(Convenience Translation into English from the Original Previously Issued in Portuguese)

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Individual and Consolidated Financial Statements for the Year Ended December 31, 2019 and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Financial statements

December 31, 2019

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MANAGEMENT REPORT ON EARNINGS RELEASE FOR THE YEAR ENDED DECEMBER 31, 2019

Intelbras generates consolidated net revenue of R$1,697,956 thousand and EBITDA of R$202,611 thousand.

São José (state of Santa Catarina), November 23, 2020 - **Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira** ("Intebras" or the "Company") hereby discloses its consolidated earnings for the year ended December 31, 2019. The amounts presented herein are compared to the year ended December 31, 2018, unless otherwise stated. The book balances presented herein have been prepared in accordance with the Brazilian Corporation Law, as well as in compliance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS).

HIGHLIGHTS

- Net operating revenue of **R$1,697,956 thousand** in 2019 (up 17.9% YoY);
- Gross profit of **R$593,146 thousand** in 2019 (up 12.6% YoY);
- EBITDA of **R$202,611 thousand** in 2019 (down 0.5% YoY);
- Net income of **R$189,393 thousand** in 2019 (up 16.5% YoY), accounting for 11.2% of net revenue;
- CAPEX investments amounted to **R$68,961** (up 93.9% YoY), due to the construction of our new plant in the industrial district of São José (state of Santa Catarina);
- ROIC of 46.9% in 2019 (down 19 p.p. YoY);
- Acquisition of two new companies (Decio and Seventh) in 3Q19.

KEY INDICATORS

In thousands of R$ (unless otherwise stated)	2019	2018	Variation
Total Net Revenue	1,697,956	1,440,192	17.9%
Gross Profit	593,146	526,401	12.6%
Gross Margin	*34.9%*	*36.6%*	*-1.7 p.p.*
EBITDA	202,611	203,556	-0.5%
EBITDA Margin	*11.9%*	*14.1%*	*-2.2 p.p.*
Net Income	189,393	162,496	16.5%
Net Margin	*11.2%*	*11.3%*	*-0.2 p.p.*
Earnings per common share - R$	*6.73*	*5.66*	18.9%
ROIC	*46.9%*	*43.7%*	*3.2* p.p.

A MESSAGE FROM MANAGEMENT

The year 2019 started with a sense of optimism that pervaded Brazil’s population. A new president and a new national congress took office with promises of structural reforms in Brazil’s tax and economic spheres. In fact, the approval of the social security system reform and other measures taken by the federal government indicated a trend towards that movement. Despite this optimism, Brazil’s economy presented a growth rate very similar to that reported for 2018, defying the expectations of a faster recovery of the Gross Domestic Product.

Although Brazil’s growth rate in 2019 was below the initial expectations, our sales grew by 17.9% when compared to 2018, and our profitability ratios and margins remained at sound levels. Our good performance is mainly the result of our ability to understand how the market and the consumers behave, effectively anticipating and meeting their needs. In addition, it is part of our culture to constantly update our product portfolio to forecast market trends and develop innovative solutions.

In line with our strategic planning, we acquired two companies during the year, Décio Indústria Metalúrgica Ltda. and Seventh Ltda., in both cases seeking to add to our product portfolio. The integration of these companies’ products into our portfolio, the transfer of their production lines to our plants and the incorporation of their workforce were completed in 2019 as well.

In addition to the aforementioned acquisitions, we must also celebrate the advance made by our energy segment. Our latest business initiative in this segment is our lines of solar energy products. The new range of products, under construction throughout the year, has been generating sales in line with our expectations. These products are widely accepted by the market in part due to the fact that they provide for cost reductions, but also because they are a clean energy generation technology. Training actions aimed at our partner resellers and installers were carried out throughout the year, which made it possible for us to build a new workforce in this business segment. We believe that caring for the environment is an important value for people.

Another major highlight is the accelerated construction of our new plant in the industrial district of São José, state of Santa Catarina. The new plant will have a total constructed area of approximately 46 thousand m^2 and feature a rooftop photovoltaic power station with generation capacity of more than 175 thousand kW/h/month, being the largest of its kind in the south of Brazil. This power station will showcase all the potential and capacity of our energy segment. Being able to generate our own energy also demonstrates a commitment to the environment, as this facility has the potential to reduce $C0^2$ emissions to the atmosphere by up to 923 metric tons.

At the beginning of 2020, the world faced an unprecedented crisis in recent history. Perhaps there has never been another crisis with the same effects as the global COVID-19 pandemic. Virtually all countries in the world have been impacted by the novel coronavirus. In addition to the painful and irreparable loss of lives, the pandemic has also caused extensive damage to the global economy, a decline in the GDP of a number of countries, disruption to supply chains, and an inevitable increase in unemployment. Fortunately, we were prepared to face this crisis, with a robust cash position and suitable products to meet people’s demands at a time when staying home has become essential for their safety and health.
Our production lines continued to operate, supported by a stringent safety protocol.

It is still early to determine the extent of the impact of the pandemic over the coming years, but we expect a continuous and sustainable economic recovery. Additionally, our way of living and working has been forever changed by this crisis. Remote work, homeschooling and distance learning will remain a significant part of people's lives.

Finally, it is worth pointing out that, in 2018, we decided to discontinue the operations of our subsidiary in Mexico. The initiatives and related costs to shut down this facility were fully carried out and incurred in 2018. We do not expect to incur any additional costs at the time of cancellation of its registration by the Mexican authorities.

We will continue to invest in innovation and development of products that represent innovative solutions to *transform the way people communicate, connect and protect themselves*. We believe that we are ready to contribute to and support ways to overcome the challenges ushered in by the new reality.

Management

COMMENTS ON THE COMPANY'S PERFORMANCE DURING THE YEAR

Key operating indicators

Quantities (in thousands of units)	2019	2018	Variation
Security	14,148	12,364	14.43%
Communication	9,796	11,290	-13.23%
Energy	1,696	1,015	67.17%
Total	**25,640**	**24,668**	**3.94%**

Key financial indicators

In thousands of R$ (unless otherwise stated)	2019	2018	Variation
Total Net Revenue	1,697,956	1,440,192	17.9%
Gross Income	593,146	526,401	12.6%
Gross Margin	34.9%	36.6%	-1.7 p.p.
EBITDA	202,611	203,556	-0.5%
EBITDA Margin	11.9%	14.1%	-2.2 p.p.
Net Income	189,393	162,496	16.5%
Net Margin	11.2%	11.3%	-0.2 p.p.
Earnings per common share - R$	*6.73*	*5.66*	18.9%
ROIC	*46.9%*	*43.7%*	*3.2* p.p.

Management's Comments

- **Net sales revenue**

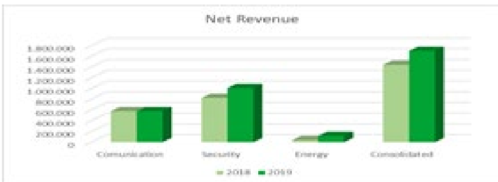
Our net sales amounted to R$1,697,956 thousand in 2019, up R$257,764 thousand or 17.9% over 2018. As significant as this growth is, it is worth noting that, between 2017 and 2018, we entered into an agreement with EAD - Empresa Administradora da Digitalização, which generated substantial, albeit non-recurring, revenues. EAD was set up by phone carriers that emerged as the winning bidders at a 700 MHz spectrum auction, and, consequently, entered into an agreement with the federal government to support the conversion from analog to digital television receivers. One of its goals was to sell analog-to-digital converters.

In 2018, the sales to EAD reached R$39,699 thousand (R$211,921 thousand in 2017), generating EBITDA of R$3,440 thousand (R$29,471 thousand in 2017). From 2017 to 2018, the sales were significant due to the need to convert the entire installed base of devices, a process which was completed in 2018. The EAD project shows our resilience to capture market opportunities. Disregarding the non-recurring sales to EAD, the increase in net sales in 2019 would be 21% when compared to 2018.

The 17.9% variation is explained by the following main factors: (i) organic growth in the product portfolio, which increased net revenue by R$140,100 thousand from 2018 to 2019; (ii) the beginning of the sales of solar energy products in January 2019, which increased net revenue by R$49,900 thousand in the year; (iii) the revenues arising from our acquisitions of Seventh Ltda. ("Seventh") and Décio Indústria Metalúrgica Ltda. ("Décio") in July and August 2019, respectively, which increased our consolidated net revenue by R$68,000 thousand in 2019.

Our revenue by segment was as follows (in thousands of Reais):

	Segment			
Year	**Comunication**	**Security**	**Energy**	**Consolidated**
2019	**576,025**	**1,006,562**	**115,369**	**1,697,956**
2018	576,595	823,255	40,342	1,440,192
Δ	*-0.1%*	*22.3%*	*186.0%*	*17.9%*

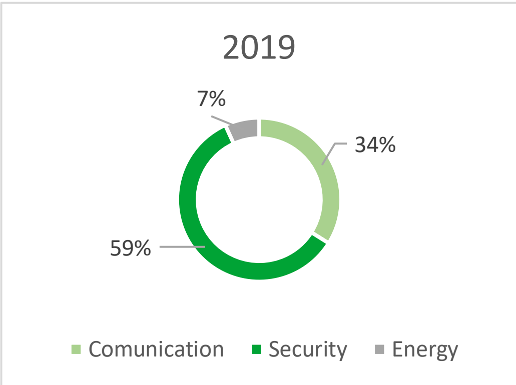


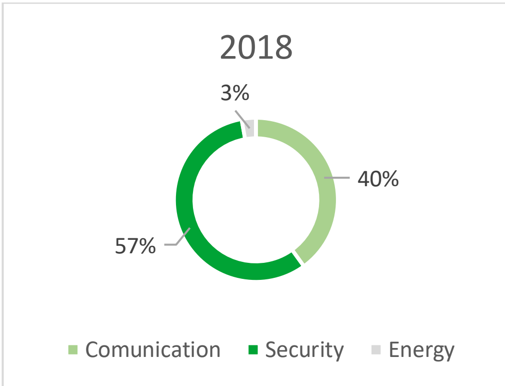
The Security segment has continued to grow at more than double-digit rates, in line with the demand from consumers, who wish to increase their sense of security by purchasing more intelligent and efficient technology-based solutions. The Communication segment remained stable in absolute figures, but it is important to stress that, in 2018, this segment recorded non-recurring revenues arising from sales of converters to EAD. Disregarding these non-recurring revenues and considering exclusively this segment's current product line, growth would total 7%. Our Energy segment includes various lines of solutions, from household energy saving devices to on-grid and off-grid solar energy generators.

The higher demand for solar energy generation equipment has also increased the demand for support and complementary products. There is a latent demand from people for own energy generation solutions that reduce costs.

The appeal of clean energy is also a major driver of consumption. Therefore, the energy segment accounted for the most significant growth in percentage terms. We expect these growth rates to decrease as the market matures.

Although the Energy segment still accounts for a small share of our revenues, such share has more than doubled in comparison to the previous year:





- **Gross Profit**

In thousands of R$	2019	2018	ΔR$	Δ%	2019	2018
Net operating revenue	**1,697,956**	**1,440,192**	**257,764**	**17.90%**	**100.00%**	**100.00%**
Cost of goods sold	(1,104,810)	(913,791)	(191,019)	20.90%	-65.10%	-63.40%
Gross Profit	**593,146**	**526,401**	**66,745**	**12.70%**	**34.90%**	**36.60%**

The cost of goods sold and services provided totaled R$1,104,810 thousand in the year ended December 31, 2019, up 20.9% over 2018, representing 65.1% of net revenue (63.4% in 2018). This variation was mainly due to: (i) an increase in the volume of goods sold, in line with the increase in our net revenue; (ii) a slight increase in the costs of raw materials due to foreign exchange variation (U.S. dollar) in the second half of 2019, which was not passed on to our customers; and (iii) the start-up of the operations of the Solar Energy Business Unit in January 2019, which increased the costs of goods sold and services provided in the year ended December 31, 2019.

The 1.7 p.p. decline in the current year may be explained by a slight increase in the costs of raw materials due to foreign exchange variation (U.S. dollar) in the second half of 2019, which was not passed on to our customers. The strategy of not changing the prices of goods sold, despite foreign exchange variation, aimed to increase the sales volume, which ended up putting a slight pressure on our profit margin.

Gross profit by segment is presented below (in thousands of Reais):

	Segment			
Year	**Communication**	**Security**	**Energy**	**Consolidated**
2019	**183,549**	**377,643**	**31,954**	**593,146**
2018	187,064	327,255	12,082	526,401
Variation	*-1.90%*	*15.40%*	*164.50%*	*12.70%*

- ## Operating expenses

In thousands of R$	2019	2018	ΔR$	Δ%	2019 [1]	2018[1]
Selling expenses	(236,439)	(207,607)	(28,832)	13.9%	-13.9%	-14.4%
Administrative and general expenses	(107,778)	(75,099)	(32,679)	43.5%	-6.3%	-5.2%
Other revenue (expenses), net	(65,000)	(55,694)	(9,306)	16.7%	-3.8%	-3.9%
Total	(409,217)	(338,400)	(70,817)	20.9%	-24.1%	-23.5%

[1] *Share of expense in relation to net revenue.*

Our selling expenses remained stable when compared to the previous year and even presented a slight decline of 0.5 p.p. in comparison to net operating revenue. On the other hand, our administrative and general expenses increased by 43.5% year-over-year, a growth of 1.1 p.p. in relation to revenue. This increase was caused by a number of factors, the main of which being: (i) an increase in expenses due to our organic growth in the period; (ii) administrative and general expenses of the companies Seventh and Décio, acquired in July and August 2019, respectively, which totaled R$17.1 million in the year; (iii) an increase in the expenses of the subsidiaries Prediotech and Ascent of R$1.1 million and R$7.4 million, respectively; and (iv) an increase in profit sharing expenses of R$9.0 (due to the increase in our profit and the payment of an additional R$4.5 million on a presumed state value-added tax (ICMS) credit recorded during the year).

- ## EBITDA

In thousands of R$ (unless otherwise stated)	2019	2018	Δ
Net Income	**189,393**	**162,496**	
(+/-) Income tax and social contribution	1,075	(4,568)	
(+/-) Financial income (expenses), net	(6,539)	30,073	
(+) Depreciation	14,141	11,604	
(+) Amortization	4,541	3,951	
EBITDA	**202,611**	**203,556**	**-0.5%**

EBITDA totaled R$202,611 in 2019, down 0.5% from 2018. The year 2018 was still impacted by a non-recurring event that affected our results: an agreement with EAD - Empresa Administradora da Digitalização, which generated significant, albeit non-recurring, revenues, as previously mentioned in the comments on our operating revenue. Disregarding this non-recurring amount, EBITDA for 2018 would be R$200,116 thousand, which shows that our EBITDA on a normalized basis remained stable.

In 2019, EBITDA margin was 11.9%, against 14.1% in 2018. This 2.2 p.p. variation was substantially due to two factors: (i) the non-recurring item in 2018, which alone accounted for 0.2 p.p. of the variation; (ii) a 1.6 p.p. decrease in our gross profit, as previously mentioned in the comments on our margin.

- **ROIC**

In millions of R$ (unless otherwise stated)	2019	2018	Δ
Operating income before financial income (expenses)	183,929	188,001	
Income tax and social contribution	(1,075)	4,568	
NOPAT	**182,854**	**192,569**	
(Cash)/Net debt	(134,919)	(184,673)	
Profit sharing	724,859	625,608	
Capital Employed	**589,940**	**440,935**	
ROIC	**31.0%**	**41.5%**	-10.5 p.p
ROIC pre-tax [1]	**31.2%**	**42.6%**	-11.4 p.p

(1) calculated based on operating income before financial income (expenses) and without deducting taxes

ROIC is prepared based on the results achieved in the last four quarters.

The ROIC for 2019 was down 10.5 p.p. from 2018, reaching 31%. This variation may be explained by the higher debt level in 2019 when compared to 2018, due to the construction of the new plant and the expansion of sales.

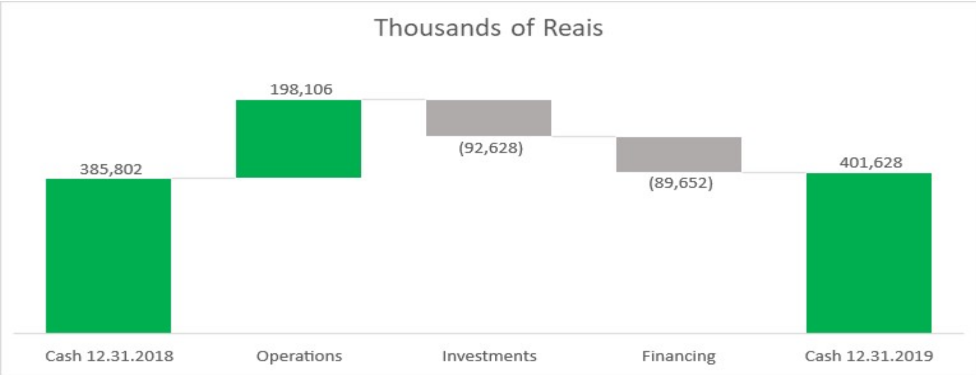
CAPITAL STRUCTURE

Cash and debt position

In thousands of R$ (unless otherwise stated)	2019	2018
Loans and financing (current liabilities)	(41,293)	(55,102)
Loans and financing (non-current liabilities)	(225,416)	(146,027)
Gross indebtedness	**(266,709)**	**(201,129)**
Cash and cash equivalents	401,628	385,802
Net cash/(net debt)	**134,919**	**184,673**

We seek to maintain a robust cash position as part of our capital management strategy. As of December 31, 2019, our cash position decreased in comparison to the previous year because of investments in property, plant and equipment due to the start of the construction of our new plant, and the acquisitions of the companies Seventh and Decio.

Changes in cash



Cash from operations totaling R$198,106 thousand results mainly from the result for the year.
We allocated R$66,190 thousand to property, plant and equipment, essentially for the construction of the new plant; R$27,834 thousand to the acquisitions of the companies Seventh and Decio; and R$2,771 thousand to acquisitions of software and intangible assets.

Financing activities consisted of funding of R$146,016 thousand, repayment of principal and interest totaling R$144,475, and payment of dividends to shareholders of approximately R$91,193 thousand.

EVENTS, NEWS AND AWARDS

Acquisition of Seventh Ltda. - In July 2019, we acquired Seventh Ltda., a company based in the state of Santa Catarina, since this acquisition provided a great opportunity for us to expand our offer of technological solutions in image management and monitoring, access control and remote alarm systems. Through this acquisition, we were able to increase our service portfolio in the Security segment and reinforce our investments in products that generate recurring revenue and software as a service (SaaS).

Acquisition of Décio Indústria Metalúrgica Ltda. - In September 2019, we carried out an important acquisition, looking to add to our solutions in the communication segment. Décio Indústria Metalúrgica Ltda. is based in the state of Santa Catarina and engages in manufacturing metal parts for computer servers. Through the acquisition of this company, we will improve our offer of products for the server and network market.

Awards - In 2019, our efforts to create a future with better solutions in the areas of communication, connectivity and security were once again recognized by the market, and especially by our consumers. We were elected by consumers in the state of Santa Catarina as the top-of-mind brand for electronics; we were among the 150 most innovative companies in Brazil according to the yearbook of the Valor Econômico magazine; we once again ranked among the Largest and Best Companies in the electronics industry; and we were recognized as one of 100 best companies in terms of customer satisfaction according to the MESC Institute survey.

RELATIONSHIP WITH THE INDEPENDENT AUDITORS

We hereby inform that our policy for engaging services not related to independent audit is based on principles that preserve the auditors' independence, and that we make sure that the provision of other services does not impair the independence and objectivity required for the performance of independent audit services. In the year ended December 31, 2019, Deloitte Touche Tohmatsu Auditores Independentes S/S was not engaged to provide any services other than those related to the independent audit. The compensation of the independent auditors in the year ended December 31, 2019 totaled R$221 thousand and pertained to work carried out during this year.

ATTACHMENT I - Consolidated statement of income

	Consolidated	
	12/31/2019	**12/31/2018**
Net operating revenue	**1,697,956**	**1,440,192**
Cost of goods sold and services provided	(1,104,810)	(913,791)
Gross profit	**593,146**	**526,401**
Operating income (expenses)		
Selling expenses	(236,439)	(207,607)
Administrative and general expenses	(107,778)	(75,099)
Other operating income (expenses), net	(65,000)	(55,694)
	(409,217)	(338,400)
Operating income before financial income (expenses)	**183,929**	**188,001**
Financial income	56,234	48,383
Financial expenses	(34,995)	(43,600)
Foreign exchange variation, net	(14,700)	(34,856)
Income before taxes	**190,468**	**157,928**
Current income tax and social contribution	(2,961)	(2,588)
Deferred income tax and social contribution	1,886	7,156
Net income for the year	**189,393**	**162,496**

ATTACHMENT II - Assets

	Consolidated	
	12/31/2019	**12/31/2018**
Assets		
Current assets		
Cash and cash equivalents	401,628	385,802
Marketable securities	1,141	-
Trade accounts receivable	363,630	268,473
Inventories	434,776	344,021
Taxes recoverable	16,610	10,795
Other receivables	6,909	4,710
Total current assets	**1,224,694**	**1,013,801**
Non-current assets		
Marketable securities	4,563	-
Trade accounts receivable	2,325	4,937
Escrow deposits	11,509	13,761
Deferred taxes	7,085	13,137
Taxes recoverable	27,228	27,267
Other receivables	4,239	1,220
Investments	1,819	2,316
Property, plant and equipment	230,088	163,288
Intangible assets	87,975	50,483
Total non-current assets	**376,831**	**276,409**
Total assets	**1,601,525**	**1,290,210**

ATTACHMENT II – Liabilities

	Consolidated	
	12/31/2019	**12/31/2018**
Liabilities		
Current liabilities		
Suppliers	466,359	356,597
Loans and financing	41,293	55,102
Salaries, payroll charges and profit sharing	54,079	47,670
Taxes payable	8,311	6,757
Provision for warranty claims	12,719	10,409
Provision for tax, labor and civil contingencies	426	445
Other accounts payable	40,373	23,592
Total current liabilities	**623,560**	**500,572**
Non-current liabilities		
Loans and financing	225,416	146,027
Taxes payable	11,197	11,592
Provision for tax, labor and civil contingencies	6,551	4,007
Other accounts payable	9,942	2,404
Total non-current liabilities	**253,106**	**164,030**
Shareholders' equity		
Capital stock	350,000	350,000
Treasury shares	-	(36,793)
Profit reserves	349,518	305,955
Equity valuation adjustments	25,887	26,161
Cumulative translation adjustments	(546)	(571)
Accumulated loss	-	(19,144)
Total shareholders' equity	**724,859**	**625,608**
Total liabilities and shareholders' equity	**1,601,525**	**1,290,210**

Disclaimers

Some of the statements made in this document are based on hypotheses, assumptions and points of view of our management, taking into account data and information available as of the date of preparation of this document. Actual results, performance and events may differ significantly from those expressed herein, due to a number of factors, such as general and economic conditions in Brazil and other countries, exchange rates etc. Certain percentages and figures contained in this document may have been rounded up for disclosure purposes, and therefore totals in certain tables may not represent the arithmetic sum of the numbers that precede them and may differ from those presented in the financial statements. This performance report contains accounting and non-accounting data, such as operating and pro-forma financial data, and forecasts based on management's expectations. The non-accounting data have not been reviewed by our independent auditors.

EBITDA (earnings before interest, income tax and social contribution, financial income and expenses, depreciation and amortization) is not a financial performance measurement according to the accounting practices adopted in Brazil (BR GAAP). Since EBITDA does not consider expenses inherent to the business, it has limitations that affect its use as an indicator of profitability or liquidity. EBITDA should not be considered as an alternative to net income or cash flow from operations. In addition, EBITDA has no standardized meaning, and our definition may not be comparable to the definition adopted by other companies. Also, extraordinary results considered for the calculation of Adjusted EBITDA and Adjusted Net Income should not be considered as an alternative to EBITDA and net income under BR GAAP.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT ON THE
INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder and Management of
Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Opinion

We have audited the accompanying individual and consolidated financial statements of Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2019, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira as at December 31, 2019, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil and 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 requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("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 audit opinion.

Key audit matters

Key audit matters ("KAM") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. 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.

Business combination

Why it is a KAM

As described in notes 10.d and 10.e to the individual and consolidated financial statements, in the second half of 2019, the Company acquired the control of Seventh Ltda. and Decio Ltda. When acquiring a business, the Company must measure the fair value of the assets acquired and the liabilities assumed, as well as the fair value of the consideration transferred. The Company must also measure and recognize separately the goodwill arising from expected future earnings ("goodwill").
Such matter was considered a KAM in our audit, because: (i) the amounts involved in the acquisition of the above mentioned companies were jointly material for the audit; (ii) the measurement of the fair values of assets, liabilities and goodwill involved applying significant valuation methodologies and assumptions that are complex and require a high level of judgment by Management and its specialists, such as discount and growth rates; (iii) the changes in the assumptions adopted could have significant impacts on the consolidated financial statements and on the amount of the investments recorded under the equity method in the Parent's financial statements; and (iv) there was strong interaction with the Company's Management in assessing the matter.

How the matter was addressed in our audit

Our audit procedures included, but were not limited to: (i) assessing the agreements that documented the business combinations and analyzing the supporting documentation for the transactions; (ii) involving our corporate finance specialists to assess the main assumptions and methodologies used by the Company in the measurement and appropriate recognition of the fair value of the assets acquired, liabilities assumed and goodwill arising from future earnings.
Our procedures described above and the audit evidence supporting our tests showed internal control deficiencies and the allocation adjustments between goodwill, the assets acquired and liabilities assumed, which were recorded by Management in the Company's individual and consolidated financial statements. We considered the recognition of the business combinations of Seventh Ltda. and Decio Ltda. acceptable in the context of the individual and consolidated financial statements taken as a whole.
We have also assessed the adequacy of the disclosures about business combinations, which are presented in notes 3.1, 10.d and 10.e to the individual and consolidated financial statements.

Revenue recognition

Why it is a KAM

A significant portion of the Company's sales is made to distributors and the retail market, mainly in the domestic market. Sales revenue is recognized after billing and fulfillment of the conditions set forth in the accounting practices with respect to revenue recognition, as disclosed in note 3.13 to the individual and consolidated financial statements.
These sales transactions are material and there might have a time span between the date of issuance of the sales invoices and the time the Company satisfies its performance obligation and transfers the control over the goods sold to the distributors and retailers.
For this reason, the Company monitors the date of delivery of the goods to these customers and recognizes only the sales that met all accounting criteria for recognition up to the balance sheet date.
Such matter was considered a KAM due to the following aspects: (i) the amount of the sales transactions subject to delivery date monitoring is material; (ii) the internal controls implemented by the Company are broken down by transaction to determine possible adjustments to operating income; and (iii) there is an inherent risk that revenue might be recognized without fulfilling the minimum criteria necessary for its recognition.

How the matter was addressed in our audit

Our audit procedures related to revenue recognition included, but were not limited to: (i) assessing the design and implementation of internal controls activities related to revenue recognition on the proper accrual period; (ii) performing substantive tests on the revenue reversal adjustments recorded by the Company on sales transactions that failed to fulfill the recognition criterion; and (iii) performing integrity tests on the revenue reversal adjustments recorded by the Company, selecting revenue transactions occurred close to yearend. Our procedures also included assessing the disclosures made by the Company in the individual and consolidated financial statements.
Our procedures described above and the audit evidence supporting our tests showed internal controls deficiencies and revenue recognition adjustments, which were recorded by Management in the Company's individual and consolidated financial statements. We considered the revenue recognition criteria adopted by Management acceptable in the context of the individual and consolidated financial statements taken as a whole.
We have also assessed the adequacy of the disclosures about the revenue recognition criteria in the notes to the financial statements, which are acceptable, in the context of the individual and consolidated financial statements taken as a whole.

Deloitte.

Emphasis of matter

Restatement of the individual and consolidated financial statements

On March 19, 2020, we issued an unmodified independent auditor's report on the Company's individual and consolidated financial statements for the year ended December 31, 2019, which are now being restated. As described in note 2.5 to the individual and consolidated financial statements, these individual and consolidated financial statements were modified and are being restated to reflect the necessary adjustments and reclassifications, as prescribed by technical pronouncement CPC 23 and international standard IAS 08 - Accounting Policies, Changes in Accounting Estimates and Errors. Our opinion is not qualified in respect of this matter.

Other matters

Corresponding figures audited by the previous auditor

The audit of the individual and consolidated balance sheet as at January 1, 2018 and December 31, 2018, presented for purposes of comparison, was conducted by another independent auditor, who issued an unmodified audit report thereon, dated November 23, 2020.

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2019, prepared under the responsibility of the Company's Management and disclosed as supplemental information for purposes of the IFRSs, were subject to audit procedures performed together with the audit of the Company's financial statements. In forming our opinion, we evaluated whether these individual and consolidated statements of value added are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were appropriately prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

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

Management is responsible for the other information. The other information comprises 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 audit 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 in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries 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 and its subsidiaries to cease to continue as a going concern.

- Evaluate 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 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 planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year 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.

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

Curitiba, November 24, 2020

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Otavio Ramos Pereira
Engagement Partner

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Balance sheets
Years ended December 31, 2019 and 2018 and January 1, 2018
(Amounts in thousands of Brazilian reais – R$)

		Consolidated			Parent		
	Note	**12/31/2019**	**12/31/2018**	**01/01/2018**	**12/31/2019**	**12/31/2018**	**01/01/2018**
		(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
Assets							
Current assets							
Cash and cash equivalents	**5**	**401,628**	385,802	320,734	**398,308**	383,768	317,993
Securities	**6**	**1,141**	-	-	**1,141**	-	
Trade receivables	**7**	**363,630**	268,473	297,662	**360,921**	268,242	296,161
Inventories	**8**	**434,776**	344,021	309,042	**433,911**	344,019	308,693
Recoverable taxes	**9.a**	**16,610**	10,795	7,868	**16,513**	10,793	7,868
Other receivables		**6,909**	4,710	4,463	**6,439**	4,480	4,330
Total current assets		**1,224,694**	1,013,801	939,769	**1,217,233**	1,011,302	935,045
Noncurrent assets							
Securities	**6**	**4,563**	-	-	**4,563**	-	-
Trade receivables	**7**	**2,325**	4,937	479	**2,325**	4,937	6,286
Escrow deposits	**15.b**	**11,509**	13,761	13,813	**11,509**	13,761	13,682
Deferred taxes	**20**	**7,085**	13,137	5,981	**7,085**	13,137	5,981
Recoverable taxes	**9.a**	**27,228**	27,267	27,005	**27,228**	27,267	27,005
Related parties	**29**	**-**	-	-	**2,014**	60	-
Other receivables		**4,239**	1,220	1,217	**4,022**	1,220	1,218
Investments	**10**	**1,819**	2,316	1,068	**55,288**	4,733	1,068
Property, plant and equipment	**11**	**230,088**	163,288	151,227	**218,764**	163,202	151,188
Intangible assets	**12**	**87,975**	50,483	48,277	**48,052**	49,091	48,277
Total noncurrent assets		**376,831**	276,409	249,067	**380,850**	277,408	254,705
Total assets		**1,601,525**	1,290,210	1,188,836	**1,598,083**	1,288,710	1,189,750

	Note	Consolidated			Parent		
		12/31/2019	12/31/2018	01/01/2018	12/31/2019	12/31/2018	01/01/2018
		(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
Liabilities							
Current liabilities							
Trade payables	**13**	**466,359**	356,597	365,181	**466,631**	356,594	364,769
Borrowings and financing	**14**	**41,293**	55,102	37,230	**40,448**	55,102	37,230
Payroll, related taxes and profit sharing	**17**	**54,079**	47,670	49,833	**52,504**	47,626	49,795
Taxes payable	**9.b**	**8,311**	6,757	11,253	**7,667**	6,743	10,920
Provision for tax, labor and civil risks	**15.a**	**426**	445	467	**426**	445	467
Provision for warranties	**4.2**	**12,719**	10,409	13,874	**12,719**	10,388	13,867
Interest on capital and dividends		**-**	-	4,622	**-**	-	4,622
Other payables		**40,373**	23,592	21,516	**40,377**	22,174	19,543
Total current liabilities		**623,560**	500,572	503,976	**620,772**	499,072	501,213
Noncurrent liabilities							
Borrowings and financing	**14**	**225,416**	146,027	146,359	**223,725**	146,027	146,359
Taxes payable	**9.b**	**11,197**	11,592	12,119	**11,197**	11,592	12,119
Provision for tax, labor and civil risks	**15.a**	**6,551**	4,007	2,227	**6,451**	4,007	2,227
Investments on negative equity	**10**	**-**	-	-	**1,137**	-	3,677
Other payables		**9,942**	2,404	3,643	**9,942**	2,404	3,643
Total noncurrent liabilities		**253,106**	164,030	164,348	**252,452**	164,030	168,025
Equity							
Capital	**16.a**	**350,000**	350,000	350,000	**350,000**	350,000	350,000
Capital reserve	**16.f**	**-**	(36,793)	(36,793)	**-**	(36,793)	(36,793)
Earnings reserves	**16.b**	**349,518**	305,955	181,299	**349,518**	305,955	181,299
Valuation adjustments to equity	**16.c**	**25,887**	26,161	26,675	**25,887**	26,161	26,675
Accumulated losses		**-**	(19,144)	-	**-**	(19,144)	-
Cumulative translation adjustments	**16.d**	**(546)**	(571)	(669)	**(546)**	(571)	(669)
Total equity		**724,859**	625,608	520,512	**724,859**	625,608	520,512
Total liabilities and equity		**1,601,525**	1,290,210	1,188,836	**1,598,083**	1,288,710	1,189,750

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

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Statements of income
Years ended December 31, 2019 and 2018
(Amounts in thousands of Brazilian reais – R$, except earnings per share)

	Note	Consolidated		Parent	
		12/31/2019 (restated)	12/31/2018 (restated)	12/31/2019 (restated)	12/31/2018 (restated)
Net operating revenue	**22**	**1,697,956**	1,440,192	**1,686,273**	1,440,091
Cost of sales and services	**23**	**(1,104,810)**	(913,791)	**(1,110,813)**	(913,765)
Gross profit		**593,146**	526,401	**575,460**	526,326
Operating income (expenses)					
Selling expenses	**23**	**(236,439)**	(207,607)	**(235,101)**	(207,475)
General and administrative expenses	**23**	**(107,778)**	(75,099)	**(89,149)**	(74,976)
Share of profit (loss) of subsidiaries	**10**	**-**	-	**(965)**	4,474
Other operating expenses, net	**24**	**(65,000)**	(55,694)	**(67,367)**	(60,349)
		(409,217)	(338,400)	**(392,582)**	(338,326)
Operating profit before finance income (costs)		**183,929**	188,001	**182,878**	188,000
Finance income	**25**	**56,234**	48,383	**55,072**	48,380
Finance costs	**25**	**(34,995)**	(43,600)	**(33,581)**	(43,598)
Exchange losses, net	**26**	**(14,700)**	(34,856)	**(14,700)**	(34,856)
Profit before taxes		**190,468**	157,928	**189,669**	157,926
Current income tax and social contribution	**20**	**(2,961)**	(2,588)	**(2,162)**	(2,586)
Deferred income tax and social contribution	**20**	**1,886**	7,156	**1,886**	7,156
Profit for the year		**189,393**	162,496	**189,393**	162,496
Basic and diluted earnings per share (in R$)	**18**				
Common		**6.73**	5.66		
Preferred		**-**	6.23		

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Statements of comprehensive income
Years ended December 31, 2019 and 2018
(Amounts in thousands of Brazilian reais – R$)

		Consolidated		Parent	
	Note	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
		(restated)	(restated)	(restated)	(restated)
Profit for the year		**189,393**	162,496	**189,393**	162,496
Items that can be subsequently reclassified to the statement of income					
Other comprehensive income					
Exchange differences on foreign investments	10	**25**	98	**25**	98
Total comprehensive income		**189,418**	162,594	**189,418**	162,594

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Statements of changes in equity
Years ended December 31, 2019 and 2018
(Amounts in thousands of Brazilian reais – R$)

			Capital reserve	Earnings reserves						
	Note	Capital	Treasury shares	Legal	Tax incentives	Retained earnings	Valuation adjustments to equity	Cumulative translation adjustments	Retained earnings (accumulated losses)	Total
Balances as at January 1, 2018 (restated)		**350,000**	**(36,793)**	**29,190**	**135,495**	**16,614**	**26,675**	**(669)**	**-**	**520,512**
Realization of deemed cost, net of taxes		-	-	-	-	-	(514)	-	514	-
Exchange differences on investments in foreign subsidiaries	**10**	-	-	-	-	-	-	98	-	98
Profit for the year		-	-	-	-	-	-	-	162,496	162,496
Allocations:										
Legal reserve		-	-	8,125	-	-	-	-	(8,125)	-
Tax incentive reserves		-	-	-	133,145	-	-	-	(133,145)	-
Retained earnings		-	-	-	-	(1,427)	-	-	1,427	-
Annual dividends	**16.e**	-	-	-	-	-	-	-	(5,209)	(5,209)
Prior-year dividends		-	-	-	-	(22,193)	-	-	-	(22,193)
Annual interest on capital	**16.e**	-	-	-	-	-	-	-	(30,096)	(30,096)
Transfer to accumulated losses		-	-	-	-	7,006	-	-	(7,006)	-
Balances as at December 31, 2018 (restated)		**350,000**	**(36,793)**	**37,315**	**268,640**	**-**	**26,161**	**(571)**	**(19,144)**	**625,608**
Realization of deemed cost, net of taxes		-	-	-	-	-	(274)	-	274	-
Exchange differences on investments in foreign subsidiaries	**10**	-	-	-	-	-	-	25	-	25
Cancellation of treasury shares	**16.f**	-	36,793	-	-	(36,793)	-	-	-	-
Profit for the year		-	-	-	-	-	-	-	189,393	189,393
Allocations:										
Legal reserve		-	-	9,470	-	-	-	-	(9,470)	-
Tax incentive reserves	**16.b**	-	-	-	2,538	-	-	-	(1,512)	1,026
Interest on capital	**16.e**	-	-	-	-	-	-	-	(34,687)	(34,687)
Dividends	**16.e**	-	-	-	-	-	-	-	(56,506)	(56,506)
Retained earnings	**16.e**	-	-	-	-	68,348	-	-	(68,348)	-
Balances as at December 31, 2019 (restated)		**350,000**	**-**	**46,785**	**271,178**	**31,555**	**25,887**	**(546)**	**-**	**724,859**

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

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Statements of cash flows
Years ended December 31, 2019 and 2018
(Amounts in thousands of Brazilian reais – R$)

	Note	Consolidated		Parent	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
		(restated)	(restated)	(restated)	(restated)
Cash flows from operating activities					
Profit before taxes		**190,468**	157,928	**189,669**	157,926
Adjustments to:					
Accrued interest and exchange differences		**579**	2,664	**579**	2,666
Depreciation	**11**	**14,141**	11,604	**13,619**	11,586
Amortization	**12**	**4,541**	3,951	**3,908**	3,951
Share of profit (loss) of subsidiaries	**10**	**-**	-	**965**	(4,474)
Provision for tax, labor and civil risks	**15**	**2,525**	1,758	**2,425**	1,759
Allowance for expected credit loss	**7**	**5,011**	2,538	**4,896**	3,638
Allowance for inventory losses	**8**	**556**	(201)	**256**	1,128
Present value adjustment		**520**	2,417	**520**	2,417
Other provisions		**(1,866)**	638	**(1,866)**	638
Provision for warranties		**2,310**	(3,465)	**2,331**	(3,480)
Residual value of property, plant and equipment and intangible assets written off		**2,642**	3,523	**3,140**	3,522
		221,427	183,355	**220,442**	181,277
Changes in assets and liabilities					
(Increase) decrease in trade receivables		**(96,112)**	20,945	**(95,527)**	24,353
(Increase) in inventories		**(90,903)**	(35,902)	**(90,107)**	(37,583)
(Increase) in recoverable taxes		**(5,720)**	(3,189)	**(5,681)**	(3,187)
(Increase) decrease in escrow deposits		**2,252**	115	**2,252**	(17)
(Increase) in other assets		**(10,623)**	(118)	**(12,417)**	(211)
Increase in trade payables		**166,322**	71,891	**167,299**	72,304
Increase (decrease) in payroll, related taxes and profit sharing		**4,144**	(2,177)	**4,878**	(2,169)
Increase (decrease) in taxes payable		**330**	(3,765)	**530**	(3,443)
Increase in other payables		**9,601**	1,131	**11,503**	1,683
Income tax and social contribution paid		**(2,612)**	(3,913)	**(2,162)**	(3,911)
Net cash provided by operating activities		**198,106**	228,373	**201,010**	229,096
Cash flows from investing activities					
Acquisition of investments in subsidiaries	**10;30**	**(27,834)**	(1,550)	**(27,834)**	-
Acquisition of property, plant and equipment items	**11;30**	**(66,190)**	(30,591)	**(66,380)**	(30,543)
Proceeds from sale of property, plant and equipment		**220**	198	**217**	198
(Acquisition) write-off of other investments	**10**	**497**	(1,248)	**-**	(2,770)
Cash from business combinations	**10**	**3,450**	98	**-**	-
Acquisition of intangible assets	**12**	**(2,771)**	(4,980)	**(3,064)**	(4,980)
Net cash used in investing activities		**(92,628)**	(38,073)	**(97,061)**	(38,095)
Cash flows from financing activities					
Borrowings	**14;30**	**146,016**	52,165	**146,259**	52,166
Borrowings paid (principal)	**14**	**(131,819)**	(102,700)	**(131,819)**	(102,700)
Borrowings paid (interest)	**14**	**(12,656)**	(12,575)	**(12,656)**	(12,575)
Interest on capital and dividends paid		**(91,193)**	(62,122)	**(91,193)**	(62,120)
Net cash used in financing activities		**(89,652)**	(125,232)	**(89,409)**	(125,229)
Increase in cash and cash equivalents, net		**15,826**	65,068	**14,540**	65,775
Cash and cash equivalents at the beginning of the year		**385,802**	320,734	**383,768**	317,993
Cash and cash equivalents at the end of the year		**401,628**	385,802	**398,308**	383,768

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

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira

Statements of value added
Years ended December 31, 2019 and 2018
(Amounts in thousands of Brazilian reais – R$)

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
	(restated)	(restated)	(restated)	(restated)
Revenues	**2,031,632**	1,718,907	**2,020,468**	1,717,688
Sale of goods and services, net of returns	**1,980,746**	1,714,745	**1,969,467**	1,714,626
Other revenue	**55,897**	6,700	**55,897**	6,700
Allowance for expected credit loss	**(5,011)**	(2,538)	**(4,896)**	(3,638)
Inputs purchased from third parties	**(1,283,163)**	(990,567)	**(1,275,230)**	(993,860)
Cost of sales and services	**(916,940)**	(683,488)	**(927,052)**	(683,479)
Supplies, power, outside services and other	**(365,923)**	(306,310)	**(347,878)**	(309,612)
Loss / recovery of assets	**(300)**	(769)	**(300)**	(769)
Gross value added	**748,469**	728,340	**745,238**	723,828
Depreciation and amortization	**(18,682)**	(15,555)	**(17,527)**	(15,537)
Wealth created by the Company	**729,787**	712,785	**727,711**	708,291
Wealth received in transfer	**137,657**	114,248	**135,530**	118,718
Share of profit (loss) of subsidiaries	**-**	-	**(965)**	4,474
Finance income and exchange gains	**137,657**	114,248	**136,495**	114,244
Total wealth for distribution	**867,444**	827,033	**863,241**	827,009
Wealth distributed	**867,444**	827,033	**863,241**	827,009
Personnel	**243,081**	216,631	**242,586**	216,631
Salaries and wages	**204,100**	180,139	**203,657**	180,139
Benefits	**26,786**	25,506	**26,769**	25,506
Severance Pay Fund (FGTS)	**12,195**	10,986	**12,160**	10,986
Taxes, fees and contributions	**300,223**	300,893	**297,941**	300,872
Federal	**98,779**	89,367	**99,206**	89,365
State	**200,934**	211,239	**198,467**	211,239
Municipal	**510**	287	**268**	268
Lenders and lessors	**134,747**	147,013	**133,321**	147,010
Finance costs and exchange losses	**131,315**	144,397	**129,900**	144,394
Rentals	**3,432**	2,616	**3,421**	2,616
Shareholders	**189,393**	162,496	**189,393**	162,496
Interest on capital and dividends paid	**(91,193)**	35,305	**(91,193)**	30,096
Retained earnings in the year	**280,586**	127,191	**280,586**	132,400

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

1. General information

Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira (Company"), incorporated on March 22, 1976, is a company headquartered in the City of São José, State of Santa Catarina, with branches in the City of São José – SC, Santa Rita do Sapucaí – MG, and Manaus - AM. It also has subsidiaries in São José - SC, Florianópolis - SC, Porto Alegre - RS and in Asia.

It is mainly engaged in the manufacture, development and sale of electronic security equipment and electronic surveillance and monitoring services, consumer voice and/or data communications devices and equipment, professional voice and/or data communications equipment, services and means, network equipment, data communications infrastructure means and solutions.

Covid-19

In the first quarter of 2020, the World Health Organization (WHO) has declared the Coronavirus (COVID-19) a global health emergency. The outbreak triggered significant decisions from governments and private sector entities which, coupled with its potential impact, raised the level of uncertainty for the economic agents and may have significant impacts on the financial statements.

The Company's Management has been observing all developments arising from the COVID-19 pandemic and monitors the possible impacts on its business to establish risk prevention and mitigation measures. The main analysis and monitoring dimensions are summarized below:

People

Considered by Management as a high priority, requiring close attention and care. We monitor on a daily basis the situation and recommendations from the health bodies and the competent public authorities. All measures necessary to protect the health and wellbeing of our employees were taken and have been regularly revised so as to implement additional security and protection measures.

To mitigate the Covid-19 transmission in our plants, distribution center and head office, we implemented common space and area cleaning measures, adopted effective active communication with our employees about protection and sanitization measures at the work environment, at home and in public areas, distributed protective materials and equipment to employees, and also adopted flexible working hours, teleworking, strict social distancing rules, constant temperature measurement, etc.

1. General information -- continued

Covid-19--continued

We have so far been successful in these measures.

Production and supply chain

Since the beginning of the pandemic our industrial production was suspended for no more than 20 days, by virtue of Decrees from State governments determining social distancing.

The Company operates in three (3) major operating segments. Because of the increased adoption of teleworking by companies and professionals during such period, our business segments did not experience a decline in the sales volume, sustaining the demand for our products. The measures adopted to protect our personnel also allowed us, except during a short period of time, as mentioned above, to maintain nonstop production. Some of our main suppliers are based in Asia. Some of these suppliers faced momentary production problems at the beginning of the pandemic, but these problems did not affect the supply of inputs for our activities. We continue to actively monitor the delivery capacity of our suppliers, assessing potential risks of disruptions in the supply of materials and inputs.

We maintain compatible inventory levels necessary to face potential supply problems.

Sales and credit granting

As mentioned above, the demand for products of our business segments has increased due to the increase in the dependence of people and companies on remote communication.

Our credit area has been monitoring the credit risk of our customers considering the current economic and health crisis condition to avoid the risk of increase of our default or loss level in the current scenario.

Liquidity

We have a stable cash position to respond to the crisis and maintained our credit limits with financial institutions unchanged to mitigate possible future liquidity risks. We have been constantly assessing possible risks of credit crunch or decrease of our payment capacity; so far, we did not identify any risks of such nature.

We analyze our performance indicators more frequently than before the crisis and these analyses are used to make quicker decisions on facing the potential risks that may arise.

The Company will continue to monitor the impacts and will adopt the required measures and disclosures, if necessary.

2. Basis of preparation and presentation of financial statements

2.1 Basis of preparation and presentation

The Company's individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, which comprise the Brazilian corporate law, the pronouncements, interpretations and guidelines issued by the Brazilian Accounting Pronouncements Committee (CPC), the rules issued by the Brazilian Securities and Exchange Commission (CVM), pursuant to the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ("IASB").

As disclosed in note 2.5, the Company's Management has decided to restate the individual and consolidated financial statements for the year ended December 31, 2019. Accordingly, these financial statements replace the previously issued financial statements. The individual and consolidated financial statements for the year ended December 31, 2019 were originally authorized for issue by the Executive Board on March 19, 2020; these financial statements are being restated and the Executive Board has approved their reissuance on November 24, 2020. The individual and consolidated financial statements for the years ended December 31, 2018 and 2017 were also reissued to reflect the prior-year adjustments. The balances as at December 31, 2018 and January 1, 2018, presented for purposes of comparison, are already adjusted.

The Parent's individual financial statements are disclosed together with the consolidated financial statements. In the individual financial statements, the subsidiaries and joint ventures with or without legal identity are accounted for under the equity method, adjusted proportionally to the interest held in the Company's contractual rights and obligations. The same adjustments are made both in the individual financial statements and the consolidated financial statements to obtain the same profit or loss and equity attributable to the Company's shareholders. However, there is no difference between the consolidated equity and profit or loss presented by the Company and the Parent's equity and profit or loss presented in its individual financial statements. Accordingly, the Company's consolidated financial statements and the Parent's individual financial statements are presented as a single set, on a side-by-side basis.

The individual and consolidated financial statements have been prepared based on historical cost, unless otherwise stated.

The individual and consolidated financial statements have been prepared in the normal course of business and based on the assumption that the Company will continue as a going concern. Management assesses its ability to continue as a going concern when preparing the individual and consolidated financial statements.

2. Basis of preparation and presentation of financial statements--continued

2.1 Basis of preparation and presentation--continued

The individual and consolidated financial statements are presented in thousands of Brazilian reais (R$) and all amounts are rounded to the nearest thousand, except if otherwise indicated.

Additionally, the Company has considered the guidelines in Technical Guidance OCPC 07, issued by the CPC in November 2014, in preparing its individual and consolidated financial statements. Accordingly, all relevant information reported in the individual and consolidated financial statements, and only this information, is being disclosed, and corresponds to the information used by Management to manage the Company.

2.2 Functional and presentation currency

The consolidated financial statements are presented in Brazilian reais (R$), which is the Parent's functional and presentation currency.

The financial statements of each subsidiary included in the consolidation are prepared using the functional currency of each investee. When defining the functional currency of each investee, Management considered which currency significantly influences the sales price of the services provided and the currency in which most of the cost of services is paid or incurred.

2.3 Use of estimate

In preparing the financial statements, it is necessary to use estimates to account for certain assets, liabilities and other transactions. Therefore, the individual and consolidated financial statements of the Company and its subsidiaries include the following main estimates relating to the impairment loss on non-financial assets, provision for warranties, provision for taxes, provision for tax, civil and labor risks, allowance for inventory obsolescence, provision for discounts and commercial funds, allowance for expected credit losses for trade receivables and contract assets. As they refer to estimates, variations may occur due to the effective realization or settlement of the corresponding assets and liabilities.

2.4 Basis of consolidation

The consolidated financial statements comprise the Company and its direct and indirect subsidiaries.

2. Basis of preparation and presentation of financial statements--continued

2.4 Basis of consolidation--continued

Specifically, the Company controls an investee if, and only if, it:

- Has power over the investee (that is, rights that ensure that the Company has current capacity to steer the investee's activities);
- Is exposed or is entitled to variable returns from its involvement with the investee; and
- Has the ability to use its power over the investee to affect the amount of its returns.

Generally, there is a presumption that the majority of voting rights results in control. The Company considers all applicable facts and circumstances when assessing whether it has power over an investee to support this presumption and when the Company does not have the majority of the voting rights of an investee, including:

- The arrangement between the investor and other holders of voting rights;
- Rights arising from other arrangements; and
- The Company's voting rights and potential voting rights (investor).

The Company assesses whether it controls an investee or not if facts and circumstances indicate that there are changes in one or more of the three components of control mentioned above.

Assets, liabilities and profit or loss of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company obtains control until the date the Company ceases to control the subsidiary.

The profit or loss and each component of other comprehensive income are attributable to the Company's owners and noncontrolling shareholders, even if it results in loss to noncontrolling shareholders. Adjustments are made to the subsidiaries' financial statements to align their accounting policies to the Company's accounting policies, if necessary. All assets and liabilities, profit or loss, income, expenses and cash flows from the same group, relating to intragroup transactions, are fully eliminated on consolidation.

The changes in the subsidiary's interest, without losing control, are accounted for as balance sheet transaction.

If the Company loses control over a subsidiary, the corresponding assets (including goodwill) and liabilities of the subsidiary are written off at their carrying amounts on the date control is lost and the carrying amount of any noncontrolling interests is written off on the date control is lost (including any components of other comprehensive income attributable to them). Any difference resulting as gain or loss is accounted for in profit or loss. Any investment held is recognized at its fair value on the date control is lost.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.4 Basis of consolidation--continued

The consolidated financial statements include the equity interest held in the following companies:

		Equity interest (%)	
	Subsidiary	**12/31/2019**	**12/31/2018**
Indústria de Telecomunicación Eletronica Brasileña de México, S.A. de C.V.	Direct	100%	100%
Ascent Asia Limited	Direct	100%	100%
Ascend Trading & Consulation (Shenzhen) Company Limited	Indirect	100%	100%
Prediotech Consultoria e Projetos Tecnológicos Ltda.-ME.	Direct	100%	100%
Décio Indústria Metalúrgica Ltda.	Direct	100%	-
Seventh Ltda.	Direct	100%	-

The core activities of the Company's subsidiaries are summarized below:

Indústria de Telecomunicación Electrónica Brasileña de México, S.A. de C.V.

Subsidiary located in Mexico (Mexico City), which was engaged in the commercial development of the Intelbras products in Mexico, through the retail and distribution channels. This subsidiary had a sales and customer support team (pre-sale, post-sale and training) and one administrative area that supported the entire operation. It also operated as a support area for the distributors in Central America. In December 2017 the Executive Board has decided to shut down the company's operations; the balances disclosed in the financial statements are the residual balances and will be derecognized upon the full shutdown before the competent bodies.

Ascent Asia Limited

Subsidiary located in China (Wanchai, Hong Kong), which is engaged in business consulting, corporate and financial information management, focused on prospecting new businesses. Ascent Asia Limited is also the parent company of *Ascend Trading & Consulation (Shenzhen) Company Limited*, based in Shenzhen, in Mainland China.

Ascend Trading & Consulation (Shenzhen) Company Limited

Subsidiary of Ascent Asia Limited, located in China (Shenzhen City), engaged in performing business and logistics consulting services to provide support to the Company in the development of suppliers for its inputs, as well as to support customs activities related to the import transactions carried out by the Company.

2. Basis of preparation and presentation of financial statements--continued

2.4 Basis of consolidation--continued

Prediotech Consultoria e Projetos Tecnológicos LTDA-ME.

Subsidiary located in Rio Grande do Sul (Porto Alegre); the Company acquired 100% of its stake in September 2018, at the amount of R$1,550. The acquiree operates in the IT sector, specialized in the development of systems for buildings and security companies.

Décio Indústria Metalurgica Ltda

In September 2019 the Company acquired 100% stake in Décio Indústria Metalúrgica Ltda. The entity is located in the municipality of São José – SC and operates in the fine particle metallurgy industry for production of server structures.

Seventh Ltda

In July 2019 the Company acquired 100% stake in Seventh LTDA. The entity, located in Florianópolis – SC, is engaged in the production of peripherals for IT equipment, development and licensing of software, in addition to providing technical support, maintenance and other IT-related services for building security.

The Company does not hold investments in associates or joint ventures.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the individual and consolidated financial statements

The individual and consolidated financial statements are being restated, in connection with the filing for publicly-held company registration with the Brazilian Securities and Exchange Commission (CVM), to disclose the statement of value added and earnings per share and improve certain disclosures in the notes to the financial statements.

Management identified adjustments and reclassifications that affect the balance sheet as at December 31, 2019, as well as the statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended. Consequently, the Company is restating the individual and consolidated financial statements for the year then ended, as set forth in CPC 23 (IAS 08) – Accounting Policies, Changes in Accounting Estimates and Errors. The tables below show the adjustments and reclassifications arising from the change in the accounting practice and errors:

		Balance sheets as at December 31, 2019					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Assets							
Cash and cash equivalents	4	**402,205**	(577)	401,628	**398,885**	(577)	398,308
Securities		**1,141**	-	1,141	**1,141**	-	1,141
Trade receivables	1;2;4	**459,445**	(95,815)	363,630	**456,736**	(95,815)	360,921
Inventories	1;2;7	**404,482**	30,294	434,776	**403,617**	30,294	433,911
Recoverable taxes	4	**16,033**	577	16,610	**15,936**	577	16,513
Other receivables	4	**9,514**	(2,605)	6,909	**9,044**	(2,605)	6,439
Total current assets		**1,292,820**	(68,126)	1,224,694	**1,285,359**	(68,126)	1,217,233
Securities		**4,563**	-	4,563	**4,563**	-	4,563
Trade receivables	8	**6,482**	(4,157)	2,325	**6,482**	(4,157)	2,325
Escrow deposits	10	**10,645**	864	11,509	**10,645**	864	11,509
Deferred taxes	1;2;5;7, 8	**-**	7,085	7,085	**-**	7,085	7,085
Recoverable taxes		**27,228**	-	27,228	**27,228**	-	27,228
Related parties		**-**	-	-	**2,014**	-	2,014
Other receivables		**4,239**	-	4,239	**4,022**	-	4,022
Investments	4;7	**1,819**	-	1,819	**86,944**	(31,656)	55,288
Property, plant and equipment	7	**229,884**	204	230,088	**218,764**	-	218,764
Intangible assets	4	**86,469**	1,506	87,975	**14,686**	33,366	48,052
Total noncurrent assets		**371,329**	5,502	376,831	**375,348**	5,502	380,850
Total assets		**1,664,149**	(62,624)	1,601,525	**1,660,707**	(62,624)	1,598,083

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

		Balance sheets as at December 31, 2019					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Liabilities							
Trade payables	2; 4	**480,292**	(13,933)	466,359	**480,564**	(13,933)	466,631
Borrowings and financing		**41,293**	-	41,293	**40,448**	-	40,448
Payroll, related taxes and profit sharing		**54,079**	-	54,079	**52,504**	-	52,504
Taxes payable	1	**19,977**	(11,666)	8,311	**19,333**	(11,666)	7,667
Provision for warranties	4	**-**	12,719	12,719	**-**	12,719	12,719
Provision for tax, labor and civil risks	4	**3,614**	(3,188)	426	**3,614**	(3,188)	426
Other payables	4	**46,994**	(6,621)	40,373	**46,998**	(6,621)	40,377
Total current liabilities		**646,249**	(22,689)	623,560	**643,461**	(22,689)	620,772
Borrowings and financing		**225,416**	-	225,416	**223,725**	-	223,725
Taxes payable	4	**9,324**	1,873	11,197	**9,324**	1,873	11,197
Deferred taxes	5	**3,778**	(3,778)	-	**3,778**	(3,778)	-
Provision for warranties	4	**12,719**	(12,719)	-	**12,719**	(12,719)	-
Provision for tax, labor and civil risks	4;10	**8,860**	(2,309)	6,551	**8,760**	(2,309)	6,451
Investments on negative equity		**-**	-	-	**1,137**	-	1,137
Other payables	4	**8,492**	1,450	9,942	**8,492**	1,450	9,942
Total noncurrent liabilities		**268,589**	(15,483)	253,106	**267,935**	(15,483)	252,452
Equity							
Capital		**350,000**	-	350,000	**350,000**	-	350,000
Earnings reserves	1; 2;7;8	**374,002**	(24,484)	349,518	**374,002**	(24,484)	349,518
Valuation adjustments to equity		**25,887**	-	25,887	**25,887**	-	25,887
Cumulative translation adjustments		**(578)**	32	(546)	**(578)**	32	(546)
Total equity		**749,311**	(24,452)	724,859	**749,311**	(24,452)	724,859
Total liabilities and equity		**1,664,149**	(62,624)	1,601,525	**1,660,707**	(62,624)	1,598,083

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

Statement of profit and loss as at December 31, 2019

		Consolidated			Parent		
	Item	**Originally state**	**Adjustments and reclassifications**	**Restated amount**	**Originally stated**	**Adjustments and reclassifications**	**Restated amounts**
Net operating revenue	1; 2; 3;4	**1,805,539**	(107,583)	1,697,956	**1,796,586**	(110,313)	1,686,273
Cost of sales and services	1; 2;4;7	**(1,125,409)**	20,599	(1,104,810)	**(1,134,268)**	23,455	(1,110,813)
Gross profit		**680,130**	(86,984)	593,146	**662,318**	(86,858)	575,460
Operating income (expenses)							
Selling expenses	3	**(309,019)**	72,580	(236,439)	**(307,681)**	72,580	(235,101)
General and administrative expenses	4	**(72,543)**	(35,235)	(107,778)	**(53,914)**	(35,235)	(89,149)
Employee profit sharing	4	**(35,235)**	35,235	-	**(35,235)**	35,235	-
Share of profit (loss) of subsidiaries	7	-	-	-	**(839)**	(126)	(965)
Other operating income (expenses), net	8	**(60,843)**	(4,157)	(65,000)	**(63,210)**	(4,157)	(67,367)
		(477,640)	68,423	(409,217)	**(460,879)**	68,297	(392,582)
Operating profit before finance income (costs)		**202,490**	(18,561)	183,929	**201,439**	(18,561)	182,878
Finance income	2	**32,807**	23,427	56,234	**31,645**	23,427	55,072
Finance costs	2	**(22,541)**	(12,454)	(34,995)	**(21,127)**	(12,454)	(33,581)
Exchange losses, net		**(14,700)**	-	(14,700)	**(14,700)**	-	(14,700)
Profit (loss) before taxes		**198,056**	(7,588)	190,468	**197,257**	(7,588)	189,669
Current income tax and social contribution		**(2,961)**	-	(2,961)	**(2,162)**	-	(2,162)
Deferred income tax and social contribution	1;2;7;8	**(692)**	2,578	1,886	**(692)**	2,578	1,886
Profit (loss) for the year		**194,403**	(5,010)	189,393	**194,403**	(5,010)	189,393

Statements of cash flows as at December 31, 2019

		Consolidated			Parent		
	Item	**Originally stated**	**Adjustments and reclassifications**	**Restated amounts**	**Originally stated**	**Adjustments and reclassifications**	**Restated amounts**
Net cash provided by operating activities	6	**165,225**	32,881	198,106	**174,050**	26,960	201,010
Net cash used in investing activities	6	**(115,557)**	22,929	(92,628)	**(123,377)**	26,316	(97,061)
Net cash used in financing activities	6	**(34,081)**	(55,571)	(89,652)	**(36,372)**	(53,037)	(89,409)
Increase in cash and cash equivalents, net	6	**15,587**	239	15,826	**14,301**	239	14,540
Cash and cash equivalents at the beginning of the year	6	**386,618**	(816)	385,802	**384,584**	(816)	383,768
Cash and cash equivalents at the end of the year	6	**402,205**	(577)	401,628	**398,885**	(577)	398,308

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

		Balance sheets as at December 31, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Assets							
Cash and cash equivalents	4	**386,618**	(816)	385,802	**384,584**	(816)	383,768
Trade receivables	1;2;4	**356,493**	(88,020)	268,473	**356,262**	(88,020)	268,242
Inventories	1; 2;4	**318,203**	25,818	344,021	**318,201**	25,818	344,019
Recoverable taxes		**36,315**	(25,520)	10,795	**36,313**	(12,105)	10,793
Other receivables		**4,710**	-	4,710	**4,480**	-	4,480
Total current assets		**1,102,339**	(88,538)	1,013,801	**1,099,840**	(88,538)	1,011,302
Trade receivables		**4,937**	-	4,937	**4,937**	-	4,937
Escrow deposits	4	**12,957**	804	13,761	**12,957**	804	13,761
Deferred taxes	1; 2	**3,167**	9,970	13,137	**3,167**	9,970	13,137
Recoverable taxes	4	**931**	26,336	27,267	**931**	26,336	27,267
Related parties		**-**	-	-	**60**	-	60
Other receivables		**1,220**	-	1,220	**1,220**	-	1,220
Investments	4	**2,316**	-	2,316	**38,099**	(33,366)	4,733
Property, plant and equipment		**163,288**	-	163,288	**163,202**	-	163,202
Intangible assets	4	**50,483**	-	50,483	**15,725**	33,366	49,091
Total noncurrent assets		**239,299**	37,110	276,409	**240,298**	37,110	277,408
Total assets		**1,341,638**	(51,428)	1,290,210	**1,340,138**	(51,428)	1,288,710

		Balance sheets as at December 31, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Liabilities							
Trade payables	2;4	**368,151**	(11,554)	356,597	**368,148**	(11,554)	356,594
Borrowings and financing		**55,102**	-	55,102	**55,102**	-	55,102
Payroll, related taxes and profit sharing		**47,670**	-	47,670	**47,626**	-	47,626
Taxes payable	1	**19,814**	(13,057)	6,757	**19,800**	(13,057)	6,743
Provision for tax, labor and civil risks	4	**1,820**	(1,375)	445	**1,820**	(1,375)	445
Provision for warranties	4	**-**	10,409	10,409	**-**	10,388	10,388
Other payables	4	**30,397**	(6,805)	23,592	**28,979**	(6,805)	22,174
Total current liabilities		**522,954**	(22,382)	500,572	**521,475**	(22,403)	499,072
Borrowings and financing		**146,027**	-	146,027	**146,027**	-	146,027
Taxes payable	4	**9,779**	1,813	11,592	**9,779**	1,813	11,592
Provision for warranties	4	**10,409**	(10,409)	-	**10,388**	(10,388)	-
Provision for tax, labor and civil risks	4	**6,145**	(2,138)	4,007	**6,145**	(2,138)	4,007
Other payables	4	**1,275**	1,129	2,404	**1,275**	1,129	2,404
Total noncurrent liabilities		**173,635**	(9,605)	164,030	**173,614**	(9,584)	164,030
Equity							
Capital		**350,000**	-	350,000	**350,000**	-	350,000
Capital reserve		**(36,793)**	-	(36,793)	**(36,793)**	-	(36,793)
Earnings reserves		**306,284**	(329)	305,955	**306,284**	(329)	305,955
Valuation adjustments to equity		**26,161**	-	26,161	**26,161**	-	26,161
Accumulated losses	1; 2	**-**	(19,144)	(19,144)	**-**	(19,144)	(19,144)
Cumulative translation adjustments		**(603)**	32	(571)	**(603)**	32	(571)
Total equity		**645,049**	(19,441)	625,608	**645,049**	(19,441)	625,608
Total liabilities and equity		**1,341,638**	(51,428)	1,290,210	**1,340,138**	(51,428)	1,288,710

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

		Statement of profit and loss as at December 31, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Net operating revenue	1; 2; 3; 4	**1,548,274**	(108,082)	1,440,192	**1,548,173**	(108,082)	1,440,091
Cost of sales and services	1; 2;4;7	**(943,201)**	29,410	(913,791)	**(943,175)**	29,410	(913,765)
Gross profit		**605,073**	(78,672)	526,401	**604,998**	(78,672)	526,326
Operating income (expenses)							
Selling expenses	3	**(270,030)**	62,423	(207,607)	**(269,898)**	62,423	(207,475)
General and administrative expenses	4	**(48,772)**	(26,327)	(75,099)	**(48,649)**	(26,327)	(74,976)
Employee profit sharing	4	**(26,327)**	26,327	-	**(26,327)**	26,327	-
Share of profit (loss) of subsidiaries		**-**	-	-	**4,474**	-	4,474
Other operating expenses, net	9	**(42,279)**	(13,415)	(55,694)	**(46,934)**	(13,415)	(60,349)
		(387,408)	49,008	(338,400)	**(387,334)**	49,008	(338,326)
Operating profit before finance income (costs)		**217,665**	(29,664)	188,001	**217,664**	(29,664)	188,000
Finance income	2	**27,911**	20,472	48,383	**27,908**	20,472	48,380
Finance costs	2	**(31,146)**	(12,454)	(43,600)	**(31,144)**	(12,454)	(43,598)
Exchange losses, net		**(34,856)**	-	(34,856)	**(34,856)**	-	(34,856)
Profit (loss) before taxes		**179,574**	(21,646)	157,928	**179,572**	(21,646)	157,926
Current income tax and social contribution	4	**(2,592)**	4	(2,588)	**(2,589)**	3	(2,586)
Deferred income tax and social contribution	1; 2	**(197)**	7,353	7,156	**(198)**	7,354	7,156
Profit (loss) for the year		**176,785**	(14,289)	162,496	**176,785**	(14,289)	162,496

		Statements of cash flows as at December 31, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Net cash provided by operating activities	4; 6	**148,278**	80,095	228,373	**148,293**	80,803	229,096
Net cash used in investing activities	4;6	**(34,518)**	(3,555)	(38,073)	**(34,548)**	(3,544)	(38,092)
Net cash used in financing activities	6	**(47,926)**	(77,306)	(125,232)	**(47,925)**	(77,304)	(125,229)
Increase (decrease) in cash and cash equivalents, net	6	**65,834**	(766)	65,068	**65,820**	(45)	65,775
Cash and cash equivalents at the beginning of the year	6	**320,784**	(50)	320,734	**318,764**	(771)	317,993
Cash and cash equivalents at the end of the year	6	**386,618**	(816)	385,802	**384,584**	(816)	383,768

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

		Balance sheets as at January 1, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Assets							
Cash and cash equivalents	**5;4**	**320,784**	(50)	320,734	**318,764**	(771)	317,993
Trade receivables	**1;2;4**	**366,170**	(68,508)	297,662	**364,321**	(68,160)	296,161
Inventories	**1; 2**	**292,293**	16,749	309,042	**291,944**	16,749	308,693
Recoverable taxes	**4**	**20,018**	12,150	7,868	**20,018**	12,150	7,868
Other receivables	**4**	**4,345**	118	4,463	**4,330**	-	4,330
Total current assets		**1,003,610**	(63,841)	939,769	**999,377**	(64,332)	935,045
Trade receivables		**479**	-	479	**6,286**	-	6,286
Escrow deposits	**4**	**13,072**	741	13,813	**12,941**	741	13,682
Deferred taxes	**1; 2;5**	**3,372**	2,609	5,981	**3,372**	2,609	5,981
Recoverable taxes	**4**	**669**	26,336	27,005	**669**	26,336	27,005
Other receivables		**1,218**	(1)	1,217	**1,218**	-	1,218
Investments	**4**	**1,068**	-	1,068	**34,434**	(33,366)	1,068
Property, plant and equipment		**151,188**	39	151,227	**151,188**	-	151,188
Intangible assets	**4**	**48,277**	-	48,277	**14,911**	33,366	48,277
Total noncurrent assets		**219,343**	29,724	249,067	**225,019**	29,686	254,705
Total assets		**1,222,953**	(34,117)	1,188,836	**1,224,396**	(34,646)	1,189,750

		Balance sheets as at January 1, 2018					
		Consolidated			Parent		
	Item	Originally stated	Adjustments and reclassifications	Restated amounts	Originally stated	Adjustments and reclassifications	Restated amounts
Liabilities							
Trade payables	**2;4**	**377,229**	(12,048)	365,181	**376,817**	(12,048)	364,769
Borrowings and financing		**37,230**	-	37,230	**37,230**	-	37,230
Payroll, related taxes and profit sharing		**49,833**	-	49,833	**49,795**	-	49,795
Taxes payable	**1**	**21,355**	(10,102)	11,253	**21,022**	(10,102)	10,920
Provision for warranties		**13,874**	-	13,874	**13,867**	-	13,867
Provision for tax, labor and civil risks	**4**	**-**	467	467	**-**	467	467
Interest on capital/dividends		**4,622**	-	4,622	**4,622**	-	4,622
Other payables	**4**	**29,537**	(8,021)	21,516	**28,186**	(8,643)	19,543
Total current liabilities		**533,680**	(29,704)	503,976	**531,539**	(30,326)	501,213
Borrowings and financing		**146,359**	-	146,359	**146,359**	-	146,359
Payroll, related taxes and profit sharing	**4**	**1,009**	(1,009)	-	**1,009**	(1,009)	-
Taxes payable	**4**	**10,369**	1,750	12,119	**10,369**	1,750	12,119
Provision for tax, labor and civil risks	**4**	**4,875**	(2,648)	2,227	**4,875**	(2,648)	2,227
Investments on negative equity		**-**	-	-	**3,584**	93	3,677
Other payables	**4**	**995**	2,648	3,643	**995**	2,648	3,643
Total noncurrent liabilities		**163,607**	741	164,348	**167,191**	834	168,025
Equity							
Capital		**350,000**	-	350,000	**350,000**	-	350,000
Capital reserve		**(36,793)**	-	(36,793)	**(36,793)**	-	(36,793)
Earnings reserves	**1;2**	**186,485**	(5,186)	181,299	**186,485**	(5,186)	181,299
Valuation adjustments to equity		**26,675**	-	26,675	**26,675**	-	26,675
Cumulative translation adjustments		**(701)**	32	(669)	**(701)**	32	(669)
Total equity		**525,666**	(5,154)	520,512	**525,666**	(5,154)	520,512
Total liabilities and equity		**1,222,953**	(34,117)	1,188,836	**1,224,396**	(34,646)	1,189,750

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

Comments on the adjustments and reclassifications:

[1] Revenue recognition in accordance with CPC 47 (IFRS 15) – Revenue from Contracts with Customers: certain revenues from contracts previously recognized in 2019 were reversed for recognition when (or as) the Company satisfies the performance obligations when transferring the promised good or service (i.e. an asset) to the customer. An asset is transferred when (or as) the customer obtains control over such asset.

[2] PVA - Present value adjustment: In accordance with CPC 12 – Present Value Adjustment, the Company calculated the PVA – Present Value Adjustment when measuring assets and liabilities arising from long-term transactions and significant short-term transactions, applying the rate it believes to be most appropriate for its business. Consequently, reclassifications were made between line items “Net operating revenue” and “Finance income”, and between “Cost of sales and services” and “Finance costs”. The PVA balances as at December 31 were also adjusted.

[3] Commercial funds: The Company has a customer benefit policy, which is granted together with or linked to a sales transaction. These benefits can be offered to customers through a financial discount or direct payments. The amounts due to customers as a result of the respective policy are systematically recognized in profit or loss based on the performance indicators of each customer. The amounts were previously recorded as selling expenses. The Company reclassified these amounts to net sales, so as to fully comply with the accounting standards, in particular CPC 47 (IFRS 15) – Revenue from Contracts with Customers.

[4] Reclassification between line items, in particular: i) reclassification of the goodwill arising on the acquisition of the merged companies Maxcom, Engesul e Automatiza, from “Investments” to “Intangible assets”; ii) reclassification of expenses on employee profit sharing in profit or loss, from “Employee profit sharing” to “General and administrative expenses”; iii) reclassification of “Provision for warranties” from noncurrent to current liabilities; iv) reclassification of advances recorded in “Other receivables” to “Trade payables”; v) reclassification of “Provision for tax, labor and civil risks” from current to noncurrent liabilities; vi) reclassification of commercial funds from “Trade payables” and “Other payables” to “Trade receivables”; vii) reclassification of the eliminations between related parties between “Net operating revenue” and “Cost of sales” in the consolidated; viii) reclassification withholding income taxes from “Cash and cash equivalents” to “Recoverable taxes”; and ix) reclassification of the credit from the ICMS exclusion from the Pis and Cofins tax basis from “Recoverable taxes” from current to noncurrent assets.

2. Basis of preparation and presentation of financial statements--continued

2.5 Restatement of the financial statements--continued

[5] Reclassification of the balance of deferred income tax and social contribution from liabilities to assets, as the balance was outstanding after the adjustments.

[6] Reclassification in the statement of cash flow of the payables for business acquisition and payables for acquisition of property, plant and equipment, originally stated in operating activities to investing activities; reclassification of payment of trade payables using funds from borrowings and financing (Finimp), originally stated in financing activities to operating activities; and reclassification of withholding income taxes from cash and cash equivalents to recoverable taxes in operating activities; impact from the adjustments in items “1”, “2”, “7” and “8”.

[7] Additional purchase price allocation adjustments of Seventh.

[8] Allowance for doubtful debts for a customer that filed for court-ordered reorganization in 2020, in accordance with the expected loss assessment with respect to future components.

[9] In 2018 the Company recognized PIS and COFINS credits due to the exclusion from the ICMS tax basis, of which a portion was related to 2017. The 2017 portion, in the amount of R$13,415, was recorded in “Other operating income”. Due to the restatement of the financial statements, the amount of R$13,415 was reversed from other operating income in 2018 and recognized as net sales revenue in 2017.

[10] Adjustment to line item “Escrow deposits” and the corresponding line item “Provision for tax, labor and civil risks”.

Except for the change in profit for the year, the statements of comprehensive income for the year ended December 31, 2019 originally stated were not subject to changes as a result of the adjustments made. The statements of changes in equity were changed due to profit for the year and recognitions/reversals of earnings reserves.

The Company revised its main assumptions used in the preparation of the financial statements that are being restated, to determine the need for adjustments due to events after the reporting period, as prescribed by CPC 24 (IAS 10) – Events After the Reporting Period. The following were analyzed, among others: (i) revision of the assumptions on annual impairment tests, which analysis did not show the need to recognize an adjustment in the individual and consolidated financial statements for 2019 and 2018; (ii) analysis of probable expected credit losses on trade receivables, which analysis showed the need to recognize additional adjustments (item 8 above); and (iii) expected realization of deferred income tax, which remains the same as that originally disclosed in the individual and consolidated financial statements.

3. Significant accounting policies

The accounting policies described below have been consistently applied to all reporting periods of these individual and consolidated financial statements.

3.1 Business combination

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured based on the sum of the consideration transferred, which is determined based on the fair value at the acquisition date, and the amount of any noncontrolling interests in the acquiree. For each business combination, the acquirer must measure noncontrolling interests in the acquiree at fair value or based on its share of the acquiree's identifiable net assets. Costs directly attributable to the acquisition must be accounted for as expenses when incurred.

When acquiring a business, the Company assesses the assets acquired and liabilities assumed for the purpose of classifying and allocating them according to the contractual terms, the economic circumstances and the conditions prevailing on the acquisition date, which includes the segregation by the acquiree of the embedded derivatives existing in the acquiree's host contracts.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration considered as an asset or liability must be recognized as prescribed in CPC 38 in the statement of income.

Goodwill is initially measured as the excess of the consideration transferred in relation to the net assets acquired (identifiable net assets acquired and liabilities assumed).

If the consideration is lower than the fair value of the net assets acquired, the difference must be recognized as a gain in the statement of income.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For impairment testing, after the acquisition date, the goodwill acquired on a business combination is allocated to each of the cash-generating units that are expected to benefit from the combination synergies, regardless of other assets or liabilities of the acquiree attributable to these cash-generating units.

When goodwill is part of a cash-generating unit and a portion of such unit is disposed of, the goodwill associated with the portion disposed of must be included in transaction costs when the gain or loss on disposal is determined. The goodwill disposed of under these circumstances is determined based on the proportional amounts of the portion disposed of in relation to the cash-generating unit maintained.

3. Significant accounting policies--continued

3.2 Foreign currency

(i) *Foreign currency-denominated transactions*

Foreign currency-denominated transactions, i.e., all transactions carried out in a currency other than the functional currency, are translated at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate prevailing at the end of the reporting period. Exchange gains and losses arising on translating monetary assets and liabilities are recognized in the statement of income. Non-monetary assets and liabilities acquired or contracted in foreign currency are translated at the exchange rates prevailing at the transaction dates or at the dates fair value is determined when this is used. Gains and losses arising from changes in foreign investments are directly recognized in equity, in “Cumulative translation adjustments”.

(ii) *Foreign operations*

Assets and liabilities from foreign operations are translated into Brazilian reais (functional currency) at the exchange rates prevailing at the reporting date. Income and expenses from foreign operations are translated into Brazilian reais at the average exchange rates.

3.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument of another entity.

The Company has no derivative instrument at the balance sheet dates and does not adopt hedge accounting.

(i) *Financial assets*

Initial recognition

Financial assets are initially recognized at trade date when the Company becomes a party to the underlying contract, and are classified as (i) subsequently measured at amortized cost, (ii) at fair value through other comprehensive income (“FVTOCI”) and (iii) at fair value through profit or loss (“FVTPL”).

The classification of financial assets on initial recognition depends on their contractual cash flow characteristics and the Company’s business model for managing these assets. That is, how the Company manages its financial assets to generate cash flows. Accordingly, the business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

3. Significant accounting policies--continued

3.3 Financial instruments--continued

(i) *Financial assets--continued*

Initial recognition--continued

A financial asset is classified and measured at amortized cost or at fair value through other comprehensive income, when it generates cash flows that are "solely payments of principal and interest on the principal amount outstanding. Such assessment is performed by financial instrument. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model adopted.

A financial asset is initially measured at fair value plus, for an item not measured at fair value through profit or loss, the transaction costs that are directly attributable to its acquisition or issue. For trade receivables without a significant financing component, the initial measurement is carried out at the transaction price.

Subsequent recognition

For purposes of subsequent measurement, financial assets are classified into category described below:

- Amortized cost; Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Any gains and losses are recognized in profit or loss when an asset is derecognized, modified or impaired. The Company's financial assets in this category include mainly cash and cash equivalents, securities and trade receivables.

3. Significant accounting policies--continued

3.3 Financial instruments--continued

(i) *Financial assets--continued*

Derecognition

The Company derecognizes a financial asset when the contractual rights to the asset's cash flows expire or when it transfers the rights to receiving contractual cash flows from a financial asset under a transaction that transfers substantially all the risks and rewards of ownership of the financial asset. Any interests created or retained by the Company in the financial assets are recognized as an individual asset or liability.

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

(ii) *Financial liabilities*

Initial recognition

The Company recognizes debt instruments issued and liabilities on the date they are originated. All other financial liabilities are initially recognized on the trade date when the Company becomes a party to the underlying contract.

Upon initial recognition, financial liabilities are either classified as (i) financial liabilities at fair value through profit or loss (ii) financial liabilities at amortized cost or (iii) derivatives designated as hedge instruments in an effective hedge relationship, as applicable.

All financial liabilities are initially measured at fair value, plus or less, in the case of financial liabilities that are not measured at fair value through profit or loss, transaction costs that are directly attributable to the issuance of the financial liability.

3. Significant accounting policies--continued

3.3 Financial instruments--continued

(ii) *Financial liabilities--continued*

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified into category described below:

- Financial liabilities at amortized cost (borrowings and financing): after initial recognition, interest-bearing borrowings and financing are subsequently measured at amortized cost, using the effective interest method. Any gains and losses are recognized in profit or loss when liabilities are derecognized, as well as in the amortization process of the effective interest rate. The amortized cost is calculated taking into account any negative goodwill or goodwill arising on the acquisition and any rates or costs that are an integral part of the effective interest method. The Company’s other financial liabilities in this category include mainly trade payables and other payables arising on business acquisition.

Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or when they are paid. When an existing financial liability is replaced for another from the same lender under substantially different terms, or the terms of the existing liability are substantially modified, such replacement or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

3.4 Cash and cash equivalents

Include cash, bank deposits and short-term investments redeemable within 90 days from the investment date, considered highly liquid or convertible into a known amount of cash, which are subject to an insignificant risk of change in value and carried at cost plus income earned through the end of the reporting periods, which does not exceed their fair or realizable values.

3. Significant accounting policies--continued

3.5 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the average acquisition or production cost and includes expenses incurred on the acquisition of inventories, production and processing costs and other costs incurred to bring them to their location and existing conditions. In the case of manufactured inventories and work in process, cost includes a share of overheads based on normal operating capacity.

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

3.6 Investments

The investment in a subsidiary is accounted for under the equity method. Exchange gains and losses arising on foreign investments are recognized "Cumulative translation adjustments" in equity.

The results of operations and financial position of all entities, whose functional currency is different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities in the balance sheet are translated using the exchange rate at the balance sheet date.
(ii) Income and expenses in the statement of income are translated using the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates in effect at the transaction dates and, in this case, income and expenses are translated using the exchange rates prevailing at the transaction dates).
(iii) All foreign exchange differences are recognized as a separate component in equity, in "Valuation adjustments to equity".

3. Significant accounting policies--continued

3.7 Property, plant and equipment

(i) *Recognition and measurement*

Property, plant and equipment items are measured at the historical acquisition, formation or construction cost, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of assets built by the entity itself includes costs of materials and direct labor, any other costs for bringing the asset to the place and condition necessary for it to be capable of operating in the manner intended by Management, the costs of dismantling and restoring the place where such assets are located, as well as borrowing costs on qualifying assets. Gains and losses on disposal of a property, plant and equipment item are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized at their net amount in "Other income" in profit or loss.

(ii) *Subsequent costs*

Subsequent costs are capitalized to the extent it is probable that future benefits associated with such costs will flow into the Company. Recurring maintenance and repair costs are recorded in profit or loss.

(iii) *Depreciation*

Depreciation is calculated on the depreciable amount, which is the cost of an asset or another cost value. The residual value of the assets written off is usually immaterial and, for this reason, it is not considered in determining the recoverable amount.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

3. Significant accounting policies--continued

3.7 Property, plant and equipment--continued

(iv) *Depreciation--continued*

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of property, plant and equipment items for the current year and comparative period are as follows:

	Useful lives
Buildings	50 years
Machinery, equipment and instruments	5 – 10 years
Furniture and fixtures	10 years
Facilities and improvements	10 years
Company cars	5 years
Computers	3 – 5 years
Other	1 – 5 years

Other additions are capitalized only when there is an increase in the economic benefits of the related property, plant and equipment item. Any other type of expenditure is expensed when incurred.

The depreciation methods, useful lives and residual values are reviewed at each reporting date and potential adjustments are recognized as a change in accounting estimates.

(v) *Interest capitalization*

Borrowing costs directly related to the acquisition, construction or production of an asset that necessarily requires a significant time to be completed for use or sale are capitalized as part of the cost of the corresponding asset. All other borrowing costs are expensed when incurred. Borrowing costs comprise interest and other costs incurred by the Company related to borrowings. In the year ended December 31, 2019, interest was capitalized in the amount of R$152 (R$21 in 2018).

3. Significant accounting policies--continued

3.8 Intangible assets

(i) *Goodwill*

Goodwill arising on the acquisition of subsidiaries is recorded in the Parent´s financial statements as part of the investment and together with intangible assets in the consolidated financial statements.

Goodwill is measured at cost, less accumulated impairment losses, when applicable. Goodwill is tested for impairment on an annual basis or whenever the circumstances indicate it might be impaired.

Goodwill is allocated to a cash-generating unit (CGU) for impairment testing purposes. The allocation is made to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination that originated the goodwill.

(ii) *Software*

Software development or maintenance costs are expensed when incurred. Expenses directly associated to exclusive, identifiable software, controlled by the Company, which will probably generate economic benefits higher than the costs during more than one year are recognized as intangible assets. Direct expenses include the compensation payable to the software development team and the appropriate portion of related general expenses. Expenses on software performance improvement or expansion beyond original specifications are added to the original software cost.

(iii) *Amortization*

Except for goodwill, amortization is recognized in profit or loss on a straight-line basis, based on the estimated useful lives of the intangible assets, from the date they become available for use, which currently is approximately five years.

3. Significant accounting policies--continued

3.9 Impairment

(i) *Financial assets (including receivables)*

A financial asset not measured at fair value through profit or loss is assessed on each reporting date to determine whether there is objective evidence that it might be impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows that can be reliably estimated.

Objective evidence that the financial assets are impaired may include default or delinquency in payment by the borrower, the restructuring of the amount due to the Company on terms that the Company would not otherwise consider, or indications that a borrower will file for bankruptcy or court-ordered reorganization.

(ii) *Financial assets measured at amortized cost*

The Company considers evidence of impairment for loans and receivables. All significant loans and receivables are assessed with respect to the loss of specific amount. Receivables that are not individually significant are collectively tested for impairment by grouping together receivables with similar risk characteristics.

In collectively testing assets for impairment, the Company uses historical trends of the likelihood of default, the recovery timing and the loss amount incurred, adjusted to reflect Management's judgment as to the assumptions if the current economic and credit conditions are such that actual losses are likely to be greater or lower than suggested by historical trends.

An impairment of a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective original interest rate of the asset. Impairment losses are recognized in profit or loss and reflected in an allowance account as a contra entry to receivables. Interest on an impaired asset continues to be recognized through the reversal of the discount. When a subsequent event indicates the reversal of impairment, the impairment loss is reversed and recognized in profit or loss.

3. Significant accounting policies--continued

3.9 Impairment--continued

(iii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred income tax and social contribution, are analyzed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Whenever an evidence of impairment is identified and the carrying amount exceeds the recoverable amount, an allowance for impairment is recorded to adjust the net carrying amount to the recoverable amount. Inventories are monthly assessed and an allowance for inventory obsolescence losses is recorded, as described in note 4.5.

For goodwill and intangible assets with indefinite useful lives, the recoverable amount is estimated annually. The recoverable amount of an asset or a certain cash-generating unit is defined as the higher of the value in use and the net sales value.

In estimating the value in use of the asset, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Details on the assumptions adopted are described in note 12.

Except for the allowance for inventory losses (note 8), Management did not identify any indication that would evidence that non-financial assets are impaired.

3.10 Trade receivables

Trade receivables are amounts owed by customers for goods sold or services provided in the ordinary course of business. Trade receivables are initially recognized at the amount of the consideration that is unconditional, unless they contain significant financial components, when they are recognized at fair value. The Company holds amounts receivable, with the purpose of receiving contractual cash flows, subsequently measuring them at amortized cost.

The Company applies the simplified approach of CPC 48 (IFRS 9) – Financial Instruments to measure the expected credit losses. Allowances for impairment of trade receivables are measured by applying the average historical losses realized and expected for the year on the outstanding receivables at the end of the year.

3. Significant accounting policies--continued

3.11 Employee benefits

The Company grants benefits to its employees, such as meal ticket, health care plan, transportation voucher and variable compensation. The Company does not have benefits classified as defined benefit in the reporting years.

Short-term employee benefit obligations are measured on an undiscounted basis and recognized as expenses as the related service is provided.

The liability is recognized at the amount expected to be paid under the cash bonus plan or short-term profit sharing, if the Company has a legal or constructive obligation to pay this amount due to a past service provided by the employee and the obligation can be reliably estimated.

The Company recognizes a liability and profit sharing expenses in profit or loss based on a policy approved by Management and disclosed to employees. The Company recognizes an accrual when it is contractually required or when there is a past practice that created a constructive obligation.

3.12 Provisions

A provision is recognized as a result of a past event, if the Company has a legal or constructive obligation that can be reliably estimated and it is probable that an outflow of funds will be required to settle the obligation. If the timing effect of the amount is significant, provisions are determined by discounting expected future cash flows at a pretax rate that reflects the current market assessments of the time value of money and liability-specific risks. Significant provisions are mentioned in note 4.

3.13 Operating revenue

The Company's revenues derive solely from the sale of security, communication and energy products, as described in note 1.

Revenue is recognized at fair value when the following conditions are met: i) control over the goods is transferred to the buyer; ii) the Company no longer holds control or responsibility for the goods sold; iii) the economic benefits for the Company are probable.

Revenue is measured based on the consideration that the Company expects to receive under a contract with a customer. Sales revenue is stated net of returns, including taxes on sales.

The amount of revenue is accounted for net of expected returns and cancellations.

3. Significant accounting policies--continued

3.13 Operating revenue--continued

There is a significant financing component in contracts considering the period between the date payment is received and control over this equipment is transferred, as well as market interest rates. Accordingly, the transaction price for these contracts is discounted, using the interest rate implicit in the contract (see note 7).

The Company maintains sales discount and incentive programs, through which it offers rebates based on the sales volume contracted by customers. Discounts may be granted by customer category or when the quantity of goods acquired during the period exceeds the limit set out in a contract. Rebates are offset against amounts payable by the customer or financial payments. The Company applies the expected value method to estimate the variable consideration under a contract. Thereafter, the Company applies the requirements on the estimated variable consideration to adjust sales prices.

3.14 Tax incentives

Government grants are recognized when there is reasonable assurance that the conditions established by the government grantors are met and calculated and governed according to the contracts, arrangements and laws applicable to each benefit. The effects on profit or loss are recorded in the accounting records on accrual basis, where gains are accounted for as sales deductions and the financed amounts are accounted for in current and noncurrent liabilities and adjusted according to the respective contracts.

3.15 Finance income and costs

Finance income comprise interest income on short-term investments, present value adjustment and other sundry income. Such interest income is recognized in profit or loss.

Finance costs comprise interest expenses on borrowings, finance charges on taxes, and present value adjustment. Such interest expenses are recognized in profit or loss.

The Company also recognizes expenses on exchange rate changes, which are also accounted for directly in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are accounted for in profit or loss using the effective interest method.

3.16 Income tax and social contribution

Current and deferred income tax and social contribution for the year are calculated at the rates of 15% for income tax, plus a 10% surtax on taxable income exceeding R$240 (annual basis), and 9% on taxable income for social contribution, considering the offset of income tax and social contribution loss, limited to 30% of taxable income.

3. Significant accounting policies--continued

3.16 Income tax and social contribution--continued

Income tax and social contribution expense comprises current and deferred income taxes. Current and deferred taxes are recognized in profit or loss.

Current tax is the expected tax payable or receivable on taxable income or loss for the year, using tax rates enacted at the end of the reporting period, and any adjustment to taxes payable in relation to prior years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the corresponding amounts used for taxation purposes. The deferred tax is measured at the rates that are expected to be applied on temporary differences when they reverse, based on the laws that have been enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes imposed by the same tax authority on the same entity subject to taxation.

A deferred income tax and social contribution asset is recognized by unutilized tax losses, tax credits and deductible temporary differences when it is probable that future income subject to taxation will be available and against which they will be utilized. Deferred income tax and social contribution assets are reviewed at the end of each reporting period and reduced to the extent that their realization is no longer probable.

3.17 Present value adjustment of assets and liabilities

Long-term and short-term monetary assets and liabilities are adjusted to present value when the effect is considered material in relation to the financial statements taken as a whole. The present value adjustment is calculated considering contractual cash flows and the explicit, and in certain cases, implicit interest rates of the respective assets and liabilities. Accordingly, the interest embedded in revenues, expenses and costs related to these assets and liabilities is discounted for recognition on an accrual basis.

3. Significant accounting policies--continued

3.18 Classification as current and noncurrent

The Company recognizes assets and liabilities in the balance sheet based on their classification as current or noncurrent. Assets are classified as current when:

(i) Assets are expected to be realized, or available for sale or consumption in the entity's normal operating cycle;
(ii) Assets are primarily held for trading;
(iii) Assets are expected to be realized within 12 months after the balance sheet date; and
(iv) Assets correspond to cash or cash equivalents (as defined in Technical Pronouncement CPC 03 (IAS 7) – Statement of Cash Flows) unless they are restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date.

All other assets are classified as noncurrent.

Liabilities are classified as current when:

(i) Liabilities are expected to be settled in the entity's normal operating cycle;
(ii) Liabilities are primarily held for trading;
(iii) Liabilities are expected to be settled within 12 months after the balance sheet date; and
(iv) The entity has no unconditional right to defer settlement of the liability during at least 12 months after the balance sheet date.

The Company classifies all other liabilities as noncurrent. Deferred tax assets and liabilities are classified in noncurrent assets and liabilities.

3.19 Statement of value added

This statement is intended to disclose the wealth created by the companies and its distribution during a given year, and is presented as required by the Brazilian Corporate Law. Such statement has been prepared based on information obtained from the accounting records used as a basis for the preparation of the financial statements, supplementary records and in accordance with the provisions of technical pronouncement CPC 09 - Statement of Value Added.

3.20 Treasury shares

Own equity instruments that are bought back (treasury shares) were recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase of the Company's own equity instruments (shares). The difference between the carrying amount and the consideration paid on the buyback was recognized in "Capital reserves".

3. Significant accounting policies--continued

3.21 Profit distribution

Shareholders are entitled to minimum dividend of 25% of the adjusted profit for the year in conformity with the Chapter VI of the Company's bylaws and the Brazilian Corporate Law.

The Company recognizes a liability for dividend payment when such distribution becomes a present obligation at the balance sheet date, related to the portion of mandatory minimum dividend not prepaid and/or supplementary dividends, which distribution was duly approved up to the balance sheet date.

3.22 New accounting standards

(i) *CPC 06 - Leases (IFRS 16 - effective beginning on or after January 1, 2019)*

Beginning January 1, 2019, the new standard requires that lease contracts be recognized in the balance sheet as a right (asset) as a contra entry to an obligation (liability), including the related interest, as well as the respective depreciation of the asset charged to profit or loss.

As a result of such revision, and taking the financial statements into account, in the Company's opinion, no significant or material impacts that substantially affect the individual and consolidated financial statements were identified.

(ii) *ICPC 22 (IFRIC 23) - Uncertainty over Income Tax Treatments*

Effective on January 1, 2019. The interpretation addresses the accounting for income taxes in those cases where tax treatments involve uncertainty that affects the application of IAS 12 (CPC 32) and that does not apply to taxes outside the scope of IAS 12 nor specifically includes the requirements related to interest and fines associated with uncertain tax treatments. The Interpretation specifically addresses:

- If the entity considers uncertain tax treatments separately;
- The assumptions made by the entity in relation to the analysis of tax treatments by the tax authorities;
- How the entity determines taxable income (tax loss), tax bases, unutilized tax losses, untimely tax credits and tax rates; and
- How the entity considers changes in facts and circumstances.

As prescribed by item 6 of ICPC 22 (IFRIC 23), the Company considers each tax treatment separately.

For purposes of compliance with item 31, the Company reassesses in each financial reporting the changes in facts and circumstances to verify whether a given change affects the assessments on the acceptability of tax treatments and/or the entity's estimate on the uncertainty effect.

3. Significant accounting policies--continued

3.22 New accounting standards--continued

The Company currently challenges the ICMS tax benefits and the effects on IRPJ/CSLL calculation, the analysis of the past five years impact only 2019, mainly two line items, as follows: Dividends and interest on capital (R$91,193), and the cancellation of treasury shares (R$36,793), which were consumed out of the profit arising from ICMS tax incentives.

Management believes that the tax authority may probably accept the tax treatment currently adopted for the matters analyzed due to the court decision favorable to the Company and, therefore, no additional current and/or deferred tax must be recognized as at the respective base date.

4. Critical accounting judgments, estimates and assumptions

Judgments

The preparation of the Company's financial statements requires Management to make judgments and estimates and adopt assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the disclosures of contingent liabilities on the reporting date. However, the uncertainty inherent in such assumptions and estimates may give rise to results that require a significant adjustment of the carrying amount of the affected asset or liability in future periods.

Estimates and assumptions

The main assumptions related to the sources of estimation uncertainties in the future and other key sources of estimation uncertainties at the end of the reporting period involving a significant risk of material adjustment to the carrying amounts of assets and liabilities in the next fiscal year are discussed below.

4. Critical accounting judgments, estimates and assumptions--continued

4.1 Impairment loss on non-financial assets

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of the fair value less costs to sell and the value in use. The calculation of the fair value less costs to sell is based on available information on transactions involving the sale of similar assets or market prices less additional costs to dispose of the asset. The value in use is calculated using the discounted cash flow model. The cash flows arise from the budget for the next five years and do not include reorganization activities to which the Company has not yet committed or significant future investments that will improve the asset base of the cash-generating unit tested for impairment. Recoverable amount is sensitive to the discount rate used under the discounted cash flow method, as well as expected future cash receipts, and to the growth rate used for extrapolation purposes. The main assumptions used to determine the recoverable amount of the several cash-generating units, including sensitivity analysis, are detailed in note 12.

4.2 Warranties

The Company offers warranties for its products for manufacturing defects, in line with the legal requirements during a 12-month period. A provision for warranties is recognized when the products or services are sold. The provision is based on historical warranty data and the weighting of all probable disbursements.

4.3 Taxes

There are uncertainties over the interpretation of complex tax regulations and the amount and timing of future taxable income. In view of the comprehensive aspect of the tax law and the long-term nature and complexity of contractual instruments, differences between actual results and the assumptions adopted, or future changes in these assumptions, could require future adjustments to tax income and expenses already recorded.

As at December 31, 2019 and 2018, the Company did not identify any matter that would require the recognition of provisions for tax risks and currently there is no ongoing tax audit conducted by the tax authorities. Interpretation differences may arise for several matters, depending on conditions effective in the Company’s corresponding domicile.

Deferred tax asset is recognized for all unutilized tax losses to the extent that it is probable that taxable income will be available to allow the utilization of such tax losses. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based on the probable term and future taxable income, together with future tax planning strategies.

4. Critical accounting judgments, estimates and assumptions--continued

4.4 Provision for tax, civil and labor risks

The Company recognizes a provision for civil and labor risks. The likelihood of loss is assessed based on available evidence, the hierarchy of laws, available case rulings, most recent court decisions, their relevance within the legal system, and the assessment made by our outside legal counsel.

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.

4.5 Allowance for inventory obsolescence

The Company analyses the inventory realization, based on the expected inventory utilization or sale, history of losses, and also on the assessment between the carrying amount and the net realizable value.

4.6 Provision for discounts and commercial funds

The Company makes payments to its customers for market development purposes, such as advertising and marketing, based on predetermined criteria. Expenditures related to advertising and marketing programs are recognized as selling expenses. A provision is estimated and recorded at the balance sheet date based on goals achieved, but not yet realized, and a provision is recognized for these amounts in liabilities as a contra entry to selling expenses. The provision estimates take into account sales estimates, compliance with established criteria, as well as historical data.

The Company also maintains programs through which it offers to its customers discounts based on the attainment of certain preset commercial goals. Discounts are presented as sales deductions, when associated with the transaction price, as mentioned in note 3.13. The Company adopts estimates based on the contractual terms and conditions and historical data to estimate the amount of the adjustment to its revenue.

4. Critical accounting judgments, estimates and assumptions--continued

4.7 Allowance for expected credit losses on trade receivables and contract assets

The Company uses an allowance matrix to calculate expected credit losses on trade receivables and contract assets. The allowance rates applied are based on the default days for groups of customers, according to the sales channel, as they present similar loss patterns.

The allowance matrix is initially based on the Company's historical loss rates. The Company revises the matrix on a prospective basis to adjust it according to its historical credit loss experience. For example, if there is expectation of deterioration of economic conditions in the next year (for example, the gross domestic product), which could result in increased default levels in the manufacturing sector, the historical loss rates are adjusted. Historical loss rates observed in all reporting periods are adjusted and the changes in prospective estimates are analyzed.

The assessment of the correlation between the historical loss rates, the expected economic conditions and the expected credit losses is a significant estimate. The number of expected credit losses is sensitive to changes in circumstances and expected economic conditions. The Company's historical credit loss experience and the projection of economic conditions may not show the real pattern of the customer in the future. The information on expected credit losses on the Company's trade receivables and contract assets is disclosed in note 7.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

5. Cash and cash equivalents

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cash at hand	**28**	25	**27**	25
Checking account	**14,012**	10,256	**10,693**	8,493
Short-term investments	**387,588**	375,521	**387,588**	375,250
	401,628	385,802	**398,308**	383,768

Short-term investments, classified as cash equivalents, refer to papers backed by the Interbank Deposit Certificate ("CDI"), held at institutions considered by Management as prime financial institutions, which yield is pegged to the DI rate with possibility of partial or full unrestricted redemption. The amounts are recorded at acquisition cost, plus respective income, which ranged on average between 91.6% and 101.8% of the CDI rate, in 2018 and 2019.

	Consolidated		Parent	
Financial institution	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Itau S/A	**154,992**	113,914	**154,992**	113,914
Bradesco S/A	**149,294**	106,437	**149,294**	106,437
Safra S/A	**9,505**	9,822	**9,505**	9,822
Santander S/A	**63,606**	106,546	**63,606**	106,546
CEF S/A	**10,191**	38,531	**10,191**	38,531
Banamex	**-**	271	**-**	-
	387,588	375,521	**387,588**	375,250

6. Securities

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Short-term investments – Escrow account	**5,704**	-	**5,704**	-
Current	**1,141**	-	**1,141**	-
Noncurrent	**4,563**	-	**4,563**	-

Refers to an escrow account to secure the indemnity obligations of the sellers of Seventh Ltda (acquiree), and the respective deposit management is shared and requires authorization of both parties to be handled. The release of this amount on behalf of the sellers will be made in five annual installments.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

7. Trade receivables

Trade receivables are broken down as follows:

	Consolidated			Parent		
	12/31/2019	12/31/2018	01/01/2018	12/31/2019	12/31/2018	01/01/2018
Domestic – third parties	**382,048**	282,956	304,342	**379,407**	282,929	301,622
Foreign – related parties	**-**	-	-	**-**	-	5,807
Foreign – third parties	**3,086**	4,149	3,367	**2,903**	3,945	3,486
	385,134	287,105	307,709	**382,310**	286,874	310,915
Allowance for expected credit loss	**(12,449)**	(7,438)	(4,900)	**(12,334)**	(7,438)	(3,800)
Present value adjustment (PVA)	**(6,730)**	(6,257)	(4,668)	**(6,730)**	(6,257)	(4,668)
	365,955	273,410	298,141	**363,246**	273,179	302,447
Current	**363,630**	268,473	297,662	**360,921**	268,242	296,161
Noncurrent	**2,325**	4,937	479	**2,325**	4,937	6,286

Installment sales were adjusted to present value on the transaction dates based on the estimated rate over the collection term. The contra entry to the present value adjustment is trade receivables and its recovery is recorded as finance income in finance income (costs). The discount rate used involves an analysis of the capital structure and the uncertainties of the macroeconomic context and was, on average, 9.39% p.a. in 2019 (13.13% p.a. in 2018).

The aging list of trade receivables is as follows:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Up to 360 days	**352,957**	259,227	**350,393**	259,013
More than 360 days	**8,315**	6,700	**8,297**	6,696
Up to 30 days past due	**10,171**	10,652	**10,134**	10,645
Up to 90 days past due	**4,215**	2,335	**4,200**	2,334
Up to 180 days past due	**1,757**	1,738	**1,743**	1,737
Up to 360 days past due	**2,992**	1,218	**2,979**	1,217
More than 360 days past due	**4,727**	5,235	**4,564**	5,232
Balance as at December 31	**385,134**	287,105	**382,310**	286,874

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

7. Trade receivables--continued

Variations in the allowance for expected credit losses:

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Opening balance	**(7,438)**	(4,900)	**(7,438)**	(3,800)
Recognition	**(10,009)**	(4,106)	**(9,894)**	(4,106)
Reversal	**4,998**	1,568	**4,998**	468
Closing balance	**(12,449)**	(7,438)	**(12,334)**	(7,438)

The Company uses a simplified approach, as prescribed by CPC 48 (IFRS 9) – Financial Instruments, to prospectively recognize an additional allowance for expected losses. This estimate is calculated based on the historical losses on sales, applied on all trade receivables, including current balances. The purpose of this analysis is to ensure a more careful analysis in determining the allowance for expected credit loss on the Company's and its subsidiaries' trade receivables.

8. Inventories

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Finished goods	**165,406**	123,345	**165,170**	123,343
Work in process	**33,608**	19,742	**33,608**	19,742
Raw materials and auxiliary materials	**106,237**	114,098	**105,339**	114,098
Imports in progress	**114,131**	81,487	**114,131**	81,487
Advances to suppliers	**16,022**	8,721	**15,991**	8,722
Other	**10,183**	6,924	**10,183**	6,923
	445,587	354,317	**444,422**	354,315
Allowance for obsolescence	**(4,084)**	(3,528)	**(3,784)**	(3,528)
Present value adjustment (PVA)	**(6,727)**	(6,768)	**(6,727)**	(6,768)
	434,776	344,021	**433,911**	344,019

Variations in the allowance for obsolescence:

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Opening balance	**(3,528)**	(3,729)	**(3,528)**	(2,400)
Recognition	**(4,423)**	(4,735)	**(4,423)**	(4,735)
Reversal	**3,867**	4,936	**4,167**	3,607
Closing balance	**(4,084)**	(3,528)	**(3,784)**	(3,528)

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

9. Recoverable taxes and taxes payable

a) Recoverable taxes

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
State VAT (ICMS)	**1,664**	1,396	**1,651**	1,396
Social contribution (CSLL)	**2,755**	1,127	**2,728**	1,127
Tax on revenue (COFINS) (a)	**21,639**	21,638	**21,638**	21,638
Tax on revenue (PIS) (a)	**4,714**	4,714	**4,714**	4,714
Withholding income tax (IRRF)	**8,260**	5,225	**8,204**	5,225
Federal VAT (IPI)	**4,778**	3,920	**4,778**	3,920
Taxes abroad	**28**	42	**28**	40
	43,838	38,062	**43,741**	38,060
Current	**16,610**	10,795	**16,513**	10,793
Noncurrent	**27,228**	27,267	**27,228**	27,267

(a) The Company challenged at court the ICMS exclusion from the PIS and COFINS tax basis since 2007. The Company did not record and offset any credit related to the period under discussion (2007 to 2017). However, based on a favorable court decision handed down by the STF, on general repercussion basis, on Extraordinary Appeal No. 574.706, on March 15, 2017, which corroborated the principle that "the ICMS should not be included in the PIS and COFINS tax basis", deciding the matter favorably to taxpayers, the Company recorded the amount of R$26,336. In relation to periods prior to 2017, the Company waited for the final and unappealable decision on the lawsuit filed in 2007 to recognize the credits. On October 8, 2020, a final and unappealable decision was handed down by the Regional Court of the 4th Region on the lawsuit filed by the Company guaranteeing the ICMS exclusion (see note 31).

The amount is recorded in noncurrent assets, due to the expected realization of the balance after 2020.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

9. Recoverable taxes and taxes payable--continued

b) Taxes payable

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Taxes in installments	**542**	989	**542**	989
State VAT (ICMS)	**1,039**	-	**1,005**	-
Federal VAT (IPI)	**9,580**	9,044	**9,559**	9,044
Tax on revenue (PIS)	**236**	-	**225**	-
Tax on revenue (COFINS)	**1,094**	-	**1,040**	-
Social contribution (CSLL)	**100**	-	**-**	-
Corporate income tax (IRPJ)	**249**	-	**-**	-
ICMS DIFAL	**218**	87	**218**	87
Withholding income tax (IRRF) - payroll	**3,164**	2,563	**3,016**	2,552
Social security contribution (INSS)	**1,873**	1,813	**1,873**	1,813
IRRF - interest on capital	**739**	3,350	**738**	3,350
Other	**674**	503	**648**	500
	19,508	18,349	**18,864**	18,335
Current	**8,311**	6,757	**7,667**	6,743
Noncurrent	**11,197**	11,592	**11,197**	11,592

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

10. Investments

As at December 31, 2019, the Company's investments are composed of equity interests in other companies, as well as other investments, as follows:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Investments in subsidiaries	**-**	-	**5,603**	1,025
Surplus on business acquisitions (*)	**-**	-	**21,956**	-
Goodwill on expected future earnings (**)	**-**	-	**24,773**	1,392
Other investments (***)	**1,819**	2,316	**1,819**	2,316
	1,819	2,316	**54,151**	4,733

(*) Refer to the surplus on acquisitions of Seventh and Decio (items "c", "d" and "e" below).
(**) The Company recognizes goodwill on the acquisitions of Prediotech, Decio and Seventh (see note 12).
(***) Other investments refer to the investment at unit value in FUNDO SC - Fundo de Investimento em Empresas Emergentes Inovadoras, where the Company holds 10.07% interest and in Fundo de Investimento em Participação Sul Inovação, where it holds 7.69% interest.

		Equity interest		Parent	
Investee	Control	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Intelbras Mexico	Subsidiary	100%	100%	**883**	815
Ascent	Subsidiary	100%	100%	**960**	237
Prediotech	Subsidiary	100%	100%	**(1,137)**	(27)
Seventh	Subsidiary	100%	100%	**1,638**	-
Decio	Subsidiary	100%	100%	**3,259**	-
				5.603	1.025
			Accounted for under the equity method	**6.740**	1.025
			Investment on negative equity	**(1.137)**	-

Variations in investments are shown below:

Investee	12/31/2018	Share of profit (loss) of subsidiaries	Surplus on investment*	Exchange gain/(loss)	Goodwill	Acquisition – initial recognition	Other	12/31/2019
Intelbras Mexico	815	-	-	68	-	-	-	883
Ascent	237	766	-	(43)	-	-	-	960
Prediotech	(27)	(1,110)	-	-	-	-	-	(1,137)
Seventh	-	(38)	-	-	-	1,676	-	1,638
Decio	-	812	-	-	-	2,447	-	3,259
Surplus	-	(1,395)	23,351	-	-	-	-	21,956
Goodwill	1,392	-	-	-	23,381	-	-	24,773
Other investments	2,316	-	-	-	-	-	(497)	1,819
	4,733	**(965)**	**23,351**	**25**	**23,381**	**4,123**	**(497)**	**54,151**
Investments	4,733							55,288
Negative equity								(1,137)

** includes income tax and social contribution impact*

Investee	01/01/2018	Share of profit (loss) of subsidiaries	Exchange gain/(loss)	Acquisition – initial recognition	Other	12/31/2018
Intelbras Mexico	(3,584)	4,301	98	-	-	815
Ascent	(93)	358	-	-	(28)	237
Prediotech	-	(185)	-	158	-	(27)
Goodwill	-	-	-	1,392	-	1,392
Other investments	1,068	-	-	-	1,248	2,316
	(2,609)	**4,474**	**98**	**1,550**	**1,220**	**4,733**
Investments	1,068					4,733
Negative equity	(3,677)					-

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

10. Investments--continued

The main information on the subsidiaries, which fiscal year also ends on December 31, is show below:

	2019						
Subsidiary	**Current assets**	**Noncurrent assets**	**Current liabilities**	**Noncurrent liabilities**	**Equity**	**Revenues**	**Profit (loss)**
Intelbras Mexico	-	883		-	883	-	-
Ascent	1,449	48	537	-	960	8,194	766
Prediotech	424	61	308	1,314	(1,137)	871	(1,110)
Seventh	2,695	466	1,523	-	1,638	7,762	(38)
Decio	4,074	4,156	2,481	2,490	3,259	4,355	812

a) Indústria de Telecomunicación Electrónica Brasileña de México, S.A. de C.V.

The Executive Board decided to shut down the operations of the company located in Mexico City, in December 2018. This subsidiary is dormant and the balance is disclosed in the financial statements related to liabilities to be settled upon the completion of the company's liquidation processes with the competent bodies.

b) Ascent Asia Limited

Located in Asia, the company is engaged in business consulting, corporate and financial information management.

c) Prediotech Consultoria e Projetos Tecnológicos LTDA-ME.

In September 2018 the Company acquired 100% stake in Prediotech Consultoria e Projetos Tecnológicos LTDA-ME, for the amount of R$1,550. The acquiree operates in the IT sector, specialized in the development of systems for buildings and security companies.
The goodwill of R$1,472 arising on the acquisition is attributable to expected future earnings.

The Company engaged a specialized independent appraiser for valuation at fair value in order to allocate the purchase price of the assets acquired and liabilities assumed. Valuation amounts are as follows:

On August 31, 2018	**Prediotech**
Total consideration transferred	1,550
Amounts recognized for identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	98
Fair value adjustments	(80)
Adjusted cash and cash equivalents	18
Property, plant and equipment	18
Trade and other receivables	70
Trade and other payables	(28)
Total identifiable net assets and liabilities	78
Goodwill	1,472
Total allocation	1,550

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

10. Investments--continued

c) Prediotech Consultoria e Projetos Tecnológicos LTDA-ME.--continued

After the initial allocation, the goodwill was reduced by R$80, totaling a net amount of R$1,392, as a result of the necessary adjustments to the opening balance sheet.

Prediotech Consultoria e Projetos Tecnológicos LTDA-ME was acquired in September 2018 and, therefore, the consolidated financial statements include the 2018 information on the subsidiary as from this period.

The amounts of revenue and profit or loss for the period of the acquiree as from the acquisition date, which were included in the consolidated statement of income totaled R$100 and R$285, respectively.

d) Seventh Ltda. ("Seventh")

In July 2019, the Company acquired 100% stake in Seventh LTDA, for the amount of R$32,915, relating to the initial price of R$33,000 adjusted by the amount of expenses identified during the merger process related to the previous management. The acquiree is engaged in the development of electronic security technology and is specialized in the development of remote monitoring software. Together with the products already offered by Intelbras, such acquisition allows offering more complete solutions to customers.

The goodwill of R$21,594 arising on the acquisition is attributable to expected future earnings.

The Company engaged a specialized independent appraiser for valuation at fair value in order to allocate the purchase price of the assets acquired and liabilities assumed. Valuation amounts are as follows:

On June 30, 2019	**Seventh**
Acquisition cost	32,915
Fair value of net assets	11,321
Equity	1,677
Surplus	9,644
Property, plant and equipment	269
Trademark	4,582
Software	8,248
Non-compete agreement	35
Relationship with customers	1,478
Deferred tax liabilities	(4,968)
Goodwill	21,594

Seventh Ltda was acquired in June 2019 and, therefore, the consolidated financial statements include the 2019 information on the subsidiary as from this period.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

10. Investments--continued

d) Seventh Ltda. ("Seventh")--continued

The amounts of revenue and profit or loss for the period of the acquiree as from the acquisition date, which were included in the consolidated statement of income totaled R$7,762 and (R$38), respectively.

The balance of cash and cash equivalents totaled R$1,760 on the acquisition date.

e) Décio Indústria Metalúrgica Ltda. ("Decio")

In August 2019, the Company acquired 100% stake in Décio Indústria Metalurgica Ltda., for the amount of R$10,000. The acquiree is engaged in the production of server structures, specialized on cabinets. With the acquisition, the Company strengthens its electronic equipment production capacity.

The goodwill of R$1,788 arising on the acquisition is attributable to expected future earnings.

The Company engaged a specialized independent appraiser for valuation at fair value in order to allocate the purchase price of the assets acquired and liabilities assumed. Valuation amounts are as follows:

On August 31, 2019	**Décio**
Acquisition cost	10,000
Fair value of net assets	8,212
Equity	2,445
Surplus	5,767
Property, plant and equipment	7,037
Trademark	1,432
Software	119
Inventories	150
Deferred tax liabilities	(2,971)
Goodwill	1,788

Décio Indústria Metalúrgica Ltda. was acquired in August 2019 and, therefore, the consolidated financial statements include the 2019 information on the subsidiary as from this period. The amounts of revenue and profit or loss for the period of the acquiree as from the acquisition date, which were included in the consolidated statement of income totaled R$3,049 and (R$494), respectively.

The balance of cash and cash equivalents totaled R$1,690 on the acquisition date.

The total consideration paid for the acquisitions of Seventh and Decio amounted to R$42,915. Of this amount, R$27,834 was paid up to December 31, 2019 and the remaining amount of R$15,081 will be paid in five installments to Seventh, with final maturity in July 2024, and in 9 installments to Décio, with final maturity in September 2023. As at December 31, 2019, the adjusted amount is R$15,260, of which R$7,962 is recorded in "Other payables" in current liabilities and R$7,298 in "Other payables" in noncurrent liabilities.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

11. Property, plant and equipment

	Consolidated									
	Land	Buildings	Facilities and improvements	Machinery, equipment and instruments	Furniture and fixtures	Computers	Other	Construction in progress	Property, plant and equipment in transit	Total
Average annual depreciation rate		**2%**	**10%**	**10% to 20%**	**10%**	**20% to 33%**	**20% to 100%**			
Variations in cost										
Balances as at December 31, 2017	**45,288**	**54,788**	**11,691**	**64,838**	**6,334**	**9,725**	**12,974**	**11,689**	**-**	**217,327**
Additions	-	25	86	1,886	761	1,450	730	22,217	-	27,155
Property, plant and equipment arising from business combination	-	-	-	10	5	3	-	-	-	18
Transfers	-	(1,183)	3,597	15,572	235	3,496	1,465	(23,182)	-	-
Write-offs	-	-	(14)	(4,495)	(132)	(2,858)	(325)	(476)	-	(8,300)
Balances as at December 31, 2018	**45,288**	**53,630**	**15,360**	**77,811**	**7,203**	**11,816**	**14,844**	**10,248**	**-**	**236,200**
Additions	-	-	187	2,143	479	1,935	1,606	64,460	3,381	74,191
Transfers	-	(10)	1,574	2,034	244	773	3,576	(8,191)	-	-
Write-offs	-	-	(6)	(1,022)	(113)	(521)	(599)	(1,608)	-	(3,869)
Property, plant and equipment arising from business combination	543	218	8	951	135	210	30	-	-	2,095
Surplus on business combination	1,413	3,365	64	1,794	80	238	179	-	189	7,322
Balances as at December 31, 2019	**47,244**	**57,203**	**17,187**	**83,711**	**8,028**	**14,451**	**19,636**	**64,909**	**3,570**	**315,939**
Variations in depreciation										
Balances as at December 31, 2017	-	**(11,267)**	**(5,621)**	**(31,058)**	**(3,208)**	**(6,871)**	**(8,075)**	-	-	**(66,100)**
Depreciation	-	(1,122)	(1,146)	(5,761)	(530)	(1,501)	(1,544)	-	-	(11,604)
Transfers	-	89	(302)	18	195	-	-	-	-	-
Write-offs	-	-	14	2,910	110	2,208	(450)	-	-	4,792
Balances as at December 31, 2018	-	**(12,300)**	**(7,055)**	**(33,891)**	**(3,433)**	**(6,164)**	**(10,069)**	**-**	**-**	**(72,912)**
Depreciation	-	(1,355)	(1,308)	(6,640)	(604)	(2,147)	(2,087)	-	-	(14,141)
Transfers	-	1	1	-	(18)	16	-	-	-	-
Write-offs	-	-	6	850	91	523	(268)	-	-	1,202
Balances as at December 31, 2019	-	**(13,654)**	**(8,356)**	**(39,681)**	**(3,964)**	**(7,772)**	**(12,424)**	**-**	**-**	**(85,851)**
Net depreciation balance										
Balances as at December 31, 2017	**45,288**	**43,521**	**6,070**	**33,780**	**3,126**	**2,854**	**4,899**	**11,689**	**-**	**151,227**
Balances as at December 31, 2018	**45,288**	**41,330**	**8,305**	**43,920**	**3,770**	**5,652**	**4,775**	**10,248**	**-**	**163,288**
Balances as at December 31, 2019	**47,244**	**43,549**	**8,831**	**44,030**	**4,064**	**6,679**	**7,212**	**64,909**	**3,570**	**230,088**

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

11. Property, plant and equipment--continued

	Parent									
	Land	**Buildings**	**Facilities and improvements**	**Machinery, equipment and instruments**	**Furniture and fixtures**	**Computers**	**Other**	**Construction in progress**	**Property, plant and equipment in transit**	**Total**
Average annual depreciation rate		**2%**	**10%**	**10% to 20%**	**10%**	**20% to 33%**	**20% to 100%**			
Variations in cost										
Balances as at December 31, 2017	**45,288**	**54,790**	**11,691**	**64,838**	**6,333**	**9,724**	**12,937**	**11,688**	**-**	**217,289**
Additions	-	25	83	1,896	721	1,396	770	22,215	-	27,106
Transfers	-	(1,183)	3,597	15,572	235	3,496	1,465	(23,182)	-	-
Write-offs	-	-	(14)	(4,495)	(132)	(2,857)	(325)	(477)	-	(8,300)
Balances as at December 31, 2018	**45,288**	**53,632**	**15,357**	**77,811**	**7,157**	**11,759**	**14,847**	**10,244**	**-**	**236,095**
Additions	-	-	187	2,143	479	1,935	1,607	64,460	1,036	71,847
Transfers	-	(10)	1,574	2,034	244	773	3,576	(8,191)	-	-
Write-offs	-	-	(6)	(1,022)	(113)	(521)	(598)	(1,608)	-	(3,868)
Balances as at December 31, 2019	**45,288**	**53,622**	**17,112**	**80,966**	**7,767**	**13,946**	**19,432**	**64,905**	**1,036**	**304,074**
Variations in depreciation										
Balances as at December 31, 2017	**-**	**(11,267)**	**(5,621)**	**(31,059)**	**(3,207)**	**(6,872)**	**(8,075)**	**-**	**-**	**(66,101)**
Depreciation	-	(1,121)	(1,146)	(5,761)	(525)	(1,489)	(1,544)	-	-	(11,586)
Transfers	-	89	(302)	18	195	(2)	-	-	-	-
Write-offs	-	-	14	2,911	110	2,211	(450)	-	-	4,796
Balances as at December 31, 2018	**-**	**(12,299)**	**(7,055)**	**(33,891)**	**(3,427)**	**(6,152)**	**(10,069)**	**-**	**-**	**(72,893)**
Depreciation	-	(1,116)	(1,292)	(6,512)	(555)	(2,123)	(2,021)	-	-	(13,619)
Transfers	-	1	1	-	(18)	16	-	-	-	-
Write-offs	-	-	6	850	91	523	(268)	-	-	1,202
Balances as at December 31, 2019	**-**	**(13,414)**	**(8,340)**	**(39,553)**	**(3,909)**	**(7,736)**	**(12,358)**	**-**	**-**	**(85,310)**
Net depreciation balance										
Balances as at December 31, 2017	**45,288**	**43,523**	**6,070**	**33,779**	**3,126**	**2,852**	**4,862**	**11,688**	**-**	**151,188**
Balances as at December 31, 2018	**45,288**	**41,333**	**8,302**	**43,920**	**3,730**	**5,607**	**4,778**	**10,244**	**-**	**163,202**
Balances as at December 31, 2019	**45,288**	**40,208**	**8,772**	**41,413**	**3,858**	**6,210**	**7,074**	**64,905**	**1,036**	**218,764**

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

11. Property, plant and equipment--continued

Depreciation in 2019, allocated to the cost of production and administrative expenses in the consolidated, total R$9,015 (R$7,472 in 2018) and R$5,126 (R$4,132 in 2018), respectively.

Certain property, plant and equipment items are pledged as collateral for financing transactions (note 14).

Construction in progress refers to improvements at the Company's industrial and information technology areas.

Management tested its property, plant and equipment items for impairment in the years ended December 31, 2019 and 2018, and did not identify the need to recognize an allowance for impairment losses on these assets.

12. Intangible assets

	Consolidated					
	Goodwill	**Trademarks and patents**	**Other**	**Projects in progress**	**Software**	**Total**
Average annual amortization rate					**20%**	
Variations in cost						
Balances as at December 31, 2017	33,366	-	-	528	29,680	63,574
Additions	-	1	-	2,405	2,574	4,980
Write-offs	-	(1)	-	(17)	(292)	(310)
Goodwill on business acquisition	1,392	-	-	-	-	1,392
Transfers	-	-	-	(589)	589	-
Balances as at December 31, 2018	34,758	-	-	2,327	32,551	69,636
Additions	23,382	-	-	2,426	345	26,153
Write-offs	-	-	-	(194)	(15)	(209)
Transfers	-	-	-	(435)	435	-
Surplus on business combination	-	6,014	1,694	-	8,367	16,075
Balances as at December 31, 2019	58,140	6,014	1,694	4,124	41,683	111,655
Variations in amortization						
Balances as at December 31, 2017	-	-	-	-	(15,297)	(15,297)
Amortization in the period	-	-	-	-	(3,951)	(3,951)
Write-offs	-	-	-	-	95	95
Balances as at December 31, 2018	-	-	-	-	(19,153)	(19,153)
Amortization in the period	-	-	(1,016)	-	(3,525)	(4,541)
Write-offs	-	-	-	-	14	14
Balances as at December 31, 2019	-	-	(1,016)	-	(22,664)	(23,680)
Net amortization balance						
Balances as at December 31, 2017	**33,366**	**-**	**-**	**528**	**14,383**	**48,277**
Balances as at December 31, 2018	**34,758**	**-**	**-**	**2,327**	**13,398**	**50,483**
Balances as at December 31, 2019	**58,140**	**6,014**	**678**	**4,124**	**19,019**	**87,975**

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

12. Intangible assets--continued

	Parent					
	Goodwill	**Trademarks and patents**	**Other**	**Projects in progress**	**Software**	**Total**
Average annual amortization rate					**20%**	
Variations in cost						
Balances as at December 31, 2017	33,366	-	-	528	29,680	63,574
Additions	-	1	-	2,405	2,574	4,980
Write-offs	-	(1)	-	(17)	(292)	(310)
Transfers	-	-	-	(589)	589	-
Balances as at December 31, 2018	33,366	-	-	2,327	32,551	68,244
Additions	-	-	293	2,426	345	3,064
Write-offs	-	-	-	(194)	(15)	(209)
Transfers	-	-	-	(435)	435	-
Balances as at December 31, 2019	33,366	-	293	4,124	33,316	71,099
Variations in amortization						
Balances as at December 31, 2017	-	-	-	-	(15,297)	(15,297)
Amortization in the period	-	-	-	-	(3,951)	(3,951)
Write-offs	-	-	-	-	95	95
Balances as at December 31, 2018	-	-	-	-	(19,153)	(19,153)
Amortization in the period	-	-	-	-	(3,908)	(3,908)
Write-offs	-	-	-	-	14	14
Balances as at December 31, 2019	-	-	-	-	(23,047)	(23,047)
Net amortization balance						
Balances as at December 31, 2017	**33,366**	**-**	**-**	**528**	**14,383**	**48,277**
Balances as at December 31, 2018	**33,366**	**-**	**-**	**2,327**	**13,398**	**49,091**
Balances as at December 31, 2019	**33,366**	**-**	**293**	**4,124**	**10,269**	**48,052**

Assets with finite useful lives

On an annual basis, the Company assesses whether there is evidence that the recoverable amount of intangible assets with finite useful lives might be impaired in relation to the carrying amounts. When such evidence is identified detailed impairment tests are conducted for this category of assets. The analyses conducted by Management did not identify any indicators or factors indicating that the carrying amounts might not be recoverable at the balance sheet dates.

Assets with indefinite useful lives

The Company's assets with indefinite useful lives are comprised of goodwill paid on business combinations. These assets are annually tested for impairment, regardless of indicators of existing risks or not.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

12. Intangible assets--continued

Assets with indefinite useful lives--continued

The goodwill disclosed above is based on expected future earnings, supported by valuation reports, after allocation of the assets identified.

Goodwill maintained by the Company is summarized below:

Business acquired	Business units	12/31/2019	12/31/2018
Maxcom do Brasil Ltda.	Building access control	**1,348**	**1,348**
Engesul	Fire and lighting	**11,610**	**11,610**
Automatiza Ind. Com. de Equip. Eletrônico Ltda.	Corporate access control	**20,408**	**20,408**
Prediotech Consultoria e Projetos Tecnológicos LTDA	Building access control	**1,392**	**1,392**
Décio Indústria Metalúrgica LTDA	Electronic equipment	**1,788**	**-**
Seventh Ltda.	Building access control	**21,594**	**-**
		58,140	**34,758**

Based on the tests conducted for the years ended December 31, 2019 and 2018, Management concluded that the amount of these assets will be recovered at an amount higher than the carrying amount at the balance sheet date, not being necessary therefore to record an allowance for impairment loss for the goodwill recorded.

Tests were conducted based on the discounted cash flow method, in order to determine the value in use for each of the Cash-generating Units (CGUs) to which goodwill is allocated. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash projections were made for a five-year horizon and subsequently perpetuated. The first year of the projected flow is in accordance with Management's detailed budget for each CGU. Growth assumptions were adopted for the next four years based on Management's business guidelines and perpetuity was prepared using a growth rate of 3.8% (4.0% in 2018).

Projections are discounted at the weighted average cost of capital ("WACC"). The post-tax discount rate applied on cash flow projections ranges from 9.16% p.a. to 15.33% p.a. in 2019 (9.89% p.a. to 13.48% p.a. in 2018).

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

12. Intangible assets--continued

Assets with indefinite useful lives--continued

In addition to the recoverability analysis mentioned above, Management has prepared a sensitivity analysis considering the variations in pretax profit and finance income (costs) (Earnings Before Interest and Taxes - EBIT) and the discount rate as shown below:

	Depreciation	**Rate used**	**Appreciation**
EBIT – Maxcom	13%	14%	15%
EBIT – Engesul	12%	13%	14%
EBIT - Automatiza	10%	11%	12%
EBIT - Prediotech	8%	9%	10%
EBIT – Décio	8%	9%	10%
EBIT - Seventh	35%	36%	37%
WACC	10.11%	11.11%	12.11%

As a result of the sensitivity analysis, we did not identify the need to recognize an allowance for impairment.

Research costs

Research and development costs incurred by the Company are earmarked for several electronic products. Research and development costs that are not eligible for capitalization, in the amount of R$63,054 in 2019 (R$54,561 in 2018), were recognized as expenses in "General and administrative expenses".

13. Trade payables

Inputs for the Company's production are acquired in higher volume through the import from foreign suppliers, accounting for around 94% of the outstanding balance as at December 31, 2019. The present value adjustment was calculated based on the rate of 3.28% p.a. in 2019 (4.25% p.a. in 2018), to which the average rate adopted by financial institutions that offer forfait services to the Company's suppliers refer. The amounts related to intercompany transactions were excluded from the consolidated balance. These balances are broken down as follows:

	Consolidated		**Parent**	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Domestic suppliers	**30,906**	25,390	**31,178**	25,387
Suppliers of imported goods - Forfait	**309,354**	31,931	**309,354**	31,931
Suppliers of imported goods	**129,203**	302,468	**129,203**	302,468
	469,463	359,789	**469,735**	359,786
Present value adjustment (PVA)	**(3,104)**	(3,192)	**(3,104)**	(3,192)
	466,359	356,597	**466,631**	356,594

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

13. Trade payables--continued

Balances with related and third parties are broken down as follows:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Related parties				
Domestic suppliers	**-**	-	**1,176**	-
Suppliers of imported goods	**153,386**	-	**153,386**	-
Total due to related parties (note 29)	**153,386**	-	**154,562**	-
Unrelated	**316,077**	359,789	**315,173**	359,786
Total trade payables	**469,463**	359,789	**469,735**	359,786

Forfait

The Company entered into agreements with certain financial institutions for the financing of its supply chain. As agreed with the institutions, the Company's suppliers may elect to receive payment for their invoices in advance through the financial agent. Under the agreement, the financial institution agrees to pay the amounts due to a supplier in advance and receives the payment for the trade note by the Company on a subsequent date. The main purpose of this program is to facilitate payment processing and allow willing suppliers to sell their receivables due by the Company to a bank before the maturity date. In Management's opinion, the agreements do not significantly extend the payment conditions beyond the normal terms agreed with other suppliers that do not anticipate their receivables. The Company does not incur additional interest on the amounts due to suppliers.

The Company did not derecognize the liabilities to which the agreement applies, as there was no legal write-off and the original liability was not substantially modified when the supplier accepted the agreement. The amounts advanced by the suppliers continue to be recorded by the Company as payables, as the nature and function of the financial liability continue the same as other payables.

Payments made to the bank at the original maturity of the receivables are included in cash flows from operating activities as they continue to be part of the Company's operating cycle and their main nature continues to be payables for acquisition of inputs.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

14. Borrowings and financing

This note provides information on the contractual terms of interest-bearing borrowings, which are measured at amortized cost. Note 21 provides more information on the group's exposure to interest rate, foreign currency, and liquidity risks.

Lenders / creditors	Effective rate	Beginning	Maturity	Collaterals	Consolidated 12/31/2019	Consolidated 12/31/2018	Parent 12/31/2019	Parent 12/31/2018
FINEP	3% p.a. +TR	Apr/14	Apr/24	Bank guarantee	**93,705**	115,350	**93,705**	115,350
FINEP	3% p.a. +TR	Jun/19	Jun/29	Bank guarantee	**64,885**	-	**64,885**	-
PSI - Innovation 2018	1.1% and 2.61% p.a. + TLP and TR	Dec/19	Feb/27	Bank guarantee	**50,187**	-	**50,187**	-
PSI - Innovation 2016	1.86% p.a. + TJLP	Jun/17	Mar/23	Mortgage (properties- head office and SJ branch)	**53,915**	66,154	**53,915**	66,154
PSI - Innovation 2013	3.5% p.a.	Mar/14	Jan/20	Mortgage (properties- head office and SJ branch)	**1,481**	19,255	**1,481**	19,255
PSI - Revitaliza	8% p.a.	Apr/14	Jan/19	Officers' signature	**-**	239	**-**	239
FINIMP	3.7% p.a.	Oct/19	Oct/22	Officers' signature	**2,536**	131	**-**	131
					266,709	201,129	**264,173**	201,129
Current					**41,293**	55,102	**40,448**	55,102
Noncurrent					**225,416**	146,027	**223,725**	146,027

FINEP	Financing Agency for Studies and Projects
PSI	Investment Support Program
FINIMP	Import Financing

Collaterals

The following assets and financial instruments were pledged as collateral for the financing as at December 31, 2019 (Parent and consolidated):

Property, plant and equipment	191,631
Letter of guarantee	213,328
	404,959

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

14. Borrowings and financing--continued

Variations in borrowings and financing are as follows:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Opening balance	**201,129**	183,589	**201,129**	183,589
Borrowings	**201,587**	129,471	**199,296**	129,471
Interest	**9,581**	8,888	**9,581**	8,888
Exchange gains	**(1,357)**	(5,544)	**(1,358)**	(5,544)
Borrowing arising from business combination	**244**	-	**-**	-
Repayment of principal	**(131,819)**	(102,700)	**(131,819)**	(102,700)
Payment of interest	**(12,656)**	(12,575)	**(12,656)**	(12,575)
Closing balance	**266,709**	201,129	**264,173**	201,129

The terms and conditions of outstanding borrowings are as follows:

a) Finep

The Reimbursable Financing line means providing support to the Innovation Strategic Investment Plans of Brazilian companies offered by the BNDES. The purpose of the financing is to partially bear the expenses incurred with the preparation and implementation of the “Intelbras program of integrated communication and technology update for the company’s internationalization” project. The agreement has a 36-month grace period. The debt principal will be repaid in 85 monthly and consecutive installments, the first maturing on April 14, 2017, and the last on April 15, 2024.

b) Investment Support Program (PSI)

Funds released by the BNDES for investments in product research, development and innovation. After confirmation of the investment of funds, the BNDES grants to the Company a borrowing equivalent to up to 80% of the funds invested. Payments are made on a monthly basis and, during the grace period, interest is paid on a quarterly basis. Principal is repaid as detailed below:

PSI – Innovation 2018: The debt principal will be repaid in 87 monthly and consecutive installments, the first maturing on April 15, 2020, and the last on March 15, 2027.

PSI – Innovation 2016: The debt principal will be repaid in 48 monthly and consecutive installments, the first maturing on April 15, 2019, and the last on March 15, 2023.

PSI – Innovation 2013: The debt principal will be repaid in 48 monthly and consecutive installments, the first maturing on February 15, 2016, and the last on January 15, 2020.

PSI – Revitaliza: The debt principal will be repaid in 48 monthly and consecutive installments, the first maturing on February 15, 2015, and the last on January 15, 2019.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

14. Borrowings and financing--continued

c) Finimp

Import financing released by the BNDES, where payment is made in cash to the exporter through a financial institution, which becomes the creditor, and the commitment to settle the transaction with the financial institution until the agreed due date is assumed.

d) Covenants

Agreements entered into with the BNDES have covenants related to debt-to-asset (<75%) and net debt-to-EBITDA (=<2.5) ratios ("covenants"), which are being fully met at the balance sheet dates.

The long-term borrowing and financing payment schedule is as follows:

	Consolidated		**Parent**	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
2020	**-**	38,924	**-**	38,924
2021	**33,259**	37,915	**32,413**	37,915
2022	**43,245**	37,215	**42,400**	37,215
2023	**39,209**	24,998	**39,209**	24,998
2024	**30,548**	6,975	**30,548**	6,975
2025	**23,992**	-	**23,992**	-
2026	**23,893**	-	**23,893**	-
2027 to 2029	**31,270**	-	**31,270**	-
	225,416	146,027	**223,725**	146,027

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

15. Provision for tax, labor and civil risks

The Company is a party to lawsuits and administrative proceedings, at different levels, related to tax, civil and labor matters, arising in the ordinary course of business. Based on the opinion of its legal counsel, the Company's Management recognizes a provision to cover probable losses that may arise from unfavorable outcomes of these lawsuits (assessed as risk of probable loss). At the end of the reporting periods, the Company recognized the following liabilities and escrow deposits related to these lawsuits.

a) Breakdown of the provision for tax, labor and civil risks:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Labor	**3,080**	2,712	**3,080**	2,712
Civil	**426**	445	**426**	445
Tax	**3,471**	1,295	**3,371**	1,295
	6,977	4,452	**6,877**	4,452
Current	**426**	445	**426**	445
Noncurrent	**6,551**	4,007	**6,451**	4,007

Labor

Related to lawsuits filed by the former employees of the Company and service providers. No labor lawsuit to which the Company or one of its subsidiaries is a party was considered individually relevant.

Civil

Related to lawsuits discussing matters of commercial nature, relating to consumers' complaints about the products provided by the Company. No civil lawsuit was considered individually relevant.

Tax

The main tax discussions are related to lawsuits on the Tax Classification of Goods (NCM) of imported parts and pieces for manufacturing, according to the production process defined. The tax authorities understand that this must be classified as finished good. The lawsuit is pending judgment of the voluntary appeal by the CARF. The other lawsuit is related to the understanding on the suspension of the IPI on the import of inputs based on SRFB Regulatory Instruction 948/2009 and the formal procedures related to the respective tax benefit.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

15. Provision for tax, labor and civil risks—continued

Possible losses, not provided for in the balance sheet

No provisions were recognized for contingencies whose likelihood of loss is assessed by the Company's legal counsel as possible, as they do not represent probable losses for the Company. These contingencies involve matters of tax, civil and labor nature, totaling R$36,956 (R$85,667 in 2018) in the consolidated. Of this total, tax lawsuits amount to R$27,495 (R$75,149 in 2018), the main of which refer to: (i) tax assessment notice related to the tax credit arising from the disallowance of the ICMS deemed credit granted by the State of origin; (ii) tax assessment notice requiring the levy of PIS and COFINS on the amounts recorded as investment grant in 2011. Civil lawsuits amount to R$5,351 (R$2,982 in 2018) and labor lawsuits amount to R$4,111 (R$7,537 in 2018); there are no lawsuits individually relevant for both areas.

Contingent assets, not recorded in the balance sheet

The Company, among the main contingent assets, claimed at courts the right to exclude the ICMS from the PIS and COFINS tax basis for years prior to the decision handed down by the Federal Supreme Court in 2017. A final and unappealable decision was handed down on these lawsuits in October 2020, as mentioned in note 31. The asset relating to these tax credits will be recognized in the fourth quarter of 2020, the date of publication of the final and unappealable decision. Currently, the Company is at the analysis and credit calculation stage. Based on the analysis and calculation currently made, which follows the court decisions handed down so far, the Company estimates that the credits amount to approximately R$136,430, of which R$73,579 refers to the historical amount and R$62,851 refers to inflation adjustment. In addition to the ICMS exclusion from the PIS and COFINS tax basis, the Company discusses the increase of the Siscomex rate due upon addition to the Import Statement in an amount higher than that prescribed by Law 9,716/98.

Variations in the provision

	Consolidated		**Parent**	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Balance at the beginning of the year	**4,452**	2,694	**4,452**	2,694
Additional provision	**9,316**	7,797	**9,216**	7,797
Reversal/write-offs of provision	**(6,791)**	(6,039)	**(6,791)**	(6,039)
Balance at the end of the year	**6,977**	4,452	**6,877**	4,452

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

15. Provision for tax, labor and civil risks—continued

b) Breakdown of escrow deposits:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Labor	**592**	1,097	**592**	1,097
Tax	**10,917**	12,662	**10,917**	12,662
Escrow deposit	**-**	2	**-**	2
	11,509	13,761	**11,509**	13,761

Labor deposits refer to several lawsuits filed by former employees where the Company must make escrow deposits while the merit of the amounts claimed is being discussed.

The main deposit related to tax lawsuits refers to the tax principle under discussion involving "IPI on Finished Goods". The Company has filed a lawsuit for the collection of the IPI on the resale of imported finished goods. The Company's legal counsel defends the principle of non-levy of the IPI on sales transactions carried out by the plaintiff involving imported goods on which the same tax was already collected upon customs clearance and which were not subject to any manufacturing process. The Company received a favorable decision at the lower and appellate courts (Federal Court in Florianópolis and TRF4 in Porto Alegre), but the federal government was able to reverse the decision through a special appeal filed with the STJ. The Company has filed Divergence Appeals as it believes that there are former court decisions favorable to the taxpayer. The Federal Supreme Court, in a general repercussion judgment, has decided that the collection of the IPI on the resale of imported goods is constitutional. The Company had already requested the conversion of the escrow deposits into payment to the federal government but the lawsuit was suspended and is not yet analyzed. The amount deposited in escrow totaled R$9,044, and the liability was recorded as taxes payable.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

16. Equity

a) Capital

As at December 31, 2019 and 2018, the Company's capital is R$350,000, held as follows:

	12/31/2019			
	Common		Total	
Shareholders	**Number**	**%**	**Number**	**%**
Jorge Luiz Savi de Freitas	6,336,250	22.50%	6,336,250	22.50%
Jane Savi de Freitas	6,336,250	22.50%	6,336,250	22.50%
Janete Savi de Freitas	6,336,250	22.50%	6,336,250	22.50%
Jadna Savi de Freitas	6,336,250	22.50%	6,336,250	22.50%
Dahua Europe B. V	2,816,111	10.00%	2,816,111	10.00%
Total shares	**28,161,111**	**100.00%**	**28,161,111**	**100.00%**

	12/31/2018			
	Common		Total	
Shareholders	**Number**	**%**	**Number**	**%**
Jorge Luiz Savi de Freitas	6,446,213	19.09%	6,446,213	19.09%
Jane Savi de Freitas	7,000,752	20.73%	7,000,752	20.73%
Janete Savi de Freitas	7,000,753	20.73%	7,000,753	20.73%
Jadna Savi de Freitas	7,000,751	20.73%	7,000,751	20.73%
Pedro Horn de Freitas	356,321	1.06%	356,321	1.06%
Joana Horn de Freitas	356,321	1.06%	356,321	1.06%
Total shares held by the shareholders	**28,161,111**	**83.40%**	**28,161,111**	**83.40%**
Treasury shares	5,605,209	16.60%	5,605,209	16.60%
Total shares	**33,766,320**	**100.00%**	**33,766,320**	**100.00%**

On December 13, 2018, shareholders decided to convert 5,754,262 preferred shares into common shares.

16. **Equity**--continued

b) Earnings reserves

(i) *Legal reserve*

Calculated at 5% of profit for the year, as provided for in Article 193 of Law 6,404/76, up to the limit of 20% of capital.

(ii) *Earnings retention*

Recognized for making investments, increasing and strengthening working capital or for future distribution to shareholders.

(iii) *Tax incentives*

Refer to the tax incentive amounts granted to the Company by the States of Santa Catarina, Minas Gerais and Amazonas.

In 2019 an adjustment of R$1,026 was made due to the exploration profit incentive for 2018.

Valuation adjustments to equity

In 2010 the Company elected to adopt the deemed cost for the main property, plant and equipment items.

d) Cumulative translation adjustments

Comprise foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

e) Payments to shareholders

Interest on capital

In 2019 the Company calculated interest on capital at the gross amount of R$34,687, and the total amount was paid over 2019. For purposes of compliance with tax regulations, the Company accounted for interest on capital credited in the year as a contra entry to “finance costs". For purposes of preparation of these financial statements, such interest is reversed from profit or loss against retained earnings, as determined by the accounting policies. In 2018 interest on capital amounted to R$30,096, which was also paid in 2018.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

16. Equity--continued

e) Payments to shareholders--continued

Dividends

During the year ended December 31, 2019, dividends were paid *ad referendum* of the Annual General Meeting (AGM) in the amount of R$56,506 relating to 2019.

Dividends are calculated in accordance with the Company's bylaws and the Brazilian Corporate Law, as follows:

	Dividend calculation	
	2019	**2018**
Profit for the year	**189,393**	162,496
Legal reserve – 5%	**(9,470)**	(8,125)
Tax incentive reserves	**(1,512)**	(133,145)
Tax basis	**178,411**	21,226
Minimum dividends pursuant to the bylaws	**25%**	25%
Amount of minimum mandatory dividends	**44,603**	5,307
Interest on capital paid	**34,687**	30,096
(-) Withholding income tax (IRRF) on interest on capital	**(5,202)**	(4,514)
	29,485	25,582
Dividends paid	**56,506**	5,209
Balance of distributable dividend / (distributed in advance), in addition to the minimum mandatory dividend	**(41,388)**	(25,484)

f) Treasury shares

On October 10, 2019, at the Extraordinary General Meeting, the shareholders decided to cancel 5,605,209 shares, acquired at the amount of R$36,793, which were held in treasury, without decreasing capital. Retained earnings reserves were recognized due to the cancellation.

17. Payroll, related taxes and profit sharing

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Payroll	**7,805**	6,172	**7,396**	6,151
Related taxes	**6,809**	5,733	**6,415**	5,729
Accrued vacation pay and related taxes	**21,849**	17,539	**21,080**	17,520
Profit sharing	**16,991**	17,639	**16,991**	17,639
Other	**625**	587	**622**	587
	54,079	47,670	**52,504**	47,626

18. Earnings (loss) per share

The purpose of the calculation of earnings (loss) per share is to allow performance comparisons between different companies in the same period, as well as for the same company in different periods.

	Year ended	
	12/31/2019	**12/31/2018**
Numerator:		
Profit for the year	**189,393**	162,496
Denominator (in thousands of shares):		
Weighted average number of common shares	**28,161,111**	22,676,332
Weighted average number of preferred shares	-	5,484,779
Return on preferred shares – 10% (*)	-	1,10
Weighted average number of adjusted preferred shares	-	6,033,257
Denominator (in thousands of shares):		
Denominator for basic and diluted earnings (loss) per share	**28,161,111**	28,161,111
Denominator for adjusted basic and diluted earnings (loss) per share	**28,161,111**	28,709,589
Basic and diluted earnings per share (in Brazilian reais - R$)		
Basic and diluted earnings per common share	**6.72535**	5.6599
Basic and diluted earnings per preferred share	-	6.2260

(*) Class "A" preferred shares are not entitled to vote, and their dividend is 10% higher than that paid to common shares. Preferred shares were converted into common shares in 2018.

For the calculation of the common denominator, the weighted average number of common shares held by shareholders was considered, excluding treasury shares.

The table below shows the calculation of the weighted average number taking into account the variations in shares in the years ended December 31, 2019 and 2018.

Common						
Year	**Period of variations in shares**			**Number of shares (in thousands)**	**Number of days - %**	**Weighted average number of shares (in thousands)**
2018	01/01/2018	to	12/13/2018	22,406,849	95%	21,357,492
	12/14/2018	to	12/31/2018	28,161,111	5%	1,318,840
					100%	**22,676,332**
2019	01/01/2019	to	12/31/2019	28,161,111	100%	28,161,111
					100%	**28,161,111**

There are no equity instruments with capital dilutive effect at the balance sheet date.

19. Tax incentives

a) Federal VAT (IPI)

Telephone and security equipment

The Company is eligible to tax benefits granted by the Federal IT Law No. 8,248/91, which provides for the qualification and competitiveness of the IT and automation sector. The right to the benefit is contingent on the compliance by the Company with the requirements and conditions established by the prevailing law, including, the annual investment of part of the gross revenue in the domestic market, arising from the sale of IT goods and services, less the corresponding taxes levied thereon, as well as the amount of the acquisition of goods eligible to tax incentives as prescribed by the law, in research and development activities to be carried out in Brazil.

The IPI decrease benefits are broken down as follows:

Decrease of 80% in the IPI rate, up to March 31, 2020;
Decrease of 75% in the IPI rate, up to March 31, 2020;
Decrease of 70% in the IPI rate, up to March 31, 2020.

Portable microcomputers and manufactured goods

Beginning the 2nd half of 2011, the Company started to apply the 100% decrease on goods manufactured in Brazil, as provided for in Law No. 12,431/11. In order to be eligible to the benefits set forth in Law No. 8,248/91, companies that manufacture or produce IT and automation goods and services must annually invest in IT research and development activities to be performed in Brazil at least 4% of their gross revenue in the domestic market, arising from the sale of IT goods and services, eligible to tax incentives as prescribed by said Law, less taxes levied thereon, as well as the amount of acquisition of goods eligible to tax incentives as prescribed by the Law.

b) State VAT (ICMS)

The Company uses the following benefits in the calculation of the State VAT (ICMS):

(i) *State of Santa Catarina*

ICMS/SC Regulation – Decree No. 2,870/2001, allows the reduction of the ICMS tax basis in domestic transactions involving automation, IT and telecommunication equipment, it being authorized to apply directly the percentage rate of 12% on the full tax basis. This regulation allows using the deemed ICMS credit in transactions involving goods under the Federal IT Law No. 8,248/91, which provides for the qualification and competitiveness of the IT and automation sector. This benefits allows a tax burden of approximately 3% for goods manufactured in Santa Catarina.

19. Tax incentives--continued

b) State VAT (ICMS)—continued

(i) *State of Santa Catarina*--continued

The Company also uses tax benefits set forth in regulation for goods imported from abroad.

The effective period of the benefits is indeterminate.

The amount of this benefit reflected in profit or loss for the year was R$72,520 (R$70,735 in 2018).

(ii) *State of Minas Gerais*

The ICMS/MG regulation – Decree No. 43,080/02, allows using the deemed ICMS credit authorized in a Memorandum of Understanding signed with the State of Minas Gerais and set forth in Special Regime.

The effective period of the benefits is indeterminate.

The amount of this benefit reflected in profit or loss for the year was R$18,612 (R$14,691 in 2018).

(iii) *State of Amazonas*

Law No. 2,826/2003 allows using the deemed ICMS credit authorized in a Project approved with the State of Amazonas, which lists the goods eligible to tax incentives.

The effective period of the benefits is indeterminate.

The amount of this benefit reflected in profit or loss for the year was R$51,588 (R$44,488 in 2018).

All conditions imposed to be eligible to the tax incentives are being fulfilled by the Company.

c) Income tax and social contribution

The Company was eligible to the tax benefit established by Law No. 11,196/05, which allows directly deducting from taxable income calculation and the social contribution tax basis the amount corresponding to 60% of the total expenditures in technological research and innovation, in accordance with the provisions set out in said Law.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

20. Income tax and social contribution

a) Breakdown of deferred taxes

The Company has tax credits arising from prior-year tax loss carryforwards, that can be carried forward indefinitely, and from temporary additions and deductions.

The tax basis of the deferred taxes is as follows:

	Consolidated and Parent	
	12/31/2019	**12/31/2018**
Temporary differences		
Provision for tax, civil and labor risks	**6,877**	4,452
Provision for warranties	**12,719**	10,409
Allowance for obsolete inventories	**3,784**	3,528
Allowance for expected credit losses (*)	**8,110**	3,328
Goodwill (**)	**(33,366)**	(31,325)
Surplus – note 10	**(21,956)**	-
IT Law	**1,623**	2,520
Difference between tax x accounting depreciation (useful life)	**(3,865)**	(1,352)
Deemed cost and review of the useful life of property, plant and equipment items	**(39,222)**	(39,638)
Effects of revenue recognition - CPC 47 (IFRS 15)	**21,615**	20,902
Other	**20,674**	17,647
PVA - trade receivables and trade payables	**10,353**	9,833
Total temporary differences	**(12,654)**	304
Combined deferred income tax and social contribution rate	**34%**	34%
Deferred income tax and social contribution on temporary differences	**(4,302)**	104
Income tax and social contribution loss		
Income tax loss	**26,408**	31,244
Deferred income tax rate	**25%**	25%
Deferred income tax on income tax loss	**6,602**	7,812
Social contribution loss	**53,168**	58,005
Deferred social contribution rate	**9%**	9%
Deferred social contribution on social contribution loss	**4,785**	5,220
Deferred taxes		
Deferred income tax	**3,439**	7,888
Deferred social contribution	**3,646**	5,249
Income tax and social contribution at statutory rate	**7,085**	13,137

The variation in deferred taxes in 2019 was R$6,052, where R$1,886 (credit) was recorded against profit or loss for the year and R$7,938 (debit) was recorded against surplus on business combination.

(*) Part of the amount of the allowance for doubtful debts is comprised of receivables that already fulfill the requirements for deductibility and were considered as deductible.

(**) Goodwill paid upon the acquisition of companies has been amortized as from the date the acquiree is merged. Deferred income tax and social contribution are recognized to the extent the tax amortization occurs.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

20. Income tax and social contribution--continued

a) Breakdown of deferred taxes--continued

Deferred taxes are stated at their net amounts between assets and liabilities, pursuant to CPC 32 (IAS 12) – Income Taxes, when these taxes correspond to the same tax entities and there is an enforceable right of the Company's Management to settle them at their net amount.

The estimated realization of the Company's and its subsidiaries' tax credits, arising from income tax and social contribution losses, will be recovered as follows:

	Consolidated and Parent
	12/31/2019
2020	6,331
2024	5,056
	11,387

These estimates are supported by the Company's and its subsidiaries' profit projections, approved by the Board of Directors.

The assumptions used in the Company's and its subsidiaries' operating and financial result projections and growth potential were based on Management's expectations regarding the Company's and its subsidiaries' future.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

20. Income tax and social contribution--continued

b) Reconciliation of income tax and social contribution expenses

The reconciliation of income tax and social contribution shown in profit or loss with the amounts calculated at the statutory rate is as follows:

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Profit before income tax and social contribution	**190,468**	157,928	**189,669**	157,926
Share of profit (loss) of subsidiaries	**-**	-	**965**	(4,474)
Interest on capital	**(34,687)**	(30,096)	**(34,687)**	(30,096)
Tax incentives	**(144,466)**	(129,914)	**(142,721)**	(129,914)
Expenditures on technological research and innovation – Law No. 11,196/05	**(12,471)**	(11,328)	**(12,471)**	(11,328)
Other	**4,317**	(28)	**57**	4,441
	3,161	(13,438)	**812**	(13,445)
Combined income tax and social contribution rate	**34%**	34%	**34%**	34%
Income tax and social contribution at statutory rate	**(1,075)**	4,568	**(276)**	4,570
Statutory rate				
Current	**(2,961)**	(2,588)	**(2,162)**	(2,586)
Deferred	**1,886**	7,156	**1,886**	7,156
Income tax and social contribution at statutory rate	**(1,075)**	4,568	**(276)**	4,570

21. Risk management and financial instruments

a) Risk management

The Company enters into transactions involving financial instruments. These financial instruments are managed through operating strategies and internal controls that aim at ensuring liquidity, profitability and security. Financial instruments are contracted for hedging purposes based on a periodic analysis of the risk exposure that Management has the intention to hedge (exchange rates, interest rates, etc.). The control policy consists of an ongoing monitoring of contracted terms and conditions compared to market terms and conditions. The Company does not make investments involving derivatives or any other risk financial instruments for speculative purposes.

The amounts of financial assets and liabilities disclosed in the financial statements as at December 31, 2019 and 2018 have been determined according to the accounting criteria and policies disclosed in specific notes to the financial statements.

As a result of their activities, the Company and its subsidiaries could be exposed to the following financial risks:

- Credit risks;
- Liquidity risks;
- Market risks;
- Interest rate risk;
- Exchange rate risk;
- Operational risks.

(i) Credit risk

Arises from the possibility of the Company incurring losses as a result of default by its customers or financial institutions that are depositaries of funds or short-term investments.

To mitigate these risks, the Company analyzes the financial position of its customers and manage the credit risk based on a credit rating and granting program. The Company also recognizes an allowance for doubtful debts amounting to R$12,449 (R$7,438 in 2018) in the consolidated and R$12,334 (R$7,438 in 2018) in the Parent, to cover the credit risk.

For short-term investments and deposits at financial institutions, the Company's Management, through its treasury area, monitors market information on its counterparties to identify potential credit risks.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

a) Risk management--continued

(i) Credit risk--continued

The carrying amounts of the main financial assets that represent the maximum exposure to credit risk at the end of the reporting period are as follows:

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Checking account	**14,012**	10,256	**10,693**	8,493
Short-term investments	**387,588**	375,621	**387,588**	375,250
Securities	**5,704**	-	**5,704**	-
Trade receivables	**385,134**	287,105	**382,310**	286,874
	792,438	672,982	**786,295**	670,617

(ii) Liquidity risk

Arises from a possible decrease in the funds used to repay the Company's debts.

Management monitors the ongoing forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operating needs. In addition, the Company maintains balances in highly liquid short-term investments to cover possible mismatches between the maturity date of its contractual obligations and its cash generation.

The Company invests its cash surplus in interest-bearing financial assets (note 5) and chooses instruments with appropriate maturities or sufficient liquidity to create an adequate buffer, according to the forecasts referred to above.

As at December 31, 2019 and 2018, cash equivalents held by the Company are highly liquid and considered as sufficient to manage liquidity risk.

The amortization schedule of the non-derivative financial liabilities in the consolidated according to contractual conditions is shown below. The flow presented was not discounted and includes interest and inflation adjustment at the contractual indices based on the respective projected rates at the balance sheet date, published by the Focus Report of the Central Bank of Brazil:

	12/31/2019			
	Up to one year	**One to three years**	**More than 3 years**	**Total**
Trade payables	466,359	-	-	466,359
Payables for acquisition of businesses	8,084	4,522	3,073	15,679
Borrowings and financing	55,589	146,077	124,459	326,125
	530,032	150,599	127,532	808,163

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

a) Risk management--continued

(ii) Liquidity risk--continued

	12/31/2018			
	Up to one year	**One to three years**	**More than 3 years**	**Total**
Trade payables	356,597	-	-	356,597
Borrowings and financing	65,883	131,330	34,060	231,273
	431,480	131,330	34,060	596,870

(iii) Market risk

Arises from the possibility of fluctuations in the market prices of the inputs used in the production process, especially in the electric and electronic segment. These price fluctuations may significantly change the Company's costs. To mitigate these risks, the Company manages inventories by setting up the buffer inventories of this raw material.

(iv) Interest rate risk

Arises from the possibility of the Company obtaining gains or incurring losses due to fluctuations in interest rates on its financial assets and liabilities. To mitigate this type of risk, the Company seeks to diversify its funding sources and, in certain circumstances, conducts hedging transactions to reduce the finance cost of its operations. As at December 31, 2019, there were no transactions of such nature.

	Consolidated		**Parent**	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Instruments with floating interest rate				
Securities	5,704	-	5,704	-
Borrowings and financing	262,692	181,504	262,692	181,504
Instruments with fixed interest rate				
Borrowings and financing	4,017	19,625	1,481	19,625

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

a) Risk management--continued

(v) Exchange rate risk

Arises from possible fluctuations in the exchange rates of the foreign currencies, mainly the US dollar, used by the Company to acquire inputs, sell goods, and contract financial instruments, in addition to other payables and receivables in foreign currencies. The Company constantly assesses the hedge transactions entered into to mitigate these risks. As at December 31, 2019 and 2018, the consolidated exposure was as follows (in Brazilian reais – R$):

	12/31/2019					12/31/2018				
	Foreign currency					Foreign currency				
	US dollar – US$	Euro - €	Pound	Ren - ¥	Balance	US dollar – US$	Euro - €	Pound	Ren - ¥	Balance
Assets										
Trade receivables	2,634	452	-	-	3,086	2,817	1,332	-	-	**4,149**
Liabilities										
Trade payables	(438,525)	(30)	(2)	-	(438,557)	(332,285)	(23)	(36)	(2,055)	**(334,399)**
Net exposure	**(435,891)**	**422**	**(2)**	**-**	**(435,471)**	**(329,468)**	**1,309**	**(36)**	**(2,055)**	**(330,250)**

In order to verify the sensitivity of the exchange rate differences of trade receivables and trade payables in foreign currency to which the Company and its subsidiaries were exposed as at December 31, 2019, five different scenarios were defined with stresses of 25% and 50%, of decrease or increase in relation to the benchmark rate, the rate used in the probable scenario being R$5.6401.

The respective foreign exchange expense and income was calculated for each scenario. The portfolio base date used was December 31, 2019.

	(Expense)/Income				
	Scenario I -50%	Scenario II -25%	Probable scenario	Scenario III +25%	Scenario IV +50%
Trade receivables – US dollar	616	924	1,233	1,541	1,849
Trade payables – US dollar	(87,600)	(131,401)	(175,201)	(219,001)	(262,801)
Impact on profit or loss	(86,984)	(130,477)	(173,968)	(217,460)	(260,952)

Management believes that the exposures to the foreign exchange risk are acceptable for its operations.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

a) Risk management--continued

(vi) Operational risk

Operational risk is the risk of incurring direct or indirect losses due to a series of reasons associated to the Company's processes, personnel, technology, and infrastructure, as well as external factors, except credit, market and liquidity risks, such as those arising from legal and regulatory requirements, and generally accepted corporate behavior standards. The operational risks arise from all Company's operations.

The Company's objective is to manage the operational risk to avoid any financial losses and damages to the Company's reputation.

Senior Management has the primary responsibility for developing and implementing controls over operational risks.

b) Financial instruments - fair value

Financial assets and liabilities adjusted at current market rates are shown below:

	Consolidated				
	12/31/2019		12/31/2018		
	Carrying amount	Fair value	Carrying amount	Fair value	Classification
Assets					
Cash at hand	**28**	28	**25**	25	Amortized cost
Checking account	**14,012**	14,012	**10,256**	10,256	Amortized cost
Short-term investments	**387,588**	387,588	**375,521**	375,521	Amortized cost
Securities	**5,704**	5,704	**-**	-	Amortized cost
Trade receivables	**365,955**	365,955	**273,410**	273,410	Amortized cost
Liabilities					
Trade payables	**466,359**	466,359	**356,597**	356,597	Amortized cost
Borrowings and financing – including charges	**266,709**	272,000	**201,129**	214,000	Amortized cost
Other payables - acquisition of business – note 10	**15,110**	15,110	**-**	-	Amortized cost

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21. Risk management and financial instruments--continued

b) Financial instruments - fair value--continued

Fair value measurement recognized in the financial statements

The table below shows an analysis of the financial instruments recognized at fair value, after initial recognition. These financial instruments are classified in levels 1 to 3, based on the level where their fair value is quoted:

Level 1: fair value measurement derives from quoted prices (unadjusted) in active markets, based on identical assets and liabilities;

Level 2: fair value measurement derives from other quoted inputs included in Level 1, which are quoted through an asset or liability, either directly (that is, such as prices) or indirectly (that is, derived from prices); and

Level 3: fair value measurement derives from valuation techniques that include an asset or liability without active market.

At the balance sheet date, Management adopted level 2 to determine the fair values applicable to the Company's financial instruments, except for cash and cash equivalents and short-term investments, where level 1 was adopted.

21. Risk management and financial instruments--continued

b) Financial instruments - fair value--continued

Criteria, assumptions and limitations used in fair value calculation

The estimated fair values of the Company's and its subsidiaries' financial assets and liabilities were determined as described below. The Company and its subsidiaries do not operate in the derivatives market, as well as there are no other derivative instruments recorded as at December 31, 2019**.**

Cash and cash equivalents and short-term investments

The carrying amounts of the balances in checking accounts held at banks approximate their fair values, and we believe that they are measured at amortized cost based on the probable realizable amount.

Trade receivables and trade payables

Arise directly from the Company's and its subsidiaries' operations, measured at amortized cost and recorded at their original amounts, less the allowance for doubtful debts and present value adjustment, when applicable.

Borrowings and financing – including charges

The fair values of these financing facilities are equivalent to their carrying amounts because they refer to financial instruments at rates that are equivalent to market rates and have exclusive features, arising from specific financing sources.

Limitations

The fair values were estimated at the balance sheet date, based on relevant market inputs. Changes in assumptions could significantly affect the estimates.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

c) Qualitative and quantitative information on financial instruments

In order to verify the rate sensitivity in short-term investments to which the Company and its subsidiaries were exposed as at December 31, 2019, five different scenarios were defined. Based on the FOCUS report of December 2019, the projected SELIC / CDI rate for 2020 was extracted and this was defined as the probable scenario; based on this, 25% and 50% stresses were calculated.

The gross finance income was calculated for each scenario, without taking into consideration taxes on income from short-term investments. The portfolio base date used was December 31, 2019, projecting indices for one year and verifying CDI sensitivity in each scenario.

	12/31/2019				
	Scenario I + 50%	**Scenario II + 25%**	**Probable scenario**	**Scenario III - 25%**	**Scenario IV - 50%**
Short-term investments	32,253	26,878	21,502	16,126	10,751

In order to verify the rate sensitivity in debts to which the Company and its subsidiaries were exposed as at December 31, 2019, five different scenarios were defined. Based on the FOCUS report of December 2019, the projected CDI / IGP-DI / IGP-M / DOLLAR rates were extracted and based on the future curve of BM&F as at December 31, 2019, the projected LIBOR rate was extracted, all for 2020, thus defining them as the probable scenario; based on this, 25% and 50% stresses were calculated.

The gross finance costs were calculated for each scenario, without considering taxes on costs and the maturities of each contract scheduled for 2020. The portfolio base date used was December 31, 2019, projecting indices for one year and verifying their sensitivity in each scenario.

	12/31/2019				
	Scenario I + 50%	**Scenario II + 25%**	**Probable scenario**	**Scenario III - 25%**	**Scenario IV - 50%**
Borrowings and financing	19,752	16,460	13,168	9,876	6,584

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

21. Risk management and financial instruments--continued

d) Capital management

Capital includes common shares and other reserves attributable to controlling shareholders. The main objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and adjusts it taking into account the changes in economic conditions and financial covenants. To maintain or adjust its capital structure, the Company can adjust the payment of dividends to shareholders, return capital to them, or issue new shares. The Company monitors capital through the correlation of net debt (or net cash) and equity. The Company's policy is to maintain a net cash position or, in case of net debt, the correlation between 20% and 40%. The Company includes in the net debt interest-bearing borrowings and financing, less cash and cash equivalents.

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Interest-bearing borrowings and financing	**266,709**	201,129	**264,173**	201,129
(-) Cash and cash equivalents	**(401,628)**	(385,802)	**(398,308)**	(383,768)
(Cash)/net debt, consolidated	**(134,919)**	(184,673)	**(134,135)**	(182,639)
Equity	**724,859**	625,608	**724,859**	625,608
Correlation	**(19%)**	(30%)	**(19%)**	(29%)

To achieve this overall goal, the Company's capital management aims at, but not limited to, ensuring that it meets the financial commitments associated with borrowings and financing that define the capital structure requirements. Any breach of financial covenants would allow the bank to immediately require the settlement of borrowings and financing. There were no breaches of the financial covenants for any interest-bearing borrowings and financing in the year. No changes were made in the capital management goals, policies or processes during the years ended December 31, 2019 and 2018.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

22. Operating revenue

The table below shows the reconciliation between gross revenue for tax purposes and revenue stated in the statement of income for the year:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Gross sales revenue	**2,162,321**	1,905,655	**2,150,276**	1,905,535
Present value adjustment (PVA)	**(32,585)**	(28,054)	**(32,585)**	(28,054)
Commercial funds	**(72,580)**	(62,423)	**(72,580)**	(62,423)
Sales returns	**(72,246)**	(101,746)	**(71,480)**	(101,746)
Sales deductions:				
Federal VAT (IPI)	**(75,628)**	(63,970)	**(78,929)**	(63,970)
State VAT (ICMS)	**(65,294)**	(87,148)	**(64,566)**	(87,147)
Tax on revenue (PIS)	**(25,950)**	(21,712)	**(25,607)**	(21,712)
Tax on revenue (COFINS)	**(119,571)**	(100,126)	**(117,987)**	(100,126)
Service Tax (ISS)	**(511)**	(284)	**(269)**	(266)
Net operating revenue	**1,697,956**	1,440,192	**1,686,273**	1,440,091

23. Expenses by nature

The Company elected to present the statement of income by function. As required by CPC 26, the Company presents below a breakdown of the statement of income by nature:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Expenses by function				
Cost of sales and services	**1,104,810**	913,791	**1,110,813**	913,765
Selling expenses	**236,439**	207,607	**235,101**	207,475
General and administrative expenses	**107,778**	75,099	**89,149**	74,976
Other operating expenses, net	**65,000**	55,694	**67,367**	60,349
	1,514,027	1,252,191	**1,502,430**	1,256,565
Expenses by nature				
Cost of inputs and materials	**916,940**	683,488	**927,052**	683,479
Power, outside services and other	**365,923**	306,310	**347,878**	309,612
Expenses on payroll and employee benefits	**243,081**	216,631	**242,586**	216,631
Depreciation and amortization	**18,682**	15,555	**17,527**	15,537
Other expenses/(income)	**(30,599)**	30,207	**(32,613)**	31,306
	1,514,027	1,252,191	**1,502,430**	1,256,565

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

24. Other operating expenses, net

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
R&D projects	**59,116**	51,528	**58,787**	51,884
Other expenses	**5,884**	4,166	**8,580**	8,465
	65,000	55,694	**67,367**	60,349

25. Finance income (costs)

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Income from short-term investments	**21,502**	20,193	**22,143**	20,193
Interest	**1,893**	1,483	**1,209**	1,480
Present value adjustment	**32,113**	26,466	**32,113**	26,466
Other	**726**	241	**(393)**	241
Finance income	**56,234**	48,383	**55,072**	48,380
Interest on borrowings and financing	**(9,428)**	(8,888)	**(9,428)**	(8,888)
Banking expenses	**(3,057)**	(3,091)	**(2,623)**	(3,088)
Expenses on advanced receivables	**(1,654)**	(9,746)	**(1,654)**	(9,746)
IOF on financial transactions	**(464)**	(365)	**(604)**	(365)
Present value adjustment	**(19,067)**	(20,040)	**(19,067)**	(20,040)
Other	**(1,325)**	(1,470)	**(205)**	(1,471)
Finance costs	**(34,995)**	(43,600)	**(33,581)**	(43,598)
Finance income (costs)	**21,239**	4,783	**21,491**	4,782

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

26. Exchange gains (losses)

	Consolidated		Parent	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**
Exchange gains	**81,423**	65,865	**81,423**	65,865
Exchange losses	**(96,123)**	(100,721)	**(96,123)**	(100,721)
	(14,700)	(34,856)	**(14,700)**	(34,856)

Exchange gains and losses refer mainly to variations in payables for import of production inputs.

27. Insurance coverage

The Company has a risk management program designed to minimize risks, seeking in the market coverage that is compatible with its size and operations. The insurance amounts are considered sufficient by Management to cover possible losses, taking into account the nature of the activities, the risks involved in operations and the advice of its insurance brokers.

The Company has the following main insurance policy taken with a third party effective from January 2019 to January 2020:

Insured risks	Insured amount	Deductible
Fire / disposal / riot / explosion / implosion	R$155,000	R$20 to R$250 or 10 % to 15% of losses
Flood	R$2,000	R$250 or 10% of losses
Electrical damages	R$500	R$5 or 10% of losses
Loss of profits (P.I. 4 months)	R$5,000	According to the original coverage
Machinery breakdown	R$96,000	5 days
Robbery and/or aggravated theft	R$1,500	R$25 or 10% of losses
Windstorm, hurricane, cyclone, aircraft crash, impact	R$2,000	R$50 or 10% of losses
Fire / disposal / riot / explosion / implosion	R$30,000	R$250 or 10% of losses

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

28. Segment reporting

The segment reporting below is used by the Management of Intelbras to assess the performance of the operating segments and make decisions on the allocation of funds, the gross profit being the measurement used in the performance of its operating segments.

SECURITY

Segment comprised of business lines related to electronic security, such as analog video surveillance equipment (CCTV), IP video surveillance (CCTV IP), alarms and sensors against invasion, alarms and sensors against fire and access control (controls and devices for building, residential and corporate use).

COMMUNICATION

Segment comprised of business lines related to voice, image and data communication, as well as for network infrastructure. Equipment for corporate network, residential and fiber optic infrastructure, residential and corporate communication systems and related accessories is sold.

ENERGY

Segment comprised of business lines related to the supply of energy for electric and electronic equipment and consumers in general, in addition to power saving and nobreak devices for houses, companies and buildings. Power supplies, batteries, nobreaks, light sensors, in addition to on-grid and off-grid solar power generators are sold.

The Company's operations are carried out in Brazil and abroad, and there are no customers accounting for more than 10% of the revenue of each segment.

	12/31/2019				**12/31/2018**			
	Communication	**Security**	**Energy**	**Total**	**Communication**	**Security**	**Energy**	**Total**
Net operating revenue	576,025	1,006,562	115,369	1,697,956	576,595	823,255	40,342	1,440,192
Gross profit	183,549	377,643	31,954	593,146	187,064	327,255	12,082	526,401

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

28. Segment reporting--continued

The information on assets regularly generated and analyzed by the managers of the respective segments, comprising the following assets: trade receivables, property, plant and equipment and intangible assets, is shown below. Liabilities are comprised of trade payables. This data is regularly analyzed by Management to assess the investments and allocation of funds necessary for each segment. Other segments refer to assets and liabilities common to all Company's areas, including administrative, not corresponding to reportable segments. Eliminations represent adjustments to the accounting regarding the accounting standards related to CPC 47 (IFRS 15) – Revenue from Contracts with Customers and CPC 12 – Present Value Adjustment.

	2019					
	Communication	**Security**	**Energy**	**Other segments**	**Eliminations**	**Total**
Assets	235,934	316,957	32,152	197,238	(98,262)	**684,019**
Liabilities	141,602	285,644	32,717	20,329	(13,933)	**466,359**

	2018					
	Communication	**Security**	**Energy**	**Other segments**	**Eliminations**	**Total**
Assets	224,656	249,205	12,552	88,788	(88,020)	**487,181**
Liabilities	139,271	197,508	13,846	17,525	(11,554)	**356,596**

29. Information on related-party transactions and balances

The Company is mainly engaged in the manufacture, development and sale of electronic security equipment and electronic surveillance and monitoring services, consumer voice and/or data communications devices and equipment, professional voice and/or data communications equipment, services and means, network equipment, data communications infrastructure means and solutions. The Company's subsidiaries are described in note 2.

	Parent	
	12/31/2019	**12/31/2018**
Balance sheet transactions		
Assets		
Loans		
Loans granted - Prediotech	**1,314**	60
Loans granted - Décio	**700**	-
	2,014	60
Liabilities		
Trade payables		
Trade payables - Dahua	**(153,386)**	-
Trade payables - Décio (note 13)	**(1,176)**	-
	(154,562)	-
Profit or loss transactions		
Sales made by subsidiary Décio to the Company	**1,306**	-
Sales made by subsidiary Ascent to the Company	**8,194**	7,634
Sales made by the Company to Dahua – beginning November 2019	**(47,241)**	-
Total related-party transactions recorded in profit or loss	**(37,741)**	7,634

29. Information on related-party transactions and balances--continued

Related-party transactions

Related-party balances refer to transactions under specific conditions agreed upon among the parties; balances in general are adjusted for inflation based on the Selic rate. Finally, the Company understands that related-party transactions have operating characteristics, thus the effects are recorded in operating activities in its statement of cash flows.

As at December 31, 2018, the Company entered into a cooperation agreement ("Cooperation Agreement") with Zhejiang Dahua Technology Co., Ltd., a company comprising the economic group of Dahua Europe B.V. Under the Cooperation Agreement, there is a commitment of acquiring exclusively from supplier Dahua closed circuit television products comprised of electronic surveillance cameras and digital video recorders, subject to the compliance by supplier Dahua with certain conditions, as established in the Cooperation Agreement. Beginning November 2019, supplier Dahua acquired shares representing 10% of the Company's capital.

Collaterals

The Company offers collateral for the borrowings and financing described in note 14, which are granted to the financial institutions and comprise letter of guarantee and property, plant and equipment items. There are no collaterals granted to third parties.

Compensation of key management personnel

Key management personnel includes the members of the Board of Directors and statutory and non-statutory officers, which duties involve the decision-making power and the control over the Company's activities. Short-term compensation of key management personnel totaled R$11,227 as at December 31, 2019 (R$10,029 as at December 31, 2018). This amount comprises short-term benefits consisting of: (i) management fees paid to the executive board and members of the Board of Directors; (ii) bonus paid to the executive board and (iii) other benefits, such as healthcare plan. The Company does not grant any post-employment and/or severance benefits to its officers and directors, other than those prescribed by the applicable law. Key management personnel are not entitled to long-term benefits, such as pension plan, share-based compensation plan, etc.

(Amounts in thousands of Brazilian reais – R$, unless otherwise stated)

30. Non-cash items and changes in liabilities

Transactions in the year not affecting the Company's cash flows are as follows:

	Consolidated		Parent	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Non-cash items:				
Acquisition of subsidiary:				
Trade receivables	**2,008**	29	-	**-**
Inventories	**367**	5	-	**-**
Recoverable taxes	**56**	-		
Other receivables	**300**	35	-	**-**
Property, plant and equipment	**2,095**	18	-	**-**
Intangible assets	**25**	-		
Trade payables	**(702)**	(2)	-	**-**
Borrowings and financing	**(244)**	-		
Payroll and related taxes	**(2,265)**	(14)	-	**-**
Taxes	**(480)**	(6)	-	**-**
Other payables	**(490)**	(3)	-	**-**
Exchange rate differences on foreign subsidiary	**25**	98	25	98
Income tax and social contribution on business combinations	**6,256**	**-**	**6,256**	**-**
Changes in liabilities arising from financing activities:				
Acquisition of subsidiaries in installments	**15,081**	-	**15,081**	-
Acquisition of property, plant and equipment in installments	**(5,467)**	3,436	**(5,467)**	3,436
Acquisition of property, plant and equipment using borrowings and financing - Finimp	**(2,534)**	-	**-**	-
Payment of trade payables using borrowings and financing - Finimp	**53,037**	77,305	**53,037**	77,305

31. Events after the reporting period

Final and unappealable decision on the ICMS exclusion from the PIS and COFINS tax basis

As mentioned in note 9.a, the Company filed a lawsuit claiming the right to exclude from the PIS and COFINS tax basis the ICMS levied on its sales. On October 8, 2020, a final and unappealable decision was handed down by the Regional Court of the 4th Region on the lawsuit filed by the Company guaranteeing it the ICMS exclusion. The Company estimates the amounts of the corresponding tax credits at approximately R$136,430, of which R$73,579 refers to the historical amount and R$62,851 to inflation adjustment.