

(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, 2020 and  
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

# **Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

## **Financial statements**

December 31, 2020

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## MANAGEMENT REPORT ON THE RESULTS OF THE FOURTH QUARTER AND OF THE FISCAL YEAR ENDED DECEMBER 31<sup>st</sup>, 2020

Intelbras generates consolidated net revenue of **R\$2,134,376 thousand** and an EBITDA of **R\$409,785 thousand**.

São José (SC), March 22<sup>nd</sup>, 2021 - **Intelbras SA – Industria de Telecomunicação Eletrônica Brasileira** (“Intelbras” or “Company”) hereby discloses its consolidated results for the year ended December 31<sup>st</sup>, 2020. The amounts presented here are compared with the year ended December 31<sup>st</sup>, 2019, unless otherwise stated. The accounting balances presented here were prepared in accordance with Brazilian laws and the accounting practices adopted in Brazil, already in compliance with international accounting standards (IFRS).

### HIGHLIGHTS

- Total net operating revenue of **R\$2,134,376 thousand** (+ 25.7% YoY);
- The gross profit was **R\$700,834 thousand** (+18.2% YoY), which represents a gross margin of 32.8% of net operating revenue;
- Our EBITDA reached **R\$409,785 thousand** in 2020 (+ 102.3% YoY), representing 19.2% of net operating revenue;
- Profit of **R\$327,956 thousand** in 2020 (+ 73.2% YoY), representing 15.4% of annual net operating revenue.
- CAPEX investments of **R\$52,820 thousand** (-45.4% YoY);
- ROIC in 2020 of 54.9% (+23.9 p.p. YoY);

### MESSAGE FROM MANAGEMENT

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The business environment in Brazil has always been challenging. However, the year 2020 brought an unprecedented component for a whole generation of managers and that really challenged our teams to act in an even more integrated way, aware of their responsibilities and innovative. At the height of the crisis, when everyone had doubts about its dimension both in people's health and in the economy, we made the right decision to keep our customer service unchanged, to take care of the health of our employees and also the financial health of the company. We moved our service teams to home-office, which allowed, even during the most critical moments of social distance, that all service was kept at the same levels of service as before the pandemic. We adopted measures to maintain our teams informed about the company's strategies, and confident that together we would go through the crisis and would be strengthened out of it. In a transparent way, everyone understood what was happening and the directions we were taking. Finally, we reinforced our cash and worked together with our distribution channel so that the financial conditions of the entire chain would not deteriorate.

As a result of these actions and the entire work plan for the year, we achieved our results in several aspects:

- Our NPS (Net Promoter Score) grew from 60% in the first half to 68% in the second. An important growth in a complex moment, which reinforces that our commitment to always be close to the channel and to the final customers is being fulfilled and is recognized.
- We maintained all jobs and throughout 2020 and generated 1,005 new jobs, in the three states of the country where we are present.
- We were again listed among the best companies to work for in Brazil, and received several awards from the most renowned magazines nationwide.

In addition to important achievements related to the company's management during the pandemic, we highlight the gain in an important lawsuit, filed in 2007, which was concluded in October 2020. We were considered winners in the thesis of the exclusion of ICMS from the tax calculation base of PIS / COFINS, generating an important operating and financial result for the company. Considering this non-recurring event, we grew our net income in the year by 73%.

We obtained expressive results in the three operating segments, which led the company to a 25.7% growth in its annual net operating revenue, reaching a total of R\$2,134,376 thousand.

In Security, we observed the strong growth of our subsidiary Seventh company acquired in 2019, which had an increase in its net revenue of 140% (YoY) and EBITDA of 210% (YoY) which demonstrates the strength of the incorporation of this company to Intelbras operations. In the other operating categories, we highlight our maintenance of the market leadership in CCTV and alarm systems. Our access control lines have been renewed and have gained greater integration with other corporate and residential systems.

In the Communication segment, we observed a strong increase in business with regional internet service providers (ISPs), mainly for their fiber optic infrastructure. We started our structured cabling business, with the Racks line, which has gained national presence and we are already present in all regions of the country. Corporate and residential communication has been renewing each year and this Business Unit resumed its growth in 2020.

In the Energy segment, we overcame our growth targets, especially in Solar Energy, where we practically tripled net operating revenue and significantly increased operating results. We started to produce our UPS locally and started investing in a specific factory for the Energy Business Unit, located in Tubarão, south of Santa Catarina.

Over the last quarter, we completed our structuring for the IPO process, which resulted in an IPO widely reported on February 2<sup>nd</sup>, 2021. As of this date, with great satisfaction, we are part of a select group of listed companies at B3, in the Novo Mercado segment.

Our expansion plans remain strong, and although the scenario for 2021 is a turbulent year, we believe that we are taking all measures to continue growing, delivering results and being an excellent partner for our resellers, an excellent company for our employees and an excellent asset for our shareholders.

Technology is part of our business. This way the company continues to invest in innovation and product development that represent innovative solutions for the needs of the Brazilian final consumer and installer. We believe that we are ready to contribute and support the challenges that are imposed for the new reality that presents itself.

## Management

### COMMENTS ON THE YEAR'S PERFORMANCE

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#### Main financial indicators

R\$ Thousand	2020	2019	AH%
Net Operating Revenue	2,134,376	1,697,956	25.7%
Gross Profit	700,834	593,146	18.2%
Gross Margin	32.8%	34.9%	-2,1p.p
EBITDA	409,785	202,611	102.3%
EBITDA Margin	19.2%	11.9%	+7,3p.p
Profit for the year	327,956	189,393	73.2%
Net Margin	15.4%	11.2%	+4,2p.p
ROIC	54.9%	46.9%	+8,0p.p

#### Management Comments

- **Net operating Revenue**

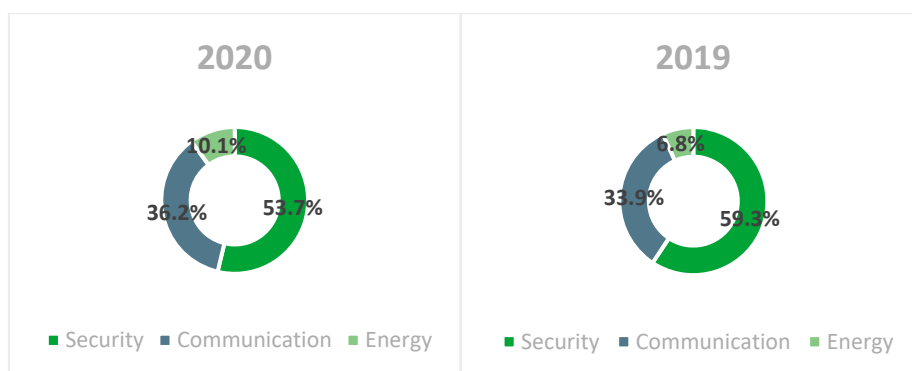
The Company's net operating revenues reached R\$2,134,376 thousand in the year 2020, representing an increase of R\$436,420 thousand or 25.7%, when compared to 2019. This revenue growth may be observed in the three operating segments, highlighting the resilience of the company to continue growing despite adverse scenarios, with emphasis on the 86% growth in revenue from the Energy segment, which in 2020 represents 10.1% of the company's net operating revenue, compared to the 6.8% of the previous year.

On the other hand, the participation of the Communication segment stands out, which contributed with R\$196,688 thousand or 34.1% of the growth of the company's net operating revenue. Through our Networks business unit, a member of this segment, our sales to regional ISPs, with a product line properly developed for this key customers, was relevant for this result.

Our revenue by segment presented the following numbers (R\$ thousands):

Net Operational Revenue	2020	2019	AH%
Security	1,147,074	1,006,562	14.0%
Communication	772,713	576,025	34.1%
Energy	214,589	115,369	86.0%

And the share of Net Operating Revenue between the segments showed the following evolution (%):



The Security segment continues to show over double digits growth, in line with consumer demand to increase their sense of security with more intelligent and efficient solutions based on technology and in 2020 represented 53.7% of revenue, compared to 59.3 % of 2019.

The Communication segment, which represents 36.2% of net operating revenue in 2020, showed a good growth as well, with the launch of new product lines in the Communication Business Unit, and the consolidation of its national presence in the Network Business Unit.

Our energy segment includes lines of different solutions, from devices for protection and energy saving in homes, businesses and industries, to on-grid and off-grid solar energy generators. The increase in demand for Communication and Security equipment, brought together a demand for Energy products, as support and complementarity, leading the energy segment to reach double digits in the proportion of net operating revenue with the figure of 10.1%. It is also noticed that there is an expressive demand for solar energy generators, mainly in our focus of activity, which are small and medium energy consumers, throughout the country.

- **Gross Profit**

R\$ Thousand	2020	2019	AH R\$	AH%	2020	2019
Net Operating Revenue	2,134,376	1,697,956	436,420	25.7%	100%	100%
COGS	(1,433,542)	(1,104,810)	(328,732)	29.8%	-67.2%	-65.1%
<b>Gross Profit</b>	<b>700,834</b>	<b>593,146</b>	<b>107,688</b>	<b>18.2%</b>	<b>32.8%</b>	<b>34.9%</b>

The costs of sales and services sold and the Company's services were R\$1,433,542 thousand in the fiscal year ended on December 31<sup>st</sup>, 2020, representing an increase of 29.8%, when compared to 2019. It represents 67.2% of net operating revenue in 2020 (65.1% in 2019). This variation was mainly due to: (i) the increase in the volume of products sold, in line with the increase in our net operating revenue; and (ii) changes in the legal rules related to the resulting from the IT Law, which also implied a change in the way in which the tax incentives was accounted for. This tax incentive is no longer considered a reduction in sales tax expenses, and is now accounted for as "Other Operating Income", after the calculation of the gross margin.

The main reason for the 2.1 pp drop is due to the new way of accounting for the tax incentives. If the accounting method was maintained, the gross margin for 2020 would be in line with that realized in the previous year. The depreciation of the Real against the Dollar required the company to pass on price increases throughout the year. This immediate transfer of prices protected the company's margin this year, and its impact can be clearly seen in the other financial indicators presented below.

The gross margin opened by segment can be shown as follows:

Gross Profit	2020	2019	AH%
Security	418,635	377,643	10.9%
Communication	230,099	183,549	25.4%
Energy	52,099	31,954	61.3%

- **Operational Indicator - Quantities**

SEGMENTS (Qty)	2020	2019	AH%
Security	17,244,392	14,148,237	21.9%
Communication	12,611,179	9,795,651	28.7%
Energy	2,525,192	1,696,157	48.9%
	<b>32,380,764</b>	<b>25,640,045</b>	<b>26.3%</b>

As shown in the table above, all operating segments showed expressive growth in volumes.

Security, a segment in which we are leaders, has maintained our growth above double digits, offering smarter, more complete solutions and expanding our national presence through our partner resellers and installers.

In the Communication segment, despite the decline in the fixed telephony market, a category of products in which we are the absolute leader in the country, according to the Intelbras Import Data Monitoring (MIDI), we have presented an important growth in our Network and Unified Communication lines.

Finally, our Energy segment has the highest percentage growth in quantities, which reinforces the assertiveness of the company's operating strategy in this line of business. In a fast-growing market, our product lines in this segment are prepared gain more market share and position ourselves among the main brands in this segment.

- **Operational Expenses**

R\$ Thousands	2020	2019	AH R\$	AH%	2020*	2019*
Sales	(260,663)	(236,439)	(24,224)	10.2%	-12.2%	-13.9%
General and Administrative	(142,334)	(107,778)	(34,556)	32.1%	-6.7%	-6.3%
Other (expenses)/income, net	88,537	(65,000)	153,537	236.2%	4.1%	-3.8%
<b>Total</b>	<b>(314,460)</b>	<b>(409,217)</b>	<b>94,757</b>	<b>-23.2%</b>	<b>-14.7%</b>	<b>-24.1%</b>

\* According to Net Operating Revenue.

Our sales expenses remained consistent with the previous year, showing a slight increase of 10.2%, but reducing 1.7 pp in relation to the net operating revenue for the period. During the year, we were able to witness several new ways of interacting with customers, of proximity to the general public, which are certainly more efficient ways of relationship and which should gain more strength in the coming periods.

Administrative and general expenses grew slightly above our net operating revenue growth, with a slight increase of 0.4 pp. This increase was due to several factors, the most notable of which are: (i) growth in expenses due to the organic growth of the Company in the period; (ii) The gain in the case already mentioned, generated the need for an additional provision of Profit Sharing for employees, which resulted in a growth above net operating revenue.

On the other hand, the other net operating expenses showed a wide movement, and went from being an expense to becoming a revenue. This movement, expressive from the point of view of the result, is due to two important factors in the year 2020 (i) the accounting of R\$73,519 thousand due to the gain in the lawsuit related to the exclusion of ICMS from the PIS / COFINS calculation base, previously informed, and; (ii) R\$84,017 thousand referring to the accounting of the financial credit resulting from the application of the IT Law. Research and Development expenses, also accounted as other operating expenses, grew in line with the company's growth.



- EBITDA

R\$ Thousand	2020	2019	AH%
Net Income	327,956	189,393	73.2%
(+/-) Income Tax and Social Contribution	(11,230)	1,075	-1145.0%
(+/-) Net Financial Results	69,648	(6,539)	-1165.1%
(+) Depreciation	17,500	14,141	23.8%
(+) Amortization	5,911	4,541	30.2%
<b>EBITDA</b>	<b>409,785</b>	<b>202,611</b>	<b>102.3%</b>

Our EBITDA reached R\$409,785 in 2020, an increase of 102.3% when compared to 2019. The EBITDA margin for the period was 19.2%, well above the company's historical margins. It is noteworthy this year that the expressive growth of our EBITDA occurred due to two major aspects, which are (i) growth in revenues and efficiency of the operation, and (ii) impact of the gain from the withdrawal of ICMS from the base calculation of PIS / COFINS.

Regarding the growth of revenues and efficiency, we emphasize that the year 2020 was characterized by several events that made it very remarkable from the point of view of the result. The Foreign Exchange rate shock that occurred in the first months of the year required us to immediately transfer prices to the market, while our inventory costs increased in a manner that was attenuated by the average cost of the inventory. Thus, we achieved gross margins above those historically reached by our business.

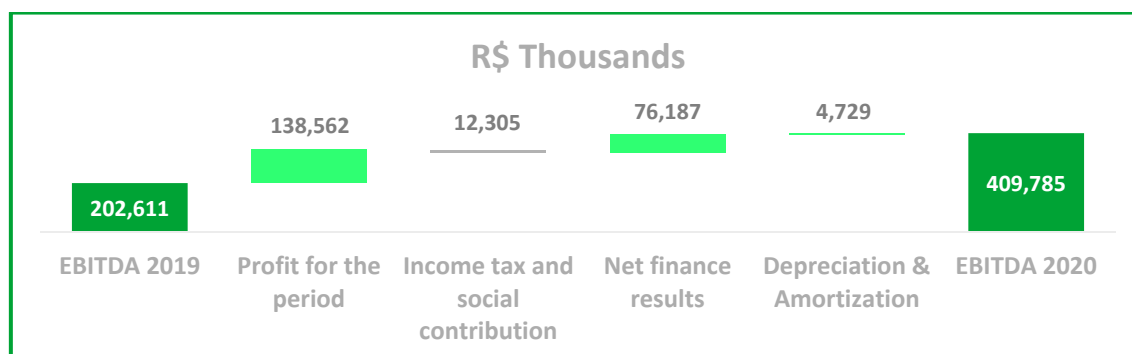
Regarding the impact of the lawsuit gain, there were gains recorded as other operating income and a provision for Profit Sharing for employees as a result of this action, which resulted in a positive net impact of R\$52,955 thousand on this indicator

Below, we provide a detail of the adjustment mentioned above:

R\$ Thousands	2020	2019	AH%
Profit for the year	327,956	189,393	73.2%
(+/-) Income Tax and Social Contribution	(11,230)	1,075	-1145.0%
(+/-) Net Financial Result	69,648	(6,539)	-1165.1%
(+) Depreciation	17,500	14,141	23.8%
(+) Amortization	5,911	4,541	30.2%
<b>EBITDA</b>	<b>409,785</b>	<b>202,611</b>	<b>102.3%</b>
(+)Pis/Cofins Lawsuit	(73,579)	-	100.0%
(-) Employees Profit Sharing Pis/Cofins	20,624	-	100.0%
<b>Adjusted EBITDA</b>	<b>356,830</b>	<b>202,611</b>	<b>76.1%</b>
	<b>16.7%</b>	<b>11.9%</b>	

Thus, disregarding this impact, we can see an increase in EBITDA of 76.1%, reaching the amount of R\$356,830 thousand, an EBITDA margin of 16.7%.

The evolution over the year was as follows:



- **ROIC**

R\$ Thousands	2020	2019	AH %
Operational Profit before financial results	386,374	183,929	
Income Tax and Social Contribution	11,230	(1,075)	
<b>NOPAT</b>	<b>397,604</b>	<b>182,854</b>	<b>117.4%</b>
(Cash)/Net Debt	(251,454)	(134,919)	
Shareholders Equity	976,230	724,859	
<b>Capital empregado</b>	<b>724,776</b>	<b>589,940</b>	<b>22.9%</b>
<b>ROIC</b>	<b>54.9%</b>	<b>31.0%</b>	<b>+23,9p.p</b>
<b>ROIC Pre-tax</b>	<b>53.3%</b>	<b>31.2%</b>	<b>+22,1p.p</b>

Note: ROIC (pre-tax) consider NOPAT without deducting taxes.

The ROIC (pre-tax) of 2020 showed an evolution of 22.1 percentage points in relation to 2019, reaching 53.3%. The growth in Operating Profit after Taxes (NOPAT) was due to the growth in revenue and the same reasons described in the analysis of EBITDA.

Disregarding the non-recurring effect of the year 2020, related to the gain from the withdrawal of the ICMS from the PIS/COFINS calculation base, our NOPAT would be R\$333,419 thousand, with no change in the capital employed, resulting in a ROIC of 46.0 % slightly higher than the average of the last three years (2017 - 2019).

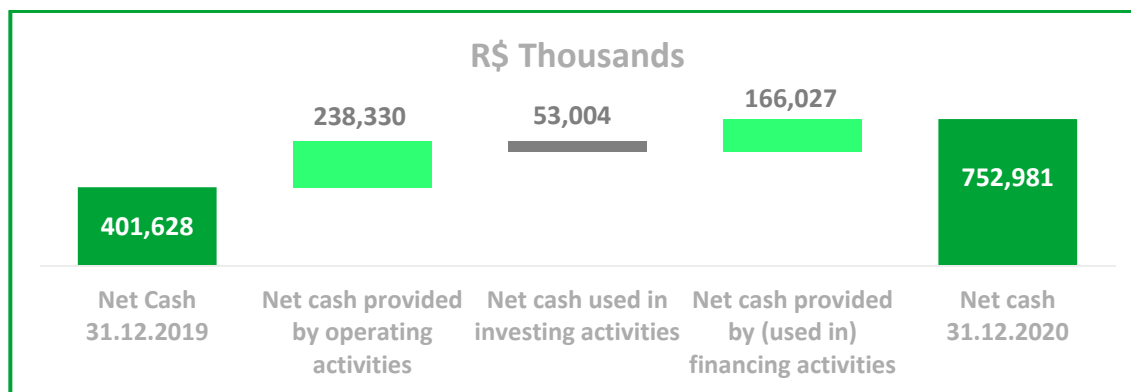
## CAPITAL STRUCTURE

### Cash and debt position

R\$ Thousands	2020	2019	AH%
Loans and Financing (current liabilities)	(151,575)	(41,293)	267.1%
Loans and Financing (non-current liabilities)	(349,952)	(225,416)	55.2%
<b>Gross Indebtedness</b>	<b>(501,527)</b>	<b>(266,709)</b>	<b>88.0%</b>
Cash and Cash Equivalents	752,981	401,628	87.5%
<b>Net Cash / Net Debt</b>	<b>251,454</b>	<b>134,919</b>	<b>86.4%</b>

In order to keep the company's financial strength strategy, our cash on December 31, 2020 reached R\$752,981. The graph below shows the evolution after the conclusion of the fourth quarter:

### Cash variation



It is worth noting an increase in operating cash 20.3% higher than the previous year, totaling R\$238,330 thousand, which would already significantly reinforce the company's cash. The other relevant component of cash evolution over the year refers to the working capital raised in April and May 2020 when management took the decision to reinforce cash in order to be able to go through the crisis that was taking place at that time. On the other hand, our investments represented a maintenance CAPEX in line with the company's history, which resulted in an increase of cash of 87.5% at the end of fiscal year 2020.

R\$ Thousands	2020	2019	AH R\$
Cash	752,981	401,628	351,353
Operational	238,330	198,108	40,222
Investment Activities	(53,004)	(92,630)	39,626
Financing Activities	166,027	(89,652)	255,679

### RELATIONSHIP WITH AUDITORS

The Company informs that its policy for contracting services not related to external audit is based on the principles that preserve the auditor's independence. In the year ended December 31<sup>st</sup>, 2020, Deloitte Touche Tohmatsu Auditores Independentes was not hired to perform services not related to external audit. The remuneration of the independent auditors in the fiscal year ended on December 31, 2020 was equal to the amount of R\$395 thousand, referring to the work carried out in that year.

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## 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, 2020, 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, 2020, 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 set out 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 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, therefore, we do not provide a separate opinion on these matters.

## *PIS and COFINS tax credits on ICMS tax basis*

### Why it is a KAM

As disclosed in notes 9.b and 22 to the individual and consolidated financial statements, in October 2020, the Company obtained a favorable final and unappealable decision, which granted it the right to deduct the State VAT (ICMS) from the taxes on revenue (PIS and COFINS) tax basis, from September 2002 to February 2017. Based on the court decision, the Company recorded PIS and COFINS tax credit in the total amount of R\$136,430 thousand, including principal and inflation adjustment.

Such matter was considered a KAM due to the following aspects: (i) the PIS and COFINS tax credits were measured considering significant judgment and estimates by Management; (ii) the determination of the tax credit involved assessing a high volume of tax documents for amount calculation; (iii) the amounts recorded were considered material for our audit; (iv) the future realization of these tax credits upon offset against other federal taxes depends on estimates that confirm the Company's capacity to utilize these amounts; and (v) there was strong interaction with Management in discussing and assessing this matter.

### How the matter was addressed in our audit

Our audit procedures related to the recognition of PIS and COFINS tax credits included, but were not limited to: (i) obtaining an understanding and assessing, with the support of our tax specialists, the assumptions adopted by the Company in the recognition of the tax credits; (ii) performing detail tests, on a sampling basis, in the tax documentation that supported the credit recognition; (iii) performing inflation adjustment tests on the credits recorded considering the applicable inflation adjustment levels; and (iv) assessing, with the support of our tax specialists, the documentation related to the final and unappealable decision.

We considered the measurement and recognition criteria adopted by Management for the PIS and COFINS tax credits arising from the final and unappealable decision on behalf of the Company 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 this matter, which are presented in notes 9.b and 22 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 notes 3.15 and 21 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) obtaining an understanding of the flow of sales transactions considering the nature of the Company's different transactions; (ii) assessing the design and implementation of internal control activities related to the occurrence, integrity, accuracy and recognition of revenue on the proper accrual period; (iii) performing tests, on a sampling basis, on the revenue reversal adjustments recorded by the Company on sales transactions that failed to fulfill the recognition criterion; and (iv) performing tests, on a sampling basis, on the occurrence, integrity and accuracy of the revenues recognized by the Company. Our procedures also included assessing the disclosures made by the Company in the individual and consolidated financial statements, which are presented in notes 3.13 and 21.

Our procedures described above and the audit evidence supporting our tests showed internal control deficiencies and revenue recognition adjustments not recognized by Management, which were considered immaterial on the Company's individual and consolidated financial statements. We considered the revenue recognition criteria adopted by Management and the related disclosures in the notes to the financial statements acceptable in the context of the individual and consolidated financial statements taken as a whole.

## **Other matters**

### *Statements of value added*

The individual and consolidated statements of value added (“DVA”) for the year ended December 31, 2020, prepared under the responsibility of the Company’s Management and disclosed as supplemental information for purposes of the IFRS, were subject to audit procedures performed together with the audit of the Company’s financial statements. In forming our opinion, we assess whether these statements 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. Such 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 IFRS, 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 to those charged with governance a statement that we have complied with the relevant ethical requirements, including independence requirements, and communicate all relationships or matters that could considerably affect our independence, including, when applicable, the 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 KAM. 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, March 22, 2021

  
DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

  
Otavio Ramos Pereira  
Engagement Partner

## Balance sheets

Years ended December 31, 2020 and 2019

(Amounts in thousands of Brazilian reais – R\$)

	Note	Consolidated		Parent	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	752,981	401,628	743,535	398,308
Securities	6	1,163	1,141	1,163	1,141
Trade receivables	7	531,690	363,630	527,984	360,921
Inventories	8	595,381	434,776	593,526	433,911
Recoverable taxes	9	154,904	16,610	152,835	16,513
Other receivables		7,083	6,909	5,943	6,439
<b>Total current assets</b>		2,043,202	1,224,694	2,024,986	1,217,233
<b>Noncurrent assets</b>					
Securities	6	3,490	4,563	3,490	4,563
Trade receivables	7	1,417	2,325	1,414	2,325
Escrow deposits	15.b	11,725	11,509	11,725	11,509
Deferred taxes	19	23,598	7,085	23,241	7,085
Recoverable taxes	9	1,294	27,228	1,294	27,228
Related parties	28	-	-	12,960	2,014
Other receivables		9,218	4,239	9,177	4,022
Investments	10	3,230	1,819	56,687	55,288
Property, plant and equipment	11	257,453	230,088	243,071	218,764
Intangible assets	12	87,523	87,975	49,117	48,052
<b>Total noncurrent assets</b>		398,948	376,831	412,176	380,850
<b>Total assets</b>		2,442,150	1,601,525	2,437,162	1,598,083

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

**Balance sheets**

Years ended December 31, 2020 and 2019

(Amounts in thousands of Brazilian reais – R\$)

	Note	Consolidated		Parent	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade payables	13	682,672	466,359	681,059	466,631
Borrowings and financing	14	151,575	41,293	148,934	40,448
Derivative instruments		6,016	-	6,016	-
Payroll, related taxes and profit sharing	25	102,789	54,079	99,471	52,504
Taxes payable		4,929	8,311	4,053	7,667
Provision for warranties		14,660	12,719	14,660	12,719
Provision for tax, labor and civil risks	15.a	420	426	420	426
Interest on capital/dividends	16.e	54,736	-	54,736	-
Other payables		63,574	40,373	63,419	40,377
<b>Total current liabilities</b>		1,081,371	623,560	1,072,768	620,772
<b>Noncurrent liabilities</b>					
Borrowings and financing	14	349,952	225,416	348,331	223,725
Taxes payable		9,308	11,197	9,308	11,197
Provision for tax, labor and civil risks	15.a	13,556	6,551	13,456	6,451
Investments in negative equity	10	-	-	5,336	1,137
Other payables		11,733	9,942	11,733	9,942
<b>Total noncurrent liabilities</b>		384,549	253,106	388,164	252,452
<b>Equity</b>					
Capital	16.a	350,000	350,000	350,000	350,000
Earnings reserves	16.b	600,536	349,518	600,536	349,518
Valuation adjustments to equity	16.c	25,612	25,887	25,612	25,887
Cumulative translation adjustments	16.d	82	(546)	82	(546)
<b>Total equity</b>		976,230	724,859	976,230	724,859
<b>Total liabilities and equity</b>		2,442,150	1,601,525	2,437,162	1,598,083

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

**Statements of income**

Years ended December 31, 2020 and 2019

(Amounts in thousands of Brazilian reais – R\$, except earnings per share)

	Note	Consolidated		Parent	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Net operating revenue</b>	<b>21</b>	<b>2,134,376</b>	<b>1,697,956</b>	<b>2,106,235</b>	<b>1,686,273</b>
Cost of sales and services	<b>22</b>	(1,433,542)	(1,104,810)	(1,428,446)	(1,110,813)
<b>Gross profit</b>		<b>700,834</b>	<b>593,146</b>	<b>677,789</b>	<b>575,460</b>
<b>Operating income (expenses)</b>					
Selling expenses	<b>22</b>	(260,663)	(236,439)	(253,352)	(235,101)
General and administrative expenses	<b>22</b>	(142,334)	(107,778)	(126,374)	(89,149)
Share of profit (loss) of subsidiaries	<b>10</b>	-	-	(4,838)	(965)
Other operating (expenses) income, net	<b>9b;22</b>	88,537	(65,000)	89,894	(67,367)
		(314,460)	(409,217)	(294,670)	(392,582)
<b>Operating profit before finance income (costs)</b>		<b>386,374</b>	<b>183,929</b>	<b>383,119</b>	<b>182,878</b>
Finance income	<b>23</b>	100,905	56,234	100,786	55,072
Finance costs	<b>23</b>	(47,751)	(34,995)	(47,089)	(33,581)
Exchange gains (losses), net	<b>24</b>	(122,802)	(14,700)	(121,526)	(14,700)
<b>Profit before taxes</b>		<b>316,726</b>	<b>190,468</b>	<b>315,290</b>	<b>189,669</b>
Current income tax and social contribution	<b>19</b>	(5,284)	(2,961)	(3,491)	(2,162)
Deferred income tax and social contribution	<b>19</b>	16,514	1,886	16,157	1,886
<b>Profit for the year</b>		<b>327,956</b>	<b>189,393</b>	<b>327,956</b>	<b>189,393</b>
<b>Basic and diluted earnings per share (in R\$)</b>	<b>17</b>				
Common		<b>11.65</b>	<b>6.73</b>	<b>11.65</b>	<b>6.73</b>

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

Statements of comprehensive income

Years ended December 31, 2020 and 2019

(Amounts in thousands of Brazilian reais – R\$)

	Note	Consolidated		Parent	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Profit for the year</b>		<b>327,956</b>	<b>189,393</b>	<b>327,956</b>	<b>189,393</b>
<b>Items that can be subsequently reclassified to the statement of income</b>					
<b>Other comprehensive income</b>					
Exchange differences on foreign investments	10	628	25	628	25
<b>Total comprehensive income</b>		<b>328,584</b>	<b>189,418</b>	<b>328,584</b>	<b>189,418</b>

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

**Statements of changes in equity**
**Years ended December 31, 2020 and 2019**
**(Amounts in thousands of Brazilian reais – R\$)**

Note	Capital reserve		Earnings reserves			Valuation adjustments to equity	Cumulative translation adjustments	Retained earnings (accumulated losses)	Total
	Capital	Treasury shares	Legal	Tax incentives	Retained earnings				
<b>Balances as at December 31, 2018</b>	<b>350,000</b>	<b>(36,793)</b>	<b>37,315</b>	<b>268,640</b>	<b>-</b>	<b>26,161</b>	<b>(571)</b>	<b>(19,144)</b>	<b>625,608</b>
Realization of deemed cost, net of taxes	-	-	-	-	-	(274)	-	274	-
Exchange differences on investments in foreign subsidiaries	-	-	-	-	-	-	25	-	25
Cancellation of treasury shares	-	36,793	-	-	(36,793)	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	189,393	189,393
Allocations:									
Legal reserve	-	-	9,470	-	-	-	-	(9,470)	-
Tax incentive reserves	-	-	-	2,538	-	-	-	(1,512)	1,026
Interest on capital	-	-	-	-	-	-	-	(34,687)	(34,687)
Dividends	-	-	-	-	-	-	-	(56,506)	(56,506)
Retained earnings	-	-	-	-	68,348	-	-	(68,348)	-
<b>Balances as at December 31, 2019</b>	<b>350,000</b>	<b>-</b>	<b>46,785</b>	<b>271,178</b>	<b>31,555</b>	<b>25,887</b>	<b>(546)</b>	<b>-</b>	<b>724,859</b>
Realization of deemed cost, net of taxes	-	-	-	-	-	(275)	-	275	-
Exchange differences on investments in foreign subsidiaries	-	-	-	-	-	-	628	-	628
Profit for the year	-	-	-	-	-	-	-	327,956	327,956
Allocations:									
Legal reserve	-	-	16,398	-	-	-	-	(16,398)	-
Tax incentive reserves	-	-	-	7,414	-	-	-	(2,269)	5,145
Interest on capital	-	-	-	-	-	-	-	(33,570)	(33,570)
Dividends	-	-	-	-	(11,338)	-	-	(37,450)	(48,788)
Retained earnings	-	-	-	-	238,544	-	-	(238,544)	-
<b>Balances as at December 31, 2020</b>	<b>350,000</b>	<b>-</b>	<b>63,183</b>	<b>278,592</b>	<b>258,761</b>	<b>25,612</b>	<b>82</b>	<b>-</b>	<b>976,230</b>

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

**Statements of cash flows**
**Years ended December 31, 2020 and 2019**
**(Amounts in thousands of Brazilian reais – R\$)**

		Consolidated		Parent	
Note	12/31/2020	12/31/2019	12/31/2020	12/31/2019	
Cash flows from operating activities					
Profit before taxes		316,726	190,468	315,290	189,669
Adjustments to:					
Accrued interest and exchange differences		31,145	579	30,513	579
Depreciation	11	17,500	14,141	15,519	13,619
Amortization	12	5,911	4,541	3,380	3,908
Share of profit (loss) of subsidiaries	10	-	-	4,838	965
Provision for tax, labor and civil risks	15	6,999	2,525	6,999	2,425
Allowance for expected credit loss	7	1,443	5,011	1,190	4,896
Allowance for inventory losses	8	496	556	496	256
Tax credits and inflation adjustment		(220,661)	-	(220,661)	-
Present value adjustment		1,151	520	1,151	520
Accrued trade discounts		9,169	(1,866)	9,169	(1,866)
Provision for warranties		1,941	2,310	1,941	2,331
Derivative instruments		6,016	-	6,016	-
Residual value of property, plant and equipment and intangible assets written off		6,629	2,642	7,642	3,140
		184,465	221,427	183,483	220,442
Changes in assets and liabilities					
(Increase) in trade receivables		(167,608)	(96,112)	(166,354)	(95,527)
(Increase) in inventories		(162,486)	(90,903)	(161,496)	(90,107)
(Increase) decrease in recoverable taxes		108,301	(5,720)	110,273	(5,681)
(Increase) decrease in escrow deposits		(216)	2,252	(216)	2,252
(Increase ) in other assets		(4,102)	(10,623)	(3,608)	(12,417)
Increase in trade payables		222,797	166,322	220,912	167,299
Increase in payroll, related taxes and profit sharing		48,710	4,144	46,967	4,878
Increase (decrease) in taxes payable		(5,271)	330	(5,503)	530
Increase in other payables		19,024	9,601	18,264	11,503
Income tax and social contribution paid		(5,284)	(2,612)	(3,491)	(2,162)
Net cash provided by operating activities		238,330	198,106	239,231	201,010
Cash flows from investing activities					
Acquisition of investments in subsidiaries	10;28	-	(27,834)	-	(27,834)
Acquisition of property, plant and equipment items	11;28	(47,101)	(66,190)	(43,822)	(66,380)
Proceeds from sale of property, plant and equipment		476	220	449	217
(Acquisition) write-off of other investments	10	(1,411)	497	(1,411)	-
Cash from business combinations	10	-	3,450	-	-
Acquisition of intangible assets	12	(4,968)	(2,771)	(4,934)	(3,064)
Net cash used in investing activities		(53,004)	(92,628)	(49,718)	(97,061)
Cash flows from financing activities					
Loans granted (intragroup)		-	-	(10,946)	-
Borrowings	14;28	403,203	146,016	403,200	146,259
Borrowings paid (principal)	14	(198,175)	(131,819)	(197,585)	(131,819)
Borrowings paid (interest)	14	(16,415)	(12,656)	(16,369)	(12,656)
Interest on capital and dividends paid	16.e	(22,586)	(91,193)	(22,586)	(91,193)
Net cash provided by (used in) financing activities		166,027	(89,652)	155,714	(89,409)
Increase in cash and cash equivalents, net		351,353	15,826	345,227	14,540
Cash and cash equivalents at the beginning of the year		401,628	385,802	398,308	383,768
Cash and cash equivalents at the end of the year		752,981	401,628	743,535	398,308

**Intelbras S.A. - Indústria de Telecomunicação Eletrônica Brasileira**

Statements of value added

Years ended December 31, 2020 and 2019

(Amounts in thousands of Brazilian reais – R\$)



	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Revenues</b>	<b>2,616,680</b>	2,031,632	<b>2,587,204</b>	2,020,468
Sale of goods and services, net of returns	2,599,488	1,980,746	2,569,759	1,969,467
Other revenue	18,635	55,897	18,635	55,897
Allowance for expected credit loss	(1,443)	(5,011)	(1,190)	(4,896)
<b>Inputs purchased from third parties</b>	<b>(1,568,196)</b>	(1,283,163)	<b>(1,547,809)</b>	(1,275,230)
Cost of sales and services	(1,165,241)	(916,940)	(1,168,004)	(927,052)
Supplies, power, outside services and other	(402,655)	(365,923)	(379,505)	(347,878)
Loss / recovery of assets	(300)	(300)	(300)	(300)
<b>Gross value added</b>	<b>1,048,484</b>	748,469	<b>1,039,395</b>	745,238
<b>Depreciation and amortization</b>	<b>(23,411)</b>	(18,682)	<b>(18,899)</b>	(17,527)
<b>Wealth created by the Company</b>	<b>1,025,073</b>	729,787	<b>1,020,496</b>	727,711
<b>Wealth received in transfer</b>	<b>298,454</b>	137,657	<b>293,463</b>	135,530
Share of profit (loss) of subsidiaries	-	-	(4,838)	(965)
Finance income and exchange gains	298,454	137,657	298,301	136,495
<b>Total wealth for distribution</b>	<b>1,323,527</b>	867,444	<b>1,313,959</b>	863,241
<b>Wealth distributed</b>	<b>1,323,527</b>	867,444	<b>1,313,959</b>	863,241
<b>Personnel</b>	<b>289,881</b>	243,081	<b>287,536</b>	242,586
Salaries and wages	248,351	204,100	246,163	203,657
Benefits	28,250	26,786	28,178	26,769
Severance Pay Fund (FGTS)	13,280	12,195	13,195	12,160
<b>Taxes, fees and contributions</b>	<b>333,330</b>	300,223	<b>328,107</b>	297,941
Federal	74,768	98,779	73,478	99,206
State	258,006	200,934	254,412	198,467
Municipal	556	510	217	268
<b>Lenders and lessors</b>	<b>372,360</b>	134,747	<b>370,360</b>	133,321
Finance costs and exchange losses	367,984	131,315	366,011	129,900
Rentals	4,376	3,432	4,349	3,421
<b>Shareholders</b>	<b>327,956</b>	189,393	<b>327,956</b>	189,393
Interest on capital and dividends paid	(71,020)	(91,193)	(71,020)	(91,193)
Retained earnings in the year	398,976	280,586	398,976	280,586



## **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 and power and solar power products.

On February 2, 2021 the Company completed its going public process (Initial Public Offering - IPO), and became a publicly-held company, as mentioned in note 30 – Events After the Reporting Period.

### 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.

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 of the 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").

The individual and consolidated financial statements were approved and authorized for issue by the Executive Board on March 22, 2021.

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.

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.

The Company assesses whether it exercises control or not over an investee if facts and circumstances indicated that the following elements of control are present: has power over the investee; 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. Currently, the Company holds 100% interest in its investees.

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.

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

	Subsidiary	Equity interest (%)	
		12/31/2020	12/31/2019
Indústria de Telecomunicação Eletronica Brasileira de México, S.A. de C.V.	Direct	100%	100%
Ascent Asia Limited	Direct	100%	100%
Ascend Trading & Consultation (Shenzhen) Company Limited	Indirect	100%	100%
Prediotech Consultoria e Projetos Tecnológicos Ltda.-ME.	Direct	100%	100%
Décio Indústria Metalúrgica Ltda.	Direct	100%	100%
Seventh Ltda.	Direct	100%	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 & Consultation (Shenzhen) Company Limited, based in Shenzhen, in Mainland China.

Ascend Trading & Consultation (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.

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 Metalúrgica 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.

### **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 and IAS 39 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.

### **3.2 Foreign currency**

#### **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".

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.

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.

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.

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.

### **3.5 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”.

### **3.7 Property, plant and equipment**

#### **Recognition and measurement**

Property, plant 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.

#### 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.

#### 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.

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:

	<u>Useful lives</u>
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.

#### 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, 2020, interest was capitalized in the amount of R\$357 (R\$152 in 2019).

### **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.

### **3.9 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.

### **3.10 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.

### **3.11 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.

### **3.12 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.

### **3.13 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.

### **3.14 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.

### **3.15 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.

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.

### **3.16 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.

### **3.17 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.

### **3.18 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.

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.

### **3.19 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.

### **3.20 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.

### **3.21 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.

### **3.22 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".

### **3.23 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.

### **3.24 New accounting standards**

During 2020 the following revisions of accounting pronouncements already effective were issued:

- (i) CPC 00 (R2) - Conceptual Framework for Financial Reporting.
- (ii) Revision of Technical Pronouncements 15/2020: Amendments to Technical Pronouncements CPC 38, 40 (R1) and CPC 48 (IAS 39, IFRS 7 and IFRS 9, respectively), arising from the interest rate benchmark reform.
- (iii) Revision of Technical Pronouncements 16/2020: Amendments to Technical Pronouncement CPC 06 (R2) - Leases (IFRS 16 - Leases), referring to COVID-19-related rent concessions granted to leases under lease agreements.

The amendments were assessed by the Company's Management, with no impacts on the Financial Statements, as well as for new pronouncements issued and effective beginning January 1, 2021, which Management has been monitoring, concluding that there will be no significant impacts on the Company's financial statements.

## **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.

#### **4.1. 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, 2020 and 2019, 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.

#### **4.4. 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 as a reduction of trade receivables in assets, 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 3.15. The Company adopts estimates based on the contractual terms and conditions and historical data to estimate the amount of the adjustment to its revenue.

#### **4.7. Allowance for expected credit losses on trade receivables**

The Company uses an allowance matrix to calculate expected credit losses on trade receivables. 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 is disclosed in note 7.

## 5. Cash and cash equivalents

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Cash at hand	36	28	35	27
Checking account	26,503	14,012	23,087	10,693
Short-term investments	726,442	387,588	720,413	387,588
	<u>752,981</u>	<u>401,628</u>	<u>743,535</u>	<u>398,308</u>

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 up to the balance sheet date, which were on average 101% of the CDI rate as at December 31, 2020 (91.6% to 101.8% as at December 31, 2019).

## 6. Securities

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Short-term investments – Escrow account	<u>4,653</u>	<u>5,704</u>	<u>4,653</u>	<u>5,704</u>
Current	1,163	1,141	1,163	1,141
Noncurrent	3,490	4,563	3,490	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.

## 7. Trade receivables

Trade receivables are broken down as follows:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Domestic – third parties	548,504	382,048	544,427	379,407
Foreign – third parties	4,238	3,086	4,238	2,903
	552,742	385,134	548,665	382,310
Allowance for expected credit loss	(13,892)	(12,449)	(13,524)	(12,334)
Present value adjustment (PVA)	(5,743)	(6,730)	(5,743)	(6,730)
	533,107	365,955	529,398	363,246
Current	531,690	363,630	527,984	360,921
Noncurrent	1,417	2,325	1,414	2,325

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, 6.56% p.a. as at December 31, 2020 (9.39% p.a. as at December 31, 2019).

The aging list of trade receivables is as follows:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Up to 360 days	518,040	352,957	514,017	350,393
More than 360 days	5,928	8,315	5,928	8,297
Up to 30 days past due	13,060	10,171	13,035	10,134
Up to 90 days past due	4,025	4,215	4,011	4,200
Up to 180 days past due	1,350	1,757	1,346	1,743
Up to 360 days past due	1,930	2,992	1,921	2,979
More than 360 days past due	8,409	4,727	8,407	4,564
<b>Closing balance</b>	<b>552,742</b>	<b>385,134</b>	<b>548,665</b>	<b>382,310</b>

Variations in the allowance for expected credit losses:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Opening balance</b>	(12,449)	(7,438)	(12,334)	(7,438)
Recognition	(2,053)	(10,009)	(1,800)	(9,894)
Reversal	610	4,998	610	4,998
<b>Closing balance</b>	<b>(13,892)</b>	<b>(12,449)</b>	<b>(13,524)</b>	<b>(12,334)</b>

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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Finished goods	193,913	165,406	193,309	165,170
Work in process	28,747	33,608	28,747	33,608
Raw materials and auxiliary materials	131,319	106,237	129,800	105,339
Imports in progress	214,416	114,131	214,416	114,131
Advances to suppliers	32,464	16,022	32,432	15,991
Other	7,214	10,183	7,214	10,183
	608,073	445,587	605,918	444,422
Allowance for obsolescence	(4,580)	(4,084)	(4,280)	(3,784)
Present value adjustment (PVA)	(8,112)	(6,727)	(8,112)	(6,727)
	595,381	434,776	593,526	433,911

Variations in the allowance for obsolescence:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Opening balance	(4,084)	(3,528)	(3,784)	(3,528)
Recognition	(9,768)	(4,423)	(9,768)	(4,423)
Reversal	9,272	3,867	9,272	4,167
Closing balance	(4,580)	(4,084)	(4,280)	(3,784)

**9. Recoverable taxes**

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
State VAT (ICMS)	3,410	1,664	2,183	1,651
Financial credit – Law No. 13,969/19 (a)	27,665	-	27,174	-
Social contribution (CSLL)	3,622	2,755	3,595	2,728
Tax on revenue (COFINS) (b)	89,927	21,639	89,714	21,638
Tax on revenue (PIS) (b)	19,350	4,714	19,303	4,714
Corporate Income Tax (IRPJ)	6,990	8,260	6,926	8,204
Federal VAT (IPI)	5,192	4,778	5,191	4,778
Other	42	28	43	28
	156,198	43,838	154,129	43,741
Current	154,904	16,610	152,835	16,513
Noncurrent	1,294	27,228	1,294	27,228

- (a) Law No. 13,969/2019 repealed the decrease of the IPI rate for IT goods produced using the Basic Production Process (PPB) and authorized in Interministerial Ordinances and established the Financial Credit for full offset in replacement of the incentives extinguished by the repeal. Such new incentive will be effective until December 31, 2029. As at December 31, 2020, the Company has a credit in the amount of R\$27,665, consolidated balance, which is being periodically offset against federal taxes. This balance is being recorded as a contra entry to "Other operating (expenses) income, net" in profit or loss for the year and the Company expects to offset the total credits within the next year.

See comment in note 18.

- (b) In October 2020, Case No. 5005026-09.2019.4.04.7200/SC, which was filed in 2007 relating to the deduction of ICMS amounts from the PIS and COFINS tax basis, receivable a final and unappealable decision favorable to the Company handed down by the Regional Court of the 4<sup>th</sup> region, allowing the deduction of the ICMS separately disclosed in the invoice. Until receiving the 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, these amounts were not recorded in the accounting and tax books. In 2018, the Company recorded the calculated amount of R\$26,336 from March 2017 to December 2018, and as from 2019, the Company started to deduct the ICMS from the monthly tax basis of these contributions. The recognition of the amounts from September 2002 to February 2017, in the amount of R\$136,430 was made in October 2020, after the final and unappealable decision, and the amount of R\$73,579 was recorded in line item “Other operating (expenses) income, net” and R\$62,851 in line item “Finance income”. The total credit of R\$162,766 was classified in current assets based on Management’s expected realization and started to be utilized beginning November 2020 for offset against federal taxes. At the end of the year, the remaining balance is R\$105,187 (R\$18,620 as PIS and R\$86,567 as COFINS).

## 10. Investments

As at December 31, 2020, the Company’s investments are composed of equity interests in other companies, as well as other investments, as follows:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Investments in subsidiaries	-	-	3,990	5,603
Surplus/(deficit) on business acquisitions (*)	-	-	19,358	21,956
Goodwill on expected future earnings (**)	-	-	24,773	24,773
Other investments (***)	3,230	1,819	3,230	1,819
	<b>3,230</b>	<b>1,819</b>	<b>51,351</b>	<b>54,151</b>

(\*) Refer to the surplus on acquisitions of subsidiaries Decio and Seventh.

(\*\*) The Company recognizes goodwill on the acquisitions of Prediotech, Decio and Seventh.

(\*\*\*) Other investments refer to the investment at unit value in FUNDO SC - Fundo de Investimento em Empresas Emergentes Inovadoras, where the Company holds 10.00% interest and in Fundo de Investimento em Participação Sul Inovação, where it holds 4.80% interest.

Investee	Control	Equity interest		Parent	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
Intelbras Mexico	Subsidiary	100%	100%	1,080	883
Ascent	Subsidiary	100%	100%	1,322	960
Prediotech	Subsidiary	100%	100%	(1,898)	(1,137)
Seventh	Subsidiary	100%	100%	6,924	1,638
Decio	Subsidiary	100%	100%	(3,438)	3,259
				<b>3,990</b>	<b>5,603</b>
		Accounted for under the equity method		9,326	6,740
		Investment on negative equity		(5,336)	(1,137)

Variations in investments are shown below:

Investee	12/31/2019	Share of profit (loss) of subsidiaries	Exchange gains	Other	12/31/2020
Intelbras Mexico	883	-	197	-	1,080
Ascent	960	(68)	430	-	1,322
Prediotech	(1,137)	(761)	-	-	(1,898)
Seventh	1,638	5,286	-	-	6,924
Decio	3,259	(6,697)	-	-	(3,438)
Surplus	21,956	(2,598)	-	-	19,358
Goodwill	24,773	-	-	-	24,773
Other	1,819	-	-	1,411	3,230
	<b>54,151</b>	<b>(4,838)</b>	<b>627</b>	<b>1,411</b>	<b>51,351</b>
Investments	55,288				56,687
Negative equity	(1,137)				(5,336)

The main information on the subsidiaries, which fiscal year also ends on December 31, 2020 is shown below:

Subsidiary	12/31/2020				Equity	Revenues	Profit.) (loss)
	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities			
Intelbras Mexico	-	1,080	-	-	1,080	-	-
Ascent	1,953	49	680	-	1,322	9,081	(68)
Prediotech	550	408	378	2,478	(1,898)	1,723	761
Seventh	9,311	501	2,888	-	6,924	18,629	5,286
Decio	7,027	8,100	6,362	12,203	(3,438)	15,313	(6,695)

a) Indústria de Telecomunicação Eletrônica Brasileira 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

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 of Ascend Trading & Consultation (Shenzhen) Company Limited, headquartered in Shenzhen at Mainland China, 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.

c) Prediotech Consultoria e Projetos Tecnológicos LTDA-ME.

Subsidiary acquired in 2018, located in Rio Grande Sul (Porto Alegre), operating in the IT sector, in the development of systems for buildings and security companies

The goodwill of R\$1,391 was generated on the acquisition of the subsidiary, which is attributable to expected future earnings.

d) Seventh Ltda.

Located in Santa Catarina (Florianópolis), Seventh is engaged in developing video monitoring access control, remote reception and event management solutions.

The goodwill of R\$21,594 was generated on the acquisition, which is attributable to expected future earnings.

e) Décio Indústria Metalúrgica Ltda.

Engaged in manufacturing server structures specialized in cabinets, Décio Indústria Metalúrgica Ltda is located in Santa Catarina (São José).

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



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**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
<b>Average annual depreciation rate</b>		<b>2%</b>	<b>10%</b>	<b>10% to 20%</b>	<b>10%</b>	<b>20% to 33%</b>	<b>20% to 100%</b>			
<b><u>Variations in cost</u></b>										
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
Additions	5,490	-	825	9,345	722	1,855	3,020	33,419	(2,691)	51,985
Transfers	-	48,286	20,691	8,881	437	2,578	1,955	(82,828)	-	0
Write-offs	-	(4,266)	(936)	(2,996)	(336)	(371)	(965)	(753)	-	(10,623)
Balances as at December 31, 2020	52,734	101,223	37,767	98,941	8,851	18,513	23,646	14,747	879	357,301
<b><u>Variations in depreciation</u></b>										
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-off	-	-	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)
Depreciation	-	(1,564)	(1,868)	(8,267)	(727)	(2,273)	(2,801)	-	-	(17,500)
Transfers	-	-	-	(1)	-	1	-	-	-	-
Write-off	-	206	118	2,059	348	355	417	-	-	3,503
Balances as at December 31, 2020	-	(15,012)	(10,106)	(45,890)	(4,343)	(9,689)	(14,808)	-	-	(99,848)
<b><u>Net depreciation balance</u></b>										
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
Balances as at December 31, 2020	52,734	86,211	27,661	53,051	4,508	8,824	8,838	14,747	879	257,453

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	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
<b>Average annual depreciation rate</b>		2%	10%	10% to 20%	10%	20% to 33%	20% to 100%			
<b>Variations in cost</b>										
<b>Balances as at December 31, 2018</b>	<b>45,288</b>	<b>53,632</b>	<b>15,357</b>	<b>77,811</b>	<b>7,157</b>	<b>11,759</b>	<b>14,847</b>	<b>10,244</b>	-	<b>236,095</b>
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)
<b>Balances as at December 31, 2019</b>	<b>45,288</b>	<b>53,622</b>	<b>17,112</b>	<b>80,966</b>	<b>7,767</b>	<b>13,946</b>	<b>19,432</b>	<b>64,905</b>	<b>1,036</b>	<b>304,074</b>
Additions	5,490	-	43	2,949	667	1,548	3,020	33,419	(157)	46,979
Transfers	-	48,286	20,691	8,881	437	2,578	1,956	(82,829)	-	-
Write-offs	-	(4,268)	(933)	(3,040)	(460)	(404)	(889)	(745)	-	(10,739)
<b>Balances as at December 31, 2020</b>	<b>50,778</b>	<b>97,640</b>	<b>36,913</b>	<b>89,756</b>	<b>8,411</b>	<b>17,668</b>	<b>23,519</b>	<b>14,750</b>	<b>879</b>	<b>340,314</b>
<b>Variations in depreciation</b>										
<b>Balances as at December 31, 2018</b>	-	<b>(12,299)</b>	<b>(7,055)</b>	<b>(33,891)</b>	<b>(3,427)</b>	<b>(6,152)</b>	<b>(10,069)</b>	-	-	<b>(72,893)</b>
Depreciation	-	(1,116)	(1,292)	(6,512)	(555)	(2,123)	(2,021)	-	-	(13,619)
Transfers	-	1	1	-	(18)	16	-	-	-	-
Write-off	-	-	6	850	91	523	(268)	-	-	1,202
<b>Balances as at December 31, 2019</b>	-	<b>(13,414)</b>	<b>(8,340)</b>	<b>(39,553)</b>	<b>(3,909)</b>	<b>(7,736)</b>	<b>(12,358)</b>	-	-	<b>(85,310)</b>
Depreciation	-	(1,459)	(1,789)	(6,869)	(594)	(2,072)	(2,736)	-	-	(15,519)
Transfers	-	-	-	(1)	-	1	-	-	-	-
Write-off	-	1	120	2,307	360	435	363	-	-	3,586
<b>Balances as at December 31, 2020</b>	-	<b>(14,872)</b>	<b>(10,009)</b>	<b>(44,116)</b>	<b>(4,143)</b>	<b>(9,372)</b>	<b>(14,731)</b>	-	-	<b>(97,243)</b>
<b>Net depreciation balance</b>										
<b>Balances as at December 31, 2018</b>	<b>45,288</b>	<b>41,333</b>	<b>8,302</b>	<b>43,920</b>	<b>3,730</b>	<b>5,607</b>	<b>4,778</b>	<b>10,244</b>	-	<b>163,202</b>
<b>Balances as at December 31, 2019</b>	<b>45,288</b>	<b>40,208</b>	<b>8,772</b>	<b>41,413</b>	<b>3,858</b>	<b>6,210</b>	<b>7,074</b>	<b>64,905</b>	<b>1,036</b>	<b>218,764</b>
<b>Balances as at December 31, 2020</b>	<b>50,778</b>	<b>82,768</b>	<b>26,904</b>	<b>45,640</b>	<b>4,268</b>	<b>8,296</b>	<b>8,788</b>	<b>14,750</b>	<b>879</b>	<b>243,071</b>

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Depreciation for the year ended December 31, 2020, allocated to the cost of production and administrative expenses in the consolidated, total R\$11,029 (R\$9,015 in 2019) and R\$6,471 (R\$5,126 in 2019), respectively.

Certain property, plant and equipment items are pledged as collateral for financing and tax payment 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, 2020 and 2019, 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
<b>Average annual amortization rate</b>			16%		20%	
<b>Variations in cost</b>						
<b>Balances as at December 31, 2018</b>	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
<b>Balances as at December 31, 2019</b>	58,140	6,014	1,694	4,124	41,683	111,655
Additions	-	-	-	4,103	865	4,968
Write-offs	-	-	(61)	(194)	(98)	(353)
Transfers	-	-	-	(4,434)	4,434	-
<b>Balances as at December 31, 2020</b>	58,140	6,014	1,633	3,599	46,884	116,270
<b>Variations in amortization</b>						
<b>Balances as at December 31, 2018</b>	-	-	-	-	(19,153)	(19,153)
Amortization in the year	-	-	(1,016)	-	(3,525)	(4,541)
Write-offs	-	-	-	-	14	14
<b>Balances as at December 31, 2019</b>	-	-	(1,016)	-	(22,664)	(23,680)
Amortization in the year	-	-	(348)	-	(5,563)	(5,911)
Write-offs	-	-	844	-	-	844
<b>Balances as at December 31, 2020</b>	-	-	(520)	-	(28,227)	(28,747)
<b>Net amortization balance</b>						
<b>Balances as at December 31, 2018</b>	34,758	-	-	2,327	13,398	50,483
<b>Balances as at December 31, 2019</b>	58,140	6,014	678	4,124	19,019	87,975
<b>Balances as at December 31, 2020</b>	58,140	6,014	1,113	3,599	18,657	87,523

	Parent			
	Goodwill on investees	Other	Projects in progress	Software
<b>Average annual amortization rate</b>		<b>16%</b>		<b>20%</b>
<b>Variations in cost</b>				
<b>Balances as at December 31, 2018</b>	33,366	-	2,327	32,551
Additions	-	293	2,426	345
Write-offs	-	-	(194)	(15)
Transfers	-	-	(435)	435
<b>Balances as at December 31, 2019</b>	33,366	293	4,124	33,316
Additions	-	-	4,103	831
Write-offs	-	(293)	(194)	(2)
Transfers	-	-	(4,434)	4,434
<b>Balances as at December 31, 2020</b>	33,366	-	3,599	38,579
<b>Variations in amortization</b>				
<b>Balances as at December 31, 2018</b>	-	-	-	(19,153)
Amortization in the year	-	-	-	(3,908)
Write-offs	-	-	-	14
<b>Balances as at December 31, 2019</b>	-	-	-	(23,047)
Amortization in the year	-	-	-	(3,380)
<b>Balances as at December 31, 2020</b>	-	-	-	(26,427)
<b>Net amortization balance</b>				
<b>Balances as at December 31, 2018</b>	33,366	-	2,327	13,398
<b>Balances as at December 31, 2019</b>	33,366	293	4,124	10,269
<b>Balances as at December 31, 2020</b>	33,366	-	3,599	12,152

#### 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. In the year ended December 31, 2020, no assets recorded at an amount higher than their recoverable amount were identified. As disclosed in note 1, the Company is monitoring the impact from Covid-19 on the economy. No pandemic-related impact was identified so far that would indicate the need to recognize an allowance for impairment on the Company's intangible assets.

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	12/31/2020	12/31/2019
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	1,788
Seventh Ltda.	Building access control	21,594	21,594
		<b>58,140</b>	<b>58,140</b>

Based on the tests conducted for the years ended December 31, 2020 and 2019, 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 3.2% (3.8% in 2019).

Projections are discounted at the weighted average cost of capital ("WACC"). The post-tax discount rate applied on cash flow projections ranges from 8.10% p.a. to 13.46% p.a. in 2020 (9.16% p.a. to 15.33% p.a. in 2019).

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	29.64%	30.64%	31.64%
EBIT – Engesul	13.65%	14.65%	15.65%
EBIT - Automatiza	12.88%	13.88%	14.88%
EBIT - Prediotech	12.67%	13.67%	14.67%
EBIT – Décio	39.35%	40.35%	41.35%
EBIT - Seventh	16.23%	17.23%	18.23%
WACC	9.35%	10.35%	11.35%

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. The research and development costs that are not eligible for capitalization, in the amount of R\$70,478 as at December 31, 2020 (R\$63,054 as at December 31, 2019) were recognized as expenses in the year in "Other operating expenses, net".

### 13. Trade payables

Inputs for the Company's production are acquired in higher volume through the import from foreign suppliers, accounting for around 90.67% of the outstanding balance as at December 31, 2020. The present value adjustment was calculated based on the rate of 2.77% p.a. as at December 31, 2020 (3.28% p.a. as at December 31, 2019), 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Domestic suppliers	51,755	30,906	50,142	31,178
Suppliers of imported goods	306,513	129,203	306,513	129,203
Suppliers – forfait	326,754	309,354	326,754	309,354
	<b>685,022</b>	<b>469,463</b>	<b>683,409</b>	<b>469,735</b>
Present value adjustment (PVA)	(2,350)	(3,104)	(2,350)	(3,104)
	<b>682,672</b>	<b>466,359</b>	<b>681,059</b>	<b>466,631</b>

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

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Related parties</b>				
Domestic suppliers	-	-	623	1,176
Suppliers of imported goods	202,754	153,386	202,754	153,386
Total due to related parties (note 28)	<b>202,754</b>	<b>153,386</b>	<b>203,377</b>	<b>154,562</b>
Unrelated	482,268	316,077	480,032	315,173
Total trade payables	<b>685,022</b>	<b>469,463</b>	<b>683,409</b>	<b>469,735</b>

#### 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.

## 14. Borrowings and financing

This note provides information on the contractual terms of interest-bearing borrowings, which are measured at amortized cost. Note 20 provides more information on the group's exposure to interest rate, foreign currency, and liquidity risks.

Lenders / creditors	Effective rate	Beginning	Maturity	Collaterals	Consolidated		Parent	
					12/31/2020	12/31/2019	12/31/2020	12/31/2019
FINEP	3% p.a. +TR	Apr/14	Apr/24	Bank guarantee	84,208	93,705	84,208	93,705
FINEP	3% p.a. +TR	Jun/19	Jun/29	Bank guarantee	122,577	64,885	122,577	64,885
PSI - Innovation 2018	1.1% and 2.61% p.a. + TLP and TR	Dec/19	Feb/27	Bank guarantee	72,096	50,187	72,096	50,187
PSI - Innovation 2016	1.86% p.a. + TJLP	Jun/17	Mar/23	Mortgage (properties-head office and SJ branch)	46,534	53,915	46,534	53,915
PSI - Innovation 2013	3.5% p.a.	Mar/14	Jan/20	Mortgage (properties-head office and SJ branch)	-	1,481	-	1,481
FINIMP D	3.7% p.a.	Oct/19	Oct/22	Officers' signature	4,262	2,536	-	-
Citibank Swap	CDI + 3.50% p.a.	Mar/20	Mar/23	Officers' signature	85,076	-	85,076	-
Itaú	CDI + 3.50% p.a.	Apr/20	Apr/22	Officers' signature	86,774	-	86,774	-
					<b>501,527</b>	<b>266,709</b>	<b>497,265</b>	<b>264,173</b>
Current					151,575	41,293	148,934	40,448
Noncurrent					349,952	225,416	348,331	223,725

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, 2020 (consolidated):

Property, plant and equipment	191,631
Letter of guarantee	274,831
	<b>466,462</b>

The total cost of contracting the letters of guarantee effective as at December 31, 2020 was R\$2,175, recorded in other receivables and allocated to profit or loss on accrual basis according to its validity as finance costs. The Company recognized in the year the total amount of R\$1,202 (R\$957 in 2019) relating to the finance costs for contracting such collateral.

Variations in borrowings and financing are as follows:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Opening balance</b>	<b>266,709</b>	201,129	<b>264,173</b>	201,129
Borrowings	<b>404,930</b>	201,587	<b>403,200</b>	199,296
Interest and exchange rate differences	<b>44,478</b>	8,224	<b>43,846</b>	8,223
Repayment of principal	<b>(198,175)</b>	(131,819)	<b>(197,585)</b>	(131,819)
Payment of interest	<b>(16,415)</b>	(12,656)	<b>(16,369)</b>	(12,656)
Borrowing arising from business combination	-	244	-	-
<b>Closing balance</b>	<b>501,527</b>	266,709	<b>497,265</b>	264,173

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. On December 29, 2020, the Company received a new tranche in the amount of R\$56,700. Next expected tranches are: 3<sup>rd</sup> - R\$24,300; 4<sup>th</sup> - R\$24,300; 5<sup>th</sup> - R\$29,700; and 6<sup>th</sup> - R\$32,400.

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 was repaid in 48 monthly and consecutive installments, the first maturing on February 15, 2016, and the last on January 15, 2020.

c) Finimp

Import financing, 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) Citibank – Swap

Borrowing of US\$20,000 taken in the first quarter of 2020 and payable in 11 installments of equal amount, the first maturing on September 24, 2020 and the last on March 24, 2023. As at December 31, 2020, the outstanding balance in US dollars is US\$16,634.

## e) Itaú

Borrowing of R\$100,000 taken in the second quarter of 2020 and payable in 7 installments of equal amount, the first maturing on October 8, 2020 and the last on April 8, 2022.

## f) 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 as at December 31, 2020.

The agreement entered into with Citibank determines that the Company must comply with the following financial ratio: Net debt (Total Net Bank Debt/EBITDA), lower than or equal to 2.5, at the end of the reporting period. The requirement is being fully met as at December 31, 2020.

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

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
2021	-	33,259	-	32,413
2022	125,707	43,245	124,234	42,400
2023	70,196	39,209	70,048	39,209
2024	39,457	30,548	39,457	30,548
2025	31,179	23,992	31,179	23,992
2026	31,179	23,893	31,179	23,893
2027 to 2029	52,234	31,270	52,234	31,270
	<b>349,952</b>	<b>225,416</b>	<b>348,331</b>	<b>223,725</b>

## 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Labor	2,133	3,080	2,133	3,080
Civil	2,314	426	2,314	426
Tax	9,529	3,471	9,429	3,371
	<b>13,976</b>	<b>6,977</b>	<b>13,876</b>	<b>6,877</b>
Current	420	426	420	426
Noncurrent	13,556	6,551	13,456	6,451

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 general matters of collection, indemnities and execution nature, as well as 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.

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 labor, civil and tax nature, totaling R\$56,109 as at December 31, 2020 (R\$36,956 as at December 31, 2019) in the consolidated. Of this total, tax lawsuits amount to R\$48,909 as at December 31, 2020 (R\$27,495 as at December 31, 2019) the main of which refer to: (i) partial tax credit maintained by the CARF which challenged the IRPJ and CSLL levied on the ICMS deemed credit; (ii) tax assessment notice related to the tax credit arising from the disallowance of the ICMS deemed credit granted by the State of origin; (iii) tax assessment notice challenging the tax classification of the import of LCD displays; (iv) tax assessment notice challenging the PIS and COFINS levied on the ICMS deemed credit; (v) installment payment plan under MP 470 upon the utilization of tax losses and discussion of the refund of tax overpayment. Civil lawsuits amount to R\$3,745 as at December 31, 2020 (R\$5,351 as at December 31, 2019), the matter of which is: discussion involving the provision of services and supply of materials. Labor lawsuits amount to R\$3,455 as at December 31, 2020 (R\$4,111 as at December 31, 2019) and there are no individually relevant lawsuits of this nature.

Contingent assets, not recorded in the balance sheet

The contingent assets assessed as possible and probable favorable outcome by the Company's legal counsel amount to R\$17,301 as at December 31, 2020, in the consolidated. The main matters include: (i) The Company is challenging at the courts the right not to pay the ICMS in the interstate delivery of goods to establishments of the same taxpayer. In a recent decision, the Superior Court of Justice understood that the ICMS paid in prior periods, levied on transactions involving the transfer between establishment of the same entity, must be refunded to taxpayers; (ii) the Company challenges at the court the right not to pay the amounts related to the lawsuit on the increase of the Siscomex Rate due to the addition to the Import Statement in an amount above that prescribed by Law 9,716/98 on the transactions of the Branch located in the Manaus Free Trade Zone; (iii) the Company challenges at the court the right not to pay the taxes on revenue (PIS and COFINS) on the domestic sales within the Manaus Free Trade Zone carried out by its Branch headquartered in Manaus; (iv) the Company challenges at the court the right to expand the use of the Reintegra Program for sales made to the Manaus Free Trade Zone, in conformity with Article 40 of the ADCT and Article 4 of DECREE LAW 288 /67, both defining that the Manaus Free Trade Zone is maintained with its free trade area, exports and import characteristics; (v) the Company challenges at the court the collection of amounts not received related to default.

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Balance at the beginning of the year	6,977	4,452	6,877	4,452
Additional provision	8,542	9,316	8,542	9,216
Reversal/write-offs of provision	(1,543)	(6,791)	(1,543)	(6,791)
Balance at the end of the year	13,976	6,977	13,876	6,877

b. Breakdown of escrow deposits:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Labor	779	592	779	592
Tax	10,946	10,917	10,946	10,917
	11,725	11,509	11,725	11,509

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.

## 16. Equity

a. Capital

As at December 31, 2020 and 2019, the Company’s capital is R\$350,000, held as follows:

Shareholders	Common		Total	
	Quantity	%	Quantity	%
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%
<b>Total shares</b>	<b>28,161,111</b>	<b>100.00%</b>	<b>28,161,111</b>	<b>100.00%</b>

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.

c. 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 2020 the Company calculated interest on capital at the gross amount of R\$33,570, which was not paid during the year. For purposes of compliance with tax regulations, the Company, upon calculation of Taxable Income and the tax basis of the social contribution recorded interest on capital for the year in line item "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 2019 interest on capital was R\$34,687, and the total amount was paid over the year.

*Dividends*

During the year ended December 31, 2020 dividends in the amount of R\$22,586 relating to 2020 and prior years, were paid based on the Extraordinary General Meeting (EGM) held on September 21, 2020, and at the Extraordinary General Meeting (EGM) held on November 25, 2020.

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

	Dividend calculation	
	2020	2019
Profit for the year	327,956	189,393
Legal reserve – 5%	(16,398)	(9,470)
Tax incentive reserves	(2,268)	(1,512)
Tax basis	309,290	178,411
Minimum dividends pursuant to the bylaws	25%	25%
Amount of minimum mandatory dividends	77,322	44,603
Interest on capital paid	33,570	34,687
(-) Withholding income tax (IRRF) on interest on capital	(5,036)	(5,202)
	28,534	29,485
Dividends paid	22,586	56,506
Balance of distributable dividend / (distributed in advance), in addition to the minimum mandatory dividend	26,202	(41,388)

## 17. 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	
	12/31/2020	12/31/2019
<b>Numerator:</b>		
Profit for the year	327,956	189,393
<b>Denominator (in thousands of shares):</b>		
Weighted average number of common shares	28,161,111	28,161,111
<b>Denominator (in thousands of shares):</b>		
Denominator for basic and diluted earnings (loss) per share	28,161,111	28,161,111
<b>Basic and diluted earnings per share (in Brazilian reais - R\$)</b>		
Basic and diluted earnings per common share	11.64572	6.72535

There are no equity instruments with capital dilutive effect as at December 31, 2020.

## **18. Tax incentives**

### **1. Federal VAT (IPI)**

Law 13,969, of December 26, 2019, changed the tax incentive regime implemented by Law No. 8,248, of October 23, 1991, usually known as “IT Law”. This new law for the information technology and communication sector (ITCs) was called ITCs Law.

The changes defined in this new law were effective beginning April 1 2020, and the Federal VAT (IPI) rates started to be applied in full, that is, the IPI rates for goods classified under the Federal IT Law were no longer eligible to decreases as prescribed by the previous law. Based on such new law, beginning April 1, 2020, the companies classified under the ITCs Law will be eligible to a Financial Credit in replacement of the IPI tax decrease set forth in the previous law. This Financial Credit converted into federal credits, obtained through a multiplier on the investment in Research, Development and Innovation (RD&I) performed by the IT-related good companies, corresponding to 4% of its gross revenue in the domestic market, arising from the sale of IT goods and services, subject to tax relief as prescribed by this Law. This law will be effective up to December 31, 2029.

The amount of this benefit reflected in profit or loss for the year was R\$85,445.

### **2. State VAT (ICMS)**

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

#### **2.1. 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.

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\$88,034 (R\$72,520 in 2019).

#### **2.2. 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\$20,568 (R\$18,612 in 2019).

### 2.3. 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\$57,911 (R\$51,588 in 2019).

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

### 3. 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.

## 19. Income tax and social contribution

### a. Breakdown of deferred taxes (income tax and social contribution)

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		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b><u>Temporary differences</u></b>				
Provision for tax, civil and labor risks	13,876	6,877	13,876	6,877
Provision for warranties	14,660	12,719	14,660	12,719
Allowance for obsolete inventories	4,280	3,784	4,280	3,784
Allowance for expected credit losses (*)	8,730	8,110	8,730	8,110
Goodwill (**)	(33,366)	(33,366)	(33,366)	(33,366)
Surplus	(19,323)	(21,956)	(19,323)	(21,956)
Provision for IT Law	3,748	1,623	3,748	1,623
Difference between tax x accounting depreciation (useful life)	(7,420)	(3,865)	(7,420)	(3,865)
Deemed cost and review of the useful life of property, plant and equipment items	(38,806)	(39,222)	(38,806)	(39,222)
Effects of revenue recognition - CPC 47 (IFRS 15)	44,645	21,615	44,645	21,615
Accrued commercial funds	26,025	9,849	26,025	9,849
PVA - trade receivables and trade payables	11,505	10,354	11,505	10,354
Other	12,594	10,824	12,594	10,824
Total temporary differences	41,148	(12,654)	41,148	(12,654)
Combined deferred income tax and social contribution rate	34%	34%	34%	34%
<b>Deferred income tax and social contribution on temporary differences</b>	<b>13,990</b>	<b>(4,302)</b>	<b>13,990</b>	<b>(4,302)</b>

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b><u>Temporary differences</u></b>				
<b><u>Income tax and social contribution loss</u></b>				
Income tax loss	19,162	26,408	18,111	26,408
Deferred income tax rate	25%	25%	25%	25%
<b>Deferred income tax on income tax loss</b>	<b>4,791</b>	<b>6,602</b>	<b>4,528</b>	<b>6,602</b>
Social contribution loss	53,527	53,168	52,476	53,168
Deferred social contribution rate	9%	9%	9%	9%
<b>Deferred social contribution on social contribution loss</b>	<b>4,817</b>	<b>4,785</b>	<b>4,723</b>	<b>4,785</b>
<b><u>Deferred taxes</u></b>				
Deferred income tax	15,077	3,439	14,815	3,439
Deferred social contribution	8,521	3,646	8,426	3,646
<b>Income tax and social contribution at statutory rate</b>	<b>23,598</b>	<b>7,085</b>	<b>23,241</b>	<b>7,085</b>

(\*) 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 was amortized as from the date the acquirees were merged. Deferred income tax and social contribution were recognized to the extent the tax amortization occurred. Tax goodwill is fully amortized on this date.

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 and intent 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, are supported by the Company's and its subsidiaries' earnings projections, approved by Management, as follows:

	Consolidated	Parent
	12/31/2020	12/31/2020
2022	86	-
2023	181	-
2024 – 2026	9,341	9,251
	<b>9,608</b>	<b>9,251</b>

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.

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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Profit before income tax and social contribution	316,726	190,468	315,290	189,669
Share of profit (loss) of subsidiaries	-	-	4,838	965
Interest on capital	(33,570)	(34,687)	(33,570)	(34,687)
Tax incentives	(251,958)	(144,466)	(248,857)	(142,721)
Expenditures on technological research and innovation – Law No. 11,196/05	(13,951)	(12,471)	(13,951)	(12,471)
Lawsuit – inflation adjustment of the deduction of ICMS BC PIS and COFINS	(62,851)	-	(62,851)	-
Other	12,575	4,317	1,848	57
	(33,029)	3,161	(37,253)	812
Combined income tax and social contribution rate	34%	34%	34%	34%
<b>Income tax and social contribution at statutory rate</b>	<b>11,230</b>	<b>(1,075)</b>	<b>12,666</b>	<b>(276)</b>
<b><u>Statutory rate</u></b>				
Current	(5,284)	(2,961)	(3,491)	(2,162)
Deferred	16,514	1,886	16,157	1,886
<b>Income tax and social contribution at statutory rate</b>	<b>11,230</b>	<b>(1,075)</b>	<b>12,666</b>	<b>(276)</b>
<b>Effective rate</b>	<b>3.55%</b>	<b>-0.56%</b>	<b>4.02%</b>	<b>-0.15%</b>

## 20. Risk and financial instrument management

### 1. 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 amounts of financial assets and liabilities disclosed at the balance sheet date have been determined according to the accounting criteria and policies disclosed in specific notes to the interim financial information.

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 expected credit loss amounting to R\$13,892 as at December 31, 2020 (R\$12,449 as at December 31, 2019) in the consolidated and R\$13,524 as at December 31, 2020 (R\$12,334 as at December 31, 2019) 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.

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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Checking account	26,503	14,012	23,087	10,693
Short-term investments	726,442	387,588	720,413	387,588
Securities	4,653	5,704	4,653	5,704
Trade receivables	552,742	385,134	548,664	382,310
	<b>1,310,340</b>	<b>792,438</b>	<b>1,296,817</b>	<b>786,295</b>

(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.

At the balance sheet date, 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:

	12/31/2020			
	Up to one year	One to three years	More than 3 years	Total
Trade payables	682,672	-	-	682,672
Payables for acquisition of businesses	1,157	4,125	2,063	7,345
Borrowings and financing	151,575	228,417	121,535	501,527
	<u>835,404</u>	<u>232,542</u>	<u>123,598</u>	<u>1,191,544</u>

	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
	<u>530,032</u>	<u>150,599</u>	<u>127,532</u>	<u>808,163</u>

As at December 31, 2020, the Company maintains a loan agreement in the amount of US\$16,364 with Citibank, indexed by the Libor rate, plus 2.16% p.a., maturing in April 2023, for which it has contracted a derivative (swap agreement), with notional value at the same amount, and the CDI used as the index, maturing on the same date of the agreement. Citibank is also the derivative counterparty. Also, the Company has entered into Currency Forward Contracts totaling US\$67,124 to hedge its future cash flow against currency fluctuations. The Company does not make investments for speculative purposes and, except for the contract described above, there is no other derivative contract.

The Currency Forward Contracts have average term of 90 days between the contracting date and the maturity date, with the following counterparties:

	US\$ - thousands
Santander	6,097
Bradesco	20,564
Citi	19
Itaú	22,388
XP	10,026
CCB	8,029
	<u>67,123</u>

(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. As at December 31, Currency Forward Contracts and swap transactions were contracted to mitigate cash flow risks due to currency fluctuations.

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b><u>Instruments with floating interest rate</u></b>				
Securities	4,653	5,704	4,653	5,704
Borrowings and financing	497,265	262,692	497,265	262,692
Forward contracts	7,430	-	7,430	-
Swap transactions	1,414	-	1,414	-
<b><u>Instruments with fixed interest rate</u></b>				
Borrowings and financing	4,262	4,017	-	1,481

The amount in thousands of US dollar of Currency Forward Contracts total US\$27,122 (fair value of R\$7,430) and the swap transaction totals USD16,364 (fair value of R\$1,414) as at December 31, 2020.

(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, 2020, the consolidated exposure was as follows (in Brazilian reais – R\$):

	31/12/2020						31/12/2019					
	Foreign currency						Foreign currency					
	US dollar – US\$	Euro - €	Pound - £	Yen - ¥	Ren ¥	Total	US dollar – US\$	Euro - €	Pound - £	Yen - ¥	Ren ¥	Total
<b>Assets</b>												
Trade receivables	4,229	9	-	-	-	4,238	2,634	452	-	-	-	3,086
<b>Liabilities</b>												
Trade payables	(627,848)	(58)	-	(4)	(5)	(627,915)	(438,525)	(30)	(2)	-	-	(438,557)
Borrowings and financing	(85,076)	(4,262)	-	-	-	(89,338)	-	-	-	-	-	-
Derivative instruments	(6,016)	-	-	-	-	(6,016)	-	-	-	-	-	-
<b>Net exposure</b>	<b>(714,711)</b>	<b>(4,311)</b>	<b>-</b>	<b>(4)</b>	<b>(5)</b>	<b>(719,031)</b>	<b>(435,891)</b>	<b>422</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>(435,471)</b>

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

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, 2020, five different scenarios were defined with stresses of 25% and 50%, of decrease or increase in relation to the benchmark rate, the expected rate used for the next 12 months. Also, these stresses of 25% and 50% correspond to percentage rates used by Management in its management analyses.

The respective foreign exchange expense and income was calculated for each scenario. The portfolio base date used was December 31, 2020. The US dollar quotation used in the projection was R\$5.00.

	(Expense)/Income				
	Scenario I -50%	Scenario II -25%	Probable scenario	Scenario III +25%	Scenario IV +50%
Trade receivables – US dollar	(80)	(120)	(160)	(201)	(241)
Trade payables – US dollar	11,849	17,773	23,697	29,622	35,547
Impact on profit or loss	11,769	17,653	23,537	29,421	35,306

(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.

2. Financial instruments - fair value

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

	Consolidated				Classification
	12/31/2020		12/31/2019		
	Carrying amount	Fair value	Carrying amount	Fair value	
<b>Assets</b>					
Cash at hand	36	36	28	28	Amortized cost
Checking account	26,503	26,503	14,012	14,012	Amortized cost
Short-term investments	726,442	726,442	387,588	387,588	Amortized cost
Securities	4,653	4,653	5,704	5,704	Amortized cost
Trade receivables	533,107	533,107	365,955	365,955	Amortized cost
<b>Liabilities</b>					
Trade payables	682,672	682,672	466,359	466,359	Amortized cost
Derivative instruments	6,016	6,016	-	-	Fair value through profit or loss
Borrowings and financing – including charges	501,527	500,301	266,709	272,000	Amortized cost
Other payables - acquisition of subsidiary)	7,345	7,345	15,110	15,110	Amortized cost

Derivatives are measured according to the mark-to-market calculation at the reporting date.

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.

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 maintain a derivative agreement (swap) as mentioned in note 20.a. Except for this instrument, there are no other derivative instruments as at December 31, 2020.

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 fair value 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 losses 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.

3. 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, 2020, five different scenarios were defined. Based on the FOCUS report of December 2020, the projected SELIC / CDI rate for the 12-month period beginning December 31, 2020 was extracted and this was defined as the probable scenario; based on this, 25% and 50% stresses were calculated, which correspond to the percentage rates used by Management in its management analyses.

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, 2020, projecting indices for one year and verifying CDI sensitivity in each scenario.

	12/31/2020				
	Scenario I +50%	Scenario II +25%	Probable scenario	Scenario III -25%	Scenario IV -50%
Short-term investments	20,753	17,294	13,835	10,377	6,918

In order to verify the rate sensitivity in debts to which the Company and its subsidiaries were exposed as at December 31, 2020, five different scenarios were defined. Based on the FOCUS report of December 2020, the projected CDI / IGP-DI / IGP-M / DOLLAR rates were extracted and based on the future curve of BM&F as at December 31, 2020, the projected LIBOR rate was extracted, within a 12-month period beginning December 31, 2020, thus defining them as the probable scenario; based on this, 25% and 50% stresses were calculated, which correspond to the percentage rates used by Management in its management analyses.

The gross finance costs were calculated for each scenario, without considering taxes on costs and the maturities of each contract scheduled for the 12-month period beginning December 31, 2020. The portfolio base date used was December 31, 2020, projecting indices for one year and verifying their sensitivity in each scenario.

	12/31/2020				
	Scenario I +50%	Scenario II +25%	Probable scenario	Scenario III -25%	Scenario IV -50%
Borrowings and financing	34,020	28,350	22,680	17,010	11,340

For derivatives it was estimated the expected quotation for 12 months beginning December 31, 2020, based on the actual notional value contracted.

	12/31/2020				
	Scenario I +50%	Scenario II +25%	Probable scenario	Scenario III -25%	Scenario IV -50%
Swap and currency forward contracts	342	285	228	171	114

#### 4. 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Interest-bearing borrowings and financing	501,527	266,709	497,265	264,173
(-) Cash and cash equivalents	(752,981)	(401,628)	(743,535)	(398,308)
<b>Consolidated net debt</b>	<b>(251,454)</b>	<b>(134,919)</b>	<b>(246,270)</b>	<b>(134,135)</b>
Equity	976,230	724,859	976,230	724,859
<b>Correlation</b>	<b>(26%)</b>	<b>(19%)</b>	<b>(25%)</b>	<b>(19%)</b>

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 period. No changes were made to the capital management objectives, policies or processes in the reporting periods.

## 21. 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Sale of goods</b>	<b>2,781,210</b>	<b>2,162,321</b>	<b>2,750,851</b>	<b>2,150,276</b>
Present value adjustment (PVA)	(24,654)	(32,585)	(24,654)	(32,585)
Commercial funds	(76,711)	(72,580)	(76,711)	(72,580)
Sales returns	(84,697)	(72,246)	(84,257)	(71,480)
<b>Sales deductions:</b>				
IPI (*)	(171,090)	(75,628)	(173,057)	(78,929)
ICMS	(107,188)	(65,294)	(105,741)	(64,566)
PIS	(32,321)	(25,950)	(31,971)	(25,607)
COFINS	(149,627)	(119,571)	(148,011)	(117,987)
ISS	(546)	(511)	(214)	(269)
<b>Net operating revenue</b>	<b>2,134,376</b>	<b>1,697,956</b>	<b>2,106,235</b>	<b>1,686,273</b>

(\*) The increase in the balance in the IPI line item is due to the amendments to the law for the information technology and communication sectors. Up to March 31, 2020, the Company was 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, in research and development activities to be carried out in Brazil.

Beginning April 1, 2020, the Company started to be classified under the provisions of Law 13,969/2019 which amended Law 8,248/91, whereby the Company starts to be entitled to Financial Credit to be offset against federal taxes in accordance with requirements similar to those set out in the aforesaid law, including the annual investment of part of its gross revenue in the domestic market arising from the sale of IT goods and services, in research and development activities to be performed in Brazil, the main change of which is the method of granting of the benefit, no longer being an IPI decrease but rather financial credit to be offset against federal taxes.



As at December 31, 2019, the IT Law benefit was granted through the decrease of IPI levied on tax-relief goods and the effects were recorded in sales deductions in IPI; as at December 31, 2020, there is no recognition of financial credit in such line item, and the financial credit granted pursuant to the new law that came into effect on April 1, 2020 was recorded in line item “Other operating expenses (income), net”, pursuant to note 22 below.

## 22. Expenses by nature

The Company elected to present the statement of income by function. As prescribed by CPC 26 (R1) (IAS 1) – Presentation of Financial Statements, costs and expenses are broken down by nature as follows:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Expenses by function</b>				
Cost of sales and services	1,433,542	1,104,810	1,428,446	1,110,813
Selling expenses	260,663	236,439	253,352	235,101
General and administrative expenses	142,334	107,778	126,374	89,149
Other operating expenses (income), net (*)	(88,537)	65,000	(89,894)	67,367
	<b>1,748,002</b>	<b>1,514,027</b>	<b>1,718,278</b>	<b>1,502,430</b>
<b>Expenses by nature</b>				
Cost of inputs and materials	1,165,241	916,940	1,168,004	927,052
Power, outside services and other	402,655	365,923	379,505	347,878
Expenses on payroll and employee benefits	289,881	243,081	287,536	242,586
Depreciation and amortization	23,411	18,682	18,899	17,527
Other revenue	(133,186)	(30,599)	(135,666)	(32,613)
	<b>1,748,002</b>	<b>1,514,027</b>	<b>1,718,278</b>	<b>1,502,430</b>

(\*) The impact on this line item is due to the financial credit granted pursuant to the new law, which became effective on April 1, 2020, recorded in such line item, pursuant to note 21 above. The breakdown of the balances in “Other operating expenses (income), net” is shown below:

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Other operating expenses (income), net</b>				
R&D costs	70,478	63,054	66,341	58,787
Financial credit – Law 13,969/2019	(84,017)	-	(84,017)	-
Deduction of ICMS from Pis and Cofins tax basis	(73,579)	-	(73,579)	-
Other	(1,419)	1,946	1,361	8,580
	<b>(88,537)</b>	<b>65,000</b>	<b>(89,894)</b>	<b>67,367</b>

## 23. Finance income (costs)

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Income from short-term investments	13,711	21,502	13,659	22,143
Interest (i)	64,840	1,893	64,773	1,209
Present value adjustment	25,639	32,113	25,639	32,113
Other	(3,285)	726	(3,285)	(393)
Finance income	100,905	56,234	100,786	55,072
Interest on borrowings and financing	(21,260)	(9,428)	(21,163)	(9,428)
Banking expenses	(4,394)	(3,057)	(3,901)	(2,623)
Expenses on advanced receivables	(52)	(1,654)	(52)	(1,654)
IOF on financial transactions	(902)	(464)	(847)	(604)
Present value adjustment	(20,730)	(19,067)	(20,730)	(19,067)
Other	(413)	(1,325)	(396)	(205)
Finance costs	(47,751)	(34,995)	(47,089)	(33,581)
Finance income (costs)	53,154	21,239	53,697	21,491

(i) The amount of R\$62,851 related to the adjustment of the lawsuit filed to deduct the ICMS from the PIS and COFINS tax basis, after the final and unappealable decision, was recorded, as mentioned in note 9b.

## 24. Exchange gains (losses)

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Exchange gains	197,550	81,423	197,515	81,423
Exchange losses	(320,352)	(96,123)	(319,041)	(96,123)
	(122,802)	(14,700)	(121,526)	(14,700)

## 25. Payroll, related taxes and profit sharing

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Payroll	10,278	7,805	9,663	7,396
Related taxes	7,895	6,809	7,386	6,415
Accrued vacation pay and related taxes	22,506	21,849	21,277	21,080
Profit sharing	61,402	16,991	60,456	16,991
Other	708	625	689	622
	102,789	54,079	99,471	52,504

## 26. 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 2020 to April 2021:

Insured risks	Insured amount	Deductible
Fire / disposal / riot / explosion / implosion	R\$130,000	15% losses reimbursable at the minimum amount of R\$270,000.00
Flood	R\$2,000	10% losses reimbursable at the minimum amount of R\$250,000.00
Electrical damages	R\$1,000	10% losses reimbursable at the minimum amount of R\$5,000.00
Loss of profits (P.I. 4 months)	R\$107,000	5 days
Machinery breakdown	R\$2,000	10% losses reimbursable at the minimum amount of R\$25,000.00
Robbery and/or aggravated theft	R\$2,000	10% losses reimbursable at the minimum amount of R\$50,000.00
Windstorm, hurricane, cyclone, aircraft crash, impact	R\$30,000	10% losses reimbursable at the minimum amount of R\$250,000.00
Fire / disposal / riot / explosion / implosion	R\$5,000	Reimbursable losses must be added to the losses of the original coverage for deduction of the respective deductible

## 27. 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.

	Consolidated			
	12/31/2020			
	Communication	Security	Energy	Total
Net operating revenue	772,713	1,147,074	214,589	<b>2,134,376</b>
Gross profit	230,099	418,635	52,100	<b>700,834</b>

	Consolidated			
	12/31/2019			
	Communication	Security	Energy	Total
Net operating revenue	576,025	1,006,562	115,369	<b>1,697,956</b>
Gross profit	183,549	377,643	31,954	<b>593,146</b>

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. The Company improved the disclosure of reportable assets and liabilities, so as to present the balances comprising the adjustments to the accounting related to accounting standards CPC 47 (IFRS 15) – Revenue from Contracts with Customers and CPC 12 – Present Value Adjustment, and the allocation of the common areas proportionally.

	12/31/2020			
	Communication	Security	Energy	Total
Assets	357,069	446,222	74,792	<b>878,083</b>
Liabilities	242,761	371,817	68,094	<b>682,672</b>

	12/31/2019			
	Communication	Security	Energy	Total
Assets	256,055	373,229	54,735	<b>684,019</b>
Liabilities	142,018	292,564	31,777	<b>466,359</b>

## 28. 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 2.5.

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Balance sheet transactions</b>				
<b>Assets</b>				
<b>Loans</b>				
Loans granted - Prediotech	-	-	2,478	1,314
Loans granted - Décio	-	-	10,482	700
	-	-	12,960	2,014
<b>Liabilities</b>				
<b>Trade payables</b>				
Trade payables - Dahua	(202,754)	(153,386)	(202,754)	(153,386)
Trade payables - Décio	-	-	(343)	(1,176)
Trade payables - Ascent	-	-	(280)	-
	(202,754)	(153,386)	(203,377)	(154,562)
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Profit or loss transactions</b>				
Sales made by subsidiary Décio to the Company	-	-	7,525	1,306
Sales made by subsidiary Ascent to the Company	-	-	9,081	8,194
Purchases made by the Company to Dahua – beginning November 2019	(339,875)	(47,241)	(339,875)	(47,241)
<b>Total related-party transactions recorded in profit or loss</b>	<b>(339,875)</b>	<b>(47,241)</b>	<b>(323,269)</b>	<b>(37,741)</b>

**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. Compensation of key management personnel totaled R\$10,037 as at December 31, 2020 (R\$11,227 as at December 31, 2019). 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.

**29. Non-cash items**

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

	Consolidated		Parent	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>Items not affecting cash:</b>				
Acquisition of subsidiary:				
Trade receivables	-	2,008	-	-
Inventories	-	367	-	-
Recoverable taxes	-	56	-	-
Other receivables	-	300	-	-
Property, plant and equipment	-	2,095	-	-
Intangible assets	-	25	-	-
Trade payables	-	(702)	-	-
Borrowings and financing	-	(244)	-	-
Payroll and related taxes	-	(2,265)	-	-
Taxes	-	(480)	-	-
Other payables	-	(490)	-	-
Exchange rate differences on foreign subsidiary	595	25	595	25
Income tax and social contribution on business combinations	-	6,256	-	6,256
<b>Changes in liabilities arising from financing activities</b>				
Acquisition of subsidiaries in installments	-	15,081	-	15,081
Acquisition of property, plant and equipment in installments	(3,157)	(5,467)	(3,157)	(5,467)
Acquisition of property, plant and equipment using borrowings and financing - Finimp	(1,727)	(2,534)	-	-
Accrued dividends payable	54,736	-	54,736	-
Payment of trade payables using borrowings and financing - Finimp	-	53,037	-	53,037

### **30. Events after the reporting period**

a. Registration as publicly-held company registration and registration of Public Offering of common shares

On November 25, 2020, the Company's Board of Directors approved at the meeting of the Board of Directors the conduction of a public offering for primary distribution of common shares, all registered, book-entry, without par value, and free and clear of any liens or encumbrances ("Shares"). On February 2, 2021, the Company's Board of Directors approved the issuance of 46,000,000 shares, for distribution in Brazil, with placement efforts abroad. The shares were authorized for trading at the Novo Mercado segment, B3's special trading segment, governed by B3 Novo Mercado Regulation, under ticker symbol "INTB3". The price per share was set at R\$15.75, which price per share was calculated pursuant to article 170, paragraph 1, item III, of the Brazilian Corporate Law, and determined based on the outcome of the Bookbuilding Procedure. The offering was settled on February 5, 2021. Based on the price mentioned in the immediately preceding paragraph, the gross proceeds from the IPO reached the amount of R\$724,500 before commissions and expenses.

b. Distribution of dividends

As decided at the meeting of the Board of Directors held on January 8, 2021, the distribution of dividends in the amount of R\$83,474 was approved. Of this amount, R\$33,570 as interest on capital, of which R\$5,036 was retained by the Company as income tax for shareholders.