RTA-361-2020

Nova Smar S/A

Financial statements for the years ended December 31, 2019 and 2018 accompanied by the independent auditors´ report

Moore Prisma Auditores e Consultores

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RTA-361-2020

Ribeirão Preto SP, September 23, 2020.

Nova Smar S/A
Sertãozinho SP

To the attention of the Board of Directors

Gentlemen:

We enclose the financial statements for the years ended December 31, 2019 and 2018, accompanied by the independent auditors´ report on the financial statements.

Please return the attached copy of this letter duly registered to us, for our control and filing.

Very truly yours,

Moore Prisma Auditores e Consultores

Ricardo Aurélio Rissi
Director

Nova Smar S/A

Financial statements for the years ended December 31, 2019 and 2018 accompanied by the independent auditors´ report on the financial statements

Summary

MOORE

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Independent auditors´ report on the financial statements

The Shareholders and Management
Nova Smar S/A
Sertãozinho SP

Qualified opinion

We have examined the financial statements of Nova Smar S/A (the “Company”), comprising the balance sheet as of December 31, 2019 and the related statements of income, changes in shareholders´ equity and cash flows for the year then ended, as well as the accompanying notes including a summary of the main accounting policies.

In our opinion, except for the possible effects of matters described under “Basis for a qualified opinion”, the financial statements referred to above present fairly in all material respects, the financial position of Nova Smar S/A as of December 31, 2019, the results of its operations and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Basis for a qualified opinion

Opening balances

Neither we nor any other independent auditors have examined the financial statements of the Company for the previous year ended December 31, 2018, presented for comparative purposes. Consequently, we do not issue an opinion on the financial statements. Additionally, it has been impossible to obtain appropriate and sufficient audit evidence from the first audit to ensure that the opening balances cannot materially affect the income for the current year and the financial statements.

We have conducted our audit in accordance with Brazilian and international audit standards. Our responsibilities in accordance with those standards are described under the section “Auditor´s responsibilities for the audit of the financial statements”. We are independent from the Company according to the relevant ethical principles established under the Professional Accountants´ Code of Ethics and the professional standards issued by the Federal Accounting Council. Also, we comply with all the other ethical responsibilities set forth by those standards. We believe that the audit evidence obtained is sufficient and appropriate as a basis for our qualified opinion.

Management´s and governance´s responsibilities for the financial statements

The management of the Company is responsible for the preparation and proper presentation of the financial statements in accordance with accounting practices adopted in Brazil and applicable to Small and Medium Businesses – NBC TG 1000 (R1), and the internal controls deemed necessary for preparing financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the management is responsible for evaluating the Company´s ability to continue in business and, where applicable, disclosing matters related with its continuity in business (going concern basis) and the use of this basis for preparing the financial statements, unless the management intends to liquidate the Company or discontinue its operations or if there is no realistic alternative to winding up.

Those responsible for the Company´s governance are in charge of supervising the preparation of the financial statements.

Auditor´s responsibility for the audit of the financial statements

Our objectives are to attain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and issue an audit report containing our opinion. By reasonable assurance is meant a high security level, but not guarantee that the audit conducted in accordance with Brazilian and international auditing standards always detect any existing material misstatements. Misstatements may be due to fraud or error and are deemed to be material if individually or jointly, from a reasonable perspective, they may influence the users´ economic decisions made based on the financial statements in question.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we have exercised professional judgment and maintained professional skepticism throughout the audit work. Additionally, we have:

- identified and evaluated the risks of material misstatement in the financial statements whether due to fraud or error; and performed auditing procedures in response to those risks and obtained appropriate and sufficient audit evidence to support our opinion. The risks of failing to detect material misstatement due to fraud is higher than that due to error, because fraud may involve bypassing internal controls, collusion, forgery, omission or intentionally false representations.

- gained understanding of internal controls that are relevant to the audit, in order to plan auditing procedures that are appropriate in the circumstances but not for expressing an opinion on the effectiveness of the Company´s internal controls.

- assessed the adequacy of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by management.

- concluded on the appropriate use of the going-concern basis and, based on audit evidences obtained, whether there is any relevant uncertainty surrounding events or conditions that may raise significant doubt about the Company´s capacity to continue in business. If the conclusion is that there is relevant uncertainty, attention is drawn in our audit report to the related disclosures in the financial statements, and if the disclosures are inadequate, our opinion should be modified. Our conclusions rely on audit evidences obtained to the date of our report. However, future events or conditions may lead to the Company´s incapacity to continue in business.

- evaluated the general presentation, structure and contents of the financial statements, including disclosures, and whether they reflect the related transactions and events consistently with the objective of proper presentation.

We have contacted those in charge of governance about, among other things, the planned audit scope and timing, as well as the significant audit findings including any internal control weaknesses identified in the course of our work.

Ribeirão Preto SP, August 14, 2020.

Moore Stephens Prisma Auditores Independentes
CRC 2SP017256/O-3

Ricardo Aurélio Rissi
CRC 1SP137183/O-8

Nova Smar S/A

Balance sheets
As of December 31, 2019 and 2018
In Reais

	Note	2019	2018
Assets			
Current			
Cash and cash equivalents	**4**	365.922	610.262
Accounts receivable	**5**	10.570.469	5.218.186
Inventories	**6**	6.632.327	1.516.217
Taxes and contributions recoverable		914.665	500.658
Other credits		836.636	516.396
Total current assets		**19.320.019**	**8.361.719**
Non-current assets			
Long-term assets			
Related-party transactions	**7**	2.298.705	-
Escrow deposits	**14**	242.287	-
Investments		113.770	101.500
Fixed assets	**8**	7.222.737	6.703.485
Intangibles		158.448	94.721
Total non-current assets		**10.035.947**	**6.899.706**
Total assets		**29.355.966**	**15.261.425**

	Note	2019	2018
Liabilities			
Current			
Loans and financing	**9**	709.093	16.966
Suppliers	**10**	1.106.312	492.696
Salaries, provision for vacation pay and social contributions	**11**	2.605.524	878.902
Taxes and contributions collectible	**12**	1.131.960	845.100
Deferred revenue from costumers	**13**	1.901.390	1.423.755
Other accounts payable		26.773	9.635
Total current liabilities		**7.481.052**	**3.667.054**
Non-current liabilities			
Loans and financing	**9**	85.380	83.034
Taxes and contributions payable	**12**	1.009.547	-
Related-party transactions	**7**	-	2.831.453
Total non-current liabilities		**1.094.927**	**2.914.487**
Shareholders' equity	**15**		
Capital stock		17.145.601	8.075.624
Legal reserve		181.719	30.213
Appropriated retained earnings		3.452.667	574.047
Total shareholders' equity		**20.779.987**	**8.679.884**
Total liabilities and shareholders' equity		**29.355.966**	**15.261.425**

The Management's accompanying notes are an integral part of these financial statements

Nova Smar S/A

Statements of income
Years ended December 31, 2019 and 2018
In reais

	Note	2019	2018
Net operating revenue	**16**	**43.757.184**	**20.401.755**
Cost of goods sold		**(23.323.965)**	**(17.366.631)**
Gross profit		**20.433.219**	**3.035.124**
Operating (expenses) revenues			
Staff expenses	**17**	(8.652.175)	(1.318.421)
General and administrative expenses	**18**	(6.125.167)	(660.231)
Selling expenses		(1.343.902)	(93.373)
Other net operating expenses		(185.394)	-
		(16.306.638)	**(2.072.025)**
Profit before financial income		**4.126.581**	**963.099**
Financial income	**19**	(560.854)	(81.302)
Pretax income		**3.565.727**	**881.797**
Income tax and social contribution - current	**20**	(535.601)	(277.537)
Net year profit		**3.030.126**	**604.260**

The Management’s accompanying notes are an integral part of these financial statements

Nova Smar S/A

Statements of comprehensive income
Years ended December 31, 2019 and 2018
In Reais

	2019	2018
Net income for the year	**3.030.126**	**604.260**
Other comprehensive income	-	-
Comprehensive income for the year	**3.030.126**	**604.260**

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

Nova Smar S/A

Statements of changes in net equity
Years ended December 31, 2019 and 2018
In Reais

	Capital stock	Legal reserve	Profit reserves	Accumulated profit	Total
Balance in January 1st, 2018	**-**	**-**	**-**	**-**	**-**
Payment of capital	8.075.624	-	-	-	8.075.624
Net profit for the year	-	-	-	604.260	604.260
Recording for the statutory reserve	-	30.213	-	(30.213)	-
Profit retention	-	-	574.047	(574.047)	-
Balance in December 31, 2018	**8.075.624**	**30.213**	**574.047**	**-**	**8.679.884**
Payment of capital	9.069.977	-	-	-	9.069.977
Net profit for the year	-	-	-	3.030.126	3.030.126
Recording for the statutory reserve	-	151.506	-	(151.506)	-
Profit retention	-	-	2.878.620	(2.878.620)	-
Balance in December 31, 2019	**17.145.601**	**181.719**	**3.452.667**	**-**	**20.779.987**

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

Nova Smar S/A

Statements of cash flows
Years ended December 31, 2019 and 2018
In Reais

	2019	2018
Cash flow from operating activities		
Net profit for the year	3.030.126	604.260
Adjustments for:		
Depreciation and amortization	1.083.715	75.466
Residual value of asset retirements	386.477	-
Expected credit losses	83.025	-
Variations in assets and liabilities:		
Accounts receivable	(5.435.308)	(5.218.186)
Inventories	(5.116.110)	(1.516.217)
Taxes and contributions recoverable	(414.007)	(500.658)
Escrow deposits	(242.287)	-
Other credits	(320.240)	(516.396)
Suppliers	613.616	492.696
Salaries, provision for vacation pay and social contributions	1.726.622	878.902
Taxes and contributions collectible	1.296.407	845.100
Deferred revenue from costumers	477.635	1.423.755
Other accounts payable	17.138	9.635
Net resources from operations	**(2.813.191)**	**(3.421.643)**
Cash flow from investing activities		
Increase in investments	(12.270)	(101.500)
Acquisition of fixed assets	(1.989.444)	(6.778.951)
Acquisition of intangibles	(63.727)	(94.721)
Net income from investing activities	**(2.065.441)**	**(6.975.172)**
Cash flow from financing activities		
Variations in loans and financing	694.473	100.000
Related-party transactions	(5.130.158)	2.831.453
Payment of capital	9.069.977	8.075.624
Net income from financing activities	**4.634.292**	**11.007.077**
(Decrease) increase in cash and cash equivalents	**(244.340)**	**610.262**
Changes in cash and cash equivalents:		
Cash and cash equivalents at the end of year	365.922	610.262
Cash and cash equivalents at the beginning of year	610.262	-
(Decrease) increase in cash and cash equivalents	**(244.340)**	**610.262**

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

1 Operations

Nova Smar S/A (the "Company") a closed- capital company domiciled in Brazil with headquarters in Sertãozinho SP, was formed as a result of continued bankruptcy of Smar (currently consisting of the liquidation mass of the companies Smar Comercial Ltda., Smar Equipamentos Industriais Ltda., and Valblock Indústria e Comércio Ltda.), formed in December 2017. The sentence that decrees the formation of Nova Smar S/A was delivered on October 24, 2017.

Based on the conversion into bankruptcy of the above entities, from the date it was formed Nova Smar S/A has assumed the operational assets contained in the liquidation mass classified as essential for formation of a new business organized as a Corporation. After the relevant court order, those who own the new company´s shares are labor creditors assuming the position of shareholders for business purposes.

Within the management scope, the Company continues to be structured by a management committee – a corporate governance body – elected at a shareholders´ meeting. The Company is locally and internationally recognized as a specialized provider of industrial automation, manufacturing and sale of controlling devices, and measurement, control, operation and management of hardware and software for maintenance assets.

2 Basis of preparation and presentation of the financial statements

a Declaration of conformity

The financial statements were prepared and presented in accordance with accounting practices adopted in Brazil, covering the provisions of the Corporate Law, the Accounting Pronouncements Committee ("CPC"), pronouncements, interpretations and guidance applicable to small and medium businesses – NBC TG 1000 (R1), and approved by the Brazilian Securities Commission ("CVM"), all in conformity with the new standards issued by the *International Accounting Standards Board* – IASB, evidencing all relevant financial statement information which is consistent with that used by the Company´s management.

After assessing the Company´s capacity to continue in business, the management is convinced that it is able to continue as a going concern in the future. Additionally, the management is not aware of any material uncertainty capable of raising doubt about such capacity. Therefore, the financial statements were prepared on the going concern basis.

The financial statements, including the accompanying notes, are under the responsibility of the management, who authorized its completion on August 14, 2020.

After assessing the Company´s capacity to continue in business, the management is convinced that it is able to continue as a going concern in the future. Additionally, the management is not aware of any material uncertainty capable of raising doubt about such capacity. Therefore, the financial statements were prepared on the going concern basis.

The financial statements, including the accompanying notes, are under the responsibility of the management, who authorized its completion on August 14, 2020.

b Value measurement

The financial statements were prepared based on the historical cost, unless otherwise stated in accompanying notes.

c Presentation currency and functional currency

These financial statements are denominated in Reais, the Company's functional and presentation currency.

d Use of estimates and judgments

In preparing financial statements in accordance with "CPC"´s requirements, the Company´s management is required to make judgments, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, revenues and expenses. The actual amounts may differ from the related estimates.

Estimates and assumptions are continually reviewed. The reviews of accounting estimates are recognized in the year they are made and in future years affected thereby.

Below, the main judgments and estimates made by management during the application of accounting policies and those more intensely affecting amount recognized in the financial statements.:

i. Reduction to the recoverable value of assets: according to the management, there are no evidences (either internal or external) justifying the recording a provision for reduction to the recoverable value of fixed assets.

ii. Useful life and residual value of fixed assets: the Company performs annual reviews of the useful life and residual value of fixed and intangible assets with a defined useful life. The depreciation and amortization rates currently used are deemed to reflect the useful life of assets.

iii. Expected credit loss – ECL: the provisions are recorded based on the management´s judgments, in sufficient amounts to cover estimated future losses in trade receivables. Judgments are made considering historical and expected losses, and may differ from actually realized amounts, due to the different characteristics of each client.

iv. Provision for tax, labor and civil risks: the evaluation of probable losses includes the assessment of available evidences, relevant legal provisions and case law, recent court decisions and their relevance, as well as the opinion of external lawyers. The provisions are recorded and adjusted taking into account possible modification of circumstances, such as limitation period, conclusions from tax inspections or additional exposures identified based on new issues or court decisions.

3 Main accounting policies

The main accounting policies adopted by the Company in these financial statements are described below. They were consistently applied in the presented years, unless otherwise stated.

a Foreign currency

Foreign currency transactions are converted to the functional currency at the exchange rates ruling on the dates of transactions. Exchange gains and losses on conversion of foreign currency are recognized in income.

b Financial instruments

The Company classifies its financial assets and liabilities as basic financial instruments, in accordance with the accounting policy and following the conditions stated in section 11 of the PME Technical Statement – Accounting of Small and Medium Businesses. Basic financial assets are therefore: i) cash and cash equivalents; ii) financial applications; and iii) accounts receivable; iv) other credits; and v) related party transactions

Basic financial liabilities are: i) loans and financing; ii) suppliers; iii) deferred revenue from costumers; and iv) related-party transactions.

The Company initially recognizes basic financial assets and liabilities on the date of origin, except for assets measured at fair value through result, which are initially recognized in the date of negotiation in which the Company becomes one of the parties of the instrument's contractual dispositions.

After the initial recognition, basic financial assets and liabilities are measured at the amortized cost by the effective interest rate method, with a decrease due to any impairment losses. Financial assets measured at fair value through result and changes to the fair value of these assets are acknowledged in the end of the year.

The Company derecognizes a financial asset when contractual rights to the asset's cash flows expire or when an entity transfers the rights to receiving contractual cash flows of a financial asset through a transaction in which all risks and benefits of ownership are transferred.

The Company derecognizes a financial asset when its contractual obligation is removed, cancelled or expires.

c Cash and cash equivalents

These comprise cash on hand and bank demand deposits and financial applications of immediate liquidity. To be classified as cash equivalents, financial investments need to be readily convertible into a known cash amount involving negligible risk of impairment. Accordingly, an investment is usually classified as cash equivalent only if maturing in the short run, i.e., in up to three months from the acquisition date.

When utilized, guaranteed accounts are demonstrated as “Loans”, under current liabilities.

d Accounts receivable

Trade receivables are initially valued at the nominal value of the related bills, adjusted to present value, if applicable. The allowance for doubtful accounts is set up based on an analysis of accounts receivable, at an amount deemed sufficient to cover possible future losses thereon.

Accounts receivable from foreign markets are adjusted through the exchange rate variation in the day of balance closure.

e Inventories

Inventories are stated at the average acquisition or production cost, which is not higher than the realizable value. Costs involved in transporting each product to its current location and condition are accounted for as follows: a) Raw materials – average acquisition cost; b) Finished and in-elaboration products – direct materials’ cost and a proportional share of general indirect production expenses based on the normal operating capacity.

Net realizable value corresponds to the sales price in the normal state of business minus estimated finishing costs and estimated necessary costs to sales realization. Provisions for low turnover or obsolete inventories are made when management deems necessary and are periodically reviewed and assessed in terms of their sufficiency.

f Investments

Measured through the acquisition cost and adjusted to fair value, these are represented by capital shares in the participation in Sicoob Coocred.

g Fixed assets

- Recognition and measurement

Fixed asset items are measured at the historical acquisition or construction cost, net accumulated depreciation and, where applicable, accumulated impairment losses. Costs include those directly attributable to acquisition of a fixed asset. When parts of fixed assets have different useful lives, they are recorded as individual items (main components). Gains and losses on disposal of fixed assets are determined based on the difference between the proceeds of disposal and the carrying value of items disposed of, and are recognized as other operating revenues (expenses) under the income.

- Subsequent expenses

  Subsequent expenses are capitalized to the extent that future benefits will probably arise to the Company therefrom. Maintenance and repair expenses are recognized in the income, as incurred.

- Depreciation

  The depreciation of fixed assets is made by the straight-line method in the income for the year based on the estimated useful life of each component. Depreciation begins on the date of installation and availability for use, or in case of internally built assets, from the date construction is completed and the assets are made available for use. Depreciation methods, useful lives and residual values are reviewed at each year end, with adjustments (if any) being recognized through changes in accounting estimates.

h Intangibles

Intangible assets acquired separately are valued at current cost at the moment of their initial recognition and subsequently subtracted of accumulated amortization and impairments, when applicable.

Intangible assets are substantially represented by software use licenses and have undefined useful lives. Intangible assets with undefined lives are not amortized, but are yearly tested for impairments, individually or at the cash generating unit level.

The assessment of undefined useful life is yearly reviewed to determine if such assessment continues to be justifiable. If that is not the case, the change from undefined to defined useful life is done prospectively.

i Evaluation of the recoverable value of assets (impairment test)

The Company´s management yearly reviews the net book value of assets to detect events or changes in economic, operational or technological circumstances that may indicate deterioration or impairment. Should any such changes be identified and the net book value of assets exceeds their recoverable value, a provision for deterioration is recorded, with adjustment of the net book value to the recoverable value. Based on current information available, the Company´s management is not aware of any impairment loss on assets or changes in business circumstances that justify recognizing an impairment loss on assets.

j Loans and financing

Loans and financing are initially recognized at transaction value (that is, the value received from the bank, including transaction costs) and subsequently demonstrated at the amortized cost. Interest rate expenses are recognized based on the effective interest rate method throughout loans terms in such a way that the accounting balance at the maturity date is equal to the due value. Financing and loans due until the end of the next accounting year are classified under current liabilities, and those with longer terms under non-current liabilities.

k Suppliers

These are obligations payable for assets and services acquired in the regular course of business. They are initially recognized at fair value and subsequently measured at the amortized cost based on the effective interest rates method. In practice, they are usually recognized at the amount of the related invoice.

Foreign market suppliers are adjusted through the exchange rate variation observed on the day of balance closure.

l Provisions

Provisions are recognized based on a past event, whenever there is a current legal or non-formal obligation resulting from past events that can be reliably estimated and economic resources will probably be required to settle this obligation in the future, also incurring in a reliable estimate of value. Provisions for risks and contingencies are recorded based on updated values, based on loss estimates established by the Company’s juridical advisors. When a provision is measured based on the estimated cash flow necessary to liquidate the obligation, its value is determined based on the present value of these cash flows.

m Current and deferred income tax and social contribution

Current income tax and social contribution are calculated based on the taxable income at current legally stipulated tax rates.

When applicable, deferred income tax and social contribution are recognized on temporary differences and tax losses and negative social contribution basis and shown as non-current assets, according to their nature and expected realization. The net book value of deferred income tax and social contribution assets is determined on an annual basis and a provision for devaluation is set up if their book value cannot be recovered using current or future taxable income, or by other legal means of realization.

Current and deferred taxes are recognized under income.

n Related parties

Intercompany operations comprise resources traded between companies since the phase of constitution of the Company until the process of operational structuring. Were they made with third parties, calculated results might have been different. Therefore, the financial statements are to be analyzed in this context of related-party transactions.

o Other current and non-current assets and liabilities

Assets are recognized in the balance sheet whenever future economic benefits for the Company will probably arise therefrom and their cost or value can be reliably measured. Liabilities are recognized in the balance sheet whenever the Company has a legal obligation deriving from a past event, and economic resources will probably be required to settle it in the future. They are stated at known or estimated amounts plus, where applicable, the related earnings, charges and monetary variation incurred up to the balance sheet date. In the case of assets, a rectifying provision for losses is set up, if necessary.

p Adjustment of assets and liabilities to present value

Non-current monetary assets and liabilities and current ones when the effect is deemed relevant to the financial statements as a whole, are adjusted to present value.

The adjustment to present value is calculated taking into account the contracted cash flows and the explicit, and in certain cases, implicit interest rate applied to the related assets and liabilities. That way, interest rates present in revenues, expenses and costs associated with assets and liabilities are discounted, so as to recognize them in accordance with the year's accrual basis. This interest is later reallocated under financial revenues and expenses in the income based on the effective interest rate method used for cash flows. Implicit interest rates, when applied, are determined based in reasonable assumptions and are considered accounting estimates.

q Contingent assets and liabilities and legal obligations

The following are the accounting practices used in recording and disclosing contingent assets and liabilities and legal obligations:

Contingent assets: recognized only when there are actual guarantees or favorable judicial sentences not subject to further appeal. Contingent assets involving probable success are disclosed only in an explanatory note.

Contingent liabilities: provided for when losses thereon are deemed probable and the amounts involved can be reliably measured. Those involving possible losses are disclosed only in an explanatory note and those on which the possibility of loss is remote are not recorded nor disclosed.

Legal obligations are recorded as liabilities, regardless of the assessment made regarding the possibility of success on processes filed by the Company to question the constitutionality of taxes.

r Separation between current and non-current

Assets and liabilities with maturity until the closure of the next accounting year are recorded under current, and those with longer maturity under non-current.

s Capital stock

Capital shares are classified under shareholders' equity.

t Revenue recognition

Sales revenues are recognized when their value can be reliably measured, upon delivery of products and transfer of title thereto, when it is likely that future economic benefits will come to the Company and products' risks and benefits have been integrally transferred to the buyer. Revenues are measured by the fair value of payments received or receivable net of discounts, rebates, returns and taxes levied thereon. Financial revenue is recognized based on the effective interest rate method. Other revenues are always recognized based on the accrual basis.

Revenues are not recognized if their realization is significantly uncertain.

u Statements of cash flows

The statements of cash flows were prepared by the indirect method.

4 Cash and cash equivalents

Description	2019	2018
Cash	10.644	11.465
Banks - Checking account	45.125	35.053
Financial applications of immediate liquidity	310.153	563.744
	365.922	**610.262**

Cash equivalents are held to meet the Company´s short-term cash requirements.

5 Accounts receivable

Description	2019	2018
Domestic market	5.288.082	2.697.111
Foreign market	5.365.412	2.521.075
	10.653.494	**5.218.186**
(-) Expected credit losses – ECL **(i)**	(83.025)	-
	10.570.469	**5.218.186**

(i) Expected credit losses – ECL were calculated based on the critical economic analysis of clients' portfolios and other matured titles regarding clients' individual situations. The losses calculated by the Company's management were deemed sufficient to cover eventual defaults in accounts receivable.

Clients' values are not updated and are only affected by the effects of exchange rate variation for clients in the foreign market.

The Company assessed the adjustment to present value of accounts receivable from clients on the dates of balances and concluded that they do not generate any material effects on the financial statements.

6 Inventories

Description	**2019**	**2018**
Raw materials	5.869.701	1.399.439
Finished products	671.922	114.457
Products in process	90.704	2.321
	6.632.327	**1.516.217**

The Company's management understands that, due to the analysis of inventory items and relevance considerations, there is no need to record any other estimated losses for non-realization or obsolescence beyond values already recorded.

7 Related parties

Description	**2019**	**2018**
Non-current assets		
Advances - operations	19.514.889	13.058.603
Other credits - FOPAG	16.138.481	16.138.481
	35.653.370	**29.197.084**
Non-current liabilities		
Accounts payable – suppliers and FOPAG	**(33.354.665)**	**(32.028.537)**
Net balance	**2.298.705**	**(2.831.453)**

Balances are presented net in the balance sheets, drawn from assets or liabilities according to the nature and origin of transactions, and only current resources for the continuation of operational activities and payroll liquidation were transferred, in accordance with legal authorization.

The remaining receivable net balance at Nova Smar S/A is currently expected to be liquidated based on transferences of residual inventory items and assets still recorded in the liquidation mass.

Transactions with related parties are distinguished from transactions made with third parties.

8 Fixed assets

	Annual depreciation rate	Acquisiton cost	Accumulated depreciation	2019 Net	2018 Net
Machines and equipment	10%	4.486.615	(504.559)	3.982.056	4.047.567
Tools	20%	843.073	(179.068)	664.005	817.667
Models and shapes for casting	33%	293.328	(53.669)	239.659	2.100
Furniture and utensils	10%	228.108	(26.418)	201.690	218.084
Computer hardware	20%	389.721	(61.702)	328.019	22.533
Vehicles	20%	216.561	(36.428)	180.133	134.138
Small value goods – machines and equipment	10%	417.296	(41.337)	375.959	363.049
Small value goods – tools	20%	323.147	(63.776)	259.371	260.557
Small value goods – furniture and utensils	10%	615.867	(63.821)	552.046	540.180
Small value goods – phones	20%	873	(80)	793	-
Small value goods – computer hardware	20%	546.270	(107.264)	439.006	297.610
		8.360.859	**(1.138.122)**	**7.222.737**	**6.703.485**

a Changes in cost in 2019

Description	Beginning balances	Acquisitions	Write-downs	Ending balances
Machines and equipment	4.119.143	613.619	(246.147)	4.486.615
Tools	817.764	26.933	(1.624)	843.073
Models and shapes for casting	2.100	291.228	-	293.328
Furniture and utensils	218.978	12.105	(2.975)	228.108
Computer hardware	22.723	367.821	(823)	389.721
Vehicles	136.847	79.714	-	216.561
Small value goods – machines and equipment	363.049	61.081	(6.834)	417.296
Small value goods – tools	260.557	63.482	(892)	323.147
Small value goods – furniture and utensils	540.180	130.474	(54.787)	615.867
Small value goods – phones	-	873	-	873
Small value goods – computer hardware	297.610	262.401	(13.741)	546.270
	6.778.951	**1.909.731**	**(327.823)**	**8.360.859**

b Changes in cost in 2018

Description	Acquisitons	Ending balances
Machines and equipment	4.119.143	4.119.143
Tools	817.764	817.764
Models and shapes for casting	2.100	2.100
Furniture and utensils	218.978	218.978
Computer hardware	22.723	22.723
Vehicles	136.847	136.847
Small value goods – machines and equipment	363.049	363.049
Small value goods – tools	260.557	260.557
Small value goods – furniture and utensils	540.180	540.180
Small value goods – phones	-	-
Small value goods – computer hardware	297.610	297.610
	6.778.951	**6.778.951**

c Changes in accumulated depreciation in 2019

Description	Beginning balances	Acquisitions	Write-downs	Ending balances
Machines and equipment	(71.576)	(451.175)	18.192	(504.559)
Tools	(97)	(179.080)	109	(179.068)
Models and shapes for casting	-	(53.993)	324	(53.669)
Furniture and utensils	(894)	(25.549)	25	(26.418)
Computer hardware	(190)	(61.571)	59	(61.702)
Vehicles	(2.709)	(33.808)	89	(36.428)
Small value goods – machines and equipment	-	(41.557)	220	(41.337)
Small value goods – tools	-	(63.835)	59	(63.776)
Small value goods – furniture and utensils	-	(65.116)	1.295	(63.821)
Small value goods – phones	-	(80)	-	(80)
Small value goods – computer hardware	-	(107.951)	687	(107.264)
	(75.466)	**(1.083.715)**	**21.059**	**(1.138.122)**

d Changes in accumulated depreciation in 2018

Description	Acquisitions	Ending balances
Machines and equipment	(71.576)	(71.576)
Tools	(97)	(97)
Furniture and utensils	(894)	(894)
Computer hardware	(190)	(190)
Vehicles	(2.709)	(2.709)
	(75.466)	**(75.466)**

In 2019 and 2018, the Company reviewed the remaining economic useful life of fixed assets and no relevant changes from previous estimates were identified.

Additionally, no need for recording a provision for the impairment of goods was identified.

9 Loans and financing

					2019			2018
Purpose	**Monthly interest rate**	**Final maturity**	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Working capital	Between 0.14% and 1.98%	December 2024	**709.093**	**85.380**	**794.473**	**16.966**	**83.034**	**100.000**

Rates are market standards for each modality. These obligations are guaranteed by sureties.

10 Suppliers

Description	**2019**	**2018**
Domestic market	935.243	492.696
Foreign market	171.069	-
	1.106.312	**492.696**

Suppliers’ balance is substantially comprised of values payable to suppliers of raw materials, use and consumption materials and services.

The Company assessed the adjustment to present value of suppliers on balance dates and concluded that they do not have relevant effects on the financial statements.

The values of suppliers are not updated, being only affected by exchange rate variations in the case of foreign market suppliers.

11 Salaries, provision for vacation pay and social contributions

Description	2019	2018
Salaries payable	462.602	356.178
Provision for vacation pay and social contributions	1.689.373	182.837
Social Security (INSS)	245.468	170.593
FGTS	122.654	104.024
Other social obligations and charges	85.427	65.270
	2.605.524	**878.902**

12 Taxes and contributions collectible

			2019	**2018**
Description	**Current**	**Non-current**	**Total**	**Current**
IRRF	234.387	-	234.387	220.599
IPI	215.411	-	215.411	96.293
IRPJ	149.996	-	149.996	371.553
CSLL	55.093	-	55.093	147.898
PIS	15.881	-	15.881	-
COFINS	132.986	-	132.986	-
PIS/COFINS/CSLL	4.340	-	4.340	2.745
ISS	31.236	-	31.236	4.520
INSS	1.307	-	1.307	1.492
Installment – IRPJ **(i)**	210.993	731.800	942.793	-
Installment – CSLL **(i)**	80.330	277.747	358.077	-
	1.131.960	**1.009.547**	**2.141.507**	**845.100**

(i) In the year of 2019 the Company paid the IRPJ and CSLL related to 2018 and the 1st and 3rd quarters of 2019 in installments, with final maturity in 2023.

13 Advance payment from clients

Description	2019	2018
Domestic market	**1.901.390**	**1.423.755**

The balance refers to advances with the objective of starting production.

14 Escrow deposits and contingent liabilities

Escrow deposits amounting to R$ 242.287 refer to a legal action filed against the Brazilian Internal Revenue Service – "RFB", questioning the ICMS credits included in the basis of PIS and COFINS calculation.

Also, in the course of its regular operations the Company is exposed to certain risks related with tax, labor and civil processes. In the legal counsel's opinion, there are not currently any such processes involving probable losses, this being the reason why no provision for contingencies has been set up by the management.

Under current legislation, the Company´s operations are subject to review by tax authorities during limitation periods (usually five years) varying with the different federal, state and municipal taxes. However, according to the management, all taxes have been duly paid or properly provided for. As of December 31, 2019 and 2018, no relevant tax contingency involving probable losses was known.

15 Shareholders´ equity

a Capital

The subscribed capital consists of 28.172.742 common, nominative shares worth R$ 1,00 each, respectively - 17.145.601 and 8.075.624 – partially paid as of December 31 2019 and 2018, representing tangible and intangible assets (according to an economic-financial appraisal report) held by the shareholders.

In the year 2019 payments of R$ 9.069.977 were made (R$ 8.075.624 in 2018) corresponding to R$ 1.272.099 of fixed assets (R$ 6.649.462 in 2018) and R$ 7.797.878 of inventories (R$ 1.426.162 in 2018). Payments were made by way of operational assets contained in Smar liquidation mass, as authorized by court decision.

b Legal reserve

This was set up in accordance with the Corporate Law and the Company´s articles of association, at 5% of the net income for the year in the amount of R$ 181.719 and R$ 30.213 as of December 31 2019 and 2018, respectively. The legal reserve is intended to ensure the wholeness of capital and cannot be use but to compensate losses and increase capital.

c Revenue reserve

Intended to compensate accumulated losses, this reserve cannot exceed the amount of capital. The use of any excess thereof in capital payment or increase or dividend distribution must be deliberated upon at the shareholders´ meeting.

d Earnings per share

The Company disclosed its net earnings per share considering the income attributable to shareholders divided by the number of outstanding shares during the year. The Company does not have instruments potentially capable of diluting the earnings per share reported.

Below, the calculation of earnings per share:

Description	2019	2018
Numerator		
Net income for the year	3.030.126	604.260
Denominator		
Number of outstanding shares	17.145.601	8.075.624
Income per thousand-share lot	**0,18**	**0,07**

16 Net operating revenue

Description	2019	2018
Gross operating revenue		
Products sold – domestic market	32.971.863	18.094.221
Products sold – foreign market	16.092.426	6.101.468
Services rendered – domestic market	3.904.130	840.378
Services rendered – foreign market	2.132.523	992.082
	55.100.942	**26.028.149**
Deductions from gross revenue		
Sales taxes	(8.587.502)	(4.871.597)
Returns and cancellations	(2.756.256)	(754.797)
	(11.343.758)	**(5.626.394)**
	43.757.184	**20.401.755**

17 Personnel expenses

Description	2019	2018
Salaries, overtime and “pro-labore” (*)	(5.861.746)	(938.933)
Payroll taxes	(1.647.049)	(234.617)
Vacation pay, 13th-month salary and indemnities	(1.046.537)	(138.250)
Benefits	(76.334)	(6.597)
Other personnel expenses	(20.509)	(24)
	(8.652.175)	**(1.318.421)**

(*) management fees

18 Administrative and general expenses

Description	2019	2018
Commissions	(2.903.973)	(302.337)
Consulting services	(572.507)	(106.249)
Communication	(560.262)	(53.368)
Rentals	(473.649)	(48.150)
Depreciation	(397.057)	-
Maintenance	(235.436)	(41.794)
Cleaning and preservation	(212.735)	(23.408)
Energy	(108.599)	(18.174)
Training and courses	(71.329)	(10.653)
Gifts	(64.490)	-
Taxes and rates	(61.215)	(3.381)
Other expenses	(463.915)	(52.717)
	(6.125.167)	**(660.231)**

19 Net financial income

Description	2019	2018
Financial revenue		
Exchange gains	465.045	20.229
Discounts obtained	83.851	5.502
Return on investments in the money market	17.310	1.176
Interest received	6.293	51
Bonuses	6.047	72
	578.546	**27.030**
Financial expense		
Exchange losses	(488.001)	(67.767)
Arrears fine	(363.528)	(21.446)
Interest paid	(98.229)	(3.690)
Bank charges	(88.396)	(13.180)
Discounts given	(73.376)	(1.572)
Other expenses	(27.870)	(677)
	(1.139.400)	**(108.332)**
	(560.854)	**(81.302)**

20 Current income tax and social contribution

Description	**1st quarter**	**2nd quarter**	**3rd quarter**	**4th quarter**	**2019 Total**	**2018 Total**
Pretax income	1.260.217	(324.471)	1.070.312	1.559.669		881.797
(+) Additions	84.264	85.240	79.575	214.226		5.075
(-) Exclusions	(651.133)	(181.779)	(735.080)	(853.143)		-
Pre-compensation basis of calculation	**693.348**	**(421.010)**	**414.807**	**920.752**		**886.872**
Compensation of negative basis	-	-	(124.442)	(276.226)		-
Income tax and social contribution basis of calculation	**693.348**	**(421.010)**	**290.365**	**644.526**		**886.872**
"IRPJ" (tax rate – 15% + 10% on any excess of R$ 60 thousand in the quarter)	(167.337)	-	(66.591)	(155.132)	(389.060)	(197.719)
"CSLL" (tax rate – 9%)	(62.401)	-	(26.133)	(58.007)	(146.541)	(79.818)
Income tax and social contribution	**(229.738)**	**-**	**(92.724)**	**(213.139)**	**(535.601)**	**(277.537)**

As from 2019 the Company has been given the benefits ordered by Law 11.196/05 – "Lei do Bem", a specific law that provides tax benefits to legal entities performing research and technological innovation. The benefits consist of reduction of the basis of income tax levied on research and development expenses incurred on technological innovation, which can be classified as operating expenses under the income tax legislation.

21 Financial instruments and risk management

a General considerations

The Company operates with financial instruments the risk of which is managed through financial strategies and exposure-limit systems. The risk policies and systems are regularly monitored to reflect changes in market conditions and the activities of society as a whole. Every operation is fully accounted for and restricted to the instruments described below:

	Note	2019	2018	Classification
Financial assets				
Cash and cash equivalentes	**4**	55.769	46.518	**(i)**
Readily realizable investments in the money market	**4**	310.153	563.744	**(ii)**
Accounts receivable	**5**	10.570.469	5.218.186	**(i)**
Other credits		836.636	516.396	**(i)**
Related-party transactions	**7**	2.298.705	-	
		14.071.732	**6.344.844**	
Financial liabilities				
Loans and financing	**9**	794.473	100.000	**(iii)**
Suppliers – trade payables	**10**	1.106.312	492.696	**(iii)**
Advances from clients	**13**	1.901.390	1.423.755	**(iii)**
Related-party transactions	**7**	-	2.831.453	**(iii)**
		3.802.175	**4.847.904**	

Classification:

(i) Assets at amortized cost.

(ii) Assets at fair value through the income

(iii) Liabilities at amortized cost.

b Risk factors that may affect the businesses

The main risk factors to which the Company is exposed are related with strategic, operational, economic and financial aspects. Strategic and operational risks (such as the demand, competition behavior and relevant structural changes) are dealt with according to a management model. The risk and financial instrument management is conducted through adoption of policies, definition of strategies and implementation of control systems aimed to ensure liquidity, profitability and safety. The control policy consists in permanently monitoring contracted rates as compared to those in force in the market. The management adopts a conservative resource-management policy, the main objectives of which are to protect value and liquidity of financial assets and ensure financial funds for properly conducting and even expanding businesses. The main financial risks taken into consideration by management are as follows:

- Price risk involved in goods and services rendered.
- Credit risk.
- Liquidity risk.
- Interest rate risk.
- Foreign exchange rate risk.

The management does not perform speculative operations using derivatives or other risk assets. In this note is information on the Company´s exposure to each of the above mentioned risks, the objectives, policies and processes concerning the risk measurement and management, as well as the management of capital. These financial statements also disclose additional quantitative information.

c Price risk involved in goods and services rendered

This refers to the possibility of price fluctuation and other products used in the Company´s activities. Sales revenue and especially the cost of products sold may be affected by price fluctuation. In order to minimize the risks in question, the Company permanently monitors the fluctuation of both local and internal prices.

d Credit risk

The financial instruments involving credit risks consist basically of cash and cash equivalents and trade receivables. The cash and cash equivalent risks arise mainly from financial institutions being unable to meet their financial obligations with the Company. The management regularly analyzes credit operations with its client institutions using methods to assess the liquidity, solvency, leverage, and portfolio quality, among other aspects. Cash equivalents are held only in institutions with sound credit position, with priority to safety and liquidity. Credit risks related with trade receivables are reduced because of constant monitoring and analysis of credit and control procedures. In the table below, information on the maximum exposure to credit risks:

	Note	2019	2018
Financial assets			
Cash and cash equivalents	**4**	55.769	46.518
Readily realizable investments in the money market	**4**	310.153	563.744
Accounts receivable	**5**	10.570.469	5.218.186
Other credits		836.636	516.396
Related-party transactions	**7**	2.298.705	-
		14.071.732	**6.344.844**

e Liquidity risk

The liquidity risk arises from the possibility that the Company will not be able to meet contracted obligations in due time, and the cash requirements due to restricted liquidity in the market. In order to lessen this risk, the management uses revolving credit lines that increase short-term liquidity and enhance more effective cash management, always consistently with the strategic aim of reducing capital cost. The Company´s main sources of funds are the cash flow generated by operations, suppliers and loans and financing. The management believes that these are appropriate to meet its current fund requirements, including but not limited to working capital, investment capital, debt amortization and dividend payment. The table below shows liquidity risks and reflects the Company´s financial flow:

Description	2019 Cash flow	2019 Up to one year	2019 More than One year	2018 Cash flow	2018 Up to One year	2018 More than One year
Assets						
Cash and cash equivalents	55.769	55.769	-	46.518	46.518	-
Readily realizable investments in the money market	310.153	310.153	-	563.744	563.744	-
Accounts receivable	10.570.469	10.570.469	-	5.218.186	5.218.186	-
Other credits	836.636	836.636	-	516.396	516.396	-
Related-party transactions	2.298.705	-	2.298.705	-	-	-
	14.071.732	**11.773.027**	**.298.705**	**6.344.844**	**6.344.844**	**-**
Liabilities						
Loans and financing	794.473	709.093	85.380	100.000	16.966	83.034
Suppliers – trade payables	1.106.312	1.106.312		492.696	492.696	-
Advances from clients	1.901.390	1.901.390		1.423.755	1.423.755	-
Related-party transactions	-	-	-	2.831.453	-	2.831.453
	3.802.175	**3.716.795**	**85.380**	**4.847.904**	**1.933.417**	**2.914.487**

f Interest rate risk

This arises from the possibility that the Company comes to bear losses due to fluctuation of rate of interest levied on liabilities and assets it holds. To minimize possible impact from interest rate fluctuation, the Company adopts a diversification policy, by alternating fixed and variable rates under contracts and periodically reviewing contracts in order to adjust them to the market and any change in circumstances.

g Foreign exchange rate risk

This arises from the possibility of changes in foreign exchange risk affecting financial expenses (revenue). However, as a safeguard against exchange fluctuation, the Company monitors its foreign exchange exposure.

h Capital management

It is the Company's policy to maintain a sound capital basis to ensure investors', creditors' and the market's trust and the future of the business. To this end, the net debt relationship with the total shareholders´ equity is closely monitored.

The management endeavors to maintain in balance the highest possible return and the most appropriate levels of financing as well as the advantages obtained and the safety provided by a sound capital position. Below, the Company's debt to the adjusted capital position at the end of the year:

	2019	**2018**
Total liabilities	8.575.979	6.581.541
Less: cash and cash equivalents	365.922	610.262
Net debt (A)	**8.210.057**	**5.971.279**
Total shareholders´ equity **(B)**	20.779.987	8.679.884
Net debt index to adjusted equity **(A)/ (B)**	0,40	0,69

i Fair value estimate

It is assumed that the book value of accounts receivable and accounts payable less any loss (impairment) are close to their fair values. The fair value of financial liabilities, for disclosure purposes, is estimated by discounting contracted future cash flows at the rates ruling in the market.

The management follows the "CPC" procedures for financial instruments stated at fair value in the balance sheet. This requires disclosure of measurements at fair value by the following measurement classification:

- Quoted prices (non-adjusted) in active markets for identical assets and liabilities (level 1).
- Information other than quoted prices included in level 1, which is adopted by Market for assets and liabilities, either directly (i.e., as prices) or indirectly (i.e., deriving from prices) (level 2).
- Inclusions of assets and liabilities not based on Market data (i.e., non-observable inclusions - level 3).

The Company´s transactions as of December 31 2019 and 2018 are classified only as level 1.

22 Insurance coverage

Company management has a policy of only hiring insurance from different modalities whose coverages are deemed sufficient by the management and insurance agents to cover the ocurrence of claims. Given their nature, risk assumptions adopted are not part of the financial statements' audit scope, and consequently were not examined by our independent auditors.

23 Subsequent events

Because of the novel Coronavirus pandemic, Nova Smar S/A has maintained all health safety protocols among its co-workers while monitoring all production and administrative sites in terms of daily health conditions. Also, efforts have been made to keep them aware of the importance of such safety measures, with sectors having adopted the work-from-home regime.

The production capacity has not been affected, considering that internal logistic planning and changes in external variables such as foreign exchange the Company's cash resources. It must be kept in mind that costly liabilities are not related with foreign currencies and international demand, on the other hand, has increased due to the favorable exchange rate, despite the increase in import costs due to the lower Real quotation.

The management has closely monitored the market movement and its systematic variables in order to adopt a contingency plan, if necessary.

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CONTATO

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