# STANDARD FINANCIAL STATEMENTS 2019

**LUPATECH S.A. – IN JUDICIAL RECOVERY**
**CNPJ/MF nº 89.463.822/0001-12**
**NIRE 35.3.0045756-1**
**Publicly-held company with authorized capital – New Market**

# Management Report

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IN CASE OF DIVERGENCE OF INTERPRETATION, THE PORTUGUESE TEXT WILL PREVAIL

## Message from the Administration

### Context

As is the previous quarter, during 4Q19 the performance of our businesses reflected the pale economic recovery and the lack of traction in the oil sector. The economy had very little growth, only 1,1% in the year, and our performance reflects that situation.

The growth in sales compared to the previous quarter results from the company's own performance, which had greater support of financial resources in the period, after the divestment of the Colombian services company in 3Q19.

The highlight of the period was the expansion in the profitability of our Products. This expansion was the result of a long effort to develop alternatives for supplying components and products in Asia, which began to bear fruit with the arrival and consumption of the first batches. It also contributed to changes in the pricing strategy, resulting from efforts to improve market intelligence.

Products gross margin was 16.4%, compared to 7.4% in the previous quarter. As depreciation places a heavy burden on our cost, due to the still low level of activity, we usually measure the gross margin *ex* depreciation - in this metric, the margin was 39% (29% in 3Q19).

This development is very important as, ***ceteris paribus***, with a higher sales volume, the dilution of fixed costs towards reaching the break-even point tends to be much faster.

### Services x Demobilization

During the period, we persisted in our efforts to demobilize equipment from the Services unit. At the end of 2019, we were able to contract a lease agreement with a purchase option of a drilling rig, for US $ 1.5 million, with the company receiving US$ 500 thousand in advance payment for the deal. An estimated amount of US$ 5 to 7 million in equipment remains for sale.

### Judicial Recovery

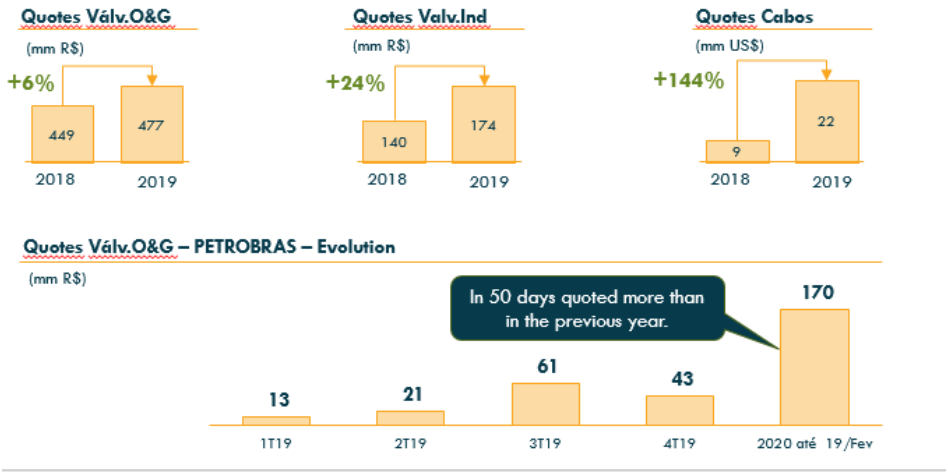
We persist in efforts to complete all the measures necessary to lift the Judicial Recovery.

- In January 2020, the New York bankruptcy court once again recognized the Brazilian insolvency procedure - the Judicial Recovery Plan and its amendments - as enforceable in American territory. However, the closing of the process was deferred until the measures provided for in the Plan were fulfilled, in particular the issuance of new Notes to replace the existing ones.
- We continue to take measures to clear the company's tax debtor status, which is currently hindered by a few debts that are being unduly levied. There are ongoing legal measures aimed at suspending the enforceability of these credits, with which the company would have fiscal regularity ensured with the issuance of CNDs (negative tax debt certificate).

• In 4Q19, the company obtained a reduction of R$ 19 million in bankruptcy related liabilities, partly due to a legal dispute and partly due to the release of surety on certain third party debt.

**Asset Recovery and Recapitalization**

Throughout 2019, there was an increase in the volume of customer inquiries for quotations of our products. We understand that this movement precedes the effective purchase and is a useful business activity indicator. If in 2019, there was an important growth in Industrial Valves and Cables, the boredom of the Oil and Gas Valves segment was interrupted in the beginning of 2020, when there was a substantial increase in the tenders called by Petrobras.




The company has the potential to be the winner in several competitions, where it presented lower prices than the competitors did, but which at this point were not concluded.

To cope with the growing demand and other obligations, the company has:

• the potential for demobilization of equipment - an estimated US$ 5 to 7 million in goods for sale

• good prospects regarding the reimbursement of tax credits (R$ 27 million approved plus 48 million in process) - which depend on the course of administrative and judicial measures

• active contingencies and litigious collections (R$ 72 million), which, if successful, may become liquid after the execution phase.

• the possibility of demobilization of non-operational and operational properties (R$ 154 million)
• with due consideration about mortgages and other existing liens, the industrial park maybe revisited to occupy properties with better cost-effectiveness or to finance the company via sale-leaseback transactions.

| Potential Sources of Funding for Resumption | |
|---|---|
| Demobilization of Assets | |
| - Equipamentos remanescentes (Serviços) | 25 |
| - Properties | 154 |
| Tax Refunds Taxes | 75 |
| Arbitrations / Litigation | 72 |
| **TOTAL (R$ MM)** | **326** |

**Coronavirus**

It is not yet possible to measure the financial and economic effects of the Coronavirus pandemic, COVID-19, nor the full extent of its impact on the company. However, one can reasonably make predictions about the main underlying risks, without the ambition of exhausting all possibilities.

With regard to supplies, we had delays in the manufacture and transportation of products from China, but which have gradually been regularized and will not have a material impact on business. Domestic supplies have remained normal until the present date, but it is reasonable to expect that there will be an impact on both manufacturing and the circulation of productive inputs, which may have a slight to moderate impact on delivery times.

In the case of sales, there has been no noticeable change in the inflow of orders to date, but there are merely qualitative reports of cooling in the influx of inquiries from customers in the industrial segment. There were no cancellation of orders resulting from the event, so far. However, in view of the unfolding of the facts, it is reasonable to expect demand cooling down in the coming days. It is impossible to anticipate at what levels and for how long.

Administrative and production activities. As of March 16, the company took several preventive measures aimed at producing the "social distancing" recommended by the authorities. Most of the administrative employees started to work domestically, and the production teams were divided into work shifts when possible, in order to mitigate the total interruption of activities.

All conduct recommendations for removal of people with symptoms are being implemented. As the company has been working with idleness, it is likely that part of the delays resulting from the introduced inefficiencies will be mitigated, but there are manufacturing sectors that can constitute relevant bottlenecks if they have to be stopped.

From a financial angle, with regard to the inflow of funds, the company is aware of the potential increase in customer defaults, which began to be observed as of this week, with the outbreak of the crisis in Brazil. It is possible that transactions involving sales of assets will be delayed or even canceled. As for the outflow of funds, depending on the combination and scope of all the effects described herein, the company may or may not see its payment capacity substantially reduced, which, ultimately, could affect ability to comply with the Judicial Recovery Plan.

Rafael Gorenstein
Director President and of Investor Relations

## Financial-Economic Performance

### Net Revenue

| Net Revenue (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Products** | **8,352** | **6,765** | **8,005** | **9,321** | **34,329** | **32,444** |
| Oil&Gas Valves | 3,237 | 2,099 | 2,186 | 3,043 | 9,184 | 10,566 |
| Industrial Valves | 5,115 | 4,666 | 5,819 | 6,278 | 23,140 | 21,878 |
| Tubular | - | - | - | - | 2,005 | - |
| **Services** | **72** | **25** | **91** | **45** | **347** | **233** |
| Oilfield Services Brazil | 72 | 25 | 91 | 45 | 347 | 233 |
| Oilfield Services Colombia | | | | | | |
| **Total** | **8,424** | **6,790** | **8,096** | **9,365** | **34,676** | **32,676** |

For comparison purposes, as of the 2Q18 we changed the composition of the business segments, starting to treat the Tubular division as part of the Products business.

Product Segment

In the comparison between 4Q19 and 3Q19, we had an increase in sales of both Oil & Gas Valves and Industrial Valves, reflecting the company's better performance in a market that is still relatively stagnant, but already showing signs of improvement.

In the valve business, comparing 2019 with the year 2018, although there was an acceleration in the course of the year, the scenario of stagnation, with revenues at the same levels. This behavior reflects economic stagnation with a resumption bias. In the Tubular business after the conclusion of a small contract in 2018, the plants stopped again due to lack of activity.

Services Segment

Revenues in the Oilfield Services Brazil division reflect the discontinuation of business in the Segment in progress since 2017. The revenue generated is not due to the operation, it refers to the settlement of inventory balances.

Order Backlog

As of December 31, 2019, the Company's order backlog and contracts with purchase obligation ("Order Backlog") in Brazil totaled R$ 15.7 million (R$ 6 million in 2018). On the same date, the company had a balance in supply contracts with no purchase obligation in the amount of R$ 4.4 million. Bids won, but for which the respective orders have not been issued yet, are not included in this figure.

## Gross Profit and Gross Margin

| Gross Profit (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Products** | **1,060** | **294** | **596** | **1,532** | **2,529** | **3,482** |
| Gross Margin - Products | *12.7%* | *4.3%* | *7.4%* | *16.4%* | *7.4%* | *10.7%* |
| **Services** | **(2,085)** | **(1,146)** | **(95)** | **(136)** | **(716)** | **(3,462)** |
| Gross Margin - Services | *n/a* | *n/a* | *n/a* | *n/a* | *n/a* | *n/a* |
| **Total** | **(1,025)** | **(852)** | **501** | **1,396** | **1,813** | **20** |
| Gross Margin - Total | *-12.2%* | *-12.5%* | *6.2%* | *14.9%* | *5.2%* | *0.1%* |
| Depreciation Products | 1,655 | 1,583 | 1,745 | 2,146 | 7,426 | 7,129 |
| **Gross Profit without Depreciation** | **2,715** | **1,877** | **2,341** | **3,678** | **9,955** | **10,611** |
| Gross Margin without Depreciation Products | *33%* | *28%* | *29%* | *39%* | *29%* | *33%* |

*n/a - not applied

Product Segment

When comparing 4Q19 with 3Q19, sales were better and margins were the result of progressive efforts to improve sales profitability. This increase in profitability, measured by gross margins with and without depreciation, is also observed in the annual comparison.

In 2019, total net revenue was lower compared to 2018 due to the discontinuity of the tubular business, but margins improved due to the greater dilution of fixed costs in the period.

Depreciation expense has a high weight on our margins due to the high fixed assets, in a scenario of low activity level. Excluding the depreciation that does not matter in the disbursement of resources, the margin in 4Q19 compared to 3Q19 increased by 10.2% and in the interannual comparison, the margin increased by 3.7%.

Services Segment

The service segment margins do not come from the company's productive activities, but from the sale of inventories to demobilize the plant.

## Expenses

| Expenses (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Total Sales Expenses** | **1,393** | **1,202** | **1,270** | **2,299** | **5,906** | **6,165** |
| Sales Expenses - Products | 1,399 | 1,305 | 1,299 | 1,340 | 5,810 | 5,343 |
| Sales Expenses - Services | (6) | (103) | (29) | 959 | 96 | 822 |
| **Total Administrative Expenses** | **5,891** | **5,290** | **4,588** | **6,712** | **21,226** | **22,481** |
| Administrative Expenses - Products | 2,117 | 2,109 | 2,043 | 2,848 | 7,951 | 9,117 |
| Administrative Expenses - Services | 3,297 | 3,082 | 2,186 | 3,262 | 11,497 | 11,827 |
| Administrative Expenses - Corporate | 477 | 99 | 359 | 602 | 1,778 | 1,537 |
| **Management Fees** | **720** | **710** | **705** | **1,305** | **4,780** | **3,440** |
| **Total Sales, Administratives and Management Fees** | **8,004** | **7,202** | **6,563** | **10,316** | **31,912** | **32,086** |

Sales Expenses

In 4Q19 versus 3Q19 in the Products Segment, expenses increased slightly due to the increase in revenue. When comparing 2019 with 2018, expenses with contractual fines in the previous year explained the reduction.

In the Services Segment comparing 2019 to 2018, selling expenses were higher due to bad credits written off.

Administrative Expenses

In the Products Segment, when comparing 4Q19 with 3Q19, there was a significant increase in expenses, attributed to adjustments in the apportionment of corporate fixed expenses. Comparing 2019 with 2018, the increase is substantially explained by the same reason.

In the Services Segment, comparing 4Q19 and 3Q19, the increase was due to adjustments in the allocation of fixed expenses. Compared to 2019 compared to 2018, they are at similar levels.

In Corporate Expenses, there was an increase in 4Q19 compared to 3Q19 related to legal fees and expenses with judicial reorganization. However, when comparing 2019 versus 2018 we see a small reduction.

Management Pay

The increase in 4Q19 is due to the provision of values for variable remuneration, to be yet confirmed by the Board of Directors. In the annual comparison, there was a reduction, due to lower expectation of spending on variable remuneration.

**Other Revenues and Operational (Expenses)**

| Other Operating (Expenses) (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Products | (260) | (719) | 15,971 | (8,009) | 1,731 | 6,984 |
| Expenses with Idleness - Products | (2,390) | (3,100) | (2,861) | (3,350) | (11,043) | (11,701) |
| Services | (2,146) | 795 | 17,127 | 561 | (14,888) | 16,337 |
| Expenses with Idleness - Services | (750) | (471) | (610) | (589) | (2,668) | (2,420) |
| **Total** | **(5,546)** | **(3,495)** | **29,627** | **(11,387)** | **(26,868)** | **9,200** |

In 4Q19, the following factors stand out:

(i) R $ 3.9 million in expenses with production idleness;

(ii) R $ 18.5 million corresponding to the negative net effect of adjustments for impairment and the result of the sale of assets;

(iii) R $ 19.1 million reduction in Judicial Recovery liabilities;

(iv) R $ 2.1 million increase due to updates to contingent processes (mainly labor) according to the analysis of legal advisors;

(v) R $ 3.0 expenses due to write-off of advances to suppliers;

## Financial Result

| Financial Results (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Income from Financial Investments | 21 | 25 | 49 | 130 | 118 | 225 |
| Monetary Variation | 295 | 357 | 14,957 | 542 | 11,254 | 16,151 |
| Fair value adjustment | - | - | - | - | 27,923 | - |
| Interest on Receivables | 3 | 2 | 3 | 3 | 9 | 11 |
| Revenue (reduction of fine, interest and charges adherence to PERT) | - | - | - | - | 6,850 | - |
| Others | 1,296 | 170 | (302) | 145 | 153 | 1,309 |
| **Financial Revenue*** | **1,615** | **554** | **14,707** | **2,815** | **46,307** | **19,691** |
| (Expense) Reversal of Interest Expenses | (3,865) | (3,683) | (2,523) | (296) | (12,300) | (10,367) |
| Adjustment to fair value | (2,120) | (1,696) | 2,437 | (162) | (1,137) | (1,541) |
| Discount Granted | - | (24) | (1) | (1) | (118) | (26) |
| (Provision) Reversal of Provision for Interest on Suppliers | 1,099 | 146 | (3,790) | (1,658) | (298) | (4,203) |
| Fines and Interest on Taxes | (205) | (731) | (198) | (345) | (8,426) | (1,479) |
| IOF, Banking Expenses and Others | (2,033) | (1,814) | 1,511 | 890 | (6,269) | (1,446) |
| **Financial Expense*** | **(7,124)** | **(7,802)** | **(2,564)** | **(1,572)** | **(28,548)** | **(19,062)** |
| **Net Financial Results*** | **(5,509)** | **(7,248)** | **12,143** | **1,243** | **17,759** | **629** |
| Exchange Vaciance Revenue | 10,162 | 5,617 | 14,174 | 17,293 | 98,557 | 47,246 |
| Exchange Variance Expenses | (12,324) | (3,398) | (31,129) | (10,639) | (168,099) | (57,490) |
| **Net Exchange Variance** | **(2,162)** | **2,219** | **(16,955)** | **6,654** | **(69,542)** | **(10,244)** |
| **Net Financial Results - Total** | **(7,671)** | **(5,029)** | **(4,812)** | **7,897** | **(51,783)** | **(9,615)** |

* Excluding Exchange Variance

Financial Revenue

The variation between 4Q19 and 3Q19 is mainly due to the monetary restatement of tax credit contingent assets recognized in 3Q19, and the recognition of Present Value Adjustment revenue recognized in 4Q19.

In the annual comparison, the variation is explained by the adjustment to fair value referring to the issuance of Subscription Bonuses as provided for in the Judicial Recovery Plan, by the monetary variation resulting from the Selic adjustment arising from the request for refund of IRPJ and CSLL, in 2018.

Financial expenses

In the 2019 versus 2018 comparison, the reduction in financial expenses is mainly due to the registration of fines, interest and expenses arising from installments of tax debts due to the adhesion and consolidation of PERT, in the previous year.

Net Exchange Variation

In 4Q19 versus 3Q19, the Net Exchange Variation resulted in revenue, due to the 3.2% devaluation of the dollar. In the 2019 x 2018 comparison, the dollar appreciated 4.02%.

## EBITDA Adjusted from Activities

| EBITDA Adjusted (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Products** | **(2,838)** | **(4,730)** | **(3,020)** | **(373)** | **(15,733)** | **(10,961)** |
| Margin | -34.0% | -69.9% | -37.7% | -4.0% | -45.8% | -33.8% |
| **Services** | **(4,315)** | **(1,412)** | **(1,200)** | **(2,240)** | **(16,690)** | **(9,166)** |
| Margin | n/a | n/a | n/a | n/a | n/a | n/a |
| **Total** | **(7,153)** | **(6,142)** | **(4,220)** | **(2,612)** | **(32,423)** | **(20,127)** |
| **Margin** | -84.9% | -90.5% | -52.1% | -27.9% | -93.5% | -61.6% |

Adjusted EBITDA for Products in 4Q19 improved compared to 3Q19 mainly due to the better sales performance and profitability. The same is true in the annual comparison.

In the Service Segment, 4Q19 compared to 3Q19 increased due to the sharing of corporate expenses and also due to the lack of operating revenues. In the annual comparison, the result improved.

| Adjusted Ebitda Reconciliation (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2019 | 2018 |
|---|---|---|---|---|---|---|
| Gross Profit | (1,025) | (852) | 501 | 1,396 | 20 | 1,813 |
| SG&A | (7,284) | (6,492) | (5,858) | (9,010) | (28,643) | (27,132) |
| Management Fees | (720) | (711) | (705) | (1,304) | (3,440) | (4,780) |
| Depreciation and Amortization | 1,900 | 1,830 | 1,778 | 1,756 | 7,264 | 15,337 |
| Other Operating Expenses | (5,546) | (3,495) | 29,627 | (11,387) | 9,199 | (26,868) |
| **Ebitda** | **(12,675)** | **(9,719)** | **25,343** | **(18,548)** | **(15,599)** | **(41,630)** |
| Result of disposal or write-off of assets | - | - | (8,093) | (13,987) | (22,080) | 14,158 |
| Provisions for Losses, Impairment, Net Result on Disposal of Assets, | 987 | 1,373 | 2,978 | - | 5,338 | 2,014 |
| Idle expenses | 3,140 | 3,570 | 3,470 | 3,939 | 14,120 | - |
| Expenses with Restructuring and Other Extraordinary Expenses | 1,395 | (1,366) | (27,918) | 12,156 | (15,733) | (13,738) |
| **Adjusted EBITDA** | **(7,153)** | **(6,142)** | **(4,220)** | **(2,612)** | **(20,127)** | **(32,423)** |

| | 4Q19 | | |
|---|---|---|---|
| **Adjusted Ebitda Reconciliation (R$ thd)** | **Products** | **Services** | **Total** |
| Gross Profit | 1,532 | (136) | 1,396 |
| SG&A | (4,786) | (4,224) | (9,010) |
| Management Fees | (1,297) | (7) | (1,304) |
| Depreciation and Amortization | 1,730 | 26 | 1,756 |
| Other Operating Expenses | (11,359) | (28) | (11,387) |
| **Ebitda** | **(14,180)** | **(4,369)** | **(18,548)** |
| Provisions for Losses, Impairment, Net Result on Disposal of Assets, | 9,615 | 8,916 | 18,531 |
| Provisions for Legal Proceedings | 321 | 1,804 | 2,124 |
| Idle expenses | 3,258 | 681 | 3,939 |
| Restructuring Process and Other Extraordinary Expenses | 613 | (9,272) | (8,659) |
| **Adjusted EBITDA** | **(373)** | **(2,240)** | **(2,612)** |

Non-recurring expenses in 4Q19 refer mainly to provisions for losses due to the non-recoverability of assets and updating of contingent processes.

**Net Result**

| Net Result (R$ thd) | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Result Before Income Tax and Social Contribution | (18,558) | (15,272) | 18,832 | (15,285) | (117,019) | (30,283) |
| Income Tax and Social Contribution - Current | (1.543) | (2) | - | 1.522 | 122 | (23) |
| Income Tax and Social Contribution - Deferred | 505 | 403 | (580) | (436) | 10,464 | (108) |
| Result of Discontinued Operations | - | 1,756 | 973 | 1,507 | 5,122 | 4,236 |
| **Net Result** | **(19,596)** | **(13,115)** | **19,225** | **(12,692)** | **(101,311)** | **(26,178)** |
| Net Result per 1,000 shares | (2.00) | (2.42) | 6.86 | (10.64) | 0.47 | (10.64) |

R$ 12.7 million contributed to the negative result of 4Q19, in addition to current expenses, R$ 3.5 million of idleness, R $ 3.0 million of write-offs.

**Operational Working Capital**

| Working Capital (R$ thd) | 2018 | 2019 |
|---|---|---|
| Accounts Receivable | 31,357 | 10,795 |
| Inventories | 38,950 | 30,436 |
| Advances of suppliers | 13,877 | 7,826 |
| Recoverable taxes | 23,637 | 38,271 |
| Suppliers | 31,104 | 11,638 |
| Advances from Customers | 3,528 | 5,171 |
| Taxes payable | 20,127 | 13,846 |
| Payroll and charges | 12,381 | 7,997 |
| **Employed Working Applied** | **40,681** | **48,676** |
| Working Capital Variance | (17,839) | 7,995 |
| % Working Capital/Net Revenue* | 23% | 24% |

When comparing 2019 with 2018, we noticed an increase in working capital employed. This increase is mainly due to tax credits subject to offset or reimbursement in the short term.

**Cash and Cash Equivalents**

| Cash and cash equivalents (R$ thd) | 2018 | 2019 |
|---|---|---|
| Cash and Cash Equivalents | 1,245 | 5,834 |
| Securities-restricted | 847 | - |
| **Total** | **2,092** | **5,834** |
| | 60% | 100% |

The variation in 2019 x 2018 refers to the inflow of funds related to the sale of the equity interest in Oilfield Services Colombia.

**Debt**

| Debts (R$ thd) | 2018 | 2019 |
|---|---|---|
| **Short Term** | **53,040** | **23,381** |
| Credits subject to Judicial Recovery | 6,507 | 3,685 |
| Credits not subject to Judicial Recovery | 37,197 | 14,509 |
| Debentures Convertible into Shares | 9,336 | 5,187 |
| **Long Term** | **122,691** | **125,395** |
| Credits subject to Judicial Recovery | 121,570 | 125,395 |
| Credits not subject to Judicial Recovery | 1,121 | - |
| **Total Debts** | **175,731** | **148,776** |
| Cash and Cash Equivalents | 1,245 | 5,834 |
| Securities-restricted | 847 | - |
| **Net Debt** | **173,639** | **142,942** |

The 2019 debt reduction compared to 2018 mainly refers to the inflow of resources that contributes positively to debt reduction.

**Investment Balances**

The reduction presented in 2019 in comparison with 2018 is justified by the demobilization of equipment from service units.

| Investments (R$ thd) | 2018 | 2019 |
|---|---|---|
| Others Investments | 587 | 51,039 |
| Fixed Assets | 135,937 | 84,155 |
| Intangible Assets | 115,970 | 87,010 |
| **Total** | **252,494** | **222,204** |

**Discontinued Operations:**

On September 12, 2019, the entities that comprised the Oilfield Services Colombia division ceased to be part of the society. For analysis purposes, all the results obtained by it previously are no longer included in this report.

# Annexes

## Annex I - Financial Statements (R$ thousand)

| | 2018 | 2019 | % Change |
|---|---|---|---|
| Net Revenue From Sales | 34,676 | 32,676 | -6% |
| Cost of Goods and Services Sold | (32,863) | (32,656) | -1% |
| Gross Profit | 1,813 | 20 | -99% |
| Operating Income/Expenses | (67,049) | (20,689) | -69% |
| Selling | (5,906) | (6,162) | 4% |
| General and Administrative | (21,226) | (22,481) | 6% |
| Management Fees | (4,780) | (3,440) | -28% |
| Equity pick-up | (8,269) | 2,194 | -127% |
| Other Operation Income (Expenses) | (26,868) | 9,200 | -134% |
| Net Financial Result | (51,783) | (9,614) | -81% |
| Financial Income | 46,307 | 19,691 | -57% |
| Financial Expenses | (28,548) | (19,061) | -33% |
| Net Exchange Variance | (69,542) | (10,244) | -85% |
| Loss Before Income Tax and Social Contribution | (117,019) | (30,283) | -74% |
| Provision Income Tax and Social Contribution - Current | 122 | (23) | -119% |
| Provision Income Tax and Social Contribution - Deferred | 10,464 | (108) | -101% |
| Loss from Discontinued Operations | 5,122 | 4,236 | n/a |
| Gain (Loss) for the Period | (101,311) | (26,178) | -74% |

## Annex II - Reconciliation of EBITDA Adjusted (R$ thousand)

| | 2018 | 2019 | % Change |
|---|---|---|---|
| Adjusted EBITDA from Continuing Operations | (32,423) | (24,675) | -24% |
| Expenses with Restructuring and Other Extraordinary Expenses | 21,095 | 41,247 | 96% |
| Provisions for Losses, Impairment and Net Result on Disposal of Assets | (16,172) | (17,901) | 11% |
| Fines with Costumers | (420) | (151) | -64% |
| EBITDA from Operations | (27,919) | (1,479) | -95% |
| Depreciation and Amortization | (15,337) | (7,264) | -53% |
| Equity Pick-up | (8,269) | 2,194 | -127% |
| Net Financial Result | (51,783) | (9,614) | -81% |
| Idleness Expenses | (13,711) | (14,120) | 3% |
| Result Discontinued Operations | 5,122 | 4,236 | -17% |
| Income Tax and Social Contribution - Current and Deferred | 10,586 | (131) | -101% |
| Net Income (Loss) | (101,311) | (26,178) | -74% |

## Annex III - Consolidated Balance Sheets (R$ thousand)

| | 2017 | 2018 | % Change |
|---|---|---|---|
| **Total Asset** | **581,725** | **504,628** | **-13%** |
| Current Assets | 227,832 | 184,200 | -19% |
| Cash and Cash Equivalents | 1,245 | 5,834 | 369% |
| Securities-restricted | 847 | - | n/a |
| Accounts Receivable | 31,357 | 10,795 | -66% |
| Inventories | 38,950 | 30,436 | -22% |
| Recoverable Taxes | 23,637 | 38,271 | 62% |
| Other Accounts Receivable | 26,938 | 21,203 | -21% |
| Prepaid Expenses | 1,580 | 1,165 | -26% |
| Advances to Suppliers | 13,877 | 7,826 | -44% |
| Assets Classified as Held for Sale | 89,401 | 68,670 | -23% |
| **Non-Current Assets** | **353,893** | **320,428** | **-9%** |
| Securities-restricted | 961 | 1,788 | 86% |
| Judicial Deposits | 25,410 | 24,987 | -2% |
| Recoverable Taxes | 53,736 | 55,136 | 3% |
| Deferred Income Tax and Social Contribution | 3,932 | - | n/a |
| Other Accounts Receivable | 13,505 | 13,026 | -4% |
| Assets Classified as Held for Sale | 3,855 | 3,287 | -15% |
| Investments | 587 | 51,039 | 8595% |
| Property, Plant and Equipment | 135,937 | 84,155 | -38% |
| Intangible Assets | 115,970 | 87,010 | -25% |
| **Total Liabilities and Shareholders´Equity** | **581,725** | **504,628** | **-13%** |
| **Current Liabilities** | **127,989** | **68,364** | **-47%** |
| Suppliers - Not Subject to Judicial Recovery | 25,538 | 7,627 | -70% |
| Suppliers - Subject to Judicial Recovery - Class I | 730 | 737 | 1% |
| Suppliers -Subject to Judicial Recovery | 4,836 | 3,274 | -32% |
| Loans and Financing - Not Subject to Judicial Recovery | 37,197 | 14,509 | -61% |
| Loans and Financing - Subject to Judicial Recovery | 6,507 | 3,685 | -43% |
| Debentures Convertible into Shares | 9,336 | 5,187 | -44% |
| Provisions Payroll and Payroll Payable | 12,381 | 7,997 | -35% |
| Commissions Payable | 958 | 410 | -57% |
| Taxes Payable | 20,127 | 13,846 | -31% |
| Obligations and Provisions for Labor Risks - Subject to Judicial Recovery | 1,638 | 94 | -94% |
| Advances from Customers | 3,528 | 5,171 | 47% |
| Employee's Profit Sharing | 613 | - | n/a |
| Other Accounts Payable | 3,359 | 4,909 | 46% |
| Provision for Contratual Fines | 1,241 | 918 | -26% |
| **Non-Current Liabilities** | **320,541** | **336,699** | **5%** |
| Suppliers - Subject to Judicial Recovery | 59,827 | 56,689 | -5% |
| Suppliers -Not Subject to Judicial Recovery | - | - | n/a |
| Loans and Financing - Subject to Judicial Recovery | 121,570 | 125,395 | 3% |
| Loans and Financing - Not Subject to Judicial Recovery | 1,121 | - | n/a |
| Taxes Payable | 13,032 | 17,294 | 33% |
| Deferred Income Tax and Social Contribution | 54,482 | 67,056 | 23% |
| Provision for Contigencies | 53,913 | 58,013 | 8% |
| Obligations and Provisions Labor Risks - Subject to Judicial Reorganization | 8,184 | 7,040 | -14% |
| Other Accounts Payable | 3,506 | 4,179 | 19% |
| Provision for Negative Equity in Subsidiaries | 4,906 | 1,033 | -79% |
| **Shareholders' Equity** | **133,195** | **99,565** | **-25%** |
| Non-Controlling Interests | 48,588 | - | n/a |
| Capital Stock | 1,873,761 | 1,885,266 | 1% |
| Capital reserve | 2,875 | 2,875 | 0% |
| Capital Transaction Reserve | 136,183 | 136,183 | 0% |
| Stock Options | 13,549 | 13,600 | 0% |
| Equity Valuation Adjustment | 121,681 | 151,261 | 24% |
| Accumulated Losses | (2,063,442) | (2,089,620) | 1% |

# Annex IV - Statements of the Consolidated Cash Flows (R$ thousand)

| | 2018 | 2019 | Variação % |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Loss for the year | (101,311) | (26,178) | -74% |
| Adjustments: | | | |
| Depreciation and Amortization | 13,661 | 7,264 | -47% |
| Equity Pick-up | 8,269 | (2,194) | -127% |
| Income from sale of property, plant and equipment | 33,504 | 22,667 | -32% |
| Extraordinary Losses and Adjustment to Market Value with Inventories | - | - | n/a |
| Financial charges and exchange variation on financing | 86,000 | 25,721 | -70% |
| Reversal (Provision) for loss due to non-recoverability of assets | (29,265) | 9,009 | -131% |
| Deferred Income Tax and Social Contribution | (564) | 16,506 | -3027% |
| Reversal of adjustment to fair value business combination SABR | - | 6,276 | n/a |
| Losses on Inventory Obsolescence | (861) | 1,065 | -224% |
| Provision of Contractual Fines | - | - | n/a |
| (Reversal) Allowance for doubtful accounts | 206 | (692) | -436% |
| Effective Losses on Doubtful Accounts | (123) | - | n/a |
| Adjustment to present value | 1,210 | (455) | -138% |
| Changes in Assets & Liabilities | | | |
| (Increase) Decrease in Accounts Receivable | (4,276) | 21,262 | -597% |
| (Increase) Decrease in Inventories | 21,645 | 7,449 | -66% |
| (Increase) Decrease in Recoverable Taxes | (6,015) | (15,678) | 161% |
| (Increase) Decrease in Other Assets | 11,981 | 13,133 | 10% |
| (Increase) Decrease in Suppliers | (5,955) | (23,648) | 297% |
| (Increase) Decrease in Taxes Payable | (586) | (3,498) | 497% |
| (Increase) Decrease in Others Accounts Payable | (87,099) | (8,326) | -90% |
| **Cash Flow from Operating Activities** | **(22,966)** | **31,461** | **-237%** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Payment of capital in subsidiaries | 20,077 | - | n/a |
| Securities-restricted | | | n/a |
| Securities - restricted account | 44 | 245 | 457% |
| Proceeds from the sale of investments | 89 | (50,452) | -56788% |
| Sending of proceeds from the sale of investment to its investors | - | - | n/a |
| Proceeds from the sale of fixed assets | 6,623 | 12,679 | 91% |
| Aquisition of Property, Plant and Equipment | (3,316) | (3,618) | 9% |
| Aquisition of Intangible Assets | (87) | (51) | -41% |
| **Fluxo de Caixa Proveniente das (Utilizado nas) Atividades de Investimento** | **23,430** | **- 2,748** | **-112%** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Borrowing and financing | 97,391 | (15,819) | -116% |
| Payment of loans and financing - Related Parties | (106,223) | (15,661) | -85% |
| Convertible Debentures in Stocks | 9,336 | (4,149) | -144% |
| Payment of loans and financing | (1,858) | - | n/a |
| Payment of interest on loans and financing | - | - | n/a |
| **Cash Flow from Financing Activities** | **(1,354)** | **(24,124)** | **1682%** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(890)** | **4,589** | **-616%** |
| At the Beginning of the Period | 2,135 | 1,245 | -42% |
| At the End of the Period | 1,245 | 5,834 | 369% |

## About Lupatech – In Judicial Recovery

Lupatech S.A. - In Judicial Recovery is a Brazilian company of products and services of high added value focusing the oil and gas sector. The businesses are organized in two segments: Products and Services. The Products Segment offers, mainly for the oil and gas sector, valves, anchoring cables for production platforms, industrial valves and equipment for well completion and pipe coating, as well as a relevant participation in the gas compressor segment company natural vehicle. The Service Segment offers services, workover, well intervention, inspection and repair.

LUPATECH S.A. - IN JUDICIAL RECOVERY

BALANCE SHEET
(In R$ Thousands)

| ASSETS | Note | Parent 12/31/2019 | Parent 12/31/2018 | Consolidated 12/31/2019 | Consolidated 12/31/2018 |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 6 | 176 | 135 | 5,834 | 1,245 |
| Securities-restricted | 6 | - | 847 | - | 847 |
| Accounts receivables | 7 | 5,427 | 6,704 | 10,795 | 31,357 |
| Inventories | 8 | 25,385 | 19,043 | 30,436 | 38,950 |
| Recoverable taxes | 9 | 1,371 | 2,736 | 38,271 | 23,637 |
| Advances to suppliers | | 929 | 1,088 | 7,826 | 13,877 |
| Other accounts receivable | 10 | 6,153 | 6,037 | 21,203 | 26,938 |
| Prepaid expenses | | 1,134 | 1,136 | 1,165 | 1,580 |
| Accounts receivable - related parties | 17.1 | 48,478 | 95,505 | - | - |
| Assets classified as held for sale | 33 | 3,236 | - | 68,670 | 89,401 |
| Total current assets | | 92,289 | 133,231 | 184,200 | 227,832 |
| NON-CURRENT ASSETS | | | | | |
| Other Credits | | 1 | - | 1 | - |
| Judicial deposits | 20.3 | 1,694 | 2,149 | 24,986 | 25,410 |
| Securities-restricted | 6 | 1,788 | 961 | 1,788 | 961 |
| Recoverable taxes | 9 | 39,713 | 12,944 | 55,136 | 53,736 |
| Deferred income tax and social contribution | 18 | - | - | - | 3,932 |
| Accounts receivable - related parties | 17.1 | 21,930 | 27,858 | - | - |
| Other accounts receivable | 10 | 7,098 | 7,098 | 13,026 | 13,505 |
| Assets classified as held for sale | 33 | 3,092 | 3,449 | 3,287 | 3,855 |
| Investments | | | | | |
| Direct and indirect associated companies | 11.1 | 210,283 | 190,087 | - | - |
| Other investments | | 1 | 1 | 587 | 587 |
| Investment property | 11.3 | 28,510 | - | 50,452 | - |
| Fixed assets | 12 | 57,014 | 67,717 | 84,155 | 135,937 |
| Intangibles | | | | | |
| Goodwill | 13 | 55,414 | 55,414 | 82,166 | 102,802 |
| Other intangíbles | 13 | 4,535 | 12,753 | 4,844 | 13,168 |
| Total Non-current assets | | 431,073 | 380,431 | 320,428 | 353,893 |
| TOTAL ASSETS | | 523,362 | 513,662 | 504,628 | 581,725 |

The notes are an integral part of the financial statements.

LUPATECH S.A. - IN JUDICIAL RECOVERY

BALANCE SHEET
(In R$ Thousands)

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | Parent 12/31/2019 | Parent 12/31/2018 | Consolidated 12/31/2019 | Consolidated 12/31/2018 |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Suppliers - not subject to Judicial Recovery | 14 | 3,569 | 6,132 | 7,627 | 25,538 |
| Suppliers - subject to Judicial Recovery Class I | 14 | 737 | 730 | 737 | 730 |
| Suppliers - subject to Judicial Recovery | 14 | 3,274 | 4,836 | 3,274 | 4,836 |
| Loans and financing - not subject to Judicial Recovery | 15 | 9,589 | 18,600 | 14,509 | 37,197 |
| Loans and financing - subject to Judicial Recovery | 15 | 2,429 | 4,062 | 3,685 | 6,507 |
| Debenture | 16 | 5,187 | 9,336 | 5,187 | 9,336 |
| Provisions payroll and payroll payable | | 5,673 | 6,505 | 7,997 | 12,381 |
| Commissions payable | | 409 | 955 | 410 | 958 |
| Taxes payable | 21 | 8,757 | 5,164 | 13,846 | 20,127 |
| Obligations for labor risks and creditors- subject to Judicial Recovery | | 94 | 1,638 | 94 | 1,638 |
| Advances from customers | | 2,027 | 2,770 | 5,171 | 3,528 |
| Provision contratual fines | | 759 | 1,082 | 918 | 1,241 |
| Employee's profit sharing | | - | - | - | 613 |
| Other accounts payable | 19 | 3,787 | 1,832 | 4,909 | 3,359 |
| Related Parties - mutual and loans | 17.1 | 40,657 | 41,062 | - | - |
| Total current liabilities | | 86,948 | 104,704 | 68,364 | 127,989 |
| NON-CURRENT LIABILITIES | | | | | |
| Suppliers - subject to Judicial Recovery | 14 | 56,689 | 59,827 | 56,689 | 59,827 |
| Loans and financing - subject to Judicial Recovery | 15 | 65,398 | 65,000 | 125,395 | 121,570 |
| Loans and financing - not subject to Judicial Recovery | 15 | - | - | - | 1,121 |
| Deferred income tax and social contribution | 18 | 36,374 | 29,035 | 67,056 | 54,482 |
| Taxes payable | 21 | 13,092 | 9,629 | 17,294 | 13,032 |
| Provision for contigencies | 20.1 | 8,854 | 6,107 | 58,013 | 53,913 |
| Obligations and provisions labor risks - subject to judicial Recovery | | 7,040 | 8,184 | 7,040 | 8,184 |
| Other accounts payable | 19 | 1,572 | 1,080 | 4,179 | 3,506 |
| Related Parties - mutual and loans | 17.1 | 146,797 | 140,583 | - | - |
| Provision for negative equity in subsidiaries | 11.2 | 1,033 | 4,906 | 1,033 | 4,906 |
| Total non-current liabilities | | 336,849 | 324,351 | 336,699 | 320,541 |
| SHAREHOLDERS' EQUITY | 23 | | | | |
| Capital stock | | 1,885,266 | 1,873,761 | 1,885,266 | 1,873,761 |
| Capital reserve to be realized | | 2,875 | 2,875 | 2,875 | 2,875 |
| Capital transaction reserve | | 136,183 | 136,183 | 136,183 | 136,183 |
| Stock options | | 13,600 | 13,549 | 13,600 | 13,549 |
| Equity valuation adjustments | | 151,261 | 121,681 | 151,261 | 121,681 |
| Retained earnings / Accumulated losses | | (2,089,620) | (2,063,442) | (2,089,620) | (2,063,442) |
| Parents company's interest | | 99,565 | 84,607 | 99,565 | 84,607 |
| Non-controlling interests | | - | - | - | 48,588 |
| Total shareholders' equity | | 99,565 | 84,607 | 99,565 | 133,195 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 523,362 | 513,662 | 504,628 | 581,725 |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT OF INCOME
ON DECEMBER 31,2019 AND 2018
(In R$ Thousands)

| | Note | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| NET REVENUE FROM SALES | 27 | 31,458 | 29,137 | 32,676 | 34,676 |
| COST OF GOODS AND SERVICES SOLD | 31 | (26,047) | (26,026) | (32,656) | (32,863) |
| Profit (loss) gross | | 5,411 | 3,111 | 20 | 1,813 |
| OPERATING INCOME/EXPENSES | | | | | |
| Selling | 31 | (5,262) | (5,051) | (6,162) | (5,906) |
| General and administrative | 31 | (9,436) | (7,670) | (22,481) | (21,226) |
| Management compensation | 17.2 | (3,440) | (2,860) | (3,440) | (4,780) |
| Equity pick-up | 11.1 | (30,018) | (143,005) | 2,194 | (8,269) |
| Other operating income (expenses) | 30 | 25,684 | (11,447) | 9,200 | (26,868) |
| OPERATING LOSS BEFORE FINANCIAL RESULTS | | (17,061) | (166,922) | (20,669) | (65,236) |
| FINANCIAL RESULTS | | | | | |
| Financial income | 29 | 15,647 | 153,845 | 19,691 | 46,307 |
| Financial expenses | 29 | (17,453) | (22,041) | (19,061) | (28,548) |
| Exchange variation, net | 29 | (7,677) | (67,912) | (10,244) | (69,542) |
| LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION | | (26,544) | (103,030) | (30,283) | (117,019) |
| INCOME TAX AND SOCIAL CONTRIBUTION | | | | | |
| Current | 18 | - | (265) | (23) | 122 |
| Deferred | 18 | 366 | 1,984 | (108) | 10,464 |
| LOSS FOR THE PERIOD | | (26,178) | (101,311) | (30,414) | (106,433) |
| PROFIT FROM DISCONTINUED OPERATIONS | 34 | - | - | 4,236 | 5,122 |
| LOSS FOR THE PERIOD | | (26,178) | (101,311) | (26,178) | (101,311) |
| NET INCOME (LOSS) PER SHARE (In Reais) | | | | | |
| Parent company's interest | | (26,178) | (101,311) | (26,178) | (101,311) |
| Non-controlling interest | | - | - | - | - |
| LOSS PER SHARE (In Reais) | | | | | |
| Diluted per share | 28 | (10.64114) | (6.63911) | (10.64114) | (6.63911) |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATMENT OF COMPREHENSIVE INCOME
ON DECEMBER 31,2019 AND 2018
(In R$ Thousands)

| | Note | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| LOSS FOR THE PERIOD | | (26,178) | (101,311) | (26,178) | (101,311) |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Exchange variation on investments abroad | 11.1 | 5,326 | 52,253 | 5,326 | 52,253 |
| Implementation of the equity valuation adjustment | | 24,254 | 3,466 | 24,254 | 3,466 |
| COMPREHENSIVE INCOME OF THE PERIOD | | 3,402 | (45,592) | 3,402 | (45,592) |
| TOTAL COMPREHENSIVE INCOME ALLOCATED TO: | | | | | |
| Participation of controlling shareholders | | 3,402 | (45,592) | 3,402 | (40,990) |
| Non-controlling interests | | - | - | - | (4,602) |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY
CONSOLIDATED STATEMENT OF CHANGES SHAREHOLDER'S EQUITY
ON DECEMBER 31,2019 AND 2018

(In R$ Thousands)

| | Note | Capital stock | Capital reserves, options granted | Accumulated profit/loss | Equity valuation adjustments | Parents company's interest | Non-controlling interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **BALANCE ADJUSTMENT IN DECEMBER 31, 2017 (restated)** | | **1,853,684** | **156,073** | **(1,962,131)** | **65,962** | **113,588** | **26,325** | **139,913** |
| Capital increase | | 20,077 | - | - | - | 20,077 | - | 20,077 |
| Loss of period | | - | - | (101,311) | - | (101,311) | (2,625) | (103,936) |
| Exchange variation on investments abroad | 11.1 | - | - | - | 52,253 | 52,253 | - | 52,253 |
| Non-controlling interest | | - | - | - | - | - | 24,888 | 24,888 |
| Carrying out equity valuation adjustment | 11.1 | - | - | - | 3,466 | 3,466 | - | 3,466 |
| Capital reserve | | - | (3,466) | - | - | (3,466) | - | (3,466) |
| **BALANCE ADJUSTMENT IN DECEMBER 31, 2018** | | **1,873,761** | **152,607** | **(2,063,442)** | **121,681** | **84,607** | **48,588** | **133,195** |
| Capital increase | | 11,505 | - | - | - | 11,505 | - | 11,505 |
| Net loss of period | | - | - | (26,178) | - | (26,178) | - | (26,178) |
| Exchange variation on investments abroad | 11.1 | - | - | | 5,326 | 5,326 | - | 5,326 |
| Non-controlling interest | | - | - | - | - | - | (48,588) | (48,588) |
| Carrying out equity valuation adjustment | | - | - | - | 24,254 | 24,254 | - | 24,254 |
| Options Granted | | - | 51 | - | - | 51 | - | 51 |
| **BALANCE ADJUSTMENT IN DECEMBER 31, 2019** | | **1,885,266** | **152,658** | **(2,089,620)** | **151,261** | **99,565** | **-** | **99,565** |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT CASH FLOW - INDIRECT METHOD
ON DECEMBER 31,2019 AND 2018
(In R$ Thousands)

| | Note | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Loss for the period | | (26,178) | (101,311) | (26,178) | (101,311) |
| Depreciation and amortization | 10 e 11 | 6,487 | 6,746 | 7,264 | 13,661 |
| Reversal (Provision) for losses by non-recoverability of assets | 10 e 11 | 7,027 | - | 9,009 | (29,265) |
| Equity pick-up | 11.1 | 30,018 | 143,005 | (2,194) | 8,269 |
| Result on sale of fixed assets | | 132 | (86) | 22,667 | 33,504 |
| Financial expenses, net | | 22,200 | 55,535 | 25,721 | 86,000 |
| Extraordinary losses and adjustment to market value with inventories | | 14,120 | 13,711 | - | - |
| Deferred income tax and social contribution | | (366) | (1,719) | 16,506 | (564) |
| Deferred income tax and social contribution | | 5,848 | - | 6,276 | - |
| Inventory Obsolescence | 8 | (487) | (763) | 1,065 | (861) |
| Provision of contractual fines | | - | 302 | - | - |
| (Reversal) Estimated losses for doubtful accounts | 7 | (59) | 142 | (692) | 206 |
| (Reversal) Effective losses with doubtful debtors | 7 | - | | - | (123) |
| Present value adjustment | 29 | 5,994 | 18,155 | (455) | 1,210 |
| Adjustment to fair value | | 13,385 | (733) | (18,222) | 36,613 |
| (Increase) decrease in operating assets: | | | | | |
| Accounts receivable | | 1,322 | (1,214) | 21,262 | (4,276) |
| Inventories | | (19,975) | (9,885) | 7,449 | 21,645 |
| Recoverable taxes | | (17,699) | 2,345 | (15,678) | (6,015) |
| Other assets | | 505 | (4,900) | 13,133 | 11,981 |
| (Increase) decrease in operating liabilities: | | | | | |
| Suppliers | | (10,528) | (9,753) | (23,648) | (5,955) |
| Taxes payable | | 6,252 | 3,006 | (3,498) | (586) |
| Others accounts payable | | 62 | (15,884) | (8,326) | (87,099) |
| **Cash flow from operating activities** | | **38,060** | **96,699** | **31,461** | **(22,966)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Cash from discontinued operations | | - | - | 38,449 | - |
| Payment of capital in subsidiaries | | (66,350) | 92,829 | - | 20,077 |
| Proceeds from sale of investments | | - | 89 | (50,452) | 89 |
| Securities-restricted | 6 | 79 | - | 245 | 44 |
| Resources from sale of fixed assets | | - | 86 | 12,679 | 6,623 |
| Asset Acquisition | 12 | (3,402) | (76) | (3,618) | (3,316) |
| Additions to the intangible | 13 | (51) | (87) | (51) | (87) |
| **Net cash provided by (used in) investment activities** | | **(69,724)** | **92,841** | **(2,748)** | **23,430** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from loans and financing | | (3,328) | 1,849 | (15,819) | 97,391 |
| Proceeds from loans and financing - Related parties | | 51,712 | (206,317) | - | - |
| Capital Increase (Reduction) | 23 | 11,505 | 20,077 | 11,505 | - |
| Payments of loans and financing | | (24,035) | (14,356) | (15,661) | (106,223) |
| Convertible debentures in share | 16 | (4,149) | 9,336 | (4,149) | 9,336 |
| Payments of loans and financing - Interest | | - | - | - | (1,858) |
| **Net cash provided by (used in) financing activities** | | **31,705** | **(189,411)** | **(24,124)** | **(1,354)** |
| **(REDUCTION) NET INCREASE OF CASH AND CASH EQUIVALENTS** | | **41** | **129** | **4,589** | **(890)** |
| Cash and cash equivalents at the beginning of period | | 135 | 6 | 1,245 | 2,135 |
| Cash and cash equivalents at the end of period | | 176 | 135 | 5,834 | 1,245 |

The notes are an integral part of the financial statements.

LUPATECH S/A - IN JUDICIAL RECOVERY

STATEMENT OF ADDED VALUE
ON DECEMBER 31,2019 AND 2018
(In R$ Thousands)

| | Note | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| REVENUE | | | | | |
| Sales of goods, products and services (IPI including) | 27 | 37,863 | 35,589 | 113,701 | 134,830 |
| Revenue on sale of investments | 30 | 28,343 | 13,496 | 28,343 | 13,937 |
| Reversal of provision for losses due to non-recoverability of assets | | - | - | 1,469 | 9,676 |
| Other revenues | 30 | 44,543 | 2,978 | 74,315 | 9,223 |
| Reversal (estimated) of losses on doubtful accounts | 7 | 59 | (159) | (726) | (312) |
| Effective losses on doubtful account | 7 | - | - | - | 36 |
| | | **110,808** | **51,904** | **217,102** | **167,390** |
| ACQUIRED FROM THIRD PARTIES | | | | | |
| Cost of products, goods and services sold | | (5,543) | (10,050) | (16,299) | (21,667) |
| Materials, energy, and other outsourced services | | (8,530) | (4,444) | (37,241) | (41,262) |
| Loss on disposal of property, plant and equipment | | (132) | - | (27,872) | - |
| Provision for impairment of assets | | (7,027) | - | (9,609) | - |
| Low investment for sale | 30 | (21,584) | (7,234) | (21,584) | (7,234) |
| Other expenses | 30 | (18,459) | (20,687) | (39,946) | (56,682) |
| | | **(61,275)** | **(42,415)** | **(152,551)** | **(126,845)** |
| GROSS ADDED VALUE | | 49,533 | 9,489 | 64,551 | 40,545 |
| DEPRECIATION AND AMORTIZATION | 10 e 11 | (6,487) | (6,746) | (10,982) | (13,661) |
| NET ADDED VALUE GENERATED BY THE COMPANY | | **43,046** | **2,743** | **53,569** | **26,884** |
| ADDED VALUE RECEIVED IN TRANSFER | | | | | |
| Equity pick-up | 11.1 | (30,018) | (143,005) | 2,194 | (8,269) |
| Financial income | 29 | 60,122 | 222,651 | 67,931 | 145,534 |
| | | **30,104** | **79,646** | **70,125** | **137,265** |
| **TOTAL ADDED VALUE TO BE DISTRIBUTED** | | **73,150** | **82,389** | **123,694** | **164,149** |
| **DISTRIBUTION OF ADDED VALUE** | | **73,150** | **82,389** | **123,694** | **164,149** |
| Staff: | | **20,835** | **18,315** | **53,791** | **62,871** |
| Direct compensation | | 15,515 | 13,458 | 40,680 | 47,223 |
| Benefits | | 4,020 | 3,500 | 8,690 | 10,852 |
| FGTS | | 1,300 | 1,357 | 4,421 | 4,796 |
| Taxes and contributions: | | **8,718** | **6,412** | **15,606** | **1,902** |
| Federal | | 5,337 | 2,960 | 11,300 | (3,358) |
| States | | 3,253 | 3,342 | 4,171 | 4,690 |
| Municipal | | 128 | 110 | 135 | 570 |
| Remuneration of third party capital: | | **69,775** | **158,973** | **80,475** | **200,687** |
| Interest and other financial expenses | 29 | 69,605 | 158,759 | 79,919 | 199,846 |
| Rent | | 170 | 214 | 556 | 841 |
| Remuneration (loss) from equity: | | **(26,178)** | **(101,311)** | **(26,178)** | **(101,311)** |
| Loss for the period | | (26,178) | (101,311) | (26,178) | (105,913) |
| Non-controlling interests | | - | - | - | 4,602 |

The notes are an integral part of the financial statements.

# Lupatech S/A – In Judicial Recovery
# Notes to the individual and consolidated financial statements for the years ended December 31, 2019 and 2018

***(In thousands of Reais, except net Loss per share, or when indicated)***

## 1 Operational context

Lupatech S/A – In Judicial Recovery ("Company") and its subsidiaries and associates (jointly "Group") is an anonymous society with headquarters in Nova Odessa, State of São Paulo, with shares negotiated at the stock market of São Paulo ("B3" LUPA3) and at the counter market on USA by means of its ADR (LUPAQ). The group, which has 272 employees, operates in manufacturing **(Products segment**) producing mainly industrial valves; valves for oil and gas; cables for anchoring oil platforms; valves and equipment for well completion; fiberglass artifacts, including, but not limited to, tubes for coating oil pipelines, generally marketed together with associated inspection and repair services.

Until September 11, 2019, the company operated in the oil services business **(Services segment)**, a business from which various assets remain in the process of demobilization, as well as the legacy associated with it.

### 1.1 Operational continuity

The Lupatech Group seeks to overcome the economic-financial crisis and restructure its business through the process of judicial recovery, according to the plan of judicial recovery presented to its creditors, with the goal of preserving its entrepreneurial activity, recover its position of prominence as one of the most relevant economic groups on Brazil related to the sector of oil and gas, as well as to keep itself as a source of generation of riches, tributes and jobs.

The Company was successful in certain measures since the filing of the request of Judicial Recovery which rendered viable the injection of substantial resources in its operations. Between such measures, is highlighted the receipt of substantial amounts of its main customer, the sale of equity participations and sales of property, plant and equipment.

Also, relevant to the recovery process were the creation of a Specific Purpose Company and the issue of debentures in the first quarter of 2018 (R$29,313) for the primary purpose of effecting the payment of Class I creditors, and the issuance of subscription warrants (R$340,453) in the last quarter of 2018, to promote the payment of Class II, III and IV creditors of the Judicial Reorganization.

In the scenarios developed by management, estimates indicate the need to obtain additional financial resources to raise working capital levels to support the resumption of operations. Such resources could come from, for example, and not limited to, new credit lines, capital increase with or without conversion of debt, sale of assets or equity interests, restitution of tax credits and re profiling of liabilities. Management pursues all these options.

Accordingly, in August 2019, the Company made a capital call in a private offering to its shareholders, raising the amount of R$6,994.

In, 2019, the negotiation of the remaining equity interest in Lupatech Holandesa was completed, which controls the Colombian Services company worth $ 5,500 in cash and $ 1,098 in equipment. With the conclusion of the Transaction, the Company no longer has any corporate relationship with such companies.

The company has litigations and initiatives to reduce its liabilities. In the 3rd quarter of 2019, the Company obtained favorable movements in relation to the dispute with BNDES over extra-bankruptcy credits, which led to the remeasurement of liabilities by the responsible legal advisors. In the 4th quarter of 2019, there was a favorable decision to contest the tender credits and the release of guarantees, both listed in class III, resulting in a reduction of liabilities in this class in the amount of R$18,766.

The Lupatech S / A was entitled to the reimbursement of PIS and COFINS about the ICMS, referring to taxes paid from December 2001 to December 2014, which may be offset against future debts or refunded to the company, after the appropriate administrative and / or judicial measures have been taken, which take the necessary time to take effect. The partial res judicata from this decision occurred in October, and the company continues to dispute the right to reimburse overpaid taxes from 2015.

The above-mentioned fundraising measures, if carried out as expected, will provide the working capital needed to raise the level of activity and service debt in the short term. In the longer term, the Company may require additional funds to finance its resumption, in amounts that will depend on the speed of the resumption itself. To meet this need, the Company undertakes measures that may have substantial effects in the medium term, such as the restitution of tax credits and the arbitral or judicial pursuit of contractual rights and reparations with various counterparties. To meet this need, the Company undertakes measures that could have a substantial effect in the medium term.

Certain business units have had their operations substantially affected by oil and gas market conditions, the economic crisis in Brazil and the repercussions of the Judicial Reorganization process, with their level of activity and limited operational performance. In the Company's assessment, these units will resume operating at higher levels as the business environment normalizes, whenever the resources required for their working capital are granted.

Recently, from the end of 2019 and the beginning of the year 2020, Petrobras and other customers demanded bids of substantial value for the Oil and Gas Valves and Anchoring Ropes business units. Such events are important indicators of the expected resumption of activity in the industry.

Strategic opportunities to accelerate business resumption and / or mitigate continuity risks through mergers and acquisitions are continuously monitored by management.

During the year ended December 31, 2019, the Company incurred a loss before income tax and social contribution of R$26,544 in the parent company and R$30,283 in the consolidated (loss before income tax and social contribution of R$103,030 in parent company and R$117,019 in the consolidated for the year ended December 31, 2018) and on December 31, 2019, the total current assets of the Company exceeded the current liabilities by R$5,341 in the parent company, and in the consolidated the total current assets exceeded total current liabilities by R$115,836 (As of December 31, 2018 the total current assets exceeded the total current liabilities by R$28,527 at the parent company, and in the consolidated the total current assets exceeded the total current liabilities by R$ 99,843 ). Despite the improvement in results, continuity depends not only on improving performance,

but also on the Company's success in obtaining additional resources necessary to supply working capital and debt service.

## 1.2 Judicial Recovery

### *I. Process of Judicial Recovery of the Lupatech Group*

On May 25, 2015, Lupatech S / A and its direct and indirect subsidiaries (Lupatech Group) obtained the approval of the Board of Directors for the judicial reorganization of the Company, pursuant to Article 122, sole paragraph, of Law 6.404/76.

On that same date, Lupatech S/A and its subsidiaries: Lupatech Finance Limited; Amper Amazonas Perfurações Ltda; Itacau Agenciamentos Marítimos Ltda; Lochness Participações S/A; Lupatech – Equipamentos e Serviços para Petróleo Ltda; Lupatech – Perfuração e Completação Ltda; Matep S/A Máquinas e Equipamentos; Mipel Indústria e Comércio de Válvulas Ltda; Prest Perfurações Ltda; Sotep Sociedade Técnica de Perfuração S/A, have brought, in the district of São Paulo, the request for judicial recovery before the judgment of the 1st Court of Bankruptcy and Judicial Recoveries of the district of São Paulo, which was granted on June 22, 2015. Alta Administração Judicial Ltda was appointed as the judicial administrator.

Initially, the Lupatech Group filed a Judicial Recovery Plan, approved by the creditors at the General Meeting and ratified by Judgment of the 1st Court of Bankruptcy, Judicial Recovery and Arbitration Related Disputes of the Capital of São Paulo on December 11, 2015. Subsequently, in June 27, 2016, the 2nd Reserved Chamber of Business Law of the Court of Justice of the State of São Paulo granted court injunctions filed by two creditors, annulling the approval decision of the Lupatech Group's Judicial Recovery Plan.

The Company continues to pursue, by special appeal, the cancellation of a fine for delaying litigation improperly applied by the São Paulo Court of Justice, which annulled the Judicial Recovery Plan previously presented.

On September 5, 2016, a new Lupatech Group Judicial Reorganization plan was submitted to the court of origin, meeting the criteria established in the judgments of the 2nd Chamber of Business Law of the São Paulo State Court of Justice, which had been approved. on November 8, 2016, by the Lupatech Group General Meeting of Creditors, having been ratified by the Court of First Instance, Judicial Reorganization and Arbitral Conflicts of the State of São Paulo, without reservations, on February 15, 2017. In view of the final approval of the court, the indemnity period against the approval of the plan expired on March 13, 2017. The Group Management assessed that the absence of subsequent damages fully confirmed the legality of the plan and its effects from the approval of the sovereign decision of the Company. Therefore, the Lupatech Group and all creditors subject to compliance with the plan and legally bound to comply with the plan as of this date.

On July 2, 2019, the Lupatech Group Judicial Administrator submitted the General Table of Credits to the Court, to which the Lupatech Group filed a list of labor and civil creditors illiquid by ongoing lawsuits, which was upheld with subsequent court decision that such credits, insofar as they originate before the application for Judicial Reorganization, are subject to the terms of the Plan.

The Company used three strategies to settle commitments with Class I creditors. The first, corresponding to up to five minimum wages related to strictly salary credits maturing in the three months preceding the date of the request, was paid in cash to the respective labor creditors. duly complied with article 54, sole paragraph, of the Bankruptcy Law. The second, without attribution of relevance, was the payment of creditors through the conversion of credit into debentures of Lupatech S/A, and the third occurred through the awarding of the shares of the special purpose company (SPE), in the form of art. 50 XVI of Law No. 11,101.

In this context, on November 28, 2017, the Company announced the 3rd issue of mandatorily convertible debentures of Lupatech S / A in the amount of up to R$30,000. The issue was completed on January 31, 2018 with a subscription of R$29,313. The charge was directed to Class I creditors and creditors not subject to Judicial Reorganization, and the preemptive right was granted to shareholders.

On October 29, 2018, the Lupatech Group submitted a proposal for adjustments to the payment flow of the Class III unsecured creditors, which consisted in deferring part of the initial payments in exchange for a 0.3% increase in the interest rate. RT + 3.3% per year). The General Meeting of Creditors met on November 30, 2018 and approved the company's proposal. The AGC's decision was submitted to the appellate court and it was ratified, with the respective approval decision being final and without any appeal being filed within the term.

On that same date, the Board of Directors approved the issuance of three million, four hundred and four thousand, five hundred and twenty-eight (3,404,528) Subscription Warrants for payment of 50% of Class III and IV creditors' debt and 35% of Class II creditors. The Bonds were issued and registered in the name of the creditors entitled to such, and the Judicial Recovery Judgment authorizing the Company to hold in treasury the securities corresponding to the creditors who, due to lack of information, due to operational impossibility or lack of liquidity in their could not have their Bonus book entry.

***II. Regarding the Judicial Reorganization Plan, approved by the creditors at the general meeting held on November 08, 2016, and ratified on February 15, 2017, by the court of the 1st Bankruptcy, Judicial Reorganization and Arbitration Conflict Court of the State of São Paulo Paulo.***

The adoption of following recovery measures of the envisaged by the Plan has as objectives: (i) carry out the rescheduling of liabilities from the Lupatech Group, allowing their future discharge; (ii) allow the entry of cash flow to maintain and promote the activities of the Lupatech Group; (iii) to alienate certain assets considered non-essential to the economic activities of the Lupatech Group; (iv) obtain new resources from the capital market to accelerate the recovery; and (v) through the uplift of the Lupatech Group, allow the generation of jobs and the payment of taxes.

***a. Recovery measures***

The Plan uses the following means of recovery, in the form of article 50 of the Bankruptcy Law: (i) granting of special terms and conditions for payment of the obligations of the Lupatech Group, with the equalization of financial charges, taking as a starting point the date of the distribution of the request of judicial recovery; (ii) increase of social capital by issuing securities, with possible changes in corporate control; (iii) partial sale, sale or lease of assets of the Lupatech Group; (iv) constitution of a society of specific purpose for the transfer of goods intended for the payment of creditors; and (v) other measures to be eventually subject to prior approval of the Judgment of Recovery.

**Increase of capital:** In order to allow the injection of new capital, at any time after the Judicial approval of the Plan, the Lupatech Group can perform one or more calls for increase of social capital of Lupatech, which may be intended to creditors under the Plan, creditors that are not subject to the Plan, and/or third party investors, as the case may be.

The Plan provides for the delivery of warrants to class II, III and IV creditors. To date, Lupatech 3,404,528 (three million, four hundred and four thousand, five hundred and twenty-eight), which, if exercised, will be converted into the same number of shares, part of which remains in treasury waiting for the credits to be paid to become liquid or operationally possible for their delivery. Credits are exchanged by granting a subscription bonus for every one hundred reais of credit - proportionally changeable ratio in the event of a reverse split, split or stock bonus. The exercise price of the issued securities is R$0.88 per share.

In the event of any capital increase allowing the capitalization of credits subject to the Plan, the exercise of the right to participate in said capital increase will be, always, optional to the creditors, and will always be granted in an equal manner to each of the classes of creditors subject to the plan or the whole basis of creditors under the Plan. In the event of a capital increase contemplating both creditors subject to the Plan and third party investors, the conditions of the subscription of shares offered should be the same for both.

**Warranties:** To ensure the acquisition of new resources, preserved the rights of creditors with real warranty, the Group Company may, in addition to giving personal guarantees, constitute real and fiduciary warranties: (i) from the consolidation of ownership in favor of the Lupatech Group, over the property located in São Leopoldo; and (ii) from the eventual elimination of warranties given to Creditors with Real Warranty, over any of the unencumbered assets.

**Sale of assets:** The Lupatech Group, upon the judicial approval of the Plan, may dispose of the permanent assets described in the Plan, through (i) competitive procedure; (ii) private contract signed at a price not lower than that stated in appraisal reports prepared by a specialized company; or (iii) private auction, to be held by a company specializing in the valuation and sale of assets through face-to-face auctions or via the Internet. The net proceeds from such disposals will be used to pay obligations arising from labor law, tax and social security charges, and obligations set forth in the Plan.

**Disposal of Isolated Productive Units (UPIs):** The Lupatech Group, from the Judicial homologation of the Plan, may sell the UPIs described in the Plan. The sale of UPIs may be made jointly or separately, through a competitive procedure including, including, one or more UPIs or permanent assets. The net proceeds from such disposals will be used to pay obligations arising from labor law, tax and social security charges, and obligations set forth in the Plan.

Any alienation of UPIs by means of competitive procedure shall be carried out respecting the provisions of the respective notices, in accordance with the Bankruptcy Law, and met the other conditions provided for in this Plan. It is at the discretion of the Lupatech Group opt for any of the modalities of competitive procedure provided for in articles 142 to 145 of the Bankruptcy Law.

The UPIs that are sold by competitive procedure will be free of any liens, and their respective purchasers will not respond to any debt or contingency of the Lupatech Group, including those of tax and labor nature, in accordance with Article 60 and 141 of the Bankruptcy Law.

In the event of disposal of any of UPIs envisaged in the Plan by means of a competitive procedure,

the Lupatech Group may include, as an integral part of the IPU, accession of any rights of use, costly and temporary in nature, about the buildings in which are located the equipment which constitute the UPIs alienated.

**Disposal of assets of businesses not rehabilitating:** The Lupatech Group may also divest assets owned by foreign societies in which holds participation or control, not members of the Judicial Recovery. The net proceeds arising from such disposals will join in the cash of those rehabilitating, and shall be used for the payment of obligations arising out of labor legislation, tax burden and social welfare, and obligations laid down in the Plan.

**Disposal of assets given in real or fiduciary warranty:** Upon the prior consent of the creditor holding the collateral and / or in accordance with the law or the Plan, the Lupatech Group may sell to third parties goods given in real or fiduciary warranty. The resources arising from the alienation of such goods will be used for the discharge of credits held by the creditor with real warranty or by the creditor with fiduciary warranty. Eventual surplus values shall be used for the payment of obligations arising out of labor legislation, tax burden and social welfare, and obligations laid down in the Plan.

**Constitution of SPEs**: In order to enable or facilitate the sale of any goods of the permanent asset or of the UPIs described in the Plan, as the case may be, the Lupatech Group may, individually or jointly, transfer one or more of these assets or UPIs to societies of specific purpose constituted by the Lupatech Group.

**Approval for alienation of assets**: Without prejudice to the hypotheses of alienation of assets and alienation of assets given in real guarantee or fiduciary, will be permitted any other modality of alienation, replacement or encumbrance of goods upon authorization of Judgment of Recovery or approval by the General Meeting of Creditors, complied with the terms of the laws and contracts applicable to such assets. Closed the Judicial Recovery, the Lupatech Group may freely alienate any goods of its circulating or permanent asset, observed the charges borne on such goods, not being applicable anymore the restrictions provided for in this Plan or in art. 66 of the Bankruptcy Law, being, however, subject to the usual restrictions contained in the social contracts and statutes of the societies in the Lupatech Group and new debt instruments, as the case may be.

**Termination of Judicial Reorganization:** Upon completion of the Judicial Reorganization, Lupatech Group may dispose of its assets and resources without imposing the restrictions and limitations set forth in the Plan**.**

***b. Retructuring of credits subject to the Plan***

Observing the provisions in Article 61 of the Bankruptcy Law, all Credits Subject to the Plan, which will be paid by Lupatech and by Lupatech Finance as main debtors, as the case may be, in solidarity with the other societies in the Lupatech Group, which remain as co-obligated and debtors in solidarity, with express waiver of any benefit of order.

The credits subject to the Plan shall be paid within the time limits and forms set out in the Plan, for each class of Creditors Subject to the Plan, even if the contracts which gave rise to Credits Subject to the Plan have laid down in a different way. With the referred novation, all obligations, covenants, financial indexes, hypotheses of netting, fines, as well as any other contractual obligations that are incompatible with the conditions of this Plan, shall cease from being applicable.

The credits not subject to the Plan would be paid in the form originally contracted or in the form that is agreed between the Lupatech Group and its respective creditor, additionally, if applicable, through the implementation of measures envisaged in the Plan.

In order to reduce payment administration costs, a minimum amount of payment to creditors subject to the Plan of two hundred and fifty reais per creditor subject to the Plan qualified in the list of creditors in classes III and IV, limited to the balance shall be respected. of their respective credit subject to the Plan.

The payment methods provided to creditors of Classes II, III, and IV are intended not only to reschedule a substantial part of the credit to be made in cash; but also, allow lenders to benefit from the economic uplift pursued by the Lupatech Group through the exercise of the subscription bonuses offered in exchange for part of their credit.

Credits that have their rating contested by the Lupatech Group or any interested party under the Bankruptcy Law can only be paid after the judgment determining the qualification of the disputed claim has been finalized, subject to the terms of the Bankruptcy Law, the deadlines for payment start only after the final decision has been passed.

In the event of an increase in any credit, or the inclusion of new credit as a result of any credit challenge or judgment of any lawsuit, the respective amount (in case of inclusion) or additional amount (in case of increase) will be paid through proportional distribution of the value in future installments. Any increase or inclusion of any Credit in the list of creditors during the payment term will not give the creditor whose credits are increased any right to retroactive or proportional payment of installments already paid.

***c. Restruturing of Labor Credits***

The payment measures provided to the Labor creditors were and have been fulfilled as presented in the Judicial Reorganization Plan.

The disputed labor claims to be settled by the Labor Court must be paid in the manner established in the respective agreements duly approved by the Labor Court in a final decision. Under no circumstances can the disputed labor claims be treated more beneficially than that given to undisputed labor claims.

***d. Restructuring of credits with real warranty***

In addition to the payment provided for above, the Lupatech Group may, at any time and upon the consent of the respective collateralised creditor, make the total or partial payment of the balance of the respective collateralised credit through: (i) the payment in kind any of the assets pledged as collateral in favor of the collateralised creditor; (ii) the payment of credits held by the Lupatech Group, in an amount sufficient to cover the balance of the respective collateralised Credit; or (iii) the delivery of proceeds from the disposal of any of the assets pledged as collateral to the creditor with collateral, either under the Plan, upon court authorization, or under Article 60 of the Bankruptcy Law.

In the event that the alternative payment occurs only partially, the respective collateralised creditor shall release excessive collateral in favor of the Lupatech Group under the Plan.

*e.* ***Restructuring of unsecured credits***

Unsecured credits denominated in foreign currencies will be calculated in reais based on the exchange rate on the date of the request and will be paid under conditions similar to those provided for in the Plan, subject to the variation of the Central Bank's official exchange rate on the business of the day prior to the exchange. payment. Exchange variation will be calculated as the difference between the original amount of the foreign currency unsecured credit and the amounts actually paid in foreign currency.

The Lupatech Group will ensure the payment, in cash, of at least two thousand reais per unsecured creditor, both in domestic and foreign currency, up to the limit of the value of their respective unsecured credit. In the event that such minimum amount exceeds 50% of unsecured credit, only the remaining balance of unsecured credit will be paid for the delivery of Subscription Bonus.

The payment of the unsecured credits of the Noteholders will be made under conditions similar to those provided for in the Plan, subject to exchange variation, upon payment of 50% of the amount of the respective unsecured credit, including principal and interest and charges, through the delivery of New Notes. And payment of 50% of the value of the respective unsecured credit, equivalent to the remaining balance of the principal, through the payment of Warrants.

**Cancellation of current Notes:** Upon judicial approval of the Plan, and after obtaining a court decision in Chapter 15 recognizing the effectiveness of the Plan in US territory, the Notes currently held by the Noteholders will be deemed to be canceled in their entirety, which will be replaced by the New Notes, to be issued within 180 days of obtaining the court decision in Chapter 15.

*f.* ***Restructuring of Credits from Micro Enterprises (ME) and Small Businesses (SB)***

The Lupatech Group will guarantee the payment, in cash, of at least two thousand reais per ME and EPP lender, up to the amount of its respective ME and EPP credit. In the event that such minimum amount exceeds 50% of the ME and EPP credit, only the remaining balance of the ME and EPP credit will be paid for the delivery of the Subscription Bonuses.

# 2 Basis of preparation

## 2.1 Declaration of conformity (with repect to the IFRS and CPC Standards)

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP).

The parent company's individual financial statements have been prepared in accordance with BR GAAP.

The Management of the Company states that all the relevant information proper for the financial statements, and only these, are being demonstrated, and that they correspond to those used in management.

The issuance of the individual and consolidated financial statements was authorized by the Board of Directors on March 19, 2020.

*2.1.1 Earnings Statement Previously disclosed*

In view of the existence of discontinued operations for the 2019 financial year, due to the negotiation of the remaining equity interest of Lupatech OFS Coöperatief U.A. and Lupatech OFS S.A.S, the Company is presenting, in note 34, the income statement for the year 2018 and 2019, to separately classify the result of discontinued operations.

## 2.2 Functional currency and presentation currency

These financial statements are presented in Real, which is the Company's functional currency. All balances have been rounded to the nearest thousand, except where otherwise indicated.

## 2.3 Measurement basis

The financial statements were prepared based on the historical cost, except for certain financial instruments measured at their fair values.

## 2.4 Basis of consolidation and investments in subsidiaries

The consolidated financial statements include the financial statements of Lupatech S / A - In Judicial Recovery and its subsidiaries.

*2.4.1 Controlled companies*

The Group controls an entity when it is exposed to, or has rights over, the variable returns arising from their involvement with the entity and has the ability to affect those returns by exerting its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the Group obtains control until the date that the control ceases to exist.

In the individual financial statements of the parent company, the financial information of subsidiaries are recognized by means of the equity method.

The consolidated financial statements include the financial statements of Lupatech S/A - In Judicial Recovery and its direct or indirect subsidiaries, as shown below:

| Direct and indirect subsidiaries | Direct and Indirect participation (%) 12/31/2019 | 12/31/2018 |
|---|---|---|
| **Direct participation** | | |
| Mipel Ind. e Com. de Válvulas Ltda. - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Lupatech Equipamentos e Serviços para Petróleo Ltda.- In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Lupatech Finance Limited - In Judicial Recovery - (Cayman) | 100.00 | 100.00 |
| Lupatech II Finance Limited - (Cayman)* | - | 100.00 |
| Recu S.A. - (Argentina) | 95.00 | 95.00 |
| Lupatech OFS Coöperatief U.A. - (Netherlands)** | - | 50.00 |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda) | 5.00 | 5.00 |
| Lochness Participações S/A - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| **Indirect participation** | | |
| Recu S.A. - (Argentina) | 5.00 | 5.00 |
| Lupatech OFS S.A.S. - (Colombia)** | - | 51.00 |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda) | 95.00 | 95.00 |
| Lupatech Perfuração e Completação Ltda.- In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Sotep Sociedade Técnica de Perfurações S/A - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Prest Perfurações Ltda. - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Itacau Agenciamentos Marítimos Ltda. - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Matep S.A. Máquinas e Equipamentos - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| Amper Amazonas Perfurações Ltda. - In Judicial Recovery - (Brazil) | 100.00 | 100.00 |
| UNAP International Ltd. - (Cayman) | 100.00 | 100.00 |

* Company closed in December 2019.

** In September 2019, there was a total sale of equity interest and delivery of control to EXEN Technology Corp.

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized revenues or expenses arising from intragroup transactions, are eliminated. Unrealized gains arising from transactions with subsidiaries accounted for under the equity method are eliminated against the investment in the proportion of the Group's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

### 2.4.2 *Companies jointly controlled*

Jointly controlled are all entities whose financial and operating policies can be conducted by the Group, in conjunction with other shareholder(s), normally operated through agreements of the shareholders. On the financial statements of the parent company and in the consolidated, the participations in jointly controlled entities are recognized by using the equity method.

The Company owns participation in the following jointly controlled companies: Luxxon Participações Ltda e Aspro do Brasil Sistemas de Compressão p/ GNV Ltda., as shown below, in December 31 of 2019:

| Jointly-owned subsidiaries | Direct and indirect participation (%) 12/31/2019 | 12/31/2018 |
|---|---|---|
| **Direct participations** | | |
| Luxxon Participações Ltda. - (Brazil) (*) | 45.20 | 45.20 |
| **Direct participations** | | |
| Aspro do Brasil Sistemas de Compressão Ltda. - (Brazil) (*) | 45.20 | 45.20 |

(*) Joint Venture

*2.4.3 Business Combination*

Business combinations are registered using the acquisition method when the control is transferred to the Group. The consideration transferred is usually measured at fair value, as well as the net identifiable assets acquired. Any gain that arises on the transaction is tested annually for evaluation of loss by reducing the amount recoverable. Gains in an advantageous purchase are recognized immediately in the result. The transaction costs are recorded in the result as they are incurred, except the costs related to the issuance of debt instruments or assets.

The consideration transferred does not include amounts relating to the payment of pre-existing relations. These amounts are generally recognized in the result of the period.

Any contingent consideration payable is measured at its fair value at the date of acquisition. If the contingent consideration is classified as equity instrument, then she is not remeasured and the settlement is registered within the net worth. The remaining contingent considerations are remeasured at fair value on each date of report and subsequent changes to fair value are recorded in the result of the period.

If any event of business combination or other transaction or similar corporate event that affects the Options with the dilution of shareholding position that the Beneficiary would do justice, the Administrative Council shall amend the Contract of Option of Purchase of Ordinary Shares, in up to 30 days from the date of the referred event, to ensure that the Beneficiaries remain with sufficient Options for the acquisition of the prescribed percentage of shares of the Company hired, in compliance with the new shareholding composition, where the schedule of exercise of the Options provided for in the contract is preserved, kept the percentages and deadlines of exercise defined therein. The above provisions reach only the Corporate Events contracted in the period of 36 months from the signing of the Contract, limited to operations of up to R$150,000.

# 3 Main accounting pratices

The summary of main accounting practices adopted by the Group is a follow:

## 3.1 Financial instruments

The category depends on the purpose for which the financial assets and liabilities were acquired or contracted and is determined on initial recognition of the financial instruments.

The Company classifies non-derivative financial assets and liabilities in the following categories: financial assets measured at fair value through profit or loss, at fair value through other comprehensive income and at amortized cost.

*3.1.1 Assets and non-derivative financial liabilities - recognition and derecognition*

The Company recognizes loans and receivables and debt instruments on the date they originated. All other assets and liabilities are recognized on the trade date when the entity becomes party to the contractual provisions of the instrument.

The Company derecognise a financial asset when the contractual rights to the asset's cash flows expire or it transfers the rights to receive the contractual cash flows of a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest that is created or retained by the Company in such transferred financial assets is recognized as an asset or liability separately.

The Company recognizes a financial liability when its contractual obligations are withdrawn, canceled or expired.

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

### *3.1.2 Assets and non-derivative financial liabilities – measurement*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Transaction costs are recognized in income as incurred. It's measured at fair value and changes in fair value, including earnings from interest and dividends are recognized in the income statement.

***Financial assets held to maturity***
These assets are initially recognized at value plus any directly attributable transaction costs. After initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method.

***Cash and cash equivalents***
Cash and cash equivalents include cash, bank deposits and financial investments with immediate liquidity and insignificant risk of change in value. Financial investments are recorded at nominal values plus income earned through the balance sheet date, not exceeding market value, according to the rates agreed with financial institutions.

***Marketable securities***
The securities are classified into the following categories: held to maturity, available for sale and trading securities at fair value recognized through profit or loss (trading securities). The classification depends on the purpose for which the investment was acquired. When the purpose of the acquisition is the investment of funds for short-term gains, which are classified as trading securities; when the intention is to make use of resources to hold the investment until maturity, they are classified as held to maturity, provided that management intends and has the financial ability to hold the investment to maturity. When the intention at the time of making the application, is none of the above, investments are classified as available for sale. Where applicable, the incremental costs directly attributable to the acquisition of a financial asset are added to the amount originally recognized, except for trading securities, which are recorded at fair value against income.

The securities held to maturity are measured at amortized cost-plus interest, monetary restatement, exchange variation, less impairment losses, when applicable accrued to the date of the financial statements. The securities classified as trading securities are measured at fair value. Interest, monetary correction and exchange variation, when applicable, as well as variations arising from measurement at fair value are recognized in income when incurred. The securities available for sale are measured at fair value. Interest, monetary correction and exchange variation, when applicable,

are recognized in income when incurred. Changes arising from measurement at fair value, with the exception of impairment losses are recognized in other comprehensive income as incurred. The accumulated gains and losses recorded in equity are reclassified to the income statement at the time that these investments are sold in disposable or considered.

***Accounts receivable***

They are stated at the nominal value of the securities, plus exchange variation and adjusted to present value to the balance sheet date, when applicable. The allowance for doubtful accounts is recognized when necessary, based on the analysis of the customer portfolio in an amount considered sufficient by management to cover losses on the realization of credits.

*3.1.3 No derivative financial libiates - measurement*

A financial liability is classified as at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Transaction costs are recognized in income as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value and changes in fair value of these liabilities, including interest earnings and dividends are recognized in the income statement.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

***Loans, financing and debentures***

Loans, financing and debentures (portion related to debt instruments) are stated at amortized cost. They are stated at the amount raised, net of transaction costs incurred and are subsequently measured at amortized cost using the method of effective interest rate.

Costs incurred directly related to issuance of debt transactions were allocated as a reduction of the corresponding current and non-current liabilities. These costs are expensed on the financing period as a supplement funding costs, thus adjusting the effective interest rate of the operation.

## 3.2 Presente value adjustment

On transactions that give rise to an asset, liability, revenue or expense or other changes in equity whose counterpart is an asset or a non-current liabilities, receivables or liabilities, or short-term when relevant effect is recognized to adjust the value this based on discount rates that reflect the best market assessments of the value of money over time and the specific risks of assets and liabilities on their original dates.

The adjustment to present value is presented as allowance account of receivables and payables and is allocated to income as income or interest expense on an accrual basis, at the effective interest rate.

## 3.3 Adjustement to fair value

For financial assets and liabilities without public quotation, the Company establishes the fair value through valuation techniques.

The adjustment to fair value is presented in a specific account, determined as an adjustment to fair value and its variation is allocated to income as financial income or expenses on an accrual basis.

## 3.4 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the principle average cost of purchase or production, taking into account the total absorption method of manufacturing costs, lower realizable value.

In the case of manufactured inventories and work in progress, cost includes a portion of general manufacturing costs based on normal operating capacity.

## 3.5 Intangibles

### *a. Goodwill*

The goodwill resulting from a business combination is demonstrated at cost on the date of the business combination, net in the accumulated loss of the recoverable value, if any.

According to ICPC 9, the goodwill from acquisition of subsidiaries reasoned by future profitability is recorded in the individual financial statements (parent) as "investments" and in the consolidated financial statements as "intangible asset". The instalment reasoned as the most valuable of the fixed assets is classified, in the balance sheet of parent, as "investments" and in the consolidated balance sheet, the balance of the corresponding asset.

Goodwill is tested annually, or within a shorter period, when there is indication of impairment of investment, to verify probable losses.

The Goodwill is allocated in Cash Generating Units (CGU) for impairment testing purposes. The allocation is made for the Cash Generation Units or to the Cash Generating Units groups that should benefit from the business combination, from which the goodwill originated, properly segregated, according to the operating segment.

### *b. Softwares and product and process development*

Acquired software licenses are capitalized based on incurred costs to acquire software and make it ready to be used. These costs are amortized during their estimated useful life of 5 years. The amortization of these values is mainly recorded in cost of products sold, in the statement of income.

Costs of development, maintenance or improvement of new products and processes, which objectively present the generation of future economic benefits through the formation of new income or due to cost reduction, are activated in a specific account and amortized by the defined useful life in which the benefits to be generated were estimated.

## 3.6 Fixed assets

*Recognition and measurement*

Fixed asset items are measured at historical cost of acquisition or construction, less accumulated depreciation and reduced impairment losses accumulated.

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of assets built by the Company includes:

- The cost of materials and direct labor;

- Any other costs to bring the asset to the location and condition necessary for them to be able to operate in the manner intended by Management;
- Costs of dismantling and restoring the site where they are located;
- Costs of loans on qualifying assets.

When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of property.

Any gains and losses on the disposal of an asset item are recognized in income.

*Reclassification for assets classified as held for sale*
When the identification of assets that meet the criteria for classification of "assets held for sale", ie whose book value of the asset will be recovered through a sale operation rather than being used in the Company's own operation, the assets will be classified for current assets and measured at the lower of book value and fair value less costs to sell. The depreciation of these assets should cease.

The values of the assets classified as held for sale will be presented separately in the balance sheet, as well as the results of discontinued operations will also be presented separately in the statement of income.

*Reclassification to investment property*
When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain resulting from this remeasurement is recognized in income to the extent the gain reverses a previous impairment loss impairment in specific property, any remaining gain is recognized as other comprehensive income in equity as a valuation adjustment reserve. Any loss is recognized immediately in income.

*Subsequent costs*
Subsequent expenditure is capitalized to the extent that it is probable that future benefits associated with the expenditure will flow to the Company. Upkeep and recurrent repairs are charged to income.

*Depreciation*
Fixed asset items are depreciated using the straight-line method in the income statement based on the estimated useful lives of each component. Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless it is reasonably certain that the Company will obtain ownership of the asset at the end of the lease term. Land is not depreciated.

Fixed asset items are depreciated from the date they are installed and available for use, or in case of assets constructed internally, the day when the construction is completed, and the asset is available for use.

The estimated useful lives for the current and comparative year are as follows:

| | Weighted avarage rate of depreciation % p.p. |
|---|---|
| Land | - |
| Building and construction | 2% |
| Machinery and equipment | 9% |
| Molds and matrixes | 15% |
| Industrial facilities | 5% |
| Furniture and fixtures | 9% |
| Date processing equipments | 14% |
| Improvements | 2% |
| Vehicles | 19% |

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

## 3.7 Estimate for impairment of assets (Impairment)

### *a. Derivative financial assets (including receivables)*

Financial assets not classified as financial assets at fair value through profit or loss, including investments accounted for under the equity method, are valued at each balance sheet date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets have value loss includes:

- default or delay of the debtor;
- restructuring of an amount due to the Company on terms that would not be accepted under normal conditions;
- indications that the debtor or issuer will enter bankruptcy/judicial recovery;
- negative changes in the payment status of borrowers or issuers
- disappearance of an active market for the instrument because of financial difficulties;
- observable data indicating that there was a decline in the measurement of cash flows of a group of financial assets

### *b. Financial assets measured at amortized cost*

The Company considered evidence of impairment of assets measured at amortized cost both individually as collectively. All individually significant assets are assessed for loss on impairment. Those who have not suffered loss individually are then tested collectively for any impairment that may have occurred but have not yet been identified. Assets that are not individually significant are collectively evaluated for impairment based on the group of assets with similar risk characteristics.

In assessing the loss for impairment collectively the Company uses historical trends of the period of recovery and the amount of loss incurred, adjusted to reflect management's judgment as to whether current economic and credit conditions are such that losses real will be higher or lower than those suggested by historical trends.

An impairment loss is calculated as the difference between the book value and the present value of the estimated future cash flows discounted at the original effective interest rate of the asset. Losses are recognized in the income statement and reflected in a reduction account of the respective asset.

When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. When a subsequent event indicates a reduction of the loss of value, the reduction by loss of value is reversed through the result.

***c. Assets classified as held for sale***

Losses from impairment of financial assets available for sale are recognized by reclassifying the cumulative loss recognized in equity valuation adjustments in equity for the result. The reclassified loss is the difference between the acquisition cost, net of any reimbursement and amortization of the principal, and current fair value, less any reduction for impairment loss previously recognized in income. If the fair value of a debt security for which has been recognized a loss on impairment, present increase and the increase can be objectively related to an event occurring after the impairment loss on impairment was recognized, then the loss is reversed, and the amount of the reversal is recognized in income. Otherwise, the reversal is recognized in other comprehensive income.

***d. Investees accounted for under the equity method***

A loss for impairment related to a charge assessed by the equity method is measured by comparing the recoverable amount of the investment with its carrying amount. A loss for impairment is recognized in income and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

***e. Non-financial assets***

The carrying amounts of non-financial assets of the Company, other than inventories and income tax and social contribution deferred assets, are reviewed at each reporting date to determine whether there is loss of indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful life, the recoverable amount is tested annually.

Losses from impairment are recognized in income. Recognized losses relating to cash generating units (CGU) are initially allocated to reduce any goodwill allocated to this CGU (or CGU group), and then to reduce the carrying value of other assets of the CGU (or group of CGUs) in order pro rata.

A loss for impairment related to goodwill is not reversed. As for other assets, impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if the impairment had not been recognized.

## 3.8 Income tax and social contribution

The current and deferred income tax and social contribution are calculated based on the current rates, as detailed in note 18.

The expense for income tax and social contribution comprises current and deferred income taxes. Current tax and deferred tax are recognized in income unless they are related to a business combination, or items recognized directly in equity or in other comprehensive income.

***a. Income tax and social contribution - current***

The current tax expense is the tax payable or receivable on the estimated taxable income or loss for the year and any adjustment to tax payable in respect of previous years. The amount of current tax

payable or receivable is recognized in the balance sheet as an asset or tax liability for the best estimate of the expected amount of taxes to be paid or received reflecting the uncertainties related to its calculation, if any. It is measured based on the tax rates enacted at the balance sheet date.

The current tax assets and liabilities are offset only if certain criteria are met.

***b. Income tax and social contribution - Deferred***

Deferred tax assets and liabilities are recognized in relation to temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and used for tax purposes. The changes in deferred tax assets and liabilities for the year are recognized as income tax expense and deferred social contribution. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets and liabilities in a transaction other than a business combination and that affects neither the taxable profit or loss nor the accounting result;
- temporary differences related to investments in subsidiaries, associates and joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future; and
- taxable temporary differences arising from the initial recognition of goodwill.

A deferred tax asset is recognized in relation to tax loss carryforwards and deductible temporary differences not used, to the extent that it is probable that future taxable profits will be available against which will be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that their realization is no longer probable.

Deferred tax assets and liabilities are measured based on tax rates expected to apply to temporary differences when they are reversed, based on tax rates that have been enacted at the balance sheet date.
The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the way in which the Company expects to recover or liquidate its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

## 3.9 Employee and management benefits

***a. Share-based compensation***

The Company offers a Stock Option Plan to professionals to be selected at the sole discretion of the Board of Directors among the managers, executives, employees and service providers and our subsidiaries. The granting of options is a commercial transaction between the company and the beneficiary through which it is given the opportunity to acquire shares with its own resources. The fair value of the options granted is calculated mainly due to the difference between the market price of the shares and the exercise price of the option, and is calculated on the grant date and recognized as an expense during the period to which the right is acquired, by skillful methodology to calculate the value of options. The total amount to be debited is determined by reference to the fair value of the options granted. The total amount of the expense recognized during the period in which the right is acquired; period during which the specific conditions for the acquisition of rights must be met. The impact of the revision of the initial estimates, if any, will be recognized in the income statement, with a corresponding adjustment to equity, in the account “Capital Reserve - Options Granted”.

***b. Employees and management profit sharing***

The Company recognizes a liability and a profit sharing expense based on Profit Sharing Plans and Variable Compensation Plan, when applicable, which takes into account individualized and corporate goals.

## 3.10 Provision

A provision is recognized, due to a past event, if the Company has a legal or constructive obligation that can be estimated reliably, and it is likely that an economic resource is required to settle the obligation. Provisions are determined by discounting the future expected cash flows at a pre-tax rate that reflects current market assessments of the value of money over time and risks specific to the liability. The financial costs incurred are recorded in income.

Provisions for tax, labor and civil contingencies are recorded based on the best estimates of the risk (Note 20). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an asset is recognized if, and only if, the reimbursement is virtually certain, and the value can be measured reliably.

## 3.11 Other rights and obligations

Stated at realizable values (assets) and the recognized amounts or estimated, plus, when applicable, related charges and monetary adjustments (liabilities).

## 3.12 Statement of income

Revenues and expenses are recorded by the accrual basis of accounting. The revenue is recognized at the moment of the delivery of goods and services, property transfer and when all the following conditions have been reached: a) the clients take the significant risks and benefits of the property of the goods; b) the Group has not retains continuing managerial goods sold in degree usually associated with ownership nor effective control over the goods involved; c) the amount of the revenue can be measured for sure; d) account receivable is probable and; e) the incurred costs or to be incurred related to the transaction can be measured for sure.

In the Lupatech Ropes plant unit., the criteria adopted for recognition of revenues and related costs is the method known as “Conclusion Percentage or POC” due to the characteristics of the activities and product trading, whose average production time is higher than the period in which the accounting information are disclosed (quarterly). These acknowledgement criteria for the revenue and the respective production costs are based on the production level. The technical specifications of the products are determined by the customer and are specific for each project and the production process is directly supervised by the customer or by customer certified organs.

## 3.13 Conversion of balances into foreign currency

***a. Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rate at the transaction date. Gains and losses resulting from the difference between the conversion of assets and liabilities in foreign currency at year end, and the conversion of the transaction amounts are recognized in the income statement.

The functional currency of each entity is listed below:

| Direct and indirect subsidiaries | Functional Currency | Country |
|---|---|---|
| **Direct participation** | | |
| Mipel Ind. e Com. de Válvulas Ltda. - In Judicial Recovery | Reais | Brazil |
| Lupatech Equipamentos e Serviços para Petróleo Ltda.- In Judicial Recovery | Reais | Brazil |
| Lupatech Finance Limited - In Judicial Recovery | Dólar Americano | Cayman Islands |
| Recu S.A. | Peso Argentino | Argentina |
| Lochness Participações S/A - In Judicial Recovery | Reais | Brazil |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda) | Dólar Americano | Netherlands |
| **Indirect participation** | | |
| Recu S.A. | Peso Argentino | Argentina |
| Lupatech Oil&Gas Coöperatief U.A. - (Holanda) | Dólar Americano | Netherlands |
| Lupatech Perfuração e Completação Ltda. - In Judicial Recovery | Reais | Brazil |
| Sotep Sociedade Técnica de Perfuração S/A - In Judicial Recovery | Reais | Brazil |
| Prest Perfurações Ltda. - In Judicial Recovery | Reais | Brazil |
| Itacau Agenciamentos Maritimos Ltda. - In Judicial Recovery | Reais | Brazil |
| Matep S.A. Máquinas e Equipamentos - In Judicial Recovery | Reais | Brazil |
| Amper Amazonas Perfurações Ltda. - In Judicial Recovery | Reais | Brazil |
| UNAP International Ltd. | Dólar Americano | Cayman Islands |

| Jointly-owned subsidiaries | Functional Currency | Country |
|---|---|---|
| **Direct participations** | | |
| Luxxon Participações Ltda. | Reais | Brazil |
| **Direct participations** | | |
| Aspro do Brasil Sistemas de Compressão Ltda. | Reais | Brazil |

***b. Group companies***

The results and financial position of all the Group companies used as the basis for valuation of investments under the equity method, which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities balances are translated at the exchange rate prevailing on the date of the balance sheet;

(ii) Income and expense accounts are translated at the average monthly exchange rate;

(iii) The goodwill balances for expected future profitability arising from the acquisition of entities abroad, held after the adoption of CPCs/IFRS, and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign entity are treated as assets and liabilities of the entity abroad. Thus, they are expressed in the functional currency of the entity acquired abroad and are translated at the closing exchange rate on the respective balance sheet date; and

(iv) All differences resulting from exchange rate translation are recognized in equity, in the Statement of Comprehensive Income, under "Cumulative Translation Adjustments" sub group "Valuation Adjustments.

## 3.14 Gain (Loss) per share

The basic gain (loss) per share is calculated by dividing the gain (loss) attributable to the Company's shareholders by the weighted average number of common shares issued during the year.

The diluted gain (loss) per share is calculated by adjusting the weighted average number of outstanding common shares to presume the conversion of all potential diluted common shares.

### 3.15 Investments in subsidiaries (Parent Company)

In the parent company's financial statements, investments in subsidiaries are accounted for using the equity method and the result of this assessment is offset against an operating result account, except for exchange variations on investments abroad (subsidiaries that have their own operation), which they are recorded in a specific equity account, to be recognized in income and expenses when the investment is sold or written off.

According to ICPC 9, goodwill paid for expected future profitability (goodwill), represented by the positive difference between the amount paid (or amounts payable) and the proportional net amount acquired from the fair value of the acquired entity's assets and liabilities is recorded in the statements. individual financial statements (parent company) as "investments" and in the consolidated financial statements as "intangible assets".

### 3.16 Operating segment report

The operating segments report is consistent with the internal report used for operating decision-making. The key operating decision-maker, in charge of allocating resources and evaluating the operating segments performance, is the Board of Executive Officers. The Board of Directors is responsible for the Group’s strategic decision-making.

### 3.17 Value added statement

The Company prepared statements of value added (DVA) and consolidated in accordance with the CPC - 09 - Statement of Added Value, which are presented as an integral part of the financial statements according to BR GAAP applicable to public companies, while for IFRS represent information additional financial.

## 4 Critical accounting estimates and judgments

In preparing the individual and consolidated financial statements, management used judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed continuously. Revisions of estimates are recognized prospectively.

The information about judgments made in applying accounting policies and uncertainty about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 12 - Fixed Assets;
- Note 13 - Intangible;
- Note 18 - Income and social contribution taxes;

- Note 20 - Contingent processes and judicial deposits;
- Note 22 - Liabilities at fair value.

In order to provide an understanding of how the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, we included comments related to each critical accounting policy described below:

### *a. Deferred income tax*

The amount of deferred tax assets is reviewed at each financial statement date and reduced by the amount that is not achievable by estimate of future taxable income. It is calculated using tax rates applicable to taxable income in the years in which those temporary differences should be realized. The future taxable income may be higher or lower than estimates made when determining the need to register, and the amount to be recorded, the tax asset.

The recognized credits on tax losses and negative social contribution bases are supported by projections of taxable income based on technical feasibility studies submitted annually to the bodies of the Group. These studies consider the historical profitability of the Company and its subsidiaries and the expectation of continuous profitability and estimated the recovery of credits in future years. The other credits based on temporary differences, mainly provision for tax liabilities and provision for losses, were recognized according to their expected realization, also taking into account the projections of future taxable income.

### *b. Useful life of long-lived assets*

The Company recognizes the depreciation of its long-lived assets based on the estimated useful life, and significantly reflects the economic life of long-lived assets. However, the service lives may vary based on the technological update of each unit. The useful lives of long-lived assets also affect cost recovery tests of long-lived assets, when necessary.

### *c. Test of reduction of the recoverable value of long-lived assets*

In 2012 and in previous years, as described in note 11, the Company carried out some business combinations. Pursuant to IFRS 3, applied for acquisitions occurred after the transition date to IFRS, the Company must allocate the acquired entity cost to assets acquired and liabilities assumed, based on their fair values estimated on the acquisition date. Any difference between the acquired entity cost and the fair value of assets acquired and liabilities assumed is recorded as goodwill. The Company uses significant judgments in the identification process of tangible and intangible assets and liabilities, evaluating such assets and liabilities and in the determination of their remaining useful life. The Company usually hires external valuation companies to assist in the valuation of assets and liabilities, particularly when this valuation requires high technical qualification. The valuation of these assets and liabilities is based on assumptions and criteria which can include estimates of future cash flows discounted by the appropriated rates. The use of the assumptions used for valuation includes estimates of discounted cash flow or discount rates and may result in estimated values different from assets acquired and liabilities assumed.

### *d. Test of reduction of the recoverable value of long-lived assets*

There are specific rules to assess the recoverability of long lived assets, especially fixed assets, goodwill and other intangible assets. The date of each financial statement, the Company performs an analysis to determine whether there is evidence that the amount of long-lived assets is not

recoverable. If such evidence is identified, the recoverable amount of assets is estimated by the Company.

The recoverable amount of an asset is determined by the higher of: (a) fair value less estimated costs of sale and (b) its value in use. The value in use is measured based on discounted cash flow (before taxes) derived by the continued use of an asset until the end of its useful life.

Not matter if there is or not any indication that the value of an asset may not be recovered, the goodwill balances originating from business combination and intangible assets with indefinite useful life are tested for measurement of recoverability at least once a year, or a shorter period of time when there are circumstances that require more frequent analyses. When the residual value of an asset exceeds its recoverable amount, the Company recognizes a reduction in the amount recorded for these assets.

If the recoverable amount of the asset cannot be determined independently, the recoverable amount of business segments for which the asset belongs is analyzed.

Except for a loss of recoverability of goodwill, a reversal of loss on the recoverability of assets is allowed. The reversal in these circumstances is limited to the amount of the balance of the loss of the corresponding asset.

The recoverability of goodwill is evaluated based on the analysis and identification of facts and circumstances which may result in the need to anticipate the test performed annually. If any facts or circumstances indicate that the recoverability of goodwill is impaired, then the test is anticipated. The Company made the goodwill impairment test to all its Cash Generating Unit, which represent the lowest level at which goodwill is monitored by management and are based on expectations of projected discounted cash flows and take into account the following assumptions: cost of capital, growth rate and settings used for the perpetuity of cash flows, methodology for determining the capital and financial forecasts economic long term.

The process of review of the recoverability is subjective and requires significant judgments by performing analysis. The evaluation of the business segments based on the Company's projected cash flows may be negatively impacted if the economic recovery and growth rates happen in a planned to lower speed as well as the plans of the Adminstration for the Company's business as described in Note 1 did not materialize as expected in the future.

The evaluations and test of recoverability of cash-generating units are based on the operational continuity of the Company and its subsidiaries.

## 5 Standars, amendments and interpretation of standards

***In force***

The following new standards were approved and issued by the IASB, effective January 1, 2019. The Company adopted the new standards and management assessed the impacts of its adoption, not identifying adjustments for disclosure.

(i) *IFRS* 16 *Leases* (CPC 06 R2 - Leases)
The new standard replaces IAS 17 - "Leasing Operations" and corresponding interpretations and

determines that the tenants will have to recognize the liability of future payments and the right of usage of the leased asset for virtually all leasing contracts, including the operational, which may place outside the scope of this new standard certain short-term contracts or contracts of small amounts. The recognition criteria and measurement of leases in the financial statements of lessors are substantially maintained.

Management evaluated the new pronouncement and, considering its quarterly transactions, did not identify changes that could have an impact on the Company's financial statements.

The following technical interpretation was approved by the Accounting Pronouncements Committee:

ICPC 22 / IFRIC 23 - Uncertainties Regarding Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements of CPC 32 Income Taxes (IAS 12 Income Taxes) when there is uncertainty about the treatment of income tax. In such circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities, applying the requirements of CPC 32 / IAS 12 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined on the basis of this interpretation.

This interpretation came into effect as of annual periods beginning on or after January 1, 2019 and its impacts were assessed by the Company's Management, with no material impact on the financial statements.

Since January 1, 2018, the following standards are in effect:

(ii) IFRS 15 - Revenue from Contracts with Customers (CPC 47 - Customer Contract Revenue
The standard provides the principles that an entity will apply to determine the measurement of revenue and how and when it is recognized. It replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenues" and corresponding interpretations. The changes establish the criteria for the measurement and recording of sales, in a form that was effectively carried out with due presentation, as well as the registration for the values that the Company is entitled to in the operation, considering eventual estimates of losses of value. Management evaluated the new pronouncement and, considering its quarterly transactions, did not identify changes that could have an impact on the Company's financial statements.

(iii) IFRS 9 - Financial Instruments (CPC 48 - Financial Instruments)

The standard addresses the classification, measurement and recognition of financial assets and liabilities. The main changes to IFRS 9 are the new criteria for classifying financial assets into two categories (measured at fair value and measured at amortized cost) depending on the characteristics of each instrument and can be classified as financial result or comprehensive income, the new impairment for financial assets being a hybrid of expected and incurred losses. CPC 48 / IFRS 9 eliminates the old categories of CPC 38 / IAS 39 from securities held-to-maturity, loans and receivables and available for sale.

In applying this valuation model, the Company considered its current assessment procedure based on loss history, its credit analysis policies and the credit risk characteristics of its operations. The

change in the model did not result in a material impact on your financial information. The detail of the Financial Instruments is given in Explanatory Note 24.

There are no other standards, changes and interpretations of standards issued and not yet adopted that may, in Management's opinion, have a significant impact on the results or shareholders' equity disclosed by the Company.

# 6 Cash and cash equivalents and titles and restricted securities

## Cash and cash equivalents

The balances of cash and cash equivalents are composed as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Cash and banks | | | | |
| Brazil | 47 | 10 | 180 | 57 |
| Abroad | - | - | - | 259 |
| Total | 47 | 10 | 180 | 316 |
| Financial Investments | | | | |
| Bank deposit certificate | 129 | 125 | 5,654 | 929 |
| Total | 129 | 125 | 5,654 | 929 |
| Cash and cash equivalents | 176 | 135 | 5,834 | 1,245 |

The values of cash equivalents are related to applications of immediate liquidity, with insignificant risk of change in value and refer to resources invested in fixed income and a certificate of deposit. The rates of remuneration of financial applications of certificate of deposit have as parameter the Interbank Certificate of Deposit - CDI.

## Bonds and securities – Restricted

On December 31, 2019, the Company has R$1,788, recorded as "Securities" in noncurrent assets (R$847 in current assets and R$961 in noncurrent assets on December 31, December 2018), in the parent company and consolidated, related to the deposit of guarantee for payment of any indemnifiable liabilities, according to the contractual clause of the purchase and sale of the Metalúrgica Ipê unit for Duratex, called Escrow Account, invested in CDB.

# 7 Accounts receivable from customers

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Local market | 9,087 | 10,326 | 14,823 | 35,901 |
| Export | 597 | 694 | 795 | 971 |
| | 9,684 | 11,020 | 15,618 | 36,872 |
| Less: allowance for doubtful accounts | (4,257) | (4,316) | (4,823) | (5,515) |
| | 5,427 | 6,704 | 10,795 | 31,357 |
| Current | 5,427 | 6,704 | 10,795 | 31,357 |
| Non-Current | - | - | - | - |

The composition of the customer portfolio by maturity is as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Not due | 3,302 | 4,584 | 4,703 | 24,521 |
| Due to 30 days | 468 | 1,138 | 483 | 1,674 |
| Due from 31 to 90 days | 307 | 1,915 | 1,264 | 2,638 |
| Due from 91 to 180 days | 56 | 98 | 618 | 395 |
| Due more than 180 days | 5,551 | 3,285 | 8,550 | 7,644 |
| | 9,684 | 11,020 | 15,618 | 36,872 |

The value of the risk of possible losses is presented as an estimate for losses with doubtful accounts.

The credit risk of accounts receivable arises from the possibility of the Company not receiving amounts arising from sales operations. To mitigate this risk, the Company adopts as a practice the detailed analysis of the financial and equity situation of its clients, establishing a credit limit and permanently monitoring its debit balance. The provision for credit risks was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of the clients, the situation of the economic group to which they belong, the real guarantees for the debts and the evaluation of the consultants and is considered sufficient by its Management to cover possible losses on amounts receivable.

The estimate of losses on doubtful accounts was as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Balance at the beginning of the year | 4,316 | 4,174 | 5,515 | 5,186 |
| Constitution | 60 | 310 | 138 | 481 |
| Write-off by loss | - | (17) | (14) | (21) |
| Recovery | (119) | (151) | (321) | (166) |
| Effect of conversion of balance | - | - | (495) | 35 |
| Balance at the end of the year | 4,257 | 4,316 | 4,823 | 5,515 |

**Credit quality of accounts receivables**

The credit quality of accounts receivables that are not overdue or impaired may be valued by checking the external credit ratings (if any) or background information on counterparties' delinquency ratios. Below, the opening of credits as per Group's internal rating:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Group 1 | 202 | 488 | 817 | 1,568 |
| Group 2 | 3,525 | 4,315 | 6,224 | 26,757 |
| Group 3 | 1,700 | 6,217 | 3,754 | 8,547 |
| | 5,427 | 11,020 | 10,795 | 36,872 |

**Note**:

- **Group 1 –** New clients (less than 6 months of relationship with the group).
- **Group 2 –** Current clients (over 6 months with no delinquency track record).
- **Group 3 –** Current clients (over 6 months with any delinquency track record. All delinquency was recovered).

# 8 Inventory

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Finished goods | 4,639 | 2,735 | 6,073 | 10,282 |
| Goods for resale | 1,604 | 887 | 3,408 | 3,072 |
| Work in progress | 7,733 | 7,222 | 12,109 | 12,045 |
| Raw material | 17,675 | 14,952 | 45,427 | 49,067 |
| Losses on inventory obsolescence | (6,266) | (6,753) | (36,581) | (35,516) |
| Total | 25,385 | 19,043 | 30,436 | 38,950 |

In the year of 2019 there was a reversal in the result, corresponding to losses with obsolescence of inventories in the amount of R$487 in the parent company and estimated loss of R$1,065 in the consolidated (in the year of 2018, there was a reversal in the result of R$763 in the parent company and R$861 consolidated), as shown in the movement below:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| | (6,753) | (7,516) | (35,516) | (36,377) |
| Opening balance for the period | (153) | (302) | (2,078) | (603) |
| Reversal | 640 | 1,065 | 1,013 | 1,464 |
| Final balance | (6,266) | (6,753) | (36,581) | (35,516) |

# 9 Taxes to be recovered

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Value-added Tax on Sales and Services (ICMS) recoverable | 10,612 | 12,090 | 10,995 | 12,462 |
| PIS and COFINS on ICMS | 28,485 | - | 29,812 | - |
| Excise Tax (IPI) recoverable | 1,403 | 1,462 | 1,657 | 1,765 |
| Social Integration Program (PIS) recoverable | 28 | 290 | 412 | 678 |
| Social Contribution on Revenues (COFINS) recoverable | 128 | 1,379 | 1,778 | 3,107 |
| Corporate Income Tax (IRPJ) advances | - | - | - | 11,966 |
| IRF and IRPJ recoverable | 224 | 241 | 41,355 | 40,510 |
| CSLL recoverable | 88 | 102 | 6,986 | 6,002 |
| National Institute of Social Security (INSS) Contribution recoverable | 46 | 44 | 193 | 644 |
| Service tax (ISS) recoverable | - | - | 34 | 34 |
| Other | 70 | 72 | 185 | 205 |
| Total | 41,084 | 15,680 | 93,407 | 77,373 |
| | | | | |
| Current | 1,371 | 2,736 | 38,271 | 23,637 |
| Non-Current | 39,713 | 12,944 | 55,136 | 53,736 |

The origin of the credits listed above is as follows:

- **IPI, PIS and COFINS to recover** – stem, basically, from credits over purchases of raw materials used in the exported products and sale of products taxed at zero rate. The realization of these credits has been performed through compensation with other federal taxes.

- **Income tax and social contribution to recover -** are arising from taxes over profit, paid the largest over previous years, or in the form of anticipation in the current exercise, and of tax withheld at the source over financial transactions and services provided by third parties. These taxes are being compensated with payable taxes determined of the same nature r request for refund, where applicable.

- **ICMS -** refers to credits over acquisitions of inputs used in the manufacturing of products whose sale is subject to the reduced basis of calculation of ICMS, as well as claims over acquisitions of inputs used in the manufacturing of products intended for export.

- **PIS e COFINS about the ICMS** – refers to the amount determined by the company due to the transit in a partial decision of a favorable decision to exclude the ICMS from the PIS and COFINS calculation basis.

Actions have been taken to use these accumulated tax credits, either for their consumption in the operation, compensation with debts or cash refund.

# 10 Other receivable accounts

As of December 31, 2019, the Company has the following balances recorded as other accounts receivable in current and non-current assets, as shown below:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Other accounts receivable - Current** | | | | |
| Advances to employees | 316 | 308 | 340 | 520 |
| Profits and dividends receivable | - | - | 1,664 | 1,664 |
| Other receivables | 1,278 | 1,370 | 1,839 | 3,199 |
| Convertible debentures in share | 4,559 | 4,359 | 17,360 | 21,555 |
| Total | 6,153 | 6,037 | 21,203 | 26,938 |
| | | | | |
| **Other accounts receivable - Non-current** | | | | |
| Loans receivable from related Unifit | 6,935 | 6,935 | 6,935 | 6,935 |
| Loans receivable from related Luxxon | 163 | 163 | 6,091 | 6,091 |
| Other receivables | - | - | - | 479 |
| Total | 7,098 | 7,098 | 13,026 | 13,505 |

# 11 Investments

## 11.1 Investments in subsidiares and affiliates

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| In affiliates | 204,218 | 184,022 | - | - |
| Joint venture | - | - | - | - |
| In subsidiares | - | - | - | - |
| Total | 204,218 | 184,022 | - | - |
| Goodwill on acquisition of investments | 6,065 | 6,065 | - | - |
| Total | 210,283 | 190,087 | - | - |

| | | | | | | | | Parent | |
|---|---|---|---|---|---|---|---|---|---|
| | Mipel | Recu | LESP | Finance | LO&G | LOFS | Lochness | 12/31/2019 | 12/31/2018 |
| **Investment** | | | | | | | | | |
| **Amount of share or quotas** | | | | | | | | | |
| Ordinary shares (thd) | - | 3,000 | - | - | - | - | 716,004 | | |
| Capital stock quotas (thd) | 21,425 | - | 391,430 | 50 | - | - | - | | |
| Participation % | 100 | 95 | 100 | 100 | 5 | - | 100 | | |
| **Shareholders' equity** | **1,848** | **302** | **34,354** | **82,836** | **2,830** | - | **83,770** | | |
| Income (Loss) for the year | (5,510) | - | (2,745) | 332 | (1,174) | 4,236 | (27,839) | | |
| Unrealized profits | (309) | - | - | - | - | - | - | | |
| **Changes in investments** | | | | | | | | | |
| Starting balance in period | 7,078 | 439 | 36,758 | 78,907 | 196 | 15,924 | 44,720 | 184,022 | 370,397 |
| Advance for future capital increase | - | - | - | - | - | - | 1,292 | 1,292 | (131,241) |
| Capital increase | - | - | 251 | - | - | - | 54,960 | 55,211 | 55,862 |
| Sale of interest in subsidiary | - | - | - | - | - | (18,662) | - | (18,662) | (17,450) |
| Equity income | (5,539) | - | (2,745) | 1,852 | (59) | 2,118 | (27,839) | (32,212) | (134,736) |
| Equity valuation adjustment | - | (152) | 90 | 2,077 | 4 | 620 | 11,928 | 14,567 | 41,190 |
| **Final balance in the period** | **1,539** | **287** | **34,354** | **82,836** | **141** | - | **85,061** | **204,218** | **184,022** |

The social reasons of subsidiaries and affiliates are the following: Mipel - Mipel Ind. Com. Válvulas Ltda. - In Judicial Recovery; Recu - S/A; LESP - Lupatech - Equipamentos e Serviços para Petróleo Ltda. - In Judicial Recovery; Finance - Lupatech Finance Limited - In Judicial Recovery; Finance II - Lupatech II FinanceLimited; LNC - Lupatech Netherlands Coöperatief U.A. and Lochness Participações S/A - In Judicial Recovery.

The result of the equity is composed as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| In affiliates | (32,212) | (134,736) | - | - |
| In joint venture | 2,194 | (8,269) | 2,194 | (8,269) |
| Total | (30,018) | (143,005) | 2,194 | (8,269) |

## 11.2 Investments in jointly controlled (*joint venture*)

Luxxon Participações Ltda is the jointly controlled entity of the Lupatech Group with Axxon Group. The Company shares with the other partners the joint management of the relevant activities of this entity.

On December 31, 2019, the Company recognized investments in joint venture (Luxxon Participações Ltda), as a provision for unrecognized liabilities, in the amount of R$1,033 (R$4,906 on December 31, 2018).

Jointly controlled investments are measured using the equity method.

## 11.3 Investment Property

It consists of land and built area, located in Macaé in Rio de Janeiro, Caxias do Sul in Rio Grande do Sul and Nova Odessa in São Paulo. Such properties were classified as fixed assets and measured at their book value of R$6,276. After evaluating the Company's management, based on CPC 28 - Property for Investment, these properties were reclassified to investments.

There are no operational activities carried out on the Macaé property - RJ. The properties located in Caxias do Sul - RS and Nova Odessa - SP are partially occupied with administrative and manufacturing activities. These unused portions are reserved for another destination that may be more profitable and efficient for the Company, namely, leasing, real estate development or long-term sale.

According to a technical report prepared by an independent company, the total fair value calculated for properties and portions of properties for investment is R$50,452.

| | Parent | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | Land | Building and construction | Total | Land | Building and construction | Total |
| Balance on January 1, 2019 | - | - | - | - | - | - |
| Asset reclassification | 5,418 | 430 | 5,848 | 5,617 | 659 | 6,276 |
| Additions | 21,059 | 1,603 | 22,662 | 41,162 | 3,014 | 44,176 |
| Balance on December 31, 2019 | 26,477 | 2,033 | 28,510 | 46,779 | 3,673 | 50,452 |

# 12 Fixed Assets

| | Weighted avarage rate of depreciation % p.p. | Parent 12/31/2019 net | Parent 12/31/2018 net | Consolidated 12/31/2019 net | Consolidated 12/31/2018 net |
|---|---|---|---|---|---|
| Land | - | 5,969 | 11,366 | 5,903 | 12,639 |
| Building and construction | 2% | 26,485 | 27,599 | 35,191 | 37,316 |
| Machinery and equipment | 9% | 17,412 | 20,863 | 16,187 | 49,458 |
| Molds and matrixes | 15% | 392 | 512 | 491 | 599 |
| Industrial facilities | 5% | 5,469 | 5,989 | 7,118 | 7,670 |
| Furniture and fixtures | 9% | 690 | 809 | 477 | 1,082 |
| Date processing equipments | 14% | 74 | 78 | 18 | 255 |
| Improvements | 2% | 146 | 157 | 774 | 804 |
| Vehicles | 19% | 46 | 70 | 1 | 790 |
| Casks | - | - | - | 2 | 3 |
| Advances for fixed assets acquisitions | - | - | - | 8,396 | 9,917 |
| Construction in progress | - | 331 | 274 | 9,597 | 15,404 |
| Total | | 57,014 | 67,717 | 84,155 | 135,937 |

Synthesis of movement of the Fixed Assets:

| | Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gross Cost** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | **11,366** | **35,882** | **89,611** | **11,721** | **3,848** | **3,884** | **274** | **484** | **157,070** |
| Additions | - | - | 3,298 | 7 | - | 31 | 57 | 9 | 3,402 |
| Disposal | (53) | (99) | (11) | (11) | - | (2) | - | (5) | (181) |
| Reclassification for assets held for sale | 74 | - | (3,235) | - | - | - | - | - | (3,161) |
| Reclassification to investment property | (5,418) | (752) | - | - | - | - | - | - | (6,170) |
| **Balance on December 31, 2019** | **5,969** | **35,031** | **89,663** | **11,717** | **3,848** | **3,913** | **331** | **488** | **150,960** |

| | Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Acculated depreciation** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | **-** | **(8,283)** | **(68,236)** | **(5,575)** | **(3,039)** | **(3,806)** | **-** | **(414)** | **(89,353)** |
| Additions | - | (897) | (3,632) | (533) | (119) | (35) | - | (30) | (5,246) |
| Disposal | - | 30 | 9 | 6 | - | 2 | - | 2 | 49 |
| Reclassification for assets held for sale | - | 282 | - | - | - | - | - | - | 282 |
| Reclassification to investment property | - | 322 | - | - | - | - | - | - | 322 |
| **Balance on December 31, 2019** | **-** | **(8,546)** | **(71,859)** | **(6,102)** | **(3,158)** | **(3,839)** | **-** | **(442)** | **(93,946)** |

| | Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net fixed assets** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | **11,366** | **27,599** | **21,375** | **6,146** | **809** | **78** | **274** | **70** | **67,717** |
| **Balance on December 31, 2019** | **5,969** | **26,485** | **17,804** | **5,615** | **690** | **74** | **331** | **46** | **57,014** |

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gross Cost** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | **12,639** | **50,448** | **173,064** | **15,728** | **5,943** | **10,831** | **15,404** | **17,536** | **301,593** |
| Additions | - | - | 3,514 | 7 | - | 31 | 57 | 9 | 3,618 |
| Disposal | (53) | (1,269) | (65,595) | (171) | (757) | (515) | (1,133) | (1,590) | (71,083) |
| Transfer | - | 35 | 2,987 | - | - | - | (2,723) | (299) | - |
| Effect of the conversion of subsidiaries abroad | - | - | (3) | - | - | - | - | (225) | (228) |
| Reversal of provision for impairment of assets | - | - | 2,399 | - | (389) | (1) | (3,020) | (971) | (1,982) |
| Reclassification for assets held for sale | 74 | 695 | 54,192 | 149 | 337 | (3,186) | 3,939 | 1,578 | 57,778 |
| Reclassification to investment property | (5,617) | (1,267) | - | - | - | - | - | - | (6,884) |
| Effect of conversion of foreign subsidiaries | - | - | 1,315 | - | - | - | (1,804) | - | (489) |
| Effect of disposal of equity interest in subsidiary | (1,140) | (372) | (70,764) | - | (583) | (1,674) | (1,123) | (7,313) | (82,969) |
| **Balance on December 31, 2019** | **5,903** | **48,270** | **101,109** | **15,713** | **4,551** | **5,486** | **9,597** | **8,725** | **199,354** |

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gross Cost** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | - | **(13,132)** | **(123,007)** | **(7,254)** | **(4,861)** | **(10,576)** | - | **(6,826)** | **(165,656)** |
| Additions | - | (1,352) | (3,763) | (596) | (130) | (40) | - | (35) | (5,916) |
| Disposal | - | 1,187 | 31,605 | 152 | 698 | 515 | - | 1,580 | 35,737 |
| Effect of the conversion of subsidiaries abroad | - | - | (491) | - | - | - | - | - | (491) |
| Reclassification for assets held for sale | - | (572) | (36,991) | (123) | (276) | 3,061 | - | (1,578) | (36,479) |
| Reclassification to investment property | - | 608 | - | - | - | - | - | - | 608 |
| Effect of disposal of equity interest in subsidiary | - | 182 | 48,216 | - | 495 | 1,572 | - | 6,533 | 56,998 |
| **Balance on December 31, 2019** | - | **(13,079)** | **(84,431)** | **(7,821)** | **(4,074)** | **(5,468)** | - | **(326)** | **(115,199)** |

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net property, plant and equipment** | **Land** | **Building and construction** | **Machinery and equipment, molds and matrixes** | **Industrial facilities and improvements** | **Furniture and fixtures** | **Date processing equipments** | **Construction in progress** | **Others** | **Total** |
| **Balance on December 31, 2018** | **12,639** | **37,316** | **50,057** | **8,474** | **1,082** | **255** | **15,404** | **10,710** | **135,937** |
| **Balance on December 31, 2019** | **5,903** | **35,191** | **16,678** | **7,892** | **477** | **18** | **9,597** | **8,399** | **84,155** |

There are property, plant and equipment linked to guarantees of liabilities as of December 31, 2019, liabilities in the following amounts:

| | Fixed assets | |
|---|---|---|
| **Garanteed liabilities** | **Parent** | **Consolidated** |
| Taxation (Tax executions) | 14,791 | 14,949 |
| Loans and financing | 36,467 | 39,557 |
| Total | 51,258 | 54,506 |

**Commercial leases**

On December 31, 2019, the Company does not have a finance lease, but as of December 31, 2018, through the indirect subsidiary Lupatech OFS S.A.S. had the amount of R$5,527.

# 13 Intangibles

| | Weighted rates of amortization | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| | % p.p. | net | net | net | net |
| Goodwill (*) | - | 55,414 | 55,414 | 82,166 | 102,802 |
| Software and other licenses | 20% | 2,553 | 3,442 | 2,606 | 3,597 |
| New projects developments | 20% | 1,982 | 9,311 | 2,238 | 9,571 |
| Total | | 59,949 | 68,167 | 87,010 | 115,970 |

(*) In the Parent Company represents the balance of gain of the incorporated subsidiaries.

Synthesis of movement of the intangible:

| | Parent | | | |
|---|---|---|---|---|
| **Gross Cost** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **55,414** | **13,239** | **17,287** | **85,940** |
| Additions | - | 6 | 44 | 50 |
| Provision for non-recoverability of assets | - | - | (7,027) | (7,027) |
| **Balance on December 31, 2019** | **55,414** | **13,245** | **10,304** | **78,963** |

| | Parent | | | |
|---|---|---|---|---|
| **Acculated Amortization** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **-** | **(9,797)** | **(7,976)** | **(17,773)** |
| Additions | - | (895) | (346) | (1,241) |
| **Balance on December 31, 2019** | **-** | **(10,692)** | **(8,322)** | **(19,014)** |

| | Parent | | | |
|---|---|---|---|---|
| **Net Intangible Assets** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **55,414** | **3,442** | **9,311** | **68,167** |
| **Balance on December 31, 2019** | **55,414** | **2,553** | **1,982** | **59,949** |

| | Consolidated | | | |
|---|---|---|---|---|
| **Gross intangible cost** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **102,802** | **16,300** | **18,634** | **137,736** |
| Additions | - | 6 | 45 | 51 |
| Provision for non-recoverability of assets | - | - | (7,027) | (7,027) |
| Effect of the conversion of subsidiaries abroad | (22,912) | - | - | (22,912) |
| **Balance on December 31, 2019** | **79,890** | **16,306** | **11,652** | **107,848** |

| | Consolidated | | | |
|---|---|---|---|---|
| **Acculated Amortization** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **-** | **(12,703)** | **(9,063)** | **(21,766)** |
| Additions | - | (997) | (351) | (1,348) |
| Effect of change in equity interest of subsidiary | 2,276 | - | - | 2,276 |
| **Balance on December 31, 2019** | **2,276** | **(13,700)** | **(9,414)** | **(20,838)** |

| | Consolidated | | | |
|---|---|---|---|---|
| **Net Intangible Assets** | **Goodwill on acquisition of investments** | **Softwares and other licenses** | **Development of new products** | **Total** |
| **Balance on December 31, 2018** | **102,802** | **3,597** | **9,571** | **115,970** |
| **Balance on December 31, 2019** | **82,166** | **2,606** | **2,238** | **87,010** |

**a. Development of new products**

It refers to the costs with the development of new products, processes and equipment realized.

The amortization of these projects, whose term does not exceed 5 years, is recorded as debit in the result of the fiscal year, in the account for the cost of sold products.

**b. Software and other licenses**

It includes all the data processing systems and usage license, which are registered by the acquisition cost and are amortized linearly.

The amortization of software is recorded as debit in the result of the fiscal year, in the cost of products sold and operating expenses account, for a 5-year term.

**c. Goodwill on acquisitions**

Goodwill is allocated to business segments for which cash flows may be identified Cash Generating Units – "UGC".

The recoverable value of a UGC is determined based on calculations of the asset in use. These calculations use cash flow projections before the calculation of income tax and social contribution based on financial budgets approved by the Administration.

The goodwill balance is not amortized and is subject to impairment tests annually or when there is indication of eventual loss of value. On December 31, 2019, the Company assessed the recoverability of goodwill per cash-generating unit (CGU).

The premises used to determine the fair value through the method of cash flow discounted for the test of impairment include: cash flow projections based on estimations of the administration for future cash flow, discount rates and growth rates for determination of perpetuity. The perpetuity growth rates or inflation rates, have not been considered in the projection.

Whenever possible, the Directors shall compare the values in use and the estimated values of sale of the CGU to identify possible distortions in the calculations.

The discount rates used were prepared taking into account market information available on the test date. The discount rate used was 8.66% p.a., based on the weighted cost of capital of the business segment to which it belongs, considering inflation according to the CAPM methodology for the 2019 closing scenario.

The goodwill balance is not amortized, being tested for impairment annually or whenever there is evidence of possible loss in value. In 2019 and 2018, no signs of impairment were identified in the recoverability of goodwill.

It should be highlighted that events or significant changes in the overview can cause significant loss because of goodwill recovery. As main risks, we can highlight eventual deterioration of the metallurgical market, significant decrease in the demand of the automotive and construction sectors, paralysation of activities in industry plants of the Company or relevant changes in the economy or financial market that cause an increase in the perception of risk of reduction of liquidity and capacity to refinance.

Below is a summary of the allocation of goodwill by level of Cash Generating Unit:

| UGCs | Goodwill on acquisition of investments | | | |
|---|---|---|---|---|
| | Investments (Note nº 11) | | Intangible | |
| | Parent | | Consolidated | |
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Products Segment | | | | |
| Mipel Industria e Comércio de Válvulas Ltda (Group of units) | 6,065 | 6,065 | 6,065 | 6,065 |
| Unit Lupatech Ropes | 55,414 | 55,414 | 55,414 | 55,414 |
| Lupatech – Equipamentos e Serviços para Petróleo – Unit Fiberware | - | - | 20,687 | 20,687 |
| Services Segment | | | | |
| Lupatech OFS Coöperatief U.A. Unit (Netherlands)* | - | - | - | 20,636 |
| Total | 61,479 | 61,479 | 82,166 | 102,802 |
| | | | | |
| Investment | 6,065 | 6,065 | - | - |
| Intangible Assets | 55,414 | 55,414 | 82,166 | 102,802 |

** Company sold on 09/12/2019*

The gain is allocated to the cash-generating units for which may be identified in the cash flows of the Cash-Generating Units – "UGC".

The gain allocated to the group of units Carbonox and Valmicro is not relevant in comparison with the total book value of the gains, reason for which is not being presented individual information of these UGCs.

Below is a summary of the values recorded as a loss for non-recoverability of gain by the Cash-Generating Unit:

| UGCs | Goodwill on acquisition of investments | *Impairment* | Net Goodwill |
|---|---|---|---|
| Products Segment | | | |
| Mipel Industria e Comércio de Válvulas Ltda (Group of units) | 6,065 | - | 6,065 |
| Lupatech S/A - CSL Unit | 125,414 | (70,000) | 55,414 |
| Lupatech – Equipamentos de Serviços para Petróleo – Oil Tools Unit | 9,149 | (9,149) | - |
| Tecval Unit | 55,680 | (55,680) | - |
| Lupatech - Equipamentos de Serviços para petróleo - Monitoring Systems Unit | 9,884 | (9,884) | - |
| Lupatech – Equipamentos de Serviços para Petróleo – Unit Fiberware | 20,687 | - | 20,687 |
| Services Segment | | | |
| Lupatech – Equipamentos de Serviços para petróleo Unit | 59,227 | (59,227) | - |
| Unidade Lupatech OFS SAS. (Colômbia)* | - | - | - |
| Total | 286,106 | (203,940) | 82,166 |

** Company sold on 09/12/2019*

# 14 Suppiers

| | 12/31/2019 | | | | | | 12/31/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Parent | | | Consolidated | | | Parent | | | Consolidated | | |
| | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| **Suppliers** | | | | | | | | | | | | |
| **Subject to Judicial Recovery** | | | | | | | | | | | | |
| Domestic Suppliers | 3,874 | 99,628 | **103,502** | 3,874 | 99,628 | **103,502** | 4,695 | 107,824 | **112,519** | 4,695 | 107,824 | **112,519** |
| Export Suppliers | 137 | 16,901 | **17,038** | 137 | 16,901 | **17,038** | 871 | 8,746 | **9,617** | 871 | 8,746 | **9,617** |
| (-) Present value adjustment | - | (59,840) | **(59,840)** | - | (59,840) | **(59,840)** | - | (56,743) | **(56,743)** | - | (56,743) | **(56,743)** |
| | **4,011** | **56,689** | **60,700** | **4,011** | **56,689** | **60,700** | **5,566** | **59,827** | **65,393** | **5,566** | **59,827** | **65,393** |
| **Not Subject to Judicial Recovery** | | | | | | | | | | | | |
| Domestic Suppliers | 3,492 | - | **3,492** | 7,549 | - | **7,549** | 6,013 | - | **6,013** | 24,144 | - | **24,144** |
| Export Suppliers | 77 | - | **77** | 78 | - | **78** | 119 | - | **119** | 1,394 | - | **1,394** |
| | **3,569** | - | **3,569** | **7,627** | - | **7,627** | **6,132** | - | **6,132** | **25,538** | - | **25,538** |
| **Total suppliers** | **7,580** | **56,689** | **64,269** | **11,638** | **56,689** | **68,327** | **11,698** | **59,827** | **71,525** | **31,104** | **59,827** | **90,931** |

Under the current Judicial Recovery plan, 50% of the unsecured creditors of suppliers will be paid through the payment of subscription bonuses and the remaining 50% will be paid in cash within 15 years, with interest and correction at a variable rate equivalent to TR + 3% per year for Class IV and TR + 3.3% per year for Class III, to be paid respectively 30 days or in four quarterly installments after the maturity of the last principal proposed in the terms of payments of the unsecured creditors of the new Plan.

In December 31, 2019, the adjustment to present value was made on suppliers subject to judicial reorganization in the amount of R$3,097 (R$2,164 on December 31, 2018).

The balance of adjustment to present value on suppliers subject to judicial reorganization on December 31, 2019 is R$59,840 (R$56,743 on December 31, 2018) in the parent company and consolidated, considering the discount rate of 13.65% per year.

# 15 Loans and financing

| | | | 12/31/2019 | | | | | | 12/31/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Parent | | | Consolidated | | | Parent | | | Consolidated | | |
| Description | Index | Weighted interest rates | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| **Subject to Judicial Recovery** | | | | | | | | | | | | | | |
| **Local currency** | | | | | | | | | | | | | | |
| Secured creditors | FIXO | 3,00% a.a. + TR | 1,495 | 39,650 | **41,145** | 1,495 | 39,650 | **41,145** | 1,245 | 39,910 | **41,155** | 1,245 | 39,910 | **41,155** |
| Working capital / expansion | | | 1,495 | 39,650 | **41,145** | 1,495 | 39,650 | **41,145** | 1,245 | 39,910 | **41,155** | 1,245 | 39,910 | **41,155** |
| (-) Present value adjustment | | | - | (17,798) | **(17,798)** | - | (17,798) | **(17,798)** | - | (19,963) | **(19,963)** | - | (19,963) | **(19,963)** |
| Unsecured creditors | FIXO | 3,3% a.a. + TR | 934 | 86,364 | **87,298** | 934 | 86,364 | **87,298** | 2,817 | 90,343 | **93,160** | 2,817 | 90,343 | **93,160** |
| Working capital / expansion | | | 130 | 13,580 | **13,710** | 130 | 13,580 | **13,710** | 401 | 12,866 | **13,267** | 401 | 12,866 | **13,267** |
| Working capital / expansion | | | 111 | 11,624 | **11,735** | 111 | 11,624 | **11,735** | 343 | 11,012 | **11,355** | 343 | 11,012 | **11,355** |
| Working capital / expansion | | | 235 | 15,475 | **15,710** | 235 | 15,475 | **15,710** | 457 | 14,661 | **15,118** | 457 | 14,661 | **15,118** |
| Research and development funding | | | 55 | 5,696 | **5,751** | 55 | 5,696 | **5,751** | 168 | 5,397 | **5,565** | 168 | 5,397 | **5,565** |
| Guarantee provided by guarantee letter | | | - | - | - | - | - | - | 266 | 8,520 | **8,786** | 266 | 8,520 | **8,786** |
| Debentures | | | 403 | 39,989 | **40,392** | 403 | 39,989 | **40,392** | 1,182 | 37,887 | **39,069** | 1,182 | 37,887 | **39,069** |
| (-) Adjustment to present value | | | - | (42,818) | **(42,818)** | - | (42,818) | **(42,818)** | - | (45,290) | **(45,290)** | - | (45,290) | **(45,290)** |
| **Foreign currency** | | | | | | , | | | | | | | | |
| Unsecured creditors | FIXO | 3,3% a.a. + TR | - | - | - | 1,256 | 98,164 | **99,420** | | | | | | |
| *Noteholders* | | | - | - | - | 1,256 | 98,164 | **99,420** | - | - | - | 2,445 | 92,743 | **95,188** |
| (-) Adjustment to present value | | | - | - | - | - | (38,167) | **(38,167)** | - | - | - | - | (36,173) | **(36,173)** |
| | | | **2,429** | **65,398** | **67,827** | **3,685** | **125,395** | **129,080** | **4,062** | **65,000** | **69,062** | **6,507** | **121,570** | **128,077** |
| **Not subject to Judicial Recovery** | | | | | | | | | | | | | | |
| **Local currency** | | | | | | | | | | | | | | |
| Working capital / expansion | CDI | 6,80% a.a. | 2,692 | - | **2,692** | 2,692 | - | **2,692** | 2,376 | - | **2,376** | 2,376 | - | **2,376** |
| Working capital / expansion | TJLP | 4,84% a.a. | 5,034 | - | **5,034** | 8,648 | - | **8,648** | 11,790 | - | **11,790** | 21,353 | - | **21,353** |
| Discounted titles | - | 2,00% a.m. | 648 | - | **648** | 648 | - | **648** | 1,694 | - | **1,694** | 1,853 | - | **1,853** |
| Credit limit | FIXO | 7,00% a.m. | - | - | - | 1 | - | **1** | 48 | - | **48** | 99 | - | **99** |
| **Foreign currency** | | | | | | | | | | | | | | |
| Working capital / expansion | DÓLAR | 7,48% a.a. | 1,215 | - | **1,215** | 2,520 | - | **2,520** | 2,692 | - | **2,692** | 4,478 | - | **4,478** |
| Working capital / expansion | PESO COP | 12,55% a.a. | - | - | - | - | - | - | - | - | - | 7,038 | 1,121 | **8,159** |
| | | | **9,589** | **-** | **9,589** | **14,509** | **-** | **14,509** | **18,600** | **-** | **18,600** | **37,197** | **1,121** | **38,318** |
| | | | **12,018** | **65,398** | **77,416** | **18,194** | **125,395** | **143,589** | **22,662** | **65,000** | **87,662** | **43,704** | **122,691** | **166,395** |

Under the Judicial Recovery Plan in force, 35% of the secured claims subject to the Judicial Recovery must be paid through the payment of subscription bonuses and the remaining 65% will be paid in cash within 15 years, with interest increase and monetary restatement at a variable rate equivalent to TR + 3% per annum, to be paid 30 days after the maturity of the last installment of the principal, as proposed in the terms of payments of the secured creditors of the new Plan.

In the case of unsecured loans and financing, in accordance with the Judicial Recovery Plan in force, 50% will be paid through the payment of subscription bonuses and the remaining 50% will be paid in cash within 15 years, with (Class IV) or TR + 3.3% pa and 0.4% in foreign currency (Class III), to be paid in 30 days (Class IV) or four quarterly installments (Class III) after the maturity of the last installment of the principal, as approved in the terms of payments of the unsecured creditors of the new Plan.

As of December 31, 2019, there was an adjustment to the present value of loans and financing subject to judicial reorganization in the amount of R$4,637 at the parent company (R$3,840 at December 31, 2018) and R$2,644 in the consolidated (R$956 as of 31 December 2018).

The balance at present value adjustment on loans and financing subject to judicial recovery on December 31, 2019 is R $ 60,616 (R$65,253 on December 31, 2018) at the parent company and R$ 98,783 (R$101,427 on December 31, 2018 ) in the consolidated, considering the discount rate of 13.65% per year.

The maturities of the non-current installments of financing are as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Maturity** | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| 2020 | - | 2,088 | - | 4,876 |
| 2021 | 2,806 | 2,508 | 4,062 | 4,841 |
| 2022 | 3,282 | 2,508 | 4,995 | 4,691 |
| 2023 | 4,116 | 2,508 | 6,628 | 4,691 |
| 2024 | 6,785 | 2,508 | 10,780 | 4,691 |
| 2025 | 7,955 | 2,508 | 12,711 | 4,691 |
| From 2026 | 40,454 | 50,372 | 86,219 | 94,210 |
| | 65,398 | 65,000 | 125,395 | 122,691 |

The guarantees of loans and financing were granted as follows, with position as of December 31, 2019:

| | | Value of the guarantee | | | |
|---|---|---|---|---|---|
| | | Parent | | Consolidated | |
| | | Book value* | Appraisal report value** | Book value* | Appraisal report value** |
| **Subject and not subject to Judicial Recovery** | | | | | |
| **Local currency** | **Garantee** | | | | |
| Working capital / expansion | Mortage / Buildings | 33,961 | 112,207 | 34,355 | 134,149 |
| Working capital / expansion | Machinery and equipment | 2,506 | 2,749 | 5,202 | 8,292 |
| | | 36,467 | 114,956 | 39,557 | 142,441 |

* Net values of depreciation.

** Evaluation according to the reports prepared by Appraisal Avaliações e Engenharia Limitada, in July 2015, presented to the Judicial Recovery Court, shown in the table above for reference.With the new reports made in December 2018, there was no change in the valuation value.

As of December 31, 2018, the Company had a balance of R$4,865 of notification of collection by Banco Votorantim S / A related to the settlement of the guarantee provided - guarantee by letter of guarantee requested by Banco do Nordeste do Brasil S / A to settle the loan between Unifit - Industrial Threads Unit of Timbaúba Ltda and BNB, in the amount of R$31,180, of which the Company was the guarantor in 50%. The debt was included in the debt subject to Judicial Recovery. In the fourth quarter of 2019, the case was settled by Unifit, and Lupatech was released from this debt by the creditor.

Due to the Plan of Judicial Recovery, the bonds and debentures started being treated and registered with the loans subject to judicial recovery, on non-current liabilities, due to its classification as unsecured creditors of the Plan, where they accrue interest and monetary correction at a variable rate equivalent to TR + 3.3% per year in Reais, as determined for payment of these creditors in the New Plan of Judicial Recovery.

# 16 Debentures

***Third Issuance of Debentures***

Aiming the payment of part of the credits of labor nature, and other credits not subject to the Plan of Judicial Recovery, the Board has approved, in a meeting held in November 28 of 2017, the 3rd issuance of debentures convertible into ordinary stocks of issuing of the Company, in a single series, of the unsecured kind, for private placement, within the limit of the authorized capital, in the amount of thirty million reais, upon issuance of 30.000.000 of Debentures.

The Issuance respected the preemptive right of the Company's shareholders and was directed to the payment of Class I Judicial Reorganization credits and to holders of other credits.

On February 5 of 2018, was held at RCA, the partial approval of the 3rd Issuance of Debentures of the Company, as approved in the meeting of the Administrative Council held on November 28 of 2017, in the amount of R$29,313, upon the issuance of 29,313,394 Debentures, within the limit of the authorized capital of the Company.

Considering the total amount of the issuance of 30,000,000 of Debentures, still remained 686,606 unsubscribed Debentures, which were canceled by the Company, in accordance with the Issuance.

The conclusions of the Company's stock conversion processes were as follows:

| Event | Conversion Date | Common shares (units) | Conversion of Debentures into R$ |
|---|---|---|---|
| Completion of the process of converting debentures into shares of the Company | February 28, 2018 | 5,265,949 | 15,482 |
| 1st Mandatory Conversion of Debentures into Company Shares | February 28, 2018 | 470,456 | 1,383 |
| 2nd Mandatory Conversion of Debentures into Company Shares | June 18, 2018 | 358,682 | 1,055 |
| 3rd Mandatory Conversion of Debentures into Company Shares | August 20, 2018 | 364,282 | 1,070 |
| 4th Mandatory Conversion of Debentures into Company Shares | November 21, 2018 | 369,542 | 1,087 |
| 5th Mandatory Conversion of Debentures into Company Shares | February 27, 2019 | 375,225 | 1,103 |
| 6th Mandatory Conversion of Debentures into Company Shares | May 29,2019 | 380,467 | 1,119 |
| 7th Mandatory Conversion of Debentures into Company Shares | August 30,2019 | 386,318 | 1,136 |
| 8th Mandatory Conversion of Debentures into Company Shares | November 22, 2019 | 392,168 | 1,153 |

The balance of remaining Debentures as of December 31, 2019, recorded in Current Liabilities is R$5,187 (R$9,336 as of December 31, 2018).

**The main characteristics of the 3rd issuance of debentures are:**

**Series:** Only
**Date of issue:** 12/18/2017 (for all legal purposes)
**Expiration Date:** Without time of expiration
**Quantity issued:** 29.313.394
**Par value:** R$1.00
**Value of the issue:** R$29.313

**Convertibility:**

The Debentures are mandatorily convertible into ordinary shares issued by the Company, at the discretion of the debenture holders, in accordance with the conditions and options below:

a) in up to 10 working days counted from the Date of Payment of Debentures, the debenture holders could request the conversion of up to 100% of the Debentures held by them in shares, of R$2.94 per share. The calculation for conversion of Debentures resulted from the division between (i) the nominal unit value of the Debentures, plus the remuneration and (ii) the conversion price of $2.94 per ordinary share issued by the Company. Any fractions resulting from the calculation for conversion were disregarded; or

b) within 10 working days from the date of payment of Debentures, if the debenture holders have not requested the convertibility of its Debentures pursuant to the terms and conditions set forth in the item (a) above, the Debentures will be mandatorily converted into Shares, according to the periodicity, percentage and price indicated below:

:

| Conversion Dates | Percentage to be converted from Debentures of each of Debenturist | Price per share in R$ |
|---|---|---|
| February 15, 2018 | 10% | 2.94 |
| May 15, 2018 | 7.5% | 2.94 |
| August 15, 2018 | 7.5% | 2.94 |
| November 15, 2018 | 7.5% | 2.94 |
| February 15, 2019 | 7.5% | 2.94 |
| May 15, 2019 | 7.5% | 2.94 |
| August 15, 2019 | 7.5% | 2.94 |
| November 15, 2019 | 7.5% | 2.94 |
| February 15, 2020 | 7.5% | 2.94 |
| May 15, 2020 | 7.5% | 2.94 |
| August 15, 2020 | 7.5% | 2.94 |
| November 15, 2020 | 7.5% | 2.94 |
| February 15, 2021 | 7.5% | 2.94 |

In the event of the Action completing 22 consecutive trading sessions with closing values above the price of the last conversion performed, the debenture holder may, at his sole discretion, during the 10 calendar days following, anticipate the last conversion provided in accordance with the schedule above. Closed the period of 10 calendar days for the exercise of the faculty of early conversion, if the conditions for early conversion are cleared again, the debenture holders may, at his sole discretion, make new conversions in advance on the same terms. In these cases, the Debentures will be converted in accordance with the schedule, with the remuneration calculated on a pro rata temporis up to the date of early conversion.

The debenture holder that holds more than one Debenture can group the fractions of shares that he has rights over, with the aim of achieving an integer, so as to receive the largest possible number of shares. After the fractional shares resulting from the conversion of Debentures of each debenture holder being grouped, only whole quantities of shares shall be delivered to the referred debenture holder, disregarding any fraction.

The number of shares to be delivered per Debenture will be simultaneous and proportionally adjusted to capital increases by subsidy, splitting or groupings of ordinary and/or preferred shares issued by the Company, any title, which might occur starting from the date of issuance, without any cost to the holders of Debentures and the same proportion established for such events.

**Subscription and payment:**

The Debentures subscribed were paid on January 31, 2018 ("Date of Subscription"), the subscription price corresponding to its nominal value per unit, without monetary updating, interest or other

charges. The Debentures were paid in cash, upon the act of subscription ("Date of Payment"), outside the scope of B3, with Undisputed labor credits, as defined in the Plan of Judicial Recovery, or credits held by a society of specific purpose as a result of the assumption of labor credits, or with other credits, in all cases held in regards to the Company, upon the payment with the corresponding credits. The sums paid by holders of right of preference, in accordance with Article 171, paragraph 2 and paragraph 3 of the Corporation Law, must be delivered in proportion to holders of paid credits.

For each R$1.00 (one real) in undisputed labor credits, loans held by the SPE or other credits, was subscribed and paid R$1.00 (one real) of nominal value of Debenture, disregarding fractions of the real so that the payment of the whole number of debentures immediately below the value of the credit.

The Debentures that were not subscribed, as well as Debentures subscribed which have not been paid pursuant to the terms and conditions set forth in the Scripture of Issuance, have been canceled.

**Remuneratory Interest:**

Each Debenture does justice to the remuneration, as from the date of payment, calculated by the referential rate, calculated and published by the Central Bank of Brazil ("TR"), increased exponentially from a spread or surcharge of 6% per year, calculated on the basis of 252 working days, calculated in a composed form, annually, pro rata temporis per day, on the par value per unit of the Debentures, since the date of payment (additionally) until the date of notice to shareholders, which must occur at the end of each period of capitalization, to be calculated in accordance with the Scripture of Issuance.

The Remuneration pro rata temporis will be added to the percentage of the par value per unit of the Debentures for the purpose of conversion on each date of conversion, as described in the table above, occurring in the last payment on February 15, 2021, the date on which, mandatorily, any remaining balance will be converted into shares. This provision also applies to early conversion.

**Optional early redemption total or partial and partial optional amortization:**

The Company may, at its sole discretion and regardless of the willingness of the debenture holders perform, at any time, (i) the total early redemption; and/or (ii) the partial early redemption of the Debentures, limited to 98% of the balance of the par value per unit of the Debentures.

On the occasion of the optional early redemption or the optional early amortization, the Debenture Holders will make justice to the receipt the par value per unit of the Debentures, plus the remuneration of Debentures, calculated pro rata temporis since the date of payment until the date of effective payment of the optional early redemption or the optional early amortization. There will be no payment of prizes.

The optional early redemption or the optional early amortization may only occur through the sending of communication from the Company to the debenture holders, with minimum prior notice of 5 working days from the date envisaged for the execution of the optional early redemption or the optional early amortization, stating (i) the amount to be paid for the Debentures to be redeemed or amortized, as applicable; (ii) the date of execution of the optional early redemption or the optional early amortization; and (iii) other information necessary for the operationalization of the redemption or amortization of the Debentures.

In the event of execution of optional early redemption optional early amortization, the Company may make the compensation with eventual credits that it holds against the Debenture Holders, in accordance with Article 368 and following of the Civil Code, outside the scope of the B3.

**Dilution:**

As was assured to the current shareholders of the Company their right of preference pursuant to Article 57, paragraph 1, and Article 171, paragraph 3, of the Law of Corporations, only dilution occurred by not exercising the right of preference. Otherwise, the shareholders have maintained their respective shares in the social capital. The price of conversion of Debentures into shares issued by the Company in the context of the Issuance was fixed without undue dilution to the current shareholders of the Company, under the terms of Section III of the paragraph1 of article 170 of the Law of Corporations.

# 17 Related parties

## 17.1 Parent Company

The balances and transactions between the Company and its subsidiaries, which are its related parties, have been eliminated in the consolidation. The details in regards to transactions between the parent company and its subsidiaries are presented below:

| | Parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | SABR | Mipel Sul | Lupatech Finance | LESP | OFS | 12/31/2019 | 12/31/2018 |
| **Assets** | | | | | | | |
| **Current** | | | | | | | |
| Accounts receivable | - | 1,012 | - | - | - | 1,012 | 1,865 |
| Other accounts receivable | 3,626 | 2,496 | - | 41,344 | - | 47,466 | 93,640 |
| **Non-current** | | | | | | | |
| Mutual and loans | 21,930 | - | - | - | - | 21,930 | 27,858 |
| | 25,556 | 3,508 | - | 41,344 | - | 70,408 | 123,363 |
| **Liabilities** | | | | | | | |
| **Current** | | | | | | | |
| Accounts payable | - | 52 | - | 3 | - | 55 | 1,928 |
| Other accounts payable | - | - | 1,251 | 1,222 | - | 2,473 | 2,480 |
| Mutual and loans | - | - | - | 38,129 | - | 38,129 | 36,654 |
| **Non-current** | | | | | | | |
| Mutual and loans | - | - | 146,797 | - | - | 146,797 | 140,583 |
| | - | 52 | 148,048 | 39,354 | - | 187,454 | 181,645 |
| | | | | | | 12/31/2019 | 12/31/2018 |
| **Income** | | | | | | | |
| Sales | - | - | - | - | - | - | 2,628 |
| Purchases | - | 5,273 | - | - | - | 5,273 | 5,509 |
| Financial income | 24 | - | - | - | - | 24 | 20 |
| Financial expenses | - | - | 547 | - | - | 547 | 1,016 |
| Exchange variation | - | - | - | - | - | - | 6,696 |
| | 24 | 5,273 | 547 | - | - | 5,844 | 15,869 |

| | Parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Transaction date | Duration | Interest rate | Amount R$ | Balance US$ | 12/31/2019 | 12/31/2018 |
| **Assets mutual** | | | | | | | |
| **Foreign currency** | | | | | | | |
| Contract 1 | 14 - july | Indeterminate | 105% do DI-Cetip | 20,992 | 5,214 | 21,714 | 27,674 |
| Contract 2 | 14 - december | Indeterminate | 12,000% a.a. | 288 | 54 | 216 | 184 |
| | | | | **21,280** | **5,268** | **21,930** | **27,858** |
| **Liabilities mutual** | | | | | | | |
| **Foreign currency** | | | | | | | |
| Contract 4 | 15 - december | Indeterminate | - | 36,951 | 9,460 | 38,129 | 36,654 |
| Contract 5 | 18 - january | Indeterminate | 0,4%a.a | 225,416 | 36,420 | 146,797 | 140,583 |
| | | | | 262,367 | 45,880 | 184,926 | 177,237 |
| | | | | **262,367** | **45,880** | **184,926** | **177,237** |

Transactions are performed in accordance with the terms agreed between the parties.

Loans and agreements in foreign currency between Parent Company and Lupatech Finance are presented on December 31, 2019 for the net amount of R$146,797 (remaining balance of R$140,583 on December 31, 2018) in Parent Company's liabilities.

On December 31, 2019, the Company had a loan agreement with Unifit - Industrial Wire Unit of Timbaúba Ltda in the amount of R$6,935, the same balance presented on December 31, 2018. This amount is recorded in other accounts receivable in noncurrent assets.

The Company has a loan agreement with the jointly-owned subsidiary Luxxon Participações Ltda in the amount of R$6,091 on December 31, 2019, the same balance was presented on December 31, 2018. This amount is recorded in other accounts receivable non-current assets.

### *a. Clearances granted*

The operations with related parties have no warranties related to the operation, limiting itself to ordinary commercial transactions (purchase and sale of inputs), which are not backed by warranties, as well as mutual operations with Group companies, which also have no warranties in their composition.

### *b. Condition of prices and charges*

Intercompany loan agreements in Brazil are monetarily restated at the monthly DI-Cetip market funding rate.

## 17.2 Key Personeel of the Administration

### *a. Remuneration of the Administration*

Lupatech S / A - In Judicial Reorganization recorded a total of R$3,440 in fiscal year 2019 related to Management compensation (R$2,860 in fiscal year 2018) having been approved at the Annual and Extraordinary General Meeting held on May 13, 2019, the annual fixed and variable global remuneration of the Company's administrators for the year of 2019 in the amount of up to R$5,840, being thus subdivided: up to R$2,406 for the global fixed compensation of the Executive Board, including benefits and charges; up to R$2,224 for the Board's global variable compensation; and up to R$1,210 for the global fixed compensation of the Board of Directors.

In 2017 and 2018, the Company did not pay variable remuneration, referring to the retention plan for executives and key personnel in the Company. However, provision is made for amounts to cover

variable remuneration for the respective 2017 and 2018 periods of R$1,600 and R$1,920 to meet the contracted objectives. For the year of 2019, R$600 was provisioned.

### 17.3 Loans with shareholders

On December 31, 2019, the amount of the loan with GPCM, LLC (Oilfield Services Holdco LLC) is R$7,766 (R$8,371 at December 31, 2018) and is recorded in noncurrent liabilities with loans subject to judicial recovery.

## 18 Income tax and social contribution

For companies based in Brazil, depending on the situation of each company, if taxed by the real profit, the provision for income tax is calculated and accounted for at the rate of 15% on the taxable profit, plus an additional of 10%, and to social contribution the rate of 9%, calculated and entered on the profit before the income tax, adjusted in the form of tax legislation. The companies taxed on the basis of presumed profit calculate income tax at the rate of 15%, plus an additional of 10%, and social contribution at the rate of 9%, over an estimated profit of 8% to 32% for income tax and 12% for social contribution levied on the gross revenue from sales and services of subsidiaries, observed the tax rules in force.

### a. Income tax and social contribution deferred

As of December 31, 2019, in the parent company and consolidated, all active balances were recognized in the proportionality of the existing liabilities. The current non-current deferred income and social contribution taxes are presented as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **NON-CURRENT LIABILITIES** | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Adjustment to present value of suppliers, fines, loans and debentures | (28,669) | (29,035) | (37,752) | (37,644) |
| Assigned Cost | - | - | (14,284) | (16,809) |
| Others | (7,705) | - | (15,020) | (29) |
| **Deferred income tax and social contribution** | **(36,374)** | **(29,035)** | **(67,056)** | **(54,482)** |

Deferred income and social contribution taxes are recorded in the income statement on December 31, 2019, referring to the result for the year 2019, in the amounts of R$366 in the parent company and R$108 in the consolidated (R$1,984 in the parent company and R$10,464 in the consolidated for the financial year 2018).

**b. Conciliation of the expenditure of income tax and social contribution**

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Income (loss) before taxes from continuing operations** | (26,544) | (103,030) | (30,283) | (117,019) |
| **Pre-tax loss from discontinued operations** | - | - | 8,526 | 5,547 |
| **Loss before tax** | **(26,544)** | **(103,030)** | **(21,757)** | **(111,472)** |
| **Additions and exclusions** | | | | |
| Equity pick-up | 30,018 | 143,005 | (2,194) | 8,269 |
| Provision of losses on inventory obsolescence | (487) | (763) | 1,065 | (861) |
| Provision for losses due to non-recoverability of assets | - | - | 11,246 | (9,676) |
| (Reversal) Allowance for doubtful accounts | (692) | 142 | (692) | 206 |
| Non-deductible Interest | - | 13,221 | - | 13,221 |
| Provision for contingency losses | - | 1,073 | - | 4,381 |
| Non-deductible expenses | 7 | - | 3,051 | - |
| Adjustment to present value | 1,540 | 6,005 | (454) | 1,137 |
| Adjustment to fair value | - | (152,128) | - | (27,923) |
| Investment valued at equity | (29,401) | - | (29,401) | - |
| Provision for interest on suppliers | 3,957 | 238 | 4,203 | 3,550 |
| Exchange variation provision | 7,565 | 63,075 | 12,515 | 70,876 |
| Others | (1,582) | (7,433) | (32,074) | (12,559) |
| **Calculation basis** | **(15,619)** | **(36,595)** | **(54,492)** | **(60,851)** |
| Combined Tax Rate | 34% | 34% | 34% | 34% |
| **Current income and social contribution taxes of subsidiaries** | - | **(265)** | **(23)** | **122** |
| **Deferred income tax and social contribution** | **366** | **1,984** | **(108)** | **10,464** |

# 19 Other accounts payable

As of December 31, 2019, the Company has the following balances recorded as other accounts payable in current and non-current liabilities, according to the composition below:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Others payable - Current assets** | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Electricity provision | 357 | 357 | 357 | 357 |
| Provision of fees | 354 | 535 | 354 | 535 |
| Labor contingencies payable | 420 | 312 | 528 | 413 |
| Miscellaneous provisions | 552 | 102 | 1,003 | 986 |
| Other bills to pay | 2,104 | 526 | 2,667 | 1,068 |
| Total | 3,787 | 1,832 | 4,909 | 3,359 |

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Others payable - Noncurrent** | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Result of future years | - | 1,080 | - | 1,080 |
| Labor contingencies payable | - | - | 2,607 | - |
| Other accounts payable - Ciaval | 1,572 | - | 1,572 | 2,426 |
| Total | 1,572 | 1,080 | 4,179 | 3,506 |

# 20 Contingent process and judicial deposits

## 20.1 Provision for tax, labor and civil risks

The Company, through its lawyers, has discussed some issues of tax nature, labor and civil in the judicial sphere. The provision for tax, labor and civil risks was ascertained by the Administration based on

available information and supported by the opinion of their lawyers regarding the expectation of outcome, at an amount considered sufficient to cover losses considered likely that may occur on the basis of unfavorable judicial decisions.

| | | Parent | | Consolidated | |
|---|---|---|---|---|---|
| | | Expectation of loss | | Expectation of loss | |
| | | Possible | Probable | Possible | Probable |
| Tax (i) | | | | | |
| ICMS - Tax on Circulation of Goods and Services | (i.1) | 79,260 | - | 80,341 | - |
| CSLL - Social Contribution on Net Income | (i.2) | - | - | 14,841 | - |
| IRPJ - Corporate Income Tax | (i.3) | 17,532 | - | 133,712 | - |
| INSS - National Institute of Social Security | (i.4) | - | - | 1,691 | - |
| IRRF - Withholding Income Tax | (i.5) | 48,554 | - | 48,554 | - |
| IPI - Excise Tax | | 498 | - | 498 | - |
| COFINS - Tax for Social Security Financing | (i.6) | - | - | 508 | - |
| ISS - Services Tax | (i.7) | - | - | 6,825 | 153 |
| CIDE - Contribution for Intervention in the Economic Domain | | - | - | 1,071 | - |
| Other tax provisions | (i.8) | - | 1,051 | 18,619 | 2,125 |
| | | 145,844 | 1,051 | 306,660 | 2,278 |
| Labor (ii) | | 2,102 | 7,613 | 23,683 | 46,317 |
| Civil (iii) | | 7,941 | 190 | 26,953 | 9,418 |
| Total on December 31, 2019 | | 155,887 | 8,854 | 357,296 | 58,013 |
| Total on December 31, 2018 | | 138,723 | 6,107 | 226,352 | 53,913 |

These figures cover the entirety of the Group's companies and include values in judicial and administrative discussion as well as situations incurred where, even without the existence of releases or formal questioning by the authorities, may signify risks of future losses.

The provision for funds involved in the lawsuits in the above amounts (R$8,854 in the parent company and R$58,013 in the consolidated on December 31, 2019 and R$6,107 in the parent company and R$53,913 in the consolidated on December 31, 2018) and referring to the following spheres the risk of loss is probable, and this is defined as an outflow of economic benefits is presumed in the case discussed, the judgments made in each lawsuit and the jurisprudential understanding of each case.

The demands with probability of possible loss are excluded from the provision.

The judicial demands are divided into three spheres, being:

*(i) Tax Contingences*

Discussions involving tributes in the state and federal spheres, among these IRPJ, PIS, COFINS, INSS, ICMS and IPI. There are suits in all procedural stages, since the initial instance until the Upper Courts, STJ and STF. The main suits and values are as below:

**Main contingent proceedings classified as possible loss as of December 31, 2019**

(i.1) Annulment action that aims to destroy ICMS credit, launched due to Lupatech S / A - In Judicial Reorganization, not having paid the tax when the goods were exported under REPETRO, since such operation is immune to the impact of the tax, as provided for in art. 155, X, "a", of the Constitution of the Republic and art. 6 of Law No. 9,826 / 99. We filed Special and Extraordinary Appeals against the judgment that dismissed yours. Appeal Appeals, which are pending the admissibility exam. Process subject to possible loss of R$62,325.

Tax enforcement against Lupatech S/A - In Judicial Reorganization distributed on October 22, 2015, through which the State of São Paulo aims to collect ICMS on imports. The Court accepted the defense presented, which motivated the appeal by the State Treasury. Process subject to possible loss of R$8,664.

Annulment lawsuit filed by Lupatech S / A - In Judicial Reorganization against the State of São Paulo, distributed on October 22, 2015, with the purpose of deconstructing ICMS debt. In summary, it is argued that the inspection ignored the fact that incoming invoices were issued to cancel improperly issued outgoing invoices. On May 17, 2016, emergency relief was granted, suspending the enforceability of credits. Process subject to possible loss of R$3,040.

Tax Foreclosure of the São Paulo State Treasury against Lupatech S / A - In Judicial Recovery for collection of ICMS debt and fine, resulting from the notice of infraction nº 3149008, distributed on September 26, 2012. The company offered property under guarantee , and the process has since been halted. Process subject to possible loss of R$1,851.

(i.2) This is an Ordinary Action of the Federal Union against Lupatech Perfuração e Completação Ltda - In Judicial Recovery distributed on December 14, 2011, which aims at the declaration of extinction, by compensation, under the terms of art. 156, II, of the Tax Code, of debts subject to administrative proceedings. The Company's appeal is awaiting judgment. Process subject to possible loss of R$2,884.

Tax assessment notice from the Federal Revenue of Brazil against Sotep - Sociedade Técnica de Perfuração S / A - In Judicial Recovery, distributed on July 13, 2011, related to the collection of social contributions levied on the payroll typified in art. 22 of Law 8,212 / 91, as well as incidents on remuneration paid, due or credited, to individual taxpayers for their services. The administrative defense argues, in summary, that the entry is null, since it was not considered in the calculation of contributions the values that were subject to withholdings made by the service borrowers, in accordance with the provisions of art. 31 of Law No. 8,212 / 91. Process subject to possible loss of R$1,997.

Tax foreclosure filed against Lupatech Perfuração e Completação Ltda - In Judicial Reorganization, through which the Federal Government seeks the collection of CSLL credits subject to administrative proceedings, resulting from the arbitration of profit. A Pre-execution Exception was filed defending the lack of liquidity of the security, in view of the existence of a decision prior to the enrollment of active debt determining the suspension of the tax credit requirement. Process subject to possible loss of R$7,050.

(i.3) Infraction notice drawn up by the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda - In Judicial Recovery, imputing alleged irregularities in the calculation of IRPJ, CSLL, PIS and COFINS in the fiscal year of 2013. Nullity problems were alleged due to the restriction of rights of defense and, in relation to the PIS and COFINS launches related to the revenues from “Sales of services - National Market”, in the amount of R $2,965, they would be mere provisions that were part of the January 2013 billing. Process subject to possible loss R$24,960.

Writ of Mandamus filed by Lupatech Perfuração e Completação Ltda - In Judicial Reorganization to guarantee the net right and certain to have analyzed all the documents presented in the administrative objection, which demonstrate the mistake made by the Finance Authority in arbitrating the

Company's profit in the years of 2008 and 2009. The annulment of the administrative judgment was confirmed by the Federal Regional Court of the 2nd Region. Process distributed on June 12, 2017 subject to possible loss of R$29,244.

Infringement notice of the Federal Revenue of Brazil, drawn up as a result of the arbitration of the profit of the company Lupatech Perfuração e Completação Ltda - In Judicial Recovery in the calendar year 2010. The arbitration was due to deficiencies in the transmission of the Digital Accounting Bookkeeping (ECD). The administrative defense proved that the arbitration was wrong, as the irregularities pointed out in the ECD were remedied. Currently, the Voluntary Appeal presented by the Company to CARF is awaiting judgment. Process subject to possible loss of R$14,327.

Infraction notice drawn up by the Federal Revenue Service of Brazil against Lupatech Perfuração e Completação Ltda - In Judicial Recovery, aiming at the collection of social security contributions and contributions to third parties referring to the period of 2012. In addition to the nullity issues, the possibility of taxation of incentive bonuses, whether they were paid or just provisioned. Process subject to possible loss of R$5,738.

Request for compensation from Lupatech Equipamentos e Serviços para Petróleo Ltda - In Judicial Recovery, referring to the negative balance of the IRPJ (2009/2010) that generated collection processes. On August 19, 2015, a statement of non-conformity was presented. It is argued that the non-approval of the compensations no longer considers a rectifying document presented before the decision. Since December 13, 2016, the process has been in the DRJ-RJO-RJ reception and screening service. Process subject to possible loss of R$6,009.

Infraction notice drawn up by the Federal Revenue of Brazil against Prest Perfurações Ltda - In Judicial Reorganization to demand a fine resulting from the non-approval of DCOMP's related to administrative proceedings. The unconstitutionality of the fine is defended. Process subject to possible loss of R$1,687.

Administrative suit of the Federal Revenue of Brazil, regarding the request of tax compensation by Sotep - Sociedade Técnica de Perfuração S/A - In Judicial Recovery. Suit subject to possible loss of R$3,400.

Infraction Notice drawn up by the Federal Revenue of Brazil against Lupatech S / A - In Judicial Reorganization for the constitution of IRPJ and CSLL tax credits for the calendar years 2009 and 2010, due to the alleged irregularity of the anticipation of exclusions resulting from amortization of goodwill. Currently, the merits of the collection are discussed through an Annulment Action. Process subject to possible loss of R$17,461.

Tax foreclosure filed against Lupatech Perfuração e Completação Ltda - In Judicial Reorganization, through which the Federal Government seeks the collection of IRPJ credits subject to administrative proceedings, resulting from the arbitration of profit. A Pre-execution Exception was filed defending the lack of liquidity of the security, in view of the existence of a decision prior to the enrollment of active debt determining the suspension of the tax credit requirement. Process subject to possible loss of R$22,888.

(i.4) Notice of Infraction issued for the collection of DEBCAD nº 37.142.030-0, related to the conversion of an advisory obligation into a principal obligation, consistent with the lack of declaration in GFIP of the contributions due in the period between January 1999 and June 2007, of the company Sotep - Technical Society of Drilling S / A - In Judicial Recovery. It defends the partial decay of the entry,

the nullity of defective reasoning and the need to reduce the fine. Process subject to possible loss of R$1,691

(i.5) Tax foreclosure of the National Treasury against Lupatech S / A - In Judicial Recovery, related to the collection of IRRF debt. The discussion on the merits is held in the writ of mandamus, in which a sentence was handed down recognizing that a substantial portion of the tax credits arising from the administrative proceeding is unfounded. Process subject to possible loss of R$48,554.

(i.7) Tax Foreclosure of the Municipality of Três Rios - RJ, against Sotep - Sociedade Técnica de Perfuração S / A- In Judicial Recovery for collection of ISS for the periods 2013 and 2014. Process subject to possible loss of R$3,187.

(i.8) Infringement notice drawn up by the Federal Revenue of Brazil against Lupatech Perfuração e Completação Ltda - In Judicial Recovery for collection of fines due to the alleged non-compliance with the special customs regime for temporary admission. It is argued that the legal liturgy has not been respected, that the 75% fine is not possible due to the fact that the entry in question is due to approval, that the tax credit has been fully paid under PERT and, in the alternative, that it is impossible cumulation of a fine of different fines for the same infraction. Process subject to possible loss of R$12,063.

Infraction notice drawn up by the Federal Revenue of Brazil against Sotep - Sociedade Técnica de Perfuração S / A - In Judicial Recovery to collect fines due to the alleged breach of the special customs regime for temporary admission. It is argued that the legal liturgy has not been respected, that the 75% fine is not possible due to the fact that the entry in question is due to approval, that the tax credit has been fully paid under PERT and, in the alternative, that it is impossible cumulation of a fine of different fines for the same infraction. Process subject to possible loss of R$3,369.

*(ii) Labor contingences*

The Company and its subsidiaries are parties to labor lawsuits related to disputes that mainly involve overtime claims, material and moral damages, unhealthy and dangerous work, among others. None of the complaints refer to individually significant amounts.

*(iii) Civel Contingences*

**The main discussions in this area, classified as possible losses, at December 31, 2019 are related to:**

(iii.1) Ordinary lawsuit filed by Weatherford Indústria e Comércio Ltda. and Weus Holding INC in which they claim misappropriation of confidential technical drawings of their property. The lawsuit has a loss risk classification as probable approximate of R$624, as a possible loss of R$2,080 and a remote loss of R$52,024. It is currently in the execution phase of the judgment, pending completion of engineering expert work.

(iii.3) Action of return for loss and damage, company Aerólero Táxi Aéreo S/A, subject to possible loss of R$4,190.

(iii.4) Extrajudicial Execution of Title made by Banco Pine S/A against Lupatech S/A - In Judicial Recovery. Suit subject to possible loss of R$2,713.

(iii.5) Suit of levying of Smith International do Brasil Ltda. Suit subject to possible loss of R$2,739.

(iii.7) Implementation of Extrajudicial Title moved by STMS Manutenção Comércio e Serviços de Máquinas Ltda-ME against Lupatech S/A - In Judicial Recovery. Subject to possible loss of R$2,470.

**The main discussions in this area, classified as probable losses, at December 31, 2019 are related to:**

(iii.8) Indemnifying suit of Meio dia Refeições Industriais Ltda - SB, against Lupatech Perfuração e Completação Ltda - In Judicial Recovery. Case subject to the probable loss of R$4,616.

(iii.9) Indemnifying suit of the company Aeróleo Taxi Aéreo S/A. Case subject to the probable loss of R$3,124.

The movement of the balance of provision, on December 31 of 2019, is as follows:

| | Parent | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | Tax | Labor | Civil | Total | Tax | Labor | Civil | Total |
| **Balance on December 31, 2018** | **214** | **5,718** | **175** | **6,107** | **4,645** | **41,083** | **8,185** | **53,913** |
| Additions | 837 | 2,101 | 15 | 2,953 | 1,855 | 11,967 | 1,163 | 14,985 |
| Write-offs | - | (206) | - | (206) | (4,222) | (6,733) | 70 | (10,885) |
| **Balance on December 31, 2019** | **1,051** | **7,613** | **190** | **8,854** | **2,278** | **46,317** | **9,418** | **58,013** |

## 20.2 Contingent Assets

The statement containing information on contingent assets, according to the opinion of its legal advisors, is detailed below with the possibility of gain.

| | Probability of probable gain | |
|---|---|---|
| | Parent | Consolidated |
| Tax (i) | 4,068 | 7,832 |
| Civil (ii) | 14,476 | 65,222 |
| **Balance on December 31, 2019** | **18,544** | **73,054** |
| **Balance on December 31, 2018** | **4,441** | **93,782** |

(i) **Tax Contingencies**

The Company is the author of several lawsuits at the state and federal levels, in which the following matters are discussed:

Main active contingent proceedings refer to:

- The Lupatech Group has lawsuits seeking recognition of the exclusion of ICMS from the PIS and COFINS calculation basis. The matter was decided by the STF in general repercussion, reason why the company expects that these processes deal with favorable decisions. Because they are still subject to dispute, subject to effects of possible modulation

in response to opposing tax liens by the Treasury, the accounting treatment of contingent assets is maintained until the elements are present to recognize the corresponding tax credits.

(i) **Civel Contingences**

Main active contingent proceedings refer to:

- Arbitration proceeding against Cordoaria São Leopoldo and José Teófilo Abu Jamra aiming at the application of contractual penalties for breach of a non-competition agreement resulting from the acquisition of the Mooring Ropes unit. The procedure is in the process of clarifying the sentence, pending the Court to issue the final decision on the case.

- The Company is entitled to be reimbursed to the nominal limit of R$50,000 referring to losses that it may incur as a result of possible contingencies not known, according to the indemnity clause provided for in the Investment Agreement. On April 4, 2017, the Company filed with the Market Arbitration Chamber a request to initiate arbitration against GP Investments and its vehicles seeking compensation for losses incurred by the Company and arising from (i) contingencies not known to the San Antonio Companies, and (ii) breach of obligations and breach of statements and guarantees. It is also claimed in the arbitration to increase the nominal limit of R$50,000 for indemnities.

## 20.3 Judicial deposits

The Company presents the following balances of judicial deposits, on December 31 of 2019, which are tied to the contingent liabilities:

| | Judicial deposits | |
|---|---|---|
| | Parent | Consolidated |
| Tax Contingencies | 3 | 3,020 |
| Labor contingencies | 1,557 | 20,616 |
| Civil contingencies | 134 | 1,350 |
| **Balance on December 31, 2019** | **1,694** | **24,986** |
| **Balance on December 31, 2018** | **2,149** | **25,410** |

# 21 Taxes payable

As of December 31, 2019, the Company has the following balances recorded as taxes payable in current and non-current liabilities, as shown below:

| Taxes payable - Current | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| PERT installment | - | - | 3 | 3 |
| Ordinary Installment (PIS/COFINS/Social Security Contribution) | 1,607 | 853 | 2,132 | 974 |
| Installment INSS | 1,416 | - | 2,146 | 300 |
| Installment SESI/SENAI | - | - | 11 | 11 |
| INSS | 1,391 | 1,136 | 1,813 | 2,454 |
| IRRF | 979 | 721 | 1,020 | 784 |
| CSLL | 65 | 21 | 98 | 26 |
| COFINS | 629 | 202 | 865 | 462 |
| PIS | 291 | 44 | 349 | 100 |
| FGTS | 2,228 | 1,886 | 3,521 | 3,003 |
| ICMS | 23 | 35 | 1,133 | 10,464 |
| Other miscellaneous taxes | 128 | 266 | 755 | 1,546 |
| Total | 8,757 | 5,164 | 13,846 | 20,127 |

| Taxes payable - Non-current | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Installment INSS | 4,437 | 3,214 | 6,144 | 5,137 |
| Installment IRPJ | 3,672 | 3,672 | 3,672 | 3,672 |
| Installment CSLL | 1,329 | 1,329 | 1,329 | 1,329 |
| Installment COFINS | 643 | 643 | 643 | 643 |
| Installment ICMS | - | - | 894 | - |
| Installment Ordinário (PIS/COFINS/Contribuição Previdenciária) | 5,140 | 2,962 | 6,074 | 3,885 |
| Installment ISS | 17 | - | 461 | 541 |
| Installment SESI/SENAI | - | - | 16 | 16 |
| Advance REFIS of the Crisis | (335) | (345) | (335) | (345) |
| Restatement | 8,541 | 8,541 | 8,541 | 8,541 |
| Other miscellaneous taxes | 55 | 72 | 262 | 72 |
| | 23,499 | 20,088 | 27,701 | 23,491 |
| Judicial deposits linked to IRPJ / CSLL installments | (10,407) | (10,459) | (10,407) | (10,459) |
| Total | 13,092 | 9,629 | 17,294 | 13,032 |

On November 14, 2017, the Company joined several Lupatech Group subsidiaries and investees in the Special Tax Regularization Program - PERT, instituted by Provisional Measure no. 783/2017 and by Law no. 13.496 / 2017. On December 28, 2018, at the time of the program's consolidation, the Company recorded R$17.9 million in additional amounts of contingencies adhered to, which reflected discounts in interest, fines and charges in the amount of R$6,850.

The Company, through this action, reorganized the amount of R$123,000 of its liabilities related to tax contingencies and obligations, which was accompanied by interest discounts, fines and charges in a total of R$48,000.

Adherence required payment of R$5,288 in cash, and for the settlement of the re mainder, R$ 52,084 was used in the Group's accumulated tax losses and an additional R$18,000 in tax losses from investees and tax co-obligors, in accordance with the PERT conditions.

Due to operational issues in the adhesion process, a significant part (73%) of the liabilities subscribed has not yet been consolidated. This arises from an operational / systemic issue of the Internal Revenue Service - liabilities that are not listed in the systems made available for processing by taxpayers must be handled manually. In the case of the Company, a large number of processes, especially customs, were covered in this context. The company promptly took the preventive administrative and legal measures indicated by its tax consultants to ensure the right to process the adhesion.

# 22 Value Libialities

Under the Lupatech Group's Judicial Reorganization Plan, the exchange of part of the liabilities subject to the Plan for subscription bonuses issued in December 2018 was definitively contracted. Thus, with the sole purpose of complying with accounting standards, the The Company applied the provisions of ICPC 16. Thus, the difference between the amount of the liability exchanged for bonds (R $ 28,253 on December 31, 2018) and the estimated fair value (R $ 330 on December 31, 2018) in equity instruments was determined issued, which was recorded in the financial result. In December 2019, there was no change in liabilities at fair value.

# 23 Net equity

## a. Capital stock

The current paid social capital is composed only by ordinary shares, with 100% of right to Tag Along:

| | Parent and Consolidated | |
|---|---|---|
| | Quantity of share | Capital stock |
| | Thousand | R$ |
| **Balance on December 31, 2018** | **16,223** | **1,873,761** |
| Mandatory conversion of debentures into shares | 1,534 | 4,511 |
| Issuance of new shares | 4,758 | 6,994 |
| **Balance on December 31, 2019** | **22,515** | **1,885,266** |

In accordance with the Plan of Judicial Recovery approved on February 16 of 2017, the Group used as one of their strategies to settle the commitments with Class I Creditors the Conversion of credits into debentures of Lupatech S/A. As a result of the conversion of debentures into Company shares, capital increased by R$23,588 from February 28, 2018 to November 22, 2019.

On August 8, 2019, New Shares were issued totaling R$6,994.

## b. Dividends

To shareholders is ensured, annually, the mandatory distribution of minimum dividends corresponding to 25% of the adjusted net profit in the terms of corporate legislation.

## c. Asset evaluation adjustments

The Company recognizes in this caption the effect of exchange rate variations on investments in subsidiaries abroad and on goodwill arising on acquisitions of investments abroad, whose functional currency follows that to which the operation abroad is subject. The accumulated effect will be reversed to the income for the year as a gain or loss only in the event of disposal or write-off of the investment. As of December 31, 2019, the balance sheet for the equity appraisal is R$151,261 (R$121,681 as of December 31, 2018).

## d. Option granted

As of December 31, 2019, the reserve balance of options granted is R$13,600 (R$13,549 as of December 31, 2018). On November 22, 2019, according to note 26, the Board of Directors' Meeting approved the future granting of common stock options issued by the Company to the respective key professionals.

**e. Capital reserve**

In accordance with the Plan of Judicial Recovery of the Lupatech Group, was hired in definitive character the exchange of part of the liabilities subject to the Plan for subscription bonuses to be issued within 2 years of the judicial approval of the Plan. In this way, with the sole purpose of complying with the accounting standards, the Company has applied the provisions of ICPC 16. Thus, the values of passive exchanged per subscription bonus (R$298,493 in December 31, 2016) and adjustment to the estimated fair value (R$292,152 in December 31, 2016) were recorded as capital reserve to be executed in the net amount of R$6,341.

On October 29, 2018 Lupatech S.A. - In Judicial Recovery announced to its shareholders and the general public that its Board of Directors approved the 1st Issue of Subscription Warrants in a single and onerous series in the amount of R$340,453. The issue occurred within the scope of the Judicial Recovery Plan of the Company and other companies of its group, to promote the payment of creditors of Classes II, III and IV of the Judicial Recovery whose credits came to pay off the Subscription Warrants.

A total of 3,404,528 of subscription bonuses were issued, at the ratio of 1 bonus for each R$100.00 (one hundred reais) in debt. The bonds were subscribed and paid up on December 11, 2018 ("Subscription Term").

The Subscription Warrants may be exercised, during their term, by the fixed price of R$0.88 per Share.

Following the Judicial Recovery Plan, of the total amount issued, R$326,746 was allocated to creditors, and part remains in the Company's possession until it is operationally possible to surrender to creditors, in which a fair value of R$0.88 per bond, and a capital reserve of R$2,875 was recorded. The remaining balance of R$13,707 refers to the reserve subscribed for gross contingencies subject to recovery.

# 24 Financial instruments

## 24.1 Financial Risk Management

***Financial risk factors***

The Company's activities expose it to several financial risks: market risk (including currency risk, interest rate risk of fair value, interest rate risk of cash flow and price risk), credit risk and liquidity risk. The program of global risk management of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group, through the use of derivative financial instruments to protect certain exposures.

Risk management is performed by the central treasury, according to the established principles, except for the jointly controlled, which are shared with other controlling shareholders. The treasury of the Group identifies and evaluates the Company's position against eventual financial risks in cooperation with the operational units of the Group. The Administrative Council establishes principles for the management of global risk, as well as for specific areas, such as foreign exchange risk, interest rate risk, and usage of derivative and non-derivative financial instruments.

*(i) Exchange rate risk*

The Company operates internationally and is exposed to foreign exchange risk arising from exposures of some currencies, especially regarding the American dólar.

The exchange rate risk stems from commercial and financial operations, assets and liabilities recognized and liquid investments in operations abroad.

The Administration has established principles of management of exchange rate risk that require the Company to manage its exchange rate risk in relation to its functional currency. To manage its foreign exchange risk arising from commercial operations, the Company seeks to even out its trade balance between purchases and sales in currencies other than the functional currency. The credit availabilities and restrictions faced by the Company, limit significantly the possibilities of hiring foreign exchange derivatives, commonly used in the management of exchange rate risk.

The Company has certain investments in overseas operations, whose net assets are exposed to foreign exchange risk.

In the years 2019 and 2018, the Company and its subsidiaries had assets and liabilities denominated in US dollars, as shown in the tables below:

| | Amounts in US dollar thousands | | | |
|---|---|---|---|---|
| | Parent | | Consolidated | |
| Items | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Accounts receivable | 126 | 151 | 126 | 151 |
| Other assets | - | - | 14,915 | 20,863 |
| Related parties - Assets | 5,441 | 7,190 | - | - |
| Loans and financing | (301) | (695) | (25,291) | (25,722) |
| Related parties - Liabilities | (45,880) | (45,741) | - | - |
| Other obligations | (19) | (20) | (201) | (850) |
| Net exposure in Dollar | (40,633) | (39,115) | (10,451) | (5,558) |

On December 31, 2019, the quotation of the US dollar against the real was US$1.00 = R$4.0307 (US$1.00 = R$3.8748 on December 31, 2018). If the real currency depreciates 10% in relation to the official US dollar at the end of the year, all other variables being maintained, the impact on the result is a loss of approximately R$10,809 in the parent company and R$2,780 in the consolidated.

**Sensitivity analysis of variations in foreign currency, the variations in the rate of interest and the risks involving operations with derivatives**

As mentioned above, the Company is exposed to risks of fluctuation of the interest rate and to foreign currencies (different from its functional currency, the "Real"), mainly to the US dollar on their loans and financing. The analysis takes into consideration 3 fluctuation scenarios on these variables. In the definition of the scenarios used, the Administration believes that the following assumptions can be made, with their respective odds, however it should be noted that these assumptions are exercises of judgment made by the Administration and that can generate significant variations in relation to actual results calculated on the basis of market conditions, which cannot be estimated with certainty on this date for the complete profile of the estimates.

As determined by the CVM by means of the Instruction 475, the Administration of the Company presents the sensitivity analysis, considering:

**Scenario of interest rate and parity of the North American dollar (US$) in relation to the real (R$) likely, estimated by the Administration:**
Interest rate for the year of 2020: 4.5%
US$: 4.00

**Scenario of interest rate and parity of the North American dollar (US$) in relation to the real (R$) possible, with deterioration of 25% (twenty five percent) on the risk variable considered as likely:**
Interest rate for the year of 2020: Increase to 5.6%
US$: 5.00

**Scenario of interest rate and parity of the North American dollar (US$) in relation to the real (R$) remote, with deterioration of 50% (fifty per cent), on the risk variable considered as likely:**
Interest rate for the year of 2020: Increase to 6.8%
US$: 6.00

The impact presented in the table below refers to the period of 1 year of projection:

| | | Scenario as per description above | | | | | |
|---|---|---|---|---|---|---|---|
| | | Parent | | | Consolidated | | |
| **Operating** | **Risk** | **Probable** | **Possible** | **Remote** | **Probable** | **Possible** | **Remote** |
| Loans and financing | US$ hike | 10 | 314 | 637 | 107 | 543 | 1,194 |
| Loans and financing | Interest rate hike | 19 | 24 | 29 | 28 | 35 | 42 |
| Mutual contracts | US$ hike | 1,550 | 48,953 | 99,457 | - | - | - |
| Total (gain) loss | | 1,579 | 49,291 | 100,123 | 135 | 578 | 1,236 |

*(ii) Risk of cash flow or fair value associated with interest rate*

The Group's interest rate risk arises from long-term loans. Loans taken out at variable rates expose the Group to cash flow interest rate risk. The Group's loans at variable rates are mainly maintained in “Reais”. In order to minimize possible impacts arising from these fluctuations, the Company adopts diversification practices, alternating the contracting of its debts, aiming at adapting them to the market.

The Group analyzes its exposure to interest rate in a dynamic way. Are simulated different scenarios considering refinancing, renovation of existing positions, financing and hedge alternatives. On the basis of these scenarios, the Group defines a reasonable change in the interest rate and calculates the impact over the outcome. For each simulation is used the same change in interest rate for all currencies. The scenarios are designed only for the liabilities that represent the main positions with interest.

Based on the simulations carried out, considering the Group's indebtedness profile on December 31, 2019, the impact on the result, after calculating income tax and social contribution, with a variation of around 0.11 percentage points in variable interest rates, considering that all other variables were kept constant, would correspond to an increase of approximately R$19 in the year of interest expense. The simulation is carried out on a quarterly basis to verify that the maximum loss potential is within the limit determined by Management.

The credit and cash restrictions faced by the Company significantly limit the possibilities for managing interest rate risk.

*(iii)* *Credit risk*

The credit risk is managed corporately. The credit risk arises from cash and cash equivalents, derivative financial instruments, deposits in banks and financial institutions, as well as exposures of credit to customers. For banks and financial institutions are accepted titles of entities classified by the Company's Administration as first line. The individual risk limits are determined based on internal or external ratings in accordance with limits set by the Administration. The use of credit limits is monitored regularly and recorded when applicable provision for credits of dubious settlement.

The selectivity of its clients, as well as the monitoring of sales financing terms by business segment and individual position limits, are procedures adopted in order to minimize any default problems in its accounts receivable. Our revenues show amounts involving the client Petrobras, directly and indirectly, which accounted for 11.8% (2.35% in 2018) of the total revenues of the Company and its subsidiaries in 2019.

*(iv)* *Liquidity risk*

The prudent management of liquidity risk implies maintaining cash, bonds and sufficient securities, availabilities of capture by means of revolving credit facilities and the ability to liquidate market positions. Because of the dynamic nature of the Group's businesses, the treasury maintains flexibility in capturing through the maintenance of revolving credit facilities..

The board monitors the level of liquidity of the Group, considering the expected cash flow, which comprehends unused credit lines, cash and cash equivalents. This is typically done at corporate level on the Group, in accordance with the practice and the limits established by the Group. These limits vary by location to take into account the liquidity of the market in which the Company operates. Furthermore, the principles of liquidity management of the Group involve the projection of cash flows in the major currencies and the consideration of the level of liquid assets necessary to achieve these projections, the monitoring of indexes of liquidity of the financial statement in relation to internal and external regulatory requirements and the maintenance of plans for debt financing.

## 24.2 Fair Value Estimation

The fair value of financial assets and liabilities, which have standard terms and conditions and are traded in active markets, is determined on the basis of observed prices in those markets.

The fair value of other financial assets and liabilities (with the exception of derivative instruments) is determined in accordance with pricing models that use as a basis the estimated discounted cash flows, from the prices of similar instruments practiced on transactions performed in an observable current market.

The fair value of derivative instruments is calculated using quoted prices. When these prices are not available, is used the analysis of discounted cash flow through the yield curve, applicable in accordance with the duration of the instruments for the derivatives without options. For the derivatives containing options, pricing models of options are used.

The main financial assets and liabilities of the Company are described below, as well as the criteria for its appreciation/evaluation:

***a. Cash, cash equivalents and titles and securities – restricted***

The estimated value of the market was calculated based on the present value of future cash disbursement, using interest rates that are available to the Company and the evaluation indicates that the market values, in relation to the accounting balances, are as below, on December 31,2019:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Items** | **Book value** | **Fair Value** | **Book value** | **Fair Value** |
| Cash and cash equivalents | 176 | 176 | 5,834 | 5,834 |
| Marketable securities | 1,788 | 1,788 | 1,788 | 1,788 |

***b. Loans and financing***

The balances in cash and cash equivalents and in titles and securities have their values similar to accounting balances, considering the swing and liquidity that they present. The table below presents this comparison, on December 31,2019:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Items** | **Book value** | **Fair Value** | **Book value** | **Fair Value** |
| Loans and financing not judicial recovery | 9,589 | 9,157 | 14,509 | 13,797 |
| Loans and financing judicial recovery | 67,827 | 67,827 | 129,080 | 129,080 |
| Total | 77,416 | 76,984 | 143,589 | 142,877 |

## 24.3 Financial Instruments by Category

Synthesis of the financial instruments by category:

| | Parent | | | |
|---|---|---|---|---|
| | 12/31/2019 | | 12/31/2018 | |
| | **Amortized cost** | **Fair Value by Result** | **Amortized cost** | **Fair Value by Result** |
| **Financial Assets** | | | | |
| Securities-restricted | 1,788 | 1,788 | 1,808 | 1,808 |
| Accounts receivable | 5,427 | 5,427 | 6,704 | 6,704 |
| Cash and cash equivalents | 176 | 176 | 135 | 135 |
| Related parties | 70,408 | 70,408 | 123,363 | 123,363 |
| Total | 77,799 | 77,799 | 132,010 | 132,010 |

| | Parent | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | | | 12/31/2018 | | |
| | Judicial Recovery | Not subject to Judicial Recovery | | Judicial Recovery | Not subject to Judicial Recovery | |
| | Creditors list | Financial liabilities at amortized cost | Fair Value by Result | Creditors list | Financial liabilities at amortized cost | Fair Value by Result |
| **Financial Liabilities** | | | | | | |
| Loans and financing | 67,827 | 9,589 | 77,416 | 65,000 | 18,600 | 83,600 |
| Suppliers | 60,700 | 3,569 | 64,269 | 60,557 | 6,132 | 66,689 |
| Related parties | - | 187,454 | 187,454 | - | 181,645 | 181,645 |
| Total | 128,527 | 200,612 | 329,139 | 125,557 | 206,377 | 331,934 |

| | Consolidated | | | |
|---|---|---|---|---|
| | 12/31/2019 | | 12/31/2018 | |
| | Amortized cost | Fair Value by Result | Amortized cost | Fair Value by Result |
| **Financial Assets** | | | | |
| Securities-restricted | 1,788 | 1,788 | 1,808 | 1,808 |
| Accounts receivable | 10,795 | 10,795 | 31,357 | 31,357 |
| Cash and cash equivalents | 5,834 | 5,834 | 1,245 | 1,245 |
| Total | 18,417 | 18,417 | 34,410 | 34,410 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | | | 12/31/2018 | | |
| | Judicial Recovery | Not subject to Judicial Recovery | | Judicial Recovery | Not subject to Judicial Recovery | |
| | Creditors list | Financial liabilities at amortized cost | Fair Value by Result | Creditors list | Financial liabilities at amortized cost | Fair Value by Result |
| **Financial Liabilities** | | | | | | |
| Loans and financing | 129,080 | 14,509 | 143,589 | 121,570 | 38,318 | 159,888 |
| Suppliers | 60,700 | 7,627 | 68,327 | 60,557 | 25,538 | 86,095 |
| Total | 189,780 | 22,136 | 211,916 | 182,127 | 63,856 | 245,983 |

# 25 Insurance Coverage

Is the principle of the Company, to maintain insurance coverage to for goods of the immovable asset and stocks which are subject to risks, in the "Comprehensive Business" modality. Also, possesses coverage of insurance against general civil liability, as shown below:

| | Amount secured | |
|---|---|---|
| **Insurance purpose** | **12/31/2019** | |
| - Comprehensive business insurance | R$ | 68,834 |
| - General civil responsability insurance | R$ | 14,136 |
| - International freight insurance * | US$ | 400 |

* Amounts in US dollar thousands.

The scope of our auditors' work does not include the issuance of an opinion on the sufficiency of insurance coverage, which was determined by the Company's Management and considers it sufficient to cover eventual claims.

# 26 Purchase option plan of shares– "Stock option

On May 19 of 2017, at a Meeting of the Administrative Council, was approved the granting of options to Mr. Rafael Gorenstein and Mr. Paulo Prado da Silva, in accordance with the Plan of Concession of Option of Share Purchasing approved at an Extraordinary General Meeting held on April 12 of 2017, being the contracts of Option of Purchase of Ordinary Shares celebrated in individual form, with each of the beneficiaries and the Company.

The general conditions proposed in the Plan of Option and the main objectives are the following:

- Encourage the resumption of historic levels of operational activity of the Company and the attendance of the established business goals, through the creation of incentives for alignment of the

interests and objectives of key professionals of the Company with its shareholders, in particular the fulfillment of the obligations contained in its Plan of Judicial Recovery;

- Enable the Company to obtain and keep the services of its key professionals, offering them as an added benefit, the opportunity to become shareholders of the Company, in the terms, conditions and forms envisioned in this Plan; and

- Promote the good performance of the Company and of the interests of shareholders through a long-term commitment on the part of its key professionals.

To Mr. Rafael Gorenstein, current Director President and of Relations with Investors of the Company, option to subscribe up to 5% of the social capital of the Company that, as of December 31,2019, amounts to 1.125.754 ordinary shares; and

To Mr. Paulo Prado da Silva, current Officer without specific designation, has the option to subscribe up to 1.5% of the Company's capital stock, which as of December 31, 2019, is equivalent to 312,897 common shares.

For both of them, the acquisition price of the shares is R$1.176 (one real and one hundred and seventy-six hundredths of reais) per share and must be paid in national currency within 10 days from the date the Board of Directors Board of Directors to approve the capital increase, with a term to exercise the 7-year option, from April 27, 2017.

The right to exercise the Option will be obtained in successive and annual installments of 20%, the first installment being exercisable from the date of signing the Contract, and the other 80% may be exercised at the end of subsequent years, from the first year inclusive, totaling, therefore, 4 years for the acquisition of the right over the total number of Options. The purchase price of the Options not yet exercised will be adjusted to be the lowest between R$2.35 and 80% of the price established in the Corporate Event. The provisions above only affect the Corporate Events contracted in the 36-month period, as from the signing of the Contract, limited to operations of up to R$150,000.

On May 13, 2019, the Extraordinary Shareholders' Meeting approved the New Stock Option Plan for the Company's shares, in order to facilitate the attraction and retention of key professionals, enabling and encouraging the subscription of shares with held credits against the Company arising from fixed or variable remuneration, with the consequent preservation of cash. The 2019 Plan complements the 2017 Plan as it consists of options for a shorter term of exercise, of 24 (twenty four) months, starting on July 11, 2019 according to the Board of Directors' Meeting, held on the same date.

The maximum number of shares that may be issued under this Plan 2019 will not exceed 3,000,000 shares, all common, registered, book-entry and without par value, within the established limit. The acquisition price of the shares is R$1,176:

- Mr. Rafael Gorenstein, CEO and Investor Relations Officer, option to subscribe up to 2,687,103 (two million, six hundred eighty-seven thousand, one hundred and three);

- Mr. Paulo Prado da Silva, Officer without specific designation of the Company, option to subscribe up to 312,897 (three hundred twelve thousand, eight hundred and ninety-seven).

On November 22, 2019, the Board of Directors' Meeting approved, for the respective key professionals, the future granting of options for the purchase of common shares issued by the Company, subordinated to the Stock Option Plan, and linked to the Compensation Plan Variable. The exercise price of the option will be R$1.37 (one real and thirty-seven cents). The term for exercising the stock option for these professionals, expires on April 30, 2021 respecting the quantities and exercise windows:

- 37,184 (thirty-seven thousand, one hundred and eighty-four) options, until October 30,2019;
- 37,186 (thirty-seven thousand, one hundred and eighty-six) options, until April 30, 2020;
- 37,188 (thirty-seven thousand, one hundred and eighty-six) options, until April 30, 2021.

# 27 Demonstration of net revenues

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Gross sales and/or services** | | | | |
| In Brazil | 37,350 | 34,938 | 37,945 | 40,626 |
| Export | 513 | 651 | 1,247 | 1,248 |
| | 37,863 | 35,589 | 39,192 | 41,874 |
| **Deductions for gross sales** | | | | |
| Taxes on sales | (6,405) | (6,452) | (6,516) | (7,198) |
| **Net sales and/or services** | 31,458 | 29,137 | 32,676 | 34,676 |

# 28 Loss per share

## a. Basic

Basic loss per share is calculated by dividing the profit attributable to the Company's controlling shareholders by the weighted average number of common shares outstanding during the period.

| Items | 12/31/2019 | 12/31/2018 |
|---|---|---|
| Net Income (Loss) from Continuing and Discontinued Operations | (26,178) | (101,311) |
| **Profit (Loss) attributable to the Company's controlling shareholders** | **(26,178)** | **(101,311)** |
| **Weighted average number of issued common shares (thousands)** | **2,460** | **15,260** |
| **Basic Earnings (Loss) per share - R$** | **(10.64)** | **(6.64)** |

## b. Diluted

The diluted loss per share is calculated by adjusting the weighted average number of outstanding common shares to presume the conversion into common shares of the instruments that may cause dilution.

Equity instruments have a dilutive effect when they result in the issuance of shares for a value lower than the prevailing share price.

On December 31, 2019, were verified the dilutive effects related to the stock options of the administrators, as explained in Note 26, to the subscription bonus of the creditors subject to the

Judicial Recovery, as described in note 1.2, not yet issued, and to the debentures convertible debentures of the Company's third issuance, as described in note 16. No dilutive effect was observed due to these instruments, either due to the respective exercise prices or due to the impossibility of exercising them.

# 29 Financial result

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Itens** | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Financial Income | | | | |
| Income from financial investments | 59 | 74 | 225 | 117 |
| Related-party interest income (mutual contract) | 24 | 20 | - | - |
| Present value adjustment | - | - | 1,995 | - |
| Adjustment to fair value | - | 152,128 | - | 27,923 |
| Monetary variance | 14,288 | 292 | 16,151 | 1,014 |
| Interest on receivables | 6 | 3 | 11 | 9 |
| Revenue reduction of fine, interest and charges adhesion to PERT | - | 1,266 | - | - |
| Other financial income | 1,270 | 62 | 1,309 | 17,244 |
| Total financial Income | 15,647 | 153,845 | 19,691 | 46,307 |
| | | | | |
| Financial Expenses | | | | |
| Interest on loans and financing | (7,818) | (7,575) | (9,611) | (10,009) |
| Interest on bonds | - | - | (394) | (363) |
| Interest on Debentures | (361) | (100) | (361) | (100) |
| Present value adjustment | (1,540) | (6,005) | (1,541) | (1,137) |
| Interest of mutual contract | (547) | (1,016) | - | - |
| Discount granted | (14) | (117) | (26) | (118) |
| Provision of interest on suppliers | (3,957) | (238) | (4,203) | (3,550) |
| Fines and interest on taxes | (804) | (3,032) | (1,479) | (7,294) |
| IOF, banking expenses and others | (2,412) | (3,958) | (1,446) | (5,977) |
| Total financial expenses | (17,453) | (22,041) | (19,061) | (28,548) |
| | | | | |
| Gain on exchange variance | 44,475 | 68,806 | 47,246 | 98,557 |
| Loss on exchange variance | (52,152) | (136,718) | (57,490) | (168,099) |
| Exchange variance, net | (7,677) | (67,912) | (10,244) | (69,542) |

# 30 Other revenues and operational expenses

| Items | Parent 12/31/2019 | Parent 12/31/2018 | Consolidated 12/31/2019 | Consolidated 12/31/2018 |
|---|---|---|---|---|
| Other operating income | | | | |
| Reversal of provision for loss of lawsuit | 34 | 1,801 | 3,820 | 2,815 |
| Passive remeasurement - BNDES | 10,718 | - | 19,074 | - |
| Liabilities remeasurement - challenge of credits | 18,775 | - | 19,124 | - |
| Gain on disposal of fixed assets | - | 86 | 12,679 | 6,924 |
| Reversal of provision for losses on inventory obsolescence | 640 | 1,065 | 1,013 | 1,231 |
| Investment Sale Revenue | 28,343 | 13,496 | 28,343 | 13,496 |
| Recovery of taxes and contributions | 14,209 | 1 | 14,947 | 2,110 |
| Reversal of provision for losses due to impairment of assets | - | - | 1,469 | 9,676 |
| Others | 167 | 25 | 3,658 | 742 |
| Total other operating income | 72,886 | 16,474 | 104,127 | 36,994 |
| | | | | |
| Total other operating income | | | | |
| Provision for loss of lawsuit | (3,226) | (1,073) | (11,319) | (4,381) |
| Loss on disposal of fixed assets | (132) | - | (27,872) | (20,184) |
| Loss on non-recoverable taxes | (2,947) | - | (2,947) | - |
| Provision for losses due to impairment of assets | (7,027) | - | (9,609) | - |
| Provision for losses on inventory obsolescence | (153) | (302) | (2,078) | (370) |
| Cost of idle production | (10,639) | (9,947) | (14,120) | (13,711) |
| Investment cost sold | (21,584) | (16,299) | (21,584) | (16,299) |
| Taxes and contributions | (735) | (16) | (1,241) | (8,527) |
| Other | (759) | (284) | (4,157) | (390) |
| Total other operating expenses | (47,202) | (27,921) | (94,927) | (63,862) |
| **Other net operating expenses** | **25,684** | **(11,447)** | **9,200** | **(26,868)** |

# 31 Expenditure by nature

| Itens | Parent 12/31/2019 | Parent 12/31/2018 | Consolidated 12/31/2019 | Consolidated 12/31/2018 |
|---|---|---|---|---|
| Depreciation and amortization | (6,487) | (6,746) | (7,264) | (7,760) |
| Salaries, social charges and benefits | (17,110) | (15,410) | (25,605) | (23,700) |
| Raw materials and materials for use and consumption | (8,247) | (8,574) | (14,803) | (25,943) |
| Services provided by third parties | (7,762) | (5,880) | (9,996) | (8,176) |
| Residual value in asset write-off | (7,159) | - | (37,481) | (20,184) |
| Investment cost sold | (21,584) | (16,299) | (21,584) | (16,299) |
| Other (expenses) revenues | (23,038) | (16,619) | (42,933) | (26,575) |
| | (91,387) | (69,528) | (159,666) | (128,637) |
| Classified as: | | | | |
| Cost of sales | (26,047) | (26,026) | (32,656) | (32,863) |
| Selling expenses | (5,262) | (5,051) | (6,162) | (5,906) |
| General and administrative expenses | (9,436) | (7,670) | (22,481) | (21,226) |
| Management fees | (3,440) | (2,860) | (3,440) | (4,780) |
| Other operating expenses | (47,202) | (27,921) | (94,927) | (63,862) |
| | (91,387) | (69,528) | (159,666) | (128,637) |

# 32 Information by business segment and geographic region

The Administration of the Company has defined the operating segments of the Group, based on the reports used for taking strategic decisions, reviewed by the Administrative Council and considers

that the operation markets are segmented on the lines of **Products and Services**, same composition presented in the explanatory note nº 1.

Geographically, the Administration considers the performance of markets in Brazil and South America in general. The distribution by region is considered to be the location of the Group's companies and not the location of the customer.

The revenue generated by the operating segments reported is derived primarily from:

**a.** **Products:** anchoring ropes for platforms in deep waters, automated and manual valves for use in application, exploration, production, transportation and refining of petroleum and hydrocarbon chain, equipment for completion of petroleum wells, coating and inspection of drilling and production pipes.

**b.** **Services:** drilling rig and workover services, well intervention and drilling. The Company continues to demobilize its activities through the sale of equipment.

The sales between the segments were performed as sales between independent parties. The revenue from external parties informed the Executive Directorate was measured in a way consistent with that presented in the demonstration of the result.

The figures relating to the total of the asset are consistent with the balances recorded in the financial demonstrations. These assets are allocated on the basis of the operations of the segment and the physical location of the asset.

The figures relating to the total liabilities are consistent with the balances registered in the financial demonstrations. These liabilities are allocated on the basis of the operations of the segment.

The information by segment are demonstrated below:

| | Products | | Services | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Net sales** | **32,443** | **34,329** | **233** | **347** | **32,676** | **34,676** |
| Cost of sales | (28,961) | (31,800) | (3,695) | (1,063) | **(32,656)** | **(32,863)** |
| **Gross Profit (Loss)** | **3,482** | **2,529** | **(3,462)** | **(716)** | **20** | **1,813** |
| Selling expenses | (5,340) | (5,810) | (822) | (96) | **(6,162)** | **(5,906)** |
| General and administrative expenses | (11,038) | (9,489) | (11,443) | (11,737) | **(22,481)** | **(21,226)** |
| Management fees | (3,410) | (2,517) | (30) | (2,263) | **(3,440)** | **(4,780)** |
| Equity pick-up | 2,194 | (8,269) | - | - | **2,194** | **(8,269)** |
| Other operating income (expenses), net | 24,467 | (11,870) | (15,267) | (14,998) | **9,200** | **(26,868)** |
| **Operating Profit (Loss) before financial result** | **10,355** | **(35,426)** | **(31,024)** | **(29,810)** | **(20,669)** | **(65,236)** |

| | Products | | Services | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Identifiable assets (1)** | **209,145** | **183,887** | **93,602** | **204,340** | **302,747** | **388,227** |
| Customers | 6,665 | 7,097 | 4,130 | 24,260 | **10,795** | **31,357** |
| Stocks | 25,942 | 22,300 | 4,494 | 16,650 | **30,436** | **38,950** |
| Taxes to be recovered | 43,414 | 16,592 | 49,993 | 60,781 | **93,407** | **77,373** |
| Restricted application | 1,788 | 1,808 | - | - | **1,788** | **1,808** |
| Immobilized | 69,857 | 74,611 | 14,298 | 61,326 | **84,155** | **135,937** |
| Agio | 61,479 | 61,479 | 20,687 | 41,323 | **82,166** | **102,802** |
| **Identifiable liabilities (2)** | **69,069** | **32,211** | **139,573** | **220,279** | **208,642** | **252,490** |
| Supplier | 30,001 | 14,277 | 35,052 | 71,818 | **65,053** | **86,095** |
| Loans | 39,068 | 17,934 | 104,521 | 148,461 | **143,589** | **166,395** |

| | Products | | Services | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Depreciation and amortization** | **(7,129)** | **(7,426)** | **(136)** | **(334)** | **(7,264)** | **(7,760)** |
| **Acquisition of Property, plants and equipment** | **3,430** | **114** | **2** | **2,549** | **3,432** | **2,663** |

*(1) Identifiable Assets: Customers, Inventories, Property, Plant, Goodwill, Recoverable Taxes and Restricted Application*
*(2) Identifiable Liabilities: Suppliers and Loans*

The information by segment are demonstrated below:

| | Brazil | | Others | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Net sales** | 32,676 | 34,676 | - | - | 32,676 | 34,676 |
| Cost of sales | (32,656) | (32,863) | - | - | (32,656) | (32,863) |
| **Gross Profit (Loss)** | 20 | 1,813 | - | - | 20 | 1,813 |
| Selling expenses | (6,162) | (5,906) | - | - | (6,162) | (5,906) |
| Administrative costs | (22,481) | (21,180) | - | (46) | (22,481) | (21,226) |
| Management remuneration | (3,440) | (4,780) | - | - | (3,440) | (4,780) |
| Equity | 2,194 | (8,269) | - | - | 2,194 | (8,269) |
| Other income (expenses), net | 10,255 | (27,212) | (1,055) | 344 | 9,200 | (26,868) |
| **Operating Profit (Loss) before financial result** | (19,614) | (65,534) | (1,055) | 298 | (20,669) | (65,236) |

| | Brazil | | Others | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Identifiable assets (1)** | 302,747 | 298,061 | - | 90,166 | 302,747 | 388,227 |
| Customers | 10,795 | 11,192 | - | 20,165 | 10,795 | 31,357 |
| Stocks | 30,436 | 27,524 | - | 11,426 | 30,436 | 38,950 |
| Taxes to be recovered | 93,407 | 65,407 | - | 11,966 | 93,407 | 77,373 |
| Restricted application | 1,788 | 1,808 | - | - | 1,788 | 1,808 |
| Immobilized | 84,155 | 109,964 | - | 25,973 | 84,155 | 135,937 |
| Agio | 82,166 | 82,166 | - | 20,636 | 82,166 | 102,802 |
| **Identifiable liabilities (2)** | 207,386 | 232,899 | 1,256 | 19,591 | 208,642 | 252,490 |
| Supplier | 65,053 | 77,107 | - | 8,988 | 65,053 | 86,095 |
| Loans | 142,333 | 155,792 | 1,256 | 10,603 | 143,589 | 166,395 |

| | Brazil | | Others | | Consolidated | |
|---|---|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Depreciation and amortization** | (7,264) | (7,760) | - | - | (7,264) | (7,760) |
| **Acquisition of Property, plants and equipment** | 3,432 | 127 | - | 2,536 | 3,432 | 2,663 |

*1 - Identifiable assets: Customers, inventories, fixed assets, goodwill, taxes recoverable and restricted application.*
*2 - Identifiable Liabilities: Suppliers and Loans*

# 33 Assets classified as held for sale

As of December 31, 2019, it is recorded as assets held for sale, property, plant and equipment of the services segment, in which they are not in operation and are being negotiated for sale. These assets amount to a total net of depreciation recorded in the parent company's current assets of R$3,236 and noncurrent assets of R$3,032 and R$71,957 in the consolidated (R$68,670 in current assets and R$3,287 in noncurrent assets). As of December 31, 2018, the balance presented in the parent company's noncurrent assets is R$3,449 and R$93,256 in the consolidated (R$89,401 in current assets and R$3,855 in noncurrent assets).

In the context of the actions for restructuring the Company's operations, the Administration has conducted actions and negotiations which may result in the alienation of certain assets. The alienation of such assets will only be considered highly likely to the extent that there is a prior understanding between the parties and, specially, there is a judicial authorization for the implementation of the business, since such authorization is an essential requirement in the process of judicial recovery.

# 34 Result of discontinued operation

In 2019 and 2018, the Company presents as a result of discontinued operations the companies Lupatech OFS Coöperatief U.A and Lupatech OFS S.A.S., due to the sale of the remaining equity interest, concluded in September 2019.

| | 12/31/2019 | 12/31/2018 |
|---|---|---|
| NET REVENUE FROM SALES | 73,662 | 91,877 |
| COST OF GOODS AND SERVICES SOLD | (54,670) | (74,565) |
| Profit gross | 18,992 | 17,312 |
| OPERATING INCOME/EXPENSES | | |
| Selling | (845) | (710) |
| General and administrative | (3,163) | (4,310) |
| Other operating income (expenses) | - | 386 |
| OPERATING PROFIT BEFORE FINANCIAL RESULTS | 14,984 | 12,678 |
| FINANCIAL RESULTS | | |
| Financial income | 223 | 216 |
| Financial expenses | (2,602) | (2,886) |
| Exchange variation, net | 5 | 141 |
| Non-controlling interest | (4,084) | (4,602) |
| PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION | 8,526 | 5,547 |
| INCOME TAX AND SOCIAL CONTRIBUTION | | |
| Current | (4,290) | (425) |
| Deferred | - | - |
| PROFIT FROM DISCONTINUED OPERATIONS | 4,236 | 5,122 |

# 35 Cash flow from discontinued operations

Cash flow from discontinued operations is as follows:

| | Consolidated | |
|---|---|---|
| | 12/31/2019 | 12/31/2018 |
| Cash flow from operating activities | 1,895 | 11,651 |
| Cash From Investing Activities | (1,231) | (3,056) |
| Cash From Financing Activities | (508) | (9,189) |
| Net increase in cash and cash equivalents | 156 | 594 |

# 36 Subsequent events

**Capital Increase**

On January 10, 2020 and February 11, 2020, according to the minutes of the meetings disclosed on the respective dates, the Board of Directors approved the Company's capital increase through partial exercise of the options granted. The increase made was R$3,114.

**Coronavirus (COVID-19)**

It is not yet possible to measure the financial and economic effects of the Coronavirus pandemic (COVID-19), nor the full extent of its impact on the company's activities. However, it is reasonable to make predictions about the main underlying risks, without the intention of exhausting all possibilities.

With regard to supplies, we had delays in the manufacture and transportation of products from China, but which have gradually been regularized and will have no material impact on business. Domestic supplies have remained normal until the present date, but it is reasonable to expect that there will be an impact on both manufacturing and the circulation of productive inputs, which may have a mild or moderate impact on delivery times. In the case of sales, there has been no noticeable change in the inflow of orders to date, but there are merely qualitative reports of cooling in the influx of inquiries from customers in the industrial segment. There was no cancellation of orders resulting from the event. However, in view of the unfolding of the facts, it is reasonable to expect that demand will cool down in the coming days. It is impossible to anticipate at what levels and for how long.

Administrative and production activities. As of March 16, the company has taken several preventive measures aimed at producing the “social withdrawal” recommended by the authorities. Most of the administrative employees started to work domestically, and the production teams were divided into work shifts when possible, in order to mitigate the total interruption of activities. All conduct recommendations for removal of people with symptoms are being implemented. As the company has been working with idleness, it is likely that part of the delays resulting from the introduced inefficiencies will be mitigated, but there are manufacturing sectors that can constitute relevant bottlenecks if they have to be stopped. From a financial angle, with regard to the inflow of funds, the company is aware of the potential increase in customer defaults, which began to be observed as of this week, with the outbreak of the crisis in Brazil. It is possible that transactions involving assets that were being traded may be postponed or even canceled. As for the outflow of funds, depending on the combination and scope of all the effects described herein, the company may or may not see its payment capacity substantially reduced, which, in the end, could affect compliance with the Judicial Recovery Plan.

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

To the
Board of Directors and Management
Lupatech S.A. - Under In-Court Reorganization
Nova Odessa - SP

## Opinion

We have audited the individual and consolidated financial statements of Lupatech S.A. - Under In-Court Reorganization ("Company"), identified as Parent and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement 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 accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Lupatech S.A. - Under In-Court Reorganization as at December 31, 2019, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

## Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Crowe

**Emphasis of matter**

*In-court reorganization*

As mentioned in Note 1.2 to the financial statements, on November 8, 2016, Lupatech S.A. and its direct and indirect subsidiaries had their new in-court reorganization plan approved by the Lupatech Group's Creditors General Meeting, and the plan was ratified by the Judge of the 1st Bankruptcies and In-Court Reorganizations Court of the State of São Paulo, without any restrictions, on December 1, 2016. The Company filed motions to clarify since the notice of ratification did not mention one of the Group companies under in-court reorganization. On February 15, 2017, the court corrected its notice of ratification including the company not mentioned. During the year ended December 31, 2019, no appeal was filed against the ratified plan. Our opinion is not qualified in respect of this matter.

*Material uncertainty related to going concern*

As mentioned in Note 1.1 to the financial statements, the Company and its subsidiaries have generated recurring losses and during the year ended December 31, 2019 incurred loss before income tax and social contribution of R$ 26,544 thousand in Parent and R$ 30.283 thousand in Consolidated and have not generated cash in an amount sufficient to settle their obligations. These conditions, together with the fact that the Company and its subsidiaries filed for in-court reorganization plan, indicate the existence of a material uncertainty that may raise significant doubt about the Company's and its subsidiaries' ability to continue as a going concern. The reversal of this situation of recurring losses and the difficulty in cash generation, as well as the capacity to realize their assets and settle their liabilities in the normal course of the Company's business, depend on the success of the plans to adjust the financial and equity structure of the Company and its subsidiaries, on the actions to achieve the projections performed, which include resumption of activities and bidding processes, as well as the compliance with the in-court reorganization plan, described in Note 1.2 to the financial statements. Our opinion is not qualified in respect of this matter.

*Material uncertainty regarding he adhesion to the Tax Debt Refinancing Program - PERT*

As mentioned in Note 21, during 2018 the Company carried out the adhesion of several subsidiaries and investees of the Lupatech Group to the Tax Debt Refinancing Program - PERT, established by Provisional Executive Act No. 783/2017 and Law No. 13,496/2017. The Company, through this action, reorganized the amount of R$ 123,000 of its liabilities related to tax contingencies and obligations, which included discounts on interest, fines and charges in the total amount of R$ 48,000. Due to operational issues in the adhesion processes and information processed by Brazilian Federal Revenue Office, until the issue of this report, a significant part (73%) of the adhered liabilities were not consolidated by the Brazilian Federal Revenue Office. The Company, advised by its legal counselors, timely took the required administrative and legal preventive measures to ensure the right to the adhesion process, considered as probable by the legal counselors. Our opinion is not qualified in respect of this matter.

*Restatement of the financial statements previously disclosed*

As mentioned in Note 2.1.1, the existence of discontinued operations in 2019, due to the negotiation of the remaining equity interest of the Lupatech OFS Coöperatief U.A. and Lupatech OFS S.A.S, the Company is presenting in Note 34 the income statement for the year 2018 and 2019, to classify separately the result of discontinued operations. Our opinion is not qualified in respect of this matter.

Crowe

**Key Audit Matters**

Key audit matters 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 we do not provide a separate opinion on these matters. For each matter below, the description of how the matter was addressed in our audit, including any comments on the results of our procedures, is presented in the context of the financial statements taken as a whole.

*Impairment of property, plant and equipment and goodwill - Parent and Consolidated*

As described in Note 1.1 to the financial statements, the Company and its subsidiaries have faced difficulties to generate sufficient profits and cash flows in their operations and are under in-court reorganization process. With the identification of these indicators, the Company assessed the existence of impairment of its cash generating units ("CGUs") to which property, plant and equipment and goodwill are allocated, as mentioned in Notes 12 and 13. For the calculation of the recoverable amount, the discounted cash flow method was used, based on economic and financial projections. The determination of future profitability estimates of cash generating units for purpose of assessing the impairment of assets requires the use of significant assumptions and judgments by the Company, which are subject to a high degree of uncertainty about the realization of future business assumptions, on the market indicators used to determine the discount rates, as well as significant uncertainty about the Company's and its subsidiaries' ability to continue as a going concern, which may impact the value of these assets in the individual and consolidated financial statements and the amount of the investment accounted for under the equity method in the Parent's financial statements. For this reason, we consider this a key audit matter.

How this matter was addressed in our audit

We evaluated the mathematical accuracy and the significant assumptions used in preparing the projected discounted cash flows for each CGU, including also comparing forecasts with past performance, assessing the existence of an active market for the CGUs assessed and other evidences about the determination of the fair value used in determining the recoverable amount, such as market valuations prepared by experts, when applicable, and the evaluation and consistency of these assumptions with the business plans approved by the Board of Directors. We also performed the sensitivity analysis for the main assumptions used in the projection prepared by the Company and its subsidiaries. We also assessed the adequacy of the disclosures related to the matter.

*Provisions and contingent liabilities - tax, labor and civil - Parent and Consolidated*

As described in Note 20, the Company and its subsidiaries are parties to lawsuits and administrative proceedings pending before courts and government agencies, arising from the normal course of their operations, involving tax, labor and civil matters. The Company is required to exercise a significant judgment to determine the appropriate amount of provisions to reflect the probable amounts required to settle these obligations and a significant judgment is also required to determine the risks associated with tax positions taken and disclosures of the causes assessed as possible loss. Changes in the assumptions used by the Company to exercise this significant judgment, or changes in conditions external to the Company, including the positioning of tax, labor and civil authorities, may have a material impact on the level of provisions established for this purpose, as well as on the disclosures required. Due to the degree of uncertainty, materiality, complexity and judgment involved in the assessment, measurement, definition of the timing of recognition and disclosures related to the Provisions and Contingent Liabilities that may impact the individual and consolidated financial statements and the amount of the investment accounted for under the equity method in the financial statements of the Parent, we consider this a key audit matter.

How this matter was addressed in our audit

Our audit procedures included, among others, the evaluation of the accounting policies applied by the Company for the measurement of losses, including the evaluation of the significant judgment on the determination of the probabilities and the amounts to be recognized as a provision for tax, civil and labor risks and/or disclosed, and whether the judgment was properly and consistently applied during all periods presented. In order to determine the appropriate use of assumptions in the Company's judgment, we analyzed the positions and opinions of the Company's in-house and outside legal counselors on which their understandings and judgments were based. For the estimates of labor and civil losses, we recalculated the criteria for establishment of provision based on the policy determined by the Company and compare it with data and information. With the assistance of our tax specialists, we obtained an adequate understanding of the exposure to tax risks related to legal requirements imposed on the business and legal opinions obtained by the Company. We also evaluated whether the disclosures are in accordance with applicable rules and provide information on the nature, exposure and amounts accrued or disclosed related to the main tax, labor and civil matters in which the Company is involved.

**Other Matters**

*Statements of value added*

The individual and consolidated statements of value added for the year ended December 31, 2019, prepared under the responsibility of the Company’s management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purpose of forming our opinion, we evaluate 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 forth in Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria defined in such Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

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

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free 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 individual and consolidated 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 key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 19, 2020.

**Crowe Macro Auditores Independentes**
CRC-2SP033508/O-1

**Diego Del Mastro Monteiro**
Accountant – CRC-1SP302957/O-3

**Sérgio Ricardo de Oliveira**
Accountant – CRC-1SP186070/O-8

# Management's declaration of the financial statements

Pursuant to item VI of article 25 of CVM Instruction 480 of December 7, 2009, the Board of Executive Officers declares that it reviewed, discussed and agreed to the Company's Financial Statements for the year ended December 31, 2019.

Nova Odessa, March 19,2020.

Rafael Gorenstein – Director President and of Investor Relations

Paulo Prado da Silva - Director without specific designation

# Management's declaration of the independent auditor's report

Pursuant to article 25, paragraph V, of CVM Instruction 480 of December 7, 2009, the Board of Executive Officers declares that it has reviewed, discussed and agreed with the independent auditors' report on the Company's Financial Statements for the year ended December 31, 2019.

Nova Odessa, March 19,2020.

Rafael Gorenstein – Director President and of Investor Relations

Paulo Prado da Silva - Director without specific designation