# Financial statements

## BRQ Soluções em Informática S.A.

December 31, 2019
with Independent auditors' report

**BRQ Soluções em Informática S.A.**

Financial statements

December 31, 2019

Contents

Building a better
working world

Centro Empresarial PB 370
Praia de Botafogo, 370
6º ao 10º andar - Botafogo
22250-040 - Rio de Janeiro - RJ - Brazil
Tel.:+55 21 3263-7000
ey.com.br

# Independent auditor's report on the individual and consolidated financial statements

To
To the Shareholders, Board members and Administrators of
**BRQ Soluções em Informática S.A.**
São Paulo - SP

## Opinion

We have examined the individual and consolidated financial statements of BRQ Soluções em Informática S.A. ("Company"), identified as parent company and consolidated, respectively, comprising the balance sheet as of December 31, 2019 and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other explanatory notes.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of BRQ Soluções em Informática S.A. as of December 31, 2019, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in conformity with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board (IASB).

## Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, in accordance with such standards, are described in the following section entitled “Auditor’s responsibilities for the audit of individual and consolidated financial statements.” We are independent of the Company and its subsidiaries, according to the significant ethical principles provided in the Accountant’s Code of Professional Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to such standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 our audit handled the matter, including any comments on the results of our procedures, is presented in the context of the financial statements taken as a whole.

We have fulfilled the responsibilities described in the section entitled “Auditor's responsibilities for the audit of the separate and consolidated financial statements”, including those in relation to these key audit matters. Accordingly, our audit included conducting procedures designed to respond to our assessment of the risks of material misstatements in the financial statements. The results of our procedures, including those performed to address the matters below, provide the basis for our audit opinion on the Company's financial statements.

### Contingencies with possible risk of loss

As mentioned in Note 19, the Company is a party to lawsuits mainly of a tax nature whose evolution is monitored quarterly by Management and its external legal advisors due to the relevance and complexity of the issues involved and which may require the Company to respond in a timely manner. These lawsuits are estimated at R$ 108,818 thousand, and their probability of loss is assessed as possible by the Company’s external legal advisors, which, according to Brazilian and international accounting standards, does not require the recording of a provision for contingency.

The assessment of the probability of loss carried out by Management with the support of the Company’s external legal advisors involves a high degree of subjectivity and the effect on the Company’s individual and consolidated financial statements, if these lawsuits had been classified as a probable loss, would be relevant. For this reason, we consider this matter to be one of the key audit matters.

How our audit addressed this matter:

Among others, our audit procedures included: (a) the involvement of tax specialists to assist us in evaluating the arguments and merits presented by the Management’s external legal advisors to support the classification of the lawsuits as having a possible probability of loss; (b) sending a confirmation letter to the Company’s external legal advisors to confirm the assessment of the probability of loss informed by Management and the progress of the lawsuits; and (c) review of the disclosures included in Note 19 to the financial statements.

Building a better working world

Based on the result of the audit procedures carried out on the contingencies with a possible risk of loss mentioned above, which is consistent with Management's assessment, we believe that the estimated probability of loss, as well as the respective disclosures in note 19, are acceptable, in the context of the financial statements taken as a whole.

**Revenue recognition - rendering of services**

As mentioned in Note 4, the Company recognizes its revenues, to the extent that control of the services is transferred to the client for an amount that reflects the consideration to which the Company expects to be entitled in exchange for these services. For revenue from application and integration development services, revenue recognition is performed based on the stage of completion of the service. The completion stage is evaluated based on the method of proportion between costs incurred up to the reference date and the updated estimated total costs for a transaction, as defined by CPC 47 – Revenue from Contracts with Customers (equivalent to the international standard IFRS 15).

The complexity involved in estimating the stage of completion of services, which is carried out individually by contract, as well as the potential risks involved in relation to the competence of revenue recognition, led us to consider this matter as one of the key audit matters.

How our audit addressed this matter:

Our audit procedures included, but is not limited to, evaluating the design and operational effectiveness of the technology-dependent automated and manual controls implemented by Management in the revenue recognition process, obtaining supporting documentation for a sample of revenue transactions recognized in the year, including the examination of the respective contracts and recalculation of values, and the monthly analysis of the changes in balances using aggregated and disaggregated data to identify relationships that are inconsistent with our expectations based on our knowledge of the Company and the industry in which it operates, in addition to other changes that could indicate inconsistencies as to the compliance of revenue recognition in the proper jurisdiction. Additionally, we evaluated the disclosures referring to the recognition of revenues included in the Company's financial statements.

Based on the result of the audit procedures carried out on the recognition of revenue - provision of services, mentioned above, which is consistent with the Management's assessment, we believe that the accounting practices disclosed in Note 4, as well as the application of these practices and the amounts recorded in revenue from services provided and its disclosures, are acceptable in the context of the financial statements taken as a whole.

## Other matters

### Statements of added value

Individual and consolidated statements of added value (SAV) for the year ended December 31, 2019, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures carried out together with the audit of Company's financial statements. To form our opinion, we evaluated 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 defined in Technical Pronouncement NBC TG 09 - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

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

The Company's management is responsible for such other information that comprises the Management Report.

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

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

### Responsibilities of management and 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 with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of individual and consolidated financial statements, Management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless Management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

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

Our goals are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error, and issue the audit report with our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that the audit conducted pursuant to Brazilian and international auditing standards will always detect any existing material misstatements. Misstatements may arise from fraud or error, and are considered material when, individually or in aggregate, may influence, from a reasonable perspective, the economic decisions of users taken based on such financial statements.

As part of an audit in accordance with Brazilian and 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 the use of the going concern accounting basis by management, and based on the audit evidence obtained, whether there is significant uncertainty in relation 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, then we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained appropriate and sufficient audit evidence regarding the financial statements of the entities or business activities of the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 auditors' 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, February 13, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

Lazaro Angelim Serruya
Accountant CRC-1DF015801/O-7

# BRQ Soluções em Informática S.A.

Balance sheets
December 31, 2019 and 2018
(In thousands of reais)

| | Note | Parent company 2019 | Parent company 2018 | Consolidated 2019 | Consolidated 2018 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 5 | **65,179** | 62,250 | **73,376** | 68,183 |
| Accounts receivable | 6 | **68,823** | 68,313 | **76,683** | 74,372 |
| Inventories of services in progress | 7 | **2,767** | 2,551 | **2,767** | 2,551 |
| Prepaid expenses | | **5,388** | 3,413 | **5,760** | 3,655 |
| Recoverable taxes | 8.a | **5,517** | 4,341 | **5,517** | 4,341 |
| Accounts receivable from related parties | 10.a | **701** | 870 | **79** | 550 |
| Other current assets | | **1,442** | 4,685 | **1,442** | 4,685 |
| | | **149,817** | 146,423 | **165,624** | 158,337 |
| Non-current assets | | | | | |
| Long-term assets | | | | | |
| Inventories of services in progress | 7 | **728** | 1,380 | **728** | 1,380 |
| Judicial deposits and pledges | | **4,619** | 4,265 | **4,640** | 4,291 |
| Restricted deposits | 10.b | **4,931** | 4,696 | **4,931** | 4,696 |
| Deferred income tax and social contribution | 8.b | **2,268** | 2,167 | **2,268** | 2,167 |
| Other financial assets | 9 | **7,715** | 266 | **7,715** | 266 |
| Prepaid expenses | | **138** | - | **138** | - |
| Investment | 11 | **15,734** | 13,321 | **-** | 400 |
| Property, plant and equipment | 12 | **11,383** | 7,777 | **11,435** | 7,777 |
| Intangible assets | 13 | **1,944** | 1,480 | **6,855** | 6,212 |
| Right-of-use assets | | **4,493** | - | **4,493** | - |
| | | **53,953** | 35,352 | **43,203** | 27,189 |
| Total assets | | **203,770** | 181,775 | **208,827** | 185,526 |

| | Note | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Suppliers | | **11,250** | 10,522 | **12,193** | 11,369 |
| Loans and financing | 14 | **7,827** | 5,549 | **8,996** | 6,673 |
| Lease financing | 15 | **1,881** | 826 | **1,881** | 826 |
| Lease liabilities | 17 | **1,711** | - | **1,711** | - |
| Salaries and payroll charges | | **6,574** | 6,082 | **8,368** | 7,213 |
| Taxes and contributions payable | 16 | **7,854** | 5,816 | **7,854** | 5,816 |
| Provision for vacation | | **21,013** | 17,751 | **21,013** | 17,751 |
| Dividends payable | 21 | **6,880** | 5,559 | **6,880** | 5,559 |
| Deferred revenues | 20 | **13,670** | 11,365 | **13,670** | 11,365 |
| Loans with related parties | 10.b | **4,676** | 6,008 | **4,676** | 6,008 |
| Other liabilities | | **1,081** | 1,031 | **1,134** | 1,070 |
| | | **84,417** | 70,509 | **88,376** | 73,650 |
| Non-current liabilities | | | | | |
| Provision for losses with lawsuits | 19 | **2,395** | 1,530 | **2,395** | 1,530 |
| Loans and financing | 14 | **1,428** | 9,217 | **1,428** | 9,217 |
| Lease financing | 15 | **2,180** | 1,209 | **2,180** | 1,209 |
| Lease liabilities | 17 | **3,120** | - | **3,120** | - |
| Deferred revenues | 20 | **1,200** | 1,600 | **1,200** | 1,600 |
| Loans with related parties | 10.b | **3,210** | 8,024 | **3,210** | 8,024 |
| | | **13,533** | 21,580 | **13,533** | 21,580 |
| Shareholders' equity | 21 | | | | |
| Capital | | **54,849** | 54,849 | **54,849** | 54,849 |
| Advance for future capital increase | | **1,066** | 339 | **1,066** | 339 |
| Treasury shares | | **(162)** | (859) | **(162)** | (859) |
| Capital reserve | | **185** | 715 | **185** | 715 |
| Profit reserve | | **24,174** | 25,725 | **24,174** | 25,725 |
| Proposed additional dividend | | **20,642** | 4,448 | **20,642** | 4,448 |
| Accumulated translation adjustments | | **5,066** | 4,469 | **5,066** | 4,469 |
| Shareholders' equity attributable to controlling shareholders | | **105,820** | 89,686 | **105,820** | 89,686 |
| Non-controlling interest | | **-** | - | **1,098** | 610 |
| Total shareholders' equity | | **105,820** | 89,686 | **106,918** | 90,296 |
| Total liabilities and shareholders' equity | | **203,770** | 181,775 | **208,827** | 185,526 |

See the accompanying notes to the financial statements.

# BRQ Soluções em Informática S.A.

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

| | Note | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| Net revenue from sales and services rendered | 22 | **384,382** | 329,272 | **418,114** | 357,715 |
| Cost of sales and services rendered | 23 | **(266,579)** | (242,905) | **(288,119)** | (261,936) |
| Gross income | | **117,803** | 86,367 | **129,995** | 95,779 |
| Operating (expenses) revenues | 24 | | | | |
| Administrative expenses | | **(75,889)** | (53,013) | **(84,058)** | (59,471) |
| Tax expenses | | **(2,151)** | (1,004) | **(2,151)** | (1,663) |
| Other operating (expenses) revenues | | **812** | 249 | **812** | 249 |
| | | **(77,228)** | (53,768) | **(85,397)** | (60,885) |
| Equity in net income of subsidiaries | 11.b | **2,216** | 1,613 | **-** | - |
| Income (loss) before financial income (loss) and taxes | | **42,791** | 34,212 | **44,598** | 34,894 |
| Financial income (loss) | 25 | | | | |
| Financial revenues | | **3,446** | 2,891 | **3,446** | 2,891 |
| Financial expenses | | **(3,418)** | (2,122) | **(3,489)** | (2,185) |
| | | **28** | 769 | **(43)** | 706 |
| Income before taxes | | **42,819** | 34,981 | **44,555** | 35,600 |
| Current income tax and social contribution | 18 | **(13,949)** | (9,282) | **(14,812)** | (9,282) |
| Deferred income tax and social contribution | 18 | **101** | (2,290) | **101** | (2,290) |
| Net income for the year | | **28,971** | 23,409 | **29,844** | 24,028 |
| Net income attributable to: | | | | | |
| Controlling shareholders | | **28,971** | 23,409 | **28,971** | 23,409 |
| Non-controlling shareholders | | **-** | - | **873** | 619 |
| Earnings per share - Common shares (R$) | | | | | |
| Basic earnings | | **0.2219** | 0.1793 | | |
| Diluted earnings | | **0.2216** | 0.1791 | | |

See the accompanying notes to the financial statements.

## BRQ Soluções em Informática S.A.

Statements of comprehensive income
Years ended December 31, 2019 and 2018
(In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net income for the year | **28,971** | 23,409 | **29,844** | 24,028 |
| Accumulated translation adjustments | **597** | 1,787 | **597** | 1,787 |
| Total comprehensive income | **29,568** | 25,196 | **30,441** | 25,815 |
| Total comprehensive income attributed to: | | | | |
| Controlling interest | **29,568** | 25,196 | **29,568** | 25,196 |
| Non-controlling interest | **-** | - | **873** | 619 |

See the accompanying notes to the financial statements.

# BRQ Soluções em Informática S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2019 and 2018
(In thousands of reais)

| | Capital | | | | Profit reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Advance for future capital increase | Treasury shares | Capital reserve | Legal | Profit retention reserve | Additional dividends proposed | Accumulated translation adjustments | Retained earnings | Total | Non-controlling interest | Total shareholders' equity |
| Balances on January 1, 2018 | 54,849 | - | (859) | 700 | 1,927 | 10,396 | 1,362 | 2,682 | - | 71,057 | 446 | 71,503 |
| Exchange-rate changes of investments in subsidiary abroad | - | - | - | - | - | - | - | 1,787 | - | 1,787 | - | 1,787 |
| Stock options granted recognized in the year | - | - | - | 15 | - | - | - | - | - | 15 | - | 15 |
| Advance for future capital increase | - | 339 | - | - | - | - | - | - | - | 339 | - | 339 |
| Payment of dividends | - | - | - | - | - | - | (1,362) | - | - | (1,362) | (455) | (1,817) |
| Net income for the year | - | - | - | - | - | - | - | - | 23,409 | 23,409 | 619 | 24,028 |
| Allocation of income: | | | | | | | | | | | | |
| Formation of legal reserve | - | - | - | - | 1,171 | - | - | - | (1,171) | - | - | - |
| Minimum mandatory dividends in 2018 | - | - | - | - | - | - | - | - | (5,559) | (5,559) | - | (5,559) |
| Additional dividends | - | - | - | - | - | - | 4,448 | - | (4,448) | - | - | - |
| Allocation for profit reserve | - | - | - | - | - | 12,231 | - | - | (12,231) | - | - | - |
| Balances on January 1, 2019 | 54,849 | 339 | (859) | 715 | 3,098 | 22,627 | 4,448 | 4,469 | - | 89,686 | 610 | 90,296 |
| Exchange-rate changes of investments in subsidiary abroad | - | - | - | - | - | - | - | **597** | - | **597** | - | **597** |
| Stock options granted recognized in the period | - | - | - | **64** | - | - | - | - | - | **64** | - | **64** |
| Advance for future capital increase | - | **1,066** | - | - | - | - | - | - | - | **1,066** | - | **1,066** |
| Sale/repurchase of treasury shares | - | **(339)** | **697** | **(594)-** | - | - | - | - | - | **(236)** | - | **(236)** |
| Stock options canceled in the year | - | - | - | **(594)** | - | - | - | - | - | **(594)** | - | **(594)** |
| Payment of dividends | - | - | - | - | - | **(3,000)** | **(4,448)** | - | - | **(7,448)** | **(385)** | **(7,833)** |
| Net income for the year | - | - | - | - | - | - | - | - | **28,971** | **28,971** | **873** | **29,844** |
| Allocation of income: | | | | | | | | | | | | |
| Formation of legal reserve | - | - | - | - | **1,449** | - | - | - | **(1,449)** | - | - | - |
| Minimum mandatory dividends in 2018 | - | - | - | - | - | - | - | - | **(6,880)** | **(6,880)** | - | **(6,880)** |
| Additional dividends | - | - | - | - | - | - | **20,642** | - | **(20,642)** | - | - | - |
| Balances at December 31 2019 | **54,849** | **1,066** | **(162)** | **185** | **4,547** | **19,627** | **20,642** | **5,066** | **-** | **105,820** | **1,098** | **106,918** |

See the accompanying notes to the financial statements.

# BRQ Soluções em Informática S.A.

Statements of cash flows
Years ended December 31, 2019 and 2018
(In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows from operating activities | | | | |
| Net income for the year | **28,971** | 23,409 | **29,844** | 24,028 |
| Adjustments due to: | | | | |
| Depreciation and amortization | **5,979** | 4,046 | **5,995** | 4,056 |
| Write-off of residual value of property, plant and equipment | **131** | 336 | **131** | 336 |
| Interest and inflation adjustment | **2,353** | 752 | **526** | 798 |
| Equity in net income of subsidiaries | **(2,216)** | (1,613) | **-** | - |
| Deferred income tax and social contribution | **13,848** | 11,573 | **13,848** | 11,573 |
| Stock options granted | **-** | 15 | **-** | 15 |
| Loss in the disposal of investment | **249** | - | **249** | |
| Recognition (write-off) of provisions | **2,239** | 3,106 | **2,239** | 3,106 |
| | **51,554** | 41,624 | **54,711** | 43,912 |
| Changes in assets and liabilities: | | | | |
| (Increase) in accounts receivable | **(510)** | (16,262) | **(2,311)** | (19,027) |
| Decrease in inventories | **436** | 945 | **436** | 945 |
| (Increase) decrease in prepaid expenses | **(1,975)** | (196) | **(2,105)** | (288) |
| (Increase) in recoverable taxes | **(13,012)** | (1,312) | **(13,012)** | (1,312) |
| (Increase)/Decrease in related parties | **169** | (612) | **471** | (446) |
| (Increase)/decrease in other assets | **3,243** | (995) | **3,243** | (995) |
| (Increase) in other non-current assets | **(7,831)** | (26) | **(7,826)** | (32) |
| Increase in suppliers | **728** | 763 | **824** | 1,328 |
| Increase/(decrease) in salaries and social security charges | **(818)** | (474) | **(155)** | 104 |
| Increase/(decrease) in taxes and contributions payable | **2,038** | (169) | **2,038** | (169) |
| Increase in accounts payable to employees | **3,262** | 3,338 | **3,262** | 3,338 |
| Increase in other liabilities | **50** | 57 | **64** | 72 |
| Increase/(decrease) in deferred revenues | **1,905** | (838) | **1,905** | (838) |
| Right of use, rents paid | **(2,123)** | - | **(2,123)** | - |
| Income tax and social contribution paid | **(1,831)** | - | **(1,831)** | - |
| Payment of interest on loans | **(2,377)** | (1,887) | **(2,429)** | (1,933) |
| Net cash generated (consumed) by operating activities | **32,908** | 23,956 | **35,162** | 24,659 |
| | | | | |
| Cash flows from investing activities | | | | |
| Disposal of investment | **151** | - | **151** | - |
| Acquisitions of property, plant and equipment | **(3,688)** | (1,217) | **(3,745)** | (1,217) |
| Acquisitions of intangible assets | **(1,070)** | (531) | **(1,070)** | (531) |
| Net cash invested in investment activities | **(4,607)** | (1,748) | **(4,664)** | (1,748) |
| | | | | |
| Cash flows from financing activities | | | | |
| Borrowings from third parties | **-** | 14,747 | **-** | 14,747 |
| Loans paid | **(13,195)** | (7,192) | **(13,195)** | (7,192) |
| Advance for future capital increase | **1,066** | 339 | **1,066** | 339 |
| Sale/repurchase of shares to be held in treasury | **(236)** | - | **(236)** | - |
| Payment of dividends | **(13,007)** | (1,816) | **(13,392)** | (2,271) |
| Net cash generated (invested in) financing activities | **(25,372)** | 6,078 | **(25,757)** | 5,623 |
| Increase (decrease) in cash and cash equivalents | **2,929** | 28,286 | **4,741** | 28,534 |
| Statement of increase (decrease) in cash and cash equivalents | | | | |
| At the beginning of the year | **62,250** | 33,964 | **68,183** | 38,390 |
| Effect of exchange rate fluctuations on the balance of cash and cash equivalents of foreign subsidiaries | **-** | - | **(452)** | (1,259) |
| At the end of the year | **65,179** | 62,250 | **73,376** | 68,183 |

See the accompanying notes to the financial statements.

## BRQ Soluções em Informática S.A.

Statements of added value
Years ended December 31, 2019 and 2018
(In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Revenues | | | | |
| Gross revenue from sales and services | **432,111** | 369,084 | **465,843** | 397,527 |
| Inputs acquired from third parties | | | | |
| Cost of products, goods sold and services rendered | **(10,598)** | (12,154) | **(15,929)** | (18,499) |
| Materials, energy, outsourced services and other | **(9,777)** | (9,070) | **(12,170)** | (11,037) |
| | **(20,375)** | (21,224) | **(28,099)** | (29,536) |
| Gross added value | **411,736** | 347,860 | **437,744** | 367,991 |
| Depreciation and amortization | **(5,979)** | (4,046) | **(5,995)** | (4,056) |
| Net added value produced by the Company | **405,757** | 343,814 | **431,749** | 363,935 |
| Added value received as transfer | | | | |
| Equity in net income of subsidiaries | **2,216** | 1,613 | **-** | - |
| Financial revenues | **3,446** | 2,891 | **3,446** | 2,891 |
| | **5,662** | 4,504 | **3,446** | 2,891 |
| Total added value to be distributed | **411,419** | 348,318 | **435,195** | 366,826 |
| Distribution of added value | | | | |
| Personnel | | | | |
| Direct remuneration | **233,937** | 199,419 | **253,510** | 214,821 |
| Benefits | **51,245** | 43,191 | **52,127** | 43,742 |
| FGTS | **16,540** | 14,123 | **16,540** | 14,123 |
| | **301,722** | 256,733 | **322,177** | 272,686 |
| Taxes, duties and contributions | | | | |
| Federal | **64,810** | 53,525 | **67,039** | 55,263 |
| Municipal | **11,623** | 9,342 | **11,623** | 9,342 |
| | **76,433** | 62,867 | **78,662** | 64,605 |
| Third-party capital remuneration | | | | |
| Interest | **3,294** | 2,087 | **3,365** | 2,150 |
| Rentals | **999** | 3,222 | **1,147** | 3,357 |
| | **4,293** | 5,309 | **4,512** | 5,507 |
| Remuneration of own capital | | | | |
| Dividends | **6,880** | 5,559 | **6,880** | 5,559 |
| Retained earnings | **22,091** | 17,850 | **22,091** | 17,850 |
| Non-controlling interest | **-** | - | **873** | 619 |
| | **28,971** | 23,409 | **29,844** | 24,028 |
| | **411,419** | 348,318 | **435,195** | 366,826 |

See the accompanying notes to the financial statements.

## 1. Operations

BRQ Soluções em Informática S.A. ("BRQ" or "Company", also referred to as the "Group") is a publicly-held corporation headquartered at Av. Copacabana, nº 238, conjunto 2.003, Empresarial 18 do Forte, Barueri - São Paulo, with branches in the following locations: Rio de Janeiro, São Paulo, Curitiba, Recife and New York.

Although the Company is publicly traded, there is no public security issued and traded on the open market.

The Company is mainly engaged in:

i) Application development and integrations

- Provision of services in the information technology area;
- Development of computer programs;
- Systems analysis and development;
- Computer technical support, including installation, configuration and data maintenance;
- Information technology advisory and consultancy;
- Sale of software;
- IT security related activities; and
- Training.

The Company may operate within the country or abroad, directly, through subsidiaries, or by holding interests in the capital of other companies.

In December 2019, the Company, based on its growth strategy and focus on expanding the sale of proprietary software, the Company created two new companies for the sale of its Inspeção 360 and Atend products (see Note 11).

The issuance of financial statements was authorized by the Company's Board of Directors on February 13, 2020.

(In thousands of reais)

## 2. List of subsidiaries

The individual and consolidated financial statements include the operations of the Company and the following subsidiaries, whose interest percentage is summarized as follows:

| | Interest (%) | |
|---|---|---|
| **Corporate name** | **2019** | **2018** |
| BRQ IT Services, Inc. (i) | **100%** | 100% |
| ThinkInternational LLC (Indirect Investment) | **80%** | 80% |

(i) BRQ IT Services, Inc. - in April 2008, the Company incorporated BRQ IT Services Inc., located in the United States, for the amount of US$ 150 (see Note 11).

## 3. Preparation and presentation of financial statements

a) Statement of conformity regarding the IFRS and Accounting Pronouncement Committee (CPC) standards

The individual and consolidated financial statements were prepared according to the accounting practices adopted in Brazil, including the pronouncements issued by Accounting Pronouncement Committee (CPC) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and evidence all information of financial statements, and only them, which are consistent with those used by Management in its administration.

The individual and consolidated financial statements present comparative information in relation to the previous year.

In addition, the Company considered the guidelines provided for in Technical Guideline OCPC 07, issued by CPC in November 2014, in the preparation of its financial statements. Thus, the relevant information specific to the financial statements is being evidenced, and corresponds to the information used by Company's Management.

## 3. Preparation and presentation of financial statements | ...continued

a) Statement of conformity regarding the IFRS and Accounting Pronouncements Committee—CPC standards | ...continued

*Statement of added value*

The presentation of the Individual and Consolidated Statement of Added Value is required by Brazilian corporate law and the accounting practices adopted in Brazil applicable to publicly-held companies. The Statement of Added Value was prepared in accordance with the criteria defined in technical pronouncement NBT TG - 09 - "Statement of Added Value". IFRSs do not require the presentation of this statement. Accordingly, in conformity with IFRSs, this statement is presented as supplementary information, without prejudice to financial statements as a whole.

b) Basis of preparation and presentation

*Business segment*

The Company’s revenue is mainly derived from application development and integrations. Consequently, the Company concluded that it has only one reportable business segment.

c) Significant judgments, estimates and assumptions

The individual and consolidated financial statements were prepared based on several valuation bases used in the accounting estimates. The accounting estimates were based on objective and subjective factors, with a basis on Management's judgment for determination of the adequate amount to be recorded in the financial statements and when necessary, the judgments and estimates are supported by opinions prepared by specialists. The Company reviews its estimates at least once a year in the ordinary course of its business.

The settlement of transactions involving these estimates may result in significantly different amounts described in the financial statements due to the probabilistic treatment inherent to the estimative process. Modifications to estimates are treated prospectively.

## 3. Preparation and presentation of financial statements | ...continued

c) Significant accounting judgments, estimates and assumptions | ...continued

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment in the book value of assets and liabilities on the next year is as follows:

*Expected provision for loan*

The criteria for credit risk analysis to determine the allowance for loan losses is described in Note 4.g.ii.

*Taxes*

There are uncertainties regarding the interpretation of tax regulations. The Company sets up provisions, based on appropriate estimates, for any matters identified in inspections carried out by the tax authorities of the respective jurisdictions in which it operates and whose probability of loss is assessed as probable. The amount of those provisions is based on various factors, such as experience of prior inspections and deferring depredations of tax regulations by the taxed entity and by the responsible tax authority. Those interpretation differences may arise in a great variety of matters, depending on the conditions prevailing in the Company's domicile.

Substantial judgment from Management is required to determine the amount of the deferred income tax and social contribution asset that can be recognized, based on the probable term of realization and amount of future taxable income, along with tax planning strategies.

*Useful life of property, plant and equipment*

Assets recorded in property, plant, and equipment are depreciated according to the shortest term between their estimated economic-useful life.

*Recoverable value of tangible and intangible assets, including goodwill*

The Company evaluates the recovery of the book value of goodwill recorded using the "value in use" concept, by means of discounted cash flow models of the cash generating unit. The cash-generating unit evaluated was the subsidiary Think International.

## 3. Preparation and presentation of financial statements | ...continued

c) Significant accounting judgments, estimates and assumptions | ...continued

*Recoverable value of tangible and intangible assets, including goodwill* | ...continued

The assumptions about cash flow growth projections and future cash flows are based on the Company's business plan, approved annually by Management, as well as on comparable market data and represent Management's best estimate in relation to the economic conditions that will exist during the economic life of these assets for the cash-generating unit. Future cash flows were discounted based on the rate representing the cost of capital.

Following the techniques of economic valuation, the assessment of value in use is carried out for a period of three years and, thereafter, considering the perpetuity of the assumptions based on the ability of the company to continue as a going concern for the foreseeable future.

The Company did not apply a growth rate to extrapolate the projections made on December 31, 2019. Estimated future cash flows were discounted at a discount rate of 6.33% p.a.

The main assumptions used in estimating the value in use are:

- Revenues: the Company's growth projection for the period from 2020 to 2022 was considered based on the growth in the offer of services to new clients.
- Cost of service provided/general and administrative expenses: they were estimated based on historical performance.
- Capital investments: They were estimated considering the current infrastructure necessary to enable the offer of services, based on the Company's history.

The key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions and based on financial market projections, documented and approved by the Company's Management.

## 3. Preparation and presentation of financial statements | ...continued

c) Significant accounting judgments, estimates and assumptions | ...continued

*Provision for losses with lawsuits*

The Company sets up a provision for lawsuits and others based on the assessment of the likelihood of loss. The estimates and assumptions used in recording provisions for the Company's lawsuits and others are reviewed at least annually.

*Share-based payment*

The criteria for determining the estimated fair value of share-based payments are described in Note 4.m.

*d)* Fair value measurement of financial instruments

The Company and its subsidiaries measure the financial instruments at fair value on each balance sheet closing date. When measuring fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).
- Level 3: inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

Additional information is included in Note 26.

## 4. Significant accounting policies

The Group applied the accounting policies described below consistently to all the years presented in these financial statements.

a) Basis of consolidation

The individual and consolidated financial statements include the financial statements of the Company and its subsidiaries as of December 31, 2019 and 2018. Control is obtained when the Company is exposed or entitled to variable returns based on its involvement with the investee and has the capacity to affect those returns through the power exercised in relation to the investee.

Specifically, the Group controls an investee if, and only if, it has: power in relation to the investee (that is, existing rights that guarantee the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns based on its involvement with the investee; and the capacity to use its power over investee to affect the results.

There is generally a presumption that a majority of voting rights results in control. The Group assesses whether or not it exercises control over an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group ceases to exercise said control. In the parent company's individual financial statements, the financial statements of subsidiaries are recognized using the equity method.

The result and each component of other comprehensive income are assigned to the Group's controlling shareholders and non-controlling shareholders. All assets and liabilities, results, revenues, expenses and cash flows of the same Group, related to transactions between members of the Group, are totally eliminated in the consolidation.

## 4. Significant accounting policies | ...continued

b) Current vs. non-current classification

The Group has assets and liabilities recorded in the balance sheet based on current / non-current classification. An asset is classified as current when: It is expected to be realized or if it is intended to be sold or consumed in the normal operating cycle; Is held mainly for trading; it is expected to be realized within 12 months after the reporting year; or cash or cash equivalents, unless there are restrictions when it is exchanged or used to settle a liability for at least 12 months after the reporting year. All other assets are classified as non-current, including deferred tax assets.

A liability is classified as current when: It is expected to settle it in the normal operating cycle; Is held mainly for trading; it is expected to be realized within 12 months after the reporting year; or there is no unconditional right to defer settlement of the liability for at least 12 months after the disclosure year. The Group classifies all other liabilities as non-current.

c) Revenue recognition

The revenue is measured based on the fair value of the consideration received, excluding discounts, rebates, taxes or charges over sales. The Group assesses revenue transactions according to the specific criteria to determine whether it is acting as agent or principal and, at the end, concluded that it is acting as principal in all its revenue contracts. Also, the following specific criteria shall be addressed before the revenue recognition:

*Rendering of services*

The Group recognizes a portion of the revenue from the provision of application development and integration services based on the stage of completion of the service. The stage of completion is evaluated based on the ratio method of costs incurred to date to the estimated total costs of the transaction. Other revenues are recognized to the extent it is likely that economic benefits will be generated for the Group and when they can be measured reliably, regardless of when the payment is received.

## 4. Significant accounting policies | ...continued

c) Revenue recognition | ...continued

*Interest revenue*

For all financial instruments evaluated at amortized cost and financial assets that earn interest, financial revenue or expense is accounted for at the effective interest rate that discounts exactly future estimated cash payments or receipts over estimated life of the financial instrument or over a shorter period, when applicable, from the financial asset or liability net book value. The Interest revenue is included in "financial revenue" in the statement of income.

d) Taxes

*Income tax and social contribution - current*

Current tax assets and liabilities of the last year and of previous years are measured at recoverable value expected or payable to the tax authorities. Tax rates and the tax laws used to calculate the amount are those that are in force or substantially in force on the balance sheet date in countries that the Group operates and generates taxable revenue.

Management periodically evaluates the fiscal position of situations in which the fiscal regulations require interpretation and establish provisions when appropriate.

*Deferred taxes*

Deferred tax is generated by temporary differences on balance sheet date between asset and liability tax bases and their book values.

Deferred tax liabilities are recognized for all temporary tax differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

## 4. Significant accounting policies | ...continued

d) Taxes | ...continued

*Deferred taxes* | ...continued

The book value of the deferred tax assets is reviewed on each balance sheet date and written-off to the extent it is no longer likely that taxable income will be available to allow all or part of the deferred tax assets to be used.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to be applicable in the year that the asset will be realized or the liability settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Deferred tax assets and liabilities are presented net if there is a legal or contractual right to offset the tax asset against the tax liability and the deferred taxes are related to the same taxed entity in subject to the same tax authority.

e) Property, plant and equipment

Property, plant and equipment items are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated under the straight-line method over the estimated useful lives of the assets.

An item of property, plant and equipment is written off when sold or when no future economic benefit is expected from its use or sale. Any gain or loss resulting from the write-off of the asset (calculated as being the difference between the net sales value and the book value of the asset) is included in the statement of income in the year in which the asset is written off.

Assets’ residual values and useful lives and depreciation methods are reviewed at yearend, and are adjusted on a prospective basis, if applicable.

## 4. Significant accounting policies | ...continued

f) Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. After the initial recognition, the intangible assets are stated at cost, less accumulated amortization and impairment losses. Internally-generated intangible assets, except for the capitalized development costs, are not capitalized and the expenditure is reflected in the statement of income in the year in which it is incurred.

The useful life of the intangible asset is evaluated as defined or undefined.

Intangible assets with defined life are amortized over the economic useful life and valued in relation to impairment whenever there is indication of loss of economic value of the asset. Amortization method and period of an intangible asset with defined life are reviewed at least at the end of each year. Changes in these assets' estimated useful lives or in expected consumption of future economic benefits are accounted for through changes in amortization method or period, as applicable, and are addressed as changes in bookkeeping. The amortization of intangible assets with defined life is recognized in the statement of income in the category of expense consistent with the use of the intangible assets.

Intangible assets with undefined useful lives are not amortized but tested for impairment on an annual basis, individually or at cash generating unit level. The evaluation of indefinite useful life is reviewed annually to determine whether it is still justifiable.

Gains and losses arising from disposals of intangible assets are measured as the difference between selling price and book value, and are taken to the statement of income upon derecognition of the assets.

*Research and development costs*

Research expenditures are recorded as expenses when incurred, and development expenditures linked to technological innovations of existing products are capitalized if they are technologically and economically feasible, and amortized over the expected period of benefits in the operating expenses group..

## 4. Significant accounting policies | ...continued

f) Intangible assets | ...continued

*Research and development costs* | ...continued

The development costs of a specific project are recognized as an intangible asset whenever it is possible to demonstrate: (i) the technical feasibility of completing the intangible asset as it will be available for use or sale; (ii) the intention to complete the asset and the ability to use or sell the asset; (iii) how the asset will generate future economic benefits; (iv) the availability of resources to complete the asset; and (v) the ability to reliably assess expenditures incurred during the development phase.

After initial recognition, the asset is stated at cost less accumulated amortization and impairment. Amortization begins when development is completed and the asset is available for use, for the period of future economic benefits. During the development period, the asset's recoverable value is tested annually.

g) Financial instruments

i) *Financial assets*

*Initial recognition and measurement*

Financial assets are classified in the initial recognition as subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

The classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the financial asset and on the Group's business model for the management of these financial assets. All financial assets are recognized at fair value plus, in the case of financial assets not accounted for at fair value through profit or loss, transaction costs, which are directly attributable to the acquisition of the financial asset.

## 4. **Significant accounting policies** | ...continued

g) Financial instruments | ...continued

i) *Financial assets* | ...continued

*Subsequent measurement*

For subsequent measurement purposes, financial assets are classified into four categories, as follows:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of accumulated gains and losses (debt instruments);
- Financial assets designated at fair value through other comprehensive income, without reclassification of accumulated gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is maintained in the business model, whose the purpose is to maintain financial assets for the purpose of receiving contractual cash flows; and
- The contractual terms of financial assets give rise, on specific dates, to cash flows that solely refer to payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in income (loss) when the asset is derecognized, modified or impaired.

## 4. Significant accounting policies | ...continued

g) Financial instruments | ...continued

i) *Financial assets* | ...continued

*Subsequent measurement* | ...continued

Financial assets at amortized cost | ...continued

The Group's financial assets at amortized cost include cash and cash equivalents, trade accounts receivable and accounts receivables from related parties, restricted deposits, and other financial assets.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group evaluates the debt instruments at fair value through other comprehensive income if both conditions are addressed:

- The financial asset is maintained in the business model, whose the purpose is to maintain financial assets for the purpose of receiving contractual cash flows; and
- The contractual terms of financial assets give rise, on specific dates, to cash flows that solely refer to payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest revenue, exchange rate revaluation and impairment losses or reversals are recognized in the statement of income and calculated in the same way as for the financial assets measured at amortized cost. The remaining changes in fair value are recognized in other comprehensive income. Upon derecognition, the accumulated change in fair value recognized in other comprehensive income is reclassified to income (loss).

The Group has no financial assets (debt instruments) at fair value through other comprehensive income.

## 4. Significant accounting policies | ...continued

g) Financial instruments | ...continued

i) *Financial assets* | ...continued

*Subsequent measurement* | ...continued

Financial assets at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group may irrevocably choose to classify its equity instruments at fair value through other comprehensive income when they meet the definition of shareholders' equity under CPC 39 - Financial Instruments: Presentation and are not held for trading. The classification is determined considering each instrument specifically.

Gains and losses on these financial assets are never reclassified to income. Equity instruments designated at fair value through other comprehensive income are not subject to the impairment test.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated in the initial recognition at fair value through profit or loss or financial assets mandatorily measured at fair value. Financial assets are classified as held-for-trading if they are acquired with the purpose of sale or repurchase in the short term.

Financial assets with cash flows other than payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model.

Financial assets at fair value through profit or loss are presented in the balance sheet at fair value, with net changes of fair value recognized in the statement of income.

The Group has no financial assets at fair value through profit or loss.

## 4. Significant accounting policies | ...continued

g) Financial instruments | ...continued

i) *Financial assets* | ...continued

*Derecognition (write-off)*

A financial asset (or, when appropriate, part of a financial asset or part of a group of similar financial assets) is written off specially (i.e., less the income [loss] for the year) when: the rights to receive cash flows from the asset have expired; the Group transferred its rights to receive cash flows of the asset or has assumed an obligation to fully pay cash flows received, without significant delay, to a third party under terms of an "onlending" agreement; and (a) the Group substantially transfers all risks and rewards related to the asset, or (b) the Group did not transfer either retain substantially all the risks and rewards related to the asset, but transferred the control over the asset.

ii) *Impairment of financial assets*

Credit exposures for which there has been no significant increase in credit risk since initial recognition are accrued as a result of possible default events in the next 12 months (12-month expected credit loss). For credit exposures for which there has been a significant increase in credit risk since initial recognition, a provision is required for expected credit losses during the remaining life of the exposure, regardless of the time of default (an expected perpetual credit loss).

This methodology applies to financial instruments classified as amortized cost or fair value through other comprehensive income (except investments in equity instruments).

For accounts receivable, given the short-term nature of the Company's receivables and its policy for granting and managing risk and credit used, the Company has not identified any material impact that would affect its individual and consolidated financial statements due to the adoption.

## 4. Significant accounting policies | ...continued

g) Financial instruments | ...continued

ii) *Impairment of financial assets* | ...continued

For other financial assets subject to impairment analysis, no expected loss was recognized for the year ended December 31, 2019, as, according to the Company's assessment, in addition to the associated risk being low, there is no history of losses.

A financial asset is written-off when there is no fair expectation that contract cash flows will be recovered.

iii) *Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified in the initial recognition as financial liabilities at fair value through profit or loss, loans and receivables or accounts payable, or as derivatives designated as hedge instruments in an effective hedge, as the case may be.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing and accounts payable, they are increased by the transaction cost directly related.

The Group's financial liabilities include trade accounts payable, other accounts payable, loans and financing.

*Subsequent measurement*

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the statement of income upon write-off of liabilities, as well as during the amortization process by the effective interest rate method.

## 4. Significant accounting policies | ...continued

g) Financial instruments | ...continued

iii) *Financial liabilities* | ...continued

*Derecognition (write-off)*

A financial liability is derecognized when the obligation is discharged, canceled or expired. When an existing financial liability is replaced by another of the same lender with substantially different terms, or the terms of an existing liability are significantly changed, this substitution or alteration is treated as a write-off of the original liability and recognition of a new liability, whereas the difference in the corresponding book value is recognized in the statement of income.

h) Inventories of services

Service inventories are valued at cost or net realizable value, whichever is lower.

i) Impairment loss for non-financial assets

Management reviews annually the net book value of assets to assess events or changes in economic, operating or technological circumstances that might indicate an impairment of assets. These evidences are detected and the net book value exceeded, the recoverable value, a provision for impairment is formed to adjust net book value to recoverable value. The recoverable value of an asset or of a particular cash generating unit is defined as the higher of the value in use and the net sales value.

In estimating the value in use of an asset, estimated future cash flows are discounted to their present values, using a pretax discount rate that reflects the weighted average cost of capital in the industry where the cash-generating unit operates. The net sales value is determined, whenever possible, with a basis on a binding contract of sale in a transaction on an arm's length basis, between knowledgeable and interested parties, adjusted by expenses attributable to the sale of the asset or, when there is no binding contract of sale, with a basis on the market price of an active market, or on the price of the most recent transaction with similar assets.

## 4. Significant accounting policies | ...continued

i) Impairment loss on non-financial assets | ...continued

Impairment testing of goodwill paid for expected future profitability is performed annually (on December 31) or when circumstances indicate a loss due to impairment of book value.

j) Cash and cash equivalents

Cash equivalents are maintained for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Group considers cash equivalents interest earning bank deposits readily convertible into known amounts of cash and subject to an insignificant risk of change of value. Consequently, an investment normally qualifies as cash equivalent when it has short-term maturity; for example, three months or less from the date they were contracted.

k) Treasury shares

Own equity instruments that are bought back (treasury shares), recognized at cost, and deducted from shareholders' equity. No gain or loss is recognized in the income statement on the purchase, sale, issuance or cancellation of the Group's equity instruments. Any difference between the book value and the remuneration is recognized in "Other capital reserves".

l) Provisions

A provision is recognized when the Group have a present (legal or constructive) obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made. The expense referring to any provision is presented in the statement of income, net of any reimbursement.

## 4. Significant accounting policies | ...continued

l) Provisions | ...continued

The Group is a party in several judicial and administrative proceedings. Provisions are formed for all contingencies referring to lawsuits in which an outflow of funds will probably be required to settle the contingency or obligation and a reasonable estimate can be made. Determination of the likelihood of loss includes determination of evidences available, hierarchy of laws, jurisprudence available, more recent court decisions and relevance thereof in legal system, as well as evaluation of external lawyers. Provisions are reviewed and adjusted so as to consider changes in circumstances, such as applicable statute of limitations, conclusions of tax audits or additional exposures identified based on new matters or court rulings.

m) Transactions involving share-based payment

The cost of transactions with employees settled with equity instruments, and with awarded premiums, is measured based on the fair value on the date they were granted. To determine fair value, the Group uses an external pricing specialist, who uses an appropriate valuation method.

The cost of transactions settled with equity securities is recognized, together with a corresponding increase in shareholders' equity, over the period during which the service condition is fulfilled, ending on the date the employee becomes fully entitled to the award (vesting date). The accumulated expense recognized for the transactions settled with equity instruments on each base date p to the acquisition date reflects the extent to which the acquisition period has expired and the Group's best estimate of the number of membership certificates to be acquired. The expense or credit in the statement of income for the year is recorded in personnel expenses and represents the change in accumulated expense recognized at the beginning and end of that year.

Service conditions and other non-market performance conditions are not considered in determining fair value at the date the awards were granted, however, the probability that the conditions will be met is assessed as part of the Group's best estimate of the number of equity instruments with awards that complete their vesting period. Market-related performance conditions are reflected in the fair value at the grant date.

## 4. Significant accounting policies | ...continued

m) Transactions involving share-based payment | ...continued

No expense is recognized for awards that do not complete their vesting period, because non-market performance and/or service conditions have not been met.

n) Foreign currency translation

Individual and consolidated financial statements are being presented in reais (R$), functional currency of the Parent Company. Each entity of the Group determines its own functional currency, and those whose functional currencies are different from reais (R$), the financial statements are translated into Reais on the closing date.

*Transactions and balances*

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

*Group's companies*

The assets and liabilities of foreign subsidiaries are translated into Reais at the exchange rate on the balance sheet date, and the corresponding statements of income are translated at the exchange rate of the transaction date. Exchange differences resulting from such conversion are recognized separately in shareholders' equity. Goodwill on the purchase of a foreign subsidiary after January 1, 2009, is treated as an asset of the foreign subsidiary and converted on the closing date.

## 4. Significant accounting policies | ...continued

o) Adjustment to present value of assets and liabilities

Long-term monetary assets and liabilities are adjusted for inflation and, therefore, adjusted to their present value. The adjustment to present value of short-term monetary assets and liabilities is calculated, and only recognized, if it is considered as relevant with respect to the financial statements taken as a whole. With basis on analysis performed and Management's best estimates, the Group came to the conclusion that the adjustment to present value of current monetary assets and liabilities is irrelevant for the individual and consolidated financial statements taken as a whole and, therefore, did not record any adjustments.

p) Leases

The characterization of a contract as (or whether it contains) a lease is based on the nature of the contract at the date of the beginning of its execution. The contract is (or contains) a lease if the fulfillment of this contract is dependent on the use of a specific asset (or assets) and the contract transfers the right to use a certain asset (or assets), even if that asset (or these assets) are not explicit in the contract.

Finance leases that transfer basically all the risks and rewards relating to ownership of the leased item to the Group are capitalized at the beginning of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. When applicable, the initial direct costs incurred in the transaction are added to the cost. Finance lease payments are allocated to finance charges and reduction of finance lease liabilities in order to obtain a constant interest rate on the remaining balance of the liability. Financial charges are recognized in the statement of income.

Leased assets are depreciated over their useful lives. However, when there is no reasonable certainty that the Group will obtain the property at the end of lease term, the asset is depreciated over its estimated useful life or over lease term, the lower.

## 4. Significant accounting policies | ...continued

q) Trade accounts payable

Trade accounts payable are obligations due for assets or services acquired in the normal course of businesses, and are classified as current liabilities if payment is due within one year. Otherwise, accounts payable are presented as non-current liabilities. They are initially recognized at fair value and, subsequently, measured at amortized cost using the effective interest rate method.

r) New or reviewed pronouncements applied for the first time in 2019

*CPC 06 (R2)/IFRS 16 - Leases*

The CPC 06 (R2) is equivalent to international standard IFRS 16 – Leases, issued in January 2016 to replace the previous version of such standard (CPC 06 (R1), equivalent to international standard IAS 17). The new standard establishes the principles for the recognition, measurement, presentation and disclosure of leasing operations, and lessees to account for all leases according to a single balance sheet model, similar to accounting for financial leases pursuant to CPC 06 (R1). This standard includes two recognition exemptions to lessees: leases of low-value assets and short-term leases. At the start date of a lease, the lessee recognizes a liability to make payments (a lease liability) and an asset representing the right to use such asset during the lease term (a right-of-use asset).

The Company carried out a review of its lease agreements and, on January 1, 2019, the Company recorded a lease liability as a balancing entry to right-of-use assets on December 31, the amount is R$ 4,831.

(In thousands of reais)

## 4. Significant accounting policies | ...continued

r) New or reviewed pronouncements applied for the first time in 2019 | ...continued

*CPC 06 (R2)/IFRS 16 - Leases* | ...continued

Below we show the reconciliation of the new consolidated equity balances for the year ended December 31, 2018, and the opening balance, on January 1, 2019, affected by the new standard:

| | **Financial statements disclosed on 12/31/2018** | **Impact related to the adoption of IFRS 16/CPC 06 (R2)** | **Financial statements 01/01/2019** |
|---|---|---|---|
| Assets | | | |
| Current assets | 158,337 | - | 158,337 |
| Right-of-use assets | 7,777 | 6,570 | 14,348 |
| Other non-current assets | 19,412 | - | 19,412 |
| Non-current assets | 27,189 | 6,570 | 33,760 |
| Total assets | 185,526 | 6,570 | 192,097 |
| Liabilities | | | |
| Lease liabilities | - | 1,725 | 1,725 |
| Other current liabilities | 73,650 | - | 73,650 |
| Current liabilities | 73,650 | 1,725 | 75,375 |
| Lease liabilities | - | 4,845 | 4,846 |
| Other non-current liabilities | 21,580 | - | 21,580 |
| Non-current liabilities | 21,580 | 4,845 | 26,426 |
| Shareholders' equity | 90,296 | - | 90,296 |
| Total liabilities | 185,526 | 6,570 | 192,097 |

(In thousands of reais)

## 4. Significant accounting policies | ...continued

r) New or reviewed pronouncements applied for the first time in 2019 | ...continued

*CPC 06 (R2)/IFRS 16 - Leases* | ...continued

| | Financial statements 12/31/2019 | Impact related to the adoption of IFRS 16/CPC 06 (R2) | Financial statements on 12/31/2019 without effect of said standards |
|---|---|---|---|
| Net revenue from sales and services rendered | 357,715 | - | 357,715 |
| Cost of sales and services rendered | (261,936) | - | (261,936) |
| Gross income | 95,779 | - | 95,779 |
| Operating (expenses)/ revenues | (60,885) | (46) | (60,931) |
| Income (loss) before financial income (loss) and taxes | 34,894 | (46) | 34,848 |
| Financial income (loss) | 706 | 384 | 1,089 |
| Income (loss) before taxes | 35,600 | 338 | 35,937 |
| Deferred income tax and social contribution | (11,572) | 115 | (11,457) |
| Net income for the year | 24,028 | 453 | 24,480 |

**ICPC 22/IFRIC 23 - "Uncertainty over income tax treatments"**

*ICPC 22/IFRIC 23* - "Uncertainties over income tax treatment" - this interpretation, based on IFRIC 23, explains how to apply the requirements of recognition and measurement of CPC 32 when there is uncertainty over income tax treatments. Under such circumstance, the Entity must recognize and measure its current or deferred tax assets or liabilities, applying the requirements of CPC 32 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits, and certain tax rates, applying this Interpretation.

Management did not identify any material impact that could affect its individual and consolidated financial statements, in the adoption of this standard.

There are no other IFRS or IFRIC interpretations that have not yet entered into effect that could have significant impact on the Company's financial statements.

(In thousands of reais)

## 5. Cash and cash equivalents

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Cash | **3** | 4 | **3** | 4 |
| Banks checking account | **739** | 2,483 | **8,936** | 8,416 |
| Short-term interest earning bank deposits | **64,437** | 59,763 | **64,437** | 59,763 |
| | **65,179** | 62,250 | **73,376** | 68,183 |

They correspond to operations carried out with institutions operating in the domestic financial market and contracted under normal market conditions and rates, presenting high liquidity (less than 90 days), low credit risk and remuneration based on the variations in the Interbank Deposit Certificate (CDI), at percentages ranging from 99% to 105%. Automatic investments of checking account balances are also remunerated at the percentage from 67.5% to 70% of the CDI variation.

The Company does not have written-off financial assets and derivative transactions.

Information on the Company's exposure to liquidity and market risks is included in Note 26.

## 6. Accounts receivable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Trade notes receivable | **34,218** | 32,369 | **42,078** | 38,428 |
| Unbilled amounts (i) | **34,996** | 36,335 | **34,996** | 36,335 |
| (-) Allowance for doubtful accounts (ii) | **(391)** | (391) | **(391)** | (391) |
| | **68,823** | 68,313 | **76,683** | 74,372 |

(i) The amount referring to "Unbilled amounts" corresponds to services that had already been provided until December 31, 2019, but had not yet been billed at the end of the respective years.

(ii) The allowance for doubtful accounts was calculated based on the credit risk assessment carried out by the Company. Said expected loss considers the history of losses, the individual situation of clients, the situation of the economic group to which they belong, and the respective real guarantees received. The Company does not have a recent loss history, except for the amounts provisioned.

(In thousands of reais)

## 6. Accounts receivable | ...continued

There was no change in the allowance for doubtful accounts in the years ended December 31, 2019 and 2018.

The balances of trade notes receivable as of December 31, 2019 and 2018 are segregated according to the following maturity brackets:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Faling due | **30,818** | 27,957 | **38,678** | 34,016 |
| Overdue (days): | | | | |
| up to 30 | **2,693** | 3,955 | **2,693** | 3,955 |
| 31–180 | **316** | 64 | **316** | 64 |
| >180 | **391** | 393 | **391** | 393 |
| | **34,218** | 32,369 | **42,078** | 38,428 |

## 7. Inventories of services in progress (Parent company and Consolidated)

The balances as of December 31, 2019 and 2018 refer to the initial expenses with the acquisition of technical support services from IBM, intended for resale. Said expenses are incurred as the sale contracts for the aforementioned services are signed. Based on the contracts in force, a portion of this inventory will be realized over the 12 months after the end of said years (R$ 2,767 and R$ 2,551 as of December 31, 2019 and 2018, respectively), and the remaining balance (R$ 728 and R$ 1,380 as of December 31, 2019 and 2018, respectively) after 12 months, classified as non-current assets.

(In thousands of reais)

## 8. Recoverable and deferred taxes

a) Recoverable taxes

| | Parent Company and Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| Negative balance of income tax and social contribution (i) | **4,356** | 3,511 |
| Recoverable PIS and COFINS | **657** | 387 |
| Recoverable INSS | **227** | 202 |
| Other recoverable taxes | **277** | 381 |
| | **5,517** | 4,341 |

(i) Refers to withholding taxes on interest earning bank deposits and services provided to third parties, which will be offset against future tax debts of the same nature.

b) Deferred taxes

The deferred income tax and social contribution are recognized to reflect future tax profitability record effects attributable to temporary differences between the tax bases of assets and liabilities and their book values and on tax loss and negative basis of social contribution.

The deferred income tax and social contribution is presented below:

| | Parent Company and Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| Tax depreciation | **186** | 207 |
| Provision for payments | **986** | 1,217 |
| Labor provision | **817** | 520 |
| Allowance for doubtful accounts | **133** | 133 |
| Leases | **(88)** | (13) |
| Other provisions | **234** | 103 |
| | **2,268** | 2,167 |

(In thousands of reais)

## 9. Other financial assets

| | Parent Company and Consolidated | | | |
|---|---|---|---|---|
| | Rate | Maturity | 2019 | 2018 |
| Jobecam | 0.5% p.m. | 02/28/2023 | **210** | - |
| IU APP | 12% p.a. | 12/01/2022 | **926** | 266 |
| Zen Finance | CDI +100% p.a. | 07/19/2023 | **1,536** | - |
| BBNK | 6% p.a.+IPCA | 10/10/2023 | **5,043** | - |
| | | | **7,715** | 266 |

(i) On February 13, 2019, the Company signed a Private Agreement with Jobecam, in the total amount of R$ 200, whose disbursement took place on February 18, 2019.

The balance accrues interest of 0.5% p.m., maturing in 60 months from the date the amount is made available to Jobecam.

The Company has the right to convert the total amount into an equity interest in Jobecam, corresponding to 5% of its total capital, and this percentage may be increased by up to 12.4% as provided for in the agreement entered into between the parties.

(ii) On December 1, 2018, the Company signed a Private Agreement, with iU APP Ltda. (“iU APP”), in the total amount of R$ 790. The disbursement was made in three installments in the amount of R$ 263. The first one was made on December 28, 2018, the second installment on March 8, 2019, and the third on June 19, 2019.

The amount accrues interest of 12% p.a., maturing in 48 months from the date the first installment of the amount is paid.

The Company has the right to convert the total amount into an equity interest in iU, corresponding to 15% of its total capital, and this percentage may be increased by an additional 7% as provided for in the agreement entered into between the parties.

(iii) On July 19, 2019, the Company signed a Private Agreement with Zen Finance Ltda. (“Zen Finance”), in the total amount of R$ 1,500. The loan amount accrues interest calculated by the daily CDI [Interbank Deposit Certificate], maturing on July 19, 2023.

The Company has the right to convert the total amount into an equity interest in Zen Finance corresponding to a minimum of 3.125% of its total capital.

(In thousands of reais)

## 9. Other financial assets | ...continued

(iv) On September 20, 2019, the Company signed a Private Agreement with BBNK Soluções Tecnológicas S.A. ("BBNK"), in the total amount of R$ 5,000. The amount accrues interest of 6% p.a. + IPCA [Brazilian Extended Consumer Price Index].

The Company has the right to convert the total amount of equity interest in BBNK into class "A" preferred shares.

The updated amount as of December 31, 2019, is R$ 7,715 (R$ 266 as of December 31, 2018), classified in non-current assets.

## 10. Related party transactions

a) <u>Accounts receivable</u>

The main balances as of December 31, 2019 and 2018, as well as the transactions that influenced the results for the year, related to transactions with related parties, arise from transactions between the Company and its subsidiaries and key Management professionals.

Transactions with related parties are represented as follows:

*Accounts receivable*

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Think Internacional | **622** | 320 | **-** | - |
| BNDES | **79** | 550 | **79** | 550 |
| | **701** | 870 | **79** | 550 |

The balance of accounts receivable from the subsidiary ThinkInternational refers to the provision of services performed by the Company to this subsidiary and has an average receipt term of 30 days. The balance is denominated in US dollars and is subject to exchange-rate changes.

(In thousands of reais)

## 10. Related party transactions | ...continued

a) Accounts receivable | ...continued

The National Bank for Economic and Social Development (BNDES) controls BNDESPAR Participações S.A., which holds a 23% interest in the Company. The balance receivable from BNDES refers to the provision of information technology services.

b) Loans

Loans payable to related parties are represented as follows:

| | Parent Company and Consolidated | | | |
|---|---|---|---|---|
| | Effective rate | Maturity | 2019 | 2018 |
| BNDES | TJLP +1.5% p.a. | Aug 2019 | **-** | 1,238 |
| BNDES | TJLP +1.7% p.a. | Aug 2021 | **8,242** | 13,146 |
| (-) Transaction cost | | | **(356)** | (352) |
| | | | **7,886** | 14,032 |
| Current | | | **4,676** | 6,008 |
| Non-current | | | **3,210** | 8,024 |

Company's loans mature as follows:

| | Parent Company and Consolidated | | | |
|---|---|---|---|---|
| | Book value | | Nominal value | |
| | 2019 | 2018 | 2019 | 2018 |
| **Years:** | | | | |
| up to 1 | **4,676** | 6,008 | **4,833** | 8,099 |
| 1–2 | **3,210** | 4,869 | **3,242** | 7,028 |
| 2–5 | **-** | 3,155 | **-** | 8,852 |
| | **7,886** | 14,032 | **8,075** | 23,979 |

(In thousands of reais)

## 10. Related party transactions | ...continued

b) Loans | ...continued

The changes in the Company's loans are presented as follows:

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| Opening balance | **14,032** | 21,037 |
| Transaction cost | **(307)** | (441) |
| Charges | **1,171** | 1,537 |
| Amortization and interest payments | **(7,010)** | (8,101) |
| Closing balance | **7,886** | 14,032 |

Loans obtained from BNDES are intended for investments in infrastructure, national equipment, research and development, training and quality, marketing and commercialization, and administrative and management systems within the scope of the Prosoft Program, and do not have restrictive clauses (covenants). In August 2019, the loan (Prosoft 1) was fully repaid.

On July 17, 2015, an agreement was entered into between the Company and BNDES regarding the approval of a credit in the amount of R$ 18,790. On December 11, 2015, the Company contracted a Surety Letter from Banco Bradesco, necessary for the release of said fund. This surety letter has a cost of 2.5% per annum for the commission rate, and requires from the Company collateral security of 30% of the credit amount, through financial investment in repurchase agreements backed by debentures. As of December 31, 2019 and 2018, this restricted deposit totals R$ 4,931 and R$ 4,696, respectively.

c) Other information

During the years ended December 31, 2019 and 2018, revenue from services rendered to these related parties was as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Revenue from services** | **2019** | **2018** | **2019** | **2018** |
| BNDES | **4,853** | 7,417 | **4,853** | 7,417 |
| Think Internacional | **5,334** | 3,490 | **-** | - |
| | **10,187** | 10,907 | **4,853** | 7,417 |

(In thousands of reais)

## 10. Related party transactions | ...continued

d) Directors' fees

The amounts referring to the compensation of key management personnel for the years ended December 31, 2019 and 2018 were R$ 3,203 and R$ 2,376, respectively.

## 11. Investments

The details of the Company's subsidiaries are as follows:

a) Details on subsidiaries

| Subsidiary's name | Type | Company's investment 2019 | Company's investment 2018 | Invested activities | Incorporation and operation |
|---|---|---|---|---|---|
| BRQ IT Services, Inc. | Direct | **100%** | 100% | Holding | United States |
| Think International, LLC | Indirect | **80%** | 80% | IT solutions | United States |

b) Information of subsidiaries

| Subsidiary | Shareholders' equity | | Interest (%) | Income (loss) for the year | | Total investment | | Equity in net income of subsidiaries | |
|---|---|---|---|---|---|---|---|---|---|
| | Controlling shareholders | Non-controlling shareholders | | Controlling shareholders | Non-controlling shareholders | 2019 | 2018 | 2019 | 2018 |
| BRQ IT Services, Inc. | 15,734 | 1,098 | 100% | 2,215 | 873 | **15,734** | 13,321 | **2,216** | 1,613 |

c) Changes in investments

| | BRQ IT Services, Inc. | Other investments | Total |
|---|---|---|---|
| **Investments as of December 31, 2017** | 9,518 | - | 9,518 |
| Equity in net income of subsidiaries | 1,616 | - | 1,616 |
| Exchange-rate changes on foreign investments | 1,787 | - | 1,787 |
| Reclassification of available-for-sale assets | - | 400 | 400 |
| **Investments on December 31, 2018** | 12,921 | 400 | 13,321 |
| Equity in net income of subsidiaries | **2,216** | **-** | **2,216** |
| Exchange-rate changes on foreign investments | **597** | **-** | **597** |
| Disposal of investments (c.1) | **-** | **(400)** | **(400)** |
| **Investments as of December 31, 2019** | **15,734** | **-** | **15,734** |

(c.1) In February 2014, the Company acquired 8.16% of XACT Tecnologia ("XACT") for R$ 400, to use XACT's intelligence to strengthen its Service Desk offer. In March 2019, the Company sold all of its shares in this investment for the amount of R$ 151, recording on that date, a loss of R$ 249 in the income for the year.

## 11. Investment | ...continued

d) New Investments

Workfacilit Soluções Digitais Ltda. (“Workfacilit”) was incorporated on December 3, 2019, to sell the Atend software, which is focused on Lego solutions for service channels and corporate control tools. The payment of the capital, in the amount of R$ 255, was carried out on January 24, 2020 and represents a 51%-interest in the new company.

Inspeon Soluções Digitais Ltda. (“Inspeon”) was incorporated on December 10, 2019, to provide services via the internet, through its software platform developed to control activities, such as inspection, auditing, claim regulation, supervision of teams in the field, order of service, and relationship with clients. The Company has a 60% interest in Inspeon, and its capital will be paid within 24 months, in the total amount of R$ 300.

(In thousands of reais)

## 12. Property, plant and equipment

| | Parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Furniture and fixtures | Machinery and equipment | Telephone equipment | IT equipment | Facilities | Vehicles | Property, plant and equipment in progress | Leasehold improvements | Total |
| **January 1, 2018** | | | | | | | | | |
| Opening balance | 3,359 | 97 | 502 | 1,524 | 822 | 118 | - | 1,167 | 7,589 |
| Acquisitions | 284 | - | 2 | 2,410 | - | - | 323 | 81 | 3,100 |
| Cost write-offs | (703) | - | (62) | (699) | (100) | - | - | (216) | (1,780) |
| Depreciation write-off | 395 | - | 57 | 682 | 97 | - | - | 213 | 1,444 |
| Depreciation | (533) | (9) | (126) | (1,020) | (70) | (73) | - | (745) | (2,576) |
| Book balance, net | 2,802 | 88 | 373 | 2,897 | 749 | 45 | 323 | 500 | 7,777 |
| **December 31, 2018** | | | | | | | | | |
| Cost | 6,650 | 138 | 1,344 | 19,953 | 1,106 | 481 | 323 | 6,404 | 36,399 |
| Accumulated depreciation | (3,848) | (50) | (971) | (17,056) | (357) | (436) | - | (5,904) | (28,622) |
| Book balance, net | 2,802 | 88 | 373 | 2,897 | 749 | 45 | 323 | 500 | 7,777 |
| **January 1, 2019** | | | | | | | | | |
| Opening balance | **2,802** | **88** | **373** | **2,897** | **749** | **45** | **323** | **500** | **7,777** |
| Acquisitions | **634** | **9** | **-** | **1,106** | **5** | **-** | **5,273** | **6** | **7,033** |
| Cost write-offs | **(261)** | **-** | **(84)** | **(2,051)** | **-** | **-** | **(15)** | **(2)** | **(2,413)** |
| Depreciation write-off | **163** | **-** | **77** | **2,042** | **-** | **-** | **-** | **-** | **2,282** |
| Transfer | **182** | **-** | **-** | **3,834** | **85** | **-** | **(4,902)** | **801** | **-** |
| Depreciation | **(511)** | **(9)** | **(112)** | **(2,229)** | **(70)** | **(40)** | **-** | **(325)** | **(3,296)** |
| **Book balance, net** | **3,009** | **88** | **254** | **5,599** | **769** | **5** | **679** | **980** | **11,383** |
| **December 31, 2019** | | | | | | | | | |
| **Cost** | **7,205** | **147** | **1,260** | **22,842** | **1,196** | **481** | **679** | **7,209** | **41,019** |
| **Accumulated depreciation** | **(4,196)** | **(59)** | **(1,006)** | **(17,243)** | **(427)** | **(476)** | **-** | **(6,229)** | **(29,636)** |
| **Book balance, net** | **3,009** | **88** | **254** | **5,599** | **769** | **5** | **679** | **980** | **11,383** |
| **Estimated useful life (years)** | **12** | **20** | **10** | **3** | **20** | **5** | **-** | **5** | |

(In thousands of reais)

## 12. Property, plant and equipment | ...continued

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Furniture and fixtures | Machinery and equipment | Telephone equipment | IT equipment | Facilities | Vehicles | Property, plant and equipment in progress | Leasehold improvements | Total |
| **January 1, 2018** | | | | | | | | | |
| Opening balance | 3,359 | 97 | 502 | 1,524 | 822 | 118 | - | 1,167 | 7,589 |
| Acquisitions | 284 | - | 2 | 2,410 | - | - | 323 | 81 | 3,100 |
| Cost write-offs | (703) | - | (62) | (699) | (100) | - | - | (216) | (1,780) |
| Depreciation write-off | 395 | - | 57 | 682 | 97 | - | - | 213 | 1,444 |
| Depreciation/amortization | (533) | (9) | (126) | (1,020) | (70) | (73) | - | (745) | (2,576) |
| Book balance, net | 2,802 | 88 | 373 | 2,897 | 749 | 45 | 323 | 500 | 7,777 |
| **December 31, 2018** | | | | | | | | | |
| Cost | 6,650 | 138 | 1,344 | 20,053 | 1,106 | 481 | 323 | 6,404 | 36,499 |
| Accumulated depreciation | (3,848) | (50) | (971) | (17,156) | (357) | (436) | - | (5,904) | (28,722) |
| Book balance, net | 2,802 | 88 | 373 | 2,897 | 749 | 45 | 323 | 500 | 7,777 |
| **January 1, 2019** | | | | | | | | | |
| Opening balance | **2,802** | **88** | **373** | **2,897** | **749** | **45** | **323** | **500** | **7,777** |
| Acquisitions | **661** | **9** | **-** | **1,136** | **5** | **-** | **5,273** | **6** | **7,090** |
| Cost write-offs | **(261)** | **-** | **(84)** | **(2,051)** | **-** | **-** | **(15)** | **(2)** | **(2,413)** |
| Depreciation write-off | **163** | **-** | **77** | **2,042** | **-** | **-** | **-** | **-** | **2,282** |
| Transfer | **182** | **-** | **-** | **3,834** | **85** | **-** | **(4,902)** | **801** | **-** |
| Depreciation/amortization | **(511)** | **(9)** | **(112)** | **(2,234)** | **(70)** | **(40)** | **-** | **(325)** | **(3,301)** |
| Book balance, net | **3,036** | **88** | **254** | **5,624** | **769** | **5** | **679** | **980** | **11,435** |
| **December 31, 2019** | | | | | | | | | |
| Cost | **7,232** | **147** | **1,260** | **22,972** | **1,196** | **481** | **679** | **7,209** | **41,176** |
| Accumulated depreciation | **(4,196)** | **(59)** | **(1,006)** | **(17,348)** | **(427)** | **(476)** | **-** | **(6,229)** | **(29,741)** |
| Book balance, net | **3,036** | **88** | **254** | **5,624** | **769** | **5** | **679** | **980** | **11,435** |
| **Estimated useful life (years)** | **12** | **20** | **10** | **3** | **20** | **5** | **-** | **5** | |

(In thousands of reais)

## 12. Property, plant and equipment | ...continued

As of December 31, 2019 and 2018, the Company did not detect indications of impairment losses and idle assets. The Company does not have assets with restricted ownership or offered as collateral for obligations.

There are assets net of depreciation in the amount of R$ 3,878 (R$ 2,053 as of December 31, 2018) obtained through lease contracts, with purchase option clauses at the end of the period, which is 3 years on average (see Note 15).

## 13. Intangible assets

| | Parent company | | | |
|---|---|---|---|---|
| | **Development costs** | **Software** | **Trademarks and patents** | **Total** |
| **January 1, 2018** | | | | |
| Opening balance | 375 | 2,042 | 2 | 2,419 |
| Addition | 480 | 51 | - | 531 |
| Transfers | (491) | 491 | - | - |
| Amortization | - | (1,470) | - | (1,470) |
| Book balance, net | 364 | 1,114 | 2 | 1,480 |
| **December 31, 2018** | | | | |
| Cost | 364 | 11,099 | 2 | 11,465 |
| Accumulated amortization | - | (9,985) | - | (9,985) |
| Book balance, net | 364 | 1,114 | 2 | 1,480 |
| **January 1, 2019** | | | | |
| **Opening balance** | **364** | **1,114** | **2** | **1,480** |
| **Addition** | **861** | **209** | **-** | **1,070** |
| **Transfers** | **199** | **(199)** | **-** | **-** |
| **Amortization** | **-** | **(606)** | **-** | **(606)** |
| **Book balance, net** | **1,424** | **518** | **2** | **1,944** |
| **December 31, 2019** | | | | |
| **Cost** | **1,424** | **11,115** | **2** | **12,535** |
| **Accumulated amortization** | **-** | **(10,591)** | **-** | **(10,591)** |
| **Book balance, net** | **1,424** | **518** | **2** | **1,944** |
| **Annual amortization rates (%)** | | **33.3** | | |

(In thousands of reais)

## 13. Intangible asset | ...continued

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Development costs | Software | Trademarks and patents | Goodwill (*) | Other | Total |
| **January 1, 2018** | | | | | | |
| Opening balance | 375 | 2,042 | 2 | 4,007 | 42 | 6,468 |
| Addition | 480 | 51 | - | - | - | 531 |
| Accumulated exchange-rate changes | - | - | - | 693 | - | 693 |
| Transfers | (491) | 491 | - | - | - | - |
| Amortization | - | (1,470) | - | - | (10) | (1,480) |
| Book balance, net | 364 | 1,114 | 2 | 4,700 | 32 | 6,212 |
| **December 31, 2018** | | | | | | |
| Cost | 364 | 11,099 | 2 | 2,852 | 73 | 14,390 |
| Accumulated exchange-rate changes | - | - | - | 2,539 | 10 | 2,549 |
| Provision for impairment | - | - | - | (691) | - | (691) |
| Accumulated amortization | - | (9,985) | - | - | (51) | (10,036) |
| Book balance, net | 364 | 1,114 | 2 | 4,700 | 32 | 6,212 |
| **January 1, 2019** | | | | | | |
| **Opening balance** | **364** | **1,114** | **2** | **4,700** | **32** | **6,212** |
| **Addition** | **861** | **209** | **-** | **-** | **-** | **1,070** |
| **Transfers** | **199** | **(199)** | **-** | **-** | **-** | **-** |
| **Exchange-rate change** | **-** | **-** | **-** | **190** | **-** | **190** |
| **Amortization** | **-** | **(606)** | **-** | **-** | **(11)** | **(617)** |
| **Book balance, net** | **1,424** | **518** | **2** | **4,890** | **21** | **6,855** |
| **December 31, 2019** | | | | | | |
| **Cost** | **1,424** | **11,115** | **2** | **2,852** | **73** | **15,460** |
| **Accumulated exchange-rate changes** | **-** | **-** | **-** | **2,729** | **10** | **2,739** |
| **Provision for impairment** | **-** | **-** | **-** | **(691)** | **-** | **(691)** |
| **Accumulated amortization** | **-** | **(10,591)** | **-** | **-** | **(62)** | **(10,653)** |
| **Book balance, net** | **1,424** | **518** | **2** | **4,890** | **21** | **6,855** |
| **Annual amortization rates (%)** | | **33.3** | | | **13.3** | |

(*) Refers to the goodwill paid for the acquisition of 80% of ThinkInternational, LLC by BRQ IT Services, Inc., in the total amount of US$ 2,400,000.

Intangibles were fully depreciated. Such intangibles were obtained through leasing contracts with purchase option clauses at the end of the period, which on average is three years (Note 15).

As of December 31, 2019, software development initiatives are focused on a solution aimed at improving the management of the Company’s internal processes. All research and development costs not eligible for capitalization were recognized as administrative expenses in the income statement.

(In thousands of reais)

## 14. Loans and financing

Loan and financing balances are as follows:

| | Effective rate | Parent company 2019 | Parent company 2018 | Consolidated 2019 | Consolidated 2018 |
|---|---|---|---|---|---|
| Itaú | 2.43% p.a. + 100% CDI | **9,324** | 15,016 | **9,324** | 15,016 |
| (-) Transaction cost | | **(69)** | (250) | **(69)** | (250) |
| Santander | Labor + 2.25% p.a. | **-** | - | **1,169** | 1,124 |
| | | **9,255** | 14,766 | **10,424** | 15,890 |
| **Current** | | **7,827** | 5,549 | **8,996** | 6,673 |
| **Non-current** | | **1,428** | 9,217 | **1,428** | 9,217 |

The effective interest rate differs from the contractual rate, as transaction costs incurred are taken into account. Transaction costs incurred in raising funds from third parties are recognized in income for the term of the debt that originated them, using the amortized cost method. The use of the amortized cost method results in the calculation and recognition of financial charges based on the effective interest rate rather than the contractual interest rate of the instrument.

The funds obtained from Banco Itaú in the total amount of R$ 15,000 will have a monthly payment of interest and principal after a three-month grace period. The first installment was due on February 7, 2019. The obtained funds are intended for working capital.

Changes in loans are as follows:

| | Parent company 2019 | Parent company 2018 | Consolidated 2019 | Consolidated 2018 |
|---|---|---|---|---|
| Opening balance | **14,766** | - | **15,890** | 959 |
| Additions | **-** | 15,000 | **-** | 15,000 |
| (-) Funding cost | **-** | (253) | **-** | (253) |
| Charges | **1,245** | 19 | **1,297** | 65 |
| Exchange-rate change | **-** | - | **45** | 165 |
| Amortization and interest payments | **(6,756)** | - | **(6,808)** | (46) |
| Closing balance | **9,255** | 14,766 | **10,424** | 15,890 |

The Company does not have loan agreements with restrictive financial clauses (covenants).

(In thousands of reais)

## 15. Leases

| | Effective rate | Parent Company and Consolidated 2019 | 2018 | Items |
|---|---|---|---|---|
| Santander Leasing S.A. | 0.94–1.22% p.m. | **2,044** | 1,066 | IT equipment |
| Bradesco Leasing S.A. | 1.02–1.19% p.m. | **1,466** | 969 | IT equipment |
| Safra Leasing S.A. | 0.99% p.m. | **551** | - | IT equipment |
| | | **4,061** | 2,035 | |
| Current | | **1,881** | 826 | |
| Non-current | | **2,180** | 1,209 | |

Lease financing has the following maturities:

| | Parent Company and Consolidated | | | |
|---|---|---|---|---|
| | Book value | | Nominal value | |
| | 2019 | 2018 | 2019 | 2018 |
| **Years:** | | | | |
| up to 1 | **1,881** | 826 | **2,101** | 944 |
| 1–2 | **1,568** | 752 | **1,747** | 854 |
| 2–5 | **612** | 457 | **658** | 508 |
| | **4,061** | 2,035 | **4,506** | 2,306 |

Changes in the Company's lease financing is as follows:

| | Parent Company and Consolidated 2019 | 2018 |
|---|---|---|
| Opening balance | **2,035** | 604 |
| Additions | **3,345** | 1,883 |
| Charges | **180** | 85 |
| Amortization and interest payments | **(1,499)** | (537) |
| Closing balance | **4,061** | 2,035 |

As of December 31, 2019, the Company has assets, net of depreciation and amortization in the amount of R$ 3,880 (R$ 2,053 as of December 31, 2018) obtained through financial lease contracts. The contracts are effective for three years, with purchase option clauses at the end of the period. The assets listed below are included in the Company's property, plant and equipment and intangible assets (residual value at the end of the year).

(In thousands of reais)

## 15. Leases | ...continued

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| IT equipment | **3,878** | 2,021 |
| Vehicles | **2** | 32 |
| | **3,880** | 2,053 |

## 16. Taxes and contributions payable

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| IRRF (Withholding income tax) payable | **3,919** | 3,306 |
| Social security contribution on gross revenue | **2,154** | 1,351 |
| Service tax payable | **1,443** | 1,135 |
| IRPJ payable | **321** | - |
| Other taxes and contributions payable | **17** | 24 |
| | **7,854** | 5,816 |

## 17. Lease liabilities

The Company has the amount of R$ 4,831 recorded as lease liabilities, with R$ 1,711 in current and R$ 3,120 in non-current.

Lease liabilities have the following maturities:

| | Parent Company and Consolidated | |
|---|---|---|
| | **Book value** | **Nominal value** |
| | **2019** | **2019** |
| **Years:** | | |
| up to 1 | **1,711** | 2,000 |
| 1–2 | **1,244** | 1,424 |
| 2–5 | **1,876** | 1,980 |
| | **4,831** | 5,404 |

(In thousands of reais)

## 17. Lease liabilities | ...continued

Changes in the Company's lease liabilities are as follows:

| | Parent Company and Consolidated |
|---|---|
| Addition | **6,570** |
| Charges | **384** |
| Payments | **(2,123)** |
| Closing balance | **4,831** |

The Company determined its discount rates, based on the risk-free interest rates observed in the Brazilian market, which, in this case, was the CDI applied to a spread for the terms of each of the contracts. The table below shows the rates charged and the terms of the contracts:

| | Parent Company and Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Monthly amount** | **Restatement** | **Rate** | **End of contract date** | **Discount rate - CDI x Fixed rate** | **NPV** | **Total** |
| Curitiba | 20 | Annual | IGP-M | 02/28/2022 | 5.27% | **497** | **534** |
| Barueri | 27 | Annual | IGP-M | 12/01/2020 | 4.41% | **320** | **328** |
| Rio de Janeiro - 2º andar | 14 | Annual | IGP-M | 10/31/2020 | 4.35% | **142** | **144** |
| Rio de Janeiro - 4º andar | 20 | Annual | IGP-M | 05/31/2020 | 4.18% | **100** | **101** |
| São Paulo - 9º andar | 54 | Annual | IGP-M | 06/30/2023 | 5.88% | **2,185** | **2,452** |
| São Paulo - 6º andar | 47 | Annual | IGP-M | 11/11/2022 | 5.63% | **1,587** | **1,747** |
| **Total** | | | | | | **4,831** | **5,306** |

(In thousands of reais)

## 18. Income tax and social contribution

As of December 31, 2019 and 2018, the reconciliation between the tax expense as calculated by the combined statutory rates and the income tax and social contribution expense debited to income (loss) is presented below:

| | Parent company | |
|---|---|---|
| | **2019** | **2018** |
| Income before income tax and social contribution from continued operations | **42,819** | 34,981 |
| Tax rate | **34%** | 34% |
| Income tax and social contribution at the rate | **14,558** | 11,894 |
| Permanent additions/(exclusions) | **(435)** | (316) |
| PAT - Worker's Meal Program | **(251)** | (30) |
| Additional 10% income tax difference | **(24)** | 24 |
| Income tax and social contribution at the effective rate | **13,848** | 11,572 |
| Current | **13,949** | 9,282 |
| Deferred | **(101)** | 2,290 |
| Income tax and social contribution as presented in the income (loss) for the year | **13,848** | 11,572 |
| Effective rate | **32%** | 33% |

Direct subsidiary BRQ IT Services Inc. and indirect subsidiary ThinkInternational LLC, Inc. are headquartered in the United States and subject to local taxation. ThinkInternational LLC does not pay income taxes; such responsibility of BRQ IT Services Inc. is subject to New York City taxation.

## 19. Provision for losses with lawsuits

The Company is a party in lawsuits and administrative proceedings before courts and government agencies, resulting from the normal course of its operations, involving labor and tax issues.

(In thousands of reais)

## 19. Provision for losses with lawsuits | ...continued

Based on information from its legal advisors, an analysis of the outstanding lawsuits, and in respect of labor claims previous experience with regards to amounts claimed, management recorded provisions for amounts considered sufficient to cover probable losses from the current lawsuits, as follows:

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| Labor | **2,395** | 1,530 |

Changes in provision

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| Balances at the beginning of the year | **1,530** | 972 |
| Formation | **3,095** | 2,820 |
| Reversal of provision | **(2,230)** | (2,262) |
| Balances at the end of the period | **2,395** | 1,530 |

Furthermore, the Company is party to tax and labor claims, assessed by its legal advisors as having a possible risk of loss, for which no provisions were made to cover possible risks. The amounts involved in these lawsuits are as follows:

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| Tax | **108,818** | 102,821 |
| Labor | **7,237** | 6,062 |
| | **116,055** | 108,883 |

## 19. Provision for losses with lawsuits | ...continued

a) Tax

a.1) *Underpayment of INSS on the PSP (Profit Sharing Program)*

As of December 9, 2014, the Company received tax assessment notices from the Brazilian Federal Revenue Service in view of the alleged underpayment of INSS on the PSP (profit sharing program) for the year 2011. Based on the opinion of its legal advisors, Management assessed the Company's loss as possible, and the amount involved is R$ 43,927 (R$ 42,978 as of December 31, 2018).

a.2) *Tax assessment notice - ISS Payment*

As of August 28, 2015, the Company received tax assessment notices from the Municipal Finance Department of Rio de Janeiro, in view of the alleged non-payment of ISS tax. Based on the opinion of its legal advisors, Management assessed the Company's loss as possible, and the amount involved is R$ 63,606 (R$ 58,618 as of December 31, 2018).

b) Labor

The Company maintains a provision for certain lawsuits and, based on the opinion of its legal advisors, estimates a total amount of R$ 7,237 as of December 31, 2019 as possible loss (R$ 6,062 as of December 31, 2018).

(In thousands of reais)

## 20. Deferred revenues

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| Advanced billing (i) | **13,270** | 10,965 |
| Advance commissions (ii) | **1,600** | 2,000 |
| | **14,870** | 12,965 |
| Current | **13,670** | 11,365 |
| Non-current | **1,200** | 1,600 |

(i) The amount recorded in “Advance billing” refers to amounts already billed, whose services were not provided by the end of the year; as the services are delivered, the Company recognizes said amounts as revenue in income (loss), consequently decreasing the amounts recorded in this item.

(ii) In December 2018, the Company received the amount of R$ 2,000 as commission arising from the banking operations fidelity agreement with employees belonging to its payroll, for a period of five years; the portion referring to 1/60 of the total amount is recorded in the income (loss) monthly.

## 21. Shareholders' equity

Capital

The authorized capital is represented by R$ 141,163,000 common shares, all registered and with no par value.

The subscribed and paid-in capital is R$ 54,849 as of December 31, 2019 and 2018, and is represented by the following number of shares, fully paid in national currency:

(In thousands of reais)

## 21. Shareholders' equity | ...continued

Capital | ...continued

a) *December 31, 2019 and 2018*

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Shareholders** | **Nominative shares** | **% Interest** | **Nominative shares** | **% Interest** |
| Netstrategy Participações Ltda. | **94,999,905** | **72.67%** | 94,999,905 | 72.67% |
| BNDES Participações S.A. | **29,870,100** | **22.85%** | 29,870,100 | 22.85% |
| Benjamin Ribeiro Quadros | **4,999,995** | **3.82%** | 4,999,995 | 3.82% |
| Acquisition by employees | **710,992** | **0.54%** | 87,439 | 0.07% |
| | **130,580,992** | **99.88%** | 129,957,439 | 99.41% |
| Treasury shares | **143,706** | **0.11%** | 767,259 | 0.59% |
| Total | **130,724,698** | **99.99%** | 130,724,698 | 100.00% |

Each common share alone entitles the holder to vote in the resolutions of the General Meetings.

On December 27, 2019, the Company’s Management authorized the capital increase to R$ 55,915, with the issuance of 2,461,385 new shares, which were subscribed on January 22, 2020.

Treasury shares

In February and September 2019, the Company sold 558,336 and 65,217 common shares. The remaining shares will remain in treasury and may, in the future, be delivered to other beneficiaries of the stock option plan.

Legal reserve

The legal reserve is set up at the rate of 5% of the net income determined at the end of each year, pursuant to article 193 of Law 6404/76 up to the limit of 20% of the capital.

## 21. Shareholders' equity | ...continued

Profit retention reserve

In accordance with article 196 of Law 11638/07, it is recorded to meet the need for additional funds to meet the proposed investment plan at the end of each fiscal year.

Dividends

The Company's Bylaws provide for the distribution of minimum mandatory dividends equivalent to 25% of net income, calculated pursuant to article 202 of Law 6404/76 and subsequent amendments, at the end of each fiscal year.

The proposed additional dividends, in the amount of R$ 20,642, are subject to approval at the Annual General Meeting and, therefore, were not recognized as a liability on December 31, 2019.

Advance for future capital increase

In December 2019, beneficiaries of the Company's stock option plan exercised their rights to convert the option, in the total amount of R$ 1,066. The Company issued new shares, which were subscribed on January 22, 2020, therefore, the amount in question was recognized as an advance for a future capital increase on December 31, 2019.

Accumulated translation adjustments

Exchange variation on investments in subsidiaries abroad has been recognized in accumulated translation adjustments.

Stock option plan

The option plan consists of the right to purchase a certain number of Company's shares, assigned to the employee benefiting from the program, at a certain strike price per share - or share purchase price - which must be exercised within a period, or term of exercise.

(In thousands of reais)

## 21. Shareholders' equity | ...continued

Stock option plan | ...continued

On the date of exercise of the right, the shares sold to the primary plan's beneficiary must be subject to a new subscription or must be held in treasury. Based on the plan, the other Company's shareholders are not entitled to subscription rights on shares allocated to the stock option plans. The plan's beneficiary can exercise the right to purchase the shares made available from one of the plan's vesting dates.

As of September 2, 2011, the resolution approving the "Class B Preferred Stock Option Plan" was registered in the Minutes of the Extraordinary General Meeting. In the minutes of the Extraordinary General Meeting held on July 13, 2012, the approval of the change in the number of Class B preferred shares for the execution of the stock option plan was approved, which currently corresponds to 8% of the Company's capital. As of April 29, 2015, due to the approval of the conversion of all the Company's preferred shares into common shares, it was decided, through the minutes of the EGM, to change the plan's regulation, which became the "Stock Option Plan for Common Shares".

The details of the grants made by the Company, through the Stock Option Plan, are as follows:

| Grant date | Number of shares granted | Strike price | Price correction | Maturation period | Expiration term |
|---|---|---|---|---|---|
| 09/02/2011 | 2,391,298 | 0.36 | IPCA | 30% after 2 years<br>30% after 3 years<br>40% after 4 years | 8 years |
| 09/03/2012 | 2,565,216 | 0.38 | IPCA | 30% after 2 years<br>30% after 3 years<br>40% after 4 years | 8 years |
| 09/02/2013 | 2,030,000 | 0.41 | IPCA | 30% after 2 years<br>30% after 3 years<br>40% after 4 years | 8 years |
| 09/01/2014 | 1,840,000 | 0.42 | IPCA | 30% after 2 years<br>30% after 3 years<br>40% after 4 years | 8 years |
| 11/13/2018 | 554,348 | 0.43 | IPCA | 30% after 2 years<br>30% after 3 years<br>40% after 4 years | 8 years |
| **Total** | 9,380,862 | | | | |

(In thousands of reais)

## 21. Shareholders' equity | ...continued

Stock option plan | ...continued

The exercised shares can be sold to third parties if they are traded on the stock exchange. Before that, the participant may sell their shares to the Company at their book value, calculated in the last fiscal year and restated by the IPCA. The participant has tag along rights proportional to the equity interest held and a drag along duty, in which case the Company may demand the sale of the position held by the participant.

The Plan's fair value was estimated based on the Merton option valuation model, using the following assumptions:

| Plan | Unit fair value | Annual volatility | Risk-free rate (*) |
|---|---|---|---|
| 2011 grant | 0.24 | 32.4% | 5.2% |
| 2012 grant | 0.24 | 31.3% | 3.8% |
| 2013 grant | 0.29 | 29.2% | 5.7% |
| 2014 grant | 0.27 | 26.6% | 5.4% |
| 2018 grant | 0.21 | 25.3% | 5.2% |

(*) Based on IPCA coupon.

In the current year, no new shares were issued.

The contra entry to the remuneration costs arising from the plan is recorded in shareholder's equity in the capital reserve, reserve for recognized options granted. The remuneration cost corresponds to the fair value of the "Plan", calculated on the grant date, recorded during the exercise of the service provision that begins on the grant date, until the date on which the beneficiary acquires the right to exercise the option.

(In thousands of reais)

## 22. Net sales

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Gross sales and services rendered | **430,648** | 368,281 | **464,380** | 396,724 |
| PIS and COFINS | **(15,642)** | (13,401) | **(15,642)** | (13,401) |
| ISS | **(19,136)** | (9,197) | **(19,136)** | (9,197) |
| INSS on revenue | **(19,136)** | (16,411) | **(19,136)** | (16,411) |
| | **384,382** | 329,272 | **418,114** | 357,715 |

## 23. Cost of sales and services rendered

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| With personnel | **(253,884)** | (229,764) | **(270,093)** | (242,450) |
| With licenses and technical support services | **(4,317)** | (6,533) | **(4,317)** | (6,533) |
| With third parties | **(2,422)** | (2,376) | **(7,753)** | (8,721) |
| With import | **(2,847)** | (2,282) | **(2,847)** | (2,282) |
| Depreciation and amortization | **(1,544)** | (548) | **(1,544)** | (548) |
| Other | **(1,565)** | (1,402) | **(1,565)** | (1,402) |
| | **(266,579)** | (242,905) | **(288,119)** | (261,936) |

(In thousands of reais)

## 24. Operating (expenses) revenues

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| With personnel | **(61,487)** | (37,876) | **(67,099)** | (42,222) |
| Outsourced services | **(3,753)** | (5,175) | **(4,829)** | (5,972) |
| Rentals and condominiums | **(999)** | (3,222) | **(1,147)** | (3,357) |
| Depreciation and amortization | **(4,435)** | (3,498) | **(4,451)** | (3,508) |
| Communications | **(629)** | (449) | **(629)** | (449) |
| Electric power | **(558)** | (607) | **(558)** | (607) |
| Other administrative expenses | **(4,028)** | (2,186) | **(5,345)** | (3,356) |
| **Administrative expenses** | **(75,889)** | (53,013) | **(84,058)** | (59,471) |
| Taxes and rates | **(1,696)** | (577) | **(1,696)** | (1,236) |
| Union/class association contributions | **(320)** | (283) | **(320)** | (283) |
| IPTU (Municipal property tax) | **(135)** | (144) | **(135)** | (144) |
| **Tax expenses** | **(2,151)** | (1,004) | **(2,151)** | (1,663) |
| Income (loss) from the sale of property, plant and equipment | **(79)** | (275) | **(79)** | (275) |
| Other operating revenues (expenses) | **891** | 524 | **891** | 524 |
| **Other operating revenues (expenses)** | **812** | 249 | **812** | 249 |
| **Total** | **(77,228)** | (53,768) | **(85,397)** | (60,885) |

## 25. Net financial income (loss)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue from interest earning bank deposits | **2,662** | 1,893 | **2,662** | 1,893 |
| Interest and inflation adjustment | **710** | 915 | **710** | 915 |
| Other financial revenues | **74** | 83 | **74** | 83 |
| **Financial revenues** | **3,446** | 2,891 | **3,446** | 2,891 |
| Interest | **(3,049)** | (1,735) | **(3,101)** | (1,781) |
| IOF | **(124)** | (35) | **(124)** | (35) |
| Bank expenses | **(123)** | (160) | **(142)** | (177) |
| Other financial expenses | **(122)** | (192) | **(122)** | (192) |
| **Financial expenses** | **(3,418)** | (2,122) | **(3,489)** | (2,185) |
| **Financial income (loss)** | **28** | 769 | **(43)** | 706 |

(In thousands of reais)

# 26. Financial instruments

## 26.1. Financial instruments

### 26.1.1. Fair value and classifications of financial instruments

The Group maintains transactions with financial instruments, whose management is carried out through operational strategies and internal controls to ensure its liquidity and profitability. The control policy consists of permanent monitoring of the conditions contracted versus those in force in the market. The Group does not make investments of a speculative nature in derivatives or any other risky assets and, therefore, the results obtained from these operations are consistent with the defined policies and strategies. The Group's operations are subject to the risk factors described below:

### 26.1.2. Fair value hierarchy

The table below shows the financial instruments recorded at fair value, according to the measurement method:

| | Parent Company and Consolidated | |
|---|---|---|
| | **2019** | **2018** |
| **Level 2** | | |
| Financial assets at fair value through profit or loss | | |
| Short-term interest earning bank deposits | **64,437** | 59,763 |
| | **64,307** | 59,763 |

Said financial instruments are grouped in Levels 1 to 3, based on the grade that their fair value is estimated, namely:

*Level 1* - Prices quoted in active markets for identical assets and liabilities;

*Level 2* - Other techniques for which all data that has significant effect on the recorded fair value is observable, either directly or indirectly; and

*Level 3* - Techniques that use data that have significant effect on the recorded fair value, and that are not based on data observable in the market.

# 26. Financial instruments | ...continued

## 26.1. Financial instruments | ...continued

### 26.1.2. Fair value hierarchy | ...continued

During the period ended December 31, 2019, there were no transfers arising from fair value valuations between Levels 1 and 2, neither within or outside Level 3.

## 26.2. Risk management

The Company is mainly exposed to market, credit, liquidity and operational risk, in addition to the additional risks described in this note. The occurrence of any of the risks below may adversely affect the Company, which may have an effect on its operations, financial condition or results of operations. The main risk factors are described below:

a) Credit risk

Credit risk is the risk of a business counterpart not complying with obligations provided in a financial instrument or contract with client, resulting in financial loss. The Group is exposed to credit risk during their operating and financing activities (mainly in relation to accounts receivable), including deposits in banks and financial institutions and other financial instruments.

To mitigate such risks, the Group analysis the financial and asset situation of their counterparties, as well as the permanent follow-up of outstanding positions and active default management. Management does not expect any losses arising from defaults by those parties.

Regarding interest earning bank deposits, the Company only carries out operations with top-tier financial institutions, and/or evaluated by rating agencies (assessed as low risk), using exclusively financial instruments and investment funds classified as having a low risk.

# 26. Financial instruments | ...continued

## 26.2. Risk management | ...continued

b) Liquidity risk

The Group continuously monitors the cash flow projection to guarantee and ensure liquidity requirements, the clauses of loan agreements and sufficient cash to meet the business' operational needs.

The surplus cash generated by the Company is invested in interest-bearing checking and term deposits, choosing instruments with appropriate maturities or liquidity to provide sufficient margin as determined by the above predictions.

c) Market risk

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

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to the risk of changes in the Interbank Deposit Certificate ("CDI") and Long-Term Interest Rates ("TJLP") for its interest earning bank deposits and loan operations and, therefore, its financial result may vary as a result of the fluctuation in the variation of these financial ratios. The Group manages interest rate risk maintaining a balanced portfolio of interest earning bank deposits and loans payable bearing fixed and floating rates.

## 26. Financial instruments | ...continued

### 26.2. Risk management | ...continued

c) Market risk--Continued

Exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company is exposed to fluctuations in foreign currency exchange rates, mainly in relation to the US dollar, for software purchase transactions, amounts receivable and investments in subsidiaries abroad; to mitigate these risks, the Company permanently assesses exchange rate fluctuations. The Company understands that the exposure to this risk is low considering that the amounts involved are not material.

d) Capital management

The Company's objectives in managing its capital are to safeguard its ability to continue as a going concern, aiming to support the business and maximize shareholder value. In line with best industry practices, the Company monitors the return on invested capital. Objectives, policies and proceedings were not changed during the periods ended December 31, 2019 and 2018.

e) Sensitivity analysis of financial assets and liabilities

As of December 31, 2019, the main risks linked to the Company's operations are related to the changes in the TJLP for loans with related parties, with BNDES and the CDI rate for loans and financing and interest earning bank deposits.

Aiming to verify the sensitivity of the index in interest earning bank deposits and loans, 3 different scenarios were defined; Based on projections published by Bradesco's economic research and study department ("DEPEC"), the CDI and TJLP projection was obtained for the next 12 months and this was defined as a probable scenario. Based on it, changes of 25% and 50% were calculated.

(In thousands of reais)

## 26. Financial instruments | ...continued

### 26.2. Risk management | ...continued

e) Sensitivity analysis of financial assets and liabilities | ...continued

The “gross financial revenue and expense” was calculated for each scenario, not considering the levy of taxes on investment yields. The base date used in the portfolio was December 31, 2019, with an one-year projection and checking the sensitivity of the CDI and TJLP in each scenario.

| | Parent Company and Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Risk factor** | **Amounts exposed on 12/31/2019** | **-50%** | **-25%** | **Probable scenario** | **25%** | **50%** |
| Interest earning bank deposits | CDI | **64,437** | 1,783 | 2,139 | 2,674 | 3,343 | 4,011 |
| Net impact | | - | 1,783 | 2,139 | 2,674 | 3,343 | 4,011 |
| Loans – related parties | TJLP | **7,886** | (275) | (330) | (412) | (515) | (618) |
| Loans and financing | CDI | **9,255** | (256) | (307) | (384) | (480) | (576) |
| Net impact | | - | (275) | (330) | (412) | (515) | (618) |
| Rates considered | CDI | - | 2.77% | 3.32% | 4.15% | 5.19% | 6.23% |
| Rates considered | TJLP | - | 3.48% | 4.18% | 5.22% | 6.53% | 7.84% |

These sensitivity analyses aim to illustrate the sensitivity to changes in market variables in the Company’s financial instruments. The sensitivity analyzes presented above are established using assumptions regarding future events. The Company’s Management regularly reviews the estimates and assumptions used in the calculations. However, settling the transactions involving such estimates may result in sums different from those estimated, owing to the subjectivity inherent in the procedure used to prepare these analyses.

## 27. Earnings per share

Earnings per share are basically calculated by dividing net income for the year attributed to holders of the parent company’s common shares by the weighted average number of common shares available during the year.

## 27. Earnings per share | ...continued

Diluted earnings per share are calculated by dividing net income attributed to the Parent Company's common shareholders by weighted average number of common shares available in the year plus weighted average number of common shares that would be issued upon conversion of all potentially diluting common shares into common shares.

The table below shows the calculation of the parent company's basic and diluted earnings per share.

| | Basic | |
|---|---|---|
| | **2019** | **2018** |
| Earnings attributable to Parent company's shareholders | **28,971** | 23,409 |
| **Basic earnings per share:** | | |
| Income available to common shareholders | **28,971** | 23,409 |
| Weighted average of common shares (in thousands of shares) | **130,581** | 130,581 |
| Earnings per share | **0.2219** | 0.1793 |

| | Diluted | |
|---|---|---|
| | **2019** | **2018** |
| Earnings attributable to Parent company's shareholders | **28,971** | 23,409 |
| **Diluted earnings per share:** | | |
| Income available to common shareholders | **28,971** | 23,409 |
| Weighted average of common shares (in thousands of shares) | **130,725** | 130,725 |
| Diluted earnings per share | **0.2216** | 0.1791 |

## 28. Insurance coverage

At December 31, 2019, operating risk insurance coverage was comprised of:

Civil liability insurance, with coverage in the amount of R$ 2,500 - civil liability coverage for the Company and its employees for the amounts they may be liable for material, personal and moral damages, procedural costs and any other related charges related to material personal or moral damages resulting from services provided at third-party locations.

(In thousands of reais)

## 28. Insurance coverage | ...continued

Civil liability insurance, with coverage in the amount of R$ 10,000 - coverage of civil liability of administrators, claims for improper labor practices, statutory liability, acquisition and incorporation of a new subsidiary, insured in affiliated companies, defense costs. Insured persons are individuals elected as administrators, directors, members of the board of directors or any other competent regulatory body.

Civil liability insurance, with coverage in the amount of R$ 23,275 - coverage of civil liability, fire, electrical damages and commercial risks related to the Company's offices.

The scope of our auditors' work does not include the review of the sufficiency of insurance coverage, which was determined and analyzed for adequacy purposes by Management.

## 29. Transactions not affecting cash

In the periods ended December 31, 2019 and 2018, the following transactions did not affect cash:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Acquisition of IT equipment - Leases | **3,345** | 1,883 | **3,345** | 1,883 |
| Exchange-rate changes on foreign investments | **597** | 1,787 | **-** | - |
| | **3,942** | 3,670 | **3,345** | 1,883 |

(In thousands of reais)

## 30. Changes in liabilities from financing activities

| | Parent company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 01/01/2018 | New loans | Principal paid | Interest paid | Accrued interest | Exchange-rate change | Other (*) | 12/31/2018 |
| **Current** | | | | | | | | |
| Loans and financing | - | - | - | - | - | - | - | - |
| Leases | 275 | 1,312 | (253) | (83) | 57 | - | (674) | 634 |
| Loans related parties | 6,818 | - | (5,333) | (1,028) | 1,171 | - | 4,918 | 6,546 |
| **Non-current** | | | | | | | | |
| Loans and financing | - | - | - | - | - | - | - | - |
| Leases | 329 | - | - | - | - | - | 674 | 1,003 |
| Loans related parties | 14,219 | - | - | - | - | - | (4,918) | 9,301 |
| **Total** | 21,641 | 1,312 | (5,586) | (1,111) | 1,228 | - | - | 17,484 |

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 01/01/2018 | New loans | Principal paid | Interest paid | Accrued interest | Exchange-rate change | Other (*) | 12/31/2018 |
| **Current** | | | | | | | | |
| Loans and financing | 959 | - | - | (33) | 33 | 202 | - | 1,161 |
| Leases | 275 | 1,312 | (253) | (83) | 57 | - | (674) | 634 |
| Loans related parties | 6,818 | - | (5,333) | (1,028) | 1,171 | - | 4,918 | 6,546 |
| **Non-current** | | | | | | | | |
| Loans and financing | - | - | - | - | - | - | - | - |
| Leases | 329 | - | - | - | - | - | 674 | 1,003 |
| Loans related parties | 14,219 | - | - | - | - | - | (4,918) | 9,301 |
| **Total** | 22,600 | 1,312 | (5,586) | (1,144) | 1,261 | 202 | - | 18,645 |

(In thousands of reais)

## 30. Changes in liabilities from financing activities | ...continued

| | Parent company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 01/012019 | New loans | Principal paid | Interest paid | Accrued interest | Exchange-rate change | Other (*) | 12/31/2019 |
| **Current** | | | | | | | | |
| Loans and financing | 5,549 | - | (5,712) | (1,096) | 1,245 | - | 7,789 | 7,827 |
| Leases | 826 | 3,345 | (1,319) | (180) | 180 | - | (971) | 1,881 |
| Loans related parties | 6,008 | - | (6,164) | (1,153) | 1,171 | - | 4,814 | 4,676 |
| **Non-current** | | | | | | | | |
| Loans and financing | 9,217 | - | - | - | - | - | (7,789) | 1,428 |
| Leases | 1,209 | - | - | - | - | - | 971 | 2,180 |
| Loans related parties | 8,024 | - | - | - | - | - | (4,814) | 3,210 |
| **Total** | 30,833 | 3,345 | (13,195) | (2,377) | 2,596 | - | - | 21,202 |

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 01/01/2019 | New loans | Principal paid | Interest paid | Accrued interest | Exchange-rate change | Other (*) | 12/31/2019 |
| **Current** | | | | | | | | |
| Loans and financing | 6,673 | - | (5,712) | (1,096) | 1,245 | 45 | 7,789 | 8,996 |
| Leases | 826 | 3,345 | (1,319) | (180) | 180 | - | (971) | 1,881 |
| Loans related parties | 6,008 | - | (6,164) | (1,153) | 1,171 | - | 4,814 | 4,676 |
| **Non-current** | | | | | | | | |
| Loans and financing | 9,217 | - | - | - | - | - | (7,789) | 1,428 |
| Leases | 1,209 | - | - | - | - | - | 971 | 2,180 |
| Loans related parties | 8,024 | - | - | - | - | - | (4,814) | 3,210 |
| **Total** | 31,957 | 3,345 | (13,195) | (2,429) | 2,596 | 45 | - | 22,371 |

(*) Segregation between current and non-current.