# Videolar-Innova S.A.

**Financial statements**
**December 31, 2019**

KPDS 611155

# Contents

Barueri, January 31, 2020.

**MANAGEMENT REPORT**

Dear Shareholders,

The management of Videolar-Innova S/A, in accordance with the legal and statutory provisions, hereby submits the **Management Report and the Financial Statements for the Year 2019** with its respective explanatory notes, accompanied by the Independent Auditors' Report for the years ended December 31, 2019 and 2018, which include the pronouncements issued by the Accounting Pronouncement Committee (CPC) applicable to its operations.

## INNOVA: INTENSE INVESTMENTS IN TECHNOLOGY AND TALENTS, PETROCHEMICAL LEADING COMPANY IN STYRENE PRODUCTS AND PROCESSED PLASTICS BACKED BY SUSTAINABILITY.

2019 has marked the completion of one more crucial strategic investment stage: unquestionably all production areas were subject to innovations and worth mentioning was the styrene monomer plant, the production of which was doubled to a 420,000 tons/year capacity. The works in Unit II, Triunfo Petrochemical Complex (RS), mobilized over R$ 600 million. This project was rounded off with a first-ever action in the world of great importance to this process: the implementation of a Direct Heating Unit (DHU) to replace a standard furnace. Cutting-edge technology equipment, the DHU enables the production of styrene monomer (SM) within an environmentally clean high-quality process, featuring a manufactured-product performance.

The DHU concept has taken 14 years to be developed by US company Badger/TechnipFMC, and Innova has been the first petrochemical company in the world to implement this cutting-edge technology, which uses the gas generated by the process itself to heat the material in the new reactor, thus replacing part of the steam consumed by manufactured ton.

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

Polystyrene resin (PS), which can be 100% recycled, has a massive presence in the lives of families, in its different applications, such as: TV cabinets, washers, dishwashers, and refrigerators, among other applications, such as rules, hangers, buttons.

The new production line of expandable polystyrene (EPS) was already implemented in 2018, just two years after this product was launched. Its production capacity was doubled to reach 50,000 tons/year. Expandable polystyrene (EPS) is used in the thermal packaging within the pharmaceutical industry, in the technical packaging for the transportation of items such as white goods and electronics, as well as for civil construction (in the filling of slabs) and heavy construction (soil stabilization in infrastructure works). Considering that Brazil imports half of what it consumes, its market potential is huge. There is also a strong demand for exports, and expandable polystyrene (EPS) has already been approved by major consumers in the global scenario. This is also a nature-friendly product, as its use in civil construction reduces energy consumption due to its thermal effect.

In the plastic transformation industry, the year was marked by the development of new applications for biaxial oriented polypropylene (BOPP) films following the implementation of the third production line with capacity to manufacture up to five-layer films. BOPP is developed in our Unit I, in Manaus (AM), a state-of-the-art plant with 65 thousand square meters and over R$ 600 million invested since 2011.

The broad range applications of BOOP plastic films is impressive and is noticeable in supermarket aisles: is everywhere, ubiquitous in flexible packaging, 100% recyclable and providing an effective barrier against oxygen. They preserve freshness and properties of foods such as chocolates, cookies, snacks, cereal bars, popsicles, among others. BOPP is also present in tapes, bottle labels and a wide range of other applications.

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

In Unit I, in Manaus (AM), the Company also has a manufacturing plant that produces plastic caps for mineral water, juices and soft drinks, with a capacity of 300 million units/month. It meets the most prestigious brands in the Brazilian market and obtained the rigorous FSSC 22000 certification in risk management focused on food safety. The production of mineral water bottle caps increased after the implementation of a dedicated line in 2018.

All Innova's industrial plants are duly certified in accordance with ISO 9001 and 14000 standards.

It is outstanding that all investments and increases have converged towards the sustainability pillar: in 2019, the Company carried out one first turnabout to improve its energy matrix at Triunfo (RS) by adopting natural gas supplied by Sulgás, a concessionaire from Rio Grande do Sul, substituting the LSC fuel oil, with a 10,000 tons/year capacity. Natural gas is clean energy and the fossil fuel with the lowest environmental impact.

This move has preceded the greatest watershed forecast for 2020, when this plant will become a self-reliant producer of energy by jointly generating steam and electricity from 100% clean renewable sources in substitution of fossil-origin sources (mineral coal and fuel oil, as used by the current steam supplier). The solid biomass of acacia wood, pinus, eucalyptus, vegetal waste, rice rusk or chips from sawmill leftover will be used in the joint generation, with the technology adopted also providing for the operation with natural gas.

Also regarding the sustainability agenda, Innova has strengthened its pioneering role with the launch in 2019 of ECO-PS®, the first-ever polystyrene manufactured in Brazil with post-consumption material in its composition obtained through mechanical recycling, which offers features similar to a 100% virgin resin product.

The ECO-PS® industrial plant, in the Manaus Industrial Complex, has an initial 12,000 tons/year capacity, and the post-consumption waste collection involves a major environmental and social front of action in the Amazon region, both in terms of generation of income and pollution decontamination in urban areas. The selective collection process is carried out in partnership with Fundação Amazonas Sustentável (FAS), acknowledged by UNESCO with the Sustainable Development Education award.

# CORPORATE THINKING:

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

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

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

# GOVERNANCE & ORGANIZATION

Innova continuously seeks to improve its corporate governance practices. Acting as an example of good practices and transparency towards its employees, shareholders, customers and the community is at the core of the Company's business philosophy. Accordingly, the Company has a Compliance department reporting to the Legal Officer, which provides employees and stakeholders in general with an outsourced-management reporting channel, through which they are able to communicate with the company and report any facts or events that must become knowledgeable and upon which Innova should act accordingly.

The transparency, standardization and processes are also a focus of the Company, which completed in 2019 one more update of the Employee Manual, carried out every two years, which keeps up with the Company's dynamics.

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

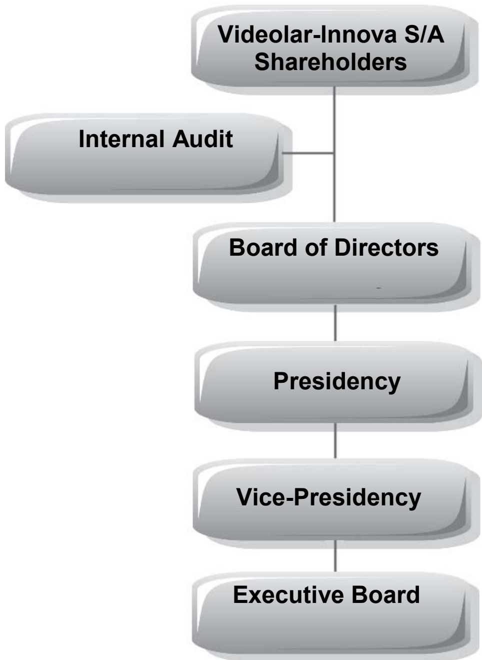
Innova's Employee Manual, made available to all employees, aims to be a benchmark for personal and professional conduct, based on the values and principles that underpin the Company's Mission, Vision and Values.

## Ethics in practice

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

Even though it is privately-held corporation, since 2005, Innova has an external audit firm (that is one of the Big Four) to analyze its results.

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



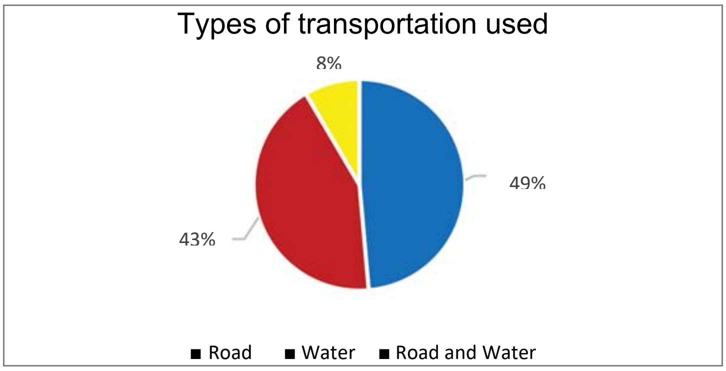

The Board of Directors is the guiding and senior management body of the Company. It is responsible for setting the general direction of the businesses and define the mission, objectives, strategies and guidelines.

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

## COMMERCIAL PERFORMANCE

Total annual sales exceeded 408,000 tons.

The distribution of volumes sold during the year contracted approximately 16,000 shipments. The chart below shows the percentage interest of each modal:




## ECONOMIC AND FINANCIAL PERFORMANCE

**VIDEOLAR-INNOVA S/A I Economic-Financial Performance** (in thousands of Reais)

| | **2019** | **2018** |
|---|---|---|
| **TOTAL ASSETS** | 3,044,177 | 3,238,156 |
| **SHAREHOLDERS' EQUITY** | 1,872,184 | 1,819,583 |
| **INDEBTEDNESS** (NET DEBT/EBITDA) | 1.85x | 1.37x |
| **GROSS OPERATING REVENUE** | 2,864,053 | 3,041,503 |
| **NET OPERATING REVENUE** | 2,506,253 | 2,597,630 |
| **GROSS INCOME** | 365,916 | 412,538 |
| **EBITDA** (LAJIDA) | 315,811 | 409,668 |
| EBITDA margin (%) | 12.60% | 15.77% |
| **FINANCIAL INCOME (LOSS)** | (46,388) | (130,218) |
| **NET INCOME** | 118,967 | 132,817 |
| **INVESTMENTS MADE** (CAPEX) | 302,864 | 330,999 |

# OUTLOOK FOR 2020

The Company is aware of the deep paradigm shift carried out by the change in the energy matrix at Triunfo (RS) petrochemical unit, which became energy self-reliant. This investment is one of the pillars of the Company's strategic mindset, backed by sustainability and inclusion in the circular economy.

The styrene business is capable of meeting the demand assured by the investments completed to duplicate the manufacturing plant to 420,000 tons/year. Regarding polystyrene (PS), we forecast the launch of new types (or grades), the increase in the ECO-PS® line, and the launch of BIO-PS®, a major sustainability and circular economy product, a polystyrene with biodegradable features.

We are supported in this challenge by our Styrenics Technology Center (CTE), the largest patents producer in this segment in Latin America.

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

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

Thus, adopting a long-term vision, the Company adds value for its customers, shareholders, employees and, above all, the society, with a virtuous social and economic impact in the regions where it operates, increasing competitiveness throughout the petrochemical production chain and processed plastics without losing the focus on the financial discipline. We increasingly understand that sustainability is the only way to enable our longevity and growth.

# ACKNOWLEDGMENT

We would like to thank our shareholders for their confidence and encouragement. We thank our clients for having chosen us. We thank our suppliers and financial institutions for their support and partnership. We thank our employees for their commitment and dedication, which are essential for our success.

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

# Independent auditors' report on financial statements

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

## Opinion

We have reviewed financial statements of Videolar-Innova S.A. ("Company"), comprising the balance sheet as of December 31, 2019 and the related statements of income, comprehensive income and changes in shareholders' equity, and cash flows for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other clarifying information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Videolar-Innova S.A. as of December 31, 2019, the performance of its operations and its respective cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

## Basis for opinion

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

## Key audit matters

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

## Intangible assets recoverable value with undefined useful life (goodwill) and deferred tax assets

See notes 6.7, 6.10, 15.1 and 25.a to financial statements

| Key audit matters | How our audit addressed this matter |
|---|---|
| The Company maintains a significant balance of intangible assets with undefined useful lives (goodwill) and deferred tax assets, whose recoverability is based on cash flow analyses and projections, and income generation. The Company makes significant judgment in the determination of cash flow projections and future taxable income which are based on assumptions that includes its economic and operational environment, especially the estimates of production and sales, inflation, and discount and economic growth rates. Due to the significant degree of judgment of estimates used in cash flow projects and future taxable income and effect in possible changes could have in financial statements, we consider this matter as significant in our audit. | We understood the evaluation process of recoverable value of goodwill and determination of deferred tax asset and evaluated the design and of key internal controls related to the preparation and review of business plan, budgets and impairment analysis and deferred tax assets provided by the Company. We can count with the help of our experts in corporate finance, we have evaluated assumptions and methodologies used, such as production and sales estimates, inflation, and the discount and economic growth rates used by the Company in cash flow and future taxable income projections. In addition, with the aid of our tax experts, we evaluated the fairness of tax basis used to calculate deferred taxes using prevailing tax law as reference. We also evaluated disclosures made by the Company regarding goodwill and deferred taxes and related to sensitivity analysis, which demonstrate the impact on recoverable value resulting from possible and reasonable changes in key assumptions used by the Company.<br><br>As a result of evidence from the procedures summarized above, we consider that recognition of intangible asset with undefined useful life (goodwill) and deferred tax asset is acceptable in the context of financial statements for the year ended December 31, 2019 taken as a whole. |

## Other information accompanying the financial statements and auditors' report

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

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

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

## Responsibility of management for the financial statements

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

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

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

## Auditors' responsibilities for the audit of the financial statements

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

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

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



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

Osasco, January 31, 2020

KPMG Auditores Independentes
CRC 2SP014428/O-6

Juliana Leonam de Araujo Braga
Accountant CRC 1SP-251062/O-5



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## Videolar-Innova S.A.

### Balance sheets at December 31, 2019 and 2018

*(In thousands of Reais)*

| Assets | Note | 2019 | 2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 23,481 | 11,309 |
| Accounts receivable | 9 | 390,350 | 480,787 |
| Financial instruments | 28 | 1,102 | - |
| Inventories | 10 | 281,197 | 534,680 |
| Income tax and social contribution, recoverable | 25.c | - | 3,152 |
| Recoverable taxes | 11 | 41,629 | 29,316 |
| Other accounts receivable | 12 | 2,366 | 4,607 |
| Advance to suppliers | | 195 | 54,281 |
| Prepaid expenses | | 4,965 | 4,267 |
| | | 745,285 | 1,122,399 |
| **Non-current assets** | | | |
| Deferred income tax and social contribution | 25.a | 114,274 | 158,640 |
| Accounts receivable | 9 | 6,576 | 8,826 |
| Recoverable taxes | 11 | 62,060 | 46,382 |
| Other accounts receivable | 12 | - | 2,234 |
| Judicial deposits | 18 | 14,544 | 15,433 |
| | | 197,454 | 231,515 |
| Investment property | 13 | 258,974 | 204,354 |
| Property, plant and equipment | 14 | 1,584,622 | 1,418,853 |
| Intangible assets | 15 | 257,842 | 261,035 |
| | | 2,101,438 | 1,884,242 |
| | | 3,044,177 | 3,238,156 |

| Liabilities | Note | 2019 | 2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Loans and financing | 16 | 458,204 | 286,651 |
| Financial instruments | 28 | - | 517 |
| Suppliers | 17 | 447,734 | 734,867 |
| Labor obligations and social charges | | 17,498 | 26,344 |
| Tax liabilities | | 7,556 | 11,824 |
| Advances from clients | | 656 | - |
| Other liabilities | | 69,165 | 41,568 |
| | | 1,000,813 | 1,101,771 |
| **Non-current liabilities** | | | |
| Loans and financing | 16 | 150,901 | 283,502 |
| Provision for contingencies | 18 | 17,483 | 18,689 |
| Other liabilities | | 2,796 | 14,611 |
| | | 171,180 | 316,802 |
| **Shareholders' equity** | | | |
| Capital | 19.a | 686,832 | 686,832 |
| Treasury shares | 19.g | (79,732) | - |
| Tax incentive reserves | 19.e | 1,107,792 | 954,802 |
| Legal reserve | 19.c | 46,141 | 40,193 |
| Profit reserves | 19.f | 1,183 | 40,909 |
| Equity valuation adjustment | 19.b | 109,968 | 96,847 |
| **Shareholders’ equity** | | 1,872,184 | 1,819,583 |
| | | 3,044,177 | 3,238,156 |

See the accompanying notes to the financial statements.

# Videolar-Innova S.A.

## Statements of income

### Years ended December 31, 2019 and 2018

*(In thousands of Reais)*

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Net operating revenue** | 20 | 2,506,253 | 2,597,630 |
| Cost of products sold | 21 | (2,140,337) | (2,185,092) |
| **Gross operating income** | | **365,916** | **412,538** |
| **Operating revenues (expenses)** | | | |
| Administrative and sales expenses | 22 | (184,525) | (179,750) |
| Realization of goodwill | | (10,916) | (23,290) |
| Other operating revenues | 23 | 38,236 | 90,865 |
| | | (157,205) | (112,175) |
| Financial revenues | 24 | 25,575 | 33,999 |
| Financial expenses | 24 | (53,009) | (52,748) |
| Inflation adjustment and exchange-rate change, net | 24 | (18,954) | (111,469) |
| **Net financial revenue (expenses)** | | (46,388) | (130,218) |
| **Income (loss) before taxes** | | **162,323** | **170,145** |
| Current income tax and social contribution | 25.b | - | 5,867 |
| Deferred income tax and social contribution | 25.b | (43,356) | (43,195) |
| **Net income for the year** | | **118,967** | **132,817** |

See the accompanying notes to the financial statements.

# Videolar-Innova S.A.

## Statements of comprehensive income

### Years ended December 31, 2019 and 2018

***(In thousands of Reais)***

| | 2019 | 2018 |
|---|---|---|
| **Income (loss) for the year** | 118,967 | 132,817 |
| **Comprehensive income** | - | - |
| **Other comprehensive income, net of income tax and social contribution** | - | - |
| **Total comprehensive income** | 118,967 | 132,817 |
| **Comprehensive income attributable to** | | |
| Controlling shareholders | 118,967 | 132,817 |
| **Total comprehensive income** | **118,967** | **132,817** |

See the accompanying notes to the financial statements.

## Videolar-Innova S.A.

### Statements of changes in shareholders' equity

**Years ended December 31, 2019 and 2018**

***(In thousands of Reais)***

| | | | | Profit reserve | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital | Treasury shares | Equity valuation adjustments | Legal | Tax incentives | Profit retention | Retained earnings/ (losses) | Total |
| **Balances at December 31, 2017** | **686,832** | **-** | **97,008** | **33,552** | **781,646** | **92,254** | **-** | **1,691,292** |
| Equity valuation adjustment | - | - | 84 | - | - | - | - | **84** |
| Decrease in tax incentive reserve - IRPJ 2017 | - | - | - | - | (4,610) | - | - | **(4,610)** |
| Use of profit reserve for the formation of tax incentive reserve | - | - | - | - | 32,803 | (32,803) | - | **-** |
| Income for the year | - | - | - | - | - | - | 132,817 | **132,817** |
| Realization of equity adjustment | - | - | (245) | - | - | - | 245 | **-** |
| Formation of legal reserve (Note 19.c) | - | - | - | 6,641 | - | - | (6,641) | **-** |
| Formation of tax incentive reserve (Note 19.e) | - | - | - | - | 144,963 | (18,542) | (126,421) | **-** |
| **Balances at December 31, 2018** | **686,832** | **-** | **96,847** | **40,193** | **954,802** | **40,909** | **-** | **1,819,583** |
| Equity valuation adjustment | - | - | 13,200 | - | - | - | - | **13,200** |
| Repurchase of shares | - | (79,732) | - | - | - | - | - | **(79,732)** |
| Income for the year | - | - | - | - | - | - | 118,967 | **118,967** |
| Realization of equity adjustment | - | - | (79) | - | - | - | 245 | **166** |
| Formation of legal reserve | - | - | - | 5,948 | - | - | (5,948) | **-** |
| Formation of tax incentive reserve | - | - | - | - | 152,990 | (39,726) | (113,264) | **-** |
| **Balances at December 31, 2019** | **686,832** | **(79,732)** | **109,968** | **46,141** | **1,107,792** | **1,183** | **-** | **1,872,184** |

See the accompanying notes to the financial statements.

## Videolar-Innova S.A.

### Statements of cash flows

**Years ended December 31, 2019 and 2018**

***(In thousands of Reais)***

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Net income for the year** | | 118,967 | 132,817 |
| | | | |
| **Adjustments for reconciliation of net income to operating income** | | | |
| Depreciation and amortization | 14 \| 15 | 96,286 | 77,261 |
| Realization of goodwill | | 10,916 | 23,544 |
| Deferred and current income tax | | 43,356 | 37,328 |
| Write-off of fixed and intangible assets | | 11,964 | (2,104) |
| Provision for contingencies | | - | 2,427 |
| Allowance for estimated credit loss for allowance for doubtful accounts | 9 | 495 | 102 |
| Provision for obsolescence | 10 | 2,104 | (15) |
| Gain from adjustment to fair value | 13 | (36,182) | (32,575) |
| Other revenues | | (1,123) | - |
| Financial charges and exchange-rate change over balances of financing, tax obligations, judicial deposits, accounts payable and receivable, net | | 19,648 | 74,044 |
| | | 266,431 | 312,829 |
| | | | |
| **Increase (decrease) in assets** | | | |
| Accounts receivable | | 91,790 | (19,433) |
| Inventories | | 251,379 | (270,581) |
| Recoverable taxes | | (24,839) | (39,995) |
| Other | | 58,751 | (42,048) |
| | | 377,081 | (372,057) |
| | | | |
| **Increase (decrease) in liabilities** | | | |
| Suppliers | | (289,870) | 335,312 |
| Labor obligations and social charges | | (8,846) | 2,193 |
| Other | | (17,587) | (1,022) |
| | | (316,303) | 336,483 |
| | | | |
| **Cash generated by operating activities** | | 327,209 | 277,255 |
| | | | |
| Income taxes paid | | - | (3,151) |
| | | | |
| **Net cash flow from operating activities** | | 327,209 | 274,104 |
| | | | |
| **Cash flow from investment activities** | | | |
| Acquisition of property, plant and equipment | | (258,734) | (288,757) |
| Acquisitions of intangible assets | | (3,437) | (44) |
| Investment property | | - | - |
| | | | |
| **Cash flow used in investment activities** | | (262,171) | (288,801) |
| | | | |
| **Cash flow from financing activities** | | | |
| Funding financing | 16 | 335,941 | 265,138 |
| Payment of financing and interest | 16 | (345,065) | (245,212) |
| Repurchase of shares | | (43,742) | - |
| | | | |
| **Net cash (used in) from financing activities** | | (52,866) | 19,926 |
| | | | |
| **Increase in cash and cash equivalents** | | 12,172 | 5,229 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | | 11,309 | 6,080 |
| **Cash and cash equivalents at the end of the year** | | 23,481 | 11,309 |
| | | | |
| **Change in cash and cash equivalents for the year** | | 12,172 | 5,229 |
| | | | |
| **Additional disclosure – non-cash transactions** | | | |
| Capitalized interest and purchase of fixed assets | | 44,027 | 42,242 |
| Repurchase of shares payable | | 35,990 | - |

See the accompanying notes to the financial statements.

# Notes to the financial statements

## 1 Operations

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

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

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

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

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

On December 18, 2019, the Company acquired a 40% interest in the capital of company Rimo S.A., which operates in the games, technology, music and films segments by replicating CDs, DVDs, and Blu-ray devices, packaging and graphic products, as well as the distribution of these products. On the acquisition date, Rimo S.A. shareholders’ equity totaled R$13,167, with intangible assets identifiable at R$1,118, and liabilities identifiable at R$4,000. The Company has no control over this investment, and therefore the financial statements are not presented on a consolidated basis.

## 2 Preparation basis

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

The financial statements were prepared in accordance with accounting practices adopted in Brazil (BR GAAP).

The issue of financial statements was authorized by the Executive Board on January 24, 2020. After their issuance, only the shareholders have the power to change the financial statements.

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

This is the first set of annual financial statements of the Company in which CPC 06 (R2) - Leases have been applied. Related changes in main accounting policies are described in Note 6.1.

All material information proper to the financial statements, and only it, is being evidenced, and corresponds to those used by Management for administration.

# 3 Functional and presentation currency

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

# 4 Use of estimates and judgments

The preparation of these financial statements, Management used judgments and estimates that affect the application of accounting policies, and the reported values of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

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

### (i) Uncertainties on assumptions and estimates

Information on uncertainties as to assumptions and estimates as of December 31, 2019 that pose a high risk of resulting in a material adjustment in book balances of assets and liabilities in the next fiscal year are included in the following notes:

- **Note 9** - measurement of estimated credit loss for accounts receivable; main assumptions in determining the weighted average loss rate;

- **Note 14** - Fixed assets - review of useful life;

- **Note 15** - Intangible asset and goodwill impairment test: main assumptions in relation to recoverable values;

- **Note 18** - recognition and measurement of provisions and contingencies: main assumptions regarding the likelihood and magnitude of the outflows of funds;

- **Note 25.a** - Recognition of deferred tax assets: availability of future taxable income against which deductible temporary differences and tax losses may be used.

# 5 Measuring basis

The financial statements were prepared based on the historical cost, except for investment properties and derivative financial instruments, which are measured at fair value.

# 6 Significant accounting policies

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

- **6.1 -** Changes in significant accounting policies.

- **6.2 -** Business combination

- **6.3 -** Operating revenue

- **6.4 -** Government grants and assistance
- **6.5 -** Financial revenues and expenses
- **6.6 -** Foreign currency
- **6.7 -** Income tax and social contribution
- **6.8 -** Inventory
- **6.9 -** Property, plant and equipment
- **6.10 -** Intangible assets and goodwill
- **6.11 -** Investment property
- **6.12 -** Financial instruments
- **6.13 -** Impairment
- **6.14 -** Provisions
- **6.15** - Employee benefits
- **6.16 -** Leases
- **6.17 -** Measurement of fair value

## 6.1 Changes in significant accounting policies

The Company initially adopted the CPC 06 (R2) as of January 1, 2019. A series of other new standards also became effective as of January 1, 2019, but without material impact on Company's financial statements.

### *a. Definition of lease*

The Company previously determined, at the inception of the agreement, whether it was or contained a lease under ICPC 03 – Complementary Aspects of Lease. Now, the Company assesses whether an agreement is or contains a lease based on the new lease definition, described in Note 6.16.

During the transition to the adoption of CPC 06(R2), the Company opted for applying the practical method to define lease, which assesses which operations are to be deemed as leases. Contracts that were not identified as lease in accordance with CPC 06 (R1)/ and ICPC 03 were not revaluated regarding the existence of a lease pursuant to CPC 06 (R2).

***b. As a lessee***

The Company has no lease agreements at the perspective of lessee which are subject to the recognition of right-of-use assets and lease liabilities.
However, the Company used certain practical expedients when adopting CPC 06 (R2) to the leases previously classified as operating leases in accordance with CPC 06 (R1). Particularly:

- it did not recognize right-of-use assets and liabilities for lease agreements, which term of lease is due within 12 months from the standard's first-time adoption date;

- it did not recognize right-of-use assets and liabilities for low-value assets.

***c. As a lessor***

The Company leases its investment properties. The Company has classified these items as operating leases. During the transition to the CPC 06 (R2) standard, the Company is not required to make adjustments to lease agreements in which it is a lessor, except for sub-leases.

***d. Impact on the financial statements***

The Company has no lease agreements, as a lessee, subject to the recognition of right-of-use assets and lease liabilities. Thus, financial statements were not affected on December 31, 2019.

## 6.2 Business combination

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

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

## 6.3 Operating revenue

***(i) Goods sold***

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

***(ii) Tax incentives***

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

***(iii) Revenue earned from rental of investment property***

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

## 6.4 Government grants and assistance

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

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

***a. ICMS***

*In the state of Amazonas*

Tax incentive credits related to ICMS reimbursement, from State of Amazonas, were accounted for in the Company's income (loss) for the year as a counterparty to ICMS payable in the amount of R$ 122,382 (R$ 108,840 in 2018), as Note 27.

*In the State of Rio Grande do Sul*

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

The Company complied with the requirements of CPC 07 - "Government grants and assistance" for its recognition and this investment reserve was recognized in Company's income (loss) for the year in the amount of R$ 30,249 (R$ 34,944 in 2018) for FUNDOPEM and R$ 359 (R$ 1,179 in 2018) for a presumed ICMS credit to ABS as Note 27.

***b. Income tax***

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

As of December 31, 2019 and 2018, the Company complied with all legal requirements to receive such benefits.

***c. IPI***

Excise tax – Products produced in the Free economic zone of Manaus—ZFM, Decree 7,212/10, article 81, item II.

***d. PIS / Cofins***

PIS/COFINS - Law 10996/2004 art. 3 and art. 4.

***e. Import tax***

Decree-Law 288/1967, article 7

## 6.5 Financial revenues and expenses

Financial revenues include interest revenues on invested funds. Interest revenue is recognized in income (loss) using the effective interest method.

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

Gains and losses from exchange rate changes are reported on a net basis.

## 6.6 Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the year, adjusted by interest and effective payments during the year, and the amortized cost in foreign currency at the exchange rate at the end of the presentation year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the foreign exchange rate on the date the fair value was determined. Exchange differences arising from the reconversion are charged to income.

## 6.7 Income tax and social contribution

Current and deferred income taxes and social contribution for the year are calculated based on rates of 15%, with additional 10% on taxable income exceeding R$ 240, for income tax, and 9% on taxable income for social contribution on net income, and consider offset of tax losses and negative basis of social contribution, limited to 30% of taxable income for the year.

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

### *(i) Current income tax and social contribution expense*

Current tax expense is the tax payable or receivable on the taxable income or loss for the year, at tax rates enacted or substantively enacted on the date of preparation of the financial statements, and any adjustments to taxes payable in relation to prior years.

The amount of current taxes payable or receivable is recognized in the balance sheet as an asset or tax liability under the best estimate of the expected amount of taxes to be paid or received reflecting the uncertainties related to its calculation, if any. It is measured based on tax rates enacted at the balance sheet date.

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

### *(ii) Deferred income tax and social contribution expense*

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

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination, and not affecting the taxable, income (loss);
- temporary differences related to investments in subsidiaries, associated companies 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 it will not be reversed in the foreseeable future; and
- taxable temporary differences arising from the initial recognition of goodwill.

A deferred tax asset is recognized for unused tax losses, tax credits and unused deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the credits can be utilized. Future taxable income is determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary differences is insufficient to fully recognize a deferred tax asset, the future taxable income, adjusted for reversals of the existing temporary differences, will be considered, based on Company’s business plans.

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

Deferred tax assets and liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates decreed up to the balance sheet date and results in an uncertainty related to income tax (if any).

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

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

## 6.8 Inventories

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

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

## 6.9 Property, plant and equipment

### *(i) Recognition and measurement*

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

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

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the book value of property, plant and equipment) are recognized in other operating revenues/expenses in income (loss).

### *(ii) Reclassification for investment property*

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

### *(iii) Subsequent costs*

Subsequent costs are capitalized in accordance with the probability that associated future economic benefits may be earned by the Company.

### *(iv) Depreciation*

Depreciation is calculated to amortize the cost of fixed asset cost, net of their estimated residual values, using the straight-line method based on estimated useful lives of such items. Depreciation is recognized in income (loss). Land is not depreciated.

The estimated useful lives (in years) of fixed assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Equipment | 5 | 5 |
| Improvements / facilities | 10 | 10 |
| Machinery, equipment and tools | 10 | 10 |
| Furniture and fixtures | 10 | 10 |
| Vehicles | 5 | 5 |
| Other | 20 | 20 |

Depreciation methods, useful lives and residual values are reviewed on each balance sheet date and adjusted if appropriate.

## 6.10 Intangible assets and goodwill

### *(i) Recognition and measurement*

*Goodwill*
Goodwill is measured at cost, less accumulated impairment losses.

*Research and development*
Research and development expenditures are recognized in income (loss) as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. Other development expenditures are recognized in the income (loss) as incurred. After the initial recognition, capitalized development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

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

### *(ii) Subsequent expenditures*

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

### *(iii) Amortization*

Amortization is calculated using the straight-line method based on estimated useful lives of such items, net of estimated residual values. Amortization is usually recognized in income (loss). Goodwill is not amortized.

Estimated useful lives for current and comparative years are as follows:

| | |
|---|---|
| Trademarks and patents | 5 years |
| Software | 5 years |

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

## 6.11 Investment property

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

Gains and losses in the sale of an investment property (calculated by the difference between the net value received in the sale and the item book value) are recognized in the statement of income.

When an investment property previously recognized as a fixed asset is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

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

## 6.12 Financial instruments

### *(i) Recognition and initial measurement*

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

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

### *(ii) Subsequent classification and measurement*

*Financial assets*

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

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

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

- it is held within a business model whose purpose is to maintain financial assets to receive contractual cash flows; and
- its contractual terms generate, on specific dates, cash flows only related to the payment of principal and interest on outstanding principal value.

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

- it is maintained within a business model whose purpose is achieved by both the receipt of contractual cash flows and the sale of financial assets; and
- its contractual terms generate, on specific dates, cash flows which are only payments of principal and interest on outstanding principal value.

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

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

*Financial assets - Evaluation whether the contractual cash flows represent solely payments of principal and interest*

For this evaluation purposes, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as a consideration for the amount of cash at the time and for the credit risk associated to the outstanding principal value during a certain period and for other risks and base costs of loans (for example, liquidity risk and administrative costs), as well as for the profit margin.

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

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

*Financial assets - Subsequent measurement and gains and losses*

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

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

### *(iii) Derecognition*

*Financial assets*
The Company derecognizes a financial asset when contract rights to assets' cash flows expire, or when the Company transfers the contract right of receiving a financial asset to contract cash flows, in a transaction in which substantially all risks and rewards of owning the financial asset are transferred or in which the Company neither substantially transfers nor maintains all risks and rewards of owning the financial asset and neither retains control over the financial asset.

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

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

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

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

### *(v) Derivative financial instruments*

*Derivative financial instruments*
When required, the Company timely analyzes the engagement of derivative financial instruments to hedge its exposure to foreign currency and interest rate changes.

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

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

### *(vi) Capital*

*Common shares*
Additional costs directly attributable to the issue of shares and share options are recognized as reducers of shareholders' equity. Effects from taxes related to these transactions' costs are accounted for in conformity with CPC 32.

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

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

*Repurchase and re-issuance of shares (treasury shares)*

When shares recognized as shareholders' equity are repurchased, the value of the consideration paid which includes any costs directly attributable 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 sold or reissued subsequently, the amount received is recognized as an increase in shareholders' equity, and the resulting gain or loss of the transaction is shown as capital reserve.

## 6.13 Impairment

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

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

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

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

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

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

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

The Company considers a financial asset as non-performing when:

- it is very unlikely that the debtor will fully pay its credit obligations to the Company, without having to resort to actions like the realization of guarantee (if any); or

- lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument.

- expected credit losses for 12 months are credit losses that result from potential delinquency events within 12 months after the balance sheet date (or in a shorter period if the estimated life of the instrument is lower than 12 months).

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

*Financial assets with recovery problems*

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

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

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

- significant financial difficulties of the issuer or borrower;

- breach of contractual clauses, delinquency or late payment of more than 90 days;

- restructuring of an amount owed to the Company at conditions that the Company would not accept under normal conditions;

- the probability that the borrower will enter bankruptcy or other financial reorganization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

***(ii) Non-financial assets***
On each reporting date, the Company reviews book values of non-financial assets (except for investment property, inventories and deferred tax assets) to determine if there is an indication of impairment. If such indication exists, the asset's recoverable amount is estimated. In case of goodwill, recoverable value is tested on an annual basis.

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

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

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

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

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

## 6.14 Provisions

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

## 6.15 Employee benefits

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

## 6.16 Leases

At the inception of an agreement, the Company evaluates whether the agreement is for or contains a lease.

A contract is or contains a lease if it transfers the right to control the use of an identified asset for a period of time in exchange for consideration. The Company follows the definition of lease under CPC 06 (R2) to assess whether an agreement transfer the right to control the use of an identified asset.

This policy is adopted to contracts executed into as of January 1, 2019.

### *(i) As a lessee*

At the inception or amendment of an agreement containing a lease component, the Company allocates the lease consideration to each lease and non-lease component based on its individual prices.

The Company recognizes a right-of-use asset and a lease liability on the lease inception date. The right-of-use asset is initially measured at cost, which comprises the value of initial measurement of the lease liability adjusted to any lease payments made to the initial date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee to disassemble and remove the underlying asset, by returning it to the place where it is located or returning the underlying asset to the state required under the lease terms and conditions, less any lease incentives received accordingly.

The right-of-use asset is subsequently depreciated using the straight-line method from the start date to the end of the lease term, unless the lease transfers ownership of underlying asset to the lessee at the end of lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise the call option. In this case, the right-of-use asset will be depreciated over the service life of the underlying asset, which is determined on the same basis as that of fixed assets. Moreover, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the inception date, and discounted using the interest rate implied in the lease or, if that rate cannot be immediately determined, the incremental loan rate of the Company.

The Company sets its incremental rate on loans by obtaining interest rates from a number of external funding sources and making some adjustments to reflect the agreement terms and the type of asset leased.

Lease payments included in the measurement of the lease liability comprising the following:

- fixed payments, including initial fixed payments;
- variable lease payments based on an index or rate, initially measured based on the index or rate at the initial date;
- amounts expected to be paid by the lessee, in accordance with the residual value guarantees; and
- the call option exercise price if the lessee is reasonably certain to exercise such option, and payments of fines due to termination of the lease agreement, if the term of the lease reflects the fact that the lessee is exercising their option to terminate the lease agreement

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when a change occurs in future lease payments as a result of a change in an index or rate, if there is a change in the amounts expected to be paid in accordance with the residual value guarantee, if the Company changes its assessment to exercise a call option, extend or terminate it, or if there is a payment of a initially fixed revised lease.

When the lease liability is thus remeasured, an adjustment corresponding to the book value of the right-of-use asset is made or recorded in income if the right-of-use asset is reduced to zero.

The Company records right-of-use assets that fall outside the definition of investment property in “fixed assets” and lease liabilities in “loans and financing” in the balance sheet.

However, on December 31, 2019, the Company has no lease agreements, as a lessee, subject to the recognition of right-of-use assets and lease liabilities.

*Leases of low value assets*
The Company opted not to recognize the assets of right-of-use and the lease liabilities for low-value lease assets and short-term lease, including copiers, forklifts and other equipment. The Company records lease payments in connection with these leases as expenses on a straight-line basis based on the term of the lease.

***(ii) As a lessor***

At the inception or amendment of an agreement containing a lease component, the Company allocates the lease consideration to each lease and non-lease component based on its independent prices.

When the Company operates as a lessor, it determines, at the beginning of the term of the lease, whether each lease is a financial or an operating lease.

To classify each lease, the Company carries out an overall assessment of whether the lease transfers substantially all risks and benefits inherent in the property of the underlying asset. In this case, this will be a financial lease; otherwise it will be an operating lease. As part of this assessment, the Company takes into account certain indicators, such as whether the term of the lease is equal to the greatest part of the economic life of the underlying asset.

When the Company is an intermediate lessor, it records its interests in the main lease and in the sublease on a separate basis. It assesses the classification of the sublease based on the right-of-use asset arising from the main lease rather than on the underlying asset. If the main lease is a short-term lease that the Company, as a lessee, records by applying the aforementioned exemption, it will classify the sublease as an operating lease.

If an agreement has both lease and sublease elements, the Company will adopt the CPC 47 standard to allocate the consideration under the agreement, as well as derecognition and impairment requirements under standard CPC 48 to the net investment in the lease. Estimated non-guaranteed residual amounts used to calculate the gross investment are periodically reviewed.

The Company recognizes lease receivables arising from operating leases under the straight-line method over the term of the lease as part of other revenues.

In general, the accounting policies applicable to the Company as a lessor in the comparative period were not different from CPC 06(R2).

*Accounting policies applicable before January 1, 2019*
For agreements entered into before January 1, 2019, the Company determined whether it was or included a lease, by assessing whether:

- compliance with the agreement depended on using one or specific assets; and
- the agreement granted the right to use the asset. the agreement conveyed the right to use the asset if one of the following items were satisfied:
- the buyer was capable of operating or had the right to operate the asset while obtaining or controlling more than an insignificant part of the production or utility of the asset;

the buyer was capable of controlling or had the right to control the physical access to the asset while obtaining or controlling more than an insignificant part of the production or utility of asset; or any facts or circumstances indicating that it is rare that one or more parties, except for the buyer, obtains more than an insignificant part of the production or utility that will be produced or generated by the asset during the term of the agreement, and that the price the buyer will pay for the production is not contractually fixed by production unit or equal to the current market price by production unit at the time of the production delivery.

### *(iii) As a lessee*
The Company has no lease agreements at the perspective of lessee which are subject to the recognition of right-of-use assets and lease liabilities.

Assets held under other leases were classified as operating leases and were not recognized in the Company's balance sheet.  Payments for operating leases were recognized in income (loss) under the straight-line method over the lease period. Incentives received were recorded as part of the total lease cost during the term of the lease.

### *(iv) As a lessor*

When the Company operated as a lessor, it determined, at the beginning of the term of the lease, whether each lease was a financial or an operating lease.

To classify each lease, the Company carried out an overall assessment of whether the lease transferred substantially all risks and rewards inherent in the property of the underlying asset. In this case, this was a financial lease; otherwise, it was an operating lease. As part of this assessment, the Company took into account certain indicators, such as whether the term of the lease referred to the greatest part of the economic life of the asset.

The Company has lease agreements for properties that are treated as investment properties, as stated in Note 13 to the financial statements.

## 6.17 Measurement of fair value

Fair value is the price that would be received upon the sale of an asset or paid for the transfer of a liability in an non-forced transaction between market participants at the measurement date, on the primary market or, in the absence thereof, on the most advantageous market to which the Company has access on such date. The fair value of a liability reflects its risk of non-performance.

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

When available, the Company measures the fair value of a security using the price quoted on an active market for such securities. A market is considered as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If an asset or a liability measured at fair value has a purchase and a selling price, the Company measures the assets based on purchase prices and liabilities based on selling prices.

The chosen valuation technique incorporates all the factors market participants would take into account when pricing a transaction.

If an asset or a liability measured at fair value has a purchase and a selling price, the Company measures the assets based on purchase prices and liabilities based on selling prices.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that fair value at initial recognition differs from transaction price and fair value is not evidenced, not even by price quoted in an active market for an identical asset or liability, neither based on evaluation technique for which non-observable data is judged as insignificant for measurement, then financial instrument is initially measured at adjusted fair value, to distinguish the difference between fair value at initial recognition and transaction price. This difference is subsequently recognized in income (loss) on an appropriate basis over the life of the instrument, or until such time when its valuation is fully supported by observable market data or the transaction is closed, whichever comes first.

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

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

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

**(i)** **Note 13** - Investment property

**(ii)** **Note 28 -** Financial instruments

# 7 New standards and interpretations not yet effective

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

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

- Changes in the references to the conceptual framework in IFRS standards;
- Definition of business (amendments to CPC 15);
- Definition of materiality (amendments to CPC 26 and CPC 23);
- IFRS 17 - Insurance Contracts.

# 8 Cash and cash equivalents

| | **2019** | **2018** |
|---|---|---|
| Cash and cash equivalents | 14,428 | 7,480 |
| Interest earning bank deposit | 9,053 | 3,829 |
| | **23,481** | **11,309** |

The investments retained by the Company in fixed income securities reflect the usual market conditions and are remunerated at the rate of the Interbank Deposit Certificates ("CDI"). Operations with a minimum investment term of 30 days were remunerated at an average rate of 98% of the CDI (98% in 2018). Such assets are convertible into a known sum of cash and subject to an insignificant risk of change of value.

# 9 Accounts receivable

Amounts receivable as of December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Trade accounts receivable | 440,382 | 532,574 |
| | **440,382** | **532,574** |
| Provision for expected credit loss | (43,456) | (42,961) |
| | **396,926** | **489,613** |
| **Current assets** | **390,350** | **480,787** |
| **Non-current assets** | **6,576** | **8,826** |

Pursuant to CPC 48, Management adopted the prospective model of "expected credit losses", determined according to the following practices:

- **Stage 1** – This phase comprises all securities still performing and represents possible default events within the following 12 months.

- **Stage 2 -** At this stage the securities with an Expressive Risk of Loss is considered when there is a deterioration in the customer's credit risk; that is, when the note is directed to the collection company (even if renegotiated) and notes requiring legal collection.

The table below shows the expected credit loss:

| | | Accounts receivable | Provision for expected credit loss | Percentage of estimated loss |
|---|---|---|---|---|
| Stage 1 | Falling due | 394,682 | 396 | 0.1% |
| | Overdue (in days): | | | |
| | 1–30 | 2,668 | 28 | 1% |
| | 31–60 | - | - | 5% |
| | 61–90 | - | - | 10% |
| | 91–180 | - | - | 50% |
| | >181 | 38 | 38 | 100% |
| | | **397,388** | **462** | - |
| Stage 2 | Collection advisory | 115 | 115 | 100% |
| | Legal collection | 42,879 | 42,879 | 100% |
| | | **42,994** | **42,994** | 100% |
| **Total** | | **440,382** | **43,456** | - |

Management believes that the risk related to accounts receivable is relatively low, since there was no actual write-off in the last three years and there was no significant transfer of credit from Stage 1 to Stage 2.

Changes in the provision for estimated credit losses are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at the beginning of the year | 42,961 | 42,859 |
| Supplement to allowance for the year | 785 | 160 |
| Reversal of provision in the year | (290) | (58) |
| **Balance at December 31** | **43,456** | **42,961** |

# 10 Inventories

| | 2019 | 2018 |
|---|---|---|
| Raw material | 126,043 | 264,742 |
| Work in process | 44,263 | 111,574 |
| Finished goods | 97,348 | 135,309 |
| Packaging | 5,343 | 3,744 |
| Imports in progress | 9,199 | 9,761 |
| Other materials | 1,936 | 10,381 |
| Provision for obsolescence | (2,935) | (831) |
| | **281,197** | **534,680** |

Changes to the provision for obsolescence are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at the beginning of the year | (831) | (846) |
| Supplement of provision | (2,547) | (15) |
| Reversal of provision | 443 | 30 |
| **Balance at December 31** | **(2,935)** | **(831)** |

Inventory items with no movement or use for over 90 days are analyzed and once justifications and actions plans are carried out, they are included in the balance of provision for obsolescence. In 2019, the main items provisioned were raw materials and finished goods from the Biaxially Oriented Polypropylene (BOPP) plastic film segment and raw materials for Expandable polystyrene (EPS).

# 11 Recoverable taxes

| | 2019 | 2018 |
|---|---|---|
| ICMS recoverable | 76,138 | 47,657 |
| PIS/COFINS recoverable | 4,625 | 5,532 |
| PIS/COFINS tax process (i) | 18,855 | 17,797 |
| Withholding income tax (IRRF) recoverable | 1,350 | 508 |
| IPI recoverable | 605 | 654 |
| Other | 2,116 | 3,550 |
| | **103,689** | **75,698** |
| **Current assets** | **41,629** | **29,316** |
| **Non-current assets** | **62,060** | **46,382** |

(i) The Company obtained a favorable decision for proceeding no. 0060657.83.2013.4.01.0000, which addresses the exclusion of ICMS from PIS/COFINS basis; accordingly, a final decision was issued, generating tax credit of R$ 18,855 (R$ 17,797 in 2018).

# 12 Other accounts receivable

| | 2019 | 2018 |
|---|---|---|
| Costs to be amortized (i) | 2,234 | 2,681 |
| Other advances | 132 | 715 |
| Claims receivable | - | 32 |
| Other accounts receivable | - | 1,179 |
| **Current assets** | **2,366** | **4,607** |
| Costs to be amortized (i) | - | 2,234 |
| **Non-current assets** | **-** | **2,234** |

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

# 13 Investment property

| | 2019 | 2018 |
|---|---|---|
| Land and buildings | 258,974 | 204,354 |
| **Balance at December 31** | **258,974** | **204,354** |

The investment properties are recorded at fair value, which was based on valuations made by independent external appraisers, at December 31, 2019.

The balance of investment property transactions was as shown below:

| | 2019 | 2018 |
|---|---|---|
| Balance at January 1 | 204,354 | 185,312 |
| Addition | 1,123 | - |
| Gain from adjustment to fair value (Note 23) | 36,182 | 32,575 |
| Reclassification between investment property and property, plant and equipment (Note 14) | 17,315 | (13,533) |
| **Total** | **258,974** | **204,354** |

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

# 14 Property, plant and equipment

| Cost | Land | Buildings and improvements | Machinery and equipment | Parts and Spare Assemblies | Industrial facilities | Furniture and fixtures | Data processing equipment | Vehicles | Molds and tools | Telephony equipment | Provision for loss Impairment (Note 14.1) | Construction in progress (Note 14.2) | Spare Parts – Construction in progress | Goodwill - Property, plant and equipment | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at December 31, 2018** | 93,647 | 270,361 | 1,160,126 | 1,381 | 201,752 | 15,692 | 21,950 | 4,669 | 31,946 | 1,261 | (18,187) | 348,692 | 37,722 | 203,479 | 2,374,491 |
| Additions | 20,000 | 76 | 12,890 | - | 4,070 | 5 | - | - | - | - | - | 263,520 | 2,303 | - | 302,864 |
| PPI Reclassification (Note 14) | (17,315) | - | - | - | - | - | - | - | - | - | - | - | - | - | (17,315) |
| Write-off | (13) | (158) | (101,171) | - | (4,174) | (3,202) | (10,527) | (3,580) | (34) | (247) | 8,917 | (5) | - | - | (114,194) |
| Transfer | - | 204 | 448,996 | - | 214 | 137 | 1,751 | - | 3,662 | 420 | - | (455,384) | - | - | - |
| **Balances at December 31, 2019** | 96,319 | 270,483 | 1,520,841 | 1,381 | 201,862 | 12,632 | 13,174 | 1,089 | 35,574 | 1,434 | (9,270) | 156,823 | 40,025 | 203,479 | 2,545,846 |
| **Depreciation** | | | | | | | | | | | | | | | |
| **Balances at December 31, 2018** | - | (111,331) | (649,843) | - | (87,230) | (13,703) | (20,248) | (2,236) | (27,295) | (1,086) | - | - | - | (42,666) | (955,638) |
| Depreciation for the year | - | (8,585) | (74,967) | - | (9,835) | (235) | (570) | (430) | (204) | (37) | - | - | - | (12,953) | (107,816) |
| Write-off | - | - | 85,306 | - | 888 | 3,022 | 10,497 | 2,245 | 31 | 241 | - | - | - | - | 102,230 |
| **Balances at December 31, 2019** | - | (119,916) | (639,504) | - | (96,177) | (10,916) | (10,321) | (421) | (27,468) | (882) | - | - | - | (55,619) | (961,224) |
| **Residual value** | | | | | | | | | | | | | | | |
| Balances at December 31, 2019 | 96,319 | 150,567 | 881,337 | 1,381 | 105,685 | 1,716 | 2,853 | 668 | 8,106 | 552 | (9,270) | 156,823 | 40,025 | 147,860 | 1,584,622 |
| Balances at December 31, 2018 | 93,647 | 159,030 | 510,283 | 1,381 | 114,522 | 1,989 | 1,702 | 2,433 | 4,651 | 175 | (18,187) | 348,692 | 37,722 | 160,813 | 1,418,853 |
| ***Annual average rate of depreciation*** | *0.00%* | *3.34%* | *5.56%* | *10%* | *9.49%* | *7.67%* | *22.07%* | *18.91%* | *10.57%* | *6.95%* | - | - | - | - | - |

The company offered its property in Unit I, located on Avenida Torquato Tapajós, from its fixed assets as collateral for the loans for the expansion and technological update projects for the biaxial polypropylene (BOPP) film production unit. The amount offered as collateral was R$ 314,835 in 2019 and 2018.

## 14.1 Provision for impairment loss - Impairment test

The provision for impairment losses is comprised of property, plant and equipment and spare parts of discontinued segments. The amount of R$ 9,270 (R$ 18,187 in 2018) includes items that are no longer in operation as described below:

| | 2019 | 2018 |
|---|---|---|
| Machinery and equipment (a) | 6,351 | 13,909 |
| Molds and tools | 2,009 | 2,009 |
| Industrial facilities | 262 | 1,529 |
| Other | 241 | 318 |
| Spare parts | 407 | 422 |
| | **9,270** | **18,187** |

In compliance with the requirements of Accounting Pronouncement CPC 01 (R1) dated August 6, 2010 - Asset Impairment, the Company performed the annual impairment test of its fixed assets as of December 31, 2019, which were estimated based on the values in use, using the discounted cash flows. The assets related to acquisition of Innova S.A. with a undefined useful life, as goodwill for expected future earnings is tested for impairment on an annual basis, regardless of loss indicators. The main cash flow assumptions are as follows: prices based on the last disclosed strategic plan, production curves related to plans existing in the Company portfolio, market operating costs and investments needed to complete the projects.

(a) In 2019, the Company sold machinery and equipment of decommissioned segments recorded as losses. Consequently, with the sale of this equipment, part of the provision for impairment was reversed and write-offs were recorded in fixed assets.

## 14.2 Construction in progress

As of December 31, 2019, the balance of construction in progress account was R$ 156,823 (R$ 348,692 in 2018) and was mainly represented by the projects: Energy Generation and Steam Generation R$117,413, Recovery of Furnace 23-F-01 R$5,101, Emergency Maintenance Shutdown SM R$1,373, Maintenance Shutdown M1 and M2 R$2,516, and Enhanced Infrastructure R&D R$1,272.

The loan costs directly related to the acquisition, construction and restatement of the manufacturing complex are capitalized as part of the project cost. The paid-in loan costs to be activated, and calculated up to December 31, 2019 were R$ 13,053 (R$ 57,209 in 2018).

**All other loan costs unrelated to the acquisition of fixed assets were recorded as expenses for the period.**

# 15 Intangible assets

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

| | Software | Brands, rights and patents | Goodwill due to expectation of future profitability | Goodwill | Total |
|---|---|---|---|---|---|
| **Balances at December 31, 2018** | 21,076 | 19,225 | 243,866 | 106,279 | 390,446 |
| Additions | 3,437 | - | - | - | 3,437 |
| **Balances at December 31, 2019** | 24,513 | 19,225 | 243,866 | 106,279 | 393,883 |
| **Balances at December 31, 2018** | (14,413) | (14,336) | - | (100,662) | (129,411) |
| Amortization for the year | (964) | (459) | - | (5,207) | (6,630) |
| **Balances at December 31, 2019** | (15,377) | (14,795) | - | (105,869) | (136,041) |
| **Residual value** | | | | | |
| Balances at December 31, 2019 | 9,136 | 4,430 | 243,866 | 410 | 257,842 |
| Balances at December 31, 2018 | 6,663 | 4,889 | 243,866 | 5,617 | 261,035 |
| ***Annual average amortization rate*** | ***19.34%*** | ***20.00%*** | **-** | **-** | **-** |

## 15.1 Goodwill

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

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

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

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

The assumptions adopted for impairment testing considered a growth rate at the perpetuity of 1.50% and actual discount rate of 8.4% in a five-year horizon.

# 16 Loans and financing

| Financial institution | | Charges | Guarantees | Maturity | 2019 | 2018 |
|---|---|---|---|---|---|---|
| Banco do Brasil | (i) | CDI + 1.2% p.a. | Surety + Trade notes | 03/21/2021 | 150,131 | 150,235 |
| Banco Bradesco Europa | (ii) | Libor EUR + 3.25% p.a. | Promissory note | 07/22/2021 | 5,463 | 10,255 |
| BNDES | (iii) | TJLP + 2.42% p.a. | Real estate | 06/15/2020 | 3,996 | 10,058 |
| Debentures | (iv) | FX + 4.96% p.a. | Surety + Lien | 10/25/2020 | 67,646 | 140,682 |
| Banco Citibank | (v) | Libor USD + 3.50% p.a. | Surety + Lien | 09/25/2020 | 71,146 | 185,273 |
| Foreign exchange advances delivered | (vi) | 0.65–3.80% p.a. | Trade Notes | 04/09/2020 | 170,503 | 52,843 |
| Banco Santander - Finex | | 1.36% p.a. | Surety | 03/01/2019 | - | 20,807 |
| Banco Safra import financing agreements (Finimp) | (vii) | 1.28% p.a. | - | 06/04/2020 | 8,419 | - |
| Banco Bradesco Finimp | (viii) | 3.70–3.95% p.a. | - | 06/25/2020 | 81,049 | - |
| Banco Santander - Finimp | (ix) | 0.80–1.41% p.a. | - | 06/10/2020 | 50,752 | - |
| | | | | | **609,105** | **570,153** |
| **Current liabilities** | | | | | **458,204** | **286,651** |
| **Non-current liabilities** | | | | | **150,901** | **283,502** |

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

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

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

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

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

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

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

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

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

(vi) The Company has operations related to its export receivables. Advance on foreign exchange Contract (ACC) operations were contracted between February and May 2019 in the amount of USD 5,000 + EUR 31,600 and Export pre-payment operations in the amount of USD 9,379 and EUR 2,877, all of them remunerated from 0.65% to 3.80% p.a. and maturity dates up to April 2020.

(vii) In June 2019, the Company acquired a Finimp contract with Banco Safra in the amount of EUR 1,845, with remuneration of 1.28% p.a. and maturing in June 2020.

(viii) From June and July 2019 the Company entered into Finimp agreements with Banco Bradesco in the total amount of USD 19,693, with interest rates from 3.70% to 3.95% per year, and final maturity in June 2020.

(ix) In June 2019, the Company entered into two Finimp agreements Banco Santander in the amount of EUR 1,845 and USD 10,256, with interest rates from 0.80% to 1.41% per year, and final maturity in June 2020.

Amounts recorded in non-current liabilities as of December 31, 2019 and 2018 mature as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| | 2020 | - | 132,370 |
| | 2021 | 150,901 | 151,132 |
| **Non-current liabilities** | | **150,901** | **283,502** |

Equity changes in loans and financing:

| Description | Balance in 2018 | Addition | Interest | Compound interest | IRRF | Amortization | Foreign exchange rate | Balance 2019 |
|---|---|---|---|---|---|---|---|---|
| Banco do Brasil | 150,235 | - | | 10,538 | - | (10,641) | - | 150,132 |
| Bradesco Europa | 10,255 | - | 240 | - | 36 | (5,130) | 62 | 5,463 |
| BNDES | 10,058 | - | 556 | - | - | (6,618) | - | 3,996 |
| Debentures | 140,682 | - | 5,458 | - | - | (75,481) | (3,013) | 67,646 |
| Banco Citibank | 185,273 | - | 7,751 | - | 1,368 | (128,088) | 4,842 | 71,146 |
| Foreign exchange advances delivered | 52,843 | 204,360 | 2,619 | - | - | (99,202) | 9,883 | 170,503 |
| Santander Finex | 20,807 | - | 21 | - | - | (19,905) | (923) | - |
| Banco Safra | - | 8,095 | 53 | - | 7 | - | 263 | 8,418 |
| Bradesco Finimp | - | 75,673 | 1,457 | - | 218 | - | 3,700 | 81,048 |
| Santander Finimp | - | 47,813 | 843 | - | 211 | - | 1,886 | 50,753 |
| Overall total | 570,153 | 335,941 | 18,998 | 10,538 | 1,840 | (345,065) | 16,700 | 609,105 |

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

## a. Financial ratios (Covenants)

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

### *Debentures*

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2019 equal to or lower than 2.5 times;

- Total Debt/Shareholders' equity ratio at the end of the period ended December 31, 2019 equal to or lower than 1.0 times.

***Credit Agreement CITIBANK***

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2019 equal to or lower than 3.5 times;

As of December 31, 2019, the Company was compliant with all indices (covenants) established by creditors.

# 17 Suppliers

| | 2019 | 2018 |
|---|---|---|
| Domestic suppliers | 54,209 | 49,209 |
| Foreign suppliers | 393,525 | 685,658 |
| | **447,734** | **734,867** |

# 18 Provision for contingencies and judicial deposits

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

| | 2019 | 2018 |
|---|---|---|
| Labor | 6,912 | 6,679 |
| Civil | 1,423 | 1,243 |
| Goodwill | 9,148 | 10,767 |
| **Non-current liabilities** | **17,483** | **18,689** |

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

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

Transactions with provisions are shown below:

| **Provision for contingencies** | **Labor** | **Civil** | **Goodwill** | **Total** |
|---|---|---|---|---|
| **Balances at December 31, 2017** | **3,949** | **1,293** | **11,020** | **16,262** |
| (+) Supplement of provision | 5,143 | - | - | **5,143** |
| (-) Write-off of provision | (2,413) | (50) | (253) | **(2,716)** |
| **Balances at December 31, 2018** | **6,679** | **1,243** | **10,767** | **18,689** |
| (+) Supplement of provision | 3,805 | 180 | - | **3,985** |
| (-) Write-off of provision | (3,572) | - | (1,619) | **(5,191)** |
| **Balances at December 31, 2019** | **6,912** | **1,423** | **9,148** | **17,483** |

Main lawsuits are commented as follows:

## Tax proceedings

The forecast of possible loss not recognized in the amount of R$ 446,695 (R$ 531,581 in 2018) refers to the Company's contestation of the collection of assessment notices.

Main lawsuits are: (i) proceeding No. 4.003.845-2 - challenge to the tax assessment notice issued by SEFAZ/SP on the grounds of non-payment of ICMS (tax replacement) with a historical amount of R$ 263,633 (R$ 263,633 in 2018); (ii) lawsuit No. 2016000088 - challenge to the tax assessment notice filed by the municipal government of Manaus/AM in view of AMZ (incorporated by Videolar in 2015) related to the retention of ISSQN on remittance of Royalties with historical value of R$ 72,276 (R$ 72,276 in 2018); (iii) proceeding No. 5044721-47.2017.4.04.7100 - annulment action of MPF tax assessment notice nº 1015400/00096/11 - PTA nº 10516.720002/2013-955, default of the commitment to export, due to non-proof of physical binding - Drawback, suspension with restated amount of R$ 71,421 (R$ 62,078 in 2018).

The Company has tax judicial deposits recorded in the amount of R$ 9,047 (R$ 8,911 in 2018) for the Proceeding 2006.32.00.005992-1 of PIS/ COFINS exclusion on the calculation basis of IR and CSLL of R$ 728 (R$ 728 in 2018); Proceeding 0011620-22.2015.54.01.3200 on Non-requirement of payment of PIS/COFINS on financial revenues in the amount of R$ 2,362 (R$ 2,226 in 2018); and Proceeding 0007521-72.2016.4.01.3200 due to the alleged lack of collection of union contributions totaling R$ 685 (R$ 685 in 2018).

The Company acquired ownership interest, as a non-controlling party, in Rimo S.A. on December 18, 2019. Rimo, under the normal course of operation, is a party to civil, labor and tax lawsuits. The Company is a party to lawsuits with probability of possible losses in the amount of R$701,751, which are recognized as provisions in accordance with Brazilian accounting practices. A significant part of tax claims classified as "possible loss" by Rimo's legal advisors refers to a lawsuit in connection with value-added tax (ICMS-ST) filed by the State of São Paulo against a Rimo's branch in Manaus in the amount of R$582,630. The State of São Paulo tax authorities demands the payment of benefits of the Manaus free-trade zone to the State, as value-added tax (ICMS-ST), claiming that only the amount paid, rather than the one identified as the ICMS itself, should be deducted from the ICMS-ST calculation.

## Labor proceedings

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

Videolar-Innova is defendant in labor claims, in the total amount of R$ 7,608 (R$ 7,114 in 2018), for which the chance of loss is possible and, therefore, the respective provision has not been recognized, in the total amount of R$ 6,912 (R$ 6,679 in 2018), for which the chance of loss is considered probable, and the respective provision has been recognized.

## Civil proceedings

Videolar-Innova is the defendant of civil lawsuits amounting to R$ 6,765 (R$ 473 in 2018) for which loss is considered as possible. Main lawsuits are as follows: (i) Proceeding No. 0019225-94.2003.8.26.0068 - In-court settlement for reviewing a loan agreement and nullity of legal relationships (sale and purchase, lease agreements, etc) in connection with the property with adjusted amount of R$6,082 (R$6,082 in 2018).

The provision for civil contingencies corresponds to estimated losses related to lawsuits mainly involving commercial discussions.

## Banco Fortis

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

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

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

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

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

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

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

On April 18, 2017, Videolar-Innova and BNP Paribas signed an agreement with a total amount of EUR 10,872 thousand (R$ 32,719), for payment by Videolar-Innova in 48 months, the first installment having been paid on April 30, 2017 and the last installment payable on March 30, 2021. Installment amounts are decreasing, beginning in EUR 246 thousand and ending in EUR 207 thousand. As of December 31, 2019, the balance payable of R$ 13,980 is recorded in other liabilities, of which R$ 11,184 and R$ 2,796 in current and non-current, respectively.

## Goodwill

On the acquisition date of Innova, a surplus of existing contingent liability was recognized on the contract signature date amounting to R$ 62,888. After the partial realization of this surplus, the balance shown in 2019 is R$ 9,148.

### Judicial deposits

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

| Judicial deposits | Tax | Labor | Civil | Goodwill | Total |
|---|---|---|---|---|---|
| **Balances at December 31, 2017** | **10,540** | **1,075** | **1,750** | **223** | **13,588** |
| (+) Addition | 1,737 | 1,073 | 3,553 | - | 6,363 |
| (-) Write-off | (3,366) | (927) | (2) | (223) | (4,518) |
| **Balances at December 31, 2018** | **8,911** | **1,221** | **5,301** | **-** | **15,433** |
| (+) Addition | 136 | 518 | 5 | - | 659 |
| (-) Write-off | - | (299) | (1,249) | - | (1,548) |
| **Balances at December 31, 2019** | **9,047** | **1,440** | **4,057** | **-** | **14,544** |

# 19 Shareholders' equity

## a. Capital

As of December 31, 2019 and 2018, the Company's capital amounts to R$ 686,832.

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

## b. Equity valuation adjustment

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

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

Changes in balance of equity valuation adjustment were as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at January 1 | 96,847 | 97,008 |
| Equity valuation adjustment - Torquato Tapajós, 5,555 | 13,200 | - |
| Realization of equity evaluation adjustment | (79) | (161) |
| **Total** | **109,968** | **96,847** |

## c. Legal reserve

Legal reserve is formed at 5% of net income for each year, pursuant to the terms of art. 193 of Law no. 6.404/76, up to the limit of 20% of capital. Due to income for the year of R$ 118,967, a legal reserve was recognized in the amount of R$ 5,948.

### d. Dividends

In 2019, net income totaling R$ 118,967 was allocated, R$ 5,948 to legal reserves and R$ 113,264 to tax incentive reserves. Therefore, there was no balance in net income for the year for the distribution of dividends. The Company's bylaws does not determine the distribution of a minimum mandatory dividend.

### e. Tax incentive reserve

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

As of December 31, 2019, the amount of R$ 152,990 was allocated to the formation of ICMS tax incentive reserve, and the amount of R$ 113,264 was related to net income and R$ 39,726 to profit reserve.

### f. Profit retention reserve

In 2019, the amount of R$39,726 from the revenue reserve was used for recognizing a provision for tax incentives.

### g. Treasury shares

In March 2019, the Company bought back 75,614 shares in the total amount of R$79,732. The first installment of R$43,742 was paid in March 2019, and the second one of R$35,990 will be paid in March 2020.

## 20 Net operating revenue

| | 2019 | 2018 |
|---|---|---|
| Gross operating revenue | 2,864,053 | 3,041,504 |
| Tax incentive credits (Note 27) | 152,990 | 110,019 |
| Taxes on revenues | (488,874) | (543,410) |
| Returns | (21,916) | (10,483) |
| | **2,506,253** | **2,597,630** |

## 21 Cost of products sold

| | 2019 | 2018 |
|---|---|---|
| Cost of products sold | (1,808,109) | (1,894,788) |
| Cost of goods resold | (27,704) | (14,758) |
| Manufacturing general expenses | (228,678) | (223,553) |
| Production Idleness | (69,727) | (49,207) |
| Other | (6,119) | (2,786) |
| | **(2,140,337)** | **(2,185,092)** |

# 22 Administrative and selling expenses

| | 2019 | 2018 |
|---|---|---|
| Payroll expenses | (53,926) | (51,598) |
| Depreciation | (4,021) | (5,183) |
| Electric power | (4,261) | (800) |
| Taxes and rates | (6,836) | (2,949) |
| Provisions | (545) | (3,043) |
| *Impairment* | 8,917 | 1,016 |
| Lawyers' fees | (3,646) | (4,930) |
| Preservation of assets | (1,245) | (130) |
| Travel expenses | (1,565) | (1,118) |
| Freight and carriage | (85,457) | (84,822) |
| Maintenance and repairs | (7,879) | (7,385) |
| Consulting and advisory | (6,814) | (4,107) |
| Insurance costs | (1,156) | (861) |
| Use license | (882) | (1,595) |
| Import expenses | (3,502) | (3,559) |
| Advertising and publicity | (1,650) | (1,247) |
| Other | (10,057) | (7,439) |
| | **(184,525)** | **(179,750)** |

# 23 Other operating revenues (expenses)

| | 2019 | 2018 |
|---|---|---|
| Sale of assets | 3,303 | 16 |
| Losses with write-off of assets | (16,393) | (1) |
| Sale of scrap | 3,526 | 3,017 |
| Lease revenue | 8,744 | 8,987 |
| Fundopem (Note 27) | - | 34,944 |
| Recovery of taxes | 382 | 1,476 |
| Compensation | (27) | 1,398 |
| Increase in fair value of investment property (Note 13) | 36,182 | 32,575 |
| Other | 2,519 | 8,453 |
| | **38,236** | **90,865** |

# 24 Net financial revenues (expenses)

| | 2019 | 2018 |
|---|---|---|
| Financial revenues | | |
| Interest and gains on investments | 1,428 | 6,441 |
| Inflation adjustment | 1,248 | 1,267 |
| Discounts obtained | 163 | 90 |
| Revenue from SWAP operations | 22,736 | 26,201 |
| | **25,575** | **33,999** |
| Financial expenses | | |
| Interest on loans and other | (26,818) | (30,781) |
| Discounts granted | (3,718) | - |
| Bank expenses | (275) | (362) |
| Expense with swap operations | (13,048) | (13,264) |
| Other | (9,150) | (8,341) |
| | **(53,009)** | **(52,748)** |
| Net exchange-rate changes | | |
| Foreign exchange income | 262,144 | 265,586 |
| Foreign exchange costs | (281,098) | (377,055) |
| | **(18,954)** | **(111,469)** |

# 25 Income tax and social contribution

## a. Breakdown of deferred income tax and social contribution

| | 2019 | 2018 |
|---|---|---|
| Credits on tax losses | 151,000 | 102,685 |
| Equity valuation adjustment | (56,650) | (50,017) |
| Tax goodwill produced by future profitability | 78,512 | 96,986 |
| Deferred tax on goodwill | (47,302) | (52,925) |
| Investment property | (23,377) | - |
| Corporate vs. tax depreciation | (21,965) | (28,257) |
| Tax credits on timing differences: | | |
| - Credits on provisions | 34,056 | 90,168 |
| Total deferred income tax and social contribution, net | **114,274** | **158,640** |

The Company has tax losses and negative basis of social contribution in Brazil amounting to R$ 444,118 (R$ 302,015 as of December 31, 2018) that may be offset against future taxable income, without statute of limitations.

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

As of December 31, 2019, the Company has recorded under "Deferred income tax and Social Contribution" amounts calculated on expenses that are temporarily non-deductible from taxable income calculation for income tax purposes, which are available for future offsets against said tax.

Deferred taxes generated by these temporary differences are as follows:

| | **2019** | **2018** |
|---|---|---|
| Net exchange-rate changes | 66,950 | 192,534 |
| Estimated losses for allowance for doubtful accounts | - | 19,739 |
| Estimated losses on recoverable values of inventories | 2,935 | 831 |
| Estimated sundry losses | 19,209 | 41,569 |
| Provision for judicial contingencies | 11,071 | 10,526 |
| Total Provisions (reversals) | 100,165 | 265,199 |
| IR and CS tax rate 25% and 9% | 34% | 34% |
| IR/CS on temporary differences | 34,056 | 90,168 |

The Company, based on expected future taxable income determined through technical studies conducted at the end of 2019 and approved by Executive Board, recognized tax credits on tax losses, negative bases of income tax and temporary differences, with no statute of limitations. Deferred assets book value is reviewed by the Company on an annual basis.

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

| **Years** | **2019** | **2018** |
|---|---|---|
| 2019 | - | 30,806 |
| 2020 | 45,300 | 21,564 |
| 2021 | 31,710 | 15,095 |
| 2022 | 22,197 | 10,566 |
| 2023–2029 | 51,793 | 24,654 |
| | **151,000** | **102,685** |

The expected recoverability of the tax credits is based on the projections of future taxable income taking into consideration various business and financial assumptions.

Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

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

The reconciliation of income from current and deferred income tax and social contribution in the amount of (R$ 43,356) in 2019 and R$ (37,328) in 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Income (loss) before income tax and social contribution | 162,323 | 170,145 |
| Combined statutory rate | 34% | 34% |
| **Expense with income tax and social contribution at the combined rate** | **(55,190)** | **(57,849)** |
| Incentives and grants | 52,047 | 52,052 |
| Changes – Tax loss (*) | (1,933) | (6,083) |
| Permanent differences | 29,907 | 35,880 |
| Timing differences | (68,187) | (61,328) |
| **Total Current and Deferred Income Tax (IR)** | **(43,356)** | **(37,328)** |
| Effective rate | 27% | 22% |
| Current income tax and social contribution | - | 5,867 |
| Deferred income tax and social contribution | (43,356) | (43,195) |

(*) Change in tax loss refers to the tax loss recorded for the year.

## c. Income tax and social contribution, recoverable

| | 2019 | 2018 |
|---|---|---|
| Income tax | - | 1,806 |
| Social contribution | - | 1,346 |
| | **-** | **3,152** |

## d. Transitory tax regime—RTT

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

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

# 26 Information on related parties

Company's related parties are: M.L. Parisotto – EPP, Matsukawa Holding Co LLP, EMTEC Participações Ltda., and Rimo S.A.. Regarding these related parties, the Company only carried out transactions with Rimo S.A., which related to a property rental. On December 31, 2019, the Company has the amount of R$61,000 receivable from Rimo S.A. for a property rental.

Management's key personnel include board members and officers. Management's global annual remuneration, including Board of Directors' members' fees, was established as up to R$ 5,000, as approved in the Annual and Special Shareholders' Meeting held on March 11, 2019.

Total management's remuneration for the year ended December 31, 2019 was R$ 3,028 (R$ 2,829 in 2018).

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

# 27 Tax incentives

| Incentive | 2019 | 2018 |
|---|---|---|
| ICMS tax benefit on shipment of intermediate assets (Note 20); | 122,382 | 108,840 |
| Tax benefit of deemed ICMS credit interstate ABS (note 20) | 359 | 1,179 |
| Benefit of FUNDOPEM/RS (note 20) | 30,249 | 34,944 |
| | **152,990** | **144,963** |

# 28 Financial instruments

## a. Financial risk management

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

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

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

## b. Risk management structure

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

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

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

### *(i) Credit risk*

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

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

| | **2019** | **2018** |
|---|---|---|
| Cash and cash equivalents | 23,481 | 11,309 |
| Accounts receivable | 396,926 | 489,613 |
| Other accounts receivable and advances to suppliers | 2,561 | 61,122 |
| | **422,968** | **562,044** |

*Cash and cash equivalents*

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

*Accounts receivable*

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

In relation to the estimate of expected credit loss, details are available in Note 9 - Accounts Receivable.

### _(ii) Liquidity risk_

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

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

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

| | | **Contractual cash flow** | | | | |
|---|---|---|---|---|---|---|
| | **Book value** | **Total** | **Up to 1 year** | **2–3 years** | **4 years** | **>4 years** |
| Loans and financing | 609,105 | 631,261 | 477,230 | 154,031 | - | - |
| Suppliers | 447,734 | 447,734 | 447,734 | - | - | - |
| | **1,056,839** | **1,078,995** | **924,964** | **154,031** | **-** | **-** |

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

### _(iii) Market risk_

#### _a. Interest rate risk_

The Company has interest earning bank deposits remunerated at the CDI interest rate change. Such assets amount to R$ 9,053 as of December 31, 2019.

| | **2019** | **2018** |
|---|---|---|
| Variable rate instrument | | |
| Interest earning bank deposit | 9,053 | 3,829 |
| | **9,053** | **3,829** |

**Analysis of sensitivity to changes in CDI rate**

To estimate the principal financial indicators for sensitivity analysis, the Company uses the Focus survey, organized by the Central Bank of Brazil and based on the analysis of forecasts of financial and non-financial institutions. As of December 31, 2019, market expects, indicated a CDI/SELIC effective average rate of 4.50% for 2020, against the effective rate of 5.95% verified in 2019.

| | Probable scenario | Scenario I - 25% decrease | Scenario II - 50% decrease |
|---|---|---|---|
| Annual effective rate of CDI in 2019 | 5.95% | 4.46% | 2.98% |
| Interest earning bank deposits | 9,053 | 9,053 | 9,053 |
| Interbank Deposit Certificate estimated annual rate for 12 months | 4.50% | 3.38% | 2.25% |
| **Effect in the financial instrument** | | | |
| Increase / (Decrease) | (131) | (98) | (66) |

| | Probable scenario | Scenario I - 25% increase | Scenario II - 50% increase |
|---|---|---|---|
| Annual effective rate of CDI in 2019 | 5.95% | 7.44% | 8.93% |
| Loan - Banco do Brasil | 150,131 | 150,131 | 150,131 |
| Interbank Deposit Certificate estimated annual rate for 12 months | 4.50% | 5.63% | 6.75% |
| **Effect in the financial instrument** | | | |
| Increase / (Decrease) | 2,177 | 2,721 | 3,265 |

**Sensitivity analysis at changes in Libor USD rate**

The Company has financial liabilities indexed to the change in Libor USD on December 31, 2019. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 71,145.

The Company’s estimate indicated an estimated USD Libor rate for 12 months of 2.00%, probable scenario for 2020, against the effective rate of 2.38% verified on December 31, 2019.

| | Probable scenario | Scenario I - 25% increase | Scenario II - 50% increase |
|---|---|---|---|
| Annual effective rate of USD Libor in 2019 | 2.38% | 2.98% | 3.57% |
| Loan Banco Citibank | 71,146 | 71,146 | 71,146 |
| Estimated annual rate of USD Libor for 12 months (*) | 2.00% | 2.50% | 3.00% |
| **Effect in the financial instrument** | | | |
| Increase / (Decrease) - USD | 270 | 338 | 406 |

(*) The Focus survey does not disclose forecasts of interest rates of Libor USD. Accordingly, in order to determine the probable scenario, Videolar-Innova considered the 12-month LIBOR rate disclosed on 12/31/2019.

**Sensitivity analysis at Libor changes in EUR rate**

The Company has financial liabilities indexed to the change in Libor EUR on December 31, 2019. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 5,464.

The Company's estimate indicated an estimated EUR Libor rate for 12 months of 0.0%, probable scenario for 2020, against the effective rate of (0.21%) verified on December 31, 2019.

| | Probable scenario | Scenario I - 25% increase | Scenario II - 50% increase |
|---|---|---|---|
| Annual effective rate of EUR Libor in 2019 | 0.00% | 0.00% | 0.00% |
| Bradesco Europa - Loan | 5,463 | 5,463 | 5,463 |
| Estimated annual rate of EUR Libor for 12 months | (0.21%) | (0.16%) | (0.11%) |
| **Effect in the financial instrument** | | | |
| Increase / (Decrease) - EUR | 11 | 9 | 6 |

**Sensitivity analysis at TJLP rate changes**

The Company has financial liabilities indexed to the change in TJLP on December 31, 2019. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 3,996.

Market expects, indicated a TJLP tax of 4.25%, probable scenario for 2020, against the effective rate of 6.20% verified in 2019.

| | Probable scenario | Scenario I - 25% increase | Scenario II - 50% increase |
|---|---|---|---|
| Annual effective rate of TJLP (Long-term interest rate) in 2019 | 6.20% | 7.75% | 9.30% |
| BNDES loan | 3,996 | 3,996 | 3,996 |
| Estimated TJLP (Long-term interest rate) for 12 months (*) | 4.25% | 5.31% | 6.38% |
| **Effect in the financial instrument** | | | |
| Increase / (Decrease) | 78 | 97 | 117 |

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

## b. *Exchange rate risk*

The related risk derives from the possibility of incurring losses due to fluctuations in foreign exchange rates that reduce or increase amounts raised in the market. Below we present the exposure by currency as at December 31, 2019 and 2018, which considers the book values of loans and financing and cash and cash equivalents:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Foreign currency nominal value In $'000** | **R$ thousand** | **Foreign currency nominal value In $'000** | **R$ thousand** |
| Bradesco Loan | EUR | 1,206 | 5,463 | 2,310 | 10,255 |
| Bradesco Loan | USD | 20,111 | 81,049 | - | - |
| Debentures | USD | 16,786 | 67,646 | 36,307 | 140,682 |
| Citibank Loan | USD | 17,654 | 71,146 | 47,815 | 185,273 |
| Advances on exchange contracts (ACC) | EUR | 29,052 | 131,606 | - | - |
| Advances on exchange contracts (ACC) | USD | - | - | 12,256 | 47,490 |
| Export prepayment | EUR | - | - | 1,206 | 5,353 |
| Export prepayment | USD | 9,652 | 38,897 | - | - |
| Loan - Santander | EUR | 1,860 | 8,428 | 4,687 | 20,807 |
| Loan - Santander (*) | USD | 10,502 | 42,324 | - | - |
| Loan - Safra | EUR | 1,896 | 8,419 | - | - |
| Foreign suppliers | EUR | 61 | 278 | 72,063 | 319,888 |
| Foreign suppliers | USD | 97,580 | 393,247 | 94,393 | 365,754 |
| Foreign suppliers | GBP | - | - | 3 | 16 |

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

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

### Foreign exchange swap transactions

The Company realized financial derivatives in US dollars and Euros for exchange-rate hedge the Finimp agreement entered into with Banco Santander in the total amount of USD 10,256 thousand. This debt will be calculated based on the Euro/USD exchange rate parity If this parity is above the 1.1272 limit, the debt will be calculated in Euros. If this parity is below the limit, the debt will be calculated in US dollars. The Company will receive the difference between the US dollar-Euro exchange rate changes determined in the period.

A gain of R$1,102 in this type of operation related to the agreement in force on December 31, 2019 was recorded in financial income (loss).

On December 31, 2019, the total hedged volume is US$ 10,256 thousand and EUR 9,099 thousand.

| Maturity | Assets (USD) | Liabilities (EUR) | Parity EUR/USD | Adjustment (R$) |
|---|---|---|---|---|
| 06/10/2020 | 10,256 | 9,099 | 1.1205 | 1,102 |

The Company does not have as policy to contract hedge financial instruments. The only financial instrument (hedge) that the Company contracted relates to the aforementioned SWAP, which turns the exposure in USD of Santander loan into a EUR exposure. As of December 31, 2019, there were no other financial instruments allocated to exchange-rate change hedge.

**Sensitivity analysis - Foreign exchange**
The sensitivity analysis is based on the assumption of maintaining as a probable scenario the market values as at December 31, 2019. Videolar-Innova considered the scenarios below for the volatility of the US Dollar and Euro exchange rate.

For foreign exchange transactions subject to Dollar fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2019 of R$ 4.03 per US$1.00:

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

**Risk: Dollar fluctuation**

| | | **Revenue (expense) on exchange rate (in Reais)** | | | |
|---|---|---|---|---|---|
| | **Reference value, USD** | **Scenario 1** | **Scenario 2** | **Scenario 3** | **Scenario 4** |
| ***USD rate*** | | ***3.0225*** | ***2.0150*** | ***5.0375*** | ***6.0450*** |
| Bradesco Loan | 20,111 | 20,262 | 40,525 | (20,262) | (40,525) |
| Debentures | 16,786 | 16,912 | 33,823 | (16,912) | (33,823) |
| Citibank Loan | 17,654 | 17,786 | 35,573 | (17,786) | (35,573) |
| Export prepayment | 9,652 | 9,724 | 19,449 | (9,724) | (19,449) |
| Loan - Santander | 10,502 | 10,581 | 21,162 | (10,581) | (21,162) |
| Foreign suppliers | 97,580 | 98,312 | 196,624 | (98,312) | (196,624) |
| Financial income (loss) - revenue (expense) | | **173,577** | **347,156** | **(173,577)** | **(347,156)** |

For foreign exchange transactions subject to EURO fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2019 of R$ 4.53 per EUR$1.00:

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

| | | Revenue (expense) on exchange rate (in Reais) | | | |
|---|---|---|---|---|---|
| | **Reference value EUR** | **Scenario 1** | **Scenario 2** | **Scenario 3** | **Scenario 4** |
| ***Euro rate*** | | ***3.3975*** | ***2.,2650*** | ***5.6625*** | ***6.7950*** |
| Bradesco Loan | 1,206 | 1,366 | 2,732 | (1,366) | (2,732) |
| ACC | 29,052 | 32,902 | 65,803 | (32,902) | (65,803) |
| Loan - Santander | 1,860 | 2,107 | 4,214 | (2,107) | (4,214) |
| Loan - Safra | 1,896 | 2,148 | 4,295 | (2,148) | (4,295) |
| Foreign suppliers | 61 | 70 | 139 | (70) | (139) |
| Financial income (loss) - revenue (expense) | | **38,593** | **77,183** | **(38,593)** | **(77,183)** |

## *(iv) Operating risk*

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

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

## *(v) Capital risk*

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

### *Fair value measurement*

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

December 31, 2019:

| | | Book value | Fair value | |
|---|---|---|---|---|
| | **Rating** | **2019** | **2019** | **Hierarchy** |
| *Financial assets* | | | | |
| Cash and cash equivalents | Amortized cost | 14,428 | 14,428 | - |
| Interest earning bank deposits | Amortized cost | 9,053 | 9,053 | - |
| Financial instruments | Fair value through profit or loss | 1,102 | 1,102 | Level 2 |
| Accounts receivable | Amortized cost | 396,926 | 396,926 | - |
| Other accounts receivable and advances to suppliers | Amortized cost | 2,561 | 2,561 | - |
| **Total** | | **424,070** | **424,070** | - |
| *Financial liabilities* | | | | |
| Loans and financing | Other financial liabilities | 541,459 | 541,460 | - |
| Debentures | Other financial liabilities | 67,646 | 67,646 | Level 2 |
| Suppliers | Other financial liabilities | 447,734 | 447,734 | - |
| **Total** | | **1,056,839** | **1,056,839** | - |

December 31, 2018:

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

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

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

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

*Capital management*

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

Objectives, policies and procedures were not changed during years ended December 31, 2019 and 2018.

| | **2019** | **2018** |
|---|---|---|
| Loans and financing | 609,105 | 570,153 |
| (-) Cash and cash equivalents | (23,481) | (11,309) |
| **Net bank debt** | 585,624 | 558,844 |
| **Shareholders' equity** | 1,872,184 | 1,819,583 |
| **Shareholders' equity and net debt** | **2,457,808** | **2,378,427** |
| **Ratio of shareholders' equity and net bank debt** | **0.31** | **0.31** |

## 29 Insurance coverage

As of December 31, 2019, operating a civil liability risk insurance coverage was comprised of R$ 1,943,814 for material damage and R$ 508,936 for loss of profits. Regarding Specific Risks, coverage was comprised of R$ 851,136 for material damage and R$ 92,894 for loss of profits. For commercial general liability R$ 50,000 and for environmental risk insurance R$ 50,000. The D&O Insurance coverage is R$70,000.

For insurance of domestic cargo transportation, the coverage was R$ 3,000 for terrestrial loading and R$ 20,000 for aerial and waterway loading. On international transportation import, the coverage is US$ 34,000 thousand exclusively for styrene monomer in bulk and polystyrene in bulk; US$ 15,000 thousand for other goods by vehicle/waterway transportation; US$ 5,000 thousand to air transportation of other goods or US$ 5,000 per vehicle/road trip. For insurance of export transportation, the coverage was US$ 6,000,000 exclusively for ethylbenzene and styrene and US$ 1,000,000 for other goods by vehicle/ship/airplane/transportation or accumulation.

The coverage for group life insurance of the employees has salary multiple of 26 times, limited to R$ 1,589 of coverage.

* * *

## Executive Board

Lírio Albino Parisotto – Chief Executive Officer

Reinaldo José Kröger - Director and Vice-President

Cláudio da Rocha Filho - Chief Operating Officer

Sérgio de Oliveira Machado - Industrial Director

Mario Daud Filho - Legal and Compliance Director

## Board of Directors

Lírio Albino Parisotto

Elie Linetzky Waitzberg

Liz Vanin Parisotto

## Accountant

Antonio Carlos de Barros
CRC SP 193.292/O-6