Fras-le S.A.

Financial statements
December 31, 2020 and 2019

Contents

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A free translation from Portuguese into English of individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB

Independent auditors' report on the financial statements

To the Shareholders, Board of Directors and Officers of
Fras-le S.A.
Caxias do Sul - RS

Opinion

We have audited the individual and consolidated financial statements of Fras-le S.A. (the “Company”), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2020 and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the individual and consolidated financial statements” section of our report. We are independent of the company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil’s National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.
We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.
The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Recognition of sales revenue

Determining compliance with performance obligations for recognition of sales revenue, which involves, among other requirements, analysis of the amount of revenue to be recognized, as well recognition timing, requires that Company management analyze in depth the sales terms and conditions, and use professional judgment. This professional judgment may give rise to the risk of inappropriate recognition of revenue, especially referring to the monthly accounting closing period. Revenues earned by the Company, including recognition criteria, are disclosed in Note 24.

Due to these aspects, we considered recognition of sales revenue a key audit matter.

How our audit addressed this matter

Our procedures included, among others: (i) obtaining an understanding of the sales process in the Parent Company and subsidiaries, including the timing of recognition of revenues and respective accounts receivable; (ii) analyzing the monthly changes on the balances of revenue recognized by the Company, in order to assess whether there are any variations against our expectations established based on our knowledge of the industry and of the Company; and (iii) for a sample of sales recorded in the year, we obtained respective supporting documentation in order to assess whether revenue was recognized on an accrual basis. As a result of these procedures, we identified an audit adjustment indicating that it was necessary to supplement the revenue amount recognized in the year, being this adjustment not recorded by management, considering the immateriality of the net impact of this adjustment on the financial statements taken as a whole.

In addition, we conducted extensive audit tests on sale transactions carried out at year end, in order to confirm whether the accounting policy for revenue recognition had been consistently applied.

Based on the result of the audit procedures performed, which are consistent with management's assessment, we believe that the practice adopted by the Company relating to recognition of revenue and respective disclosures are acceptable in the context of the individual and consolidated financial statements taken as a whole.

Business combination – Individual and Consolidated balances

As detailed in Note 2.4.a to the individual and consolidated financial statements, in September 2020, the Company completed the acquisition of all the shares of Nakata Automotiva S.A. ("Nakata"), obtaining control of the entity as of September 1, 2020.
This transaction was accounted for using the acquisition method. The acquisition method, among other procedures, requires the Company to determine the date of actual acquisition of control, to measure the fair value of the consideration transferred, to measure the fair value of the assets acquired and of the liabilities assumed, and to measure goodwill or a gain from a bargain purchase. These procedures usually involve a high degree of judgment and the need to develop fair value estimates based on calculations and assumptions related to the acquiree's future performance, which are subject to a high degree of uncertainty. Because of the high degree of related judgment, and the impact that any changes in assumptions might have on the financial statements, we consider this a key audit matter.

How our audit addressed this matter

Our procedures included, but were not limited to, (i) reading the documents that formally supported the transaction, such as contracts and meeting minutes, obtaining evidence of the date of acquisition of share control in the acquiree, and determining the fair value of the consideration transferred; (ii) with the assistance of our experts, reviewing the methodology used for the fair value measurement of interests acquired, of assets acquired and liabilities assumed, and assessing the reasonableness of assumptions used and calculations made by comparison with available market information; (iv) assessing the calculation of goodwill determined in the transaction; and (iv) assessing the adequacy of the Company's disclosures.

Based on the result of the audit procedures performed on the business combination of Nakata, which is consistent with management's assessment, we considered that the recognition and disclosure made by management in connection with the business combination are appropriate in the context of the financial statements taken as a whole.

Impairment of assets – property, plant and equipment and intangible assets

As described in note 14, the individual and consolidated financial statements present property, plant and equipment items and intangible assets including goodwill from acquisition of subsidiaries. As such, the Company assessed whether there is any indication of impairment of its cash-generating units ("CGU"). The analysis conducted by the Company for determining the cash-generating units and quantifying any loss amount, whether by calculating market value or the recoverable amount of the assets, is subject to a significant level of judgment. Due to the significance of the amounts involved, the degree of subjectivity of the judgments made by the Company and its experts upon asset valuation, and the potential impact that any changes in the assumptions associated with these judgments could have on the individual and consolidated financial statements and on the investment amount recorded under the equity method in the financial statements of the parent company, we considered this a significant audit matter.

How our audit addressed this matter

Our audit procedures involved, among others:

- Obtaining an understanding of the Company's and its subsidiaries' operating processes in assessing any indications of impairment of assets;
- Analyzing significant judgments adopted by the Company and its subsidiaries in identifying each CGU;
- Checking consistency between the bases used in the studies on the recoverable amount of the CGUs prepared by management and the budgets and projections approved by Company governance;
- With the assistance of projection analysis experts, we reviewed the significant assumptions adopted and judgments made by the Company and its subsidiaries for projecting discounted cash flows, such as the behavior of sales, costs and expenses in the projection period and discount rates: and
- Assessing adequacy of the disclosures on the assumptions used by the Company and its subsidiaries to calculate the assets' recoverable amount, as mentioned in Notes 4.2 and 14 to the individual and consolidated financial statements.

As a result of these procedures, we identified an audit adjustment indicating the need to supplement the provision for impairment in one subsidiary. Management did not make this adjustment since this amount was not considered material on the financial statements taken as a whole.

Based on the result of the audit procedures performed, which are consistent with management's assessment, we believe that the estimates prepared by management for analyzing impairment of assets and respective disclosures are appropriate in the context of the individual and consolidated financial statements taken as a whole.

Exclusion of ICMS tax amounts from the PIS and COFINS tax bases

As described in Note 10, the Company, the subsidiaries Freios Controil Ltda. and Jurid do Brasil Sistemas Automotivos Ltda. and its subsidiary Fremax Sistemas Automotivos Eireli, obtained a favorable final decision on the legal proceedings seeking their right to exclude ICMS tax amounts from the PIS and COFINS tax bases.

The Company recorded R$163,928 thousand in the form of PIS/COFINS tax credits, including principal and monetary adjustment, which were measured considering management's judgments and assumptions, the tax amount shown separately on the invoice, and other data based on the supporting documentation of the tax credit; moreover, the process for measuring such credits involved a significant number of transactions.

We consider this a key audit matter due to the materiality of amounts involved and the existence of critical judgment by management, supported by the opinion of legal and tax advisors, in measuring the impacts arising from the unappealable decision, as well as the ability to recover this tax credit.

How our audit addressed this matter

Our audit procedures included, but were not limited to, (i) understanding, together with our tax experts, the process adopted by management for measuring and recognizing the tax credits; (ii) reviewing, as assisted by our tax and legal experts, the documentation related to the final unappealable judicial decision, as well as the legal opinions issued in connection with the subject; (iii) performing sampling tests to recalculate the credit determined by the Company, including the analysis of the supporting documentation of the items selected for documentary testing, together with the performance of substantive analytical audit procedures; (iv) reviewing the tax credit recovery estimate prepared by management; and (v) reviewing the disclosures made by the Company on the matter in the footnotes.

Based on the results of the audit procedures performed, which are consistent with management's assessment, we considered that the criteria and assumptions used to measure and recognize the tax credits, as well as the related disclosures in Note 10, are appropriate in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2020, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.
Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the individual and consolidated financial statements

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and its subsidiaries' internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Porto Alegre, February 28, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Américo F. Ferreira Neto
Accountant CRC-1-SP 192685/O-9

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Balance sheets at December 31, 2020 and 2019

(In thousands of Reais)

		Parent Company		Consolidated	
	Note	2020	2019	2020	2019
Assets		**2,298,978**	**1,309,741**	**2,888,552**	**1,620,024**
Current assets		**801,324**	**503,098**	**1,446,975**	**730,261**
Cash and cash equivalents	6	**288,444**	109,378	**443,243**	178,391
Long-term marketable securities	7	**19,585**	35,072	**19,637**	35,072
Trade accounts receivable	8	**211,879**	202,224	**289,193**	123,422
Inventories	9	**150,658**	138,704	**494,103**	333,272
Recoverable taxes and contributions	10	**119,020**	11,774	**171,970**	41,128
Derivative financial instruments	29	**3**	-	**8,316**	-
Pension plans and post-employment benefits	12	**115**	978	**154**	1,077
Dividends receivable	11	**3,552**	-	**-**	-
Other current assets		**8,068**	4,968	**20,359**	17,899
Non-current assets		**1,497,654**	**806,643**	**1,441,577**	**889,763**
Long-term assets		**164,467**	56,917	**198,204**	79,053
Recoverable taxes and contributions	10	**37,021**	7,019	**54,988**	17,102
Judicial deposits	18	**13,556**	15,480	**22,005**	17,651
Deferred taxes	23	**-**	-	**46,648**	36,701
Deferred taxes	11	**164**	4,819	**-**	-
Related parties	11	**44,596**	26,291	**-**	-
Pension plans and post-employment benefits	12	**390**	3,308	**390**	3,619
Long-term marketable securities	7	**68,740**	-	**68,740**	-
Other noncurrent assets		**-**	-	**5,433**	3,980
Investments	13	**853,715**	464,242	**140**	152
Property, plant and equipment	15	**321,506**	264,647	**594,682**	539,548
Investment property		**-**	-	**1,272**	1,150
Intangible assets	16	**110,705**	3,926	**505,978**	168,231
Right-of-use assets	17	**47,261**	16,911	**141,301**	101,629

See the accompanying notes to the financial statements.

Balance sheets at December 31, 2020 and 2019

(In thousands of Reais)

	Note	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
Liabilities and shareholders' equity		**2,298,978**	**1,309,741**	**2,888,552**	**1,620,024**
Current liabilities		**450,367**	210,334	**818,435**	341,791
Loans and financing	19	**136,609**	88,142	**221,924**	117,839
Derivative financial instruments	30	**-**	-	**2,257**	156
Suppliers		**97,738**	51,737	**265,401**	93,715
Taxes and contributions		**49,183**	12,326	**78,207**	33,830
Salaries and payroll charges		**22,376**	20,788	**38,291**	33,361
Advances from clients		**10,628**	6,887	**14,131**	13,346
Dividends payable	29	**12,519**	8	**12,519**	8
Interest on own capital payable	29	**33,364**	14,070	**33,364**	14,070
Employee profit sharing and Directors' fees		**15,764**	2,812	**20,223**	6,858
Commissions payable		**2,952**	1,755	**3,224**	2,079
Lease liabilities	17	**4,618**	3,016	**16,776**	9,154
Accounts payable for business combination		**50,130**	-	**50,130**	
Other current liabilities		**14,486**	8,793	**61,988**	17,375
Non-current liabilities		**904,782**	335,248	**1,115,306**	498,905
Loans and financing	19	**624,978**	187,697	**702,426**	274,687
Deferred taxes	23	**42,275**	60,658	**51,956**	73,557
Provision for litigation	18	**10,189**	10,868	**21,700**	19,333
Unrealized government grant		**2,281**	2,550	**2,281**	2,550
Provision for loss on investment	13	**-**	28,892	**-**	-
Payables to related parties	11	**241**	-	**7,082**	-
Lease liabilities	17	**44,369**	14,080	**128,860**	91,879
Accounts payable for business combination	16	**172,113**	28,647	**172,113**	28,647
Other non-current liabilities		**8,336**	1,856	**28,888**	8,252
Shareholders' equity		**943,829**	764,159	**954,811**	779,328
Capital	20	**600,000**	600,000	**600,000**	600,000
Tax incentive reserve		**6,738**	4,027	**6,738**	4,027
Capital reserves and transactions		**(4,623)**	(4,623)	**(4,623)**	(4,623)
Profit reserves		**320,912**	183,958	**320,912**	183,958
Treasury shares	20	**(13,352)**	(13,352)	**(13,352)**	(13,352)
Other comprehensive income	20	**34,154**	(5,851)	**34,154**	(5,851)
Total parent company's interest		**943,829**	764,159	**943,829**	764,159
Non-controlling interest		**-**	-	**10,982**	15,169

See the accompanying notes to the financial statements.

Statements of income
Years ended December 31, 2020 and 2019

(In thousands of reais, except earnings per share)

		Parent Company		*Consolidated*	
	Note	*2020*	*2019*	*2020*	*2019*
Net operating income	24	**814,661**	697,022	**1,670,789**	1,365,509
Costs of products sold and services provided	25	**(587,911)**	(539,397)	**(1,190,880)**	(1,015,844)
Gross income		**226,750**	157,625	**479,909**	349,665
Other operating income (expenses)		**(44,875)**	(128,158)	**(239,929)**	(242,988)
Sales	25	**(66,596)**	(63,785)	**(147,918)**	(133,398)
Administrative and general	25	**(64,463)**	(48,564)	**(146,339)**	(107,614)
Equity in net income of subsidiaries	13	**50,899**	(10,362)	**-**	-
Other operating income (expenses), net	27	**35,285**	(5,447)	**54,328**	(1,976)
Income before financial revenues and expenses		**181,875**	29,467	**239,980**	106,677
Financial expenses	28	**(170,669)**	(81,737)	**(277,836)**	(199,535)
Financial income	28	**195,272**	64,150	**262,129**	139,298
Inflation adjustment	28	**18,569**	33,937	**30,280**	23,892
Income before income taxes		**225,047**	45,817	**254,553**	70,332
Income tax and social contribution	23	**(36,680)**	(8,928)	**(72,507)**	(37,527)
Net income for the year		**188,367**	36,889	**182,046**	32,805
Attributable to non-controlling shareholders			-	**(6,321)**	(4,084)
Attributable to the parent company's shareholders		**188,367**	36,889	**188,367**	36,889
Basic and diluted profit per share					
Attributable to controlling shareholders - holders of common shares	22	**0.8779**	0.1719	**0.8779**	0.1719

See the accompanying notes to the financial statements.

Statements of comprehensive income
Years ended December 31, 2020 and 2019
(In thousands of reais)

		Parent Company		Consolidated	
	Nota	2020	2019	2020	2019
Net income for the year		**188,367**	36,889	**182,046**	32,805
Items to be subsequently reclassified to income (loss)		**42,269**	(19,756)	**42,269**	(19,756)
Actuarial gain (loss) – Randonprev	12	**(1,445)**	(306)	**(1,445)**	(306)
Income tax and social contribution – Randoprev	23	**492**	105	**492**	105
Actuarial gain (loss), net		**(953)**	(201)	**(953)**	(201)
Hedge accounting		-	4,177	-	4,177
Total comprehensive income		**229,683**	21,109	**223,362**	17,025
Attributable to:					
Parent company's shareholders		**229,683**	21,109	**229,683**	21,109
Non-controlling shareholders		**-**	-	**(6,321)**	(4,084)
		229,683	21,109	**223,362**	17,025

See the accompanying notes to the financial statements.

Statements of changes in shareholders' equity
Years ended December 31, 2020 and 2019

(In thousands of reais)

			Income reserves							
	Capital	Capital reserves and transactions	Legal reserve	General profit reserve	Tax incentive reserve	Other comprehensive income and equity valuation adjustments	Retained earnings	Total controlling interest	Non-controlling interest	Total shareholders' equity
Balances at December 31, 2018	**600,000**	**(4,623)**	**41,498**	**155,944**	**2,840**	**11,468**	**-**	**807,127**	**19,433**	**826,560**
Net income for the year	-	-	-	-	-	-	36,889	36,889	(4,084)	32,805
Prior years' dividends	-	-	-	(40,467)	-	-	-	(40,467)	-	(40,467)
Effect of non-controlling shareholders on consolidated companies	-	-	-	-	-	(19,756)	-	(19,756)	(180)	(19,936)
Actuarial evaluation	-	-	-	-	-	(201)	-	(201)	-	(201)
Tax incentive reserve	-	-	-	-	1,187	-	(1,187)	-	-	-
Hedge accounting	-	-	-	-	-	4,177	-	4,177	-	4,177
Realization of depreciation of the deemed cost	-	-	-	-	-	(1,539)	1,539	-	-	-
Proposed allocations:										
Reserves	-	-	1,844	11,787	-	-	(13,631)	-	-	-
Interest on own capital	-	-	-	-	-	-	(23,610)	(23,610)	-	(23,610)
Balances at December 31, 2019	**600,000**	**(4,623)**	**43,342**	**127,264**	**4,027**	**(5,851)**	**-**	**764,159**	**15,169**	**779,328**
Net income for the year	**-**	**-**	**-**	**-**	-	**-**	**188,367**	**188,367**	**(6,321)**	**182,046**
Accumulated translation adjustments	**-**	**-**	**-**	**-**	-	**42,269**	**-**	**42,269**	**2,134**	**44,403**
Actuarial evaluation	**-**	**-**	**-**	**-**	-	**(953)**	**-**	**(953)**	**-**	**(953)**
Tax incentive reserve	**-**	**-**	**-**	**-**	**2,711**	**-**	**(2,711)**	**-**	**-**	**-**
Realization of depreciation of the deemed cost	**-**	**-**	**-**	**-**	-	**(1,311)**	**1,311**	**-**	**-**	**-**
Proposed allocations:										
Reserves	**-**	**-**	**9,418**	**127,536**	-	**-**	**(136,954)**	**-**	**-**	**-**
Dividends	**-**	**-**	**-**	**-**	-	**-**	**(12,513)**	**(12,513)**	**-**	**(12,513)**
Interest on own capital - Law 9249/95	**-**	**-**	**-**	**-**	-	**-**	**(37,500)**	**(37,500)**	**-**	**(37,500)**
Balances at December 31, 2020	**600,000**	**(4,623)**	**52,760**	**254,800**	**6,738**	**34,154**	**-**	**943,829**	**10,982**	**954,811**

See the accompanying notes to the financial statements.

Statements of cash flows
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Parent Company		Consolidated	
	2020	**2019**	**2020**	**2019**
Cash flows from operating activities				
Net income for the year	**188,367**	**36,889**	**182,046**	**32,805**
Adjustments to reconcile income to net cash generated by (used in) operational activities				
Provision for current and deferred income tax and social contribution	**36,680**	8,928	**72,507**	37,527
Depreciation and amortization	**32,560**	26,249	**75,300**	57,702
Depreciation of leases	**4,629**	3,786	**15,606**	10,845
Provision for disputes	**(679)**	5,501	**2,367**	9,120
Provision for expected credit losses	**16**	(136)	**(125)**	(435)
Provision for obsolete inventories	**2,756**	165	**5,452**	2,575
Other provisions	**14,149**	(5,414)	**15,748**	(2,354)
Residual cost of written-off and sold fixed assets	**5,832**	4,770	**5,991**	16,031
Equity in net income of subsidiaries	**(50,899)**	10,362	**-**	-
Inflation adjustment	**(18,569)**	(33,937)	**(30,280)**	(23,892)
Income from legal proceedings, net of fees	**(135,688)**	-	**(182,769)**	-
Foreign exchange differences and interest on loans and leases	**40,857**	20,337	**77,279**	56,322
Changes in derivatives	**(3)**	-	**5,639**	156
Impairment	**34,462**		**32,488**	
Revenue from government grant	**(269)**	(269)	**(269)**	(269)
Changes in assets and liabilities				
Trade accounts receivable	**(36,996)**	37,185	**(30,513)**	(10,457)
Long-term marketable securities	**(53,253)**	(29,206)	**(53,305)**	(29,201)
Judicial deposits	**1,924**	(2,350)	**(4,354)**	(2,920)
Other accounts receivable	**(8,564)**	(22,347)	**36,296**	(2,286)
Inventories	**5,315**	(3,937)	**(65,210)**	30,733
Suppliers	**36,530**	(11,177)	**120,615**	(1,943)
Other accounts payable	**(719)**	10,011	**6,684**	(47,433)
Cash generated (consumed) by operational activities	**98,438**	55,410	**287,193**	132,626
Income tax and social contribution	**(22,261)**	(2,634)	**(45,977)**	(11,589)
Net cash generated by operating activities	**76,177**	**52,776**	**241,216**	**121,037**
Cash flows from investment activities				
Business combination	**(277,929)**	-	**(263,171)**	-
Merged cash	**21,568**	-	**-**	-
Dividends received	**2,529**	-	**-**	-
Acquisition of property, plant and equipment and intangible assets	**(28,066)**	(32,036)	**(56,469)**	(83,071)
Net cash flow used in investment activities	**(281,898)**	**(32,036)**	**(319,640)**	**(83,071)**
Cash flows from financing activities				
Payment of interest on own capital and dividends	**(14,060)**	(70,396)	**(14,060)**	(70,396)
Loans	**522,139**	112,913	**541,473**	154,511
Payment of loans	**(100,277)**	(98,315)	**(146,640)**	(140,327)
Interest paid on loans	**(16,708)**	(13,053)	**(18,395)**	(15,039)
Leases paid	**(6,307)**	(4,592)	**(19,102)**	(13,044)
Net cash flow generated (used) in financing activities	**384,787**	**(73,443)**	**343,276**	**(84,295)**
Decrease in cash and cash equivalents	**179,066**	**(52,703)**	**264,852**	**(46,329)**
Statement of changes in cash and cash equivalents				
At the beginning of the year (Note 6)	**109,378**	162,081	**178,391**	**224,720**
At the end of the year (Note 6)	**288,444**	109,378	**443,243**	**178,391**
Decrease in cash and cash equivalents	**179,066**	**(52,703)**	**264,852**	**(46,329)**

See the accompanying notes to the financial statements.

Supplementary information on cash flow is presented in Note 29.

Statements of added value
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Parent Company		Consolidated	
	2020	2019	2020	2019
Income				
Sales of products and services, (-) returns	**1,073,588**	923,761	**2,105,367**	1,745,798
Other income	**101,324**	6,770	**153,251**	19,913
Income from construction of own assets	**15,080**	5,089	**17,384**	5,089
Provision for expected credit losses	**(16)**	136	**125**	435
	1,189,976	935,756	**2,276,127**	1,771,235
Inputs acquired from third-parties (including tax)				
Raw materials used	**(391,234)**	(358,711)	**(770,662)**	(577,642)
Materials, energy, outsourced services and other operating expenses	**(265,128)**	(187,409)	**(496,326)**	(443,783)
Gross added value	**(656,362)**	(546,120)	**(1,266,988)**	(1,021,425)
Retentions				
Depreciation and amortization	**(37,189)**	(30,035)	**(90,906)**	(68,547)
Net added value generated by the Company	**496,425**	**359,601**	**918,233**	**681,263**
Added value received as transfer				
Equity in net income of subsidiaries	**50,899**	(10,362)	**-**	-
Rents and royalties	**33**	54	**364**	-
Inflation adjustment	**18,569**	33,937	**30,280**	23,892
Financial income	**195,272**	64,150	**262,129**	139,298
	264,773	87,779	**292,773**	163,190
Total added value payable	**761,198**	**447,380**	**1,211,006**	**844,453**
Distribution of added value				
Personnel				
Direct remuneration	**120,392**	114,792	**237,931**	219,974
Benefits	**21,719**	18,212	**42,003**	37,487
Severance pay fund (FGTS)	**12,464**	15,282	**16,923**	20,421
Sales commissions	**-**	-	**122**	266
Directors' fees and profit sharing	**4,146**	4,217	**6,563**	5,329
Employees' profit sharing	**22,999**	2,567	**28,438**	6,305
Pension plan	**(3)**	75	**454**	758
	181,717	155,145	**332,434**	290,540
Taxes				
Federal	**131,360**	93,835	**257,722**	165,926
State	**83,853**	75,519	**142,421**	140,881
Municipal	**761**	594	**1,122**	1,177
	215,974	169,948	**401,265**	307,984
Lenders				
Financial income and expenses	**170,669**	81,737	**277,836**	199,535
Rentals	**4,471**	3,661	**17,425**	13,589
	175,140	85,398	**295,261**	213,124
Remuneration of own capital				
Interest on own capital and dividends	**50,013**	23,611	**50,013**	23,611
Non-controlling interest in retained earnings		-	**(6,321)**	(4,084)
Retained earnings for the year	**138,354**	13,278	**138,354**	13,278
Distributed added value	**761,198**	447,380	**1,211,006**	844,453

See the accompanying notes to the financial statements.

A free translation from Portuguese into English of individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB

Notes to financial information

(In thousands of reais - R$, unless otherwise stated)

1 Company's General information

Fras-le S.A. ("Fras-le or Parent Company", in conjunction with its subsidiaries referred to as "Consolidated" or the "Company"), is a publicly-held corporation with shares traded in B3 S.A. – Brasil, Bolsa, Balcão (FRAS3), and with main offices in Caxias do Sul, state of Rio Grande do Sul. The Company is part of Level 1 of B3's Corporate Governance and belongs to Randon Group companies. The Company is the largest manufacturer of friction materials in Latin America and one of the world's leading companies in this industry.

The Company's individual and consolidated financial statements for the year ended December 31, 2020 were authorized for issue by the Executive Board in a meeting held on February 28, 2020.

2 Basis of preparation

The individual and consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the accounting practices adopted in Brazil issued by the Brazilian Financial Accounting Standards Board (CPC), approved by the Brazilian Securities and Exchange Committee (CVM), effective as at December 31, 2020 and 2019.

Company financial statements were prepared for the purpose of disclosing only the information considered significant and that assists the users of the financial statements in their decision-making process. The information included in Company financial statements is consistent with the information used to manage the Company's operations. The individual and consolidated financial statements are presented in Reais, which is the Company's functional currency. All balances were rounded to the nearest thousand, unless otherwise stated.

Preparation of the financial statements requires the use of certain estimates and judgments and adoption of assumptions, which requires that management use judgment for applying the Company's accounting practices. These financial statements include estimates referring to accounting for certain assets, liabilities and other transactions.

The areas that involve a high level of judgment or complexity, or the areas in which the assumptions and estimates are significant for the preparation of the financial statements are described in Note 4.

2.1 Hyperinflationary economy (CPC 42/IAS 29)

Argentina was considered a hyperinflationary economy starting on July 01, 2018, after exceeding 100% accumulated inflation in the last three periods. For this reason, the financial statements of subsidiaries *operating in hyperinflationary economies are offset by the change in the general purchasing power of the currency, in such a way that their amounts are stated in the monetary unit of measurement at the end of the period, as determined by CPC 42/IAS 29 - Financial Reporting in Hyperinflationary Economies.*

Non-monetary assets and liabilities recorded at historical cost, the shareholders' equity and the statement of income not restated by the change in the general purchasing power of the currency, applying a price index to the consumer.

The impacts of inflation adjustment up to December 31, 2018 were recognized in the shareholders' equity of the subsidiaries, and the inflation adjustment of the subsequent periods were recognized directly in the statement of income in a specific account in financial income (Note 27).

The exchange rate used to translate the financial information of the subsidiaries in Argentina into the Company's reporting currency takes into account the closing conversion rate disclosed by the Central Bank of Brazil (BACEN).

In the consolidation, the differences resulting from currency translations were reflected in the Company's equity interest in Other Comprehensive Income.

The impacts of hyperinflation resulting from changes in the general purchasing power were reported were reported in the financial income (loss) in Company's financial statements. As a result of the foregoing effects, on December 31, 2020 and 2019, the Company recognized in its statement of income the amounts of, respectively, R$ 18,569 in the Parent Company and R$ 30,280 in consolidated and R$ 33,937 in the Parent Company and R$ 23,892 in consolidated.

2.2 Basis of consolidation and investments in subsidiaries

The Company applied the accounting policies described below consistently to all the years presented in these individual and consolidated financial statements.

a. *Subsidiaries*

The Company controls an entity when it is exposed to, or has a right over the variable returns arising from its involvement with the entity and has the possibility to affect those returns exerting its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements as from the date they start to be controlled by the Company until the date such control ceases.

The individual financial information of the parent company, financial information of subsidiaries is recognized under the equity method.

b. *Transactions eliminated upon consolidation*

Intragroup balances and transactions, and any unrealized income or expenses derived from intragroup transactions, are eliminated. Unrealized gains originating from transactions with investees recorded using the equity method are eliminated against the investment in the proportion of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

The consolidated financial statements are comprised by the Companies and its subsidiaries as of December 31, 2020 and 2019, as follows:

Subsidiaries	Business Purpose	Host Country	2020 %	2019 %
Armetal Autopartes S.A. *(a)*	Distribution of auto parts	Argentina	100.00	100.00
ASK Fras-le Friction Private Limited (a*)*	Manufacturing and sales of auto parts	India	51.00	51.00
Eurobrakes B.V. *(a)*	Distribution of auto parts	Netherlands	100.00	100.00
FANACIF S.A *(a)*	Manufacturing and sales of auto parts	Uruguay	100.00	100.00
FARLOC Argentina S.A.I.C YF (c*)*	Manufacture of brake fluid and coolant fluids	Argentina	76.09	76.09
Fras-le Africa Automotive (Pty) Limited *(a)*	Representativeness and sales of auto parts	South Africa	-	100.00
Fras-le Andina Com. Y Repres. Ltda. *(a)*	Representativeness and sales of auto parts	Chile	99.00	99.00
Fras-le Argentina S.A. *(a)* – Note 2.3	Representativeness and sales of auto parts	Argentina	99.84	51.66
Fras-le Europe *(a)*	Representativeness and sales of auto parts	Germany	100.00	100.00
Fras-le Friction Material Pinghu Co Ltd.*(a)*	Manufacturing and sales of auto parts	China	100.00	100.00
Fras-le México S de RL de CV *(a)*	Representativeness and sales of auto parts	Mexico	99.66	99.66
Fras-le North America, Inc. *(a)*	Manufacturing and sales of auto parts	United States of America	100.00	100.00
Fras-le Panamericana S.A.S *(a)*	Representativeness and sales of auto parts	Colombia	100.00	100.00
Freios Controil Ltda. *(b)*	Manufacturing of parts and accessories to automotive vehicles	Brazil	99.99	99.99
Fremax Sistemas Automotivos Eireli *(e)*	Manufacturing of parts and accessories to automotive vehicles	Brazil	-	100.00
Jiaxing Bafu trading Co. Ltd (d)		China	100.00	-
Jurid do Brasil Sistemas Automotivos Ltda. *(b)*	Manufacturing of parts and accessories to automotive vehicles	Brazil	80.10	80.10
Nakata Automotiva S.A (b) note 2.4	Manufacturing and sales of parts and accessories for automotive vehicles	Brazil	100.00	-

(a) Subsidiaries controlled abroad.
(b) Subsidiaries controlled in the country.
(c) Foreign subsidiary with direct control retained by Armetal Autopartes S.A.
(d) Foreign subsidiary with direct control retained by Fras-le Friction Material Pinghu Co Ltd.
(e) Domestic subsidiary merged on July 1, 2020, according to Note 2.3.

2.3 Merger of subsidiary Fremax Sistemas Automotivos Eireli

At the Special General Meeting held on July 1, 2020, the merger of the subsidiary Fremax Sistemas Automotivos Eireli ("Fremax") by the Company was approved. The merger did not result in capital increase at the Company, which will remains unchanged considering that the investment held by the Company in Fremax was canceled and replaced by the assets and liabilities absorbed as a result of the merger.

On July 1, 2020, asset and liability balances of Fremax were merged by the Company for the carrying amount shown below, calculated based on valuation report.

	07/01/2020
Assets	
Cash, cash equivalents and Interest earnings bank deposits	21,568
Trade accounts receivable	22,960
Inventories	20,025
Investments	6,514
Property, plant, equipment and Intangible assets	54,520

Right-of-use assets	30,025
Other assets	4,437
Total merged assets	**160,049**
Liabilities	
Suppliers	9,471
Loans and financing	47,204
Lease	30,731
Other liabilities	11,076
Total merged liabilities	**98,482**
Net assets merged (A)	**61,567**

As of the merger, the goodwill and surplus values resulting from the business combination in the acquisition of Fremax were allocated as assets of the parent company. The goodwill corresponding to the merged entity is stated in the specific "Goodwill" account, in the group of intangible assets, in the individual and consolidated balance sheets.

	07/01/2020
Surplus value	
Surplus value of property, plant and equipment	15,185
Surplus value of customer relationship	23,809
Surplus value of trademarks	8,586
Total (B)	**47,580**
Total merged investment (A+B)	**109,147**
Goodwill	**73,024**
Total merger	**182171**

With the merger of Fremax, the parent company now holds 99.84% of direct interest in the subsidiary Fras-le Argentina S.A., adding the amount of R$6,513 to the investment.

2.4 Business combination

Business combinations are recorded using the acquisition method when control is transferred to the Company. The cost of an acquisition is measured as the sum of the consideration transferred, measured at the fair value on the acquisition date, and the value of any non-controlling interests in the acquiree. For each business combination, the acquirer should measure non-controlling interests at fair value or based on the proportionate share in the identifiable net assets of the acquiree. Costs directly attributable to the acquisition are recognized as expenses, as incurred.

The consideration transferred does not include amounts referring to payment of preexisting relationships. These amounts are usually recognized in P&L for the period in which they occur.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Other contingent consideration is measured at fair value at each reporting date with changes in fair value recognized in profit or loss for the period in which they occur.

Goodwill is initially measured as the excess of the consideration transferred in relation to net assets acquired (net identifiable assets acquired and liabilities assumed). If the consideration is lower than the fair value of net assets acquired, the difference is recognized as a gain in P&L.

a. *Acquisition of the subsidiary Nakata Automotiva S.A.*

According to material news release dated December 17, 2019, the Company entered into a Share Purchase and Sale Agreement and Other Covenants with the objective of acquiring the totality of the capital stock of Nakata Automotiva S.A., a privately-held company headquartered in the city of São Paulo.

The Company's main objective with the business is to strengthen its performance in the auto parts replacement segment as a result of the increase in the product portfolio, which represents a competitive differential in this market.

The deal was effectively closed on September 1, 2020, after compliance with all the conditions precedent contained in the Share Purchase and Sale Agreement and Other Covenants, including approval by the Brazilian Antitrust Agency (CADE) on July 3, 2020 and by the Company's shareholders at the Special General Meeting held on July 23, 2020.

On February 17, 2021, the valuation report of the fair value of the acquired assets and liabilities assumed in this acquisition was completed, including the calculation and allocation of goodwill in accordance with CPC 15 (R1) - Business combinations (IFRS 3). In comparison to September 30, 2020, the date of the first allocation analysis, the experts carried out reviews of the fair value of intangible assets and present value adjustment of the contingent consideration, resulting in an increase in goodwill of R$1,463.

The Company must retrospectively adjust the provisional amounts initially accounted for on the acquisition date within one year (measurement period) as it obtains the necessary information to measure the fair value of assets and liabilities, as provided for in CPC 15 (R1) and IFRS 3, and does not expect significant changes in relation to the recognized estimates.

Assets acquired and liabilities assumed considering Nakata's balance sheet as of August 31, 2020, and the fair value adjustments estimated based on the experts' preliminary report are summarized below. The subsidiary's P&L after acquisition are presented in Note 13.

	Carrying amount	Fair value
Assets	**322,537**	**612,406**
Current assets		
Cash and cash equivalents	14,758	14,758
Derivative financial instruments	11,854	11,854
Trade accounts receivable	116,895	116,895
Recoverable taxes and contributions	23,048	23,048
Inventories	100,474	100,474
Other assets	9,896	9,896
Non-current assets		
Property, plant, equipment and Intangible assets	23,691	313,560
Lease	21,921	21,921

Liabilities	**212,240**	**212,240**
Current liabilities		
Suppliers	51,070	51,070
Personnel obligations	29,706	29,706
Loans and financing	37,150	37,150
Lease liabilities	5,173	5,173
Other liabilities	25,702	25,702
Non-current liabilities		
Loans and financing	43,625	43,625
Sundry provisions	778	778
Lease liabilities	17,584	17,584
Other liabilities	1,452	1,452
Assets net of liabilities	**110,297**	**400,166**

Goodwill recognized as a result of the acquisition was determined as follows:

Consideration transferred (a)	376,265
Contingent consideration (b)	102,218
Total consideration	**478,483**
Equity acquired	110,297
Identifiable assets	
Property, plant and equipment (c)	13,765
Intangible assets (d)	276,104
Goodwill from the operation	**78,317**

(a) *The consideration involved in this operation considered the fair value of all payments and debts assumed. The total consideration of the acquired company amounted to R$478,483, of which R$274,577 was paid on the business combination date, R$3,352 in December 2020, and R$98,336 will be paid within 8 years as from the acquisition date, restated by rates that vary between 100% and 115% of the CDI, where R$68,336 will derive from restricted liquidity investments until the contractual provisions are met. At December 31, 2020, the restated amount of the restricted liquidity investments was of R$68,740.*

(b) *The contingent consideration substantially comprises retained amounts referring to future tax benefits, in the total of R$58,934, which will be shared with the sellers. Additionally, the retained amount of R$43,285 is conditioned to business performance. The contingent amounts will be paid when the contractual conditions are met. The deadline for payment of these amounts varies between 1 and 9 years. The contingent amounts were adjusted to present value using the contractual restatement rate, revised as of December 31, 2020. The balance payable at the year end totaled R$44,228. The estimate for calculation of these contingent liabilities was made based on the projected P&L of the acquired unit.*

(c) *The property, plant and equipment items of the acquiree on the acquisition date consisted mostly of machinery and equipment. The methods used for valuation of PP&E were direct market data, cost quantification and historical cost.*

The first method analyzes market conditions and transactions comparable to the asset being valued, so that the fair value may be determined based on reliable and available sales data. The second method consists of assessing the value and associated values for substitution, replacement or reproduction of the assets. As for the historical cost valuation method, the value of the asset is calculated based on the monetary *adjustment of its acquisition cost, determined in accounting records, and application of specific economic indexes, generally used by competent and official agencies. The fair value allocated to PP&E was of R$13,765.*

The surplus value will be depreciated over the related useful life.

***(d)** The identified intangible assets whose value can be safely measured by the Company refer to the customer portfolio and trademarks. The customer portfolio was valued using the Multi Period Excess Earnings Method (MPEEM), which is based on a calculation that discounts cash flows from future economic benefits attributable to the customer base, net of eliminations of the contribution obligations implied in its generation. To estimate the remaining useful life of the customer base, a churn rate was applied to the revenue base, estimated based on analysis of the customer portfolio and historical revenue, representing an economic useful life of 13.33 years. The fair value allocated to customer relationship, on the acquisition date, was R$172,438, which will be amortized over its useful life.*

The trademarks were valued using the Relief from Royalties method, which consists of assessing the asset with capitalization of the royalties that are saved due to the intellectual property held. In other words, the trademark owner makes a profit from owning the intangible asset instead of having to pay royalties for its use. The royalty savings were determined by applying a market royalty rate (expressed as a percentage of revenues) to future revenues that are expected to be obtained from the sale of the product or service associated with the intangible asset. The economic useful life considered for this intangible asset was 19.33 years and the fair value allocated, on the acquisition date, was R$103,666, amortized over the term of its useful life.

The goodwill calculated in the amount of R$78,317 represents the expected future economic benefit from synergies resulting from the acquisition. Nakata Automotiva S.A. contributed with net revenue of R$298,793 and net income of R$30,475 from the acquisition date until December 31, 2020 to P&L for the year. Had the combination occurred at the beginning of that year, consolidated net revenue for 2020 would have totaled R$1,968,205.

2.5 Covid-19 impacts

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency due to the outbreak of the Coronavirus (COVID-19) originating in Wuhan, China, alerting to the risks in the international community given the ability of the virus to spread globally, beyond its point of origin. In March 2020, the COVID-19 outbreak was classified as a pandemic by the WHO.

The Company adopts all necessary measures to protect employees and assist in combating Covid-19. The measures adopted include collective vacation granted in the period of interruption of most industrial activities and resumption of operations, firstly in the locations where the Company operates, with measurement of the temperature of employees, availability of masks and facial protectors, intensification in the cleaning of collective environments and of vehicles for transportation of employees, changes in the way meals are served in the cafeteria, in addition to adoption of distance work.

In compliance with CVM Memorandum Circular No. 02/2020 of March 10, 2020, which addresses the effects of the Covid-19 pandemic on the financial statements, management assessed the key accounting risks and impacts, in addition to the uncertainties that could affect this information. The Company did not identify any risks regarding the continuity of its business, the accounting estimates and judgments.

Management understands that the Company's financial statements for the year ended December 31, 2020 were not materially impacted. The Company management continues to monitor and take actions in relation to COVID-19.

2.5.1. Government assistance and labor measures

The Company adopted the assistance measures granted by the Federal Government. These measures include reduction in the rates of contributions of autonomous services (S System), extension of the deadlines for filing of accessory obligations, extension of the deadlines for payment of federal taxes, exemption from the Tax on Financial Transactions (IOF), and programs for reduction of working hours and suspension of employment contracts set by Provisional Executive Order No. 936. The effects of these measures did not significantly impact the financial statements as of December 31, 2020.

As of December 31, 2020, the Company recorded R$3,666 arising from voluntary termination expenses.

2.5.2 Financial instruments

a. ***Accounts receivable***

According to guidance contained in CVM Memorandum Circular No. 03/2020, the Company carried out a review of the credit risk for the entire life of the financial instruments. The assumptions used to measure the expected loss have not changed as a result of the unstable scenario. No material impacts were identified in the credit analysis carried out as of December 31, 2020.

b. ***Other assets***

The Company did not identify any changes in circumstances that indicate the impairment of other financial assets.

2.5.3 Impairment

The Company assessed the circumstances that could indicate impairment of its nonfinancial assets, as presented in Note 14.

2.5.4 Deferred assets

As of March 31, 2020, based on the history of previous losses, the Company identified deferred assets on tax loss for which there was no expectation of use within the maximum period of 10 years (item II, article 2 of Ruling No. 371/02 of the CVM) due to the uncertain scenario. Accordingly, the Company recognized the write-off of deferred assets of R$5,227 related to the ASK Fras-le Friction unit (India). The deferred asset calculation base is presented in Note 23. No evidence of loss was identified in the other entities of the Company.

2.5.5 Contingent liabilities and other provisions

The Company did not identify contingencies or other provisions that needed to be realized or revisited due to the impacts of Covid-19 as of December 31, 2020.

2.5.6 Leases

The Company applied the practical expedient, as per amendment to CPC 06 (R2) and CVM Rule No. 859, to all benefits granted in lease agreements in which:

(a) the change in lease payments resulted in a revised consideration for the lessor substantially equal to or lower than the lease consideration immediately prior to the amendment;

(b) any reduction in lease payments that affected only payments originally due prior to June 30, 2021; and

(c) there was no substantive change in other terms and conditions of the agreement.

Based on the requirements of this practical expedient, the Company did not make any changes to the calculation and appropriation of leases impacted by contingency actions arising from COVID-19. Agreements with changes did not have a significant impact.

3 Significant accounting policies

Significant accounting policies and practices are described in each corresponding explanatory note, except those presented below, which refer to more than one note. The accounting policies and practices were consistently applied for all years presented and for the individual and consolidated financial statements of the Company.

3.1 Translation of foreign currency balances

Each subsidiary of the Company determines its own functional currency, and for those whose functional currencies are different from the Real, the financial statements are translated into Real on the closing date.

The functional currency of each company is as follows:

Subsidiaries	Functional Currency
Armetal Autopartes S.A.	Argentine peso
ASK Fras-le Friction Private Limited	Rupia
Eurobrakes B.V.	Euro
FANACIF S.A	US dollar
FARLOC Argentina S.A.I.C YF	Argentine peso
Fras-le Africa Automotive (Pty) Limited	Rand
Fras-le Andina Com. Y Repres. Ltda.	Chilean Peso
Fras-le Argentina S.A.	Argentine peso
Fras-le Europe	Euro
Fras-le Friction Material Pinghu Co Ltd.	Yuan
Fras-le México S de RL de CV	Mexican Peso
Fras-le North America, Inc.	US dollar
Fras-le Panamericana S.A.S	Colombia Peso
Freios Controil Ltda.	Real
Jiaxing Bafu trading Co. Ltd	Yuan
Jurid do Brasil Sistemas Automotivos Ltda.	Real
Nakata Automotiva S.A.	Real

a. ***Transactions and balances***

Transactions in foreign currency are initially recorded at the exchange rate of the functional currency in force on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are reconverted at the foreign exchange rate of the functional currency in force on the balance sheet date. All differences are reported in the statement of income.

b. ***Transactions and balances with subsidiaries***

The assets and liabilities of foreign subsidiaries are translated into Reais at the exchange rate on the balance sheet date, and the corresponding statements of income are translated at the monthly average rates for the period, except for operations in hyperinflationary economies, where all financial information is translated at the closing exchange rate. Foreign exchange differences derived from this translation are accounted for separately in other comprehensive income and accumulated in equity valuation adjustments.

3.3 Financial instruments

When fair value of financial assets and liabilities presented in the statement of financial position may not be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. These methods use observable market data, whenever possible. Otherwise, a given judgment call is required in order to determine the fair value. Judgment includes consideration of the data used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of financial instruments.

Debt instruments are subsequently measured at fair value through profit or loss, amortized cost or fair value through other comprehensive income. Classification is based on two criteria: the Company's business model for managing assets and whether the contractual cash flows from the instruments represent solely payments of principal and interest on the outstanding principal amount. The Company classifies its financial instruments based on the business model, which consists solely in payment of principal and interest on the outstanding principal amount. The Company designated no financial liabilities at fair value through profit or loss.

3.4 Adjustment to present value of assets and liabilities

Monetary assets and liabilities are adjusted at present value when the effect is considered material in relation to the financial statements taken as a whole. The calculation of the adjustment to present is based on interest rate that reflects the term and the risk of each transaction. For forward transactions, the Company and its subsidiaries use the change in the Interbank Deposit Certificate (CDI) rate, as this is the reference rate used in forward transactions.

The present value adjustment of accounts receivable is stated as a counterpart to "gross income" in income (loss) and the difference between a transaction's present value and a transaction's face value is deemed to be financial income, and will be appropriated at the extent of amortized cost and effective rate throughout the maturity date of the transaction.

The adjustment to present value of purchases is recorded in the accounts of suppliers and costs, and their realization has – as counterpart – the financial expense account, by the fruition of the term of its suppliers.

As of December 31, 2020 and 2019, no other transactions were identified that were considered material in relation to the financial statements taken as a whole.

3.5 Other employee benefits

Other benefits granted to employees and administrators of the Company include, in addition to a fixed compensation (salary and contributions to social security - Brazilian Social Security Agency ("INSS"), paid vacation, 13th monthly salary), variable compensation such as profit sharing and private pension plan - defined contribution (Note 26). These benefits are recorded in income for the year when the Company has an obligation on the accrual basis, as they are incurred.

3.6 Government grants

Government grants are recognized whenever there is reasonable certainty that the benefit will be received and all corresponding conditions will be met. When the benefit is related to an expense item it is recognized as revenue for the period the benefit was granted, on a systematic basis in relation to the costs offset by such benefit. When the benefit is related to an asset, it is recognized as deferred income and recorded in the income at equal amounts throughout the estimated useful life of the corresponding asset.

3.7 Statement of added value

The Company prepared individual and consolidated statements of added value in accordance with the rules of technical pronouncement CPC 09 - Statement of Added Value, which are presented as an integral part of the financial statements under BRGAAP applicable to publicly-held companies, whereas under IFRS they represent additional financial information.

4 Significant judgments, estimates and assumptions

In the preparation of these individual and consolidated financial statements, management used judgments, estimates and assumptions that affect the Company's application of accounting principles and the reported amounts of assets, liabilities, income and expenses.

The estimates and respective assumptions are based on historical experience and other factors considered significant. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revised estimates are recognized prospectively.

4.1 Judgments

The information about judgements applied in the preparation of the Company's financial statements whose effect is more significant on the amounts recognized on individual and consolidated financial statements are included in the following notes:

- *Note 2.4 – Business combinations*
- *Note 14 – Impairment*

- *Note 15 – Property, plant and equipment*
- *Note 16 – Intangible assets*
- *Note 16 – Leases*
- *Note 18 – Provision for claims*
- *Note 24 – Net sales income*

4.2 Uncertainties on assumptions and estimates

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the year to end at December 31, 2020 are included in the following notes:

- *Note 2.4 – Business combinations*
- *Note 08 – Clients*
- *Note 09 – Inventories*
- *Note 10 - Recoverable taxes and contributions*
- *Note 12 - Pension plans and post-employment benefits for employees*
- *Note 14 – Impairment*
- *Note 15 - Property, plant and equipment*
- *Note 16 - Intangible assets*
- *Note 18 - Provision for claims*
- *Note 23 - Income tax*
- *Note 28 - Financial income*
- *Note 30 - Objectives and policies for financial risk management*
- *The main assumptions regarding sources of uncertainties in estimates for the future and other significant uncertainties related to the estimates in the balance sheet date, involving the risk of requiring significant adjustments in the book value of assets and liabilities in the next year are highlighted as follows:*

a. *Business combinations*

The Company applied judgments to determine the consideration, contingent liabilities and accounts payable resulting from the business combination, detailed in Note 2.4.

b. *Revenue from contracts with customers*

The Company applied judgments on contract revenues with the customer in relation to the determination of the amount and the timing of recognition of customer revenue in Note 24.

c. *Expected credit losses for accounts receivable and contract assets*

The Company uses a provision matrix to calculate the expected credit loss for accounts receivable and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (such as by customer type and rating, among others).

The provision matrix is initially based on the Group's historical observed default rates. The Company reviews the matrix to adjust the historical credit loss experience with forward-looking information.

Annually, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

d. *Measurement at fair value of investment properties*

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

e. *Taxes*

There are uncertainties in relation to the interpretation of complex tax regulations and the amount and timing of future taxable income. Considering the many issues involved in international business relationships, as well as the long-term nature and the complexity of existing contractual instruments, differences between actual income and the adopted assumptions, or future changes in those assumptions, may lead to the necessity of future adjustments in already recorded tax expenses and income.

The Company forms provisions based on reliable estimates of possible consequences from any inspection by tax authorities of respective jurisdictions in which they operate. The amount of those provisions is based on various factors, such as experience of prior inspections and different interpretations of tax regulations by the Company and the responsible tax authority. Those interpretation differences may arise in a great variety of matters, depending on the conditions prevailing in the company's domicile.

The deferred tax asset is recognized for all tax loss carryforwards not utilized to the extent that it is probable that there will be future taxable income against which they can be offset. Substantial judgment from Management is required to determine the amount of the deferred income tax and social contribution asset that can be recognized, based on the probable term and amount of future taxable income, with tax planning strategies. For further details on deferred taxes, see Note 23.

f. *Retirement benefits*

The cost of retirement plans with defined benefits and other post-employment medical care benefits and present value of retirement liability is determined by means of actuarial evaluation methods. The actuarial *evaluation requires the use of assumptions of discount rates, expected asset return rates, future salary increases and mortality rates and future increase of retirement and pension benefits. Defined benefit obligation is highly sensitive to changes in those assumptions. All assumptions are reviewed on the base dates*

For further details on the assumptions used, see Note 12.

g. *Measurement at fair value of financial instruments*

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. The data for these methods are based on those adopted by the market, when possible. However, when such data are not available, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the data utilized, such as liquidity, credit and volatility risk. Changes in the assumptions related to these factors can affect the fair value presented for the financial instruments.

h. *Provisions for tax, civil, labor and social security risks*

The Company recognizes provision for tax, civil and labor claims. Determination of the likelihood of loss includes determination of evidences available, hierarchy of laws, jurisprudence available, more recent court decisions and relevance thereof in legal system, as well as evaluation of external lawyers. Provisions are reviewed and adjusted so as to consider changes in circumstances, such as applicable statute of limitations, conclusions of tax audits or additional exposures identified based on new matters or court rulings.

i. *Impairment loss of non-financial assets*

Management annually reviews the recoverable amount of assets for the purpose of assessing events or changes in economic, operating or technological circumstances that could indicate impairment or loss of their recoverable amount When such evidence is identified and net book value exceeds the recoverable amount, a provision for impairment is set up adjusting net book value to the recoverable amount. The recoverable amount of an asset or cash-generating unit is defined as the higher of value in use and net sale value.

In estimating value in use of assets, estimated future cash flows are discounted to present value, using a discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Fair value net of selling expenses is calculated, whenever possible, based on recent market transactions between knowledgeable, willing parties involving similar assets. In the absence of this type of observable transactions, an appropriate valuation method is used. The calculations provided for in this model are corroborated by fair value indicators available such as quoted prices for listed entities.

The Company bases its impairment assessment on recent financial budgets and forecasts, which are prepared on an item-by-item basis by management for each cash-generating unit to which the assets are allocated. The projections based on these forecasts and budgets usually comprise a period of five years.

Impairment losses are recorded in P&L consistently with the function of the impaired asset. Impairment is reversed only if the estimates used change. Reversal is limited to the carrying amount of the asset net of depreciation, amortization or depletion, and recorded in P&L.

Goodwill is tested for impairment annually using October 31 bases or when the circumstances indicate that book value is impaired.

Impairment losses of a cash-generating unit to which goodwill is related are recognized when the recoverable of the unit is lower than book value. The loss is recognized and allocated to reduce the book value of the assets in the following order: (a) reducing book value of goodwill allocated to the cash-generating unit; and (b) subsequently, to the other assets of the unit in proportion to book value of each asset. Impairment of goodwill is not reversed.

j. *Evidence of hyperinflationary economy*

As disclosed in Note 2.1, the accounting and disclosure standards for highly inflationary economies, i.e., paragraph 3 of CPC 42/IAS 29, does not provide for the use of a specific price index, but allows judgment to be used in defining when the inflation adjustment of the financial statements becomes necessary. Thus, the indices used were based on the information provided by the National Institute of Statistics and Censuses of Argentina (INDEC): IPIM - Índice de Precios Internos al por Mayor [Internal] and IPC - Índice de precios al consumidor [Consumer].

5 Standards, amendments and interpretations

5.1 Standards effective as of January 1, 2020

The following amended rules and interpretations effective as of January 1, 2020 had no significant impact on the Company's individual and consolidated financial statements for the year ended December 31, 2020:

- *Amendments to CPC 15 (R1): Definition of Business;*
- *Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest Rate Benchmark Reform;*
- *Amendments to CPC 26 (R1) and CPC 23: Definition of Material;*
- *Revised CPC 00 (R2) – Conceptual Framework for Financial Reporting;*
- *Amendments to CPC 06 (R2): Covid-19 Related Rent Concessions.*

5.2 Standards issued but not yet in force

The standards and interpretations issued but not yet adopted to the date of issuance of the financial statements of the Company, are shown below. The Company does not plan to adopt these standards in advance, since it is not allowed in Brazil by the Accounting Pronouncement Committee (CPC).

The following amendments and interpretations will have no significant impact on Company financial statements:

- *Amendments to IAS 1: Classification of liabilities as current or noncurrent: In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1, correlated with CPC 26, to specify the requirements for classifying liabilities as current or noncurrent. The amendments are effective for periods beginning on or after January 1, 2023.*

6 Cash and cash equivalents

Accounting policy

Cash and cash equivalents comprise bank deposits and short-term investments aimed at meeting short-term financial commitments rather than for investment or other purposes.

Short-term investments are readily convertible by the issuer in a known cash amount and not subject to the risk of significant change in value, are recorded at cost plus yield earned until the statement of financial position dates, not exceeding market or realizable value..

	Parent Company		Consolidated	
	2020	**2019**	**2020**	**2019**
Cash and banks	**8,704**	149	**75,088**	27,939
Cash in transit (a)	**41,367**	9,092	**42,347**	10,126
Interest earnings bank deposits (b)	**238,373**	100,137	**325,808**	140,326
	288,444	**109,378**	**443,243**	**178,391**

(a) Cash in Transit refer to receipts from exports maintained at a financial institution, pending the closing of foreign exchange contracts on the closing date of the financial statements.

(b) They are substantially represented by Bank deposit certificates (CDB) and fixed income funds, remunerated at rates that range between 97% and 102% (62% and 102% on December 31, 2019) of the Interbank Deposit Certificate (CDI).

Credit risk policy and practice are presented in Note 30.

7 Long-term marketable securities

Accounting policy

Short-term investments that are not highly liquid refer to investments in Bank Deposit Certificates (CDB), which are not readily convertible into cash at transaction date. Classification of short-term investments depends on the purpose for which they were acquired and are adjusted to fair value, based on their category. When applicable, costs directly attributable to acquisition of a financial asset are added to the amount originally recognized.

		Parent Company		Consolidated	
Application	**Average remuneration**	**31/12/2020**	**31/12/2019**	**31/12/2020**	**31/12/2019**
Current:					
CDB	From 104,50% of CDI (from 99,50% to 100,00% as of December 31, 2019)	**19,585**	35,072	**19,637**	35,072
Non-Current:					
CDB	99,0% of CDI	**68,740**	-	**68,740**	-
Total		**88,325**	**35,072**	**88,377**	**35,072**

The balance classified as noncurrent assets refers to consideration from the combination of Nakata Automotiva S.A., held in an escrow account, as mentioned in Note 2.4, given the requirement to meet certain provisions of the purchase and sale agreement regarding allocation of the funds.

8 Clients

Accounting policy

Trade accounts receivable correspond to consideration amounts deriving from goods sold or services provided in the normal course of business, taking into consideration all relevant facts and circumstances in applying each step of the customer agreement model.

If maturity occurs within a year (or a period that complies with the Company's normal operating cycle), accounts receivable are classified in current assets. They are otherwise presented in noncurrent assets.

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

The criterion for setting up allowance for doubtful accounts takes into consideration historical losses per portfolio maturity bracket (Note 4.2b).

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Domestic	**11,406**	13,200	**136,277**	12,007
Third Parties	**3,930**	2,238	**127,479**	6,653
Related parties (Note 11)	**3,291**	8,192	**1,315**	664
Vendor	**4,185**	2,770	**7,483**	4,690
Abroad	**201,945**	**190,427**	**157,416**	**115,645**
Third Parties	**34,969**	24,199	**157,416**	115,645
Related parties (Note 11)	**166,976**	166,228	**-**	-
	213,351	**203,627**	**293,693**	**127,652**
Less:				
Adjustment to present value	**(268)**	(334)	**(275)**	(732)
Provision for expected credit losses	**(1,204)**	(1,069)	**(4,225)**	(3,498)
Total	**211,879**	**202,224**	**289,193**	**123,422**

On December 31, 2020 and December 31, 2019, the average maturity of the domestic market was 08 and 10 days, for the foreign market subsidiaries, average maturity was 439 and 461 days, and for the foreign market subsidiaries, average maturity was 91 and 95, respectively.

Changes in the allowance for doubtful accounts are as follows:

	Parent Company		Consolidated	
	2020	**2019**	**2020**	**2019**
Balance at the beginning of the year	**(1,069)**	(1,205)	**(3,498)**	(3,933)
Merger of Fremax (Note 2.3)	**(119)**	-	**-**	-
Acquisitions of new businesses (Note 2.4)	**-**	-	**(852)**	-
Additions	**(2,298)**	(2,503)	**(6,258)**	(5,307)
Write-offs/realizations	**2,282**	2,639	**6,383**	5,742
Balance at the end of the year	**(1,204)**	(1,069)	**(4,225)**	(3,498)

On December 31, 2020 and 2019, the analysis of balances of trade accounts receivable per maturity date is as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Falling due	**90,054**	63,279	**262,712**	85,712
Overdue (days):				
1–30	**19,143**	18,118	**22,953**	30,284
31–60	**10,171**	13,403	**3,561**	5,801
61–90	**7,726**	8,232	**1,341**	144
91–180	**33,653**	31,105	**483**	3,035
>181	**52,604**	69,490	**2,643**	2,676
Total	**213,351**	203,627	**293,693**	127,652

The Company does not require guarantees on forward sales. In the balances of the parent company, accounts receivable past due over 61 days are represented mainly by sale of products to subsidiaries (see Note 11).

The group's exposure to credit and currency risk related to trade accounts receivable is disclosed in note 30.

9 Inventories

Accounting Policy

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, as well as other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

	Parent Company		Consolidated	
	2020	2019	2020	2019
Finished goods	**75,890**	74,806	**253,911**	187,077
Work in process	**14,952**	10,362	**29,715**	26,680
Raw materials	**53,008**	48,639	**104,936**	85,810
Auxiliary and maintenance materials	**7,534**	5,089	**16,844**	13,074
Advances to suppliers	**526**	11	**10,891**	11,667
Imports in transit	**7,835**	4,545	**94,392**	18,078
Provision for inventory losses	**(9,087)**	(4,748)	**(22,495)**	(14,424)
Effect of hyperinflation	**-**	-	**5,909**	5,310
	150,658	**138,704**	**494,103**	**333,272**

Changes in the provision for inventory losses are as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Balance at the beginning of the year	**(4,748)**	(4,583)	**(14,424)**	(11,849)
Merger of Fremax (Note 2.3)	**(1,583)**	-	**-**	-
Acquisitions of new businesses (Note 2.4)	**-**	-	**(2,619)**	-
Additions	**(13,908)**	(1,126)	**(19,515)**	(5,132)
Write-offs/realizations	**11,152**	961	**14,063**	2,557
Balance at the end of the year	**(9,087)**	**(4,748)**	**(22,495)**	**(14,424)**

10 Recoverable taxes and contributions

	Parent Company		Consolidated	
	2020	2019	2020	2019
PIS and COFINS – exclusion of ICMS from the tax base (a)	**138,665**	-	**176,040**	-
ICMS (b)	**5,920**	6,479	**11,566**	8,601
IR e CS *(c)*	**4,057**	4,932	**4,117**	8,767
COFINS *(d)*	**3,667**	3,693	**4,457**	4,058
PIS *(d)*	**796**	784	**974**	870
Reintegra *(e)*	**748**	182	**944**	1,065
IPI *(f)*	**48**	53	**84**	55
IVA *(g)*	**-**	-	**16,968**	25,329
GST *(h)*	**-**	-	**5,052**	4,236
Other	**2,140**	2,670	**6,756**	5,249
Total	**156,041**	**18,793**	**226958**	**58,230**
Current	**119,020**	**11,774**	**171,970**	**41,128**
Non-Current	**37,021**	**7,019**	**54,988**	**17,102**

a. *PIS and COFINS – exclusion of ICMS from the tax bases*

In 2020, the direct subsidiaries Freios Controil Ltda. and Jurid do Brasil Sistemas Automotivos Ltda., and the parent company Fras-le S.A. and its former subsidiary Fremax Sistemas Automotivos Eirelli were granted a favorable final decision on lawsuit filed for exclusion of ICMS from the PIS and COFINS tax bases, according to material news releases disclosed on October 29 and December 29, 2020.

The Company, with the support of its legal advisors, carried out the calculation and consequent recognition of the case amount in P&L for 2020, under other operating income and finance income (costs), determined on the amount disclosed in the shipping invoices, as determined in the decision handed down by the 4th Federal Regional Court. The calculation was made based on the tax and accounting documents of the units, reconciled with the accessory obligations of the respective periods.

Lawsuits were filed after expiration the statute of limitations of Law No. 118/2005, therefore the lawsuits filed by the Company retroacted for five years, as shown in the table below.

In assessing CPC 25 on contingent assets, the Company understands that it is not applicable to the matter at issue, since a final decision was handed down on the suits, as already mentioned above. Furthermore, the Company had already carried out offsets in the year. We point out, however, that motions for clarification regarding appeal RE 574.706-PR are pending judgment by the Supreme Federal Court ("STF"), with general resonance, which may define a calculation methodology different from that contained in the judicial decisions obtained by Company and its subsidiaries. Should this take place, it will be necessary to reassess said credits and the need to set up a provision for losses thereon.

The amounts calculated for request for validation with the Brazilian IRS (RFB) are shown below. Until the reporting date of these financial statements, the Company had not obtained the approval of the request for validation regarding Fremax (branch) and is in the process of requesting validation of Freios Controil Ltda. (a).

Company	Period considered for calculation	Amount including interests (SELIC)
Freios Controil Ltda	January 2012 to July 2020	16,483
Freios Controil Ltda (a)	October 1994 to December 2011	21,043
Jurid do Brasil Sistemas Automotivos Ltda	April 2012 to July 2020	8,942
Fras-le S.A.	January 2005 to October 2020	121,529
Fremax (branch)	January 2005 to November 2020	17,137
Total		**185,134**

(a) The amount calculated and offset referring to the final decision regarding the period from 1994 to 2011 of Freios Controil is linked to the contractual obligation, acquired upon acquisition of the subsidiary, to transfer the amounts to the former members at the time of offset of the related amounts. Accordingly, the Company recorded the amount of R$18,865, net of taxes and fees, under other payables.

It is necessary to clarify that we analyzed the judicial decision in light of the requirements of CVM Official Letter 01/2021, and we understand that our judicial decision has the elements contained in such official communication.

Management's expectation is that these tax credits will be fully used within a maximum period of 5 years.

The Company set up provision for professional fees should it prevail in this lawsuit under Other operating expenses, in the amount of R$6,539.

b. *Value-Added Tax on Sales and Services (ICMS)*

The balance is comprised of credits calculated on market operations and acquisition of PP&E generated in the production units and commercial units of the Company.

c. *Income tax and social contribution taxes (“IR and CS”)*

Refers to withholding income tax on financial investments and income tax and social contribution prepayments through an offset against federal taxes and contributions due.

d. *Social Integration Program and Contribution for the Financing of Social Security (PIS and COFINS)*

Balance is comprised of credit amounts deriving from PIS and COFINS non-cumulative collection, ascertained mainly in operations acquisition of goods comprising fixed assets, which are offset in successive monthly installments, as determined by current legislation.

e. *Reintegra*

The “Reintegra” balance refers to a tax regime in which the Company takes credit of federal taxes in cases of exports of manufactured goods existing in its production chain. The offsetting of such credits occurs upon payment of any other federal tax.

f. *Excise tax ("IPI")*

The balance is substantially comprised of amounts arising from market operations and may be offset with taxes of the same nature.

g. *Value added tax (IVA)*

The balance is composed of value added tax credits recoverable from the subsidiary Fras-le Argentina S.A, Armetal Autopartes S.A, Fanacif S.A. and Farloc Argentina S.A.I.C YF. There is no statutory limitation on said credits.

h. *Goods and Services Tax (GST) India*

This balance is composed of tax credits referring to goods and services to be recovered by subsidiary ASK Fras-le Friction Private Limited.

11 Related Parties

Accounting Policy

Sales transactions with related parties refer to sales of goods for supply to the markets in which they are based and sales of inputs used in production and provision of services. Purchases made with related parties refer to the supply of inputs used in the Company's production process.

Current-account balances, related to loan agreements between parent company, subsidiaries and other related parties, have an indeterminate maturity date and are updated on a pro-rated basis by the "DI-Extra" rate, published by Anbima.

The outstanding balances of the year ended are not guaranteed, and are not subject to interest and are settled in cash. There were no guarantees granted or received in connection with any accounts receivable or payable involving related parties.

The main balances of assets and liabilities as of December 31, 2020 and 2019, as well as the transactions that influenced income for the year, relating to operations with related parties, result from transactions of the Company with its parent company and subsidiaries, which were carried out under specific conditions considering the volume of operations and payment terms, not comparable to operations with third parties not related.

	Assets		Liabilities		Income			
	2020	2019	2020	2019	2020	2019	Average Term 2020	Average Term 2019
Freios Controil Ltda. (e)								
Accounts receivable from sale	**37**	256	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**208**	162	**70**	71
Purchase of products and services	-	-	-	-	**(12)**	(73)	**72**	48
Other net income/operating and financial expenses	-	-	-	-	**1,590**	2,654	-	-
	37	**256**	-	-	**1,786**	**2,743**	-	-
Jurid do Brasil Sistemas Automotivos Ltda. (e)								
Accounts receivable from sale	**2,688**	7,976	-	-	-	-	-	-
Accounts Payable	-	-	**142**	156	-	-	**17**	-
Sale of products and services	-	-	-	-	**7,659**	8,021	**342**	79
Other net income/operating and financial expenses	-	-	-	-	**29**	29	-	-
	2,688	**7,976**	**142**	156	**7,688**	**8,050**	-	-
Fremax Sistemas Automotivos Eireli (g)								
Accounts receivable from sale	-	221	-	-	-	-	-	-
Dividends receivable	-	4,727	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	-	-
Sale of products and services	-	-	-	-	-	1,045	**23**	20
	-	**4,948**	-	-	-	**1,045**	-	-
Fras-le Argentina S.A.(c)								
Accounts receivable from sale	**6,347**	3,024	-	-	-	-	-	-
Dividends receivable	**164**	92	-	-	-	-	-	-
Loans Receivable	**36,405**	26,291	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**15,341**	8,447	**82**	478
Purchase of products and services	-	-	-	-	**(2)**	(1)	-	-
	42,916	**29,407**	-	-	**15,339**	**8,446**	-	-
Fras-le North America, Inc. (c)								

	Assets		Liabilities		Income			
	2020	2019	2020	2019	2020	2019	Average Term 2020	Average Term 2019
Accounts receivable from sale	**137,083**	143,499	**-**	-	**-**	-	**-**	-
Accounts Payable	**-**	-	**4**	-	**-**	-		
Sale of products and services	**-**	-	**-**	-	**123,742**	101,738	**530**	497
Purchase of products and services	**-**	-	**-**	-	**(8)**	-	**-**	-
Other net income/operating and financial expenses	**-**	-	**-**	-	**(2,133)**	(2,151)	**-**	-
	137,083	**143,499**	**4**	**-**	**121,601**	**99,587**	**-**	**-**
Fras-le Mexico S de RL de CV (c)								
Other net income/operating and financial expenses	**-**	-	**-**	-	**(493)**	(869)	**-**	-
	-	**-**	**-**	**-**	**(493)**	**(869)**	**-**	**-**
Fras-le Friction Material Pinghu co Ltd (c)								
Accounts Payable	**420**	1,083	**-**	-	**-**	-	**-**	-
Sale of products and services	**-**	-	**-**	-	**407**	1,055	**322**	164
Purchase of products and services	**-**	-	**-**	-	**(1,092)**	(3,757)	**-**	-
Other net income/operating and financial expenses	**-**	-	**-**	-	**(184)**	(100)	**-**	-
	420	**1,083**	**-**	**-**	**(869)**	**(2,802)**	**-**	**-**
Fras-le Europe (c)								
Accounts Payable	**727**	843	**-**	-	**-**	-	**-**	-
Sale of products and services	**-**	-	**-**	-	**2,515**	2,623	**124**	136
Other net income/operating and financial expenses	**-**	-	**-**	-	**(2,947)**	(1,518)	**-**	-
	727	**843**	**-**	**-**	**(432)**	**1,105**	**-**	**-**
Fras-le Africa Aut (Pty) Limited (c)								
Other net income/operating and financial expenses	**-**	-	**-**	-	**(70)**	(93)	**-**	-
	-	**-**	**-**	**-**	**(70)**	**(93)**	**-**	**-**
Fras-le Andina (c)								
Other net income/operating and financial expenses	**-**	-	**-**	-	**(522)**	(165)	**-**	-
	-	**-**	**-**	**-**	**(522)**	**(165)**	**-**	**-**
Fras-le Middle East (c)								
Purchase of products and services	**-**	-	**-**	-	**-**	(112)	**-**	-
Other net income/operating and financial expenses	**-**	-	**-**	-	**(35)**	(290)	**-**	-
	-	**-**	**-**	**-**	**(35)**	**(402)**	**-**	**-**
Fras-le Panamericana (c)								
Purchase of products and services	**16,147**	16,538	**-**	-	**-**	-	**-**	-
Sale of products and services	**-**	-	**-**	-	**21,598**	16,149	**246**	332
Other net income/operating and financial expenses	**-**	-	**-**	-	**(461)**	(1,135)	**-**	-
	16,147	**16,538**	**-**	**-**	**21,137**	**15,014**	**-**	**-**
Fanacif (c)								
Accounts receivable from sale	**153**	316	**-**	-	**-**	-	**-**	-
Accounts Payable	**-**	-	**130**	-	**-**	-	**-**	-
Dividends receivable	**-**	-	**-**	-	**-**	-	**-**	-
Loans Payable	**-**	-	**241**	187	**-**	-	**-**	-
Sale of products and services	**-**	-	**-**	-	**894**	901	**-**	74
Other net income/operating and financial expenses	**-**	-	**-**	-	**-**	-	**-**	-
	153	**316**	**371**	187	**894**	**901**	**-**	**-**
Ask Fras-le Friction (c)								
Loans Receivable	**8,191**	-	**-**	-	**-**	-	**-**	151
	8,191	**-**	**-**	**-**	**-**	**-**		
		-	**-**	**-**	**-**	**-**		
Eurobrakes (c)								
Accounts receivable from sale	**5,597**	-	**-**	-	**-**	-	**-**	-
Sale of products and services	**-**	-	**-**	-	**5,648**	-	**-**	-
Other net income/operating and financial expenses	**-**	-	**-**	-	**(92)**	-	**-**	-
	5,597	**-**	**-**	**-**	**5,556**	**-**	**-**	**-**
Nakata Automotiva S.A. (e)								
Dividends receivable	**3,552**	-	**-**	-	**-**	-	**-**	-
	3,552	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total - Subsidiaries	**217,511**	**204,866**	**517**	**343**	**171,580**	**132,560**	**-**	**-**

	Assets		Liabilities		Income			
	2020	2019	2020	2019	2020	2019	Average Term 2020	Average Term 2019
Randon S.A. Implementos e Participações (b)								
Accounts receivable from sale	**71**	584	-	-	-	-	-	-
Accounts Payable	-	-	**4,051**	649	-	-	-	-
Sale of products and services	-	-	-	-	**8,934**	21,461	-	16
Purchase of products and services	-	-	-	-	**(7,880)**	(7,317)	-	29
Other net income/operating and financial expenses	-	-	-	-	**(12,740)**	(14,127)	-	-
	71	**584**	**4,051**	**649**	**(11,686)**	**17**	-	-
Master Sistemas Automotivos Ltda. (d)								
Accounts receivable from sale	**817**	35	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**37,658**	40,430	-	9
Purchase of products and services	-	-	-	-	**(6)**	(159)	-	10
Other net income/operating and financial expenses	-	-	-	-	**2,720**	3,640	-	-
	817	**35**	-	-	**40,372**	**43,911**	-	-
Jost Brasil Sistemas Automotivos Ltda.(d)								
Accounts receivable from sale	-	33	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**637**	718	-	17
Purchase of products and services	-	-	-	-	**(13)**	(99)	-	18
Other net income/operating and financial expenses	-	-	-	-	**385**	598	-	-
	-	**33**	-	-	**1,009**	**1,217**	-	-
Randon Veículos Ltda. (d)								
Accounts receivable from sale	**58**	-	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**327**	616	-	17
Other net income/operating and financial expenses	-	-	-	-	**76**	10	-	-
	58	-	-	-	**403**	**626**	-	-
Castertech Fundição e Tecnologia Ltda.(d)								
Accounts receivable from sale	**122**	12	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	-	-
Sale of products and services	-	-	-	-	**750**	1,087	-	12
Purchase of products and services	-	-	-	-	**(137)**	(30)	-	12
Other net income/operating and financial expenses	-	-	-	-	**4,538**	2,451	-	-
	122	**12**	-	-	**5,151**	**3,508**	-	-
Randon Consórcios Ltda.(d)								
Other net income/operating and financial expenses	-	-	-	-	**(26)**	8	-	-
	-	-	-	-	**(26)**	**8**	-	-
Banco Randon S.A. (d)								
Other net income/operating and financial expenses	-	-	-	-	**(6,705)**	(5,333)	-	-
	-	-	-	-	**(6,705)**	**(5,333)**	-	-
ASK Automotive Private Limited (f)	-	-	-	-	-	-	-	-
Loans Payable	-	-	**7,082**	-	-	-	-	-
	-	-	**7,082**	-	-	-	-	-
Instituto Hercilio Randon (a)								
Donations/assistance grants					**(330)**	(124)		
	-	-	-	-	**(330)**	**(124)**	-	-
Instituto Elisabetha Randon (a)								
Donations/assistance grants					**(1,507)**	(635)		
					(1,507)	**(635)**		
Other related parties (a)								
Purchase of products and services	-	-	-	-	**(3)**	-	-	-
Other net income/operating and financial expenses	-	-	-	-	**(81)**	(83)	-	-
	-	-	-	-	**(84)**	**(83)**	-	-
Total – Other related parties	**1,068**	**664**	**11,133**	**649**	**26,597**	**43,112**	-	-
Total – Related parties	**279**	**205,530**	**11,650**	**992**	**198,177**	**175,672**	-	-

(a) Balances held with other related parties.
(b) Company's direct parent company. The Company's ultimate parent company is Dramd Participações e Administração Ltda.
(c) Foreign subsidiaries.

(d) Companies controlled by the direct shareholder Randon S.A. Implementos e Participações.
(e) Subsidiaries in Brazil.
(f) Noncontrolling shareholder of ASK Fras-le Friction.
(g) Domestic subsidiary merged on July 1, 2020, according to Note 2.3.

	Parent Company		Consolidated	
	2020	2019	2020	2019
Accounts receivable from sale	**170,267**	174,420	**1,315**	664
Dividends receivable	**3,716**	92	**-**	-
Loans receivable	**44,596**	26,291	**-**	-
Accounts payable	**(276)**	(992)	**(5,853)**	(3,596)
Loans payable	**(241)**	-	**(7,082)**	-
Total	**218,062**	**199,811**	**(11,620)**	**(2,932)**

11.1 Remuneration of key management personnel of the Companies and its subsidiaries

The Company assigned as Key Management Personnel: (i) the Board of Directors, the Statutory Executive Board and the Tax council. The amounts related to the remuneration of the key management personnel are as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Short-term benefits (salaries, wages, profit sharing, medical care Expenses)	**6,491**	5,690	**7,016**	6,087
Post-employment benefits - contributions to Randonprev	**121**	111	**152**	134
Total	**6,612**	**5,801**	**7,168**	**6,221**

The Company paid key management personnel no compensation in other categories of i) long-term benefits; ii) employment termination benefits; or iii) share-based payment.

12 Pension plans and post-employment benefits for employees

Accounting Policy

The Company sponsors a defined contribution-type supplementary pension plan, and a Minimum Guaranteed Benefit, equivalent to one (1) contractual basic salary for every 10 years of service rendered to Randon Companies, limited to 30 years, which gives it the characteristic of a Mixed Plan.

The Pension Plan, managed by the Randonprev Pension Fund, a Closed Supplementary Pension Plan Entity, is primarily aimed at supplementing post-career Income, to the employees of Randon Companies.

The referred Plan includes the following benefits: normal retirement, early retirement, disability pension, death pension, proportional benefit and guaranteed minimum benefit.

The Company recognizes its obligation with the benefit plan to its employees and, regarding the related costs, net of the plan's assets, adopts the following practices:

- *The costs on the Pension Plan and post-employment benefits acquired by employees are determined actuarially using the projected credit unit method and Management's best estimate of the expected performance of the plan's investments for funds, salary growth, employees' retirement age. The* *discount rate used to measure the obligations of the Randon Companies, regarding payment of post-employment benefits, is based on the long-term financial market rate;*

- *Assets of the pension plan are marked-to-market;*
- *Past service costs arising from corrections to the plan were amortized on a straight-line basis during the first 20 years, which began in June 1994, not having a remaining balance of previous service rendered by the active employees;*
- *Actuarial gains and losses are immediately recognized in "other comprehensive income" for the year;*
- *Plan reductions result from significant changes in the expected time of service of the active employees. A net loss is recognized with reduction when the event is probable and can be estimated, while the net gain with reduction is deferred until its realization.*

In accounting for pension and post-employment benefits, various statistics and other factors are used to anticipate future events in the calculation of the expense and obligations relating to the Plan. These factors include assumptions about the discount rate, expected return on plan assets and salary growth rate.

Additionally, actuarial consultants also use subjective factors such as employee termination, turnover, and mortality rates to estimate these factors. The actuarial assumptions used by the Company are based on adherence studies carried out by the actuary, such as long-term inflation compatible with the payment flows of the evaluated obligations, hypotheses of turn-over with the application of the probabilities of the tables "WTW Experience", and hypotheses of mortality and Invalids.

The following tables summarize the components of the net benefit expense recognized in the statement of income, as well as the status and amounts recognized in the balance sheet:

	Parent Company		Consolidated	
	2020	**2019**	**2020**	2019
Net expense on benefit (recognized in cost of sales)				
Cost of current service	**(195)**	(169)	**(218)**	(186)
Cost of interest on benefit liabilities	**(253)**	(233)	**(276)**	(252)
Interest income plan assets	**558**	660	**610**	715
Interest on unrecoverable surplus	**-**	36	**-**	39
Cost of defined benefit in income	**110**	294	**116**	316
Actual yield of plan assets	**1,880**	**660**	**2,236**	**715**

Benefit Assets

	Parent Company		Consolidated	
	2020	2019	2020	2019
Defined benefit obligation	**(3,682)**	(3,822)	**(3,984)**	(4,187)
Fair value of the plan assets	**4,187**	8,108	**4,530**	8,883
Non-recoverable surplus (effect of the asset limit)	**-**	-	**-**	-
Benefit Assets	**505**	**4,286**	**544**	**4,696**
Current	**115**	**978**	**154**	**1,077**
Non-Current	**390**	**3,308**	**390**	**3,619**

The changes in the present value of obligation with defined benefit are as follows:

	Parent Company	Consolidated
Defined benefit obligation as of December 31, 2018	**(2,692)**	**(2,937)**
Interest cost	(233)	(252)
Cost of current service	(169)	(186)
Benefits paid	190	190
Actuarial losses on liabilities	(918)	(1,002)
Defined benefit obligation as of December 31, 2019	**(3,822)**	**(4,187)**
Interest cost	**(253)**	**(276)**
Cost of current service	**(195)**	**(218)**
Benefits paid	**300**	**313**
Actuarial losses on liabilities	**288**	**384**
Defined benefit obligation as of December 31, 2020	**(3,682)**	**(3,984)**

Changes in fair value of pension plan assets are as follows:

	Parent Company	Consolidated
Fair value of plan assets on December 31, 2018	**7,316**	**7,972**
Return on investment	842	945
Contribution of the employer	140	156
Benefits paid	(190)	(190)
Fair value of plan assets on December 31, 2019	**8,108**	**8,883**
Return on investment	**(765)**	**(1,015)**
Contribution of the employer	**127**	**142**
Benefits paid	**(300)**	**(313)**
Write-offs	**(2,983)**	**(3,167)**
Fair value of plan assets on December 31, 2020	**4,187**	**4,530**

The Company expects to contribute R$ 899 to its defined benefit pension plans in 2021. Main categories of plan assets with a percentage of fair value of total plan assets are as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Shares	**966**	1,827	**1,040**	1,991
Securities	**3,221**	6,281	**3,490**	6,892
	4,187	**8,108**	**4,530**	**8,883**

The total expected rate of return on assets is determined based on the market expectations existing on that date, applicable to the year in which the obligation is to be settled. These expectations are reflected in the key assumptions below.

	2020	2019
Discount rate	**6.72%**	6.99%
Salary growth rate	**5.52%**	6.02%
Benefit growth rate	**3.25%**	3.80%
Life expectancy (in years) in private pension plans for 60-year-old assisted participants:		
Men	**24.59**	24.59
Women	**24.72**	27.42

Estimated expectations of benefits defined for the next fiscal year are as follows:

	Parent Company	Consolidated
Maturity profile of defined benefit liability		
Payment of expected benefits in the year to end on December 31, 2021.	**372**	**372**
Payments of expected benefits in the years to end from December 31, 2022 to December 31, 2030	**3,199**	**3,199**
	3,571	**3,571**
Analysis of defined benefit liability per category of participant		
Active participants	**2,697**	**2,697**
	2,697	**2,697**
Equity information		
Percentage of total allocation at December 31, 2020:		
Variable income	**0%**	**0%**
Fixed Income	**99%**	**99%**
Properties	**1%**	**1%**
	100%	**100%**
Income (loss) for the year		
Cost of current service	**223**	**223**
Net interest on net liabilities/assets	**(34)**	**(34)**
Income for the year	**189**	**189**

The chart below presents the sensitivity analysis of obligation's present value as of December 31, 2020:

Sponsor	*Present value of obligation 2020*	*1% Increase - Effect on PVL*	*1% Reduction - Effect on PVL*
Fras-le S.A.	3,682	(247)	285
Freios Controil	302	(40)	4
Total	**3,984**	**(287)**	**289**

According to item 145 of CPC33 (R1) – Employee Benefits, and according to the results of the study, the effect on the value of the PVL was calculated considering one percentage point higher and lower in the discount rate. The combination of the real discount rate with the inflation rate results in the nominal discount rate equal to 6,72% p.a.. Considering the 1% increase in the discount rate, this sensitivity will represent an increase of R$ 268 in the PVL, with a 1% reduction in this rate, there will be a R$ 309 reduction in the PVL.

13 Investments

Accounting Policy

Business combinations are recorded using the acquisition method when control is transferred to the Company. Consideration transferred is usually measured at fair value, and so are the identifiable net assets acquired. Any goodwill arising from the transactions is annually tested for impairment. Transaction costs are recorded in P&L as incurred, except cost relating to issue of debt instruments or equity.

The consideration transferred does not include amounts referring to payment of pre-existing relations. These amounts are usually recorded in P&L for the year. Any contingent consideration payable is measured at fair value at acquisition date.

Investments in subsidiaries are determined by the equity method of accounting, as CPC18 (R2)/ IAS28, for the purpose of the parent company's financial statements. Other investments that do not fit into the category above are stated at cost of acquisition, less the provision for devaluation, when applicable.

13.1 Breakdown of balances

	Parent Company		Consolidated	
	2020	2019	2020	2019
Interest in controlled companies	**784,611**	363,086	**-**	-
Goodwill	**78,317**	77,372	**-**	-
Other investments	**-**	-	**140**	152
Unearned income from inventories	**(9,213)**	(5,108)	**-**	-
	853,715	**435,350**	**140**	**152**
Classified in non-current assets – Investment	**853,715**	464,242	**140**	152
Classified in the non-current liabilities - Provision for investment loss	**-**	(28,892)	**-**	-
Total net investments	**853,715**	**435,350**	**140**	**152**

13.2 Changes in balances

Changes in investments may be stated as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Balances at the beginning of the year	**435,350**	422,228	**152**	232
Addition due to business combination (Note 2.4)	**400,166**	-	**-**	-
Goodwill arising from business combination (Note 2.4)	**78,317**	-	**-**	-
Paid-up capital (b)	**51,700**	7,980	**-**	-
Equity in net income of subsidiaries	**50,899**	(10,362)	**-**	-
Exchange-rate change of investees	**35,927**	(7,443)	**(12)**	(80)
Monetary adjustment (a)	**18,569**	33,937	**-**	-
Increase in direct equity interest due to merger of Fremax (Note 2.3)	**6,514**	-	**-**	-
Actuarial valuation	**(270)**	1	**-**	-
Payment of dividends (e)	**(1,354)**	(4,727)	**-**	-
Exchange rate effect (a)	**(1,364)**	(17,678)	**-**	-
Unearned income from parent company’s inventories	**(4,106)**	1,949	**-**	-
Impairment (d)	**(34,462)**	-	**-**	-
Merger of Fremax (Note 2.3)	**(182,171)**	-	**-**	-
Corporate restructuring (c)	**-**	9,465	**-**	-
Balances at the end of the year	**853,715**	**435,350**	**140**	**152**

(a) The effect of exchange fluctuation and monetary adjustment comprises surplus value and goodwill. Monetary adjustment of goodwill is presented in Note 16.

(b) Capital increase in subsidiary Fras-le North America, in December 2020, amounting to R$ 51,700 and in Fras-le Argentina S.A., in August 2019, amounting to R$ 7,980, through settlement of notes receivable from the parent company.

(c) In October 2019, the Company conducted a corporate restructuring in the subsidiaries located in Argentina. Upon this change, indirect subsidiary Eurobrakes B.V. became a direct subsidiary of Fras-le S.A. and indirect subsidiary Euroexpo S.A. was merged into Fras-le Argentina S.A. As such, the parent company’s direct interest in Fras-le Argentina S.A.

(d) The Company assessed the recoverability of cash-generating units based on the most recent financial forecasts and budgets, which are prepared separately by management for each cash-generating unit to which the assets are allocated, using the discounted cash flow method, according to Note 14.

(e) On June 18, 2020, through Resolution of Shareholders, the Company approved the allocation of profits of Fremax Sistemas Automotivos Eireli for 2019, without, however, distribution of previously established dividends, which were reversed.

13.3 Information of the subsidiaries and changes in balances per subsidiary

	Information of the subsidiaries					Changes in Investments								
	Ownership interest at the end of the year - %	Net Assets and Liabilities	Adjusted Equity	Net income	Balances in 2018	Equity in net income	Corporate restructuring	Paid-up capital	Accumulated translation adjustments	Monetary adjustment	Exchange rate effect	Actuarial evaluation	Payment of dividends	Balances in 2019
Fremax	100	51,718	51,718	202,495	103,902	8,203	-	-	(5,095)	888	(784)	-	(4,727)	102,387
Armetal	100	19,826	19,826	92,712	52,879	(6,651)	-	-	(3,030)	23,246	(11,539)	-	-	54,905
FANACIF	100	36,972	36,972	57,407	48,249	3,347	-	-	1,838	-	97	-	-	53,531
Fras-le Friction	100	51,363	51,363	52,519	46,972	3,187	-	-	1,204	-	-	-	-	51,363
Freios Controil	99.99	45,203	45,203	104,871	50,017	(4,817)	-	-	-	-	-	1	-	45,201
Jurid	80.1	13,877	13,877	51,553	48,119	(6,514)	-	-	-	-	-	-	-	41,605
ASK	51	23,111	23,111	31,131	14,902	(3,384)	-	-	268	-	-	-	-	11,786
Euro Brakes	100	9,708	9,708	5,350	-	56	11,707	-	182	-	5	-	-	11,950
Fras-le Europe	100	7,617	7,617	15,592	7,393	53	-	-	171	-	-	-	-	7,617
Fras-le Argentina	51.66	13,209	13,209	74,307	13,573	(10,429)	-	7,980	(1,743)	(180)	178	-	-	9,379
Fras-le Panamericana	100	915	915	30,267	174	731	-	-	11	-	-	-	-	916
Fras-le México	99.66	876	876	839	640	174	-	-	59	-	-	-	-	873
Fras-le Andina	99	246	246	717	171	75	-	-	(3)	-	-	-	-	243
Fras-le Africa	100	221	221	102	198	10	-	-	14	-	-	-	-	222
Fras-le North América	100	(28,892)	(28,892)	207,537	(33,360)	5,588	-	-	(1,120)	-	-	-	-	(28,892)
Fras-le Middle	-	-	-	385	190	9	-	-	(199)	-	-	-	-	-
Total	**-**	**245,970**	**245,970**	**927,784**	**354,019**	**(10,362)**	**11,707**	**7,980**	**(7,443)**	**23,954**	**(12,043)**	**1**	**(4,727)**	**363,086**

13.3 Information of the subsidiaries and changes in balances per subsidiary

	Information of the subsidiaries					Changes in Investments								
	Ownership interest at the end of the year - %	Net Assets and Liabilities	Adjusted Equity	Net income	Balances in 2019	Equity in net income	Paid-up capital	Accumulated translation adjustments	Monetary adjustment	Exchange rate effect	Actuarial evaluation	Payment of dividends	Merger and acquisitions	Impairment	Balances in 2020
Fremax	100	-	-	81,971	102,387	2,074	-	(40)	-	-	-	4,727	(109,148)	-	-
Nakata	100	263,445	137,219	234,614	-	23,862		-	-	-	-	(3,552)	400,166	-	420,476
Armetal	100	71,778	21,848	99,476	54,905	(4,418)	-	4,882	12,217	(1,987)	-	-	-	(2,884)	62,715
FANACIF	100	10,227	48,597	59,565	53,531	2,930	-	10,693	-	4,796	-	(2,529)	-	(14,416)	55,005
Fras-le Friction	100	65,575	72,915	81,828	51,363	2,718	-	18,834	-	-	-	-	-	-	72,915
Freios Controil	99.99	43,425	58,955	110,930	45,201	14,024	-	-	-	-	(270)	-	-	-	58,955
Jurid	80.1	26,268	17,614	47,020	41,605	1,869	-	-	-	-	-	-	-	(12,175)	31,299
ASK	51	63,704	12,072	27,647	11,786	(7,998)	-	2,369	-	-	-	-	-	-	6,157
Euro Brakes	100	14,717	14,943	26,358	11,950	866	-	4,091	-	898	-	-	-	-	17,805
Fras-le Europe	100	3,750	11,911	18,989	7,617	1,001	-	3,293	-	-	-	--	-	-	11,911
Fras-le Argentina	99.84	73,439	16,604	90,120	9,379	6,082	-	(476)	869	(226)	-	-	6,514	-	22,142
Fras-le Panamericana	100	28,127	3,641	34,120	916	2,458	-	267	-	-	-	-	-	-	3,641
Fras-le México	99.66	26	804	543	873	(250)	-	177	-	-	-	-	-	-	800
Fras-le Andina	99	21	480	606	243	125	-	107	-	-	-	-	-	-	475
Fras-le Africa	100	-	-	-	222	(223)	-	1	-	-	-	-	-	-	-
Fras-le North América	100	153,362	20,315	204,931	(28,892)	5,779	51,700	(8,272)	-	-	-	-	-	-	20,315
Total	**-**	**817,864**	**437,918**	**1,118,718**	**363,086**	**50,899**	**51,700**	**35,926**	**13,086**	**3,481**	**(270)**	**(1,354)**	**297,532**	**(29,475)**	**784,611**

14 Impairment

Accounting Policy

a. *Non-derivative financial assets*

Financial assets not classified as financial assets at fair value through profit or loss, including investments recorded under the equity method, are assessed at each statement of financial position date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- *Debtor's default or delay in payment;*
- *Restructuring of an amount payable to the Company under conditions not considered usual;*
- *Indications that the debtor or issuer will file for bankruptcy/in-court reorganization;*
- *Negative changes in the payment status of debtors or issuers;*
- *Disappearance of an active market for the instrument; or*
- *Observable data indicating that there was a decrease in measurement of expected cash flows for a group of financial assets.*

b. *Financial assets measured at amortized cost*

The Company considers evidence of impairment of assets measured at amortized cost both individually and collectively. All individually significant assets are tested for impairment. Those identified as not impaired individually are assessed collectively regarding any loss of value that may have occurred but which has not yet been identified. The assets that are not individually significant are tested collectively for impairment based on the grouping of assets with similar risk characteristics.

In assessing impairment loss collectively, the Company takes into consideration historical trends of the timing of recoveries and the amounts of loss incurred, adjusted for management's judgment on current economic and credit conditions.

An impairment loss is calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in P&L and reflected in a provision account. When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. Whenever a subsequent event indicates a reduction in the amount of loss, such reduction is reversed through P&L.

The determination of a cash-generating unit (CGU) is carried out considering the group of assets responsible for generating cash independently from other assets or operations. At December 31, 2020, the Company did not change the determination of its CGUs.

c. *Investees accounted for under the equity method*

Impairment losses referring to an investee assessed by the equity method are measured by comparing the recoverable value of the investment with its book value. Impairment losses are recorded in P&L and are reversed if there is a favorable change in the estimates used for calculating recoverable value.

d. *Allocation of impairment*

The impairment loss in cash-generating units is first allocated to goodwill for expected future profitability, if any, and then to the other assets of the unit. The Company allocates the remaining losses to goodwill, firstly to intangible assets determined by future cash flows upon recognition (surplus value of trade accounts receivable and trademarks) and then to the most significant fixed assets of the cash-generating unit.

14.1 Impairment of investments

As at December 31, 2020, goodwill and surplus value amounts were measured at their recoverable amount.

Company	Average gross margin	Discount rate	*Impairment*
Armetal (a)	31.7%	16.43% (14.21% in 2019)	(7,872)
Fanacif (b)	21.0%	14.35%(15.18% in 2019)	(14,416)
Fremax	32.8%	11.83% (9.10% in 2019)	Not identified
Jurid (c)	22.6%	11.83% (9.10% in 2019)	(12,175)
Total			**(34,463)**

(a) *The recoverable amount was compared with book value of the assets that comprise the CGU and, as a result of this analysis and application of the assumptions described on discounted cash flows to determine the need to record impairment of assets, management identified a impairment to R$ 7,872.*

The key assumptions that impacted the indication of impairment for this unit are the expectation of a reduction in sales volume in the Argentine market as a result of the country's economic scenario, in addition to the constant devaluation of the functional currency.

(b) *In June 2020, the Company carried out a restructuring of the plant in Uruguay, where the subsidiary FANACIF S.A. is located, which included the transfer of the canvas production line to Brazil. With this restructuring and the consequent reduction in the future cash flows of the unit, the Company recorded impairment in the cash generating unit (CGU) in the amount of R$2,745 on June 30, 2020. At December 31, 2020, in the annual impairment analysis, the Company recognized additional impairment of R$11,671.*

(c) *At December 31, 2019, the Company identified, through the impairment analyses, impairment in the subsidiary Jurid of R$5,686, which was not recorded at the time. On March 31, 2020, considering the scenario of uncertainties and insecurity in relation to the evolution of the pandemic, the Company fully recognized the impairment on the investment calculated based on the study carried out as of December 31, 2019. At December 31, 2020, based on the updated cash flow projections, the Company recognized additional impairment of R$6,489.*

The key assumptions used as of December 31, 2020, in addition to those presented above specifically for each cash-generating unit, were as follows: (i) updating of costs and expenses based on historical price curves and sector reports; (ii) growth rate based on historical growth. The recoverable amount was compared *with the book balance of the assets that comprise the CGU and, as a result of this analysis, management did not identify the need to recognize impairment for other Cash Generating Units.*

The Company projected optimistic and pessimistic scenarios, considering the following sensitivity scenarios: (i) EBITDA 5% downwards and upwards and (ii) discount rate 2% downwards and upwards. The results are presented below:

Company	Actual scenario	Optimistic scenario	Pessimistic scenario
Armetal	(7,871)	8,899	(21,163)
Fanacif	(14,416)	(3,446)	(22,378)
Jurid	(12,175)	(9,410)	(14,556)

In the other CGUs, no alternative scenarios were identified that would result in impairment.

The Company did not identify any indication of impairment in other cash-generating units.

14.2 Impairment of operating assets

At December 31, 2017, when conducting the impairment testing of assets, the Company identified that the Block cash-generating unit, located at the subsidiary Fras-le North-America Inc., was not economically feasible at the time and management did not have any expectation of the full recovery of the amounts invested in the project, having recognized provision for impairment losses of R$21,160. The Company reviewed its estimate of recovery of the investment in the Block unit and reversed the amounts of R$7,392 and R$1,975 as of December 31, 2018 and December 31, 2020, respectively. The total impairment of this unit as of December 31, 2020 is R$21,383 (R$18,094 as of December 31, 2019). The foreign exchange impact resulting from the translation of the subsidiary's balance sheet was R$9,590 in 2020 (R$6,301 in 2019).

With the exception of the above, the Company has not identified any indication of other assets that could be accounted for in an amount above their recoverable amount.

15 Property, plant and equipment

Accounting Policy

a. *Recognition and measurement*

PPE items are measured at historical acquisition or build-up cost, less accumulated depreciation and accumulated impairment losses (accounting policy for impairment of property, plant and equipment is described in Note 4.2).

Cost includes expenses not directly attributable to acquisition of an asset. The cost of assets built by the Company includes cost of materials and direct labor, any other costs to place the asset on site and under the necessary conditions for such asset to be able to operate as intended by management, costs relating to disassembly and restauration of the location of these assets and borrowing costs on qualifiable assets.

When parts of a PPE item have different useful lives, these parts are recorded as individual (main component) PPE items. Any gains or losses arising from disposal of a PPE item are recorded in P&L.

Subsequent costs are capitalized to the extent that future economic benefits associated with these costs are likely to be earned by the Company. Recurring maintenance and repair expenses are recorded in P&L.

A PPE item is written off after disposal or when no future economic benefits are expected from its continuous use. Gains or loss arising from sale or write-off are recorded in P&L when incurred.

b. *Depreciation*

Fixed assets items are depreciated using the straight-line method in the profit or loss of the year based on the estimated economic useful life of each component. Leased assets are depreciated over the shorter of the estimated useful life of the asset and the contractual term, unless it is certain that the Company will become the owner of the asset at the end of the lease term. Land is not depreciated.

Estimated average useful lives for the current and comparative year are as follows:

	Consolidated	
	Average useful life	**% year**
Buildings	39 years	2.6
Machinery and equipment	12 years	8.3
Molds	8 years	12.5
Vehicles	8 years	10.0
Furniture and fixtures	10 years	9.0
IT equipment	5 years	20.0

Parent Company

Cost of the gross fixed assets	Land and buildings	Machinery, equipment and molds	Furniture and fixtures	IT equipment	Vehicles	Property, plant and equipment in progress	Total
Balance at December 31, 2018	**144,365**	**437,166**	**10,797**	**9,087**	**1,034**	**25,409**	**627,858**
Acquisitions	329	8,084	472	364	30	18,940	28,219
Write-offs	(399)	(707)	(4)	(9)	-	-	(1,119)
Transfers	786	20,924	167	83	41	(22,161)	(160)
Balance at December 31, 2019	**145,081**	**465,467**	**11,432**	**9,525**	**1,105**	**22,188**	**654,798**
Merger of Fremax	**5,267**	**95,340**	**1,201**	**1,149**	**-**	**-**	**102,957**
Acquisitions	**1,076**	**6,709**	**99**	**1,384**	**-**	**18,274**	**27,542**
Write-offs	**(2,538)**	**(53,578)**	**(4,834)**	**(5,133)**	**(736)**	**-**	**(66,819)**
Transfers	**2,913**	**8,694**	**551**	**407**	**-**	**(13,055)**	**(490)**
Balance at December 31, 2020	**151,799**	**522,632**	**8,449**	**7,332**	**369**	**27,407**	**717,988**
Depreciation							
Balance at December 31, 2018	**(52,136)**	**(302,260)**	**(8,693)**	**(7,528)**	**(991)**	**-**	**(371,608)**
Depreciation							
Acquisitions	(3,681)	(19,323)	(375)	(471)	(21)	-	(23,871)
Write-offs	399	617	3	9	-	-	1,028
Balance at December 31, 2019	**(55,418)**	**(320,966)**	**(9,065)**	**(7,990)**	**(1,012)**	**-**	**(394,451)**
Merger of Fremax	**(1,199)**	**(35,885)**	**(518)**	**(458)**	**-**	**-**	**(38,060)**
Acquisitions	**(3,924)**	**(23,103)**	**(421)**	**(644)**	**(18)**	**-**	**(28,110)**
Write-offs	**2,417**	**50,142**	**4,747**	**5,100**	**728**	**-**	**63,134**
Transfers	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**
Balance at December 31, 2020	**(58,125)**	**(329,812)**	**(5,256)**	**(3,992)**	**(302)**	**-**	**(397,487)**
Net Value							
Balance at December 31, 2019	**89,663**	**144,501**	**2,367**	**1,535**	**93**	**22,188**	**260,347**
Balance at December 31, 2020	**93,674**	**192,820**	**3,193**	**3,340**	**67**	**27,407**	**320,501**

Consolidated

Cost of the gross fixed assets	Land and buildings	Machinery, equipment and molds	Furniture and fixtures	IT equipment	Vehicles	Property, plant and equipment in progress	Total
Balance at December 31, 2018	**229,913**	**763,905**	**24,323**	**16,058**	**4,046**	**59,600**	**1,097,845**
Acquisitions	348	17,659	660	563	608	60,630	80,468
Surplus							
Write-offs	(399)	(1,143)	(419)	(36)	(154)	(16)	(2,167)
Transfers	1,164	26,123	2,808	177	42	(30,474)	(160)
Exchange-rate change	369	2,909	254	(86)	(217)	826	4,055
Inflation Adjustment	559	1,602	38	326	697	9	3,231
Balance at December 31, 2019	**231,954**	**811,055**	**27,664**	**17,002**	**5,022**	**90,575**	**1,183,272**
Acquisitions	**1,076**	**11,938**	**368**	**2,736**	**19**	**39,929**	**56,066**
Acquisition of new businesses	**2,789**	**34,310**	**5,281**	**8,188**	**937**	**-**	**51,505**
Write-offs	**(2,545)**	**(55,776)**	**(5,136)**	**(5,936)**	**(1,031)**	**(854)**	**(71,278)**
Transfers	**3,574**	**70,821**	**2,291**	**631**	**177**	**(78,697)**	**(1,203)**
Exchange-rate change	**13,021**	**35,724**	**4,694**	**912**	**29**	**13,887**	**68,267**
Surplus	**-**	**12,047**	**1,371**	**-**	**346**	**-**	**13,764**
Inflation Adjustment	**2,138**	**3,206**	**137**	**909**	**339**	**204**	**6,933**
Balance at December 31, 2020	**252,007**	**923,325**	**36,670**	**24,442**	**5,838**	**65,044**	**1,307,326**
Depreciation and impairment loss							
Balance at December 31, 2018	**(76,201)**	**(486,169)**	**(18,316)**	**(12,257)**	**(2,588)**	**(1,556)**	**(597,087)**
Depreciation	(5,649)	(39,769)	(1,401)	(1,252)	(345)	-	(48,416)
Write-offs	399	508	75	33	148	-	1,163
Exchange-rate change	(461)	(1,392)	(193)	(68)	138	(63)	(2,039)
Inflation Adjustment	(120)	(1,940)	(26)	(24)	(216)	-	(2,326)
Balance at December 31, 2019	**(82,032)**	**(528,762)**	**(19,861)**	**(13,568)**	**(2,863)**	**(1,619)**	**(648,705)**
Depreciation	**(5,497)**	**(43,726)**	**(1,898)**	**(1,862)**	**(238)**	**-**	**(53,221)**
Acquisition of new businesses	**(2,293)**	**(19,655)**	**(2,116)**	**(5,084)**	**(226)**	**-**	**(29,374)**
Write-offs	**2,442**	**53,200**	**4,982**	**5,950**	**860**	**-**	**67,434**
Transfers	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**
Exchange-rate change	**(4,678)**	**(19,855)**	**(3,171)**	**(894)**	**(274)**	**(469)**	**(29,341)**
Surplus value amortization	**(708)**	**(2,753)**	**(34)**	**(16)**	**-**	**-**	**(3,511)**
Inflation Adjustment	**(728)**	**(657)**	**(1,735)**	**1,084**	**35**	**-**	**(2,001)**
Reversal of impairment	**-**	**1,926**	**-**	**-**	**-**	**49**	**1,975**
Impairment	**(3)**	**(18,421)**	**-**	**-**	**-**	**-**	**(18,424)**
Balance at December 31, 2020	**(93,498)**	**(578,703)**	**(23,832)**	**(14,390)**	**(2,706)**	**(2,039)**	**(715,168)**
Net value							
Balance at December 31, 2019	**149,922**	**282,293**	**7,803**	**3,434**	**2,039**	**88,956**	**534,567**
Balance at December 31, 2020	**158,509**	**344,622**	**12,838**	**10,052**	**3,132**	**63,005**	**592,158**

15.1 Breakdown of property, plant and equipment

PPE asset and liability balances are broken down as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
PPE in operation	**320,501**	260,347	**592,158**	534,568
Advances to suppliers and imports in transit	**1,005**	4,300	**2,524**	4,980
	321,506	**264,647**	**594,682**	**539,548**

15.2 Property, plant and equipment in progress

Consolidated constructions in progress are substantially presented by projects of expansion and optimization of the units as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Manufacturing of tools	**228**	694	**1,954**	1,843
Manufacturing and installation of machinery and equipment	**13,940**	11,951	**40,233**	73,292
Constructions and improvements in real estate property	**12,551**	7,623	**13,322**	9,953

Other	**688**	1,920	**7,496**	3,868
	27,407	**22,188**	**63,005**	**88,956**

15.3 Loan cost capitalized

The amount of capitalized loan costs during the year ended December 31, 2020 was R$ 185 (R$ 982 on December 31, 2019). Rate used to determine the amount of loan costs subject to capitalization was 0.26% per month (0.50% per month as of December 31, 2019), which represents the effective rate of specific loans.

16 Intangible assets

Accounting Policy

a. *Software*

Acquired software licenses are recorded as capital expenditures at the costs incurred to acquire the software and prepare them for use. These costs are amortized over their estimated useful life up to 5 years.

Software maintenance costs are recognized as an expense, as incurred. Development costs that are directly attributable to software product design and testing, and are identifiable and exclusive, controlled by the Company, are recognized as intangible assets when the asset is available to be used or sold and Management can reliably measure the expenditure attributable to the software and its future economic benefits.

The directly attributable costs, which are capitalized as part of the software product, include costs on employees allocated to the software development and an adequate portion of the direct relevant expenses. The costs also include financing costs related to software acquisition.

Other development expenditures not meeting those criteria are expensed as incurred. Development costs previously expensed are not recognized as asset in a subsequent period.

Software development costs recognized as assets are amortized through the estimated useful life of the software, not greater than 8 years..

Intangible assets are written off when sold or when no future economic benefits relating to these assets are expected, and recorded in P&L upon write-off.

b. *Amortization*

Amortization is calculated to amortize the cost of items of intangible assets, net of their estimated residual values, using the straight-line method based on estimated useful lives of such items. Amortization is usually recognized in income.

c. *Business combinations and goodwill*

Intangible assets acquired in a business combination refer substantially to goodwill computed upon acquisition of investments, trademarks and customer portfolios. In the consolidated financial statements, intangible assets acquired in a business combination and recognized separately from goodwill are recorded *at fair value at acquisition date, which is equivalent to cost, and are amortized over their estimated useful life on a straight-line basis.*

d. *Goodwill*

Goodwill is represented by the positive difference between the amount paid or payable and the net amount of fair value of assets and liabilities of the acquired entity. Goodwill from acquisition of subsidiaries is recorded as intangible assets. If the acquirer computes negative goodwill, such amount should be recorded as gains in P&L for the period, at acquisition date. Goodwill is annually tested for impairment and recorded at cost less accumulated impairment losses, which are not reversed. Gains and losses deriving from sale of an entity include book value of goodwill relating to the entity sold.

Goodwill is allocated to the cash-generating units (CGU) for impairment testing purposes. Goodwill amounts are allocated to the CGUs or groups of CGUs that should benefit from the business combination from which goodwill originated, duly segregated, in accordance with the operating segment.

Parent Company

Cost	Intangible in progress	Software and licenses	Customer Portfolios	Trademarks	Goodwill	Total
Balance at December 31, 2018	**574**	**30,035**	**-**	**-**	**-**	**30,609**
Acquisitions	304	59	-	-	-	363
Transfers	-	160	-	-	-	160
Balance at December 31, 2019	**878**	**30,254**	**-**	**-**	**-**	**31,132**
Merger of Fremax	**-**	**3,873**	**28,313**	**10,640**	**73,024**	**115,850**
Acquisitions	**489**	**35**	**-**	**-**	**-**	**524**
Write-offs	**-**	**(4,869)**	**-**	**-**	**-**	**(4,869)**
Transfers	**(876)**	**1,366**	**-**	**-**	**-**	**490**
Balance at December 31, 2020	**491**	**30,659**	**28,313**	**10,640**	**73,024**	**143,127**
Amortization						
Balance at December 31, 2018	**-**	**(24,828)**				**(24,828)**
Amortization	-	(2,378)				(2,378)
Write-offs						
Balance at December 31, 2019		**(27,206)**				**(27,206)**
Merger of Fremax	-	**(637)**	**(4,290)**	**(696)**	**-**	**(5,623)**
Amortization	-	**(2,601)**	**(1,501)**	**(348)**	**-**	**(4,450)**
Write-offs	-	**4,857**	**-**	**-**	**-**	**4,857**
Balance at December 31, 2020	**-**	**(25,587)**	**(5,791)**	**(1,044)**	**-**	**(32,422)**
Net residual value						
Balance at December 31, 2019	**878**	**3,048**	**-**	**-**	**-**	**3,926**
Balance at December 31, 2020	**491**	**5,072**	**22,522**	**9,596**	**73,024**	**110,705**

Consolidated

Cost	Intangible in progress	Software licenses	Client portfolio	Trademarks	Goodwill	Right to use assets	Total
Balance at December 31, 2018	**1,029**	**42,487**	**53,401**	**18,808**	**73,024**	**1,322**	**190,071**
Acquisitions	331	499	-	-	-	-	830
Surplus							
Write-offs	-	(59)	-	-	-	-	(59)
Transfer	(9)	169	-	-	-	-	160
Exchange-rate change	-	(11)	(9,561)	(1,228)	(5,635)	-	(16,435)
Inflation adjustment	-	100	21,305	2,651	9,983	-	34,039
Balance at December 31, 2019	**1,351**	**43,185**	**65,145**	**20,231**	**77,372**	**1,322**	**208,606**
Acquisition of business combination	-	7,034	-	-	-	-	7,034
Acquisitions	16	387	-	-	-	-	403
Write-offs	-	(4,914)	-	-	-	-	(4,914)
Transfer	(876)	2,079	-	-	-	-	1,203
Exchange-rate change	-	524	(614)	(226)	(4,879)	-	(5,195)
Surplus	-	-	172,439	103,666	78,317		354,422
Inflation adjustment	-	156	11,624	1,405	5,483	-	18,668
Balance at December 31, 2020	**491**	**48,451**	**248,594**	**125,076**	**156,293**	**1,322**	**580,227**
Amortization and impairment							
Balance at December 31, 2018	-	(31,125)	-	40	-	-	(31,085)
Acquisition of business combination							
Amortization	-	(1,993)	(6,445)	(848)	-	-	(9,286)
Write-offs	-	40	-	-	-	-	40
Transfer							
Exchange-rate change	-	(33)	12	-	-	-	(21)
Inflation adjustment	-	(23)	-	-	-	-	(23)
Balance at December 31, 2019	**-**	**(33,134)**	**(6,433)**	**(808)**	**-**	**-**	**(40,375)**
Acquisition of business combination	-	(5,474)	-	-	-	-	(5,474)
Amortization	-	(3,638	(1,501)	(348)	-	-	(5,487)
Write-offs	-	4,903		-	-	-	4,903
Transfer	-	(697)		-	-	-	(697)
Surplus	-	-	(6,273)	(2,104)	-	-	(8,377)
Inflation adjustment	-	(17)	(2,582)	(104)	-	-	(2,703)
Impairment	-	-	(2,140)	(7,632)	(4,945)	(1,322)	(16,039)
Balance at December 31, 2020	**-**	**(38,057)**	**(18,929)**	**(10,996)**	**(4,945)**	**(1,322)**	**(74,249)**
Net residual value							
Balance at December 31, 2019	**1,351**	**10,051**	**58,712**	**19,423**	**77,372**	**1,322**	**168,231**
Balance at December 31, 2020	**491**	**10,394**	**229,665**	**114,080**	**151,348**	**-**	**505,978**

d.1 Goodwill and surplus of Armetal Group

Goodwill of Armetal Group arose from a business combination made effective in November 2017. The Company acquired equity interest in PALR S.A., Armetal Autopartes S.A., Farloc Argentina S.A.C. y F., in Argentina, and FANACIF S.A. in Uruguay. On August 31, 2019, the Board of Directors approved the corporate structure change in the Argentina-based companies, and PALR was merged into Armetal. After the merger, the Company became the direct parent of Armetal.

The purchase price of the acquired companies was R$ 97,547, of which R$ 87,508 were paid in cash and R$ 8,414 of which were withheld for a period of up to 8 years, as from acquisition date. These amounts are *adjusted by reference to Interbank Deposit Certificates (CDI). At December 31, 2020, the amount payable totaled R$9,721 (R$9,332 in 2019).*

d.2 Goodwill and surplus value in direct subsidiary Fremax

Goodwill arising from acquisition of direct subsidiary Fremax was computed by means of Purchase Price Allocation (PPA) issued on January 31, 2019. This acquisition effects were recognized in 2018. The assets identified were measured in accordance with the following accounting policy:

Consideration transferred	180,287
Equity acquired	45,921
Surplus value of assets	
Inventories	130
Property, plant and equipment	19,747
Intangible assets	43,228
Deferred income and social contribution taxes	(1,763)
Goodwill computed in the operation net of tax effects	**73,024**

The purchase price of the acquired companies was R$ 180,287, of which R$ 162,287 were paid in cash and R$ 18,000 of which were withheld for a period of up to 8 years, as from acquisition date. These amounts are adjusted by reference to Interbank Deposit Certificates (CDI). On July 1, 2020, the subsidiary was merged by the Company, as explained in Note 2.1.

d.3 Surplus value of direct subsidiary Jurid

Surplus value arising from acquisition of direct subsidiary Jurid was computed by means of Purchase Price Allocation (PPA) issued on January 18, 2018. This acquisition effects were recognized in 2018. The assets identified were measured in accordance with the following accounting policy:

Consideration transferred	-
Equity	25,321
Noncontrolling interests	(5,039)
Equity acquired	20,282
Surplus value of assets	
Property, plant and equipment	25,470
Intangible assets	7,729
Deferred income and social contribution taxes	(18,183)
Bargain purchase amount computed in the operation	**35,298**

Breakdown of the balances payable due to business combination as of December 31, and 2020 and 2019, is as follows:

Parent Company	2020	2019
Armetal	9,721	9,332
Fremax	11,024	19,315
Nakata (Note 2.4)	202,499	-
Total	**222,693**	**28,647**
Current	**50,131**	**-**
Non-current	**172,113**	**28,647**

17 Leases

17.1 First-time adoption as of January 1, 2019

IFRS 16/CPC 06 (R2) is applicable as from January 01, 2019 and aims at unifying the lease accounting model. This standard requires that lessees recognize the liabilities assumed in consideration for the respective assets corresponding to the lessees' rights-of-use for all lease agreements, unless the lease presents the following characteristics, which are within the scope of the exemption provided for in the standard:

- *Agreement for a period equal to or under twelve months; and*
- *Agreement refers to leases of low-value assets or uses variable amounts as a base.*

The Company reviewed its lease agreements in view of the new accounting rules set out in IFRS 16 (CPC 06 (R2)). This standard has an impact mostly on accounting for the Company's operating leases. Upon initial recognition, the Company included the exemptions set out in referred to standard.

17.2 Transition

The Company applied IFRS 16 (CPC 06 (R2)) for the first time as from January 01, 2019 using the simplified retrospective approach. Management used the practical expedient relating definition of lease agreements, i.e. no agreements prior to January 01, 2019, for a short period or of low-value assets will be considered.

The approach defined by the Company requires no restatement of figures and has no impact on equity or calculation of interest on equity for the prior year, and allows for use of practical expedients.

The Company has leases referring to land, buildings, machinery, equipment and vehicles used for its operation. Agreements are measured by total future payments of fixed lease amounts and considered renewable based on the history of renewals and when we identify that renewal is "reasonable certain". These payment flows are adjusted to present value, considering the discount rate based on the Company's average borrowing rate.

The Company elected to apply the practical expedient referring to use of a single discount rate over the respective terms for agreements that present similar characteristics and not to take initial direct costs into consideration.

Impact of first-time adoption of IFRS 16 (CPC 06 (R2)) as at January 01, 2019 is as follows:

	Parent Company	Consolidated
	01/01/2019	01/01/2019
Assets	**24,924**	**79,376**
Long-term receivables		
Rights-of-use – leases	**24,924**	**79,376**
Liabilities	**24,924**	**79,376**
Current liabilities		
Lease liabilities	**4,820**	**9000**
Noncurrent liabilities		
Lease liabilities	**20,104**	**70,376**

Breakdown of and changes in right-of-use assets in the year ended December 31, 2020 are as follows:

Parent Company				
	Rights-of-use of machinery and equipment	Rights-of-use of buildings and land	Rights-of-use of vehicles	Total
At January 01, 2019	**15,493**	**8,340**	**1,091**	**24,924**
Additions	419	32	1	452
Write-offs	(1,633)	(2,978)	(68)	(4,679)
Depreciation	(2,973)	(219)	(594)	(3,786)
At December 31, 2019	**11,306**	**5,175**	**430**	**16,911**
Additions	**6,601**	**-**	**488**	**7,089**
Write-offs	**(761)**	**(1,374)**	**-**	**(2,135)**
Depreciation	**(2,956)**	**(1,237)**	**(436)**	**(4,629)**
Merger of Fremax (Note 2.3)	**764**	**29,261**	**-**	**30,025**
At December 31, 2020	**14,954**	**31,825**	**482**	**47,261**

Consolidated				
	Rights-of-use of machinery and equipment	Rights-of-use of buildings and land	Rights-of-use of vehicles	Total
At January 01, 2019	**15,750**	**62,535**	**1,091**	**79,376**
Additions	33,433	12,779	456	46,668
Write-offs	(10,278)	(4,640)	(90)	(15,008)
Inflation adjustment	1,438	-	-	1,438
Depreciation	(4,851)	(5,242)	(752)	(10,845)
At December 31, 2019	**35,492**	**65,432**	**705**	**101,629**
Additions	**6,964**	**16,879**	**488**	**24,331**
Write-offs	**(762)**	**(1,374)**	**-**	**(2,136)**
Inflation Adjustment	**6,467**	**-**	**-**	**6,467**
Depreciation	**(8,389)**	**(6,582)**	**(635)**	**(15,606)**
Exchange-rate change	**1,239**	**3,356**	**100**	**4,695**
Acquisition of business combination (note 2.4)	**-**	**21,921**	**-**	**21,921**
At December 31, 2020	**41,011**	**99,632**	**658**	**141,301**

Changes in lease liabilities at December 31, 2020 are as follows:

	Parent Company	Consolidated
At January 01, 2019	**24,924**	**79,376**
Additions	452	44,085
Write-offs	(5,035)	(15,041)
Present value adjustment of leases	1,347	6,335
Payments	(4,592)	(13,044)
Exchange-rate change	-	(678)
At December 31, 2019	**17,096**	**101,033**
Additions	**7,089**	**24,332**
Write-offs	**(2,201)**	**(2,201)**
Present value adjustment of leases	**2,579**	**9,821**
Payments	**(6,307)**	**(19,102)**
Merger of Fremax (Note 2.3)	**30,731**	**-**
Acquisition of business combination (note 2.4)	**-**	**22,757**
Exchange-rate change	**-**	**8,996**
At December 31, 2020	**48,987**	**145,636**
Current	**4,618**	**16,776**
Non-current	**44,369**	**128,860**

At December 31, 2020, aging list of lease liabilities is as follows:

Maturity	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
2020	**-**	**3,017**	**-**	**9,155**
2021	**4,618**	**2,776**	**16,776**	**8,842**
2022	**5,674**	**3,000**	**19,083**	**9,450**
2023	**5,312**	**3,000**	**18,265**	**9,450**
2024 onwards	**33,383**	**5,303**	**91,512**	**64,136**
Total	**48,987**	**17,096**	**145,636**	**101,033**

The amounts recognized in P&L for the period due to application of the standard are presented in Note 23 Expenses by nature and 25 Finance income/(costs).

The amounts presented under expenses by nature as rental expenses refer to lease expenses classified as exemptions provided for in the standard. The Company has no sublease agreements or leaseback transactions.

In accordance with the guidance set out in CVM Memorandum Letter No. 02/19, management calculated future cash flows based on a nominal rate for user assessment purposes in case the Company had adopted the nominal rate in the statement of financial position. As at December 31, 2019, impacts of depreciation in Company P&L would amount to R$ 4,772 – Individual and R$ 16,389 – Consolidated. Interest deriving from leases in the individual and consolidated financial statements would amount to R$ 4,482 and R$ 11,951, respectively.

18 Provision for claims

Accounting Policy

The Company and its subsidiaries are parties to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, social security and civil issues. The estimated loss was provisioned in non-current liabilities, based on the opinion of its legal counsel, for cases in which the loss is considered as probable.

18.1 Provision for claims

The following table shows the estimated contingent risk (loss) amounts on December 31, 2020 and 2019, according to the opinion of the Company's legal counsel:

	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
a) labor	**8,536**	6,649	**15,618**	11,096
b) civil	**978**	3,405	**5,294**	7,030
c) tax	**675**	631	**788**	1,024
d) social security	**-**	183	**-**	183
Total	**10,189**	**10,868**	**21,700**	**19,333**

(a) **Labor -** Provisions to cover probable losses relating to labor claims mostly filed by former employees of the Company and service providers.

(b) **Civil –** Provisions to cover probable losses relating to civil proceedings represented by indemnification actions mostly filed by customers against the Company.

(c) **Tax -** Provisions to cover probable losses relating to tax proceedings represented by federal, state and municipal tax notices, some of which are under way in the administrative sphere and some in the legal sphere, deriving from differing interpretation of tax legislation by the Company and by the tax authorities.

(d) **Social Security -** Provisions to cover probable losses on social security proceedings relating to tax obligations, which are subject to contestation concerning their legality or constitutionality.

18.2 Judicial deposits

These correspond to amounts deposited in court, relating to civil, tax, labor and social security proceedings, to ensure the execution of these actions or suspend collection of the amounts under discussion.

	Parent Company		Consolidated	
	2020	2019	2020	2019
a) labor	**10,076**	11,317	**18,433**	13,396
b) civil	**3,377**	4,060	**3,383**	4,066
c) tax	**35**	35	**121**	121
d) social security	**68**	68	**68**	68
Total	**13,556**	**15,480**	**22,005**	**17,651**

18.3 Contingent liabilities

The Company and its subsidiaries respond for lawsuits in progress, for which, when there is a likelihood of a possible loss, no provisions for contingencies were recorded.

	Parent Company		Consolidated	
	2020	2019	2020	2019
a) labor	**34,802**	31,522	**47,597**	44,494
b) tax	**25,892**	28,358	**38,206**	32,450
c) civil	**198**	415	**746**	7,456
d) social security	**173**	-	**173**	-
Total	**61,065**	**60,295**	**86,722**	**84,400**

The main lawsuits with possible risk of loss are as follows:

a. ***Labor***

Several labor complaints, mostly related to claims for indemnification, overtime pay, and additional pay for unhealthy working conditions.

b. ***Tax***

b.1 Social Contribution referring to profit sharing of managers and coordinators *– Parent company Fras-le was service notification of infraction by Brazil's Federal Revenue Service (infractions no. 37.269.527-2 and 37.269.528-0, lawsuits 5006420-49.2013.4.04.7107 and 5028415-84.2014.4.04.7107), due to alleged non-compliance with the requirements of Law 10.101/2000, when the profits and results are shared with their managers and coordinators. The debt was the subject of administrative and judicial discussion. In October 2015, the Company joined the Program for Reduction of Tax Litigation (PRORELIT) to settle this debt. The process is suspended until the installment is settled. The amount involved is R$ 8,603.*

b.2 Drawback *– This refers to Notice of Delinquency No. 11077.720261/2018-18 issued by the Brazilian IRS against the Company, aimed at collection of Federal VAT (IPI), Import Tax (II), federal contribution taxes* *on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS), Freight surcharge for renovation of the Merchant Marine (AFRMM) levied on import, plus late-payment fine of 20% and automatic fine of 75%. Worth stressing, 80% of the tax delinquency notice in question refers to amounts within the sphere of Drawback Granting Statute No. 20100074081, which is settled, considering its inclusion, in 2017, in the Tax Settlement Program (PRT). This proceeding awaits decision in the administrative sphere. The amount involved is of R$ 6,557.*

b.3 Social Contribution Tax – *The Company filed a Protest Letter against the Interlocutory Decision that denied the offset of credits on income and social contribution tax losses, declared in 2003 Corporate Income Tax return (DIPJ), base year 2002. Proceeding No. 11020.900-968/2010-04 awaits decision on the Voluntary Appeal lodged by the Company. The amount involved is of R$ 2,031.*

18.4 Changes in provision for claims

Changes in lawsuits are as follows:

Parent Company

	2019	Addition	Merger of Fremax	Realization	2020
Labor	6,649	**4,972**	**433**	**(3,518)**	**8,536**
Civil	3,405	**-**	**-**	**(2,427)**	**978**
Tax	631	**260**	**-**	**(216)**	**675**
Social security	183	**-**	**-**	**(183)**	**-**
Total	**10,868**	**5,232**	**433**	**(6,344)**	**10,189**

Consolidated

	2019	Addition	Addition by business combination	Realization	2020
Labor	11,096	**6,984**	**1,316**	**(3,778)**	**15,618**
Civil	7,030	**4,234**	**82**	**(6,052)**	**5,294**
Tax	1,024	**260**	**4**	**(500)**	**788**
Social security	183	**-**	**-**	**(183)**	**-**
Total	**19,333**	**11,478**	**1,402**	**(10,513)**	**21,700**

18.5 Contingent assets

The Company records contingent assets and figures as plaintiff in proceedings of a civil, tax and social security nature. In the financial statements, the Company does not recognize the contingent assets, except when the Company considers that the gain is practically certain or when there are real guarantees or favorable court decisions against which appeals may not be filed.

At December 31, 2020, contingent assets totaled R$72 (R$801 at December 31, 2019), Company, and R$188 (R$928 at December 31, 2019), consolidated.

The statement, as of December 31, 2019, containing information on contingent assets (gain), according to the opinion of the Company's legal advisors, is detailed below.

(a) **Civil** *- these refer to credit recovery proceedings (collection and execution), for which provision for losses was recorded. However, these proceedings are still following their procedural steps and, should a decision in favor of the Company be issued, the provision will be reversed. As at December 31, 2020, Company* *contingent assets deriving from civil proceedings amounted to R$ 72 (R$ 86 in 2019) – Individual and R$ 140 (R$ 154 in 2019) – Consolidated.*

(b) **Tax -** *The Company and its subsidiaries filed various legal proceedings in the state and federal spheres, which discuss, among others, the following matters: non-levy of income and social contribution taxes on PIS and COFINS credits under the non-cumulative regime; exclusion of ISS from the PIS/Cofins base; levy of income and social contribution taxes on short-term investments; exclusion of ICMS deemed credits from the income and social contribution tax base; PIS and COFINS credits on equity; compulsory loan granted to ELETROBRÁS S.A. As at December 31, 2020, Company contingent assets deriving from tax proceedings amounted to R$ 20 (R$ 696 in 2019) – Individual and R$ 20 (R$ 755 in 2019) – Consolidated.*

19 Loans and financing

	Index	Interest	Final maturity date of contract	Parent Company		Consolidated	
				2020	2019	2020	2019
Current							
Local currency:							
Fundopem	IPCA	3,0% p.a.	05/2027	**4,152**	4,606	**4,152**	4,606
Vendor	Selic	6% p.a.	01/2021	**4,185**	2,770	**7,483**	4,690
NCE	CDI	115,75% to 123,00% p.a.	07/2024	**13,022**	940	**22,440**	940
Bank Loan - FINEP	T TJLP/Fixed rate	0,8% to 5%pa.a.	03/2030	**23**	630	**23**	630
Working Capital Loan	CDI	118,50% p.a.	08/2024	**-**	-	**24,616**	107
Working Capital Loan	CDI	2,15%p.a.	04/2021	**31,031**	-	**31,031**	-
Assignment of credit	Fixed	0,49% p.a.	01/2021	**-**	-	**1,213**	-
Debentures	CDI	1,45% p.a.	07/2027	**2,952**	-	**2,952**	-
BNDES - FINAME	Fixed	3,15% p.a.	12/2024	**-**	-	**4**	-
Foreign Currency:							
ME Financing	Libor + Fixed + Exchange rate change	2,97% to 5,94%p.a.	07/2025	**25,842**	20,449	**25,842**	21,795
NCE	Fixed rate + Exchange rate change	3,29% to 3,65% p.a.	10/2024	**18,701**	617	**18,701**	6,179
ACC	Fixed rate + Exchange rate change	3,15% to 3,75%p.a.	05/2021	**34,702**	39,225	**34,702**	39,225
Resolution 2770 NCE	Libor + Exchange rate change	4,5% p.a.	03/2020	-	18,667	**-**	18,667
BNDES	Variable rate - BNDES	1,97% p.a.	01/2020	-	238	**-**	238
Working Capital Loan	Libor + Fixed rate + Exchange rate change	2,75%to 9,00%p.a.	01/2027	**-**	-	**38,276**	16,061
FINEX	Fixed rate + Exchange rate change	3,09% to 3,40% p.a.	06/2021	**1,999**	-	**1,999**	3,997
FINIMP	Fixed rate + Exchange rate change	5,77% p.a.	11/2020	-	-	**-**	413
Term Loan	Fixed rate + Exchange rate change	2,75% to 3,00% p.a.	01/2037	**-**	-	**8,490**	291
Total				**136,609**	**88,142**	**221,924**	**117,839**
Non-current							
Local currency:							
FINEP	TJLP	0,8%p.a.	03/2030	**10,000**	**-**	**10,000**	**-**
Debentures	CDI	1,45% p.a.	07/2027	**416,864**	**-**	**416,864**	**-**
NCE	CDI	115,75% to 123,00 % p.a.	07/2024	**37,680**	37,240	**48,618**	50,446
Fundopem	IPCA	3,0% p.a.	05/2027	**9,829**	13,258	**9,829**	13,258
Working Capital Loan	CDI	118,50% to 125,00% p.a.	08/2024	**-**	-	**27,426**	8,000
BNDES - FINAME	Fixed rate	3,15% p.a.	12/2024	**-**	-	**528**	-
Foreign Currency:							
ME Financing	Libor + Fixed + Exchange rate change	2,97% to 5,94%p.a.	07/2025	**99,937**	96,892	**99,937**	96,892
NCE	Fixed rate + Exchange rate change	3,65% p.a.	10/2024	**50,668**	40,307	**50,668**	53,048
Working Capital Loan	Libor + Fixed + Exchange rate change	2,75% to 9,00%p.a.	01/2027	**-**	-	**16,335**	27,787
FINEX	Fixed rate + Exchange rate change	3,09% to 3,4% p.a.	06/2021	**-**	-	**-**	1,323
Term Loan	Fixed rate + Exchange rate change	2,75% to 3,00% p.a.	01/2037	**-**	-	**22,221**	23,933
Total				**624,978**	**187,697**	**702,426**	**274,687**
Total loans				**761,587**	**275,839**	**924,350**	**392,526**

The financing and loans are guaranteed by sureties/guarantees of Randon S.A. Implementos e Participações in the amount of R$ 8,269 (R$ 34,030 as of December 31, 2019).

The Company has debenture contracts in the amount of R$420,000 that provide for compliance with financial covenants for the year ended December 31, 2021.

The financing agreements with the Brazilian Development Bank (BNDES), which were settled during the year ended December 31, 2020, contained covenants that included the partial or total early maturity, among others, when certain ratios (consolidated equity/assets) were not reached. As of December 31, 2019, date of the last annual measurement of indicators, the financial ratios established were being fully complied with by the Company.

There are no contracts in force that provide for covenants as of December 31, 2020.

Fundopem/RS

The Company has a government grant/tax incentive granted by Rio Grande do Sul state (Fundopem), which consists in a postponement of payment of a portion of the ICMS debt generated monthly, with a 33 to 54-month grace period and payment term between 54 to 96 months, adjusted for inflation by the IPCA/IBGE index and interest rate at 3% p.a.

Vendor

As of December 31, 2020, the Company has outstanding vendor financial operations with clients in the amount of R$ 4,185 in the parent company and R$ 7,483 in consolidated (R$ 2,770 in the parent company and R$ 4,690 in consolidated as of December 31, 2019),), in which participates as an intervening guarantor.

In these operations, the Company settles the outstanding operations in the event that the customer-debtor of accounts receivable, linked to the operation, fails to make the payment to the financial institution within the time limit agreed between the parties.

These operations are carried out by associated company Banco Randon S.A., which assumes part of the risks related to delinquency and/or late payment by the customer.

The amount recognized as a financial liability is a counterpart of the amounts advanced by the financial institution to the Company, whose accounts receivable of origin have not yet been recognized, considering the retention of risks by the Company related to delinquency and/or late payment by the customer. Average term of maturity of these operations is 35 days.

Debentures

The debentures refer to funding issued on June 15, 2020 and July 15, 2020, in the amounts of R$210,000 each, totaling R$420,000, all of which occurred through private placement with restricted efforts of junior, unsecured, nonconvertible debentures in a single series, under the subscription regime. Final maturity is June 15, 2027 and July 15, 2027, respectively.

20 Capital and reserves

20.1 Amount of authorized shares

	As of December 31, 2020 and 2019
Common shares	500,000
	500,000

20.2 Common shares issued and fully paid-up

	In thousands of shares	In thousands of R$
As of December 31, 2020 and 2019	217,566	600,000

20.3 Treasury shares

Accounting Policy

When shares recognized as net assets are repurchased, the value of the consideration paid which includes any costs directly attributable, net of any tax effects is recognized as a deduction from net assets. 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 capital reserve, according to destination given by the Company`s Management.

	In thousands	R$
As of December 31, 2020 and 2019	3,000	13,352

20.4 Profit reserves and retention

a. Legal reserve

In compliance with article 193 of Law 6,404/76, the reserve was formed at the rate of 5% of the net income for the year, up to the limit of 20% of the capital.

b. General profit reserve

Its purpose is to ensure working capital. It is formed with the balance of adjusted profit after deducting the mandatory dividend from it, and will have as maximum limit the amount that cannot exceed 80% of capital stock.

20.5 Other comprehensive income and Equity valuation adjustment

Other comprehensive income in shareholders' equity is comprised as follows:

	Equity valuation adjustment						
	Exchange-rate change of investments	Cost at property, plant and equipment	Hedge accounting	Foreign currency differences on loan	Foreign currency differences on deferred taxes	Actuarial evaluation	Total
Balances at December 31, 2018	**(19,058)**	**31,571**	**(4,177)**	**-**	**-**	**3,132**	**11,468**
Additions (write-offs) in the year	(25,121)	(1,539)	4,177	1,244	4,121	(201)	(17,319)
Balances at December 31, 2019	**(44,179)**	**30,032**	**-**	**1,244**	**4,121**	**2,931**	**(5,851)**
Additions (write-offs) in the year	**34,563**	**(1,311)**	**-**	**7,582**	**124**	**(953)**	**40,005**
Balances at December 31, 2020	**(9,616)**	**28,721**	**-**	**8,826**	**4,245**	**1,978**	**34,154**

a. *Foreign exchange differences on investments*

Represented by the recording of exchange rate differences arising from the translation of the financial statements of subsidiaries abroad, pursuant to Technical Pronouncement CPC 02 (R2) – Effects of changes in exchange rates and translation of financial statements.

b. *PP&E deemed cost*

Formed as a result of fair value evaluation of fixed assets according to technical pronouncement CPC 27 - Fixed assets and ICPC 10, recorded based on an appraisal report prepared by specialized company.

c. *Foreign exchange differences on intercompany loans*

Foreign exchange differences on intercompany loan with subsidiary Fras-le Argentina, with characteristics of net investment, pursuant to CPC 02 - Effects of Changes in Exchange Rates and Translation of Financial Statements.

d. *Cash flow hedge*

Contains the effective portion of cash flow hedges up to the balance sheet date. Also recorded as a single component, the effective portion of gains or losses on instruments in cash flow hedges , which represents the changes in cash flow hedges and the effective part of contracts, net of taxes. At December 31, 2020, the Company did not conduct cash flow hedge transactions.

e. *Reserve for actuarial evaluation*

Reserve arising from the recording of actuarial gains on the employee benefit plan, pursuant to Technical Pronouncement CPC33 (R1) – Employee Benefits.

21 Dividends and interest on own capital paid and proposed

Accounting Policy
The by-laws determine the distribution of a minimum dividend of 25% of the net income for the year.

Dividends were calculated as follows:

	2020	2019
Net income for the year	**188,367**	**36,889**
Legal reserve (5%)	(9,418)	(1,844)
Tax incentive reserve	(2,711)	(1,187)
Realization of depreciation of deemed cost	1,311	1,539
Base income for distribution	**177,549**	**35,397**
Minimum compulsory dividend (25%)	**44,387**	**8,849**
Interest on own capital	37,500	23,610
Income tax	(5,625)	(3,541)
Net interest on own capital	**31,875**	**20,069**

Changes in dividends payable are disclosed in Note 29.

21.1 Interest on own capital

In accordance with the option provided in Law 9249/95, the Company computed and paid interest on own capital of R$ 37,500, 0.17477 per share (R$ 23,610, 0.11004 per share as of December 31, 2019), as approved by the Board Meeting, by using the benchmark interest rate (TJLP) in effect for the year. This interest was recorded under financial expenses, as required by tax legislation. For the purposes of these financial statements, this interest was eliminated from financial expenses for the year and was charged to retained earnings.

The income tax and social contribution for the year were reduced by R$ 12,750 (R$ 8,028 as of December 31, 2019), as a result of the deduction of these taxes by interest on own capital credited to shareholders.

22 Earnings per share

Accounting Policy
Earnings per share is basically calculated by dividing net income for the period attributed to holders of the parent company's common shares by the weighted average number of common shares available during the year.

Diluted earnings per share are calculated by dividing net income attributed to the Parent Company's common shareholders by weighted average number of common shares available in the year. There are no potential dilutive shares. The table below shows data of income and shares used in calculating basic and diluted earnings per share:

	Parent Company and Consolidated	
	2020	2019
Net income for the year	**188,367**	36,889
Weighted average of shares issued (in thousands)	**214,566**	214,566
Basic and diluted earnings per share (In reais)	**0.8779**	0.1719

22.1 Signature of shareholder's agreement

On April 26, 2016, a shareholders' agreement was entered into with the equity fund "GIF V Pipe Fundo de Investimento em Participações," which governed the exercise of voting rights by the Company's controlling shareholders and the fund, with a term of ten years, in the context of the public offering of primary distribution of common shares issued by the Company.

23 Income taxes

Accounting Policy

The income tax and social contribution, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income, as Law 9.249/95, for the Companies located in Brazil.

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

23.1 Current tax

Current taxes are the taxes payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years. It is measured based on rates enacted or substantively enacted at the balance sheet date. Current tax also includes any tax liability arising from the declaration of dividends.

Current tax asset and liability are offset only when certain criteria are met.

The breakdown of income tax and social contribution expense in years ended December 31, 2020 and 2019 is summarized as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Current income tax and social contribution:				
Current income tax and social contribution expenses	**(55,410)**	337	**(84,385)**	(22,783)
Deferred income tax and social contribution:				
Regarding the formation and reversal of temporary differences and tax losses	**18,730**	(9,265)	**11,878**	(14,744)
Income tax and social contribution expense presented in the statement of income	**(36,680)**	**(8,928)**	**(72,507)**	**(37,527)**

	Parent Company		Consolidated	
	2020	2019	2020	2019
Statement of comprehensive income				
Deferred income tax and social contribution related to items directly debited or credited to the shareholders' equity during the year:				
Foreign exchange differences on surplus value	**1,851**	**4,121**	**1,851**	**4,121**
Comprehensive income - Randonprev	**352**	**105**	**352**	**105**
	2,203	**4,226**	**2,203**	**4,226**

The reconciliation between tax expense and the result of the multiplication of income at local tax rate in the years ended December 31, 2020 and 2019 and is described below:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Pre-tax profit	**225,047**	45,817	**254,553**	70,332
At the tax rate of 34%	**(76,516)**	(15,578)	**(86,548)**	(23,913)
Nondeductible expenses	**(2,706)**	(2,580	**(4,957)**	(4,773)
Equity pickup	**17,306**	(936)	**-**	-
Amortization of surplus value	**5,129**	-	**5,129**	-
Incentivized expense	**3,547**	-	**6,158**	-
Interest on own capital	**12,750**	8,028	**12,750**	8,028
Rate adjustment – abroad	**-**	-	**(2,336)**	(10,018)
Other nondeductible income (expenses)	**3,510**	2,138	**2,524**	(6,851)
Write-off of deferred tax on tax losses	**-**	-	**(5,227)**	-
Income and social contribution taxes in P&L for the year	**(36,680)**	**(8,928)**	**(72,507)**	**(37,527)**
Effective rate	**16.43%**	**19.49%**	**28.48%**	**53.36%**

23.2 Deferred tax

Deferred taxes are recognized in relation to the temporary differences between the book values of assets and liabilities for financial statement purpose and the related amounts used for taxation purposes. 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 to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.*

A deferred income tax and social contribution asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred income tax and social contribution assets are reviewed at each balance sheet date and reduced when their realization is no longer probable.

Deferred taxes are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates enacted or substantively decreed up to the date of balance sheet.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to recover or settle the book value of its assets and liabilities. Deferred tax assets and liabilities are offset only if some criteria are met.

Deferred income tax and social contribution in years ended December 31, 2020 and 2019 refer to:

Parent Company

	Balance Sheet		Shareholders' equity		Income		Merger of Fremax/ P&L
	2020	2019	2020	2019	2020	2019	2020
Provision for losses	-	-	-	-	-	291	-
Surplus value and goodwill	**(36,915)**	(36,737)	**1,851**	4,121	**(1,428)**	(9,192)	-
Depreciation - useful life/tax	**(19,615)**	(19,082)	**-**	-	**(450)**	(843)	**83**
Deemed cost of adjustment of property, plant and equipment	**(14,795)**	(15,471)	**-**	-	**676**	793	-
Accelerated depreciation	**(2,006)**	-	**-**		**(1,839)**	-	**167**
Present value adjustment	**(1,126)**	(1,329)	**-**	-	**122**	161	**(81)**
Randonprev - actuarial evaluation	**(1,111)**	-	**352**	105	**(1,463)**	-	-
Expected	**409**	363	**-**	-	**45**	(47)	**(1)**
Provision to commissions and freight	**721**	455	**-**	-	**357**	(220)	**91**
Provision for termination	**735**	747	**-**		**(12)**	-	-
Sundry provisions and other	**2,140**	2,394	**-**	-	**73**	142	**328**
Inventory	**3,089**	1,614	**-**	-	**1,698**	56	**223**
Unearned income from inventories	**3,133**	1,737	**-**	-	**1,396**	(638)	-
Provision for litigation	**3,464**	3,695	**-**	-	**(526)**	1,870	**(295)**
Profit sharing	**7,625**	956	**-**	-	**6,028**	(1,638)	**(641)**
Impairment	**11,977**	-	**-**	-	**11,977**	-	-
Income (expenses) from income tax and social contribution – deferred		**-**		**-**	**16,654**	**(9,265)**	**(126)**
Deferred tax liabilities	**(42,275)**	**(60,658)**		**-**	**-**	**-**	**-**
Shareholders' equity	**-**	**-**	**2,203**	**4,226**	**-**	**-**	**-**

Consolidated

	Balance Sheet		Shareholders' equity		Income	
	2020	2019	2020	2019	2020	2019
Derivatives transactions	-	-	-	-	-	291
Business combination (Nakata)	-	-	-	-	**(5,962)**	-
Surplus value and goodwill	**(36,915)**	(36,737)	**1,851**	4,121	**(15,738)**	(9,192)
Depreciation - useful life/tax	**(23,731)**	(21,708)	-	-	**(2,023)**	(3,368)
Deemed cost of adjustment of property, plant and equipment	**(16,447)**	(17,367)	-	-	**920**	3,427
Impairment	**11,977**	-	-	-	**11,977**	-
Inflation adjustment	**5,962**	472	-	316	**5,490**	538
Accelerated depreciation	**(2,006)**	-	-	-	**(2,006)**	-
Actuarial evaluation	**(1,106)**	-	**492**	105	**(1,598)**	-
Present value adjustment	**(799)**	(1,279)	-	-	**480**	147
Indemnification assets	**(772)**	(772)	-	-	**-**	
Provision to commissions and freight	**1,106**	546	-	-	**560**	(230)
Provision for expected credit losses	**1,394**	828	-	-	**566**	(158)
Provision for termination	**4,377**	-	-		**4,377**	-
Provision for obsolete inventories	**5,734**	3,294	-	-	**2,440**	597
Sundry provisions	**854**	(2,189)	-	-	**3,044**	(11,987)
Provision for litigation	**7,378**	6,573	-	-	**805**	3,946
Profit sharing	**9,560**	1,967	-	-	**7,593**	(755)

Tax losses to be offset	**28,126**	29,516	**-**	-	**(1,390)**	2,000
Income from income tax and social contribution – deferred		**-**		**-**	**9,535**	**(14,744)**
Deferred tax (liabilities)	**(51,956)**	**(73,557)**		**-**	**-**	**-**
Deferred tax assets	**46,648**	**36,701**		**-**	**-**	**-**
Shareholders' equity	**-**	**-**	**2,343**	**4,542**	**-**	**-**

The Company and its subsidiaries recorded tax losses amounting to R$ 156,473 (R$ 179,993 at December 31, 2019), which may be offset against future taxable profit of the company in which such profit was generated, over a period of ten years, in accordance with CVM Ruling No. 371/02.

The estimated recovery of tax credits recorded on income and social contribution tax losses was based on projected taxable profits, taking into account various financial and business assumptions at year. As such, these estimates may not be realized in the future due to the uncertainties inherent in such forecasts.

24 Net sales

Accounting policy

IFRS 15 / CPC 47 – Revenue from Contracts with Customers establishes a model that aims at evidencing whether the accounting criteria have or have not been met. This process steps comprise:

i) Identifying the contract with the customer;

ii) Identifying the performance obligations;

iii) Establishing transaction price;

iv) Allocating transaction price; and

v) Recognizing revenue by fulfilling the performance obligations.

Taking into consideration the aspects above, revenues are recognized for the amount that reflects the Company's expectation to receive consideration for the financial services and products offered to its customers.

Net income from sales is broken down as follows:

	Parent Company		Consolidated	
	2020	2019	2020	2019
Gross income from sales	**1,076,898**	930,017	**2,112,153**	1,754,867
Sales returns	**(1,149)**	(1,820)	**(4,231)**	(3,993)
Adjustment to present value	**(2,161)**	(4,436)	**(2,555)**	(5,076)
Sales tax	**(258,927)**	(226,739)	**(434,578)**	(380,289)
Net operating income	**814,661**	**697,022**	**1,670,789**	**1,365,509**

25 Expenses per type

The Company's statements of profit or loss are presented by function. Detailed information on expenses by nature is as follows.

	Parent Company		Consolidated	
	2020	2019	2020	2019
Expenses according to the role				
Cost of products sold and services rendered	**(587,911)**	(539,397)	**(1,190,880)**	(1,015,844)
Sales expenses	**(66,596)**	(63,785)	**(147,918)**	(133,398)
Administrative and general expenses	**(60,317)**	(44,346)	**(139,776)**	(102,284)
Management remuneration	**(4,146)**	(4,218)	**(6,563)**	(5,330)
Total	**(718,970)**	**(651,746)**	**(1,485,137)**	**(1,256,856)**
Expenses per type				
Raw materials and use and consumption materials	**(319,910)**	(297,253)	**(732,817)**	(577,647)
Personnel expenses	**(188,237)**	(180,941)	**(355,225)**	(346,285)
Depreciation and amortization of right of use - leases	**(37,189)**	(30,035)	**(90,906)**	(68,547)
Freight	**(27,536)**	(21,188)	**(48,847)**	(39,142)
Conservation and maintenance	**(27,282)**	(25,860)	**(51,021)**	(48,089)
Electric power	**(22,690)**	(13,925)	**(44,382)**	(37,299)
Professional fees	**(18,530)**	(11,684)	**(26,041)**	(15,859)
Administrative services	**(16,823)**	(14,208)	**(20,997)**	(18,602)
Commissions	**(7,961)**	(6,485)	**(3,820)**	(5,681)
Marketing costs	**(6,700)**	(7,762)	**(11,278)**	(13,973)
IT Consultancy	**(4,647)**	(5,401)	**(7,633)**	(7,908)
Rentals	**(4,471)**	(3,661)	**(17,425)**	(13,589)
Directors' fees and profit sharing	**(4,146)**	(4,218)	**(6,563)**	(5,330)
Other expenses	**(32,847)**	(29,125)	**(68,182)**	(58,905)
Total	**(718,969)**	**(651,746)**	**(1,485,137)**	**(1,256,856)**

26 Personnel and profit sharing expenses

	Parent Company		Consolidated	
	2020	2019	2020	2019
Salaries and wages	**(139,628)**	(136,933)	(269,618)	(260,971)
Social security costs	**(28,761)**	(27,100)	(47,515)	(49,428)
Benefits granted	**(19,848)**	(16,908)	(38,092)	(35,886)
	(188,237)	**(180,941)**	**(355,225)**	**(346,285)**

The participation of employees was calculated as provided in the Profit Sharing Program approved in unions of categories in accordance with the provisions of Law 10101 of December 19, 2000. The amount of profit sharing calculated as of December 31, 2020 was in the amount of R$ 28,438 (R$ 6,305 at December 31, 2019).

27 Other operating income and expenses

	Parent Company		Consolidated	
	2020	2019	2020	2019
Other operating income:				
Sale of electricity	**3,287**	402	**5,742**	2,279
Reversal of impairment	**-**	-	**1,975**	-
Income from legal proceedings	**93,123**	2,152	**135,803**	2,396
Sale of assets	**1,671**	35	**1,787**	9,606
Tax incentives	**1,306**	918	**1,306**	918
Other income	**1,970**	3,064	**7,002**	4,714
Total	**101,357**	**6,571**	**153,615**	**19,913**
Other operating expenses:				
Impairment	**(34,463)**	-	**(34,463)**	-
Employee profit sharing	**(16,393)**	(2,293)	**(21,002)**	(3,756)
Cost of write-off and disposal of permanent assets	**(4,360)**	(91)	**(5,675)**	(524)
Expenses with legal proceedings	**(5,493)**	(1,657)	**(9,598)**	(1,887)
Provision for contingencies	**(643)**	(5,719)	**(2,445)**	(10,504)
Provision for losses on other receivables	**-**	-	**(1,238)**	-
Other expenses (a)	**(4,720)**	(2,258)	**(24,866)**	(5,218)
Total	**(66,072)**	**(12,018)**	**(99,287)**	**(21,889)**
Other operating income (expenses), net	**35,285**	**(5,447)**	**54,328**	**(1,976)**

(a) Other expenses in the consolidated statements refer substantially to the amount payable resulting from the process of exclusion of ICMS from the PIS and COFINS tax bases at the subsidiary Freios Controil, as detailed in Note 10.

Income from legal proceedings is detailed in Note 10.

28 Financial income

Accounting policy

Interest income and expenses are recorded in P&L using the effective interest rate method. The Company classifies loans and financing as financing activities since they refer to costs of obtaining financial resources.

	Parent Company		Consolidated	
	2020	2019	2020	2019
Financial income:				
Exchange-rate change	**136,895**	50,858	**178,172**	121,046
Interest on yield from interest earning bank deposits	**8,559**	7,209	**13,267**	9,830
Adjustment to present value	**2,363**	4,676	**12,880**	5,286
Income from legal proceedings	**45,720**	-	**52,903**	-
Other financial income	**1,735**	1,407	**4,907**	3,136
Total	**195,272**	**64,150**	**262,129**	**139,298**
Financial expenses:				
Exchange-rate change	**(135,399)**	(53,973)	**(203,321)**	(150,430)
Interest on financing	**(20,433)**	(11,971)	**(34,369)**	(17,371)
Adjustment to present value	**(1,674)**	(2,688)	**(12,328)**	(3,207)
Adjustment to present value – leases	**(2,579)**	(1,347)	**(9,821)**	(6,335)
Bank expenses	**(6,883)**	(5,362)	**(9,054)**	(9,917)
Other financial expenses	**(3,701)**	(6,396)	**(8,943)**	(12,275)
Total	**(170,669)**	**(81,737)**	**(277,836)**	**(199,535)**
Inflation adjustment	**18,569**	33,937	**30,280**	**23,892**
Net financial income (loss)	**43,172**	**16,350**	**14,573**	**(36,345)**

29 Supplementary information on cash flow

	Parent Company				Consolidated				
	Leases	Loans, financing and debentures	Financial instruments (Assets)	Dividends and IOE	Leases	Loans, financing and debentures	Financial instruments (Assets)	Financial instruments (Liabilities)	Dividends and IOE
Balance at December 31, 2018	**-**	**250,721**	**-**	**22,622**	**-**	**371,760**	**-**	**-**	**22,622**
Changes in cash			-				-		
Receipt (payment) of financing activities	(4,592)	14,598	-	-	(13,044)	14,184	-	-	-
Interest paid on loans, financing and debentures	-	(13,053)	-	-	-	(15,039)	-	-	-
Dividends and IOE paid	-	-	-	(70,396)	-	-	-	-	(70,396)
Total	**(4,592)**	**1,545**	**-**	**(70,396)**	**(13,044)**	**(855)**	**-**	**-**	**(70,396)**
Changes not affecting cash			-				-		
First-time adoption of IFRS16	24,924	-	-	-	79,376	-	-	-	-
Accrued interest expenses	-	12,135	-	-	-	13,488	-	-	-
Interest expenses on leases	1,347	-	-	-	6,335	-	-	-	-
Foreign exchange differences on loans and financing	-	11,438	-	-	-	8,133	-	-	-
Foreign exchange differences on financial instruments	-	-	-	-	-	-	-	156	-
Dividends and IOE paid	-	-	-	61,852	-	-	-	-	61,852
Other	(4,583)	-	-	-	28,366	-	-	-	-
Balance at December 31, 2019	**17,096**	**275,839**	**-**	**14,078**	**101,033**	**392,526**	**-**	**156**	**14,078**
Changes in cash			-				-		
Receipt (payment) of financing activities	**(6,307)**	**421,862**	-		**(19,102)**	**394,833**	-		
Interest paid on loans, financing and debentures	-	**(16,708)**	-		-	**(18,395)**	-		
Dividends and IOE paid	-	-	-	**(14,059)**	-	-	-		**(14,059)**
Total	**10,789**	**680,993**	**-**	**19**	**81,931**	**768,964**	**-**	**156**	**19**
Changes not affecting cash			-	-			-	-	-
Accrued interest expenses	-	**20,722**	-	-	-	**23,935**	-	-	-
Interest expenses on leases	**2,579**	-	-	-	**9,821**	-	-	-	-
Foreign exchange differences on loans and financing	-	**12,668**	-	-	-	**34,527**	-	-	-
Foreign exchange differences on financial instruments	-	-	**3**	-	-	-	**(3,538)**	**2,101**	-
Dividends and IOE paid	-	-	-	**45,864**	-	-	-	-	**45,864**
Merger of Fremax (Note 2.3)	**30,731**	**47,204**	-	-	-	-	-	-	-
Additions due to business combinations (note 2.4)	-	-	-	-	**22,757**	**96,924**	**11,854**	-	-
Additions/write-offs and foreign exchange differences - leases	**4,888**	-	-	-	**31,127**	-	-	-	-
Balance at December 31, 2020	**48,987**	**761,587**	**3**	**45,883**	**145,636**	**924,350**	**8,316**	**2,257**	**45,883**

30 Objectives and policies for financial risk management

The Companies and its subsidiaries are parties to operations involving financial instruments, all recorded in assets and liabilities, which are designed to satisfy the operating needs, specially credits and investments of funds, market risks (foreign exchange and interest) and liquidity risk, which the Company understands that is exposed, according to the business nature and operational structure.

A portion of the revenues of the Company and its subsidiaries is generated by the sale of products to the foreign market. Accordingly, volatility of foreign exchange rate are market risks to which the Company and its subsidiaries are exposed.

In addition, the Company and its subsidiaries contract financing transactions in the financial market at fixed or floating rates. Therefore, the Company is exposed to the of interest rate change in indebtedness contracted at pre and post-fixed interest rates.

Fair values are determined based on market price quotations, when available, or, in their absence, on present value of expected cash flows. Fair values of long-term marketable securities, trade accounts receivable, short-term debt and trade accounts payable are equivalent to book values. Fair values of other long-term assets and liabilities do not significantly differ from their carrying amounts.

The management of these risks is performed by means of the definition of strategies prepared and approved by Company's Management, tied to establishment of control systems and determination of limit of positions.

The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis. Company's risks are as follows.

30.1 Market risk

The market risk is the risk that the fair value of future cash flows of a financial instrument will float due to changes in market prices. Market prices encompass two types of risk: interest rate risk and foreign exchange risk. Financial instruments affected by market risk include loans receivable and payable, financial instruments measured at fair value through profit or loss and derivative financial instruments.

A comparison by class of book value and fair value of Company's financial instruments presented in the financial statements is as follows:

Parent Company

			Book value		Fair value	
	Note	Hierarchy	2020	2019	2020	2019
Assets						
Fair value through profit or loss						
Cash and cash equivalents	6		**288,444**	109,378	**288,444**	109,378
Interest earnings bank deposits	7	(2)	**88,325**	35,072	**88,325**	35,072
Amortized cost						
Trade accounts receivable	8		**211,879**	202,224	**211,879**	202,224
Payables to related parties			**44,596**	-	**44,596**	-
Liabilities						
Liabilities at amortized cost						
Suppliers			**(97,738)**	(51,737)	**(97,738)**	(51,737)

Payables to related parties			**(241)**	-	**(241)**	-
Accounts payable due to business combination			**(222,243)**	-	**(222,243)**	-
Loans and financing	19		**(761,587)**	(275,839)	**(674,427)**	(267,534)
Total			**(448,565)**	**19,098**	**(361,405)**	**27,403**

Consolidated

			Book Value		Fair Value	
	Nota	Hierarchy	2020	2019	2020	2019
Assets						
Fair value through profit or loss						
Cash and cash equivalents	6	(2)	**443,243**	178,391	**443,243**	178391
Interest earnings bank deposits	7	(2)	**88,377**	35,072	**88,377**	35,072
Amortized cost						
Trade accounts receivable	8		**289,193**	123,422	**289,193**	123,422
Liabilities						
Liabilities at amortized cost						
Suppliers			**(265,400)**	(93,715)	**(265,400)**	(93,715)
Payables to related parties			**(7,082)**	-	**(7,082)**	-
Accounts payable due to business combination			**(222,243)**	-	**(222,243)**	-
Loans, financing and financial instruments	19 e 30		**(926,607)**	(392,682)	**(828,264)**	(407,289)
Total			**(600,519)**	**(149,512)**	**(502,176)**	**(164,119)**

30.2 Fair value hierarchy

The Company applies CPC 40 (R1) (IFRS 7) for financial instruments measured in the balance sheet at fair value, which requires disclosure of fair value measurements at the level of the following fair value measurement hierarchy:

- ***Level 1:*** *quoted prices (unadjusted) in active markets for identical assets or liabilities;*
- ***Level 2:*** *other techniques for which all data that has significant effect on the recorded fair value is observable, either directly or indirectly;*
- ***Level 3:*** *Techniques that use data that have significant effect on the recorded fair value, and that are not based on data observable in the market.*

There were no transfers between the levels 1, 2 and 3 in the period ended December 31, 2020.

30.3 Interest rate risk

Interest rate risk is the risk that fair values of a financial instrument future cash flows change due to changes in market interest rates.

The Company's exposure to the risk of changes market interest rates refer mainly to long-term obligations subject to variable interest rates.

The Company manages interest rate risk maintaining a balanced portfolio of loans receivable and payable bearing fixed and variable rates. Aiming to mitigate these risks, the practice adopted by the Company and *its subsidiaries is to diversify funding in terms of prefixed or post-fixed rates, permanent analysis of risks of financial institutions and in certain circumstances, evaluate the need to contract hedge operations to lock the financial cost of the operations.*

The yield from interest earning bank deposits, as well as financial expenses from the Company's loans and financing are affected by the changes in the interest rates, such as TJLP, IPCA, Libor, URTJ, USD and CDI and changes in USD rates.

a. *Sensitivity to interest rate*

The table below shows the sensitivity to a possible change in the interest rates, keeping all the other variables constant in the Company's income before taxation (it is affected by the impact of the loans payable subject to variable rates).

Three scenarios were considered and the probable scenario is adopted by the Company, in addition to two scenarios with impairment of 25% and 50% of the considered risk variable. These scenarios were defined based on the management's expectation on interest rate changes on the maturity dates of the respective contracts subject to these risks.

The sensitivity analysis takes into account the open positions on the reference date of December 31, 2020, based on nominal values and interest of each instrument contracted.

Parent Company

Operation	Currency	Probable scenario	Possible scenario	Remote scenario
Impairment of financial income				
Interest earnings bank deposits	**R$**	**7,159**	**5,369**	**3,580**
Rate appreciation at			**25%**	**50%**
Reference to financial income				
CDI %		**1.90%**	**1.43%**	**0.95%**
Increase in financial expenses				
Financial institutions	**R$**	**26,066**	**32,583**	**39,099**
Rate appreciation at			**25%**	**50%**
Reference for financial liabilities				
TJLP		**4.39%**	**5.49%**	**6.59%**
URTJ		**2.68%**	**3.35%**	**4.02%**
CDI		**1.90%**	**2.38%**	**2.85%**
US$		**5.20**	**6.50**	**7.80**
Six-month LIBOR		**0.26%**	**0.32%**	**0.39%**
IPCA		**3.14%**	**3.92%**	**4.70%**
BADLAR		**34.19%**	**42.73%**	**51.28%**

Consolidated

Operation	Currency	Probable scenario	Possible scenario	Remote scenario
Impairment of financial income				
Interest earnings bank deposits	**R$**	**10,160**	**7,620**	**5,080**
Rate appreciation at			**25%**	**50%**
Reference to financial income				
CDI %		**1.90%**	**1.43%**	**0.95%**

Increase in financial expenses				
Financial institutions	**R$**	**33,087**	**41,359**	**49,631**
Rate appreciation at			**25%**	**50%**
Reference for financial liabilities				
TJLP		**4.39%**	**5.49%**	**6.59%**
URTJ		**2.68%**	**3.35%**	**4.02%**
CDI		**1.90%**	**2.38%**	**2.85%**
US$		**5.20**	**6.50**	**7.80**
Six-month LIBOR		**0.26%**	**0.32%**	**0.39%**
IPCA		**3.14%**	**3.92%**	**4.70%**
BADLAR		**34.19%**	**42.73%**	**51.28%**

The sources of information for the rates used above were obtained from the Central Bank of Brazil (BCB), Bolsa Brasil Balcão - B3, Brazilian Development Bank (BNDES) and Bloomberg.

30.4 Foreign exchange risk

Foreign exchange risk is the risk that fair values of a financial instrument future cash flows change due to changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates is mainly related to Company's operating activities (when income or expenses are denominated in a currency different from Company's functional currency) and net investments of the Company in foreign subsidiaries.

The Company operates abroad and is exposed to foreign exchange risk resulting from exposures to some currencies, especially regarding US dollar, which, in the year ended December 31, 2020 had a positive change of 28,9% (4,02% positive as of December 31, 2019). Foreign exchange risk also arises from commercial and financial operations, assets and liabilities recognized and net foreign investments assets. The Companies and its subsidiaries managed the exchange risk regarding its functional currency. In addition to accounts receivable stemming from exports in Brazil and investments abroad that constitute a natural hedge, the Company constantly evaluates its currency exposure and, when necessary, contracts a derivative financial instrument for the sole purpose of hedging.

Moreover, the Company designates "Financing" operations aimed at protecting the exposure of highly probable future sales in currencies other than the functional currency. These operations are documented to be recorded using the hedge accounting methodology, in compliance with CPC 48 (IFRS 9). The Company records in a specific account of shareholders' equity unrealized effects of these instruments contracted for own operations. At December 31, 2020, the Company did not have outstanding transactions classified as hedge accounting.

These operations are carried out directly with financial institutions. The impact on the cash flow of the Company and its subsidiaries only occurs on the settlement date of the contracts. However, it should be considered that the settlement of these financial operations is associated with the receipt of sales, which are also associated with exchange-rate change, hence offsetting any gains or losses in the hedge instruments due to changes in the exchange rate.

a. *Foreign Exchange exposure:*

As of December 31, 2020 and 2019, the foreign exchange exposure of the Company and its subsidiaries for operations in foreign currency are as follows:

	Thousands of US$			
	Parent Company		Consolidated	
	2020	2019	2020	2019
A. Net assets in US dollars	**94,917**	92,367	**37,058**	36,696
B. Loans/financing in US Dollars	**(44,614)**	(53,686)	**(61,227)**	(76,911)
C. Surplus (Deficit) determined (A-B)	**50,303**	**38,681**	**(24,169)**	**(40,215)**

b. *Sensitivity to foreign exchange rate*

The table below shows sensitivity to a change that may occur in Dollar exchange rates, remaining constant all other variables, and in the Company's income before taxation (due to changes in fair value of monetary assets and liabilities) and shareholders' equity. Three scenarios are considered and the probable scenario is adopted by the Company, in addition to two scenarios with impairment of 25% and 50% of the considered risk variable. These scenarios were defined based on the management's expectation on foreign exchange rate changes on the maturity dates of the respective contracts subject to these risks.

		Parent Company		
Operation	Risk	Probable scenario	Possible scenario	Remote scenario
Instrument's net exposure	Increase in US$	**261,407**	**326,759**	**326,759**
Financial	Decrease in US$	**261,407**	**196,055**	**130,704**

		Consolidated		
Operation	Risk	Probable scenario	Possible scenario	Remote scenario
Instrument's net exposure	Increase in US$	**(125,600)**	**(157,000)**	**(188,400)**
Financial	Decrease in US$	**(125,600)**	**(94,200)**	**(62,600)**

30.5 Capital structure risk

The Company's capital 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. The capital structure or financial risk result from the choice between own capital (capital transfers and profit retention) and third party capital that the Company and its subsidiaries make to finance its operations. To mitigate liquidity risks and optimize capital weighted average cost, the Company and its subsidiaries permanently monitor indebtedness level in accordance with market standards and index compliance ("covenants") provided for in loan, financing and financing contracts.

The Company includes in the net debt the loans and financing with yield, less cash, cash equivalents and interest earning bank deposits as stated below:

Parent Company

	Note	2020	2019
Loans, financing and financial instruments	19 and 30	**761,587**	275,839
Payables to other related parties	11	**241**	-
Accounts payable due to business combination	2.4	**222,243**	-
(-) Cash and cash equivalents and long-term marketable securities	6 and 7	**(376,769)**	(144,450)
(-) Derivative financial instruments	30.7	**(3)**	-
Net debt		**607,299**	131,389

Shareholders' equity	**943,829**	764,159
Shareholders' equity and net debt	**1,551,128**	895,548
Leverage ratio	**39%**	**15%**

Consolidated

	Note	2020	2019
Loans, financing and financial instruments	19 and 30	**926,607**	392,682
Payables to other related parties	11	**7,082**	-
Accounts payable due to business combination	2.4	**222,243**	-
(-) Cash and cash equivalents and long-term marketable securities	6 and 7	**(531,620)**	(213,463)
(-) Derivative financial instruments	30.7	**(8,316)**	-
Net debt		**615,996**	179,219
Shareholders' equity		**943,829**	764,159
Shareholders' equity and net debt		**1,559,825**	943,378
Leverage ratio		**39%**	**19%**

30.6 Credit risk

Credit risk is the risk of a business counterpart not complying with obligations provided in a financial instrument or contract with client, resulting in financial loss. The Company is exposed to credit risk during their operating and financing activities (mainly in relation to accounts receivable), including deposits in banks and financial institutions, foreign exchange transactions and other financial instruments. The maximum exposure to credit risk on the base date is the recorded amount of each class of contractual assets mentioned in Note 5, 6 and 7.

a. Accounts receivable

The client's credit risk is managed by each business unit, subject to the procedures, controls and policies established by the Company in relation to this risk. Credit limits are established for all clients based on internal rating criteria. The credit quality of the client is assessed based on a classification internal system and history of loss. Client receivables outstanding are monitored frequently. On December 31, 2020, the Company had approximately 34 customers that owed more than R$ 4,158 each (on December 31, 2019, the Company had approximately 38 customers that owed more than R$ 801 each), and were responsible for approximately 70% of all receivables due. The remaining 30% were represented by 374 customers, who owed an average of approximately R$ 162 each. The provision for impairment is analyzed on each reporting date. Additionally, a large number of accounts receivable with smaller balances is grouped into homogeneous groups and, in such cases, the recoverable loss is evaluated collectively.

b. Financial instruments and bank deposits

Balance credit risk in banks and financial institutions is administered by the Company's treasury in accordance with the policy established. Surplus funds are only invested in financial institutions which were authorized and approved by the Planning and Finance Committee, co-signed by the Executive Board, pursuant to credit limits established, which are established in order to mitigate financial losses in case of possible bankruptcy of a counterparty.

30.7 Liquidity risk

The liquidity risk consists of the eventuality of the Company and its subsidiaries not having sufficient financial resources to honor their commitments on account of the different currencies and settlement terms of their rights and obligations.

Control of the liquidity and cash flow of the Company and its subsidiaries is monitored daily by the Company's management areas, in order to guarantee that operating cash generation and the previous obtainment of funding, when necessary, are sufficient for the maintenance of its schedule of commitments, not generating liquidity risks for the Company and its subsidiaries.

The table below summarizes the maturity profile of the financial liability of the Companies and its subsidiaries as of December 31, 2020 and 2019, based on contractual payments not discounted.

Parent Company

Year ended December 31, 2020	Up to 3 months	3–12 months	1–5 years	>5 years	Cash flow	Book value
Loans and financing	**42,142**	**109,843**	**601,883**	**111,819**	**865,687**	**761,587**
Accounts payable due to business combination	**-**	**50,131**	**75,429**	**96,683**	**222,243**	**222,243**
Suppliers	**97,823**	**-**	**-**	**-**	**97,823**	**97,738**
Total	**139,965**	**159,974**	**677,312**	**208,502**	**1,185,753**	**1,081,568**

Year ended December 31, 2019	Up to 3 months	3–12 months	1–5 years	>5 years	Cash flow	Book value
Loans and financing	43,713	49,698	212,827	973	307,211	275,839
Accounts payable due to business combination	-	-	26,905	1,742	28,647	28,647
Suppliers	51,817	-	-	-	51,817	51,737
Total	**95,530**	**49,698**	**239,732**	**2,715**	**387,675**	**356,223**

Consolidated

Year ended December 31, 2020	Up to 3 months	3–12 months	1–5 years	>5 years	Cash flow	Book value
Loans and financing	**62,300**	**176,008**	**680,606**	**117,625**	**1,036,539**	**926,607**
Accounts payable due to business combination	**-**	**50,131**	**75,429**	**96,683**	**222,243**	**222,243**
Suppliers	**265,506**	**-**	**-**	**-**	**265,506**	**265,401**
Total	**327,806**	**226,139**	**756,035**	**214,308**	**1,524,288**	**1,414,251**

Year ended December 31, 2019	Up to 3 months	3–12 months	1–5 years	>5 years	Cash flow	Book value
Loans and financing	49,298	79,999	304,258	973	434,528	392,682
Accounts payable due to business combination	-	-	26,905	1,742	28,647	28,647
Suppliers	94,049	-	-	-	94,049	93,715
Total	**143,347**	**79,999**	**331,163**	**2,715**	**557,224**	**515,044**

a. *Derivative financial instruments*

The Company conducts transactions with derivative instruments to mitigate the risks of loans and financing exposed to interest rates and exchange differences. The position of financial instruments as of December 31, 2020 is detailed below:

Consolidated

	Reference Value Notional - in thousands of Reais		Fair value - (credit) / debit		Accumulated effect in 2020 (credit)/debit		Accumulated effect in 2019 (credit)/debit	
Description/ Counterparty	2020	2019	2020	2019	Amount received	Amount Paid	Amount received	Amount Paid
NDF (ITAÚ)	**12,992**	-	**(1,582)**	-	-	-	-	-
SWAP (BBVA)	-	-	**(366)**	(156)	-	**(154)**	-	(7)
NDF (GALICIA)	**5,197**	-	**(309)**	-	-	-	-	-
SWAP (ITAÚ)	**41,632**	-	**8,316**	-	**2,264**	-	-	-
Total	**59,821**	**-**	**6,059**	**(156)**	**2,264**	**(154)**	**-**	**(7)**

In the chart below, three scenarios are presented and the most probable is the one adopted by the Company. These scenarios were defined based on the management's expectation on foreign exchange rate changes on the maturity dates of the respective contracts subject to these risks. In addition to this scenario, CVM through Instruction No. 475 determined that other two scenarios were presented with erosion of 25% and 50% of the variable of risk considered. These scenarios are being presented according to the CVM regulation.

Consolidated

Operation	Risk	Probable scenario	Scenario A	Scenario B
SWAP (BBVA)	Decrease in Libor rate	**(368)**	**(374)**	**(379)**
SWAP (ITAÚ)	Depreciation Real/Euro	**8,313**	**(10,408)**	**(20,816)**
NDF (GALICIA)	Depreciation Argentine Peso	**(309)**	**(1,662)**	**(3,323)**
NDF (ITAÚ)	Depreciation Argentine Peso	**(1,581)**	**(5,679)**	**(11,358)**
Total		**6,055**	**(18,123)**	**(35,876)**

31 Segment information

Operating segments are presented consistently with the internal report provided to the Board of Directors, which is Company's main decision-maker and responsible for allocating funds and assessing performance of these operating segments. For management purposes, the Company is divided into business units, based on products and services, with two operational segments subject to the disclosure of information, namely:

- ***Segment of carmakers:*** *refer to consolidated income (loss) for the years ended December 31, 2020 and 2019 of Fras-le S.A. related to friction material to the carmaker market.*
- ***Segment of spare parts:*** *refer to consolidated income (loss) for the years ended December 31, 2020 and 2019 of Fras-le S.A. related to friction material to the spare part market.*

a. *Information per business segment*

	Carmakers		Replacement		Total	
	2020	2019	2020	2019	2020	2019
Net revenue for third parties	**204,477**	171,797	**1,466,312**	1,193,712	**1,670,789**	1,365,509
Cost of products sold and services rendered	**(118,507)**	(129137)	**(1,072,373)**	(886,707)	**(1,190,880)**	(1,015,844)
Gross income	**85,970**	42,660	**393,939**	307,005	**479,909**	349,665
Operating expenses	**-**	-	**-**	-	**(239,929)**	(242,988)
Net financial income	**-**	-	**-**	-	**14,573**	(36345)
Income (before income tax)					**254,553**	**70,332**

Operating expenses, assets and liabilities were not disclosed per segment, since such items are managed within the Company's scope, not being informed in a segregated manner to the head decision maker.

b. *Net sales per geographical segments*

	Carmakers		Replacement		Total consolidated	
	2020	2019	2020	2019	2020	2019
Region:						
Domestic Market	**126,620**	123,476	**793,622**	551,807	**920,242**	675,283
North America	**49,869**	41,776	**238,127**	271,037	**287,996**	312,813
Mercosur	**13,544**	701	**258,104**	249,580	**271,648**	250,281
Europe	**2,483**	1,295	**77,837**	48,612	**80,320**	49,907
Africa	**-**	-	**17,498**	9,931	**17,498**	9,931
Asia and Oceania	**8,885**	4,533	**41,107**	40,001	**49,992**	44,534
Other	**3,076**	16	**40,017**	22,744	**43,093**	22,760
Total	**204,477**	**171,797**	**1,466,312**	**1,193,712**	**1,670,789**	**1,365,509**

The foregoing information on revenue considered the customer's location.

c. *Asset per geographic area*

	Assets*	
	2020	2019
Brazil	**1,159,344**	633,045
Argentina	**90,970**	81,671
China	**77,048**	61,551
India	**52,654**	44,348
United States	**43,944**	33,732
Uruguay	**20,075**	26,571
Holland	**13,535**	6,187
Colombia	**1,011**	796
Germany	**286**	401
Mexico	**44**	37
Chile	**1**	7
Eliminations	**(63,983)**	(35,283)
Total	**1,394,929**	**853,063**

**Total assets comprise total noncurrent assets less deferred taxes and investments.*

32 Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks considering the nature of its activity. The major insurance coverage included:

		Consolidated Total indemnity limits	
	Risk covered	**2020**	**2019**
Buildings, inventories, machinery and loss of profits	Fire, windstorm, electrical damage and general risks.	**180,227**	**140201**
Vehicles	Hull	**198**	**633**
Export credit	Commercial and political	**64,797**	**52,323**
Civil liability	Civil liability	**6,740**	**7,775**
Personal accidents	Bodily injury	**3,255**	**7,141**
		255,217	**208,073**

33 Events after the reporting period

As per market communication on February 1, 2021, the branch of the subsidiary Nakata Automotiva Ltda., currently located in the city of Diadema, in the ABC Region of the city of São Paulo, will be transferred to the municipality of Extrema, state of Minas Gerais. The transfer should be concluded by the end of the first half of the current year and aims to optimize processes and further increase the synergy of the Company's business.