Videolar-Innova S.A.

Financial statements
December 31, 2020

KPDS 777829

Contents

Barueri, January 29, 2021

MANAGEMENT REPORT

Dear Shareholders,

The management of Videolar-Innova S/A, in compliance with the legal and statutory provisions, submits for your appraisal the Management Report and Accounting Statements for Fiscal Year 2020, with its explanatory notes, together with the Independent Auditors' Report for the years ended December 31, 2020 and 2019, which includes the pronouncements issued by the CPC (Accounting Pronouncements Committee), applicable to its operations.

INNOVA: SUSTAINABLE AGENDA IN MOTION, INTENSIVE INVESTMENTS IN TECHNOLOGY AND TALENTS.

A new milestone in the Company's history of reinventions and sustainability agenda happened in 2020, with the construction of the Steam and Power Generation Plant, built at Triunfo petrochemical (Rio Grande do Sul). The R$ 220 million project will deliver 30,000 kW of installed power and make Plant II self-producing and self-sufficient in cogeneration of electric power and steam from a 100% renewable source: biomass, replacing fossil-based energy sources.

Innova had already modified part of its energy matrix for natural gas in 2019 and will use acacia wood, pine, eucalyptus, vegetable waste, rice husks and leftovers from sawmills in the form of chips.

The project begins operating in March 2021, opening a virtuous circle for producers from Rio Grande do Sul's forest chain within a 200-kilometer radius of the new plant.

The Steam and Power Generation Plant is formed by three boilers and two generators, with capacity to process 486,000 tons/year of biomass, generating 1,445,000 tons/year of steam and 263,000 MWh/year of electric power.

A new window of opportunity will also be opened with the possibility of selling surplus electricity in the free market, as well as steam, if conditions prove favorable.

COVID-19 PANDEMIC: EFFORTS

Innova joined its clients, manufacturers of disposable items, to produce 25 million units of disposable plates, cutlery and cups using our polystyrene resin (PS), offered at no cost to hospitals throughout the country, from north to south. The action received the name Disposables for Health.

The Company also donated 1,500,000 plastic closure caps for mineral water and alcohol gel PET bottles in joint actions with main companies in the beverage industry.

In addition, Innova has also acquired 140 universal respiratory circuits for donation to the Secretary of Health of the State of Amazonas State. The devices, in elastomer and silicone, act as tracheas coupled to the respirators for mechanically ventilated patients.

All actions were carried out at the peak of the restrictions, when the industrial plants operated under strictly safe conditions, preserving the physical integrity of our employees. The protagonism assumed by the thermoplastic resins and transformed plastics along the Covid-19 pandemic had on the part of Innova a vigorous player.

OUR PRODUCTS AND THEIR APPLICATIONS

We are at the center of the production chain as petrochemicals, manufacturers of styrenics and thermoplastic resins transformers. Our products, named Innova, are inputs for applications with an essential role in the economy: from asphalt to paints, food packaging and disposable items, from tires to the refrigeration and automotive industries, from school materials to the civil construction, pharmaceutical and toy industries, among others.

Our products and their applications
Thermoplastic resins
High Impact Polystyrene (HIPS)
Refrigeration Industry
Disposable cups
Home appliances
Laminates for yogurt pots
Electronics
Frames for the furniture industry
Disposable packaging
School materials
Toys
Home appliances
Office supplies
Expandable Polystyrene (EPS)
Civil construction
Technical parts
Thermal packaging
ECO-PS®
Electronics
Office supplies
Home appliances
School materials
Frames for the furniture industry
General Purpose Polystyrene (GPPS)
Foamed trays
Utilidades domésticas
Disposable cutlery
Food industry
Disposable packaging
Office supplies
Technical parts
School materials
Packaging
Home appliances
Civil construction
Plastic films
Bioriented polypropylene (BOPP)
Flower wrapping
Gift wrapping
Flexible packaging
Labels in general
Labels for bottles
Packaging for candies
Decorative labels
Adhesive Tapes
Chocolates packaging
Plastic closure caps
Plastic closure caps for mineral water, juices and soft drinks PET bottles
Plastic laminates in reels
Polypropylene (PP)
Disposable pots
Disposable cups
Polystyrene (PS)
Yogurt pots
Visual signalling
Disposable cups
Disposable trays
Disposable pots
Disposable packaging
Monomers
Styrene Monomer (SM)
Resins
Bus seats
Tanks at gas stations
Pools
Boats
Shirt buttons
Tires
Paints
Bathtubs
Asphalt

STATE-OF-THE-ART PETROCHEMICAL

Innova manufactures the polystyrene (PS) resin. We built in Manaus (Amazonas) the first petrochemical company from the North Region, producing general use (GPPS) and high impact (HIPS) polystyrenes.

In the south of the country, our integrated petrochemical located in Triunfo (Rio Grande do Sul) manufactures the styrene monomer (SM) as well as general use (GPPS), high impact (HIPS) and expandable (EPS) polystyrenes.

The Triunfo plant also holds the Styrenics Technology Center, an international reference in the production of patents for the segment, endowed with technology and specialized professionals to reproduce the exact needs of customers and develop applications capable of meeting renewed demands.

We pioneered at the Manaus the production of ECO-PS®, a resin with up to 30% post-consumption material in its composition. The selective collection is carried out in partnership with the Amazonas Sustainable Foundation (FAS), awarded by UNESCO with the Education Award for Sustainable Development. It represents an important socio-environmental front in the Amazon region considering income generation and depollution of the urban area of Manaus.

PLASTIC RESINS TRANSFORMATION

In the plastic transformation segment, we manufacture bioriented polypropylene (BOPP) films with up to five layers, as well as polystyrene (PS) and polypropylene (PP) laminates in reels and plastic closure caps mineral water, juices and soft drinks PET bottles. All of the plastic manufacturing lines are located at Plant I, in Manaus (Amazonas), a state-of-the-art facility with more than R$ 600 million invested.

The BOPP plastic films features an impressive range of applications, ubiquitous in the supermarket shelves: they are everywhere in flexible packages, 100% recyclable and offering an effective barrier against oxygen. In addition to protection, BOPP plastic films deliver the best visual result, up to date with increasingly bold graphics capabilities.

They preserve freshness in chocolates, cookies, snacks, cereal bars, popsicles and countless others. The BOPP films are also present in adhesive tapes, bottle labels and a wide range of other applications.

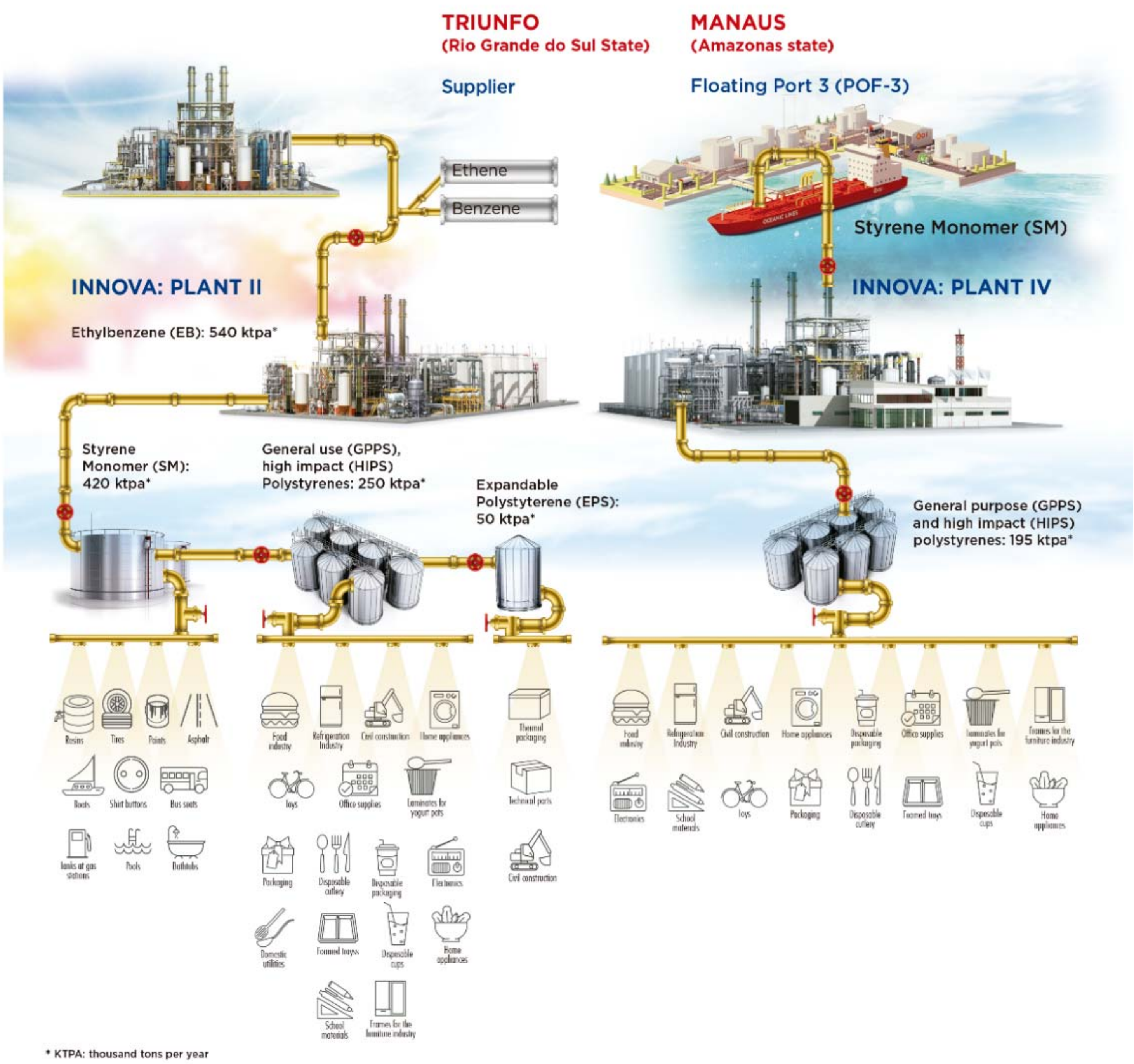
Innova manufactures plastic closure caps for mineral waters, juices and soft drinks provide produced by the most prestigious Brazilian brands. The plant, with capacity for more than 300 million units/month, won the rigorous FSSC 22000 certification in management of risks aimed at food safety.

All Innova industrial plants are certified according to ISO 9001 and 14000 standards.

STRATEGIC LOCATION

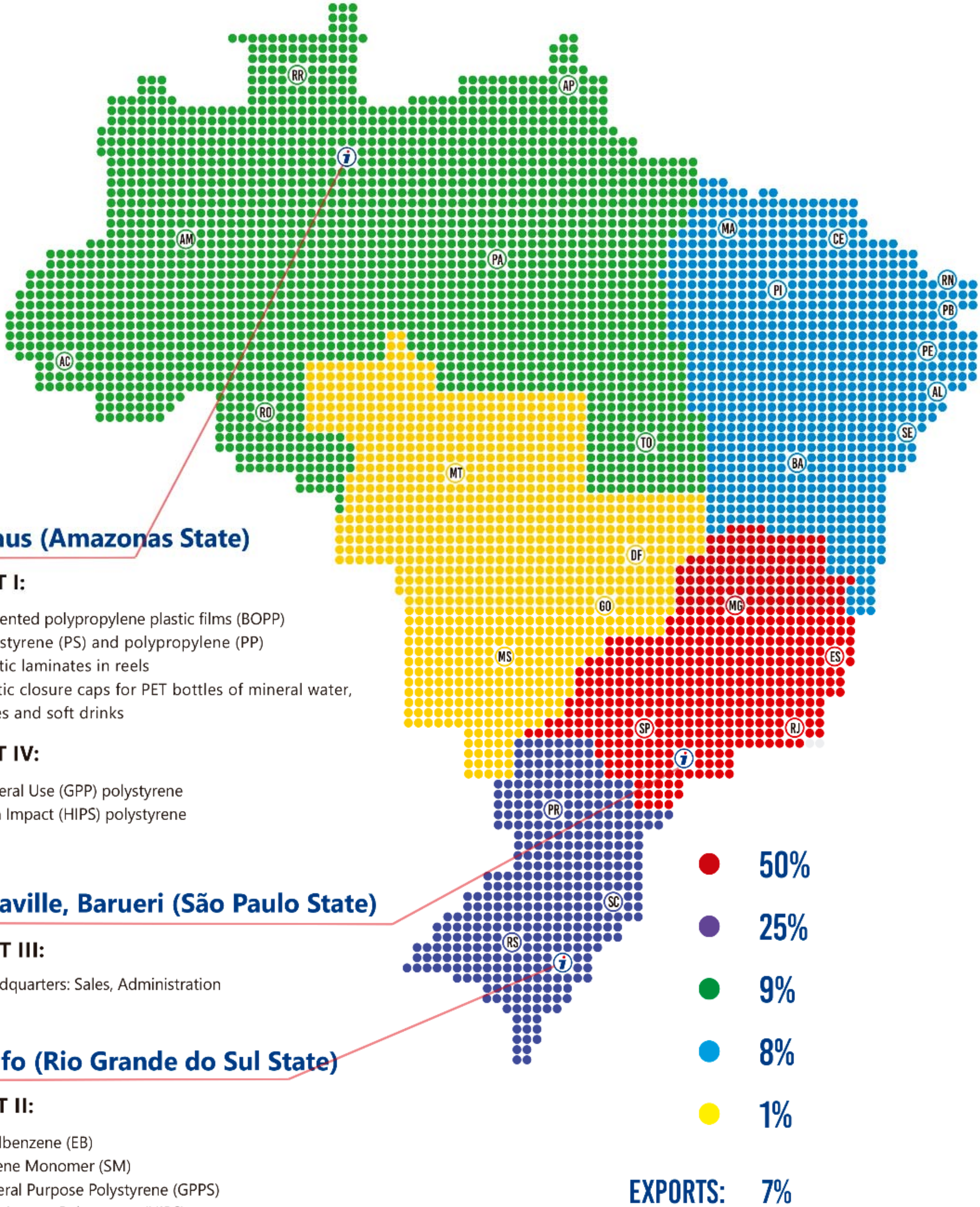
The location of the manufacturing plants in Manaus (Amazonas) and Triunfo (Rio Grande do Sul) ensures national and regional coverage, from end to end, throughout Brazil.

PRODUCTIVE AND INTEGRATED STYRENICS CHAIN



NATIONAL PRESENCE, STRATEGIC REGIONAL COVERAGE

SALES DESTINATION: PERCENTILE VOLUMES



Manaus (Amazonas State)

PLANT I:

- Bioriented polypropylene plastic films (BOPP)
- Polystyrene (PS) and polypropylene (PP) plastic laminates in reels
- Plastic closure caps for PET bottles of mineral water, juices and soft drinks

PLANT IV:

- General Use (GPP) polystyrene
- High Impact (HIPS) polystyrene

Alphaville, Barueri (São Paulo State)

PLANT III:

- Headquarters: Sales, Administration

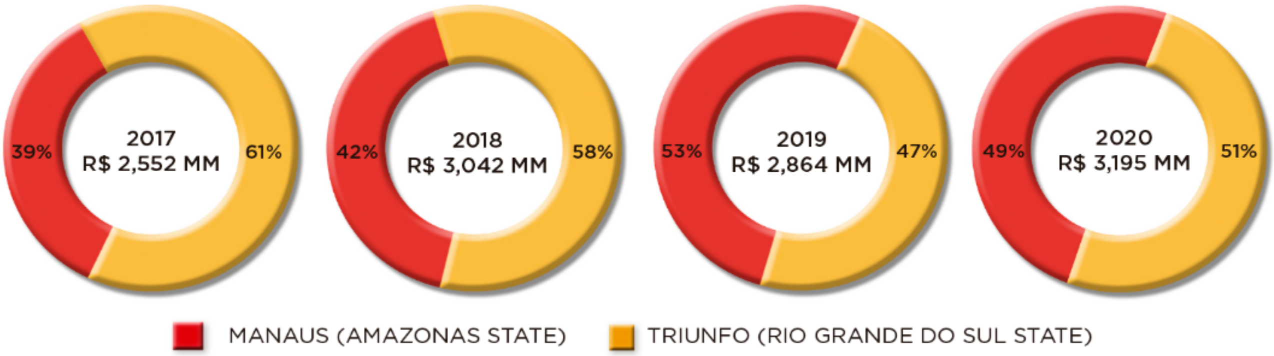
Triunfo (Rio Grande do Sul State)

PLANT II:

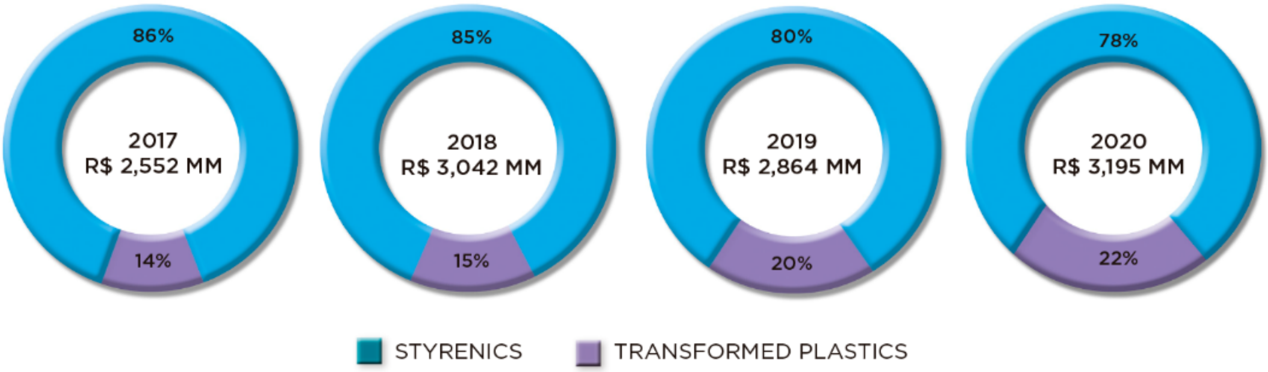
- Ethylbenzene (EB)
- Styrene Monomer (SM)
- General Purpose Polystyrene (GPPS)
- High Impact Polystyrene (HIPS)
- Expandable Polystyrene (EPS)
- Styrenics Technology Center (CTE), international reference in the production of patents for the segment, with the infrastructure to reproduce the same industrial processes used by customers in their most diverse production processes, enabling customization of resins for each specific application.

COMMERCIAL PERFORMANCE:

GROSS REVENUE PER GEOGRAPHICAL ORIGIN



GROSS REVENUE PER SEGMENT



VIDEOLAR-INNOVA S/A
ECONOMIC-FINANCIAL PERFORMANCE (IN THOUSANDS OF R$)

	2020	2019
TOTAL ASSETS	3.507.268	3.044.177
NET EQUITY	2.196.589	1.872.184
INDEBTEDNESS (NET DEBT/EBITDA)	1,02x	1,85x
GROSS OPERATING REVENUE	3.195.128	2.864.053
NET OPERATING REVENUE	2.816.744	2.506.253
GROSS PROFIT	640.835	365.916
EBITDA (LAJIDA)	671.337	315.811
EBITDA Margin (%)	23,83%	12,60%
FINANCIAL RESULT	(249.080)	(46.388)
NET PROFIT	244.588	118.967
INVESTMENTS REALIZED (CAPEX)	154.015	302.864

CORPORATIVE THINKING:

MISSION:

To lead our businesses, offering trust and strong ties to customers and employees, a sustainable posture to the environment and the desired return to shareholders.

VISION:

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

VALUES:

Committed and acquitted conduct;
Ability to adapt;
Total focus on customer demands.

GOVERNANCE & ORGANIZATION

Innova searches continuously the improvement of its corporate governance practices. It is at the core of our corporate philosophy to act as an example of good practices and transparency before employees, shareholders, clients and the community. The company maintains a Compliance area, under the management of the Legal Department, which offers employees and stakeholders an outsourced reporting channel , aiming to generate knowledge of facts and situations that should be known and on which Innova should undertake action.

Innova's governance structure maintains an Internal Audit area, in charge of monitoring the company's good practices and evaluating the internal control systems.

The Innova Employee Handbook, made available to all employees, aims to be a reference for personal and professional conducts, based on the values and principles that support our Mission, Vision and Values.

In 2020, the company also opened an essential page in its communication of results with the publication of the Sustainability Report, an in-depth portrait of the initiatives and strategic thinking in this area.

Ethics in practice

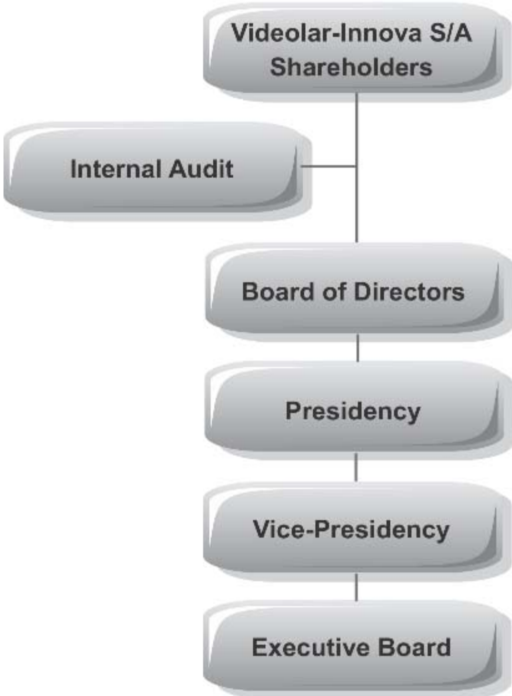
The Company has always been dedicated to developing internal initiatives to provide employees with a broad and in-depth knowledge of anti-corruption issues, especially with the publication in 2014 of the Anticorruption Law in Brazil, thus disseminating the necessary guidance for a better practical understanding and adherence to the spirit that drove the edition of that law.

Even being a privately held company, Innova has been counting since 2005 on the services of an external auditing company to analyze its results, part of the group known as Big Four.

Innova's organizational structure is designed to integrate the mission- critical processes in the company's management:

The Board of Directors is the Company's highest governing body. It is responsible for setting the general direction of the business and defining mission, objectives, strategies and guidelines.

The Executive Board functions as a collegiate body and exercises the management of the business in accordance with the mission, objectives, strategies and guidelines established by the Board of Directors.



OUTLOOK FOR 2021

The styrene products and processed plastic items performed a notorious and proven role in the combat to the coronavirus. Our installed production capacity ensured the full meeting of the demand at the peak of the restrictions and along the subsequent resumption, result of intensive previously investments, such as the doubling of the production capacity of the styrene monomer (SM) to 420 thousand tons/year, the implementation of the new production lines for polypropylene bioriented (BOPP) plastic films and also plastic closure caps. All of the industrial plants received investments. By March, Innova will start operating the Steam and Power Generation Plant by March, consolidating the move towards the use of clean energy.

As of 2021, Innova will be audited for certification by the Responsible Care® program, an essential initiative of the Brazilian Chemical Industry Association (ABIQUIM) in cooperation with chemical industries around the world, to put into practice and demonstrate a voluntary commitment to continuous improvement in health, safety and environmental performance. Innova becomes part of a select group of 10 out of 300 companies in the sector to obtain the Responsible Care® certification.

Sustainability as a world vision and concrete practice: this is how Innova creates value for customers, shareholders, employees and, above all, for society as a whole, with a notorious socio-economic impact in the regions where it operates, increasing competitiveness throughout the petrochemical and plastic processing production chain, without losing focus on financial discipline.

ACKNOWLEDGEMENTS

We thank our shareholders for their trust and encouragement. To our customers for their preference. To suppliers and financial institutions for their support and partnership. And to our employees for their commitment and dedication, essential to our leadership role.

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Independent auditors' report on the 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, 2020 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, 2020, the performance of its operations and its 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 compliance with such standards, are described in the following section, titled "Auditor's 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.

Other information accompanying the financial statements and auditors' report

The Company's management is responsible for such other information that comprises 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 financial statements, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company or cease its operations, or has no realistic alternative to avoid the closure of operations.

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

Responsibilities of the auditors regarding the audit of 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. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for 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.

– Obtain an understanding of the internal controls relevant to the audit to design auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

– Assessed the adequacy of the accounting procedures used and the reasonableness of the accounting estimates and the respective disclosures made by the management.

– Reach a conclusion as to the suitability of Management's use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the Company's capacity for going concern. If we conclude that there is material uncertainty, we will call attention in our audit report to the respective disclosures in the financial statements or include any change in our opinion, if the disclosures are inappropriate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company not to continue as going concern.

– 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.

– Obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the financial statements. We are responsible for the management, oversight and performance of audit of the group, and, consequently, the audit opinion.

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

Osasco, January 29, 2021

KPMG Auditores Independentes
CRC 2SP-028567/F
Original report in Portuguese signed by
Juliana Leonam de Araujo Braga
Accountant CRC 1SP-251062/O-5

Videolar-Innova S.A.

Balance sheets at December 31, 2020 and 2019

(In thousands of Reais)

Assets	Note	2020	2019
Current assets			
Cash and cash equivalents	8	65,088	23,481
Accounts receivable	9	714,029	390,350
Financial instruments	28	5,078	1,102
Inventories	10	261,551	281,197
Income tax and social contribution, recoverable	26.c	1,347	-
Recoverable taxes	11	117,893	41,629
Other accounts receivable	12	1,869	2,366
Advances to suppliers		1,279	195
Prepaid expenses		1,750	4,965
		1,169,884	745,285
Non-current assets			
Deferred income tax and social contribution	26.a	74,578	114,274
Accounts receivable	9	4,621	6,576
Recoverable taxes	11	103,015	62,060
Judicial deposits	19	10,929	14,544
		193,143	197,454
Interest in associated companies	13	3,550	-
Investment property	14	268,299	258,974
Property, plant and equipment	15	1,617,203	1,584,622
Intangible assets	16	255,189	257,842
		2,144,241	2,101,438
		3,507,268	3,044,177

Liabilities	Note	2020	2019
Current liabilities			
Loans and financing	17	714,051	458,204
Suppliers	18	492,025	447,734
Labor obligations and social charges		37,716	17,498
Tax liabilities		17,318	7,556
Advances from clients		2,700	656
Other liabilities		32,410	69,165
		1,296,220	1,000,813
Non-current liabilities			
Loans and financing	17	-	150,901
Provision for contingencies	19	14,459	17,483
Other liabilities		-	2,796
		14,459	171,180
Shareholders' equity			
Capital	20.a	1,373,666	686,832
Goodwill reserve on disposal of own shares	20.h	1	-
Treasury shares	20.g	-	(79,732)
Tax incentive reserve	20.e	586,062	1,107,792
Legal reserve	20.c	58,370	46,141
Profit retention	20.f	68,683	1,183
Equity valuation adjustment	20.b	109,807	109,968
Shareholders' equity		2,196,589	1,872,184
		3,507,268	3,044,177

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of income

Years ended December 31, 2020 and 2019

(In thousands of Reais)

	Note	2020	2019
Net operating revenue	21	2,816,744	2,506,253
Cost of products sold	22	(2,175,909)	(2,140,337)
Gross operating income		**640,835**	**365,916**
Operating revenues (expenses)			
Administrative and selling expenses	23	(189,932)	(184,525)
Equity in net income of subsidiaries	13	3,550	-
Realization of goodwill		(8,433)	(10,916)
Other operating revenues	24	91,772	38,236
		(103,043)	(157,205)
Financial revenues	25	103,591	25,575
Financial expenses	25	(79,427)	(53,009)
Net inflation adjustments and exchange-rate changes	25	(273,244)	(18,954)
Net financial revenue (expenses)		(249,080)	(46,388)
Income (loss) before taxes		**288,712**	**162,323**
Current income tax and social contribution	26.b	-	-
Deferred income tax and social contribution	26.b	(44,124)	(43,356)
Net income for the year		**244,588**	**118,967**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of comprehensive income

Years ended December 31, 2020 and 2019

(In thousands of Reais)

	2020	2019
Income (loss) for the year	244,588	118,967
Comprehensive income	-	-
Other comprehensive income, net of income tax and social contribution	-	-
Total comprehensive income	244,588	118,967
Comprehensive income attributable to		
Controlling shareholders	244,588	118,967
Total comprehensive income	**244,588**	**118,967**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2020 and 2019

(In thousands of Reais)

					Profit reserve				
	Capital	**Treasury shares**	**Goodwill reserve on disposal of own shares**	**Equity valuation adjustments**	**Legal**	**Tax incentives**	**Profit retention**	**Retained earnings/ (losses)**	**Total**
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 (loss) 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**
Disposal of treasury shares	-	79,732	1	-	-	-	-	-	**79,733**
Increase in paid-up capital	686,834	-	-	-	-	(686,834)	-	-	**-**
Equity valuation adjustment	-	-	-	84	-	-	-	-	**84**
Income for the period	-	-	-	-	-	-	-	244,588	**244,588**
Realization of equity adjustment	-	-	-	(245)	-	-	-	245	**-**
Formation of legal reserve	-	-	-	-	12,229	-	-	(12,229)	**-**
Formation of tax incentive reserve	-	-	-	-	-	165,104	-	(165,104)	**-**
Profit retention reserve	-	-	-	-	-	-	67,500	(67,500)	**-**
Balances at December 31, 2020	**1,373,666**	**-**	**1**	**109,807**	**58,370**	**586,062**	**68,683**	**-**	**2,196,589**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of cash flows

Years ended December 31, 2020 and 2019

(In thousands of Reais)

	Note	2020	2019
Cash flows from operating activities			
Net income for the year		244,588	118,967
Adjustments for reconciliation of income (loss) for the year with funds from operating activities			
Depreciation and amortization	15 | 16	109,163	96,286
Realization of goodwill		8,433	10,916
Deferred and current income tax		44,124	43,356
Write-off of fixed and intangible assets		1,950	11,964
Provision for contingencies	19	(2,762)	-
Allowance for estimated credit loss for allowance for doubtful accounts	9	(4,317)	495
Provision for obsolescence	10	(2,112)	2,104
Gain from adjustment to fair value	14	(9,325)	(36,182)
Other revenues from tax credits		(131,257)	(1,123)
Equity in net income of subsidiaries		(3,550)	-
Financial charges and exchange-rate change over balances of financing, tax obligations, judicial deposits, accounts payable and receivable, net		109,544	19,648
		364,479	266,431
Increase (decrease) in assets			
Accounts receivable		(320,014)	91,790
Inventories		21,758	251,379
Recoverable taxes		12,691	(24,839)
Other		6,216	58,751
		(279,349)	377,081
Increase (decrease) in liabilities			
Suppliers		(76,574)	(289,870)
Labor obligations and social charges		20,218	(8,846)
Other		10,110	(17,587)
		(46,246)	(316,303)
Cash generated by operating activities		38,884	327,209
Income taxes paid		-	-
Net cash flow from operating activities		38,884	327,209
Cash flow from investment activities			
Acquisition of property, plant and equipment		(11,903)	(258,734)
Acquisitions of intangible assets		(66)	(3,437)
Cash flow used in investment activities		(11,969)	(262,171)
Cash flow from financing activities			
Funding financing	17	418,644	335,941
Payment of financing and interest	17	(447,695)	(345,065)
Repurchase of shares		(35,990)	(43,742)
Disposal of treasury shares		79,733	-
Net cash (used in) from financing activities		14,692	(52,866)
Increase in cash and cash equivalents		41,607	12,172
Cash and cash equivalents at the beginning of the year		23,481	11,309
Cash and cash equivalents at the end of the year		65,088	23,481
Change in cash and cash equivalents for the year		41,607	12,172
Additional disclosure – non-cash transactions			
Capitalized interest and purchase of fixed assets		136,172	44,027

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of reais)

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.

The Company is finalizing a steam and power generation plant, scheduled to come into operation in March 2021. The objective is self-production and self-sufficiency in the cogeneration of energy and steam from biomass (organic matter). The company also intends to sell surplus energy in the Free Contracting Environment, as well as steam, if the market conditions are attractive.

COVID-19 Pandemic: impacts and actions

From the moment the pandemic scenario materialized and with its imminent dissemination in Brazil, Innova formed a multidisciplinary Crisis Committee, with agents in the four units of the Company, to ensure the physical integrity of its Employees and the stability of all production lines.

Immediately after, in the second quarter of 2020, the occupancy rates of production capacities and sales volumes fell sharply in relation to the first quarter, both in the Styrene segment and in the Processed Plastics segment, 32.2% and 7.1%, respectively. There was no increase in defaults.

The second semester showed a strong reversal of this scenario, with the increase in the production capacity occupancy rates and sales volumes, beyond the levels prior to the pandemic. Sales of Styrene and Processed Plastics grew 35.8% and 33.7%, respectively, in relation to the second semester of the previous year, and production was 148, 000 tons higher when compared to the volume produced in the first 6 months of 2020.

Fully meeting of demand, both at the peak of restrictions and in the subsequent strong recovery, was ensured by the robustness and technological standard of the installed production capacity, as a result of uninterrupted investments from previous years. The protagonism of thermoplastic resins and transformed plastics was evidenced in the fight against Covid-19.

Innova continues to be mobilized in the scenario assessment and adopts cost and expense contingency measures, preserving the results and taking into account the degree of unpredictability inherent in the scenario, both in the domestic and international scenario. The accounting base remains appropriate, with adequate funds and preserved credit facilities, which allows the maintenance of a sound financial position and discipline, which are valued as a central pillar by the Company’s shareholders.

2 Preparation basis

Statement of conformity (regarding the Accounting Pronouncement 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 29, 2021. After their issuance, only the shareholders have the power to change the financial statements.

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

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

3 Functional and presentation currency

These financial statements are being presented in reais (R$), 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 principles of the Company, and the reported values of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. 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, 2020 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 losses for accounts receivable: main assumptions in determining the weighted average loss rate;
- **Note 15 -** Property, plant and equipment – determination of useful life and impairment;
- **Note 16 -** Intangible asset and goodwill impairment test: main assumptions in relation to recoverable values;
- **Note 19 -** recognition and measurement of provisions and contingencies: main assumptions regarding the likelihood and magnitude of the outflows of funds;
- **Note 26.a -** Recognition of deferred tax assets: availability of future taxable income against which deductible temporary differences and tax losses may be used;
- **Note 26.b -** Uncertainty over Income Tax Treatments.

(ii) Measurement of fair value

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

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).

The Company recognizes transfers between fair value hierarchic levels at the end of the financial statements period in which changes occurred.

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

- **Note 14 -** Investment property;
- **Note 13 -** Business acquisition;
- **Note 29** – Financial instruments.

5 Measuring basis

The financial statements were prepared based on the historical cost, except for the following material items which are measured on each reporting date and recognized in the balance sheets:

- Derivative financial instruments measured at fair value;
- Non-derivative financial instruments stated at fair value through profit or loss are measured at fair value;
- Debt and equity securities at FVTOCI are measured at fair value;
- Contingent payments assumed in a business combination are measured at fair value;
- Investment properties 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** – Business combination
- **6.2 -** Operating revenue
- **6.3 -** Government grants and assistance
- **6.4 -** Financial revenues and expenses
- **6.5** – Foreign currency
- **6.6 -** Income tax and social contribution
- **6.7** – Inventory
- **6.8** – Property, plant and equipment
- **6.9 -** Intangible assets and goodwill
- **6.10** – Investment property
- **6.11** – Financial instruments
- **6.12** – Impairment
- **6.13** – Provisions
- **6.14** – Employee benefits
- **6.15 -** Leases
- **6.16** – Measurement of fair value

6.1 Business combination

Business combinations are recorded using the acquisition method when the set of activities and acquired assets addresses the definition of a business and the control is transferred to the Company.

The consideration transferred is usually measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising in the transaction is tested annually for impairment. Gains in a bargain purchase are immediately recognized in profit or loss. Transaction costs are recorded in profit or loss as incurred, except the costs related to the issue of debt or equity instruments.

Transferred consideration does not include amounts referring to payment of pre-existing relations. These amounts are usually recognized in income for the year.

Any contingent consideration payable is measured at its fair value on acquisition date. If the payment is classified as an equity instrument, it is not remeasured and the liquidation is recorded in shareholders' equity. The remaining contingent consideration is remeasured at fair value on each reporting date, and subsequent changes in fair value are recorded in the income (loss) for the year.

Investment

Investments in non-subsidiaries are accounted for using the equity method for purposes of individual financial statements of the non-parent company.

Based on the equity accounting method, investments in non-subsidiaries are recorded in the balance sheet at cost, plus changes after the acquisition of ownership interest.

The statement of income reflects the share in the results from operations of non-subsidiaries based on the equity accounting method. When a change is directly recognized in the shareholders’ equity of the subsidiary, the Investor will recognize its share in the changes occurred and will disclose that fact, in case of materiality.

6.2 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 28, 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.

6.3 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$ 130,366 (R$ 122,382 in 2019), as Note 28.

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$ 34,738 (R$ 30,249 in 2019) for FUNDOPEM, as Note 28.

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, 2020 and 2019, the Company complied with all legal requirements to use these 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

6.4 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.

Exchange gains and losses are reported on a net basis.

6.5 Foreign currency

Foreign currency transactions are translated into the respective functional currency of the Company at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated and calculated in foreign currencies on the balance sheet date are reconverted into the functional currency at the exchange rate determined on that date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date the fair value was determined.
Foreign currency differences arising from the translated are recognized in income (loss).

6.6 Income tax and social contribution

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

6.7 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.

6.8 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.

(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:

	Years
Equipment	5
Improvements / facilities	34
Machinery, equipment and tools	17
Furniture and fixtures	13
Vehicles	5
Aircraft	10
Other	10

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

6.9 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 expenses

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

(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:

	Years
Trademarks and patents	9
Software	5

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

6.10 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.

6.11 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). It 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 (loss), 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 the contractual rights to the cash flows of the asset expire; or when the Company transfers the rights to the reception of contractual cash flows on a financial asset in a transaction that: substantially all the risks and rewards of ownership of the financial asset are transferred; or in which the Company neither transfers nor substantially maintains all the risks and benefits of the ownership of the financial asset and does not retain 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) Offset

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 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 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 net assets. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in net assets, and the resulting gain or loss from the transaction is shown as goodwill reserve on disposal of own assets.

Increase in paid-up capital
The capital increase is determined by the shareholders at a general meeting or a shareholders’ meeting. In the case of corporations, the decision on the capital increase may also be decided by the administrative body, if determined to do so. When deciding on an increase, it is essential to determine how it will be carried out. This may occur by increasing the nominal value of existing quotas or shares. The Company's capital can be increased by subscribing new shares or incorporating reserves.

6.12 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 recovery problems 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 would not be accepted 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 provision for 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 recovering the financial asset in full or in part. The Company assesses, on an individual basis, the time and amount of write-off based on the existence or not of reasonable expectation of recovery. The Company does not expect any significant recovery of amount written off. However, financial assets written off may still be subject to credit collection, in compliance with procedures of the Company for the recovery of the amounts due.

(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 certain evidence exists the recoverable value of the asset is determined. In case of goodwill, recoverable value is tested on an annual basis.

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

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

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

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

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

6.13 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.

6.14 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.

6.15 Leases

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

An agreement 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.

(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 useful 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 leased asset.

Lease payments included in the measurement of lease liability are comprised by 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 (loss) if the right-of-use asset is reduced to zero.

As of December 31, 2020 and 2019, the Company has no lease agreements, as a lessee, subject to the recognition of right-of-use assets and lease liabilities.

Low-value asset leases
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, its interests are recorded 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.

6.16 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 a 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. Later, this difference is recognized in the income at an appropriate basis over the life of the instrument, or to the moment when the assessment is fully supported by observable market data or the transaction is terminated, whichever occurs first.

7 New standards and interpretations not yet effective

Several new standards will become effective for the years started after January 1, 2020. 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:

- Benchmark interest rate reform – Phase 2 (amendments to CPC 48, CPC 38, CPC 40, CPC 11, CPC 06;
- Rental concessions related to COVID-19 (amendments to CPC 06);
- Property, plant and equipment : Revenues before intended use (amendments to CPC 27);
- Reference to Conceptual Framework (amendments to CPC 15);
- Classification of Liabilities in Current or Non-Current (amendments to CPC 26).

8 Cash and cash equivalents

	2020	2019
Cash and cash equivalents	13,704	14,428
Interest earning bank deposit	51,384	9,053
	65,088	**23,481**

The interest earning bank deposits 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 96% of the CDI (98% in 2019). 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, 2020 and 2019 are as follows:

	2020	2019
Clients	757,789	440,382
	757,789	**440,382**
Provision for expected credit loss	(39,139)	(43,456)
	718,650	**396,926**
Current assets	**714,029**	**390,350**
Non-current assets	**4,621**	**6,576**

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	718,502	722	0.1%
	Overdue (days):			
	01–30	878	8	1%
	31–60	-	-	5%
	61–90	-	-	10%
	91–180	-	-	50%
	>181	-	-	100%
		719,380	**730**	-
Stage 2	Collection advisory	63	63	100%
	Legal collection	38,346	38,346	100%
		38,409	**38,409**	100%
Total		**757,789**	**39,139**	

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:

	2020	2019
Balance at the beginning of the year	43,456	42,961
Supplement to allowance for the year	369	785
Reversal of provision in the year	(4,686)	(290)
Balance at December 31	**39,139**	**43,456**

10 Inventories

	2020	2019
Raw material	82,997	126,043
Work in process	62,769	44,263
Finished goods	102,925	97,348
Packaging	4,335	5,343
Imports in progress	5,662	9,199
Other materials	3,686	1,936
Provision for obsolescence	(823)	(2,935)
	261,551	**281,197**

Changes to the provision for obsolescence are as follows:

	2020	2019
Balance at the beginning of the year	(2,935)	(831)
Supplement of provision	-	(2,547)
Reversal of provision	2,112	443
Balance at December 31	**(823)**	**(2,935)**

Implementing the action plan for 2020, most of the Raw Materials classified as obsolete were discarded or sold, and others returned to suppliers. Although to a lesser extent, we also use part in our production process. Another factor that contributed to the reversal in the provision for obsolescence was the increase in sales in the Biaxially Oriented Polypropylene (BOPP) segment, which enabled the high turnover in the finished products inventory. We closed 2020 with the following provision by segment: BOPP R$ 539, Laminates R$ 48, Plastic Lids R$ 205 and Polystyrene/EPS R$ 31.

11 Recoverable taxes

	2020	2019
ICMS recoverable	85,761	76,138
PIS/COFINS recoverable	6,348	4,625
PIS/COFINS tax process (i)	18,926	18,855
PIS/COFINS - tax lawsuit (ii)	105,151	-
Withholding income tax (IRRF) recoverable	664	1,350
IPI recoverable	490	605
Other	3,568	2,116
	220,908	**103,689**
Current assets	**117,893**	**41,629**
Non-current assets	**103,015**	**62,060**

(i) In July 2012, the Company obtained a favorable decision for injunction 0060657.83.2013.4.01.0000, which addresses the exclusion of ICMS from PIS/COFINS basis; accordingly, a final decision was issued for this lawsuit, generating tax credit of R$ 18,926 (R$ 18,855 in 2019).

(ii) In August 2020, the final and unhealable decision regarding Videolar-Innova S.A. lawsuit in case no. 5055615-53.2015.4.04.7100 was ratified, determining the exclusion of ICMS from the PIS/COFINS calculation basis, retroacting from 2010 to 2015. The effect of this decision was recognized in the amount of R$ 131,257, of which R$ 80,342 of principal and R$ 50,915 of inflation adjustment. After offsetting federal taxes during the current year, the balance of this credit totaled R$ 105,151 in December 2020.

12 Other accounts receivable

	2020	2019
Costs to be amortized (i)	-	2,234
Other advances	766	132
Claims receivable	-	-
Other accounts receivable	1,103	-
Current assets	**1,869**	**2,366**

(i) The Company incurred costs with financial institutions in structuring loan contracts for the acquisition of Innova in 2014. This cost was accounted for in short and long term debt and was amortized together with the loan contract payments that were fully settled in 2020.

13 Interest in companies, associated companies

In December 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.

	Int.%	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity	Company's interest
Rimo S.A.	40%	48,719	10,856	36,389	14,313	8,873	3,550

14 Investment property

	2020	2019
Land and buildings	268,299	258,974
Balance at December 31	**268,299**	**258,974**

The investment properties are recorded at fair value, which was based on valuations made by independent external appraisers, at November 30, 2020.

The balance of investment property transactions were as shown below:

	2020	2019
Balance at January 1	258,974	204,354
Addition	-	1,123
Gain from adjustment to fair value (Note 24)	9,325	36,182
Reclassification between investment property and property, plant and equipment (Note 14)	-	17,315
Total	**268,299**	**258,974**

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.

15 Property, plant and equipment

	Land	Buildings and improvements	Machinery and equipment	Spare parts and sets	Industrial facilities	Furniture and fixtures	Data processing equipment	Vehicles	Aircraft	Molds and tools	Telephony equipment	Works of art and antique	Provision for impairment loss (Note 14.1)	Construction in progress (Note 14.2)	Spare Parts – Construction in progress (i)	Goodwill - Property, plant and equipment	Total
Cost																	
Balances at 12/31/2018	**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
Reclassification of PPI	(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 12/31/2019	**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**
Additions	-	-	479	-	-	2	-	476	27,143	-	-	-	(132)	122,373	3,674	-	154,015
Write-off	-	-	(46,412)	-	(3,736)	(6,183)	(1,584)	(279)	-	(19,477)	(781)	-	8,918	-	-	-	(69,534)
Transfer	-	6,440	21,010	-	921	414	123	192	-	-	-	152	-	(29,252)	-	-	-
Balances at 12/31/2020	**96,319**	**276,923**	**1,495,918**	**1,381**	**199,047**	**6,865**	**11,713**	**1,478**	**27,143**	**16,097**	**653**	**152**	**(484)**	**249,944**	**43,699**	**203,479**	**2,630,327**
Depreciation																	
Balances at 12/31/2018	**-**	**(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 12/31/2019	**-**	**(119,916)**	**(639,504)**	**-**	**(96,177)**	**(10,916)**	**(10,321)**	**(421)**	**-**	**(27,468)**	**(882)**	**-**	**-**	**-**	**-**	**(55,619)**	**(961,224)**
Depreciation for the year	-	(8,668)	(82,664)	(12)	(12,760)	(269)	(873)	(304)	(226)	(742)	(60)	-	-	-	-	(12,952)	(119,530)
Write-off	-	-	38,345	-	3,445	6,057	1,484	274	-	17,245	780	-	-	-	-	-	67,630
Balances at 12/31/2020	**-**	**(128,584)**	**(683,823)**	**(12)**	**(105,492)**	**(5,128)**	**(9,710)**	**(451)**	**(226)**	**(10,965)**	**(162)**	**-**	**-**	**-**	**-**	**(68,571)**	**(1,013,124)**
Residual value																	
Balances at 12/31/2020	**96,319**	**148,339**	**812,095**	**1,369**	**93,555**	**1,737**	**2,003**	**1,027**	**26,917**	**5,132**	**491**	**152**	**(484)**	**249,944**	**43,699**	**134,908**	**1,617,203**
Balances at 12/31/2019	**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**

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 June 2020, Videolar-Inova settled said bank financing by writing-off of the respective lien.

(i) Spare Parts – Construction in progress

The Company adopts the criterion of classifying spare items, spare parts, tools and equipment for internal use in property, plant and equipment since the entity expects to use them for more than a period. Such practice is adopted according to the accounting pronouncement.

15.1 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$ 485 (R$ 9,270 in 2019) includes items that are no longer in operation as described below:

	2020	2019
Machinery and equipment	-	6,351
Molds and tools	-	2,009
Industrial facilities	-	262
Other	-	241
Spare parts	485	407
	485	**9,270**

In compliance with the requirements of pronouncement CPC 01 (R1) dated August 6, 2010 - Asset Impairment, the Company performed the annual recovery test of its assets as of December 31, 2020, which were estimated based on the values in use, using the discounted cash flows.

In 2020, the Company wrote off the provision in the amount of R$ 8,918, of which R$ 8,863 refer to the disposal of machinery, equipment, molds and tools, and R$ 55 refers to items recovered and used in corrective maintenance.

15.2 Property, plant and equipment in progress

As of December 31, 2020, the balance of construction in progress account was R$ 249,944 (R$ 156,823 in 2019) and was mainly represented by the projects: power generation and steam generation - R$ 172,076 (R$ 117,413 in 2019), acquisition of the new palletizer - R$ 4,970 and set of molds and tools SFM TP LL - R$ 3,696.

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, 2020 were R$ 18,993 (R$ 13,053 in 2019).

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

16 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
Cost					
Balances at 12/31/2018	**21,076**	**19,225**	**243,866**	**106,279**	**390,446**
Additions	3,437	-	-	-	**3,437**
Balances at 12/31/2019	24,513	19,225	243,866	106,279	393,883
Additions	66	-	-	-	66
Write-offs	(490)	-	-	-	(490)
Balances at 12/31/2020	24,089	19,225	243,866	106,279	393,459
Balances at 12/31/2018	(14,413)	(14,336)	-	(100,662)	(129,411)
Amortization for the year	(964)	(459)	-	(5,207)	(6,630)
Balances at 12/31/2019	(15,377)	(14,795)	-	(105,869)	(136,041)
Amortization for the year	(2,036)	(549)		(88)	(2,673)
Write-offs	444	-	-	-	444
Balances at 12/31/2020	(16,969)	(15,344)	-	(105,957)	(138,270)
Residual value					
Balances at 12/31/2020	**7,120**	**3,881**	**243,866**	**322**	**255,189**
Balances at 12/31/2019	**9,136**	**4,430**	**243,866**	**410**	**257,842**

16.1 Goodwill

The goodwill recognized in the Company’s records, as a result of Innova S.A. acquisition in 2014, was computed as per the following:

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

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

The cash-generating unit to which the goodwill was allocated is tested for impairment annually, regardless of whether there are indications of impairment. 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.

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. In carrying out the recovery study for the year, we did not identify any impairment loss.

The assumptions adopted for impairment testing considered a growth rate at the perpetuity of 1.00% and actual discount rate of 8.98% in a five-year horizon.

17 Loans and financing

Financial institution		**Charges**	**Guarantees**	**Maturity**	**2020**	**2019**
Banco do Brasil	(i)	CDI + 1.2% p.a.	Surety + Trade notes	03/21/2021	150,128	150,131
Banco Bradesco Europa	(ii)	Libor EUR + 3.25% p.a.	Promissory Note	07/22/2021	1,608	5,463
BNDES Contrato II	(iii)	TJLP + 2.42% p.a.	Real estate	06/15/2020	-	3,996
Debentures	(iv)	FX + 4.96% p.a.	Aval + Alien. Fiduc.	10/25/2020	-	67,646
Banco Citibank	(v)	Libor USD + 3.50% p.a.	Aval + Alien. Fiduc.	09/25/2020	-	71,146
Sundry - Foreign exchange advances delivered	(vi)	2.1–3.79% p.a.	Trade Notes	09/24/2021	266,618	170,503
Banco Safra import financing agreements (Finimp)	(vii)	1.28% p.a.	Promissory Note	06/04/2020	-	8,419
Banco Bradesco Finimp	(viii)	5.42% p.a.	-	04/01/2021	27,093	81,049
Banco Santander - Finimp	(ix)	0.80–1.41% p.a.	-	06/10/2020	-	50,752
Bradesco Capital de giro	(x)	FX+4.55% p.a.	Surety	03/29/2021	268,604	-
					714,051	**609,105**
Current liabilities					**714,051**	**458,204**
Non-current liabilities					**-**	**150,901**

(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 totaled R$ 314,835. This credit facility was duly paid in June 2020 and the pledge of a property as collateral was reversed.

(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 were restated at the Exchange rate fluctuation factor between the Brazilian real and US dollars (PTAX800, option 5) justified the 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 was amortized in 9 (nine) installments, also semi-annual and consecutive, where the first one fell due on October 25, 2016 and the last one on October 25, 2020.

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 had 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 provided 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 had 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 October 2020 in the amount of USD 22,000 and Export pre-payment operations in the amount of USD 31,770, all of them remunerated from 2.10% to 3.79% p.a. and maturity dates up to September 2021.

(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 it was settled on the maturity date, i.e., June 2020.

(viii) In April 2020, the Company entered into a Finimp agreement with Banco Bradesco for a total of USD 4,980, with an interest rate of 5.42% pa and maturing in April 2021.

(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% p.a. , and they were settled on the respective maturity dates, i.e., June 2020.

(x) In April 2020, the Company contracted a credit facility in the amount of USD 50,000, remunerated at FX+4.55% pa and maturing in March 2021. Funds used exclusively to reinforce Working Capital, aiming to support the production of Goods for export, as well as the support and complementation activities that are integral and fundamental to export.

Amounts recorded in non-current liabilities as of d31 2020 and 2019 mature as follows:

	2020	**2019**
2021	-	150,901
Non-current liabilities	**-**	**150,901**

Equity changes in loans and financing:

Description	**Balance 2019**	**Addition**	**Interest**	**Compound interest**	**IRRF**	**Amortization**	**Exchange rate change**	**Balance in 2020**
Banco do Brasil	150,132	-	-	5,939	-	(5,943)	-	150,128
Bradesco Europa	5,463	-	129	-	19	(5,572)	1,569	1,608
BNDES	3,996	-	62	-	-	(4,058)	-	-
Debentures	67,646	-	2,585	-	-	(83,522)	13,291	-
Banco Citibank	71,146	-	2,198	-	388	(96,014)	22,282	-
Foreign exchange advances delivered	170,503	128,439	8,096	-	-	(70,400)	29,980	266,618
Banco Safra	8,418	-	50	-	7	(10,713)	2,238	-
Bradesco Finimp	81,048	24,905	2,576	-	363	(106,448)	24,649	27,093
Santander Finimp	50,753	-	821	-	197	(65,024)	13,253	-
Bradesco Giro	-	265,300	9,176	-	-	-	(5,872)	268,604
Grand Total	**609,105**	**418,644**	**25,693**	**5,939**	**974**	**(447,694)**	**101,390**	**714,051**

Description	**Balance in 2018**	**Addition**	**Interest**	**Compound interest**	**IRRF**	**Amortization**	**Exchange rate change**	**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
Grand Total	**570,153**	**335,941**	**18,998**	**10,538**	**1,840**	**(345,065)**	**16,700**	**609,105**

a. Financial ratios (Covenants)

Debt instruments for the payment of part of the price of acquisition of Innova S.A. provided for contractual limits to financial indicators used to monitor the indebtedness level (leverage) of the Company. However, with the total settlement of said Contracts (Citibank on September 25, 2020 and Debentures on October 25, 2020), the Company no longer has such obligations.

The only debt instrument with a forecasted limit for the Company's leverage concerns the Working Capital Contract held with Banco do Brasil, as follows:

Working capital contract- BANCO DO BRASIL

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2020 equal to or lower than 3.0 times.

As of December 31, 2020, the Company was compliant with the index (covenant) established by this creditor.

18 Suppliers

	2020	**2019**
Domestic suppliers	77,793	54,209
Suppliers - Drawee risk (i)	46,983	-
Foreign suppliers	367,249	393,525
	492,025	**447,734**

(i) Suppliers (drawee risk): refer to financial liabilities characterized by early payments to suppliers through financial institutions, the due dates of which have been postponed. Due to the characteristics of commercial negotiation of terms between suppliers and the Company, these financial liabilities were included in programs for advancing funds through the Company's credit facilities with financial institutions, with the implicit financial cost of 4.79% pa as of December 31, 2020. The Company understands that this transaction has a specific nature and classifies it separately under "Suppliers".

19 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:

	2020	**2019**
Labor	5,505	6,912
Civil	68	1,423
Goodwill	8,886	9,148
Non-current liabilities	**14,459**	**17,483**

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, 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**
(+) Supplement of provision	2,945	294	-	**3,239**
(-) Write-off of provision	(4,352)	(1,649)	(262)	**(6,263)**
Balances at December 31, 2020	**5,505**	**68**	**8,886**	**14,459**

Main lawsuits are commented as follows:

Tax proceedings

The forecast of possible loss that is not provided in the amount of R$ 204,868 (R$ 446,695 in 2019). Main lawsuits are: (i) proceeding 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 restated amount of R$ 49,739 (R$ 72,276 in 2019); (ii) proceeding 5044721-47.2017.4.04.7100 - annulment action of MPF tax assessment notice 1015400/00096/11 - PTA 10516.720002/2013-95, default of the commitment to export, due to non-proof of physical binding - Drawback, suspension with restated amount of R$ 73,147 (R$ 71,421 in 2019). (iii) proceeding 5013192-3.2018.4.04.7100 - challenge to the notice of infraction drawn up by the Brazilian Federal Revenue Service due to the alleged infraction committed by the company in an import procedure with a restated amount of R$ 19,913 (R$ 11,004 in 2019).

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$ 361,378 (R$ 701,944 in 2019), 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$ 318,132 (R$ 314,033 in 2019). 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.

The Company has tax judicial deposits recorded in the amount of R$ 9,252 (R$ 9,047 in 2019). Main lawsuits are: (i) 0011620-22.2015.54.01.3200 on Non-requirement of payment of PIS/COFINS on financial revenues in the amount of R$ 2,594 (R$ 2,362 in 2019); (ii) Lawsuit 0007521-72.2016.4.01.3200 due to the alleged lack of collection of union contributions totaling R$ 685 (R$ 685 in 2019); (iii) Proceeding 2006.32.00.005992-1 of PIS/ COFINS exclusion on the calculation basis of IR and CSLL of R$ 531 (R$ 728 in 2019).

Labor proceedings

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

The Company is defendant in labor lawsuits, and their loss is possible, amounting to R$ 9,809 (R$ 7,608 in 2019), and for which the loss is considered as probable and the total amount of the provision is R$ 5,505 (R$ 6,912 in 2019).

Civil proceedings

The Company is the defendant of civil lawsuits amounting to R$ 9,540 (R$ 6,765 in 2019) for which loss is considered as possible. The 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$ 6,338 (R$ 6,082 in 2019), (ii) proceeding No. 22904/JPA - Collection of royalties related to a contract with Emtec brand with historical value of R$ 1,719 (R$ 6,588 in 2019).

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, the Company 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 the Company in 48 months, the first installment was paid on April 30, 2017 and the last installment to be paid on March 30, 2021. Installment amounts are decreasing, beginning in EUR 246 thousand and ending in EUR 207 thousand. As of December 31, 2020, the balance payable of R$ 3,936 is recorded in other liabilities, in current.

Goodwill

The added value recognized in the company’s records is the result of the acquisition of Innova S.A., where there were lawsuits assessed as a possible risk, in the total amount of R$ 62,888, of which R$ 60,247 are tax lawsuits and R$ 2,641 labor lawsuits. After the partial realization of the lawsuits, the balance presented on December 31, 2020 is R$ 7,902 (R$ 7,902 in 2019) for tax claims and R$ 984 (R$ 1,246 in 2019) for labor claims.

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, 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**
(+) Addition	353	347	608	-	1,308
(-) Write-off	(148)	(418)	(4,357)	-	(4,923)
Balances at December 31, 2020	**9,252**	**1,369**	**308**	**-**	**10,929**

20 Shareholders' equity

a. Capital

On December 22, 2020, the shareholders decided on a statutory reform that included the increase in paid-up capital, using the available balances of the tax incentive reserve, in the amount of R$ 686,834. The Company’s new capital, fully subscribed and paid-up, corresponds to the amount of R$ 1,373,666 (R$ 686,832 in 2019).

Company’s capital is represented by 1,185,861 common shares and 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:

	2020	2019
Balance at January 1	109,968	96,847
Equity valuation adjustment - Torquato Tapajós, 5,555		13,200
Realization of equity evaluation adjustment	(161)	(79)
Total	**109,807**	**109,968**

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$ 244,588, the amount of R$ 12,229 was formed as a legal reserve, totaling R$ 58,370 (R$ 46,141 in 2019).

d. Dividends

In 2020, net income totaling R$ 244,588 was allocated, R$ 12,229 to legal reserves, R$ 165,104 to tax incentive reserves and R$ 67,500 to profit reserves. The Company's bylaws does not determine the distribution of a minimum mandatory dividend.

e. Tax incentive reserve

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

The amount of R$ 165,104 was allocated to the formation of ICMS tax incentive reserve as of December 31, 2020.

After deliberation on the bylaws reform, the amount of R$ 686,834 was allocated from the tax incentive reserve to capitalize the capital increase, totaling R$ 586,062 (R$ 1,107,792 in 2019), available for future mergers.

f. Profit retention reserve

In 2020, a profit retention reserve was formed in the amount of R$ 67,500 (R$ 1,183 in 2019), totaling R$ 68,683 to shareholders.

g. Treasury shares

In August 2020, the shareholders authorized the sale of 75,614 treasury shares held by the Company, of which 53,400 are preferred shares and 22,214 are common shares. The majority shareholder acquired 74,614 shares (52,990 preferred and 21,624 common shares), in the amount of R$ 78,678. One of the minority shareholders acquired the remaining 1,000 shares (410 preferred and 590 common shares), in the amount of R$ 1,054.

h. Goodwill reserve on disposal of shares

In August 2020, the sale of treasury shares generated a positive result (profit). This credit was recorded as a goodwill reserve on the sale of shares in the Company's shareholders' equity, in the amount of R$ 1.

21 Net operating revenue

	2020	**2019**
Gross operating revenue	3,195,128	2,864,053
Tax incentive reserves (Note 28)	165,104	152,990
Taxes on revenues	(530,281)	(488,874)
Returns	(13,207)	(21,916)
	2,816,744	**2,506,253**

22 Cost of products sold

	2020	**2019**
Cost of products sold	(1,834,642)	(1,808,109)
Cost of goods resold	(9,797)	(27,704)
Manufacturing general expenses	(264,631)	(228,678)
Production Idleness	(64,375)	(69,727)
Other	(2,464)	(6,119)
	(2,175,909)	**(2,140,337)**

23 Administrative and selling expenses

	2020	**2019**
Payroll expenses	(66,458)	(53,926)
Depreciation	(8,486)	(4,021)
Electric power	(1,630)	(4,261)
Taxes and rates	(2,413)	(6,836)
Provisions	(1,818)	(545)
Impairment	8,785	8,917
Lawyers' fees	(2,948)	(3,646)
Preservation of assets	(634)	(1,245)
Travel expenses	(639)	(1,565)
Freight and carriage	(93,892)	(85,457)
Maintenance and repairs	(959)	(7,879)
Consulting and advisory	(7,644)	(6,814)
Insurance costs	(771)	(1,156)
Use license	(1,050)	(882)
Import expenses	(6,914)	(3,502)
Advertising and publicity	(451)	(1,650)
Other	(2,010)	(10,057)
	(189,932)	**(184,525)**

24 Other operating revenues (expenses)

	2020	2019
Sale of assets	1,582	3,303
Losses with write-off of assets	(10,866)	(16,393)
Sale of scrap	3,556	3,526
Lease revenue	8,017	8,744
Recovery of taxes (*)	81,739	382
Compensation	(1,235)	(27)
Increase in fair value of investment property (Note 14)	9,325	36,182
Other	(346)	2,519
	91,772	**38,236**

(*) In August 2020, the final and unhealable decision regarding Videolar-Innova S.A. lawsuit in case no. 5055615-53.2015.4.04.7100 was ratified, determining the exclusion of ICMS from the PIS/COFINS calculation basis, retroacting from 2010 to 2015. The effect of this decision was recognized in the amount of R$ 131,257, of which R$ 80,342 of principal was recorded as tax recovery and R$ 50,915 of monetary restatement, according to note 25.

25 Net financial revenues (expenses)

	2020	2019
Financial revenues		
Interest and gains on investments	3,954	1,428
Inflation adjustment (*)	52,078	1,248
Discounts obtained	483	163
Revenue from SWAP operations	47,076	22,736
	103,591	**25,575**
Financial expenses		
Interest on loans and other	(29,791)	(26,818)
Discounts granted	(86)	(3,718)
Bank expenses	(1,271)	(275)
Expense with swap operations	(41,498)	(13,048)
Other	(6,781)	(9,150)
	(79,427)	**(53,009)**
Net exchange-rate changes		
Foreign exchange income	936,401	262,144
Foreign exchange costs	(1,209,645)	(281,098)
	(273,244)	**(18,954)**

(*) Inflation adjustment from the process mentioned in note 24.

26 Income tax and social contribution

a. Formation of deferred income tax and social contribution

	2020	2019
Credits on tax losses	191,063	151,000
Equity valuation adjustment	(56,567)	(56,650)
Tax goodwill produced by future profitability	64,657	78,512
Deferred tax on goodwill	(42,958)	(47,302)
Investment property	(26,548)	(23,377)
Corporate vs. tax depreciation	(32,997)	(21,965)
Tax credits on timing differences:		
- Credits on provisions	(22,072)	34,056
Total deferred income tax and social contribution, net	**74,578**	**114,274**

The Company has tax losses and negative basis of social contribution generated in Brazil amounting to R$ 561,952 (R$ 444,118 as of December 31, 2019) 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, 2020, 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:

	2020	2019
Net exchange-rate changes	1,056	66,950
Estimated losses for allowance for doubtful accounts	730	-
Estimated losses on recoverable values of inventories	823	2,935
Estimated gain from tax credit	(105,151)	-
Estimated losses for provision for profit sharing	19,500	-
Estimated sundry losses	9,550	19,209
Provision for judicial contingencies	8,573	11,071
Total Provisions (reversals)	(64,919)	100,165
IR and CS tax rate 25% and 9%	34%	34%
IR/CS on temporary differences	(22,072)	34,056

The Company, based on expected future taxable income determined through technical studies conducted at the end of 2020 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	**2020**	**2019**
Total balance of tax loss	**561,952**	**444,118**
Deferred assets on tax loss	191,063	151,000
Applied IR and CS tax rate - 25% and 9%	34%	34%
Recovery estimate for the coming years	**2020**	**2019**
2020	-	133,236
2021	128,827	93,265
2022	72,967	65,285
2023	79,874	45,700
2024–2029	280,285	106,633
	561,952	**444,118**

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$ 44,124 in 2020 (R$ 43,356 in 2019) is as follows:

	2020	**2019**
Income (loss) before income tax and social contribution	288,712	162,323
Combined statutory rate	34%	34%
Expense with income tax and social contribution at the combined rate	**(98,162)**	**(55,190)**
Incentives and grants	56,146	52,047
Changes – Tax loss (*)	82	(1,933)
Permanent differences	115,296	29,907
Timing differences	(117,486)	(68,187)
Total Current and Deferred Income Tax (IR)	**(44,124)**	**(43,356)**
Effective rate	15%	27%
Current income tax and social contribution	-	-
Deferred income tax and social contribution	(44,124)	(43,356)

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

c. Income tax and social contribution, recoverable

	2020	2019
Income tax	1,347	-
Social contribution	-	-
	1,347	**-**

d. Transitory tax regime—RTT

The Company opted for the Transition Tax Regime (“RTT”) established by Law 12973, 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.

27 Information on related parties

Company’s related parties are: Matsukawa Holding Co LLP, EMTEC Participações Ltda. and Rimo S.A.

In 2020, the Company maintained transactions with Rimo S.A., referring to property rental and billing for the BOPP and GPPS Polystyrene segments. On December 31, 2020, the Company has the amount of R$ 242 receivable from Rimo S.A. for product billing.

In August 2020, Matsukawa Holding CO LLP acquired 74,614 of the treasury shares that the Company held, of which 52,990 were preferred shares and 21,624 were common shares.

Management’s key personnel includes board members and officers. Management’s global annual remuneration, including Board of Directors’ members’ fees, was established as up to R$ 5,000, as approved in the Ordinary General Meeting held on March 10, 2020.

Total management’s remuneration for the year ended December 31, 2020 was R$ 3,664 (R$ 3,028 in 2019).

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

28 Tax incentives

Incentive	**2020**	**2019**
ICMS tax benefit on shipment of intermediate assets (Note 20);	130,366	122,382
Tax benefit of deemed ICMS credit interstate ABS (note 20)	-	359
Benefit of FUNDOPEM/RS (note 20)	34,738	30,249
	165,104	**152,990**

29 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 the Company's 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.

The Company 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:

	2020	**2019**
Cash and cash equivalents	65,088	23,481
Accounts receivable	718,650	396,926
Other accounts receivable and advances to suppliers	3,148	2,561
	786,886	**422,968**

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	714,051	738,434	738,434	-	-	-
Suppliers	492,025	492,025	492,025	-	-	-
	1,206,076	**1,230,459**	**1,230,459**	**-**	**-**	**-**

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$ 51,384 as of December 31, 2020.

	2020	**2019**
Variable rate instrument		
Interest earning bank deposit	51,384	9,053
	51,384	**9,053**

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, 2020, market expects, indicated a CDI/SELIC effective average rate of 3.00% for 2021, against the effective rate of 2.00% verified in 2020.

	Probable scenario	**Scenario I - 25% decrease**	**Scenario II - 50% decrease**
Annual effective rate of CDI in 2020	2.00%	1.50%	1%
Interest earning bank deposits	51,384	51,384	51,384
Interbank Deposit Certificate estimated annual rate for 12 months	3.00%	2.25%	1.50%
Effect in the financial instrument			
Increase / (Decrease)	514	385	257

	Probable scenario	**Scenario I - 25% increase**	**Scenario II - 50% increase**
Annual effective rate of CDI in 2020	2.00%	2.50%	3.00%
Loan - Banco do Brasil	150,128	150,128	150,128
Interbank Deposit Certificate estimated annual rate for 12 months	3.00%	3.75%	4.50%
Effect in the financial instrument			
Increase / (Decrease)	1,501	1,877	2,252

Sensitivity analysis at Libor changes in EUR rate

The Company has financial liabilities indexed to the change in Libor EUR on December 31, 2020. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 1,608.

The Company's estimate indicated an estimated EUR Libor rate for 12 months of (0.30%), probable scenario for 2021, against the effective rate of (0.49%) verified on December 31, 2020.

	Probable scenario	**Scenario I - 25% increase**	**Scenario II - 50% increase**
Annual effective rate of EUR Libor in 2020	(0.49%)	(0.37%)	(0.25%)
Bradesco Europa - Loan	1,608	1,608	1,608
Estimated annual rate of EUR Libor for 12 months	(0.30%)	(0.23%)	(0.15%)
Effect in the financial instrument			
Increase / (Decrease) - EUR	(3)	(2)	(2)

b. *Currency 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, 2020 and 2019, which considers the equity values of loans and financing:

		2020		**2019**	
		Foreign currency nominal value	**R$**	**Foreign currency nominal value**	**R$**
Bradesco Loan	EUR	252	1,608	1,206	5,463
Bradesco Loan	USD	56,901	295,697	20,111	81,049
Debentures	USD	-	-	16,786	67,646
Citibank Loan	USD	-	-	17,654	71,145
ACC	EUR	-	-	29,052	131,606
ACC	USD	22,234	115,541	-	-
PPE (Export pre-payment)	USD	29,072	151,077	9,652	38,897
Loan - Santander	EUR	-	-	1,860	8,428
Loan - Santander	USD	-	-	10,502	42,324
Loan - Safra	EUR	-	-	1,896	8,419
Foreign suppliers	USD	69,846	362,970	97,580	393,247
Foreign suppliers	EUR	665	4,240	61	278
Foreign suppliers	GBP	5	39	-	-

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

CDI x USD Swap Transactions.

The Company has a contract in this modality, whose notional value is R$ 265,300 (USD 50,000), maturing on March 29, 2021, with a long position in the CDI and a short position in USD. This operation was contracted with the purpose of transforming the contracted debt in reais (R$), indexed to the CDI, into a dollar-denominated debt (USD).
A gain of R$ 5,078 in this type of operation related to the agreement in force on December 31, 2020 was recorded in financial income (loss).

Maturity	**Assets (CDI)**	**Liabilities (US$)**	**CDI**	**PTAX USD**	**Adjustment (R$)**
03/29/2021	275,342	270,264	1.44%	5.1967	5,078

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, 2020. The Company 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, 2020 of R$ 5.20 per US$ 1.00:

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

Risk: Dollar fluctuation

		Revenue (expense) on exchange rate (in reais)			
	Reference value, USD	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
USD rate		***3.9000***	***2.6000***	***6.5000***	***7.8000***
Bradesco Loan	56,901	73,971	147,942	(73,971)	(147,942)
ACC	22,234	28,904	57,807	(28,904)	(57,807)
PPE (Export pre-payment)	29,072	37,793	75,586	(37,793)	(75,586)
Foreign suppliers	71,973	93,565	187,130	(93,565)	(187,130)
Financial income (loss) - revenue/ (expense)		**234,233**	**468,465**	**(234,233)**	**(468,465)**

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, 2020 of R$ 6.38 per EUR 1.00:

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

Risk: Euro fluctuation

		Revenue (expense) on exchange rate (in reais)			
	Reference value EUR	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Euro rate		***4.7850***	***3.1900***	***7.9750***	***9.5700***
Bradesco Loan	252	402	804	(402)	(804)
Foreign suppliers	665	1,061	2,121	(1,061)	(2,121)
Financial income (loss) - revenue (expense)		**1,463**	**2,925**	**(1,463)**	**(2,925)**

For foreign exchange transactions subject to Pound sterling fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2020 of R$ 7.10 per GBP 1.00:

		Revenue (expense) on exchange rate (in reais)			
	Reference value GBP	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Exchange rate of pounds sterling		***5.3250***	***3.5500***	***8.8750***	***10.6500***
Foreign suppliers	5	9	18	(9)	(18)
Financial income (loss) - revenue (expense)		**9**	**18**	**(9)**	**(18)**

(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, 2020:

		Book value	Fair value	
	Rating	**2020**	**2020**	**Hierarchy**
Financial assets				
Cash and cash equivalents	Amortized cost	13,704	13,704	-
Interest earning bank deposits	Amortized cost	51,384	51,384	-
Financial instruments	Fair value through profit or loss	5,078	5,078	Level 2
Accounts receivable	Amortized cost	718,650	718,650	-
Other accounts receivable and advances to suppliers	Amortized cost	3,148	3,148	-
Total		**791,964**	**791,964**	
Financial liabilities				
Loans and financing	Other financial liabilities	714,051	714,051	-
Suppliers	Other financial liabilities	492,025	492,025	-
Total		**1,206,076**	**1,206,076**	

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**	

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

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

- **Level 1 -** Prices quoted (not adjusted) in active markets for identical assets and liabilities.

- **Level 2 -** Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

- **Level 3 –** Assumptions, for assets or liabilities, which are not based on observable market data (non-observable inputs).

Capital management

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

Objectives, policies and proceedings were not changed during years ended December 31, 2020 and 2019.

	2020	**2019**
Loans and financing	714,051	609,105
(-) Cash and cash equivalents	(65,088)	(23,481)
Net bank debt	648,963	585,624
Shareholders' equity	2,196,589	1,872,184
Shareholders' equity and net debt	**2,845,552**	**2,457,808**
Ratio of shareholders' equity and net bank debt	**0.30**	**0.31**

30 Insurance coverage

As of December 31, 2020, operating a civil liability risk insurance coverage was comprised of R$ 2,266,371 for material damage and R$ 508,936 for loss of profits. Regarding Specific Risks, coverage was comprised of R$ 1,130,872 for material damage and R$ 92,894 for loss of profits. For general liability insurance coverage, R$ 100,000, for environmental risk insurance, R$ 100,000 and for D&O insurance, R$ 80,000. Aviation insurance - hull & optional civil liability US$ 159,710, RETA insurance R$ 156.

For insurance of domestic cargo transportation, the coverage is 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 exclusively for styrene monomer in bulk and polystyrene in bulk; US$ 15,000 to other goods by vehicle/waterway transportation; US$ 5,000 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 exclusively for ethylbenzene and styrene and US$ 1,000 for other goods by vehicle/ship/airplane/transportation or accumulation.

The coverage for group life insurance of the employees has salary multiple of 18 times, limited to R$ 1,566 of coverage.

31 Subsequent events

Disposal of real estate
On January 12, 2021, the Company's board of directors approved the sale of the property located at Avenida Açai, 287, Distrito Industrial I, Manaus/AM, for a nominal value of R$ 24,500, with settlement scheduled in the very short term. Such property is recorded under Investment properties.

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Executive Board

Lírio Albino Parisotto
CEO

Reinaldo José Kröger
Director Vice-president

Cláudio da Rocha Filho
Commercial and Operation Director

Christian Barg
Industrial Director

Mario Daud Filho
Legal and Compliance Director

Board of Directors

Lírio Albino Parisotto

Elie Linetzky Waitzberg

Liz Vanin Parisotto

Raphael David Wojdyslawski

Accountant

Marcus Vinícius de Souza
CRC SP 287.155/O-4