|---------------------|---------------|----------|----------|----------|-------------------|------------|---------|-------------------|---------|
| Company             | Counterparty  | Position | Start    | End      | 2018              | 2018       | 2017    | 2018              | 2017    |
| <b>Marcopolo</b>    |               |          |          |          | USD<br>thousand   |            |         |                   |         |
|                     | BRADESCO      | Sale     |          |          |                   | -          | (199)   | -                 | (199)   |
|                     | SANTANDER     | Sale     |          |          |                   | -          | (579)   | -                 | (579)   |
|                     | FIBRA         | Sale     |          |          |                   | -          | (203)   | -                 | (203)   |
|                     | SAFRA         | Sale     |          |          |                   | -          | (5)     | -                 | (5)     |
|                     |               |          |          |          |                   | -          | (986)   | -                 | (986)   |
| <b>Ciferal</b>      |               |          |          |          | USD<br>thousand   |            |         |                   |         |
|                     | BRADESCO      | Sale     |          |          |                   | -          | (553)   | -                 | (553)   |
|                     |               |          |          |          |                   | -          | (553)   | -                 | (553)   |
| <b>San Marino</b>   |               |          |          |          | USD<br>thousand   |            |         |                   |         |
|                     | SANTANDER     | Sale     |          |          |                   | -          | (110)   | -                 | (110)   |
|                     |               |          |          |          |                   | -          | (110)   | -                 | (110)   |
| <b>MP Australia</b> |               |          |          |          | USD<br>thousand   |            |         |                   |         |
|                     | WESTERN UNION | Purchase |          |          |                   | -          | (34)    | -                 | (34)    |
|                     |               |          |          |          | SGD<br>Thousand   |            |         |                   |         |
|                     | CITIBANK      | Purchase |          |          |                   | -          | (1)     | -                 | (1)     |
|                     |               |          |          |          | CHF<br>Thousand   |            |         |                   |         |
|                     | CITIBANK      | Purchase |          |          |                   | -          | (85)    | -                 | (85)    |
|                     |               |          |          |          | CNY<br>thousand   |            |         |                   |         |
|                     | CITIBANK      | Purchase | 10.16.18 | 01.17.19 | 724               | (6)        | -       | (6)               | -       |
|                     |               |          |          |          |                   | (6)        | (120)   | (6)               | (120)   |
| <b>Masa</b>         |               |          |          |          | USD<br>thousand   |            |         |                   |         |
|                     | STD           | Purchase | 12.19.18 | 12.28.19 | 1,237             | (42)       | (864)   | (42)              | (864)   |
|                     | ABSA          | Purchase |          |          |                   | -          | (178)   | -                 | (178)   |
|                     |               |          |          |          |                   | (42)       | (1,042) | (42)              | (1,042) |
|                     |               |          |          |          |                   | (48)       | (2,811) | (48)              | (2,811) |

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Marcopolo recorded gains and losses on derivatives for the years ended December 31, 2018 and 2017 as follows:

|                 | Realized gains/losses   |        |                                     |         |
|-----------------|-------------------------|--------|-------------------------------------|---------|
|                 | Interest on derivatives |        | Exchange Rate Change on Derivatives |         |
|                 | 2018                    | 2017   | 2018                                | 2017    |
| Marcopolo       | 4,149                   | 13,117 | (17,032)                            | 603     |
| Ciferal         | 742                     | -      | (5,263)                             | (810)   |
| Volare Veículos | -                       | -      | -                                   | 10      |
| San Marino      | 808                     | (49)   | (7,495)                             | (4,202) |
| Polomex         | -                       | -      | -                                   | 5,547   |
| Masa            | -                       | -      | (2,651)                             | -       |

## 6 Consolidated financial statements

The consolidated financial statements include the statements of Marcopolo S.A. and its subsidiaries, as follows:

### (a) Subsidiaries

|                       | Percentage of equity interest |          |                              |        |          |                              |
|-----------------------|-------------------------------|----------|------------------------------|--------|----------|------------------------------|
|                       | 2018                          |          |                              | 2017   |          |                              |
|                       | Direct                        | Indirect | Non-controlling shareholders | Direct | Indirect | Non-controlling shareholders |
| Apolo                 | 65.00                         | -        | 35.00                        | 65.00  | -        | 35.00                        |
| Banco Moneo           | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| MP Middle East        | 100.00                        | -        | -                            | -      | -        | -                            |
| Ciferal               | 99.99                         | 0.01     | -                            | 99.99  | 0.01     | -                            |
| Ilmot                 | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| MAC                   | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| MBC                   | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| MIC                   | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| Masa                  | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| Trading               | 99.99                         | -        | 0.01                         | 99.99  | -        | 0.01                         |
| Moneo                 | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| MP Australia          | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| MP Canada             | 100.00                        | -        | -                            | 100.00 | -        | -                            |
| Pologren (1)          | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| Volgren (1)           | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| Polomex               | 3.61                          | 70.39    | 26.00                        | 3.61   | 70.39    | 26.00                        |
| San Marino            | 99.90                         | 0.10     | -                            | 100.00 | -        | -                            |
| Rotas do Sul (2)      | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| San Marino Mexico (2) | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| NewRoad (2)           | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| Neobus Chile (2)      | -                             | 100.00   | -                            | -      | 100.00   | -                            |
| Syncroparts           | 99.99                         | 0.01     | -                            | 99.99  | 0.01     | -                            |
| Volare Veículos       | 99.90                         | 0.10     | -                            | 99.90  | 0.10     | -                            |
| Volare Comércio       | 99.90                         | 0.10     | -                            | 99.90  | 0.10     | -                            |
| Volare Peru           | -                             | -        | -                            | 99.90  | 0.10     | -                            |

(1) Consolidated in MP Australia.

(2) Consolidated in San Marino.

In preparing the consolidated financial statements, the following practices should be highlighted:

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- (a) Elimination of the balances of the assets and liabilities accounts among the consolidated companies;
- (b) Elimination of equity interests, reserves and retained earnings of subsidiaries;
- (c) Elimination of income and expense balances, as well as unrealized profits, arising from intercompany transactions. Unrealized losses are eliminated in the same manner, but only when there is no evidence of difficulties in recovering related assets;
- (d) Elimination of taxes on unrealized profit and presented as deferred taxes in the consolidated balance sheet; and
- (e) Highlight of the value of non-controlling interest in the consolidated financial statements.

**(b) Joint ventures (non-consolidated)**

|              | <b>Percentage of equity interest</b> |                 |               |                 |
|--------------|--------------------------------------|-----------------|---------------|-----------------|
|              | <b>2018</b>                          |                 | <b>2017</b>   |                 |
|              | <b>Direct</b>                        | <b>Indirect</b> | <b>Direct</b> | <b>Indirect</b> |
| Kamaz        | 50.00                                | -               | 50.00         | -               |
| Loma         | 50.00                                | -               | 50.00         | -               |
| Metalpar (1) | 1.00                                 | 49.00           | 1.00          | 49.00           |
| Metalsur (1) | -                                    | 25.50           | -             | 25.50           |
| Superpolo    | 20.61                                | 29.39           | 20.61         | 29.39           |
| TMML         | 49.00                                | -               | 49.00         | -               |

(1) Consolidates into joint venture (non-consolidated) Loma;

The amount of the main balances of the financial statements of these companies is shown as follows:

|           | <b>Assets</b> |             | <b>Liabilities</b> |             | <b>Net revenue</b> |             | <b>Profit (loss)</b> |             |
|-----------|---------------|-------------|--------------------|-------------|--------------------|-------------|----------------------|-------------|
|           | <b>2018</b>   | <b>2017</b> | <b>2018</b>        | <b>2017</b> | <b>2018</b>        | <b>2017</b> | <b>2018</b>          | <b>2017</b> |
| Kamaz     | 634           | 1,249       | 1,798              | 1,709       | 236                | 73          | (730)                | (732)       |
| Loma      | 168,387       | 256,199     | 111,397            | 193,291     | 356,193            | 471,143     | (29,396)             | 16,800      |
| Superpolo | 286,801       | 228,628     | 188,883            | 140,986     | 249,437            | 172,209     | 17,933               | 18,016      |
| TMML      | 219,539       | 197,134     | 150,406            | 143,614     | 371,613            | 268,086     | 11,353               | 8,729       |

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**(c) Affiliates (non-consolidated)**

|                      | <b>Percentage of equity interest</b> |                 |               |                 |
|----------------------|--------------------------------------|-----------------|---------------|-----------------|
|                      | <b>2018</b>                          |                 | <b>2017</b>   |                 |
|                      | <b>Direct</b>                        | <b>Indirect</b> | <b>Direct</b> | <b>Indirect</b> |
| GB Polo              | 20.00                                | -               | 20.00         | -               |
| Mercobus             | 40.00                                | -               | 40.00         | -               |
| New Flyer            | -                                    | 10.57           | -             | 10.47           |
| Valeo                | 40.00                                | -               | 40.00         | -               |
| Setbus (1)           | -                                    | 40.00           | 25.10         | 21.96           |
| Spheros Colombia (1) | -                                    | 40.00           | -             | 40.00           |
| Valeo Mexico (1)     | -                                    | 40.00           | -             | 40.00           |
| WSul                 | 30.00                                | -               | 30.00         | -               |

(1) Consolidates into the affiliate (non-consolidated) Valeo.

The amount of the main balances of the financial statements of these companies is shown as follows:

|          | <b>Assets</b> |             | <b>Liabilities</b> |             | <b>Net revenue</b> |             | <b>Profit (loss)</b> |             |
|----------|---------------|-------------|--------------------|-------------|--------------------|-------------|----------------------|-------------|
|          | <b>2018</b>   | <b>2017</b> | <b>2018</b>        | <b>2017</b> | <b>2018</b>        | <b>2017</b> | <b>2018</b>          | <b>2017</b> |
| GBPolo   | 65,044        | 20,044      | 86,084             | 28,576      | 43,413             | 28,793      | 3,370                | (4,529)     |
| Mercobus | 4,039         | 3,914       | 974                | 621         | 8,032              | 8,447       | 2,308                | 2,485       |
| Setbus   | -             | 13,605      | -                  | 26,454      | 17,153             | 17,150      | 1,125                | 781         |
| Valeo    | 158,705       | 125,776     | 75,670             | 48,651      | 221,935            | 166,813     | 38,708               | 25,648      |
| WSul     | 17,892        | 11,170      | 4,569              | 1,253       | 41,246             | 24,661      | 5,407                | 3,293       |

The following is the nature of the equity interests:

Apolo Soluções em Plásticos Ltda. – with a 65% interest in the capital, it is located in Caxias do Sul, State of Rio Grande do Sul, Brazil, and its purpose is injection of plastic parts, development, manufacture and trade of plastic products and materials.

Marcopolo Middle East and Africa FZE. – Wholly-owned subsidiary located in Dubai, United Arab Emirates. Marcopolo Middle East aims to develop trade relations with the Middle East. The entity name was changed from Brasa Middle East FZE to Marcopolo Middle East and Africa FZE in October 2018.

Moneo Investimentos S.A. – Wholly-owned subsidiary, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Moneo's purpose is to hold interest in other companies exclusively in those that are characterized by being financial institutions or other institutions authorized to operate by the Central Bank of Brazil and has the following wholly-owned subsidiary:

- Banco Moneo S.A. – located in Caxias do Sul, State of Rio Grande do Sul, Brazil, is engaged in banking activity in general, in all modalities for which it is authorized by the Central Bank and operates in the Brazilian market.

Ciferal Indústria de Ônibus Ltda. – Wholly-owned subsidiary, located in Duque de Caxias, State of Rio de Janeiro, Brazil, is engaged in manufacturing bus and micro-bus bodies, their parts, components and accessories, manufactured by itself.

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San Marino Ônibus Ltda. – Wholly-owned subsidiary, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. San Marino is engaged in manufacturing bodies for buses and minibuses, their parts, components and accessories, manufactured by itself, and holding interest in other companies, with the following subsidiaries:

- San Marino Bus de México S.A. de C.V. – Wholly-owned subsidiary, located in Toluca, State of Mexico, Mexico, is engaged in manufacturing bus bodies.
- Rotas do Sul Logística Ltda. – Wholly-owned subsidiary, located in Caxias do Sul, State of Rio Grande do Sul, Brazil, is engaged in transportation services.
- NewRoad México S.A. de C.V. – Wholly-owned subsidiary, located in Mexico, is engaged in coupling bodies and parts sales.
- Neobus Chile SPA – Wholly-owned subsidiary located in Chile, is engaged in marketing products and parts.

Ilmot International Corporation. – Wholly-owned subsidiary located in Uruguay. Ilmot is engaged in holding interest in other companies and has the following subsidiaries/affiliates:

- Polomex S.A. de C.V. – located in Monterrey, Nuevo León, Mexico, with an interest of 70.39% in the capital. Polomex aims to manufacture bus bodies.
- Superpolo S.A.S. – located in Colombia, with a 29.39% stake in the capital. Superpolo aims to manufacture bodies for buses.

Marcopolo Auto Components Co. – Wholly-owned subsidiary located in ChangZhou City, China, is engaged in developing and promoting sales of components for buses.

Marcopolo Australia Holdings Pty Ltd. – Wholly-owned subsidiary, located in Melbourne, Australia. MP Australia is engaged in holding interest in other companies and has the following subsidiary:

- Pologren Australia Holdings Pty Ltd. – Subsidiary located in Melbourne, Australia. Pologren is engaged in holding interest in other companies and has the following subsidiary:
  - Volgren Australia Pty Limited. – located in Melbourne, Australia, with a 100% equity interest in the capital. Volgren is engaged in manufacturing bus bodies.

Marcopolo (Changzhou) Bus Manufacturing Co., Ltd. – Wholly-owned subsidiary, located in ChangZhou City, China, is engaged in developing and manufacturing bus bodies and components.

Marcopolo Canada Holdings Corp. – Wholly-owned subsidiary located in Canada. MP Canada is engaged in holding interest in other companies and has the following affiliate:

- New Flyer Industries Inc. – located in Canada, holding a 10.57% stake of the share capital. New Flyer aims to manufacture buses.

Marcopolo International Corp. – Wholly-owned subsidiary located in the British Virgin Islands. Currently the activities of this subsidiary are paralyzed.

Marcopolo South Africa Pty Ltd. – Wholly-owned subsidiary, located in Johannesburg, South Africa, is engaged in manufacturing bus bodies.

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Marcopolo Trading S.A. – Wholly-owned subsidiary, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. It is engaged in providing technical services related to foreign trade.

Superpolo S.A.S. – located in Colombia, with a 20.61% stake in the capital. Superpolo aims to manufacture bodies for buses.

Syncroparts Com. e Distr. de Peças Ltda. – Wholly-owned subsidiary, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. It is engaged in trading and distributing parts for motor vehicles, and holdings in other companies.

Volare Veículos Ltda. – Wholly-owned subsidiary, located in São Mateus, State of Espírito Santo, Brazil, is engaged in manufacturing bus bodies and micro-buses, their parts, components and accessories, manufactured by itself.

Volare Comércio e Distribuição de Veículos e Peças Ltda. – Wholly-owned subsidiary, located in São Paulo, State of São Paulo, Brazil, and is engaged in wholesale trade in parts and accessories for motor vehicles.

GB Polo Bus Manufacturing S.A.E. – A Subsidiary, with a 20% stake in the capital, located in Suez, Egypt, is engaged in manufacturing bus bodies.

Kamaz Marco LLC. – Affiliate, with a 50% stake, located in Moscow, Russian Federation, is engaged in manufacturing bus bodies.

Loma Hermosa S.A. – Affiliate, with a 50% stake in the capital, located in the Province of Buenos Aires, Argentina. Loma's purpose is to hold interests in other companies and has the following subsidiaries/affiliates:

- Metalpar S.A. – Subsidiary, with a 98% interest in the capital, located in the Province of Buenos Aires, Argentina. Metalpar is engaged in manufacturing bus bodies.
- Metalsur Carrocerias S.R.L. – Subsidiary, with a 51% interest in the capital, located in the Province of Santa Fe, Argentina. Metalsur is engaged in manufacturing bus bodies.

Tata Marcopolo Motors Limited. – An affiliate, with a 49% stake in the capital, located in Dharwad, India, is engaged in manufacturing bus bodies.

Mercobus S.A.C. – An affiliate, with a 40% stake in the capital, located in Peru, is engaged in agency of bus bodies.

Valeo Climatização do Brasil – Veículos Comerciais S.A. – An affiliate, with a 40% stake in the capital, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Valeo is engaged in the assembly, commercialization, import and export of refrigeration and air conditioning equipment and holding interest in other companies, with the following subsidiaries:

- Valeo Thermal Commercial Vehicles México S.A. de C.V. – Wholly-owned subsidiary, located in Mexico and is engaged in the assembly, commercialization, import and export of refrigeration and air conditioning equipment.
- Spheros Thermosystems Colombia Ltda. – Wholly-owned subsidiary, located in Colombia and is engaged in the assembly, commercialization, import and export of refrigeration and air conditioning equipment.

WSul Espumas Indústria e Comércio Ltda. – An affiliate, with a 30% interest in the capital, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. WSul is engaged in manufacturing and commercializing polyurethane foam, moldings and their derivatives.

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**7 Cash and cash equivalents, financial assets and derivatives**

**2.4 Cash and cash equivalents**

|                                   | <b>Controlling company</b> |                | <b>Consolidated</b> |                |
|-----------------------------------|----------------------------|----------------|---------------------|----------------|
|                                   | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>    |
| Cash and bank deposits            |                            |                |                     |                |
| In Brazil                         | 61,974                     | 26,138         | 81,996              | 49,157         |
| Abroad                            | 142                        | 190            | 45,220              | 99,805         |
| Securities of immediate liquidity |                            |                |                     |                |
| In Brazil (*)                     | 591,457                    | 713,201        | 697,836             | 809,797        |
| Abroad                            | -                          | -              | 38,415              | -              |
| Total Cash and Cash Equivalents   | <u>653,573</u>             | <u>739,529</u> | <u>863,467</u>      | <u>958,759</u> |

(\*) Corresponds substantially to investments in Bank Deposit Certificates (CDB), remunerated at rates ranging from 98% to 100.4% of the CDI, resulting in a weighted average of approximately 100.1% of the CDI as of December 31, 2018.

**7.2 Financial assets measured at fair value through profit or loss and derivative financial instruments**

|                                                  | <b>Controlling company</b> |                | <b>Consolidated</b> |                |
|--------------------------------------------------|----------------------------|----------------|---------------------|----------------|
|                                                  | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>    |
| <b>Current</b>                                   |                            |                |                     |                |
| Derivative financial instruments                 |                            |                |                     |                |
| Derivatives – forward (Non Deliverable Forwards) | 417                        | 229            | 1,453               | 445            |
| At fair value through profit or loss             |                            |                |                     |                |
| Certificates of bank deposits (*)                | 89,928                     | 187,289        | 89,928              | 187,373        |
|                                                  | <u>90,345</u>              | <u>187,518</u> | <u>91,381</u>       | <u>187,818</u> |
| <b>Noncurrent</b>                                |                            |                |                     |                |
| At fair value through profit or loss             |                            |                |                     |                |
| Related Parties                                  | 14,054                     | 14,616         | 13,260              | 14,118         |
|                                                  | <u>14,054</u>              | <u>14,616</u>  | <u>13,260</u>       | <u>14,118</u>  |

(\*) Corresponds substantially to investments in Bank Deposit Certificates (CDB), remunerated at the rate of 100% of CDI, as of December 31, 2018.

Derivative financial instruments are presented as current assets or liabilities. The Company does not have financial instruments that have been recorded under the hedge accounting method in accordance with IAS 39.

**8 Trade accounts receivable**

|                                 | <b>Controlling company</b> |                | <b>Consolidated</b> |                  |
|---------------------------------|----------------------------|----------------|---------------------|------------------|
|                                 | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>      |
| Current                         |                            |                |                     |                  |
| In the domestic market          | 203,161                    | 151,266        | 414,343             | 253,066          |
| In the foreign market           | 260,359                    | 227,575        | 555,669             | 390,600          |
| Related Parties                 | 147,046                    | 39,611         | -                   | -                |
| Interbank accounts              | -                          | -              | 243,394             | 267,862          |
| Adjustment to present value     | (2,981)                    | (2,017)        | (4,507)             | (2,727)          |
| Allowance for doubtful accounts | (53,939)                   | (39,470)       | (106,926)           | (87,491)         |
|                                 | <u>553,646</u>             | <u>376,965</u> | <u>1,101,973</u>    | <u>821,310</u>   |
| Noncurrent                      |                            |                |                     |                  |
| In the foreign market           | -                          | -              | 16,645              | 15,673           |
| Interbank accounts              | -                          | -              | 388,996             | 445,789          |
| Allowance for doubtful accounts | -                          | -              | (44,779)            | (32,689)         |
|                                 | <u>-</u>                   | <u>-</u>       | <u>360,862</u>      | <u>428,773</u>   |
|                                 | <u>553,646</u>             | <u>376,965</u> | <u>1,462,835</u>    | <u>1,250,083</u> |

The interbank relations refer to credit operations for bus financing by Banco Moneo, through onlendings of the BNDES FINAME program.

The breakdown of trade accounts receivable by maturity is as follows:

|                                     | <b>Controlling company</b> |                | <b>Consolidated</b> |                  |
|-------------------------------------|----------------------------|----------------|---------------------|------------------|
|                                     | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>      |
| Amount to mature                    | 439,237                    | 310,603        | 1,302,102           | 1,155,439        |
| Past Due:                           |                            |                |                     |                  |
| Within 30 days                      | 66,942                     | 30,214         | 102,710             | 53,185           |
| Between 31 and 60 days              | 32,634                     | 5,663          | 50,814              | 14,304           |
| Between 61 and 90 days              | 11,893                     | 2,348          | 27,123              | 15,350           |
| Between 91 and 180 days             | 5,325                      | 5,639          | 20,132              | 27,662           |
| Over 181 days                       | 54,535                     | 63,985         | 116,166             | 107,050          |
| Adjustment to present value         | (2,981)                    | (2,017)        | (4,507)             | (2,727)          |
| (-) Allowance for doubtful accounts | (53,939)                   | (39,470)       | (151,705)           | (120,180)        |
|                                     | <u>553,646</u>             | <u>376,965</u> | <u>1,462,835</u>    | <u>1,250,083</u> |

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Changes in the allowance for doubtful accounts are shown below:

|                                                               | <b>Controlling<br/>company</b> | <b>Consolidated</b> |
|---------------------------------------------------------------|--------------------------------|---------------------|
| Balance as of January 1, 2017                                 | (29,430)                       | (87,893)            |
| Provision recorded during the year                            | (10,040)                       | (38,135)            |
| Reversal of provision against accounts receivable (write-off) | -                              | (140)               |
| Exchange rate change                                          | -                              | 5,988               |
| Balance as of December 31, 2017                               | (39,470)                       | (120,180)           |
| Provision recorded during the year                            | (14,469)                       | (57,337)            |
| Reversal of provision against accounts receivable (write-off) | -                              | 18,999              |
| Write-off of the provision for losses                         | -                              | 8,489               |
| Exchange rate change                                          | -                              | (1,676)             |
| Balance as of December 31, 2018                               | (53,939)                       | (151,705)           |

Accounts receivable are denominated in the following currencies:

|                   | <b>Controlling company</b> |                | <b>Consolidated</b> |                  |
|-------------------|----------------------------|----------------|---------------------|------------------|
|                   | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>      |
| Brazilian reais   | 293,287                    | 149,390        | 970,252             | 853,684          |
| Dirham            | -                          | -              | 167                 | -                |
| U.S. Dollar       | 260,359                    | 227,575        | 390,502             | 339,614          |
| Australian Dollar | -                          | -              | 55,489              | 33,936           |
| Rande             | -                          | -              | 39,689              | 14,143           |
| Renminbi          | -                          | -              | 6,736               | 8,706            |
|                   | <u>553,646</u>             | <u>376,965</u> | <u>1,462,835</u>    | <u>1,250,083</u> |

## 9 Inventories

|                                     | <b>Controlling company</b> |                | <b>Consolidated</b> |                |
|-------------------------------------|----------------------------|----------------|---------------------|----------------|
|                                     | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>    |
| Finished products                   | 36,912                     | 73,467         | 147,821             | 114,125        |
| Products in development             | 72,822                     | 43,802         | 148,387             | 114,639        |
| Raw materials and auxiliaries       | 171,626                    | 118,856        | 365,550             | 282,213        |
| Advances to suppliers and others    | 14,576                     | 4,990          | 33,701              | 18,421         |
| Provision for losses in inventories | (4,866)                    | (2,248)        | (8,638)             | (8,034)        |
|                                     | <u>291,070</u>             | <u>238,867</u> | <u>686,821</u>      | <u>521,364</u> |

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Changes in the provision for inventory losses are shown below:

|                                    | <u>Controlling<br/>company</u> | <u>Consolidated</u> |
|------------------------------------|--------------------------------|---------------------|
| Balance as of January 1, 2017      | (3,313)                        | (6,976)             |
| Reversal of provision              | 4,171                          | 7,578               |
| Provision recorded during the year | (3,106)                        | (8,409)             |
| Exchange rate change               | -                              | (227)               |
|                                    | <u>-</u>                       | <u>-</u>            |
| Balance as of December 31, 2017    | (2,248)                        | (8,034)             |
| Reversal of provision              | 492                            | 7,579               |
| Provision recorded during the year | (3,110)                        | (6,998)             |
| Exchange rate change               | -                              | (1,185)             |
|                                    | <u>-</u>                       | <u>(1,185)</u>      |
| Balance as of December 31, 2018    | <u>(4,866)</u>                 | <u>(8,638)</u>      |

## 10 Taxes and contributions credits

|                                                        | <u>Controlling company</u> |                | <u>Consolidated</u> |                |
|--------------------------------------------------------|----------------------------|----------------|---------------------|----------------|
|                                                        | <u>2018</u>                | <u>2017</u>    | <u>2018</u>         | <u>2017</u>    |
| Current                                                |                            |                |                     |                |
| Corporate Income Tax - IRPJ                            | 15,480                     | 44,717         | 29,091              | 62,535         |
| Social Contribution on Net Income (CSLL)               | 1,753                      | 1,753          | 3,671               | 3,558          |
| Tax on Manufactured Goods (IPI)                        | 2,143                      | 14,528         | 3,440               | 14,993         |
| Tax on the Circulation of Goods<br>and Services (ICMS) | 31,604                     | 30,983         | 59,306              | 51,403         |
| Social Integration Program (PIS)                       | 1,631                      | 1,265          | 11,020              | 9,353          |
| Contribution to Social<br>Security Financing (COFINS)  | 7,360                      | 5,185          | 54,946              | 42,135         |
| National Institute of Social Security (INSS)           | 59                         | 362            | 683                 | 986            |
| Reintegra                                              | 19,560                     | 14,804         | 23,693              | 17,107         |
| Value Added Tax (VAT)                                  | -                          | -              | 20,109              | 26,190         |
| Other                                                  | 109                        | -              | 26                  | 14             |
|                                                        | <u>79,699</u>              | <u>113,597</u> | <u>205,985</u>      | <u>228,274</u> |
| Noncurrent                                             |                            |                |                     |                |
| Tax on the Circulation of Goods<br>and Services (ICMS) | 2,003                      | 735            | 2,009               | 1,661          |
| Value Added Tax (VAT)                                  | -                          | -              | 10                  | 8              |
|                                                        | <u>2,003</u>               | <u>735</u>     | <u>2,019</u>        | <u>1,669</u>   |
|                                                        | <u>81,702</u>              | <u>114,332</u> | <u>208,004</u>      | <u>229,943</u> |

## 11 Investments

|                   | <u>Controlling company</u> |                  | <u>Consolidated</u> |                |
|-------------------|----------------------------|------------------|---------------------|----------------|
|                   | <u>2018</u>                | <u>2017</u>      | <u>2018</u>         | <u>2017</u>    |
| Subsidiaries      | 1,537,678                  | 1,298,290        | -                   | -              |
| Joint ventures    | 113,002                    | 106,500          | 111,330             | 101,807        |
| Affiliates        | 38,437                     | 35,142           | 371,382             | 275,045        |
| Other investments | -                          | -                | 115                 | 151            |
|                   | <u>1,689,117</u>           | <u>1,439,932</u> | <u>482,827</u>      | <u>377,003</u> |

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**(a) Investment in subsidiaries, joint ventures and affiliates**

Investments in subsidiaries, joint ventures and affiliates are shown below:

Subsidiaries:

|                                                      | Subsidiaries |                               |         |              |            |            |                        |             |            |         |                     |                |                      |           |           |                    |                    |                            | Total     |           |
|------------------------------------------------------|--------------|-------------------------------|---------|--------------|------------|------------|------------------------|-------------|------------|---------|---------------------|----------------|----------------------|-----------|-----------|--------------------|--------------------|----------------------------|-----------|-----------|
|                                                      |              |                               |         |              |            |            |                        |             |            |         |                     |                |                      |           |           |                    |                    | 2018                       | 2017      |           |
|                                                      | Apolo        | MP<br>Middle East<br>(1), (3) | Ciferal | Ilmot<br>(1) | Mac<br>(1) | MBC<br>(1) | MP<br>Australia<br>(1) | Masa<br>(1) | MIC<br>(1) | Moneo   | MP<br>Canada<br>(1) | Polomex<br>(1) | San<br>Marino<br>(2) | Syncro    | Trading   | Volare<br>Veículos | Volare<br>Comércio | Volare<br>Peru<br>(1), (4) |           |           |
| Investment Data                                      |              |                               |         |              |            |            |                        |             |            |         |                     |                |                      |           |           |                    |                    |                            |           |           |
| Capital                                              | 3,850        | 1,055                         | 20,000  | 59,663       | 15,632     | 2,110      | 61,542                 | 8,383       | 5,424      | 100,000 | 183,323             | 34,147         | 236,514              | 4,000     | 3,000     | 196,436            | 11,000             | -                          |           |           |
| Adjusted shareholders' equity                        | 5,225        | (759)                         | 175,822 | 103,063      | 943        | (1,791)    | 58,351                 | 64,018      | 1,600      | 226,767 | 413,650             | 104,543        | 298,060              | 5,473     | 8,689     | 170,274            | 4,280              | -                          |           |           |
| Shares or quotas held                                | 3,250,000    | 1                             | 124,994 | 50,000       | 1          | 1          | 100                    | 100,000     | 1,400,000  | 150,000 | 4,925,530           | 3,011,659      | 233,424,000          | 3,999,960 | 3,450,103 | 149,850,000        | 10,989,000         | -                          |           |           |
| % of interest                                        | 65.00        | 100.00                        | 99.99   | 100.00       | 100.00     | 100.00     | 100.00                 | 100.00      | 100.00     | 100.00  | 100.00              | 3.61           | 99.90                | 99.99     | 99.99     | 99.90              | 99.90              | -                          |           |           |
| Net income (loss) for the year                       | 1,375        | (760)                         | 24,752  | 15,297       | 6,414      | (3,822)    | (3,362)                | 4,892       | 34         | (8,516) | 74,111              | 14,377         | 14,987               | 111       | 2,242     | (23,324)           | (262)              | -                          |           |           |
| Changes in investments                               |              |                               |         |              |            |            |                        |             |            |         |                     |                |                      |           |           |                    |                    |                            |           |           |
| Initial balances:                                    |              |                               |         |              |            |            |                        |             |            |         |                     |                |                      |           |           |                    |                    |                            |           |           |
| By the book value                                    | 2,502        | -                             | 151,063 | 102,532      | -          | 1,890      | 58,344                 | 59,067      | 1,339      | 234,607 | 290,186             | 3,956          | 228,434              | 5,361     | 6,979     | 147,015            | 4,538              | 477                        | 1,298,290 | 1,108,839 |
| Reclassification of provision for loss of investment | -            | -                             | -       | -            | (4,874)    | -          | -                      | -           | -          | -       | -                   | -              | -                    | -         | -         | -                  | -                  | -                          | (4,874)   | -         |
| Advances for capital increase                        | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | 54,343               | -         | -         | 46,390             | -                  | -                          | 100,733   | 188,632   |
| Payment of Capital                                   | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | -                    | -         | -         | -                  | -                  | -                          | -         | 5,584     |
| Dividends received/reversed                          | -            | -                             | -       | (29,049)     | -          | -          | -                      | -           | -          | 676     | -                   | (1,392)        | -                    | -         | (533)     | -                  | -                  | -                          | (30,298)  | (39,808)  |
| Equity accounting results                            | 894          | (760)                         | 24,751  | 15,297       | 6,414      | (3,822)    | (3,362)                | 4,892       | 34         | (8,516) | 74,111              | 519            | 14,972               | 111       | 2,242     | (23,301)           | (262)              | (423)                      | 103,791   | 36,390    |
| Cumulative translation adjustments                   | -            | 1                             | -       | 14,283       | (597)      | 141        | 3,369                  | 59          | 227        | -       | 49,353              | 691            | 243                  | -         | -         | -                  | -                  | 113                        | 67,883    | 13,126    |
| Comprehensive income of subsidiary                   | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | -                    | -         | -         | -                  | -                  | -                          | -         | (5,036)   |
| Capital decrease                                     | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | -                    | -         | -         | -                  | -                  | (167)                      | (167)     | (14,311)  |
| Transfers                                            | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | (81)                 | -         | -         | -                  | -                  | -                          | (81)      | -         |
| Amortization of surplus value                        | -            | -                             | -       | -            | -          | -          | -                      | -           | -          | -       | -                   | -              | (149)                | -         | -         | -                  | -                  | -                          | (149)     | -         |
| Final balances:                                      | 3,396        | (759)                         | 175,814 | 103,063      | 943        | (1,791)    | 58,351                 | 64,018      | 1,600      | 226,767 | 413,650             | 3,774          | 297,762              | 5,472     | 8,688     | 170,104            | 4,276              | -                          | 1,535,128 | 1,293,416 |
| Provision for loss of investment                     | -            | 759                           | -       | -            | -          | 1,791      | -                      | -           | -          | -       | -                   | -              | -                    | -         | -         | -                  | -                  | -                          | 2,550     | 4,874     |
| By the equity value                                  | 3,396        | -                             | 175,814 | 103,063      | 943        | -          | 58,351                 | 64,018      | 1,600      | 226,767 | 413,650             | 3,774          | 297,762              | 5,472     | 8,688     | 170,104            | 4,276              | -                          | 1,537,678 | 1,298,290 |

(1) Developments abroad.

(2) These balances include investments and goodwill.

(3) In May 2018, the commercial office of Marcopolo Middle East and Africa FZE was transferred to Marcopolo.

(4) In August 2018, the company wrote off Volare Peru, as a result of which the capital stock returned to the controlling company.

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Joint ventures:

|                                                                        | <b>Joint ventures</b> |             |                 |                  |             |          |
|------------------------------------------------------------------------|-----------------------|-------------|-----------------|------------------|-------------|----------|
|                                                                        | <b>Total</b>          |             |                 |                  |             |          |
|                                                                        | <b>Kamaz</b>          | <b>Loma</b> | <b>Metalpar</b> | <b>Superpolo</b> | <b>TMML</b> |          |
|                                                                        | (1)                   | (1),(2)     | (1)             | (1)              | (1)         |          |
| Investment data                                                        |                       |             |                 |                  |             |          |
| Capital                                                                | 8,562                 | 80,396      | 5,080           | 15,408           | 94,398      |          |
| Adjusted shareholders' equity                                          | (1,164)               | 56,990      | (6,700)         | 97,918           | 69,133      |          |
| Shares or quotas held                                                  | 1                     | 15,949,948  | 473,995         | 265,763          | 24,500      |          |
| % of interest                                                          | 50.00                 | 50.00       | 1.00            | 20.61            | 49.00       |          |
| Net income (loss) for the year                                         | (730)                 | (29,396)    | (27,800)        | 17,933           | 11,353      |          |
| Changes in investments                                                 |                       |             |                 |                  |             |          |
| Initial balances:                                                      |                       |             |                 |                  |             |          |
| By the book value                                                      | -                     | 61,905      | 307             | 18,063           | 26,225      | 106,500  |
| Reclassification of provision for loss of investment                   | (230)                 | -           | -               | -                | -           | (230)    |
| Payment of Capital                                                     | -                     | -           | -               | -                | -           | -        |
| Dividends received                                                     | -                     | -           | -               | (2,878)          | -           | (2,878)  |
| Equity accounting results                                              | (365)                 | (14,698)    | (278)           | 3,696            | 5,563       | (6,082)  |
| Cumulative translation adjustments                                     | 13                    | (12,569)    | (96)            | 1,300            | 2,087       | (9,265)  |
| Adjustment for Inflation                                               | -                     | 24,308      | -               | -                | -           | 24,308   |
| Transfer from jointly-owned subsidiary to affiliate/controlled company | -                     | -           | -               | -                | -           | -        |
|                                                                        | -                     | -           | -               | -                | -           | 4,181    |
| Final balances:                                                        | (582)                 | 58,946      | (67)            | 20,181           | 33,875      | 112,353  |
| Provision for loss of investment                                       | 582                   | -           | 67              | -                | -           | 649      |
|                                                                        | -                     | 58,946      | -               | 20,181           | 33,875      | 113,002  |
| By the book value                                                      | -                     | 58,946      | -               | 20,181           | 33,875      | 113,002  |
| Goodwill on investment                                                 | -                     | (30,451)    | -               | -                | -           | (30,451) |
| Indirect interest – Superpolo                                          | -                     | -           | -               | 28,779           | -           | 28,779   |
| By the consolidated equity value                                       | -                     | 28,495      | -               | 48,960           | 33,875      | 111,330  |
| (1) Developments abroad.                                               |                       |             |                 |                  |             |          |
| (2) These balances include investments and goodwill.                   |                       |             |                 |                  |             |          |

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**Affiliates:**

|                                                                              | <b>Affiliates</b> |                 |              |               |             |                      | <b>Total</b> |             |
|------------------------------------------------------------------------------|-------------------|-----------------|--------------|---------------|-------------|----------------------|--------------|-------------|
|                                                                              | <b>GBPolo</b>     | <b>Mercobus</b> | <b>Valeo</b> | <b>Setbus</b> | <b>WSul</b> | <b>New<br/>Flyer</b> | <b>2018</b>  | <b>2017</b> |
|                                                                              | (1)               | (1)             |              | (2)           |             | (1)                  |              |             |
| Investment data                                                              |                   |                 |              |               |             |                      |              |             |
| Capital                                                                      | 21,231            | 666             | 30,000       | -             | 6,100       | 2,557,367            |              |             |
| Adjusted shareholders' equity                                                | (21,040)          | 3,065           | 83,035       | -             | 13,323      | 3,149,905            |              |             |
| Shares or quotas held                                                        | 4,803,922         | 232             | 244,898      | -             | 1,830,000   | 6,587,834            |              |             |
| % of interest                                                                | 20.00             | 40.00           | 40.00        | -             | 30.00       | 10.57                |              |             |
| Net income (loss) for the year                                               | 3,370             | 2,308           | 38,708       | -             | 5,407       | 704,647              |              |             |
| Changes in investments                                                       |                   |                 |              |               |             |                      |              |             |
| Initial balances:                                                            |                   |                 |              |               |             |                      |              |             |
| By the book value                                                            | -                 | 1,317           | 30,850       | -             | 2,975       | -                    | 35,142       | 22,216      |
| Reclassification of provision<br>for loss of investment                      | (4,181)           | -               | -            | (3,225)       | -           | -                    | (7,406)      | -           |
| Dividends received                                                           | -                 | (1,237)         | (12,136)     | -             | (600)       | -                    | (13,973)     | (2,882)     |
| Equity accounting results                                                    | 674               | 923             | 15,483       | 3,225         | 1,622       | -                    | 21,927       | 12,437      |
| Cumulative translation<br>adjustments                                        | (701)             | 223             | 647          | -             | -           | -                    | 169          | 146         |
| Comprehensive income                                                         | -                 | -               | (1,630)      | -             | -           | -                    | (1,630)      | -           |
| Transfer from jointly-owned<br>subsidiary to affiliate/controlled<br>company | -                 | -               | -            | -             | -           | -                    | -            | (4,181)     |
| Final balances:                                                              | (4,208)           | 1,226           | 33,214       | -             | 3,997       | -                    | 34,229       | 27,736      |
| Provision for loss of investment                                             | 4,208             | -               | -            | -             | -           | -                    | 4,208        | 7,406       |
| By the book value                                                            | -                 | 1,226           | 33,214       | -             | 3,997       | -                    | 38,437       | 35,142      |
| Indirect interest - New Flyer                                                | -                 | -               | -            | -             | -           | 332,945              | 332,945      | 239,903     |
| By the book value                                                            | -                 | 1,226           | 33,214       | -             | 3,997       | 332,945              | 371,382      | 275,045     |
| (1) Venture abroad.                                                          |                   |                 |              |               |             |                      |              |             |
| (2) In August 2018, the company sold the investment in Setbus.               |                   |                 |              |               |             |                      |              |             |

## 12 Investment property

It consists of a plot of land of 140,000m<sup>2</sup> and a built area of 20,378.87m<sup>2</sup>, located in Três Rios, in Rio de Janeiro. The property is measured at its book value of R\$49,808 and was valued at its fair value by a specialized valuator at R\$65,348, net of selling expenses. There are no operational activities being performed on the premises, which is maintained to receive rental income or for the appreciation of the property. During fiscal year 2018 there were only irrelevant expenses with surveillance, insurance and energy. Its transaction is demonstrated below:

|                                  | <b>Consolidated</b> |                                        |                                        |               |
|----------------------------------|---------------------|----------------------------------------|----------------------------------------|---------------|
|                                  | <b>Land</b>         | <b>Buildings and<br/>Constructions</b> | <b>Machinery<br/>and<br/>Equipment</b> | <b>Total</b>  |
| Cost of investment property      | 22,892              | 25,204                                 | 3,934                                  | 52,030        |
| Accrued depreciation             | -                   | (1,246)                                | (76)                                   | (1,322)       |
| Balances as of December 31, 2017 | <u>22,892</u>       | <u>23,958</u>                          | <u>3,858</u>                           | <u>50,708</u> |
| Depreciations                    | -                   | (479)                                  | (421)                                  | (900)         |
| Balances as of December 31, 2018 | <u>22,892</u>       | <u>23,479</u>                          | <u>3,437</u>                           | <u>49,808</u> |
| Cost of investment property      | 22,892              | 25,204                                 | 3,934                                  | 52,030        |
| Accrued depreciation             | -                   | (1,725)                                | (497)                                  | (2,222)       |
| Residual value                   | <u>22,892</u>       | <u>23,479</u>                          | <u>3,437</u>                           | <u>49,808</u> |
| Annual depreciation rates - %    |                     | 2.0                                    | 10.9                                   |               |

**13 Fixed assets**

**(a) Summary of the transaction of the fixed assets of the controlling company**

|                                  | <u>Land</u>   | <u>Buildings and<br/>structures</u> | <u>Machinery and<br/>Equipment</u> | <u>Furniture and<br/>Appliances</u> | <u>Computer<br/>Equipment</u> | <u>Vehicles</u> | <u>Other fixed<br/>assets</u> | <u>Fixed Assets<br/>in progress</u> | <u>Total</u>   |
|----------------------------------|---------------|-------------------------------------|------------------------------------|-------------------------------------|-------------------------------|-----------------|-------------------------------|-------------------------------------|----------------|
| Balances as of January 1, 2017   | 18,074        | 108,479                             | 65,991                             | 3,431                               | 4,639                         | 2,475           | 175                           | 6,307                               | 209,571        |
| Additions                        | -             | 1,898                               | 24,584                             | 344                                 | 2,491                         | 147             | -                             | 954                                 | 30,418         |
| Write-offs                       | -             | (17,352)                            | (7,314)                            | (390)                               | (58)                          | (596)           | -                             | (3)                                 | (25,713)       |
| Transfers                        | -             | 908                                 | 1,185                              | -                                   | -                             | -               | -                             | (2,093)                             | -              |
| Depreciations                    | -             | (3,648)                             | (11,167)                           | (692)                               | (2,044)                       | (408)           | -                             | -                                   | (17,959)       |
| Balances as of December 31, 2017 | <u>18,074</u> | <u>90,285</u>                       | <u>73,279</u>                      | <u>2,693</u>                        | <u>5,028</u>                  | <u>1,618</u>    | <u>175</u>                    | <u>5,165</u>                        | <u>196,317</u> |
| Cost of fixed assets             | 18,074        | 164,794                             | 206,864                            | 8,802                               | 21,109                        | 5,879           | 175                           | 5,165                               | 430,862        |
| Accrued depreciation             | -             | (74,509)                            | (133,585)                          | (6,109)                             | (16,081)                      | (4,261)         | -                             | -                                   | (234,545)      |
| Residual value                   | <u>18,074</u> | <u>90,285</u>                       | <u>73,279</u>                      | <u>2,693</u>                        | <u>5,028</u>                  | <u>1,618</u>    | <u>175</u>                    | <u>5,165</u>                        | <u>196,317</u> |
| Balances as of December 31, 2017 | 18,074        | 90,285                              | 73,279                             | 2,693                               | 5,028                         | 1,618           | 175                           | 5,165                               | 196,317        |
| Additions                        | 7             | 20,563                              | 62,769                             | 769                                 | 1,935                         | 694             | -                             | 4,982                               | 91,719         |
| Write-offs                       | -             | (2,269)                             | (1,097)                            | (73)                                | (36)                          | (131)           | -                             | (3,017)                             | (6,623)        |
| Transfers                        | -             | 516                                 | (1,515)                            | -                                   | -                             | -               | -                             | 999                                 | -              |
| Depreciations                    | -             | (3,181)                             | (15,578)                           | (568)                               | (1,836)                       | (332)           | -                             | -                                   | (21,495)       |
| Balances as of December 31, 2018 | <u>18,081</u> | <u>105,914</u>                      | <u>117,858</u>                     | <u>2,821</u>                        | <u>5,091</u>                  | <u>1,849</u>    | <u>175</u>                    | <u>8,129</u>                        | <u>259,918</u> |
| Cost of fixed assets             | 18,081        | 183,552                             | 264,352                            | 9,363                               | 22,160                        | 6,258           | 175                           | 8,129                               | 512,070        |
| Accrued depreciation             | -             | (77,638)                            | (146,494)                          | (6,542)                             | (17,069)                      | (4,409)         | -                             | -                                   | (252,152)      |
| Residual value                   | <u>18,081</u> | <u>105,914</u>                      | <u>117,858</u>                     | <u>2,821</u>                        | <u>5,091</u>                  | <u>1,849</u>    | <u>175</u>                    | <u>8,129</u>                        | <u>259,918</u> |
| Annual depreciation rates - %    |               | 1.7                                 | 8.2                                | 9.1                                 | 15.3                          | 12.9            |                               |                                     |                |

**(b) Summary of transaction of the consolidated fixed assets**

|                                        | <u>Land</u>   | <u>Buildings and<br/>structures</u> | <u>Machinery and<br/>Equipment</u> | <u>Furniture and<br/>Appliances</u> | <u>Computer<br/>Equipment</u> | <u>Vehicles</u> | <u>Other fixed<br/>assets</u> | <u>Fixed Assets<br/>in progress</u> | <u>Total</u>   |
|----------------------------------------|---------------|-------------------------------------|------------------------------------|-------------------------------------|-------------------------------|-----------------|-------------------------------|-------------------------------------|----------------|
| Balances as of January 1, 2017         | 62,648        | 358,711                             | 237,948                            | 9,497                               | 6,056                         | 9,231           | 3,084                         | 21,094                              | 708,269        |
| Exchange effect                        | 139           | 937                                 | 1,647                              | 159                                 | -                             | 120             | 69                            | -                                   | 3,071          |
| Additions                              | 4,068         | 3,963                               | 35,195                             | 720                                 | 2,542                         | 1,304           | 637                           | 4,036                               | 52,465         |
| Write-offs                             | -             | (17,389)                            | (9,706)                            | (509)                               | (62)                          | (3,920)         | (164)                         | -                                   | (31,750)       |
| Transfers                              | (6,348)       | 11,173                              | 4,342                              | (133)                               | -                             | (132)           | 20                            | (8,922)                             | -              |
| Reclassified to investment<br>property | -             | -                                   | (1,767)                            | -                                   | -                             | -               | -                             | -                                   | (1,767)        |
| Depreciations                          | -             | (9,684)                             | (25,862)                           | (1,440)                             | (2,371)                       | (1,772)         | (804)                         | -                                   | (41,933)       |
| Balances as of December 31, 2017       | <u>60,507</u> | <u>347,711</u>                      | <u>241,797</u>                     | <u>8,294</u>                        | <u>6,165</u>                  | <u>4,831</u>    | <u>2,842</u>                  | <u>16,208</u>                       | <u>688,355</u> |
| Cost of fixed assets                   | 60,507        | 457,539                             | 554,733                            | 23,059                              | 24,480                        | 15,009          | 17,313                        | 16,208                              | 1,168,848      |
| Accrued depreciation                   | -             | (109,828)                           | (312,936)                          | (14,765)                            | (18,315)                      | (10,178)        | (14,471)                      | -                                   | (480,493)      |
| Residual value                         | <u>60,507</u> | <u>347,711</u>                      | <u>241,797</u>                     | <u>8,294</u>                        | <u>6,165</u>                  | <u>4,831</u>    | <u>2,842</u>                  | <u>16,208</u>                       | <u>688,355</u> |
| Balances as of December 31, 2017       | 60,507        | 347,711                             | 241,797                            | 8,294                               | 6,165                         | 4,831           | 2,842                         | 16,208                              | 688,355        |
| Exchange effect                        | 13            | 120                                 | 2,584                              | 100                                 | 4                             | 130             | 398                           | 64                                  | 3,413          |
| Additions                              | 137           | 24,573                              | 85,032                             | 1,320                               | 2,316                         | 2,034           | 7,503                         | 34,020                              | 156,935        |
| Write-offs                             | -             | (1,780)                             | (3,261)                            | (241)                               | (83)                          | (1,711)         | (2,557)                       | (10,786)                            | (20,419)       |
| Transfers                              | -             | 4,367                               | (2,909)                            | 31                                  | 784                           | 1,248           | (746)                         | (2,775)                             | -              |
| Depreciations                          | -             | (9,794)                             | (41,708)                           | (1,482)                             | (2,425)                       | (893)           | (1,249)                       | -                                   | (57,551)       |
| Balances as of December 31, 2018       | <u>60,657</u> | <u>365,197</u>                      | <u>281,535</u>                     | <u>8,022</u>                        | <u>6,761</u>                  | <u>5,639</u>    | <u>6,191</u>                  | <u>36,731</u>                       | <u>770,733</u> |
| Cost of fixed assets                   | 60,657        | 484,294                             | 631,827                            | 23,914                              | 29,894                        | 16,124          | 19,672                        | 42,493                              | 1,308,875      |
| Accrued depreciation                   | -             | (119,097)                           | (350,292)                          | (15,892)                            | (23,133)                      | (10,485)        | (13,481)                      | (5,762)                             | (538,142)      |
| Residual value                         | <u>60,657</u> | <u>365,197</u>                      | <u>281,535</u>                     | <u>8,022</u>                        | <u>6,761</u>                  | <u>5,639</u>    | <u>6,191</u>                  | <u>36,731</u>                       | <u>770,733</u> |
| Annual depreciation rates - %          |               | 1.7                                 | 8.2                                | 9.1                                 | 15.3                          | 12.9            |                               |                                     |                |

Land and buildings mainly comprise factories and offices.

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**(c) Guarantee**

As of December 31, 2018, properties with a residual book value of R\$38,494 (R\$44,464 as of December 31, 2017) are subject to a recorded suretyship to guarantee bank loans and contingencies.

**14 Goodwill and intangible assets**

**(a) Summary of changes in the controlling company's intangible assets**

|                                  | <u>Software</u> | <u>Trademarks<br/>and licenses</u> | <u>Total</u> |
|----------------------------------|-----------------|------------------------------------|--------------|
| Balances as of January 1, 2017   | 4,006           | 25                                 | 4,031        |
| Additions                        | 678             | 13                                 | 691          |
| Amortizations                    | (1,341)         | (7)                                | (1,348)      |
| Balances as of December 31, 2017 | <u>3,343</u>    | <u>31</u>                          | <u>3,374</u> |
| Cost of intangible assets        | 50,896          | 351                                | 51,247       |
| Accumulated amortization         | (47,553)        | (320)                              | (47,873)     |
| Residual value                   | <u>3,343</u>    | <u>31</u>                          | <u>3,374</u> |
| Balances as of December 31, 2017 | 3,343           | 31                                 | 3,374        |
| Additions                        | 3,676           | 288                                | 3,964        |
| Write-offs                       | (3)             | -                                  | (3)          |
| Amortizations                    | (1,510)         | (9)                                | (1,519)      |
| Balances as of December 31, 2018 | <u>5,506</u>    | <u>310</u>                         | <u>5,816</u> |
| Cost of intangible assets        | 54,557          | 639                                | 55,196       |
| Accumulated amortization         | (49,051)        | (329)                              | (49,380)     |
| Residual value                   | <u>5,506</u>    | <u>310</u>                         | <u>5,816</u> |
| Annual amortization rates - %    | 18.8            | 10.0                               |              |

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**(b) Summary of changes in goodwill and intangible assets of the consolidated**

|                                  | <b>Software</b> | <b>Trademarks<br/>and licenses</b> | <b>Portfolio<br/>from clients</b> | <b>Other<br/>Intangible<br/>Assets</b> | <b>Goodwill</b> | <b>Total</b>    |
|----------------------------------|-----------------|------------------------------------|-----------------------------------|----------------------------------------|-----------------|-----------------|
| Balances as of January 1, 2017   | 8,839           | 970                                | 7,748                             | 1,243                                  | 215,889         | 234,689         |
| Exchange effect                  | 38              | -                                  | 721                               | -                                      | 12,690          | 13,449          |
| Additions                        | 1,290           | 33                                 | 118                               | 379                                    | -               | 1,820           |
| Write-offs                       | -               | -                                  | -                                 | -                                      | (25,618)        | (25,618)        |
| Transfers                        | 309             | -                                  | -                                 | (309)                                  | -               | -               |
| Amortizations                    | (2,910)         | (7)                                | (443)                             | (139)                                  | -               | (3,499)         |
| Balances as of December 31, 2017 | <u>7,566</u>    | <u>996</u>                         | <u>8,144</u>                      | <u>1,174</u>                           | <u>202,961</u>  | <u>220,841</u>  |
| Cost of intangible assets        | 68,141          | 1,316                              | 29,556                            | 1,939                                  | 202,961         | 303,913         |
| Accumulated amortization         | <u>(60,575)</u> | <u>(320)</u>                       | <u>(21,412)</u>                   | <u>(765)</u>                           | -               | <u>(83,072)</u> |
| Residual value                   | <u>7,566</u>    | <u>996</u>                         | <u>8,144</u>                      | <u>1,174</u>                           | <u>202,961</u>  | <u>220,841</u>  |
| Balances as of December 31, 2017 | 7,566           | 996                                | 8,144                             | 1,174                                  | 202,961         | 220,841         |
| Exchange effect                  | 315             | -                                  | 478                               | -                                      | 9,368           | 10,161          |
| Additions                        | 4,120           | 303                                | -                                 | 385                                    | -               | 4,808           |
| Write-offs                       | (5)             | -                                  | -                                 | -                                      | -               | (5)             |
| Amortizations                    | <u>(2,969)</u>  | <u>(12)</u>                        | <u>-</u>                          | <u>(273)</u>                           | -               | <u>(3,254)</u>  |
| Balances as of December 31, 2018 | <u>9,027</u>    | <u>1,287</u>                       | <u>8,622</u>                      | <u>1,286</u>                           | <u>212,329</u>  | <u>232,551</u>  |
| Cost of intangible assets        | 72,999          | 1,645                              | 31,261                            | 2,870                                  | 212,329         | 321,104         |
| Accumulated amortization         | <u>(63,972)</u> | <u>(358)</u>                       | <u>(22,639)</u>                   | <u>(1,584)</u>                         | -               | <u>(88,553)</u> |
| Residual value                   | <u>9,027</u>    | <u>1,287</u>                       | <u>8,622</u>                      | <u>1,286</u>                           | <u>212,329</u>  | <u>232,551</u>  |
| Annual amortization rates - %    | 18.8            | 10.0                               | 25.0                              | 20.0                                   |                 |                 |

**Composition of goodwill:**

|                                  | <b>Goodwill</b> |                   |                  |                 |
|----------------------------------|-----------------|-------------------|------------------|-----------------|
|                                  | <b>Loma</b>     | <b>San Marino</b> | <b>New Flyer</b> | <b>Pologren</b> |
| Balances as of December 31, 2017 | 30,451          | 30,739            | 49,416           | 92,355          |
| Exchange effect                  | -               | -                 | 3,955            | 5,413           |
| Balances as of December 31, 2018 | <u>30,451</u>   | <u>30,739</u>     | <u>53,371</u>    | <u>97,768</u>   |

**(c) Goodwill test for impairment testing**

**(i) Goodwill of joint venture – Loma**

Composed of the goodwill generated on the acquisition of the investment in Loma in the amount of R\$30,451.

The projections for establishing the recoverable value were prepared according to the value in use, considering the projection in the five year period and in perpetuity. The main assumptions used as of December 31, 2018 were as follows: (i) gross margin of 21.51%, (ii) growth rate of 16.16% p.a., (iii) after-tax rebate rate of 34.30% p.a., and considered past management experience, as well as the growth expectations of the Company's segment. The recoverable amount was compared to the accounting balance of the assets that make up the CGU and, as a result of this analysis and application of the described assumptions about discounted cash flows to determine the need to reduce the recoverable

goodwill, Management did not identify the need for recognition of impairment for this Cash Generating Unit. The Company projected the following sensitivity scenarios: (i) 1% lower and higher gross margin, (ii) 1% lower and higher growth rate, and (iii) 1% lower and higher discount rate. Alternative scenarios would not result in impairment necessity.

**(ii) Goodwill of the direct subsidiary – San Marino**

Composed of the goodwill generated in the acquisition of the investment in San Marino in the amount of R\$30,739.

The projections for establishing the recoverable value were prepared according to the value in use, and were carried out for a period of five years and in perpetuity. The main assumptions used as of December 31, 2018 were as follows: (i) gross margin of 15.89%, (ii) growth rate of 4.24% p.a., (iii) after-tax rebate rate of 9.15% p.a., and considered past management experience, as well as the growth expectations of the Company's segment. The recoverable amount was compared to the accounting balance of the assets that make up the CGU and, as a result of this analysis and application of the described assumptions to discounted cash flows to determine the need for impairment of premium, the Management did not identify the need to recognize impairment for this Cash Generating Unit. The Company projected the following sensitivity scenarios: (i) 1% lower and higher gross margin, (ii) 1% lower and higher growth rate, and (iii) 1% lower and higher discount rate. Alternative scenarios would not result in impairment necessity.

**(iii) Goodwill of indirect subsidiary – Pologren**

Composed of the goodwill generated on the acquisition of the investment in Volgren in the amount of R\$97,768.

The projections for establishing the recoverable value were prepared according to the value in use, considering the projection in the 5 year period and in perpetuity. The main assumptions used as of December 31, 2018 were as follows: (i) gross margin of 17.29%, (ii) growth rate of 2.24% p.a., (iii) rebate rate of 7.21% p.a., and considered past management experience, as well as the growth expectations of the Company's segment. The recoverable amount was compared to the accounting balance of the assets that make up the CGU and, as a result of this analysis and application of the described assumptions to discounted cash flows to determine the need for impairment of premium, the Management did not identify the need to recognize impairment for this Cash Generating Unit. The Company projected the following sensitivity scenarios: (i) 1% lower and higher gross margin, (ii) 1% lower and higher growth rate, and (iii) 1% lower and higher discount rate. In the 1% lower scenario, the Company would have recognized an impairment of R\$19,789.

**(iv) Indirect subsidiary goodwill – New Flyer**

Composed of the goodwill generated on the acquisition of the investment in New Flyer in the amount of R\$53,371.

New Flyer is a publicly traded company, having its shares (under the acronym NFI) traded on the Canadian stock exchange. The recoverable amount was calculated at fair value (level 1), considering the price of the shares of the indirect affiliate as of December 31, 2018 (34.04 Canadian dollars), compared to book value (at the acquisition date 10.50 Canadian dollars).

The recoverable amount was compared to the book value of the assets that make up the UGC and, as a result of this analysis, Management did not identify the need to recognize impairment for this Cash Generating Unit.

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**20 Related parties**

**(a) Balances and transactions with related parties**

The main balances of assets and liabilities with related parties as of December 31, 2018, as well as the transactions that influenced the results for the year are detailed in the following table:

| Related Parties | Assets<br>balances<br>by loan<br>and<br>checking<br>account | Liabilities<br>balances<br>by loan<br>and<br>checking<br>account | Trade<br>Accounts<br>Receivable | Accounts<br>payable<br>for<br>purchases | Sales of<br>products/<br>services | Purchases<br>of<br>products/<br>services | Financial<br>income | Financial<br>expenses |
|-----------------|-------------------------------------------------------------|------------------------------------------------------------------|---------------------------------|-----------------------------------------|-----------------------------------|------------------------------------------|---------------------|-----------------------|
| Apolo           | -                                                           | -                                                                | -                               | 984                                     | -                                 | 7,168                                    | -                   | -                     |
| Ciferal         | 144                                                         | -                                                                | 9,400                           | 245                                     | 61,827                            | 874                                      | 4                   | -                     |
| GB Polo         | 2,894                                                       | -                                                                | 10,475                          | -                                       | 183                               | -                                        | 45                  | -                     |
| Kamaz           | 597                                                         | -                                                                | -                               | -                                       | -                                 | -                                        | 8                   | -                     |
| Ilmot           | 632                                                         | -                                                                | -                               | -                                       | -                                 | -                                        | 47                  | -                     |
| Loma            | 9,770                                                       | -                                                                | 2,247                           | -                                       | 15,245                            | -                                        | -                   | -                     |
| Mac             | -                                                           | -                                                                | 2,574                           | -                                       | 1,646                             | 11,346                                   | -                   | -                     |
| Masa            | -                                                           | -                                                                | 27,874                          | 85                                      | 57,539                            | -                                        | -                   | -                     |
| MBC             | -                                                           | -                                                                | 12                              | -                                       | 13                                | -                                        | -                   | -                     |
| Moneo           | 3                                                           | -                                                                | -                               | -                                       | -                                 | -                                        | -                   | -                     |
| MP Middle East  | -                                                           | -                                                                | 425                             | -                                       | 405                               | -                                        | -                   | -                     |
| Polomex         | -                                                           | -                                                                | 36,692                          | -                                       | 71,041                            | -                                        | -                   | -                     |
| San Marino      | -                                                           | -                                                                | 52,554                          | 1,660                                   | 82,858                            | 14,244                                   | 1                   | 2                     |
| Valeo           | -                                                           | -                                                                | -                               | 9,985                                   | -                                 | 126,175                                  | -                   | -                     |
| Superpolo       | -                                                           | -                                                                | 16,095                          | -                                       | 27,411                            | -                                        | -                   | -                     |
| TMML            | -                                                           | -                                                                | 10,519                          | -                                       | 12,388                            | -                                        | -                   | -                     |
| Trading         | -                                                           | -                                                                | 563                             | -                                       | 74,297                            | -                                        | -                   | -                     |
| Volare Veículos | 13                                                          | -                                                                | 16,602                          | 387                                     | 25,537                            | 492                                      | 2                   | -                     |
| Volare Comércio | 1                                                           | -                                                                | 343                             | 26                                      | 3,067                             | 2,506                                    | -                   | -                     |
| Volgren         | -                                                           | -                                                                | -                               | -                                       | 8                                 | -                                        | -                   | -                     |
| WSul            | -                                                           | -                                                                | -                               | 8,475                                   | -                                 | 49,007                                   | -                   | -                     |
| Balance in 2018 | <u>14,054</u>                                               | <u>-</u>                                                         | <u>186,375</u>                  | <u>21,847</u>                           | <u>433,465</u>                    | <u>211,812</u>                           | <u>107</u>          | <u>2</u>              |
| Balance in 2017 | <u>14,616</u>                                               | <u>18</u>                                                        | <u>74,759</u>                   | <u>14,191</u>                           | <u>253,518</u>                    | <u>140,922</u>                           | <u>1,591</u>        | <u>3</u>              |

The balances of loans and checking accounts of companies headquartered in Brazil are subject to financial charges equivalent to the variation of the CDI, and with foreign companies are subject to interest calculated at the semiannual LIBOR rate plus 3% p.a.

**(b) Compensation of key management personnel**

Key management personnel includes directors, executive officers and members of the Executive Committee. The compensation paid or payable is as follows:

|                                            | 2018          |               |                    |                        |               |
|--------------------------------------------|---------------|---------------|--------------------|------------------------|---------------|
|                                            | Fixed         | Variable      | Retirement<br>Plan | Share-based<br>Payment | Total         |
| Board of Directors and statutory directors | 8,719         | 5,391         | 103                | 632                    | 14,845        |
| Non-statutory directors                    | 5,922         | 5,179         | 201                | 336                    | 11,638        |
|                                            | <u>14,641</u> | <u>10,570</u> | <u>304</u>         | <u>968</u>             | <u>26,483</u> |

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In the year ended December 31, 2018, the options for the purchase of 381,325 book-entry preferred shares were exercised by the directors and employees of Marcopolo at a price of R\$3.33 per share with a discount of R\$0.83 per share, using the shares held in treasury, in accordance with the provisions of Marcopolo's stock option plan. The transfer of 250,802 shares in the amount of R\$2.65 was also exercised in accordance with the Long-Term Incentive Plan with Restricted Shares.

|                                            | <b>2017</b>   |                 |                            |                                |                      |
|--------------------------------------------|---------------|-----------------|----------------------------|--------------------------------|----------------------|
|                                            | <b>Fixed</b>  | <b>Variable</b> | <b>Retirement<br/>Plan</b> | <b>Share-based<br/>Payment</b> | <b>Total</b>         |
| Board of Directors and statutory directors | 7,987         | 5,331           | 90                         | 127                            | <b>13,535</b>        |
| Non-statutory directors                    | 10,281        | 2,292           | 152                        | 225                            | <b>12,950</b>        |
|                                            | <u>18,268</u> | <u>7,623</u>    | <u>242</u>                 | <u>352</u>                     | <u><b>26,485</b></u> |

In the year ended December 31, 2017, the options for the purchase of 55,555 book-entry preferred shares were exercised by the directors and employees of Marcopolo at a price of R\$2.70 per share with a discount of R\$0.17 per share, using the shares held in treasury, in accordance with the provisions of Marcopolo's stock option plan. The transfer of 129,129 shares in the amount of R\$2.65 was also exercised in accordance with the Long-Term Incentive Plan with Restricted Shares.

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**16 Loans and financing**

|                                           | Average rate<br>weighted<br>% p.a. | Year of<br>Due date | Controlling company |                  | Consolidated     |                  |
|-------------------------------------------|------------------------------------|---------------------|---------------------|------------------|------------------|------------------|
|                                           |                                    |                     | 2018                | 2017             | 2018             | 2017             |
| Local currency                            |                                    |                     |                     |                  |                  |                  |
| FINAME                                    | 5.84                               | 2019 to 2023        | 8,254               | 11,763           | 21,000           | 28,442           |
| Bank Loans                                | 6.39                               | 2019                | 3                   | 618              | 225              | 19,747           |
| Interbank deposits                        | 11.81                              | 2022                | -                   | -                | 391              | 499              |
| FINEP                                     | 5.02                               | 2020 to 2024        | 232,706             | 238,653          | 282,084          | 303,009          |
| FDE – Development Funds                   | 3.00                               | 2025                | -                   | -                | 114,889          | 132,073          |
| Fundepar - ES                             | -                                  | 2024                | -                   | -                | 30,000           | 30,000           |
| Special pre-shipment (*)                  | -                                  | 2018                | -                   | 177,198          | -                | 177,198          |
| Export credit notes -<br>Compulsory       | 8.20                               | 2019                | 198,078             | 304,268          | 203,086          | 304,268          |
| Foreign currency                          |                                    |                     |                     |                  |                  |                  |
| Advances on exchange contracts            | 3.60                               | 2019                | -                   | -                | 94,472           | 48,011           |
| Export prepayment in<br>US Dollars        | 4.21                               | 2022 to 2023        | 300,982             | 228,362          | 300,982          | 230,847          |
| Export credit notes - USD                 | 4.97                               | 2020 to 2023        | 113,989             | 53,478           | 113,989          | 53,478           |
| Exim                                      | 1.93                               | 2022                | 155,117             | -                | 155,117          | -                |
| Financing in Rands                        | 9.90                               | 2019 to 2022        | -                   | -                | 3,363            | 808              |
| Financing in Renminbi                     | 8.92                               | 2019 to 2020        | -                   | -                | 32,736           | 20,262           |
| Financing in Australian Dollars           | 3.79                               | 2019                | -                   | -                | 136,860          | 90,527           |
| Financing in Chilean pesos                | 14.03                              | 2019                | -                   | -                | 49               | 3,993            |
| Related Parties                           | CDI                                | -                   | -                   | 18               | -                | -                |
| Subtotal of national and foreign currency |                                    |                     | <u>1,009,129</u>    | <u>1,014,358</u> | <u>1,489,243</u> | <u>1,443,162</u> |
| Funds obtained in the open market         |                                    |                     |                     |                  |                  |                  |
| Local currency                            |                                    |                     |                     |                  |                  |                  |
| BNDES – Pre-Fixed Operations              | 6.86                               | 2021 to 2023        | -                   | -                | 149,864          | 240,876          |
| BNDES – Post-Fixed Operations             | IPCA + 1.59                        | 2024                | -                   | -                | 89,344           | -                |
| BNDES – Post-Fixed Operations             | TJLP + 1.84                        | 2021 to 2024        | -                   | -                | 186,314          | 227,752          |
| BNDES – Post-Fixed Operations             | SELIC + 1.95                       | 2021 to 2022        | -                   | -                | 19,395           | 28,876           |
| Subtotal of funding in the open market    |                                    |                     | <u>-</u>            | <u>-</u>         | <u>444,917</u>   | <u>497,504</u>   |
| Subtotal of loans and financing           |                                    |                     | <u>1,009,129</u>    | <u>1,014,358</u> | <u>1,934,160</u> | <u>1,940,666</u> |
| Derivative financial instruments          |                                    |                     | -                   | 986              | 48               | 2,811            |
| Total loans and financing                 |                                    |                     | <u>1,009,129</u>    | <u>1,015,344</u> | <u>1,934,208</u> | <u>1,943,477</u> |
| Current liabilities                       |                                    |                     | <u>354,166</u>      | <u>446,244</u>   | <u>834,043</u>   | <u>833,882</u>   |
| Noncurrent liabilities                    |                                    |                     | <u>654,963</u>      | <u>569,100</u>   | <u>1,100,165</u> | <u>1,109,595</u> |

(\*) Corresponds to a BNDES credit facility intended for production directed to exports, and the shipment thereof must occur until the deadline of 3 years.

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The long-term installments have the following payment schedule:

|                      | <b>Controlling company</b> |                | <b>Consolidated</b> |                  |
|----------------------|----------------------------|----------------|---------------------|------------------|
|                      | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>      |
| From 13 to 24 months | 174,186                    | 417,325        | 335,970             | 609,573          |
| From 25 to 36 months | 121,630                    | 47,119         | 235,868             | 174,679          |
| From 37 to 48 months | 263,394                    | 24,001         | 335,167             | 107,160          |
| From 49 to 60 months | 31,727                     | 23,587         | 69,162              | 68,487           |
| After 60 months      | 64,026                     | 57,068         | 123,998             | 149,696          |
|                      | <u>654,963</u>             | <u>569,100</u> | <u>1,100,165</u>    | <u>1,109,595</u> |

**(a) Loans and financing**

FINAME financing is secured by fiduciary sale of the financed assets in the amount of R\$38,494 as of December 31, 2018 (R\$44,464 as of December 31, 2017).

**(b) Open market funding**

Open market funding refers to funds raised by Banco Moneo, with BNDES, to finance FINAME transactions.

The face value and fair value of funding in the open market are:

|                      | <b>Face value (future)</b> |                | <b>Fair value (present)</b> |                |
|----------------------|----------------------------|----------------|-----------------------------|----------------|
|                      | <b>2018</b>                | <b>2017</b>    | <b>2018</b>                 | <b>2017</b>    |
| From 1 to 12 months  | 196,549                    | 207,188        | 174,720                     | 183,442        |
| From 13 to 24 months | 141,400                    | 160,003        | 128,041                     | 144,253        |
| From 25 to 36 months | 89,855                     | 104,304        | 83,429                      | 96,151         |
| After 36 months      | 61,332                     | 77,463         | 58,727                      | 73,658         |
|                      | <u>489,136</u>             | <u>548,958</u> | <u>444,917</u>              | <u>497,504</u> |

The face value of current liabilities borrowings is close to their fair value.

**(c) Debt reconciliation**

|                                                 | <b>Consolidated</b> |                    |                                   |                         |
|-------------------------------------------------|---------------------|--------------------|-----------------------------------|-------------------------|
|                                                 | <b>Bank Loans</b>   | <b>Derivatives</b> | <b>Borrowings<br/>Open Market</b> | <b>Total</b>            |
| <b>Debt as of December 31, 2017</b>             | 1,442,663           | 2,811              | 498,003                           | <b>1,943,477</b>        |
| Transactions that affected cash flow            | (101,227)           | (2,763)            | (86,202)                          | <b>(190,192)</b>        |
| Transactions that did not affect cash flow      |                     |                    |                                   |                         |
| Appropriated interest and exchange rate changes | 147,416             | -                  | 33,507                            | <b>180,923</b>          |
| <b>Debt as of December 31, 2018</b>             | <u>1,488,852</u>    | <u>48</u>          | <u>445,308</u>                    | <u><b>1,934,208</b></u> |

## Provisions

### (a) Contingent liabilities

The Company is a party to labor, civil, tax and other pending lawsuits and is discussing these issues on both the administrative and judicial levels. When applicable, the claims are supported by judicial deposits. Provisions for possible losses arising from these lawsuits are estimated and updated by Management, supported by the opinion of its external and internal legal advisors.

The contingencies that, in the opinion of the Company's legal advisors, are considered as possible or probable losses as of December 31, 2018 and December 31, 2017 are presented below. The contingencies considered as probable losses are provisioned.

| Nature          | Controlling company |                |               |                |
|-----------------|---------------------|----------------|---------------|----------------|
|                 | 2018                |                | 2017          |                |
|                 | Likely              | Possible       | Likely        | Possible       |
| Civil           | 964                 | 22,508         | 964           | 20,978         |
| Labor           | 42,617              | 58,155         | 28,949        | 47,791         |
| Tax             | 16,407              | 236,490        | 21,809        | 276,081        |
|                 | <u>59,988</u>       | <u>317,153</u> | <u>51,722</u> | <u>344,850</u> |
| Nature          | Consolidated        |                |               |                |
|                 | 2018                |                | 2017          |                |
|                 | Likely              | Possible       | Likely        | Possible       |
| Civil           | 2,619               | 22,950         | 4,883         | 21,420         |
| Labor           | 55,159              | 69,899         | 37,026        | 51,240         |
| Tax             | 19,931              | 294,422        | 22,861        | 332,034        |
|                 | <u>77,709</u>       | <u>387,271</u> | <u>64,770</u> | <u>404,694</u> |
| Escrow deposits | Controlling company |                | Consolidated  |                |
|                 | 2018                | 2017           | 2018          | 2017           |
|                 |                     |                |               |                |
| Civil           | 2,361               | 1,102          | 3,132         | 4,762          |
| Labor           | 20,660              | 14,948         | 25,574        | 18,318         |
| Tax             | 16,407              | 2,315          | 27,477        | 11,071         |
|                 | <u>39,428</u>       | <u>18,365</u>  | <u>56,183</u> | <u>34,151</u>  |

### (i) Civil and Labor

The Company is a party to lawsuits of a civil and labor nature, including indemnification actions for occupational accidents and diseases. None of these actions refers to individually significant amounts.

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**(ii) Tax**

The Company and subsidiaries are party to lawsuits of a tax nature. The following describes the nature of the main causes:

**. Provisioned**

|                                                       | <b>Controlling company</b> |               | <b>Consolidated</b> |               |
|-------------------------------------------------------|----------------------------|---------------|---------------------|---------------|
|                                                       | <b>2018</b>                | <b>2017</b>   | <b>2018</b>         | <b>2017</b>   |
| REINTEGRA – appropriation of credit (i)               | 621                        | 592           | 621                 | 592           |
| Special Tax Regime – tax credit (ii)                  | 6,922                      | 12,757        | 6,922               | 12,757        |
| IRPJ (Corporate Income Tax) 2010, 2011 and 2012 (iii) | 5,682                      | 5,350         | 5,682               | 5,350         |
| Other contingencies                                   | 3,182                      | 3,110         | 6,706               | 4,162         |
|                                                       | <u>16,407</u>              | <u>21,809</u> | <u>19,931</u>       | <u>22,861</u> |

- (i) Contingency related to the credit of REINTEGRA – contingency arising from divergence of procedure in the claim of Reintegra credit for the 1st and 2nd Quarter of 2012.
- (ii) Contingency concerning the discussion of the procedures adopted for the enjoyment of tax benefits used in the commercialization of products.
- (iii) Contingency related to the discussion of the procedures adopted to offset the income tax paid abroad.

**. Not provisioned**

|                                                           | <b>Controlling company</b> |                | <b>Consolidated</b> |                |
|-----------------------------------------------------------|----------------------------|----------------|---------------------|----------------|
|                                                           | <b>2018</b>                | <b>2017</b>    | <b>2018</b>         | <b>2017</b>    |
| PIS, COFINS and FINSOCIAL – offsets                       | 7,537                      | 7,317          | 7,537               | 7,317          |
| COFINS – claim for reimbursement (i)                      | 22,355                     | 21,475         | 22,355              | 21,475         |
| PIS, COFINS – credit                                      | 8,858                      | 8,490          | 8,858               | 8,490          |
| PIS – offsets (ii)                                        | 14,910                     | 14,264         | 14,910              | 14,264         |
| IPI – credit                                              | 1,763                      | 1,776          | 1,763               | 1,776          |
| IRPJ – understated inflationary profit                    | 2,955                      | 2,881          | 2,955               | 2,881          |
| IRPJ and CSLL – Negative Balance (iii)                    | 17,650                     | 16,970         | 17,650              | 16,970         |
| IRPJ and CSLL – profits abroad (iv)                       | 30,064                     | 28,845         | 30,064              | 28,845         |
| IRPJ and CSLL – Income Tax paid abroad                    | 1,089                      | 1,015          | 1,089               | 1,015          |
| IRPJ and CSLL – profits from abroad (v)                   | 58,875                     | 90,230         | 58,875              | 90,230         |
| DCP – Adjustment for inflation (vi)                       | 28,067                     | 26,669         | 28,067              | 26,669         |
| REINTEGRA – Offset (vii)                                  | 15,899                     | 15,269         | 15,899              | 15,269         |
| ICMS - outputs with reduced rate for non-taxpayers (viii) | -                          | -              | 36,881              | 35,237         |
| ICMS – disreputable tax documents (ix)                    | -                          | 15,527         | -                   | 15,527         |
| ISS - services received from third parties                | 6,141                      | 5,852          | 6,141               | 5,852          |
| INSS – services received from legal entities              | 4,693                      | 4,504          | 4,693               | 4,504          |
| Other contingencies of lower value                        | 15,634                     | 14,997         | 36,685              | 35,713         |
|                                                           | <u>236,490</u>             | <u>276,081</u> | <u>294,422</u>      | <u>332,034</u> |

- (i) Contingencies whose prospects of loss are considered possible, related to procedures questioned by the inspection, regarding requests for reimbursement of COFINS. The administrative proceeding is pending before the Trial Office of the Federal Revenue Service of Brazil.

- (ii) Contingency whose prospect of loss is considered possible, related to amounts registered as an overdue tax liability, arising from unapproved offsets derived from credits obtained in legal proceedings. The lawsuit is currently pending before the first instance of the Federal Court of Caxias do Sul.

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(iii) Contingency whose prospect of loss is considered possible, regarding proceedings questioned by the authorities, regarding requests for reimbursement of negative balance of IRPJ and CSLL. The lawsuit is pending before the Administrative Council of Tax Appeals.

(iv) Contingency whose prospect of loss is considered possible, relative to the discussion on the consolidation abroad of results of indirect subsidiaries, prior to the offering of profits to taxation in Brazil. The action is pending before the Trial Office of the Federal Revenue Service.

(v) Contingency whose prospect of loss is considered possible, related to the discussion on the disallowance of offsetting with foreign taxes. The action is pending before the Regional Judgment Office (DRJ).

(vi) Contingency whose prospect of loss is considered possible, related to the discussion on DCP credits, referring to the disallowance of adjustment for inflation and isolated fine imposed as a result of unapproved tax returns. The action is pending before the Regional Judgment Office (DRJ).

(vii) Contingency whose prospect of loss is considered possible, related to the discussion on Reintegra's credit, due to a divergence of procedure in the credit claim. The action is pending before the Regional Judgment Office (DRJ).

(viii) Contingency whose prospect of loss is considered possible, of the subsidiary, regarding discussions on ICMS – outputs with a reduced tax rate for non-taxpayers established outside the State. The lawsuit is pending before the Board of Tax Appeals of the State of Rio de Janeiro.

(ix) Contingency whose prospect of loss is considered possible, regarding discussions on ICMS, for alleged issuance of tax documents with error in the application of the tax rate, in sales transactions to non-taxpayers established outside the State. The lawsuit is pending before the Court of Appeals of the State of São Paulo.

**(b) Contingent assets**

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

| Nature          | Consolidated  |               |               |               |
|-----------------|---------------|---------------|---------------|---------------|
|                 | 2018          |               | 2017          |               |
|                 | Likely        | Possible      | Likely        | Possible      |
| Contingent      |               |               |               |               |
| Tax             | 15,057        | 14,187        | 14,376        | 13,546        |
| Social Security | -             | 3,098         | -             | 2,958         |
|                 | <u>15,057</u> | <u>17,285</u> | <u>14,376</u> | <u>16,504</u> |

**(i) Tax contingencies**

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

- Tax on Industrialized Products – IPI.
- Social Integration Program – PIS and Contribution for Social Security Financing – COFINS.
- Corporate Income Tax - IRPJ and Social Contribution on Net Income - CSLL.
- Tax on Financial Transactions - IOF and Withholding Income Tax - IRRF.
- Eletrobrás Compulsory Loan.
- ICMS on materials of use and consumption.

The Company has lawsuits claiming recognition of the exclusion of ICMS from the tax base of PIS and Cofins (a topic that is being discussed in the Federal Supreme Court through Special Appeal No. 574.706). As there are no favorable final and unappealable court rulings, the Company and its subsidiaries have not yet measured the amounts that may impact their financial statements and reporting.

**(ii) Social security contingencies**

- Social Security Contribution – INSS.

**18 Pension plan and post-employment benefits to employees**

Marcopolo is the principal sponsor of Marcoprev Sociedade de Previdência Privada, a non-profit civil association incorporated in December 1995, the main objective of which is to grant complementary benefits to those of Social Security to all employees of the sponsors: Marcopolo (main), San Marino, Syncroparts, Trading, Banco Moneo and Fundação Marcopolo. In fiscal year 2018, the amount of R\$10,796 (R\$10,368 in 2017) was spent on contributions at a consolidated level. The actuarial regime for determining the cost and contributions of the plan is by the capitalization method. It is a mixed, “defined benefit” plan where contributions are the sole responsibility of the sponsor, and “defined contribution” where contributions are from the sponsor and the participant, optionally.

On the reporting date of December 31, 2018 and 2017, the amounts related to post-employment benefits were calculated based on an annual actuarial valuation conducted by independent actuaries and are recognized in the financial statements as presented below.

The amounts recognized in the balance sheet are as follows:

|                                                                           | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|---------------------------------------------------------------------------|----------------------------|-------------|---------------------|-------------|
|                                                                           | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| Present value of actuarial liabilities                                    | (277,155)                  | (249,931)   | (280,358)           | (252,744)   |
| Fair value of plan assets                                                 | 308,557                    | 283,394     | 312,115             | 286,575     |
| Surplus not subject to reimbursement or reduction in future contributions | (31,402)                   | (33,463)    | (31,757)            | (33,831)    |
| Liability to be recognized                                                | <u>-</u>                   | <u>-</u>    | <u>-</u>            | <u>-</u>    |

In accordance with the prerogatives contained in the regulations of the retirement plan and in the accrued portion of the supplementary retirement plan, there is no possibility of reimbursement,

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increase of benefit or reduction in future contributions. Consequently, the assets resulting from the plan surplus were not accounted for as of December 31, 2018.

The changes in the defined benefit obligation during the year are shown below:

|                                         | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|-----------------------------------------|----------------------------|-------------|---------------------|-------------|
|                                         | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| On January 1                            | -                          | -           | -                   | -           |
| Contributions from plan participants    | 7,603                      | 7,801       | 7,669               | 7,880       |
| Actuarial losses (gains)                | (7,603)                    | (7,801)     | (7,669)             | (7,880)     |
| Net annual (Expense) Revenue recognized | -                          | -           | -                   | -           |
| As of December 31                       | -                          | -           | -                   | -           |

Changes in the fair value of the benefits plan assets in the years presented are as follows:

|                                | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|--------------------------------|----------------------------|-------------|---------------------|-------------|
|                                | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| On January 1                   | 283,394                    | 256,669     | 286,575             | 259,524     |
| Contribution of sponsors       | 7,603                      | 7,801       | 7,669               | 7,880       |
| Contribution of employees      | 141                        | 175         | 142                 | 175         |
| Benefits paid                  | (12,882)                   | (13,115)    | (12,991)            | (13,224)    |
| Expected return on plan assets | 30,301                     | 31,864      | 30,720              | 32,220      |
| As of December 31              | 308,557                    | 283,394     | 312,115             | 286,575     |

The changes in the actuarial liability in the years presented are as follows:

|                            | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|----------------------------|----------------------------|-------------|---------------------|-------------|
|                            | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| On January 1               | 249,931                    | 244,008     | 252,744             | 246,707     |
| Actuarial (gains) losses   | 13,901                     | 212         | 14,041              | 208         |
| Cost of current services   | 1,983                      | (7,033)     | 2,067               | (7,093)     |
| Financial Cost             | 24,081                     | 25,684      | 24,355              | 25,971      |
| Contributions of employees | 141                        | 175         | 142                 | 175         |
| Benefits paid              | (12,882)                   | (13,115)    | (12,991)            | (13,224)    |
| As of December 31          | 277,155                    | 249,931     | 280,358             | 252,744     |

The amounts recognized in the income statement are:

|                                   | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|-----------------------------------|----------------------------|-------------|---------------------|-------------|
|                                   | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| Cost of current services          | 1,983                      | (7,033)     | 2,067               | (6,949)     |
| Financial Cost                    | (235)                      | (269)       | (237)               | (271)       |
| Total included in personnel costs | (1,748)                    | (7,302)     | (1,830)             | (7,220)     |

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The main actuarial assumptions at the balance sheet date are:

**. Economic hypotheses**

|                                        | <b>Percentage p.a.</b>     |             |                     |             |
|----------------------------------------|----------------------------|-------------|---------------------|-------------|
|                                        | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|                                        | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| Discount rate (*)                      | 9.12                       | 9.93        | 9.93                | 9.93        |
| Expected rate of return on plan assets | 9.12                       | 9.93        | 9.93                | 9.93        |
| Future wage increases                  | 6.50                       | 6.75        | 6.50                | 6.75        |
| Inflation                              | 4.00                       | 4.25        | 4.00                | 4.25        |

(\*) The discount rate is composed of: inflation 4.00% p.a. plus interest 4.92% p.a. for the year 2018 (inflation of 4.25% p.a. plus interest of 5.45% p.a. for the year 2017).

**. Demographic assumptions**

|                                 | <b>Controlling company</b> |             | <b>Consolidated</b> |             |
|---------------------------------|----------------------------|-------------|---------------------|-------------|
|                                 | <b>2018</b>                | <b>2017</b> | <b>2018</b>         | <b>2017</b> |
| Mortality table                 | AT 2000(*)                 | AT 2000(*)  | AT 2000(*)          | AT 2000(*)  |
| Table of mortality and invalids | RRB 1983                   | RRB 1983    | RRB 1983            | RRB 1983    |
| Disability table                | RRB 1944                   | RRB 1944    | RRB 1944            | RRB 1944    |

(\*) Table segregated by sex, constituted based on AT-2000 Basic softened by 10%.

**. Actuarial assumptions and sensitivity analyses.**

The table below, of sensitivity analysis of the obligations of the benefit plans, shows the impact of actuarial exposure (9.12% p.a.) on the change in the assumption of the discount rate by 1 p.p.:

(i) Present value of the obligation as of December 31, 2018.

|         |         |
|---------|---------|
| - Total | 277,155 |
|---------|---------|

(ii) Significant actuarial assumptions as of December 31, 2018.

|               | <b>Sensitivity Analysis</b> |              | <b>Effect on VPO</b> |
|---------------|-----------------------------|--------------|----------------------|
| Discount rate | 10.12%                      | 1% increase  | 245,685              |
| Discount rate | 8.12%                       | 1% reduction | 316,273              |

(iii) Methods and hypotheses used in sensitivity analyses.

The presented results were prepared modifying only the real hypotheses mentioned in each line.

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**19 Income and social contribution taxes**

**(a) Deferred income and social contribution taxes**

The basis for setting up taxes is as follows:

|                                             | <b>Controlling company</b> |               | <b>Consolidated</b> |               |
|---------------------------------------------|----------------------------|---------------|---------------------|---------------|
|                                             | <b>2018</b>                | <b>2017</b>   | <b>2018</b>         | <b>2017</b>   |
| Assets (liabilities)                        |                            |               |                     |               |
| Provision for technical assistance          | 26,255                     | 17,161        | 33,237              | 19,150        |
| Provision for commissions                   | 28,828                     | 21,298        | 32,132              | 23,047        |
| Allowance for doubtful accounts             | 27,666                     | 14,414        | 88,923              | 61,313        |
| Allowance for profit sharing                | 42,975                     | 25,403        | 45,187              | 25,403        |
| Provision for contingencies                 | 62,170                     | 51,722        | 100,904             | 86,278        |
| Provision for losses in inventories         | 4,866                      | 2,249         | 8,546               | 7,125         |
| Provision for third-party services          | 10,933                     | 11,300        | 10,933              | 11,300        |
| Provision for contractual terminations      | 21,667                     | 15,366        | 21,667              | 15,366        |
| Unrealized inventories                      | 6,881                      | 4,639         | 6,881               | 4,679         |
| Adjustment to present value                 | 2,046                      | 1,264         | 2,392               | 2,804         |
| (Tax depreciation)                          | (29,701)                   | (28,983)      | (29,701)            | (28,983)      |
| (Derivative gains/losses appropriation)     | (417)                      | 758           | (417)               | 758           |
| Special Tax Regularization Program - PERT   | -                          | -             | -                   | 44,024        |
| Withholding income tax suspended            | 6,467                      | -             | 6,467               | -             |
| Other provisions                            | 7,790                      | 8,065         | 16,481              | (1,132)       |
| Tax base                                    | 218,426                    | 144,656       | 343,632             | 271,132       |
| Nominal rate - %                            | 34                         | 34            | 34                  | 34            |
| Deferred income tax and social contribution | <u>74,265</u>              | <u>49,183</u> | <u>116,835</u>      | <u>92,185</u> |

**(b) Estimates of the realization installments of deferred tax assets**

The recovery of tax credits is based on projections of taxable results, as well as the realization of temporary differences for the following years:

|                        | <b>Controlling company</b> |               | <b>Consolidated</b> |               |
|------------------------|----------------------------|---------------|---------------------|---------------|
|                        | <b>2018</b>                | <b>2017</b>   | <b>2018</b>         | <b>2017</b>   |
| From 13 months onwards | <u>74,265</u>              | <u>49,183</u> | <u>116,835</u>      | <u>92,185</u> |
|                        | <u>74,265</u>              | <u>49,183</u> | <u>116,835</u>      | <u>92,185</u> |

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**(c) Reconciliation of current income tax and social contribution expense**

|                                                  | <u>Controlling company</u> |               | <u>Consolidated</u> |               |
|--------------------------------------------------|----------------------------|---------------|---------------------|---------------|
|                                                  | <u>2018</u>                | <u>2017</u>   | <u>2018</u>         | <u>2017</u>   |
| Reconciliation                                   |                            |               |                     |               |
| Income before income tax and social contribution | 188,412                    | 83,129        | 209,303             | 92,973        |
| Nominal rate - %                                 | 34                         | 34            | 34                  | 34            |
|                                                  | <u>64,060</u>              | <u>28,264</u> | <u>71,163</u>       | <u>31,611</u> |
| Permanent additions and deletions                |                            |               |                     |               |
| Equity method                                    | 209                        | (14,573)      | -                   | -             |
| Interest on shareholders' equity                 | (28,189)                   | (5,790)       | (28,189)            | (5,790)       |
| Reintegra                                        | (1,617)                    | 4,296         | (1,617)             | 4,296         |
| Interest of directors                            | 1,833                      | (1,770)       | 1,833               | (1,770)       |
| Transfer price                                   | 560                        | -             | 560                 | -             |
| Worker Feeding Program                           | (7,685)                    | -             | (7,685)             | -             |
| Industrial Development Program                   | (9,091)                    | -             | (9,091)             | -             |
| IR/CS on results abroad                          | (11,602)                   | -             | (11,602)            | -             |
| Tax loss carryforwards of subsidiaries           | -                          | -             | 11,281              | 9,013         |
| Effect of adhesion to PERT (i)                   | -                          | -             | -                   | (22,818)      |
| Other additions (exclusions)                     | (6,796)                    | 532           | (8,297)             | (3,681)       |
|                                                  | <u>1,682</u>               | <u>10,959</u> | <u>18,356</u>       | <u>10,861</u> |
| Income tax and social contribution               |                            |               |                     |               |
| Current                                          | 26,764                     | 8,565         | 43,006              | 33,267        |
| Deferred                                         | (25,082)                   | 2,394         | (24,650)            | (22,406)      |
|                                                  | <u>1,682</u>               | <u>10,959</u> | <u>18,356</u>       | <u>10,861</u> |
| Effective rate - %                               | 1                          | 13            | 9                   | 13            |

- (i) The effects shown in this line arise from the accounting of deferred income tax on accumulated tax losses that were used for the discharge of tax debts observing the precept of the Special Tax Regularization Program (PERT), established by provisional measure No. 783/2017 and regulated by Normative Instruction 1.748 and by PGFN ordinance 970/2017.

**20 Shareholders' equity**

**(A) Capital**

The authorized capital stock of the controlling company is 2,100,000,000 shares, of which 700,000,000 are common shares and 1,400,000,000 preferred shares, registered and without par value.

As of December 31, 2018, the subscribed and paid-in capital stock is represented by 925,196,009 (925,196,009 as of December 31, 2017) registered shares, of which 341,625,744 are common shares and 586,570,265 are preferred shares with no par value.

Of the total subscribed capital, 319,693,839 (328,387,006 as of December 31, 2017) registered preferred shares belong to foreign shareholders.

**(b) Reserves**

**(i) Legal reserve**

It is set up at 5% of net income for each fiscal year in accordance with Article 193 of Law No. 6.404/76, up to the limit of 20% of the share capital.

**(ii) Statutory reserves**

Marcopolo allocates at least twenty-five percent (25%) of the remaining profit to the payment of dividends to all Marcopolo shares, as a minimum mandatory dividend. The remaining balance of net income will be allocated in full to the formation of the following reserves:

- Reserve for future capital increase to be used in future capital increases, to be formed by 70% of the remaining balance of net income for each year, and may not exceed 60% of the capital stock.
- Reserve for payment of interim dividend to be used for the payment of interim dividends in paragraph 1 of Article 33 of the Articles of Incorporation, to be established at 15% of the remaining balance of net income for each year and may not exceed 10% of the capital.
- Reserve for the purchase of own shares to be used for the acquisition of shares issued by Marcopolo, for cancellation, holding in treasury and/or respective disposal, to be formed by 15% of the remaining balance of net income for each year, and may not exceed 10% of the share capital.

**(c) Treasury shares**

Corresponds to holding in treasury 3,977,285 registered preferred shares, acquired at the average cost of R\$4.6379 (in Brazilian reais) per share. During the year, 722,516 registered preferred shares were sold, at a weighted average price of R\$3.0753 per share, generating a negative net result of R\$1,129. The amount of treasury shares as of December 31, 2018 corresponds to R\$18,446. The shares will be used to, under paragraph 3 of Article 168 of the Corporate Law and CVM Instruction No. 390/03, grant stock options to directors and employees of Marcopolo, in accordance with the stock option plan approved at the Special Shareholders' Meeting held on December 22, 2005.

**21 Interest on shareholder's equity - Law No. 9.249/95 and dividends**

According to the option provided in Law No. 9.249/95, Marcopolo calculated interest on shareholders' equity based on the Long-Term Interest Rate (TJLP) in force during the year, amounting to R\$82,909 (R\$17,028 in 2017) being paid as of February 1, 2019, at the rate of R\$0.09 per share, for both common book-entry shares and for preferred book-entry shares, which were accounted for as financial expenses, as required by the tax legislation. For the purpose of these financial statements, these interests were eliminated from financial expenses for the year and are presented in the retained earnings account against cash.

Income tax and social contribution for the year were reduced by R\$28,189 (R\$5,790 in 2017), approximately, as a result of the deduction of these taxes by interest on shareholders' equity credited to the shareholders.

Statement of calculation of the mandatory minimum dividend:

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|                                                          | <u>2018</u>          | <u>2017</u>          |
|----------------------------------------------------------|----------------------|----------------------|
| Net income for the year (Company)                        | 186,730              | 72,170               |
| Legal reserve (5%)                                       | <u>(9,337)</u>       | <u>(3,609)</u>       |
| Calculation basis for dividends                          | 177,393              | 68,561               |
| Value of mandatory minimum dividends (25%)               | 44,348               | 17,140               |
| Proposed dividends additional to the mandatory minimum   | <u>38,561</u>        | <u>-</u>             |
| Total dividends proposed by the Management               | <u>82,909</u>        | <u>17,140</u>        |
| Interest on shareholder's equity attributed to dividends |                      |                      |
| Gross Amount                                             | 82,909               | 17,028               |
| Withholding income tax (15%)                             | (12,436)             | (2,554)              |
| Withholding income tax suspended                         | <u>2,665</u>         | <u>535</u>           |
| Net value of credited interest                           | 73,138               | 15,009               |
| Net amount of interest, dividends credited and proposed  | <u><u>73,138</u></u> | <u><u>15,009</u></u> |

The value of this interest was imputed to the minimum mandatory dividend declared in advance, because of the current year in accordance with item III of CVM Resolution No. 683/2012.

## 22 Insurance coverage

As of December 31, 2018, the Company had insurance coverage against fire and miscellaneous risks for property, plant and equipment and for inventories, at amounts considered sufficient to cover possible losses.

The main insurance coverages are:

|                                |                                | <u>Consolidated</u>   |                       |
|--------------------------------|--------------------------------|-----------------------|-----------------------|
| <u>Nature of the asset</u>     | <u>Book Value</u>              | <u>2018</u>           | <u>2017</u>           |
| Stocks, buildings and contents | Fire and miscellaneous hazards | 892,058               | 772,746               |
| Vehicles                       | Collision and civil liability  | <u>37,801</u>         | <u>35,448</u>         |
|                                |                                | <u><u>929,859</u></u> | <u><u>808,194</u></u> |

## 23 Suretyships, bonds and guarantees

As of December 31, 2018, the Company had contracted suretyships and/or guarantees in the amount of R\$10,188 (R\$10,493 as of December 31, 2017), granted to banks in customer financing transactions, which have as counterpart the guarantee of the respective financed assets, as well as the residual book value of assets financed in the amount of R\$38,494 (R\$44,464 as of December 31, 2017) given in bank loan guarantees and contingencies.

## 24 Employee profit sharing

In the year 2018, in accordance with the provisions of Law No. 10.101 of December 19, 2000, the Management decided for the monthly payment and paid in July 2018 a portion thereof, and the balance will be paid in February 2019.

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Employee participation was calculated as established in the Agreement Instrument of the Marcopolo Goal-Efficacy Program (EFIMAR).

The amounts are classified in the statement of income as follows:

|                                    | <b>Controlling company</b> |               | <b>Consolidated</b> |               |
|------------------------------------|----------------------------|---------------|---------------------|---------------|
|                                    | <b>2018</b>                | <b>2017</b>   | <b>2018</b>         | <b>2017</b>   |
| Cost of products and services sold | 27,834                     | 15,488        | 34,043              | 17,243        |
| Selling expenses                   | 6,474                      | 2,808         | 6,590               | 2,871         |
| Administration Expenses            | 5,176                      | 2,378         | 6,997               | 3,264         |
|                                    | <u>39,484</u>              | <u>20,674</u> | <u>47,630</u>       | <u>23,378</u> |

**25 Revenue**

The reconciliation of gross sales to net revenue is as follows:

|                                      | <b>Controlling company</b> |                  | <b>Consolidated</b> |                  |
|--------------------------------------|----------------------------|------------------|---------------------|------------------|
|                                      | <b>2018</b>                | <b>2017</b>      | <b>2018</b>         | <b>2017</b>      |
| Gross sales of products and services | 2,641,723                  | 1,897,123        | 4,744,052           | 3,199,231        |
| Taxes on sales and returns           | (318,479)                  | (226,129)        | (546,584)           | (323,238)        |
| Net revenue                          | <u>2,323,244</u>           | <u>1,670,994</u> | <u>4,197,468</u>    | <u>2,875,993</u> |

**26 Expenditure by nature**

|                                                                               | <b>Controlling company</b> |                  | <b>Consolidated</b> |                  |
|-------------------------------------------------------------------------------|----------------------------|------------------|---------------------|------------------|
|                                                                               | <b>2018</b>                | <b>2017</b>      | <b>2018</b>         | <b>2017</b>      |
| Raw materials and consumables                                                 | 1,385,344                  | 930,890          | 2,654,194           | 1,700,980        |
| Third party and other services                                                | 203,942                    | 129,854          | 327,164             | 265,615          |
| Direct remuneration                                                           | 384,762                    | 379,852          | 681,900             | 650,970          |
| Compensation of directors                                                     | 14,134                     | 13,118           | 14,134              | 13,118           |
| Employee participation in profits and results                                 | 39,484                     | 20,674           | 47,630              | 23,378           |
| Depreciation and amortization charges                                         | 23,014                     | 19,307           | 60,805              | 45,432           |
| Expenses with private pension                                                 | 10,268                     | 10,199           | 10,796              | 10,368           |
| Other expenses                                                                | 86,892                     | 99,486           | 169,396             | 98,339           |
| Total costs and expenses of sales, distributions and administrative expenses. | <u>2,147,840</u>           | <u>1,603,380</u> | <u>3,966,019</u>    | <u>2,808,200</u> |

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**27 Financial Results**

|                                                 | <b>Controlling company</b> |                  | <b>Consolidated</b> |                  |
|-------------------------------------------------|----------------------------|------------------|---------------------|------------------|
|                                                 | <b>2018</b>                | <b>2017</b>      | <b>2018</b>         | <b>2017</b>      |
| Financial income                                |                            |                  |                     |                  |
| Interest and adjustments for inflation received | 6,322                      | 1,671            | 7,447               | 5,658            |
| Interest on derivatives                         | 4,149                      | 13,420           | 5,709               | 14,317           |
| Income from financial investments               | 42,395                     | 92,479           | 47,496              | 102,833          |
| Exchange rate change                            | 31,372                     | 87,346           | 98,406              | 112,792          |
| Exchange rate change on derivatives             | 5,990                      | 16,715           | 10,688              | 26,098           |
| Present value adjustment to trade receivables   | 23,473                     | 21,409           | 35,317              | 30,321           |
|                                                 | <u>113,701</u>             | <u>233,040</u>   | <u>205,063</u>      | <u>292,019</u>   |
| Financial expenses                              |                            |                  |                     |                  |
| Interest on loans and financing                 | (67,419)                   | (81,025)         | (86,324)            | (99,034)         |
| Interest on derivatives                         | -                          | (303)            | (10)                | (1,249)          |
| Exchange rate change                            | (75,105)                   | (91,331)         | (140,675)           | (112,469)        |
| Exchange rate change on derivatives             | (23,022)                   | (16,112)         | (43,129)            | (24,950)         |
| Bank charges                                    | (4,890)                    | (8,518)          | (9,459)             | (13,490)         |
| Present value adjustment of suppliers           | (10,042)                   | (16,279)         | (17,448)            | (22,107)         |
|                                                 | <u>(180,478)</u>           | <u>(213,568)</u> | <u>(297,045)</u>    | <u>(273,299)</u> |
| Net financial result                            | <u>(66,777)</u>            | <u>19,472</u>    | <u>(91,982)</u>     | <u>18,720</u>    |

**27 Profit per share**

**(a) Basic**

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of shares issued during the year, excluding shares purchased by the Company and held as treasury shares.

|                                                      | <b>2018</b> | <b>2017</b> |
|------------------------------------------------------|-------------|-------------|
| Profit attributable to shareholders                  | 186,730     | 72,170      |
| Weighted average number of shares issued (thousands) | 921,219     | 920,496     |
| Earnings per Share                                   | 0.20270     | 0.07841     |

**(b) Diluted**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common and preferred shares to presume the conversion of all potential diluted common shares. The Company considers dilution of common and preferred shares to be the exercise of stock options by employees and directors. The number of shares calculated as described above is compared to the number of shares issued, assuming the exercise of stock options.

|                                                      | <b>2018</b> | <b>2017</b> |
|------------------------------------------------------|-------------|-------------|
| Profit attributable to shareholders                  | 186,730     | 72,170      |
| Weighted average number of shares issued (thousands) | 921,219     | 920,496     |
| Adjustments of:                                      |             |             |
| Exercise of stock options                            | 3,977       | 4,700       |
| Earnings per Share                                   | 0.20183     | 0.07801     |

**Marcopolo S.A.**  
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*In thousands of Brazilian reais, unless otherwise indicated*

**29 Balance sheets and statements of income by segment**

The industrial segment produces bodies for buses and spare parts. The financial segment is responsible for financing operations through Banco Moneo.

**Balance sheets**

|                                                                      | <b>Consolidated</b>     |                         | <b>Industrial</b>       |                         | <b>Finance</b>        |                       |
|----------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
|                                                                      | <b>2018</b>             | <b>2017</b>             | <b>2018</b>             | <b>2017</b>             | <b>2018</b>           | <b>2017</b>           |
| <b>Assets</b>                                                        |                         |                         |                         |                         |                       |                       |
| Current                                                              |                         |                         |                         |                         |                       |                       |
| Cash and cash equivalents                                            | 863,467                 | 958,759                 | 833,839                 | 946,698                 | 29,628                | 12,061                |
| Financial assets measured at fair value through profit or loss       | 89,928                  | 187,373                 | 89,928                  | 187,373                 | -                     | -                     |
| Derivative financial instruments                                     | 1,453                   | 445                     | 1,453                   | 445                     | -                     | -                     |
| Trade receivables                                                    | 1,101,973               | 821,310                 | 860,481                 | 558,154                 | 241,492               | 263,156               |
| Inventories                                                          | 686,821                 | 521,364                 | 686,821                 | 521,364                 | -                     | -                     |
| Other accounts receivable                                            | 317,346                 | 333,650                 | 267,900                 | 291,596                 | 49,446                | 42,054                |
|                                                                      | <u>3,060,988</u>        | <u>2,822,901</u>        | <u>2,740,422</u>        | <u>2,505,630</u>        | <u>320,566</u>        | <u>317,271</u>        |
| Noncurrent                                                           |                         |                         |                         |                         |                       |                       |
| Financial assets measured at fair value through profit or loss       | 13,260                  | 14,118                  | 13,260                  | 14,118                  | -                     | -                     |
| Trade receivables                                                    | 360,862                 | 428,773                 | 16,645                  | 15,673                  | 344,217               | 413,100               |
| Other accounts receivable                                            | 176,675                 | 129,553                 | 162,328                 | 118,560                 | 14,347                | 10,993                |
| Investments                                                          | 482,827                 | 377,003                 | 482,827                 | 377,003                 | -                     | -                     |
| Investment properties                                                | 49,808                  | 50,708                  | 49,808                  | 50,708                  | -                     | -                     |
| Fixed Assets                                                         | 770,733                 | 688,355                 | 770,486                 | 688,105                 | 247                   | 250                   |
| Goodwill and intangible assets                                       | 232,551                 | 220,841                 | 231,959                 | 220,417                 | 592                   | 424                   |
|                                                                      | <u>2,086,716</u>        | <u>1,909,351</u>        | <u>1,727,313</u>        | <u>1,484,584</u>        | <u>359,403</u>        | <u>424,767</u>        |
| <b>Total assets</b>                                                  | <u><b>5,147,704</b></u> | <u><b>4,732,252</b></u> | <u><b>4,467,735</b></u> | <u><b>3,990,214</b></u> | <u><b>679,969</b></u> | <u><b>742,038</b></u> |
| <b>Liabilities</b>                                                   |                         |                         |                         |                         |                       |                       |
| Current                                                              |                         |                         |                         |                         |                       |                       |
| Suppliers                                                            | 418,247                 | 366,399                 | 418,037                 | 366,399                 | 210                   | -                     |
| Loans and financing                                                  | 833,995                 | 831,071                 | 658,884                 | 647,130                 | 175,111               | 183,941               |
| Derivative financial instruments                                     | 48                      | 2,811                   | 48                      | 2,811                   | -                     | -                     |
| Other accounts payable                                               | 576,137                 | 418,985                 | 570,841                 | 408,619                 | 5,296                 | 10,366                |
|                                                                      | <u>1,828,427</u>        | <u>1,619,266</u>        | <u>1,647,810</u>        | <u>1,424,959</u>        | <u>180,617</u>        | <u>194,307</u>        |
| Noncurrent                                                           |                         |                         |                         |                         |                       |                       |
| Loans and financing                                                  | 1,100,165               | 1,109,595               | 829,968                 | 795,533                 | 270,197               | 314,062               |
| Other accounts payable                                               | 84,481                  | 74,779                  | 81,140                  | 74,779                  | 3,341                 | -                     |
|                                                                      | <u>1,184,646</u>        | <u>1,184,374</u>        | <u>911,108</u>          | <u>870,312</u>          | <u>273,538</u>        | <u>314,062</u>        |
| <b>Non-controlling shareholders</b>                                  | <u><b>29,012</b></u>    | <u><b>29,843</b></u>    | <u><b>29,012</b></u>    | <u><b>29,843</b></u>    | <u><b>-</b></u>       | <u><b>-</b></u>       |
| <b>Shareholders' equity attributable to controlling shareholders</b> | <u><b>2,105,619</b></u> | <u><b>1,898,769</b></u> | <u><b>1,879,805</b></u> | <u><b>1,665,100</b></u> | <u><b>225,814</b></u> | <u><b>233,669</b></u> |
| <b>Total liabilities</b>                                             | <u><b>5,147,704</b></u> | <u><b>4,732,252</b></u> | <u><b>4,467,735</b></u> | <u><b>3,990,214</b></u> | <u><b>679,969</b></u> | <u><b>742,038</b></u> |

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*In thousands of Brazilian reais, unless otherwise indicated*

**Statement of income**

|                                                  | <u>Consolidated</u> |               | <u>Industrial</u> |               | <u>Finance</u> |              |
|--------------------------------------------------|---------------------|---------------|-------------------|---------------|----------------|--------------|
|                                                  | <u>2018</u>         | <u>2017</u>   | <u>2018</u>       | <u>2017</u>   | <u>2018</u>    | <u>2017</u>  |
| Operations                                       |                     |               |                   |               |                |              |
| Net sales and service revenues                   | 4,197,468           | 2,875,993     | 4,155,112         | 2,840,440     | 42,356         | 35,553       |
| Cost of goods sold and services rendered         | (3,533,152)         | (2,472,347)   | (3,533,152)       | (2,472,347)   | -              | -            |
| Gross profit                                     | 664,316             | 403,646       | 621,960           | 368,093       | 42,356         | 35,553       |
| Operating (expenses) revenue                     |                     |               |                   |               |                |              |
| Selling expenses                                 | (251,055)           | (168,734)     | (214,964)         | (154,905)     | (36,091)       | (13,829)     |
| Administrative expenses                          | (181,812)           | (167,119)     | (162,335)         | (151,033)     | (19,477)       | (16,086)     |
| Other operating revenues (expenses), net         | (25,235)            | (80,397)      | (26,573)          | (80,014)      | 1,338          | (383)        |
| Equity accounting results                        | 95,071              | 86,857        | 95,071            | 86,857        | -              | -            |
| Operating Income                                 | 301,285             | 74,253        | 313,159           | 68,998        | (11,874)       | 5,255        |
| Financial result                                 |                     |               |                   |               |                |              |
| Financial income                                 | 205,063             | 292,019       | 205,063           | 292,019       | -              | -            |
| Financial expenses                               | (297,045)           | (273,299)     | (297,045)         | (273,299)     | -              | -            |
| Profit before Income Tax and Social Contribution | 209,303             | 92,973        | 221,177           | 87,718        | (11,874)       | 5,255        |
| Income tax and social contribution               | (18,356)            | (10,861)      | (21,709)          | (8,407)       | 3,353          | (2,454)      |
| Net income (loss) for the year                   | <u>190,947</u>      | <u>82,112</u> | <u>199,468</u>    | <u>79,311</u> | <u>(8,521)</u> | <u>2,801</u> |

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**30 Statements of cash flows by business segment - indirect method**

|                                                                                                       | <b>Consolidated</b> |                  | <b>Industrial Segment</b> |                  | <b>Financial Segment</b> |                  |
|-------------------------------------------------------------------------------------------------------|---------------------|------------------|---------------------------|------------------|--------------------------|------------------|
|                                                                                                       | <b>2018</b>         | <b>2017</b>      | <b>2018</b>               | <b>2017</b>      | <b>2018</b>              | <b>2017</b>      |
| Cash flows from operating activities                                                                  |                     |                  |                           |                  |                          |                  |
| <b>Net income for the year</b>                                                                        | <b>190,947</b>      | <b>82,112</b>    | <b>199,468</b>            | <b>79,311</b>    | <b>(8,521)</b>           | <b>2,801</b>     |
| Adjustments to reconcile net income to cash and cash equivalents generated by operating activities :  |                     |                  |                           |                  |                          |                  |
| Depreciations and amortizations                                                                       | 60,805              | 45,432           | 60,521                    | 45,166           | 284                      | 266              |
| Gain (loss) on the sale of assets of investments, property, plant and equipment and intangible assets | 18,888              | 33,359           | 18,836                    | 33,350           | 52                       | 9                |
| Write-off of property, plant and equipment by claim                                                   | -                   | 24,485           | -                         | 24,485           | -                        | -                |
| Equity method                                                                                         | (95,071)            | (86,857)         | (95,071)                  | (86,857)         | -                        | -                |
| Allowance for doubtful accounts                                                                       | 38,338              | 32,127           | 20,563                    | 16,138           | 17,775                   | 15,989           |
| Current and deferred income and social contribution taxes                                             | 18,357              | 10,860           | 21,710                    | 8,406            | (3,353)                  | 2,454            |
| Appropriated interest and changes                                                                     | 170,789             | 120,100          | 137,282                   | 82,958           | 33,507                   | 37,142           |
| Non-controlling interests                                                                             | 4,217               | 9,942            | 4,217                     | 9,942            | -                        | -                |
| Changes in assets and liabilities                                                                     |                     |                  |                           |                  |                          |                  |
| Reduction (increase) in trade accounts receivable                                                     | (241,982)           | 108,090          | (314,754)                 | 5,511            | 72,772                   | 102,579          |
| Reduction in marketable securities                                                                    | 97,295              | 49,849           | 97,295                    | 49,849           | -                        | -                |
| (Increase) in inventories                                                                             | (147,951)           | (40,364)         | (147,951)                 | (40,364)         | -                        | -                |
| (Increase) decrease in other accounts receivable                                                      | (26,120)            | (109,024)        | (15,374)                  | (112,416)        | (10,746)                 | 3,392            |
| Increase in suppliers                                                                                 | 39,836              | 109,725          | 39,626                    | 109,725          | 210                      | -                |
| Increase (decrease) in accounts payable and provisions                                                | 139,889             | (61,635)         | 137,636                   | (62,749)         | 2,253                    | 1,114            |
| <b>Cash provided by operating activities</b>                                                          | <b>268,237</b>      | <b>328,201</b>   | <b>164,004</b>            | <b>162,455</b>   | <b>104,233</b>           | <b>165,746</b>   |
| Taxes on profit paid                                                                                  | (43,006)            | (33,267)         | (43,043)                  | (28,043)         | 37                       | (5,224)          |
| <b>Net cash from operating activities</b>                                                             | <b>225,231</b>      | <b>294,934</b>   | <b>120,961</b>            | <b>134,412</b>   | <b>104,270</b>           | <b>160,522</b>   |
| Cash flows from investing activities                                                                  |                     |                  |                           |                  |                          |                  |
| Investments                                                                                           | -                   | (10,369)         | -                         | (10,369)         | -                        | -                |
| Dividends of subsidiaries, jointly-owned subsidiaries and affiliates                                  | 47,433              | 16,366           | 47,433                    | 16,366           | -                        | -                |
| Additions of fixed assets                                                                             | (156,935)           | (52,465)         | (156,789)                 | (52,435)         | (146)                    | (30)             |
| Additions of intangible assets                                                                        | (4,808)             | (1,827)          | (4,453)                   | (1,621)          | (355)                    | (206)            |
| Receipt from the sale of investments, property, plant and equipment and intangible assets             | 1,536               | 1,291            | 1,536                     | 1,291            | -                        | -                |
| <b>Net cash used in investing activities</b>                                                          | <b>(112,774)</b>    | <b>(47,004)</b>  | <b>(112,273)</b>          | <b>(46,768)</b>  | <b>(501)</b>             | <b>(236)</b>     |
| Cash flows from financing activities                                                                  |                     |                  |                           |                  |                          |                  |
| Treasury shares                                                                                       | 2,222               | 665              | 2,222                     | 665              | -                        | -                |
| Loans from third parties                                                                              | 997,911             | 567,914          | 845,798                   | 425,699          | 152,113                  | 142,215          |
| Payment of loans - principal                                                                          | (1,101,813)         | (937,213)        | (893,571)                 | (638,035)        | (208,242)                | (299,178)        |
| Payment of loans - interest                                                                           | (86,289)            | (118,600)        | (56,216)                  | (83,094)         | (30,073)                 | (35,506)         |
| Payment of interest on shareholders' equity and dividends                                             | (33,890)            | (17,140)         | (33,890)                  | (16,475)         | -                        | (665)            |
| <b>Net cash used in financing activities</b>                                                          | <b>(221,859)</b>    | <b>(504,374)</b> | <b>(135,657)</b>          | <b>(311,240)</b> | <b>(86,202)</b>          | <b>(193,134)</b> |

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|                                                             | <u>Consolidated</u> |                  | <u>Industrial Segment</u> |                  | <u>Financial Segment</u> |                 |
|-------------------------------------------------------------|---------------------|------------------|---------------------------|------------------|--------------------------|-----------------|
|                                                             | <u>2018</u>         | <u>2017</u>      | <u>2018</u>               | <u>2017</u>      | <u>2018</u>              | <u>2017</u>     |
| Effect of exchange rate change on cash and cash equivalents | 14,110              | 5,744            | 14,110                    | 5,744            | -                        | -               |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>(95,292)</b>     | <b>(250,700)</b> | <b>(112,859)</b>          | <b>(217,852)</b> | <b>17,567</b>            | <b>(32,848)</b> |
| Cash and cash equivalents at beginning of the year          | 958,759             | 1,209,459        | 946,698                   | 1,164,550        | 12,061                   | 44,909          |
| Cash and cash equivalents at end of the year                | 863,467             | 958,759          | 833,839                   | 946,698          | 29,628                   | 12,061          |

**31 Additional information**

The industrial business segment operates in geographic regions specified below. The financial business segment operates exclusively in Brazil.

**(a) Net revenue by geographic region**

|                      | <u>Consolidated</u> |                  |
|----------------------|---------------------|------------------|
|                      | <u>2018</u>         | <u>2017</u>      |
| Brazil               | 3,276,426           | 2,086,033        |
| Africa               | 125,667             | 87,967           |
| Australia            | 484,375             | 325,078          |
| China                | 68,662              | 65,909           |
| United Arab Emirates | 330                 | -                |
| Peru                 | -                   | 1,029            |
| Mexico               | 242,008             | 309,977          |
|                      | <u>4,197,468</u>    | <u>2,875,993</u> |

**(b) Property, plant and equipment, goodwill and intangible assets by geographic region**

|                      | <u>Consolidated</u> |                |
|----------------------|---------------------|----------------|
|                      | <u>2018</u>         | <u>2017</u>    |
| Brazil               | 772,638             | 713,282        |
| Africa               | 14,229              | 13,920         |
| Australia            | 133,043             | 112,321        |
| Canada               | 53,371              | 49,416         |
| China                | 10,302              | 3,675          |
| Mexico               | 19,630              | 16,523         |
| Uruguay              | 69                  | 59             |
| United Arab Emirates | 2                   | -              |
|                      | <u>1,003,284</u>    | <u>909,196</u> |

\* \* \*

### **“AUDIT COMMITTEE OPINION”**

“The Audit Committee of Marcopolo S.A., in compliance with the legal and statutory provisions, in accordance with the provisions of article 163 of Law 6404/76 and its subsequent amendments, examined the management report and the financial statements referring to the fiscal year ended December 31, 2018. Based on the audits conducted, considering also the unqualified report of the independent auditors, PwC - PricewaterhouseCoopers, dated February 22, 2019, as well as the information and clarifications received during the year, unanimously decided that the documents are in a position to be appraised by the Annual Shareholders' Meeting.”

Caxias do Sul, February 22, 2019 ~~February 21, 2019.~~

Francisco Sérgio Quintana da Rosa   Egon Handel   William Cordeiro  
Chairman of the Audit Committee

**MARCOPOLO S.A.**  
CNPJ No. 88.611.835/0001-29  
NIRE No. 43 3 0000723 5  
Publicly Held Company

Opinion of the Audit and Risk Committee

The Audit and Risk Committee (Committee) of Marcopolo S.A. states that during the year 2018 it held bimonthly meetings in accordance with the annual calendar of meetings, to analyze matters within its responsibilities.

In these opportunities, the Committee's work was focused on the following activities:

- Monitoring the work of the independent auditors, analyzing their reports and the points of recommendation issued;
- Analysis of the annual schedule of activities, their performance and the reports prepared by the internal audit;
- Follow-up of activities aimed at risk management in the Company;
- Consideration of the Quarterly Information (ITRs) and the Annual Financial Statements of the Company, together with the independent audit;
- Monitoring of Compliance activities in the Company, and;
- Discussion of issues relevant to the organization, such as: contingent liabilities and assets, adequacy of internal policies, insurance against equity and credit risks, with manifestation, when pertinent, to the Board of Directors.

**Conclusion:**

Considering the system of internal controls in place, the scope, depth and quality of the work carried out by the independent and internal audits, as well as the unqualified opinion of the independent auditors, the Committee expresses its agreement with the financial statements for the year ended December 31, 2018, provided that they can be examined by the Board of Directors, as presented.

Caxias do Sul, February 22, 2019.

Osvaldo Schirmer  
Coordinator

**MARCOPOLO S.A.**  
CNPJ No. 88.611.835/0001-29  
Publicly Held Company  
NIRE No. 43 3 0000723 5

## **STATEMENT**

Messrs. Francisco Gomes Neto and José Antonio Valiati, Executive Officers of MARCOPOLO S.A., a company with principal place of business at Avenida Marcopolo, 280, Planalto District, in the city of Caxias do Sul, RS, registered with CNPJ under No. 88.611.835/0001-29, pursuant to the provisions of sections V and VI of Article 25 of CVM Instruction No. 480, of December 7, 2009, state that:

- a) They revised, discussed and agreed with the Financial Statements of Marcopolo S.A., for the fiscal year ended December 31, 2018; and
- b) They revised, discussed and agreed with the views expressed by PRICEWATERHOUSECOOPERS – Independent Auditors, in the Independent Auditors' Report concerning the Financial Statements of the fiscal year ended December 31, 2018.

Caxias do Sul, RS, February 22, 2019

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Francisco Gomes Neto  
Executive Officer

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José Antonio Valiati  
Executive Officer and Investor Relations Officer