Contents

Contents

Company information / 5. Capital composition

Number of shares (thousands)	Last fiscal year 12/31/2019
Paid-up capital	
Common shares	90,954
Preferred shares	0
Total	90,954
Treasury stock	
Common shares	5
Preferred shares	0
Total	5

Company information / 7. Cash payouts

Event	Approval	Payout	Payment date	Share type	Share class	Payout per share (R$ per share)
Executive Board's meeting	9/30/2019	Dividend	10/15/2019	Common shares		0.19641
Board of Directors' meeting	9/30/2019	Dividend	10/15/2019	Common shares		0.07997

Parent company financial statements / Balance sheet - Assets (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
1	Total assets	1,093,447	977,519	1,032,957
1.01	Current assets	628,975	574,629	640,370
1.01.01	Cash and cash equivalents	1,686	1,102	4,262
1.01.02	Cash investments	222,677	209,174	298,951
1.01.02.01	Cash investments measured at fair value through profit or loss	222,677	209,174	298,951
1.01.02.01.03	Cash investments measured at fair value	222,677	209,174	298,951
1.01.03	Trade and other receivables	285,679	270,476	250,299
1.01.03.01	Trade receivables	285,679	255,246	250,299
1.01.03.02	Other receivables	0	15,230	0
1.01.04	Inventories	63,287	45,320	36,267
1.01.06	Taxes recoverable	41,953	36,528	36,850
1.01.06.01	Current taxes recoverable	41,953	36,528	36,850
1.01.08	Other current assets	13,693	12,029	13,741
1.01.08.03	Other	13,693	12,029	13,741
1.02	Non-current assets	464,472	402,890	392,587
1.02.01	Long-term receivables	64,320	61,608	52,611
1.02.01.04	Trade and other receivables	10,402	10,720	11,490
1.02.01.04.01	Trade receivables	10,402	10,720	11,490
1.02.01.07	Deferred taxes	15,196	15,746	8,408
1.02.01.07.01	Deferred income tax and social contribution	15,196	15,746	8,408
1.02.01.09	Receivables from related parties	23,736	22,583	18,236
1.02.01.09.02	Receivables from subsidiaries	23,736	22,583	18,236
1.02.01.10	Other non-current assets	14,986	12,559	14,477
1.02.01.10.03	Judicial deposits	14,669	12,014	12,556
1.02.01.10.04	Other	317	545	1,921
1.02.02	Investments	301,573	282,804	279,550
1.02.02.01	Equity interests	298,556	279,480	276,625
1.02.02.01.02	Investments in subsidiaries	298,556	279,480	276,625
1.02.02.02	Investment property	3,017	3,324	2,925

Parent company financial statements / Balance sheet - Assets (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
1.02.02.02.01	Investment property	3,017	3,324	2,925
1.02.03	Property, plant and equipment	57,199	26,314	21,561
1.02.03.01	Property, plant and equipment in operation	57,199	26,314	21,561
1.02.04	Intangible assets	41,380	32,164	38,865
1.02.04.01	Intangible assets	41,380	32,164	38,865
1.02.04.01.02	Trademarks and patents	5,336	4,686	3,927
1.02.04.01.03	Store use rights	0	0	818
1.02.04.01.04	Software licenses	36,044	27,478	34,120

Parent company financial statements / Balance sheet – Liabilities and equity (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
2	Total liabilities	1,093,447	977,519	1,032,957
2.01	Current liabilities	268,138	173,498	268,202
2.01.01	Salaries, vacation pay and social charges payable	42,855	32,898	29,621
2.01.01.01	Social charges	3,798	3,118	3,144
2.01.01.02	Salaries and vacation pay	39,057	29,780	26,477
2.01.02	Trade payables	121,687	90,545	96,555
2.01.02.01	Domestic suppliers	120,732	90,344	96,453
2.01.02.02	Foreign suppliers	955	201	102
2.01.03	Taxes payable	8,894	12,131	9,037
2.01.03.01	Federal taxes payable	8,584	11,100	8,490
2.01.03.01.02	Other federal taxes payable	8,584	11,100	8,490
2.01.03.02	State taxes payable	302	1,021	544
2.01.03.03	Municipal taxes payable	8	10	3
2.01.04	Borrowings	45,419	8,592	108,193
2.01.04.01	Borrowings	45,419	8,592	108,193
2.01.04.01.01	In local currency	5,118	8,592	8,908
2.01.04.01.02	In foreign currency	40,301	0	99,285
2.01.05	Other liabilities	49,283	29,332	24,796
2.01.05.02	Other	49,283	29,332	24,796
2.01.05.02.01	Dividends and interest on capital payable	22,675	18,172	18,062
2.01.05.02.04	Other	19,782	11,160	6,734
2.01.05.02.05	Leases	6,826	0	0
2.02	Non-current liabilities	79,238	92,679	99,795
2.02.01	Borrowings	3,839	67,090	17,548
2.02.01.01	Borrowings	3,839	67,090	17,548
2.02.01.01.01	In local currency	3,839	67,090	17,548
2.02.02	Other liabilities	25,615	19,563	76,121
2.02.02.01	Payables to related parties	3,795	19,563	76,121
2.02.02.01.04	Payables to subsidiary	3,795	19,563	0

Parent company financial statements / Balance sheet – Liabilities and equity (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
2.02.02.02	Other	21,820	0	0
2.02.02.02.04	Leases	21,820	0	0
2.02.04	Provisions	49,411	5,493	6,126
2.02.04.01	Provisions for tax, social security, labor and civil contingencies	5,508	5,493	6,126
2.02.04.01.02	Provision for social security and labor contingencies	3,608	3,515	4,195
2.02.04.01.04	Provision for civil contingencies	225	303	256
2.02.04.01.05	Provision for tax contingencies	1,675	1,675	1,675
2.02.04.02	Other provisions	43,903	0	0
2.02.04.02.04	Provision for net capital deficiency	43,903	0	0
2.02.06	Deferred profit and revenue	373	533	0
2.02.06.02	Deferred revenue	373	533	0
2.03	Equity	746,071	711,342	664,960
2.03.01	Paid-up capital	352,715	341,073	330,375
2.03.02	Capital reserves	50,538	46,725	44,369
2.03.02.02	Special reserve for goodwill arising from merger	21,470	21,470	21,470
2.03.02.05	Treasury shares	-195	-2,332	-1,199
2.03.02.09	Reserve for share option and restricted stock plans	29,263	27,587	24,098
2.03.04	Revenue reserves	335,998	319,202	292,202
2.03.04.01	Legal reserve	0	0	43,707
2.03.04.05	Retained profit reserve	94,276	165,033	178,358
2.03.04.07	Tax incentive reserve	213,880	136,443	64,658
2.03.04.08	Proposed additional dividend	27,842	17,726	2,796
2.03.04.10	Investment reserve	0	0	2,683
2.03.08	Other comprehensive income	6,820	4,342	-1,986

Parent company financial statements / Statement of income (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
3.01	Revenue from sale of goods and/or services	1,288,071	1,194,460	1,070,438
3.02	Cost of sales and/or services	-813,665	-754,119	-680,591
3.03	Gross profit	474,406	440,341	389,847
3.04	Operating expenses/income	-296,882	-271,830	-236,724
3.04.01	Selling expenses	-183,082	-170,107	-157,192
3.04.02	General and administrative expenses	-136,463	-109,695	-98,621
3.04.05	Other operating expenses	18,513	-1,595	-1,616
3.04.06	Equity in the earnings of equity-accounted subsidiaries	4,150	9,567	20,705
3.05	Profit before finance income and costs and taxes	177,524	168,511	153,123
3.06	Finance income and costs	-2,426	-20,830	14,768
3.06.01	Finance income	17,145	25,590	27,484
3.06.01.01	Interest income	15,499	21,528	26,575
3.06.01.02	Foreign exchange gains	1,646	4,062	909
3.06.02	Finance costs	-19,571	-46,420	-12,716
3.06.02.01	Interest expense	-11,813	-20,538	-9,707
3.06.02.02	Foreign exchange losses	-7,758	-25,882	-3,009
3.07	Profit before income tax and social contribution	175,098	147,681	167,891
3.08	Income tax and social contribution	-12,959	-5,037	-13,421
3.08.01	Current	-14,090	-10,694	-16,278
3.08.02	Deferred	1,131	5,657	2,857
3.09	Profit for the year from continuing operations	162,139	142,644	154,470
3.11	Profit for the year	162,139	142,644	154,470
3.99	Earnings per share (expressed in R$ per share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	1.78790	1.58510	1.72860
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	1.78750	1.57570	1.71520

Parent company financial statements / Statement of comprehensive income (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31//2017
4.01	Profit for the year	162,139	142,644	154,470
4.02	Other comprehensive income	2,478	6,328	-124
4.02.01	Foreign exchange differences arising from the translation of foreign operations	-789	8,518	953
4.02.02	Net investment hedge	3,267	-2,190	-1,077
4.03	Total comprehensive income for the year	164,617	148,972	154,346

Parent company financial statements / Statement of cash flows – Indirect method (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
6.01	Net cash provided by operating activities	179,480	150,162	171,082
6.01.01	Cash from operations	200,586	165,635	163,144
6.01.01.01	Profit before income tax and social contribution	162,139	142,644	167,891
6.01.01.02	Depreciation and amortization	27,515	20,748	19,188
6.01.01.03	(Profit) loss on disposal of property, plant and equipment and intangible assets	-145	1,376	-19
6.01.01.04	Interest paid on loans	-2,779	-4,861	-1,361
6.01.01.05	Equity in the earnings of equity-accounted subsidiaries	-4,150	-9,567	-20,705
6.01.01.06	Provision for labor, tax and civil contingencies	15	-633	578
6.01.01.07	Finance charges and foreign exchange variation on borrowings	10,268	17,995	2,143
6.01.01.08	Interest income on cash investments	-10,853	-16,304	-21,747
6.01.01.09	Provision for impairment of trade receivables	-3,200	1,996	9,375
6.01.01.10	Addition to provision for inventory losses	4,060	1,840	1,787
6.01.01.11	Share option and restricted stock plans	3,813	5,364	6,014
6.01.01.12	Interest expense on lease liabilities	944	0	0
6.01.01.13	Income tax and social contribution	12,959	5,037	0
6.01.02	Changes in assets and liabilities	-6,296	-5,270	39,352
6.01.02.01	Trade receivables	-26,914	-6,572	-14,528
6.01.02.02	Inventories	-22,027	-10,893	1,505
6.01.02.03	Changes in other current and non-current assets	-1,434	3,088	-1,043
6.01.02.04	Taxes recoverable	-5,423	-13,038	-32,192
6.01.02.05	Judicial deposits	-2,655	541	-2,195
6.01.02.07	Trade payables	31,271	-6,010	43,986
6.01.02.08	Salaries and vacation pay	9,272	3,308	9,830
6.01.02.09	Taxes and social charges payable	3,151	19,347	32,516
6.01.02.10	Other liabilities	8,463	4,959	1,473
6.01.03	Other	-14,810	-10,203	-31,414
6.01.03.01	Income tax and social contribution paid	-14,810	-10,203	-31,414
6.02	Net cash provided by (used in) investing activities	5,480	82,677	-189,972
6.02.01	Purchases of property, plant and equipment and intangible assets	-33,483	-20,258	-11,148

Parent company financial statements / Statement of cash flows – Indirect method (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
6.02.02	Proceeds from sale of property, plant and equipment and intangible assets	500	84	52
6.02.03	Cash investments	-640,739	-652,041	-722,602
6.02.04	Redemption of cash investments	635,784	754,892	638,885
6.02.05	Capital contribution to subsidiaries	0	0	-99,300
6.02.06	Dividends received	43,418	0	4,141
6.03	Net cash provided by (used in) financing activities	-184,376	-235,999	23,071
6.03.01	Proceeds from borrowings	0	0	97,500
6.03.02	Repayments of borrowings	-28,962	-67,066	-26,275
6.03.04	Related parties	-16,921	-60,906	98,883
6.03.05	Interest on capital paid	-43,526	-41,922	-24,398
6.03.06	Distribution of dividends	-100,000	-73,796	-141,807
6.03.08	Increase in share capital – issue of shares	11,642	10,698	20,367
6.03.09	Purchase of treasury shares	0	-3,007	-1,199
6.03.10	Lease payments	-6,609	0	0
6.05	Increase (decrease) in cash and cash equivalents	584	-3,160	4,181
6.05.01	Cash and cash equivalents at the beginning of the year	1,102	4,262	81
6.05.02	Cash and cash equivalents at the end of the year	1,686	1,102	4,262

Parent company financial statements / Statement of changes in equity - 1/1/2019 to 12/31/2019 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity
5.01	Opening balances	341,073	46,725	301,476	17,726	4,342	711,342
5.03	Adjusted opening balances	341,073	46,725	301,476	17,726	4,342	711,342
5.04	Equity transactions with shareholders	11,642	3,813	-75,000	-70,343	0	-129,888
5.04.06	Dividends	0	0	0	-17,726	0	-17,726
5.04.07	Interest on capital	0	0	0	-38,105	0	-38,105
5.04.08	Share options and restricted stock granted	0	3,813	0	0	0	3,813
5.04.09	Shares issued	11,642	0	0	0	0	11,642
5.04.13	Interim dividends	0	0	-75,000	-14,512	0	-89,512
5.05	Total comprehensive income	0	0	0	162,139	2,478	164,617
5.05.01	Profit for the year	0	0	0	162,139	0	162,139
5.05.02	Other comprehensive income	0	0	0	0	2,478	2,478
5.05.02.06	Foreign exchange differences arising from the translation of foreign operations	0	0	0	0	-789	-789
5.05.02.07	Net investment hedge	0	0	0	0	3,267	3,267
5.06	Internal changes in equity	0	0	81,680	-81,680	0	0
5.06.04	Legal reserve	0	0	4,243	-4,243	0	0
5.06.05	Tax incentive reserve	0	0	77,437	-77,437	0	0
5.07	Closing balances	352,715	50,538	308,156	27,842	6,820	746,071

Parent company financial statements / Statement of changes in equity - 1/1/2018 to 12/31/2018 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity
5.01	Opening balances	330,375	44,369	289,406	2,796	-1,986	664,960
5.03	Adjusted opening balances	330,375	44,369	289,406	2,796	-1,986	664,960
5.04	Equity transactions with shareholders	10,698	2,356	-66,847	-48,797	0	-102,590
5.04.04	Purchase of treasury shares	0	-3,007	0	0	0	-3,007
5.04.06	Dividends	0	0	-46,000	-27,796	0	-73,796
5.04.07	Interest on capital	0	0	-20,847	-21,001	0	-41,848
5.04.08	Share options and restricted stock granted	0	5,363	0	0	0	5,363
5.04.09	Shares issued	10,698	0	0	0	0	10,698
5.05	Total comprehensive income	0	0	0	142,644	6,328	148,972
5.05.01	Profit for the year	0	0	0	142,644	0	142,644
5.05.02	Other comprehensive income	0	0	0	0	6,328	6,328
5.05.02.06	Foreign exchange differences arising from the translation of foreign operations	0	0	0	0	8,518	8,518
5.05.02.07	Net investment hedge	0	0	0	0	-2,190	-2,190
5.06	Internal changes in equity	0	0	78,917	-78,917	0	0
5.06.04	Legal reserve	0	0	7,132	-7,132	0	0
5.06.05	Tax incentive reserve	0	0	71,785	-71,785	0	0
5.07	Closing balances	341,073	46,725	301,476	17,726	4,342	711,342

Parent company financial statements / Statement of changes in equity - 1/1/2017 to 12/31/2017 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity
5.01	Opening balances	310,008	39,554	321,999	0	-1,862	669,699
5.03	Adjusted opening balances	310,008	39,554	321,999	0	-1,862	669,699
5.04	Equity transactions with shareholders	20,367	4,815	-102,179	-82,088	0	-159,085
5.04.04	Purchase of treasury shares	0	-1,199	0	0	0	-1,199
5.04.06	Dividends	0	0	-52,975	0	0	-52,975
5.04.07	Interest on capital	0	0	0	-42,460	0	-42,460
5.04.08	Interim dividends	0	0	-52,000	-36,832	0	-88,832
5.04.09	Shares issued	20,367	0	0	0	0	20,367
5.04.10	Proposed dividends	0	0	2,796	-2,796	0	0
5.04.11	Share options and restricted stock granted	0	6,014	0	0	0	6,014
5.05	Total comprehensive income	0	0	0	154,470	-124	154,346
5.05.01	Profit for the year	0	0	0	154,470	0	154,470
5.05.02	Other comprehensive income	0	0	0	0	-124	-124
5.05.02.06	Foreign exchange differences arising from the translation of foreign operations	0	0	0	0	953	953
5.05.02.07	Net investment hedge	0	0	0	0	-1,077	-1,077
5.06	Internal changes in equity	0	0	72,382	-72,382	0	0
5.06.04	Legal reserve	0	0	7,724	-7,724	0	0
5.06.05	Tax incentive reserve	0	0	64,658	-64,658	0	0
5.07	Closing balances	330,375	44,369	292,202	0	-1,986	664,960

Parent company financial statements / Statement of value added (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
7.01	Revenue	1,498,750	1,385,013	1,246,523
7.01.01	Sales of goods, products and services	1,495,550	1,387,009	1,255,898
7.01.04	Provision for/reversal of impairment of trade receivables	3,200	-1,996	-9,375
7.02	Inputs acquired from third parties	-1,174,612	-1,075,984	-965,884
7.02.01	Cost of sales and services	-1,033,225	-957,611	-864,242
7.02.02	Materials, electricity, outsourced services and other	-136,696	-114,866	-98,584
7.02.04	Other	-4,691	-3,507	-3,058
7.03	Gross value added	324,138	309,029	280,639
7.04	Deductions	-27,515	-20,748	-19,188
7.04.01	Depreciation, amortization and depletion	-27,515	-20,748	-19,188
7.05	Net value added generated by the entity	296,623	288,281	261,451
7.06	Value added received through transfer	45,318	41,294	52,589
7.06.01	Equity in the earnings of subsidiaries	4,150	9,567	20,705
7.06.02	Finance income	17,144	25,591	27,486
7.06.03	Other	24,024	6,136	4,398
7.07	Total value added to distribute	341,941	329,575	314,040
7.08	Distribution of value added	341,941	329,575	314,040
7.08.01	Personnel	131,971	121,489	109,131
7.08.01.01	Direct compensation	76,978	74,666	64,815
7.08.01.02	Benefits	9,239	8,211	7,265
7.08.01.03	Government severance indemnity fund for employees (FGTS)	7,413	6,457	5,596
7.08.01.04	Other	38,341	32,155	31,455
7.08.01.04.01	Employee profit sharing	18,800	11,072	14,616
7.08.01.04.02	Other	14,029	13,351	10,825
7.08.01.04.03	Share option and restricted stock plans	5,512	7,732	6,014
7.08.02	Taxes and contributions	20,889	12,925	31,968
7.08.02.01	Federal	62,301	50,902	66,017
7.08.02.02	State	-42,092	-38,306	-34,275
7.08.02.03	Municipal	680	329	226

Parent company financial statements / Statement of value added (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
7.08.03	Lenders and creditors	26,942	52,517	18,471
7.08.03.01	Interest	3,719	11,162	1,590
7.08.03.02	Rentals	7,372	6,096	5,753
7.08.03.03	Other	15,851	35,259	11,128
7.08.03.03.01	Finance costs	15,851	35,259	11,128
7.08.04	Shareholders	162,139	142,644	154,470
7.08.04.01	Interest on capital	38,105	21,001	42,460
7.08.04.02	Dividends	42,354	42,726	39,628
7.08.04.03	Profits reinvested	81,680	78,917	72,382

Consolidated financial statements / Balance sheet – Assets (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
1	Total assets	1,413,249	1,045,032	1,049,899
1.01	Current assets	980,665	842,001	855,237
1.01.01	Cash and cash equivalents	13,808	8,501	10,156
1.01.02	Cash investments	263,875	227,300	327,764
1.01.02.01	Cash investments measured at fair value through profit or loss	263,875	227,300	327,764
1.01.02.01.03	Cash investments measured at fair value	263,875	227,300	327,764
1.01.03	Trade and other receivables	413,412	382,728	336,954
1.01.03.01	Trade receivables	413,412	382,728	336,954
1.01.04	Inventories	179,499	150,861	113,489
1.01.06	Taxes recoverable	90,332	49,370	51,127
1.01.06.01	Current taxes recoverable	90,332	49,370	51,127
1.01.08	Other current assets	19,739	23,241	15,747
1.01.08.03	Other	19,739	23,241	15,747
1.02	Non-current assets	432,584	203,031	194,662
1.02.01	Long-term receivables	50,438	49,338	44,908
1.02.01.04	Trade and other receivables	10,402	10,720	11,490
1.02.01.04.01	Trade receivables	10,402	10,720	11,490
1.02.01.07	Deferred taxes	15,682	17,491	11,533
1.02.01.07.01	Deferred income tax and social contribution	15,682	17,491	11,533
1.02.01.10	Other non-current assets	24,354	21,127	21,885
1.02.01.10.03	Judicial deposits	21,863	18,402	19,117
1.02.01.10.04	Other	2,491	2,725	2,768
1.02.02	Investments	3,017	3,324	2,925
1.02.02.02	Investment property	3,017	3,324	2,925
1.02.02.02.01	Investment property	3,017	3,324	2,925
1.02.03	Property, plant and equipment	304,082	83,201	67,636
1.02.03.01	Property, plant and equipment in operation	304,082	83,201	67,636
1.02.04	Intangible assets	75,047	67,168	79,193
1.02.04.01	Intangible assets	75,047	67,168	79,193

Consolidated financial statements / Balance sheet – Assets (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
1.02.04.01.02	Trademarks and patents	6,494	5,802	4,051
1.02.04.01.03	Store use rights	28,167	30,643	39,603
1.02.04.01.04	Software licenses	40,386	30,723	35,539

Consolidated financial statements / Balance sheet – Liabilities and equity (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
2	Total liabilities	1,413,249	1,045,032	1,049,899
2.01	Current liabilities	464,659	255,889	356,825
2.01.01	Salaries, vacation pay and social charges payable	52,944	43,111	39,722
2.01.01.01	Social charges	5,647	4,949	5,154
2.01.01.02	Salaries and vacation pay	47,297	38,162	34,568
2.01.02	Trade payables	134,967	110,121	104,416
2.01.02.01	Domestic suppliers	134,012	109,920	104,314
2.01.02.02	Foreign suppliers	955	201	102
2.01.03	Taxes payable	27,259	24,178	19,527
2.01.03.01	Federal taxes payable	22,734	17,868	13,203
2.01.03.01.01	Income tax and social contribution payable	12,086	4,201	2,123
2.01.03.01.02	Other federal taxes payable	10,648	13,667	11,080
2.01.03.02	State taxes payable	4,521	6,326	6,318
2.01.03.03	Municipal taxes payable	4	-16	6
2.01.04	Borrowings	158,222	43,978	163,729
2.01.04.01	Borrowings	158,222	43,978	163,729
2.01.04.01.01	In local currency	5,191	8,709	9,063
2.01.04.01.02	In foreign currency	153,031	35,269	154,666
2.01.05	Other liabilities	91,267	34,501	29,431
2.01.05.02	Other	91,267	34,501	29,431
2.01.05.02.01	Dividends and interest on capital payable	22,675	18,172	18,062
2.01.05.02.04	Other	28,447	16,329	11,369
2.01.05.02.05	Leases	40,145	0	0
2.02	Non-current liabilities	202,519	77,801	28,114
2.02.01	Borrowings	22,562	67,440	18,016
2.02.01.01	Borrowings	22,562	67,440	18,016
2.02.01.01.01	In local currency	4,117	9,307	18,016
2.02.01.01.02	In foreign currency	18,445	58,133	0
2.02.02	Other liabilities	170,415	1,443	1,232

Consolidated financial statements / Balance sheet – Liabilities and equity (Thousands of Reais)

Code	Account title	Last year 12/31/2019	Second last year 12/31/2018	Third last year 12/31/2017
2.02.02.01	Payables to related parties	1,502	1,443	1,232
2.02.02.01.04	Payables to controlling shareholders	1,502	1,443	1,232
2.02.02.02	Other	168,913	0	0
2.02.02.02.03	Leases	168,913	0	0
2.02.04	Provisions	9,169	8,385	8,866
2.02.04.01	Provisions for tax, social security, labor and civil contingencies	9,169	8,385	8,866
2.02.04.01.02	Provision for social security and labor contingencies	6,887	6,016	6,535
2.02.04.01.04	Provision for civil contingencies	238	325	287
2.02.04.01.05	Provision for tax contingencies	2,044	2,044	2,044
2.02.06	Deferred profit and revenue	373	533	0
2.02.06.02	Deferred revenue	373	533	0
2.03	Consolidated equity	746,071	711,342	664,960
2.03.01	Paid-up capital	352,715	341,073	330,375
2.03.02	Capital reserves	50,538	46,725	44,369
2.03.02.02	Special reserve for goodwill arising from merger	21,470	21,470	21,470
2.03.02.05	Treasury shares	-195	-2,332	-1,199
2.03.02.09	Reserve for share option and restricted stock plans	29,263	27,587	24,098
2.03.04	Revenue reserves	335,998	319,202	292,202
2.03.04.01	Legal reserve	0	0	43,707
2.03.04.05	Retained profit reserve	94,276	165,033	178,358
2.03.04.07	Tax incentive reserve	213,880	136,443	64,658
2.03.04.08	Proposed additional dividend	27,842	17,726	2,796
2.03.04.10	Investment reserve	0	0	2,683
2.03.08	Other comprehensive income	6,820	4,342	-1,986

Consolidated financial statements / Statement of income (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
3.01	Revenue from sales of goods and/or services	1,679,235	1,526,659	1,360,474
3.02	Cost of sales and/or services	-903,541	-815,987	-736,706
3.03	Gross profit	775,694	710,672	623,768
3.04	Operating expenses/income	-552,592	-519,393	-450,135
3.04.01	Selling expenses	-424,366	-378,922	-334,215
3.04.02	General and administrative expenses	-184,012	-140,865	-113,816
3.04.05	Other operating expenses	55,786	394	-2,104
3.05	Profit before finance income and costs and taxes	223,102	191,279	173,633
3.06	Finance income and costs	-18,176	-21,281	9,300
3.06.01	Finance income	24,720	40,039	33,847
3.06.01.01	Interest income	18,344	22,992	30,041
3.06.01.02	Foreign exchange gains	6,376	17,047	3,806
3.06.02	Finance costs	-42,896	-61,320	-24,547
3.06.02.01	Interest expense	-29,646	-26,633	-19,783
3.06.02.02	Foreign exchange losses	-13,250	-34,687	-4,764
3.07	Profit before income tax and social contribution	204,926	169,998	182,933
3.08	Income tax and social contribution	-42,787	-27,354	-28,463
3.08.01	Current	-42,659	-31,631	-31,591
3.08.02	Deferred	-128	4,277	3,128
3.09	Profit for the year from continuing operations	162,139	142,644	154,470
3.11	Consolidated profit for the year	162,139	142,644	154,470
3.11.01	Attributable to owners of the Parent company	162,139	142,644	154,470
3.99	Earnings per share (expressed in R$ per share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	1.78790	1.58510	1.72860
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	1.78750	1.57570	1.71520

Consolidated financial statements / Statement of comprehensive income (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
4.01	Consolidated profit for the year	162,139	142,902	154,470
4.02	Other comprehensive income	2,478	6,328	-124
4.02.01	Foreign exchange differences arising from the translation of foreign operations	-789	8,518	953
4.02.02	Net investment hedge	3,267	-2,190	-1,077
4.03	Consolidated comprehensive income for the year	164,617	149,230	154,346
4.03.01	Attributable to owners of the Parent company	164,617	149,230	154,346

Consolidated financial statements / Statement of cash flows – Indirect method (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
6.01	Net cash provided by operating activities	204,882	117,836	171,830
6.01.01	Cash from operations	290,594	212,752	213,950
6.01.01.01	Profit before income tax and social contribution	162,139	142,644	182,933
6.01.01.02	Depreciation and amortization	80,322	40,882	32,632
6.01.01.03	(Profit) loss on disposal of property, plant and equipment and intangible assets	-3,251	-713	479
6.01.01.04	Interest paid on loans	-6,468	-5,049	-2,057
6.01.01.06	Provision for labor, tax and civil contingencies	784	-481	1,657
6.01.01.07	Finance charges and foreign exchange variation on borrowings	16,517	15,588	4,707
6.01.01.08	Interest income on cash investments	-13,614	-17,664	-24,844
6.01.01.09	Provision for impairment of trade receivables	-2,610	2,354	9,375
6.01.01.10	Addition to provision for inventory losses	4,569	2,473	3,054
6.01.01.11	Share option plan	3,813	5,364	6,014
6.01.01.12	Interest expense on lease liabilities	5,608	0	0
6.01.01.13	Income tax and social contribution	42,785	27,354	0
6.01.02	Changes in assets and liabilities	-50,887	-66,170	3,346
6.01.02.01	Trade receivables	-27,753	-47,759	-30,859
6.01.02.02	Inventories	-33,208	-39,845	-6,065
6.01.02.03	Changes in other current assets	2,306	-1,294	1,550
6.01.02.04	Taxes recoverable	-40,835	-11,396	-39,212
6.01.02.05	Judicial deposits	-3,461	715	-4,384
6.01.02.07	Trade payables	29,496	5,705	37,971
6.01.02.08	Salaries and vacation pay	9,135	3,594	10,928
6.01.02.09	Taxes and social charges payable	1,465	18,618	32,079
6.01.02.10	Changes in other current liabilities	11,968	5,492	1,338
6.01.03	Other	-34,825	-28,746	-45,466
6.01.03.01	Income tax and social contribution paid	-34,825	-28,746	-45,466
6.02	Net cash provided by (used in) investing activities	-85,409	72,236	-91,697
6.02.01	Purchases of property, plant and equipment and intangible assets	-65,607	-48,614	-21,548
6.02.02	Proceeds from sale of property, plant and equipment and intangible assets	6,126	6,437	686

Consolidated financial statements / Statement of cash flows – Indirect method (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
6.02.03	Cash investments	-1,090,118	-1,010,083	-1,047,291
6.02.04	Redemption of cash investments	1,064,190	1,124,496	976,456
6.03	Net cash used in financing activities	-114,281	-192,556	-75,050
6.03.01	Proceeds from borrowings	153,084	70,400	160,420
6.03.02	Repayments of borrowings	-88,816	-155,140	-88,451
6.03.05	Interest on capital paid	-43,526	-41,922	-24,398
6.03.06	Distribution of dividends	-100,000	-73,796	-141,807
6.03.07	Receivables from (payables to) shareholders	58	211	18
6.03.08	Increase in share capital – issue of shares	11,642	10,698	20,367
6.03.09	Purchase of treasury shares	0	-3,007	-1,199
6.03.10	Lease payments	-46,723	0	0
6.04	Foreign exchange gains on cash and cash equivalents	115	829	53
6.05	Increase (decrease) in cash and cash equivalents	5,307	-1,655	5,136
6.05.01	Cash and cash equivalents at the beginning of the year	8,501	10,156	5,020
6.05.02	Cash and cash equivalents at the end of the year	13,808	8,501	10,156

Consolidated financial statements / Statement of changes in equity - 1/1/2019 to 12/31/2019 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	341,073	46,725	301,476	17,726	4,342	711,342	0	711,342
5.03	Adjusted opening balances	341,073	46,725	301,476	17,726	4,342	711,342	0	711,342
5.04	Equity transactions with shareholders	11,642	3,813	-75,000	-70,343	0	-129,888	0	-129,888
5.04.06	Dividends	0	0	0	-17,726	0	-17,726	0	-17,726
5.04.07	Interest on capital	0	0	0	-38,105	0	-38,105	0	-38,105
5.04.08	Share options and restricted stock granted	0	3,813	0	0	0	3,813	0	3,813
5.04.09	Shares issued	11,642	0	0	0	0	11,642	0	11,642
5.04.13	Interim dividends	0	0	-75,000	-14,512	0	-89,512	0	-89,512
5.05	Total comprehensive income	0	0	0	162,139	2,478	164,617	0	164,617
5.05.01	Profit for the year	0	0	0	162,139	0	162,139	0	162,139
5.05.02	Other comprehensive income	0	0	0	0	2,478	2,478	0	2,478
5.05.02.06	Foreign exchange differences arising from the translation of foreign operations	0	0	0	0	-789	-789	0	-789
5.05.02.07	Net investment hedge	0	0	0	0	3,267	3,267	0	3,267
5.06	Internal changes in equity	0	0	81,680	-81,680	0	0	0	0
5.06.04	Legal reserve	0	0	4,243	-4,243	0	0	0	0
5.06.05	Tax incentive reserve	0	0	77,437	-77,437	0	0	0	0
5.07	Closing balances	352,715	50,538	308,156	27,842	6,820	746,071	0	746,071

Consolidated financial statements / Statement of changes in equity - 1/1/2018 to 12/31/2018 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	330,375	44,369	289,406	2,796	-1,986	664,960	0	664,960
5.03	Adjusted opening balances	330,375	44,369	289,406	2,796	-1,986	664,960	0	664,960
5.04	Equity transactions with shareholders	10,698	2,356	-66,847	-48,797	0	-102,590	0	-102,590
5.04.04	Purchase of treasury shares	0	-3,007	0	0	0	-3,007	0	-3,007
5.04.06	Dividends	0	0	-46,000	-27,796	0	-73,796	0	-73,796
5.04.07	Interest on capital	0	0	-20,847	-21,001	0	-41,848	0	-41,848
5.04.08	Share options and restricted stock granted	0	5,363	0	0	0	5,363	0	5,363
5.04.09	Shares issued	10,698	0	0	0	0	10,698	0	10,698
5.05	Total comprehensive income	0	0	0	142,644	6,328	148,972	0	148,972
5.05.01	Profit for the year	0	0	0	142,644	0	142,644	0	142,644
5.05.02	Other comprehensive income	0	0	0	0	6,328	6,328	0	6,328
5.05.02.06	Foreign exchange differences from the translation of foreign operations	0	0	0	0	8,518	8,518	0	8,518
5.05.02.07	Net investment hedge	0	0	0	0	-2,190	-2,190	0	-2,190
5.06	Internal changes in equity	0	0	78,917	-78,917	0	0	0	0
5.06.04	Legal reserve	0	0	7,132	-7,132	0	0	0	0
5.06.05	Tax incentive reserve	0	0	71,785	-71,785	0	0	0	0
5.07	Closing balances	341,073	46,725	301,476	17,726	4,342	711,342	0	711,342

Consolidated financial statements / Statement of changes in equity - 1/1/2017 to 12/31/2017 (Thousands of Reais)

Code	Account title	Paid-up capital	Capital reserves, options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	310,008	39,554	321,999	0	-1,862	669,699	0	669,699
5.03	Adjusted opening balances	310,008	39,554	321,999	0	-1,862	669,699	0	669,699
5.04	Equity transactions with shareholders	20,367	4,815	-102,179	-82,088	0	-159,085	0	-159,085
5.04.04	Purchase of treasury shares	0	-1,199	0	0	0	-1,199	0	-1,199
5.04.06	Dividends	0	0	-52,975	0	0	-52,975	0	-52,975
5.04.07	Interest on capital	0	0	0	-42,460	0	-42,460	0	-42,460
5.04.08	Interim dividends	0	0	-52,000	-36,832	0	-88,832	0	-88,832
5.04.09	Shares issued	20,367	0	0	0	0	20,367	0	20,367
5.04.10	Proposed dividends	0	0	2,796	-2,796	0	0	0	0
5.04.11	Share options and restricted stock granted	0	6,014	0	0	0	6,014	0	6,014
5.05	Total comprehensive income	0	0	0	154,470	-124	154,346	0	154,346
5.05.01	Profit for the year	0	0	0	154,470	0	154,470	0	154,470
5.05.02	Other comprehensive income	0	0	0	0	-124	-124	0	-124
5.05.02.06	Foreign exchange differences from the translation of foreign operations	0	0	0	0	953	953	0	953
5.05.02.07	Net investment hedge	0	0	0	0	-1,077	-1,077	0	-1,077
5.06	Internal changes in equity	0	0	72,382	-72,382	0	0	0	0
5.06.04	Legal reserve	0	0	7,724	-7,724	0	0	0	0
5.06.05	Tax incentive reserve	0	0	64,658	-64,658	0	0	0	0
5.07	Closing balances	330,375	44,369	292,202	0	-1,986	664,960	0	664,960

Consolidated financial statements / Statement of value added (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
7.01	Revenue	1,948,123	1,776,006	1,596,155
7.01.01	Sales of goods, products and services	1,945,513	1,778,360	1,605,530
7.01.04	Provision for/reversal of impairment of trade receivables	2,610	-2,354	-9,375
7.02	Inputs acquired from third parties	-1,365,828	-1,231,331	-1,084,917
7.02.01	Cost of sales and services	-1,058,147	-960,572	-871,607
7.02.02	Materials, electricity, outsourced services and other	-298,419	-263,511	-207,716
7.02.04	Other	-9,262	-7,248	-5,594
7.03	Gross value added	582,295	544,675	511,238
7.04	Deductions	-80,322	-40,882	-32,632
7.04.01	Depreciation, amortization and depletion	-80,322	-40,882	-32,632
7.05	Net value added generated by the entity	501,973	503,793	478,606
7.06	Value added received through transfer	86,017	48,165	37,757
7.06.02	Finance income	24,720	40,039	33,847
7.06.03	Other	61,297	8,126	3,910
7.07	Total value added to distribute	587,990	551,958	516,363
7.08	Distribution of value added	587,990	551,958	516,363
7.08.01	Personnel	208,616	197,320	178,682
7.08.01.01	Direct compensation	134,439	131,937	117,853
7.08.01.02	Benefits	19,017	18,162	16,613
7.08.01.03	Government severance indemnity fund for employees (FGTS)	12,631	11,909	10,302
7.08.01.04	Other	42,529	35,312	33,914
7.08.01.04.01	Employee profit sharing	18,838	11,145	14,650
7.08.01.04.02	Other	18,179	16,435	13,250
7.08.01.04.03	Share option and restricted stock plans	5,512	7,732	6,014
7.08.02	Taxes and contributions	109,717	96,209	111,041
7.08.02.01	Federal	110,001	93,687	106,167
7.08.02.02	State	-2,205	1,022	3,652
7.08.02.03	Municipal	1,921	1,500	1,222
7.08.03	Lenders and creditors	107,518	115,785	72,170

Consolidated financial statements / Statement of value added (Thousands of Reais)

Code	Account title	Last year 1/1/2019 to 12/31/2019	Second last year 1/1/2018 to 12/31/2018	Third last year 1/1/2017 to 12/31/2017
7.08.03.01	Interest	6,601	8,448	3,214
7.08.03.02	Rentals	64,350	54,465	47,623
7.08.03.03	Other	36,567	52,872	21,333
7.08.03.03.01	Finance costs	36,567	52,872	21,333
7.08.04	Shareholders	162,139	142,644	154,470
7.08.04.01	Interest on capital	38,105	21,001	42,460
7.08.04.02	Dividends	42,354	42,726	39,628
7.08.04.03	Profits reinvested	81,680	78,917	72,382

Comments on Company performance

1. Message from the Management

A year filled with challenges and achievements: that was our 2019!

We are getting closer to the 50th anniversary of a story that goes way beyond a business.

As a market leader in footwear and handbags for the female AB classes, we showed our strength and resilience, demonstrating solid and consistent results through a highly engaged team, building a successful culture, and creating the path for our future.

The world is fast-changing, with the adoption of disruptive technologies and **important changes in consumer's behavior** – as the demand for the brands carrying a strong purpose, a sturdy social-environmental positioning, and especially, the need to receive a fast, connected and personalized service – which reinforced our motivation to review an already highly winning strategy, with the mindset that what brought us here will not necessarily take us where we want to go. And the dream we have is a big one!

That's how we started a new **strategic planning cycle** at Arezzo&Co – a project that relied on the dedication of our senior management team and the support of one of the most renowned strategy consulting firms in the world.

Here it is worth mentioning the reason we chose "Da Vinci" as the name of the project – one of the greatest artists of all time, who was able to unite art and science in everything he made, through his insatiable curiosity. Arezzo&Co, a fashion company that creates products and dreams ("art"), needs to be able to reinvent itself, just like Da Vinci, using "science" – data, technology, supply model – in order to orchestrate a combination able to deliver the best products, at the right time and place, in the best way possible, to the customers.

When the Da Vinci project started, we had one great assurance: that the focus on customers was not only desirable but crucial. Based on the book *The Founder's Mentality*, by James Allen, partner of *Bain Company*, we chose to take a tireless journey, **putting our customers at the core of our business** – with strong frontline empowerment to enable the best brand experience – wherever the customer is. After all, we don't want our market share to limit us or make us incumbent along the time, distant from the consumer's voice. We want to use our scale, combined with our "founder mentality", ever so present in our teams, to seek constant agility.

Additionally, the Da Vinci project helped us to understand better the potential of our current brands, each one of them with its positioning and maturity curve. The results left us even more optimistic about our future growth already addressed in the domestic market

The Arezzo brand – democratic, accessible, and with a strong franchise network – will continue to expand through the *light* model and omnichannel, allowing it to reduce the stock out in stores. Schutz – the "desire brand" and protagonist in the fashion scene – will increase its strength and digital relevance. Anacapri – the "easygoing" brand – will have an interesting growth path through the opening of new stores and the maturity of the existing ones. Alexandre Birman – a brand synonymous with luxury – will continue its strong growth in Brazil and the foreign market, associated with an exponential increase in brand awareness. Fiever – the young and urban sneaker brand – will continue with its expansion plan in different channels. And, finally, Alme – the comfort brand – will continue to grow in its addressable market, serving mature women in their search for comfort, without giving up style.

Comments on Company performance

1. Message from the Management

In 2019, Arezzo&Co took important steps in **its digital transformation process**, by nurturing an agile culture and raising its technological level. Our primary focus was to use technology as a means, establishing a platform of productivity and growth, aiming to empower brands with BI data to maximize their assertiveness in sales and stimulate the **omnichannel**. An important step was also taken with the implementation of RFID in the Schutz brand, which will be extended to the other brands of the group in the near future.

In this scenario of winning brands and ahead of their time – but different from each other – there are common elements, aggregated in a robust structure, which include, but are not limited to sourcing, product engineering, expansion, logistics, franchising, multibrand and web commerce – besides the corporate support areas. With the confidence that these areas have already reached the scale and maturity necessary to absorb new operations, we started to question ourselves throughout 2019 whether it would not be time to break an old paradigm: that we only have brands created by us in our portfolio.

It was in this context that we opened our horizon for M&A opportunities, debuting our first inorganic movement, by obtaining exclusivity for operating the VANS® brand in Brazil. A challenge that matches the opportunity it represents: a brand recognized worldwide, highly desired in the Brazilian market, and that brings new categories for Arezzo&Co, such as men's shoes, kids and clothing. An operation of significant size (over R$ 200 million in revenue), with strong growth potential, through physical stores, multibrands and web commerce.

After the transaction, we started the integration process with humility and dedication. In about a month, we transferred over 450 thousand pairs of shoes, accessories, and clothing, creating a new distribution center, in addition to the full implementation of SAP and the internalization of the web commerce, which was previously outsourced. Our confidence, that is always elevated and driven by a passion for business and for making it happen, is higher than ever.

Indeed Vans® opens us up to a **new path of possibilities**, a path we have a genuine intention to follow, with very clear discretion of what we want to do – and perhaps even more important – of what we will not do. We are motivated and confident that Arezzo&Co will consolidate itself as a great platform of brands, a true “House of Brands”. It is a new mindset, which is here to stay. Beyond licensing agreements such as VANS®, we continue to analyze other opportunities for market consolidation, whether traditional consolidated brands or insurgent brands.

Although we still have a lot of room to grow through our own brands, Vans® and others in the future, we believe in an even bigger dream – which is why we endlessly discussed throughout our strategic planning what would be the most disruptive course to be taken in the future. In this context, we defined that we want to be more than a platform of brands – but a **fashion platform**, with all our brands coexisting together, linked to a unified loyalty program, shopping cart and freight, besides optimized investments in marketing and downloads. This is our 2020 goal, but it doesn't stop there. By offering fashion content and services – to be added later – we will be able to walk a path towards a “3P” marketplace, in which the curation of partner brands that are complementary to ours will be one of our great differentials as a platform. After all, Arezzo&Co wants to be the ally of our customers in fashion and in life, revolutionizing the fashion industry for the A/B market in Brazil.

Comments on Company performance

1. Message from the Management

Our focus on international expansion – mainly through our own operation in the United States, remains an important pillar of our strategy. Our exponential growth in online sales, the opening of new doors and the gain of “share of wallet” in department stores are very relevant. Despite the transformation seen in North American retail, we believe in the importance of physical stores for building brand awareness and brand experience. The year of 2019 brought important achievements, but also adjustments and investments that impacted our Company's consolidated results. However, we strongly believe in the potential of our brands in the North American market, and in 2020 we will continue to grow, respecting our cash generation and aiming for the continuous improvement of profitability.

Lastly, we would like to thank our team and the Board of Directors for the dedication throughout this intense year.

Our culture is the base for everything we do. The future is in our hands..

2154 is now!
The Management.

Comments on Company performance

2. Company Overview

Arezzo&Co is the leader in the women's footwear, handbags and accessories A/B market in Brazil. With a history of 47 years, it currently sells over 14.5 million pairs of shoes a year, in addition to handbags and accessories. It has seven relevant brands - Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever, Alme and Vans®.

Its product lines are distinguished by their innovation, design, comfort and excellent value for money.

The multichannel strategy enhances the group's capillarity through owned stores, franchises, multibrand stores and Web Commerce, with a presence in every Brazilian state. Internationally, the brand products are also sold in franchises, owned stores, multibrand stores and department stores.

The company ended 2019 with a presence through 699 franchises, 53 owned stores and 2,646 multibrand stores in Brazil.

AREZZO

Founded in 1972 by the brothers Anderson and Jefferson Birman, the brand is top of mind of consumers of Brazilian ladies' shoes in Brazil. The brand has a trendy positioning, combining concept, high quality, contemporary design and consumer satisfaction. It is the benchmark in launching trends in Brazil and is always to be found in the editorials of the most prestigious magazines, newspapers and sites in Brazil as a reference for fast fashion in ladies' footwear, handbags and accessories.

SCHUTZ

The Schutz brand was founded in 1995 and its mission is to offer the public a concept of products where design, quality, fashion and freedom of expression all come together. The result is collections developed to reflect the spirit of the young, contemporary woman who makes na impact, is irreverent and has her own style. It is an invitation to be daring and to challenge the norm.

ANACAPRI

The Anacapri brand, specializing in flats of the Arezzo&Co Group, was founded in 2008 with the purpose of simplifying the lives of its consumers with versatile fashion full of personality, but without relinquishing comfort.

ALEXANDRE BIRMAN

The Alexandre Birman brand, founded in 2009, is a reference among Brazilian brands of ladies' luxury shoes, vying for room with the top fashion names in well-know retail chains around the world. The brand is widely recognized by the concept of exclusiveness and sophistication, which is widely recognized abroad.

FIEVER

A wordplay on FIVE (the group's 5th brand) and FEVER was launched in December 2015 as an urban, cool brand dedicated to a younger public focused on casual sneakers. The path it has traveled includes an effort to always innovate and keep up with this generation's pace.

ALME

The Alme brand was created in 2018 after a year of qualitative and quantitative. The brand seeks to attend a growing demand of consumers that wants comfortable and beautiful shoes for all occasions.

VANS
"OFF THE WALL"

As announced at 2019, Arezzo&Co signed a contract to become the exclusive distributor of the Vans® brand in Brazil. Originally "Off the Wall" since 1966, the Vans® brand creates shoes, clothes and accessories focused on skaters, surfers, bikers and snowboarders around the world. The brand connects the young culture to promote the self-expression, creative authenticity and progression, while linking the brand's deep roots in action sports to art, music and street culture.

Adoption of IFRS 16 Standard - Key Impacts

The adoption of the IFRS16 standard in January 2019 brought some changes in the way of accounting for the fixed portion of the rentals, qualified as leases. The future commitments of the leases are recognized as liabilities, as a counterpart for the right of use that is recognized as a fixed asset. As a result, rental expenses are replaced by interest on the lease liability and the depreciation of the right of use. Thus, when compared to model IAS 17 / CPC 06, IFRS 16 generates a positive effect on EBITDA, since rentals are reclassified from operating expenses to depreciation expenses and financial expenses.

For a better understanding of the changes, a proforma 4Q19 column was included throughout the earnings release, excluding the adoption of the rule, in the tables related to the main impacted accounts. The impacts of the application of this new standard are shown in notes 12 - Property, Plant and Equipment and 16 - Lease of ITR Notes for 4Q19.

BALANCE SHEET

Assets - Right of Use
+ R$ 205 Million

Liabilities - Lease
+ R$ 209 Million

RESULTS

COGS (Occupation Expense)
(R$ 10) Thousand

SG&A (Occupation Expense)
R$ 409 Thousand

EBITDA
+ R$ 8.7 Million

Lease Depreciation
(R$ 8.1) Million

Lease Financial Expenses
(R$ 1.2) Million

Net Income
(R$ 0.7) Million

Key financial indicators	4Q19 Reported	IFRS 16 Impact	4Q19 Pro forma	2019 Reported	IFRS 16 Impact	2019 Pro forma
Gross Revenues	**573,729**	**-**	**573,729**	**2,063,929**	**-**	**2,063,929**
Net Revenues	**467,652**	**-**	**467,652**	**1,679,235**	**-**	**1,679,235**
COGS	**(249,435)**	**7**	**(249,428)**	**(903,541)**	**(42)**	**(903,583)**
Depreciation and amortization (cost)	(664)	195	(469)	(2,768)	901	(1,867)
Gross Profit	**218,217**	**7**	**218,224**	**775,694**	**(42)**	**775,652**
Gross Margin	46.7%	0.0%	46.7%	46.2%	0.0%	46.2%
SG&A	**(142,180)**	**(407)**	**(142,587)**	**(552,592)**	**(707)**	**(553,299)**
Depreciation and amortization (expenses)	(17,128)	8,087	(9,041)	(75,075)	37,372	(37,703)
% of net revenues	-30.4%	-0.1%	-30.5%	-32.9%	0.0%	-32.9%
EBITDA	**93,829**	**(8,683)**	**85,146**	**300,945**	**(39,023)**	**261,922**
EBITDA Margin	20.1%	-1.9%	18.2%	17.9%	-2.3%	15.6%
Financial Results	**(4,644)**	**1,134**	**(3,510)**	**(18,176)**	**5,319**	**(12,857)**
Income before income taxes	**71,393**	**733**	**72,126**	**204,926**	**4,569**	**209,495**
Income tax and social contribution	**(12,738)**	**-**	**(12,738)**	**(42,787)**	**-**	**(42,787)**
Net Income	**58,655**	**733**	**59,388**	**162,139**	**4,569**	**166,708**
Net Margin	12.5%	0.2%	12.7%	9.7%	0.3%	9.9%

Comments on Company performance

3. Operational and Financial Performance

Summary of Results	4Q19	4Q18	Δ (%) 19 x 18	4Q19 Pro forma	Δ (%) 19 x 18
Net Revenues	467,652	412,211	13.4%	467,652	13.4%
Gross Profit	218,217	194,724	12.1%	218,224	12.1%
Gross Margin	46.7%	47.2%	-0.5 p.p.	46.7%	-0.5 p.p.
EBITDA[1]	96,308	64,118	50.2%	85,146	32.8%
EBITDA Margin[1]	20.6%	15.6%	5.0 p.p.	18.2%	2.6 p.p.
Net Income	58,655	42,243	38.9%	59,388	40.6%
Net Margin	12.5%	10.2%	2.3 p.p.	12.7%	2.5 p.p.

Summary of Results	2019	2018	Δ (%) 19 x 18	2019 Pro forma	Δ (%) 19 x 18
Net Revenues	1,679,235	1,526,659	10.0%	1,679,235	10.0%
Gross Profit	775,694	710,672	9.1%	775,652	9.1%
Gross Margin	46.2%	46.6%	-0.4 p.p.	46.2%	-0.4 p.p.
EBITDA[1]	303,424	232,161	30.7%	261,922	12.8%
EBITDA Margin[1]	18.1%	15.2%	2.9 p.p.	15.6%	0.4 p.p.
Net Income	162,139	142,644	13.7%	166,708	16.9%
Net Margin	9.7%	9.3%	0.4 p.p.	9.9%	0.6 p.p.

Operating Indicators	4Q19	4Q18	Δ (%) 19 x 18	2019	2018	Δ (%) 19 x 18
# of pairs sold ('000)	4,352	3,980	9.3%	14,533	13,507	7.6%
# of handbags sold ('000)	509	509	0.0%	1,771	1,520	16.5%
# of employees	2,465	2,437	1.1%	2,465	2,437	1.1%
# of stores*	752	685	67	752	685	67
Owned Stores	53	51	2	53	51	2
Franchises	699	634	65	699	634	65
Outsourcing (as % of total production)	91.0%	92.1%	-1.1 p.p	90.7%	91.6%	-0.9 p.p
SSS[2] Sell-in (franchises)	2.8%	9.2%	-6.4 p.p	1.7%	4.7%	-3.0 p.p
SSS[2] Sell-out (owned stores + franchises + web)	5.7%	3.6%	0.2 p.p	3.9%	4.2%	-0.3 p.p

* Includes international stores

(1) EBITDA = Earnings before interest, income tax and social contribution on net income, depreciation and amortization. EBITDA is not a measure used in accounting practices adopted in Brazil (BR GAAP), does not represent cash flow for the periods presented and should not be considered as an alternative to net income, as an indicator of operating performance, or as an alternative to cash flow as an indicator of liquidity. EBITDA does not have a standardized meaning and Arezzo&Co's EBITDA definition may not be comparable to adjusted EBITDA of other companies. While EBITDA does not provide, in accordance with the accounting practices adopted in Brazil, a measure of operating cash flows, management uses it to measure operating performance. Additionally, the company believes that certain investors and financial analysts use EBITDA as an indicator of operating performance for a company and/ or its cash flow.

(2) SSS (Same-store sales): Stores are included in comparable stores' sales as of the 13th month of operation. Variations in comparable stores' sales in the two periods are based on sales, net of returns, for owned stores, and on gross sales for franchises in operation during both periods under comparison. As of 4Q16, the Company started to report the SSS sell-in net of discounts. If a store is included in the calculation of comparable stores' sales for only a portion of one of the periods under comparison, this store will be included in the calculation of the corresponding portion of the other period. When square meters are added to or deducted from a store included in comparable stores' sales, with an impact of over 15% on the sales area, the store is excluded from comparable stores' sales. When a store operation is discontinued, this store's sales are excluded from the calculation of comparable stores' sales for the periods under comparison. As from this period, if a franchisee opens a warehouse, its sales will be included in comparable stores' sales if its franchises operate during both periods under comparison. The so-called "SSS of Franchises – Sell In" refers to comparison of Arezzo&Co's sales with those of each Franchised Store in operation for more than 12 months, serving as a more accurate indicator for monitoring the Group's revenue. On the other hand, "SSS – Sell Out" is based on the point of sales' performance, which, in the case of Arezzo&Co, is a better indicator of Owned Stores' sales behavior and Franchises' sell out sales. The franchise sell-out figures represent the best estimate calculated on the basis of information provided by third parties. Starting in 1Q14, the Company begins to also report SSS sell-out including web commerce.

Comments on Company performance

Gross Revenue	4Q19	Part%	4Q18	Part%	Δ (%) 19 x 18	2019	Part%	2018	Part%	Δ (%) 19 x 18
Total Gross Revenue	**573,729**		**505,511**		**13.5%**	**2,063,929**		**1,865,766**		**10.6%**
Foreign Market	**66,258**	**11.5%**	**52,395**	**10.4%**	**26.5%**	**258,982**	**12.5%**	**186,898**	**10.0%**	**38.6%**
Exports	*8,420*	*12.7%*	*14,542*	*27.8%*	*(42.1%)*	*54,509*	*21.0%*	*66,627*	*35.6%*	*(18.2%)*
US Operation	*57,838*	*87.3%*	*37,850*	*72.2%*	*52.8%*	*204,473*	*79.0%*	*120,271*	*64.4%*	*70.0%*
Domestic Market	**507,471**	**88.5%**	**453,116**	**89.6%**	**12.0%**	**1,804,947**	**87.5%**	**1,678,868**	**90.0%**	**7.5%**
By Brand										
Arezzo	*282,268*	*55.6%*	*259,589*	*57.3%*	*8.7%*	*983,757*	*54.5%*	*950,689*	*56.6%*	*3.5%*
Schutz [1]	*121,950*	*24.0%*	*107,701*	*23.8%*	*13.2%*	*474,295*	*26.3%*	*443,471*	*26.4%*	*7.0%*
Anacapri	*76,186*	*15.0%*	*65,417*	*14.4%*	*16.5%*	*259,116*	*14.4%*	*219,554*	*13.1%*	*18.0%*
Others [2]	*27,067*	*5.3%*	*20,409*	*4.5%*	*32.6%*	*87,779*	*4.9%*	*65,154*	*3.9%*	*34.7%*
By Channel										
Franchises	*270,267*	*53.3%*	*244,274*	*53.9%*	*10.6%*	*899,399*	*49.8%*	*831,365*	*49.5%*	*8.2%*
Multibrand	*92,158*	*18.2%*	*75,700*	*16.7%*	*21.7%*	*423,008*	*23.4%*	*384,272*	*22.9%*	*10.1%*
Owned Stores [3]	*76,982*	*15.2%*	*87,700*	*19.4%*	*(12.2%)*	*266,310*	*14.8%*	*298,706*	*17.8%*	*(10.8%)*
Web Commerce	*67,948*	*13.4%*	*44,951*	*9.9%*	*51.2%*	*214,581*	*11.9%*	*162,640*	*9.7%*	*31.9%*
Others [4]	*116*	*0.0%*	*491*	*0.1%*	*(76.4%)*	*1,649*	*0.1%*	*1,885*	*0.1%*	*(12.5%)*

(1) Does not include the revenues from the international operation.
(2) Includes only domestic markets for Alexandre Birman, Fiever and Alme brands and other revenues (not attributed to the brands).
(3) Excluding the effect of the conversion of 10 stores (LTM) from owned stores into franchises, the channel would have grown 4.2% in the quarter.
(4) Includes domestic market revenues that are not specific for distribution channels.

Brands

The fourth quarter of the year is marked by the launch of the summer collection, Black Friday and the most important period of the year – Christmas. We achieved good results, due to the desire for our brands combined with an enchanting mix of products boosted by a team highly passionate about what they do. These results and the well-defined positioning of each of our brands shows that we are on the right path towards consolidating our company as a “House of Brands”.

The **Arezzo** brand reached revenue of R$ 282.3 million in this quarter, an increase of 8.7% compared to 4Q18, representing 55.6% of Arezzo&Co's domestic revenues. Excluding the effect of the conversion of 5 owned stores into franchises in the last twelve months, the brand's revenue would have grown 12.2%.

As a highlight of the quarter, the Arezzo brand launched a unique partnership with *Pantone* – a worldwide known authority on colors and a lifestyle reference – to keep the young public engaged. With the partnership, Pantone took exclusive colors for the brand's shoes and bags, resulting in an excellent performance, with the sale of eleven thousand pairs and more than five thousand bags in just 10 days. In December, Arezzo focused on the *“Arezzo Sempre Presente”* (Arezzo Always Present) campaign for the third year in a row, reinforcing its image as a great option for gifts for the date, through “*buy and win*” actions, recognition of the best customers per store and in-store product display focused on giftable items.

The **Schutz** brand growth reached 17.3% in the period on a global basis, consolidating its important strategy of growth recovery. In the domestic market, the brand accounted for 24.0% of the Company's revenues, totaling R$ 122.0 million in 4Q19, a 13.2% growth over the same period last year – continuing the positive performance also presented in the previous quarters.

Excluding the effect of the conversion of owned stores into franchises (5 stores in the last twelve months), the brand would have grown by 14.5%. In the foreign market, the US operation grew 63.0% in Reais vs. 4Q18 and 51.2% in Dollars.

As a highlight in Brazil, the sneakers category increased its representation in the brand mix to 6.6% (vs. 5.3% in 4Q18) with a 35.7% volume growth in the quarter. In October, the brand expanded the “It Schutz” sneaker line, a best seller in 3Q19, in new colors and materials. The sneakers registered sell-through of 74.0% in just one week.

Following the positive performance of the third quarter, the brand also reached inspiring results on the handbags category, with a 28.6% revenue growth in the period, representing 27.6% in the mix of Schutz. In the quarter, Schutz launched the unique handbag line *“Triangle”* on a different leather, patterns and customization option with initials. In December, Schutz signed an unprecedented partnership with the Brazilian brand of accessories *Isla*, presenting a new version of the brand's shoes and bags best sellers over the years.

The **Anacapri** brand achieved revenues of R$ 76.2 million, a 16.5% growth compared to 4Q18, ending the quarter with 15.0% of the Company's domestic market revenue, compared to 14.4% in 4Q18. The good performance is the result of the net opening of 35 franchises in the last 12 months (20 stores only in 4Q19) and the growing relevance of the web commerce channel, which already represents 7.5% of the total sales. It is worth mentioning the performance of the handbags category, which already represents 8.6% of the product mix, 2.4 p.p. above 4Q18.

As a highlight of the quarter, Anacapri was the first brand to partner with “*Smiley*” in Brasil for the launch of an exclusive collection, which reinforces Anacapri's self-esteem and freedom of expression positioning, bringing greater engagement. The launch featured several actions of marketing and “*buy and win*”, which contributed to the increase of the average ticket of the stores.

The **Alexandre Birman** brand showed 18.5% global growth, highlighting the SSS of 31.1% in the domestic market, besides the sales in the foreign market. In October, the brand launched its customization platform for the e-commerce – previously available only on the physical stores – boosting the channel revenue. Given the growing demand for the brand in Brazil, two owned stores were opened in November, one in Curitiba and other in Brasilia. For the holidays season, the brand launched globally the “*Jelly*” sandal, as an entry price product, in line with the strategy of major international luxury brands. The model was a best seller in the first month of sales.

The **Fiever** brand showed 35.3% growth and was highlighted in the quarter by the web commerce channel, which already represents 13.7% of the brand's revenue. In October, Fiever expanded the *"Fiever BEAT”* sneakers line with DJ Alok (worldwide recognized) as brand ambassador. As a result of this campaign, the sneaker was a best seller representing 25,0% of sales. In November, Fiever opened its first franchised store, located at the *Frei Caneca* mall in São Paulo. Besides that, the brand also signed a partnership with *Centauro* – important player at the sneakers and sports segment in Brazil – for sale in more than 30 stores.

Alme, the group's sixth brand, showed 46.7% growth, with the highlight for the opening of two franchises, located at the *Vila Olímpia* and *Ibirapuera* malls in São Paulo. Besides, the brand also launched the product line “*Alme Eleva*”, whose main characteristic is the lightness of the shoes, which weigh about half of a conventional shoe, providing even more comfort for the consumers.

Comments on Company performance

As announced at the beggining of October, Arezzo&Co signed a contract to become the exclusive distributor of the **Vans®** brand in Brazil. During November and December, the Company was intensively dedicated to integrating the new brand into its structure through a "war room" with people from key areas of the business. Over the months, the team integrated the web commerce platform, concluded the migration to SAP, transferred all products to its own distribution center in *Cariacica* (ES) and took over the management of the physical stores, ending the process successfully without delays or any sales blackout. In order to maintain the DNA and culture of Vans®, the office located in São Paulo was maintained and a large part of the team was absorbed. Since January 1, 2020, Arezzo&Co started to recognize Vans® revenues in its sales, which will be disclosed in the 1Q20 earnings release.

On the **Sustainability** front, the group's brands took important steps such as:

- **Arezzo**: launch of the *"Arezzo Futuro"* (Arezzo Future) platform, which will include all the brand's sustainability initiatives. The first one was the *ZZ* Bio sneaker line, which has the differential of using biodegradable polyamide thread – a technology developed by Rhodia Solvey – replacing the polyester. In addition, the insole, the lining and the sole were also developed with biodegradable material.
- **Schutz**: the first launch of a sneaker with a sole made with 10% of waste in its composition in addition to an upper constructed with recycled PET thread.
- **Anacapri:** launch of a sneaker made with rice husk soles as a replacement for the plastic in its composition.
- **Fiever**: launch of the *Fiever Choice* platform, which will include all the sustainability initiatives, being the first one a line of sneakers made from recycled cotton uppers and soles with 10% of waste in its composition.

The brands' actions materialize the sustainability efforts in one of the stages of the business. However, Arezzo&Co has been working intensively on a solid program that covers all the bonds in the value chain, including the tracking of the supply chain and certifications.

Channels

Monobrand - Franchises, Owned Stores and Web Commerce

Reflecting the Company's strategy to strengthen monobrand stores, the Arezzo&Co point of sales network (Owned Stores + Franchises + web commerce) posted a 8.8% increase in 4Q19 sell-out sales compared to 4Q18, mainly due to the strong growth of the online channel and the net opening of 64 monobrand stores in the last 12 months, as well as the same-store-sales increase of 5.7% in 4Q19.

Following the Company's asset-light strategy, and reinforcing the attractiveness of the franchise model for our franchisees, in the last twelve months, 10 owned stores (5 Arezzo brand and 5 Schutz brand) were converted into franchisees, implying a revenue decline in the Owned Stores channel to the benefit of the Franchise channel. Excluding this effect, the Owned Stores channel would have grown 4.2%.

Comments on Company performance

The sales area stores in Brazil and abroad was 4.5% higher in the quarter compared to 4Q18. In Brazil, the net addition was of 35 Anacapri stores, 23 Arezzo stores (mostly in light format) 4 Alme stores, 2 Alexandre Birman stores and, 1 Fiever store, totaling 2,061 m² (excluding outlets).

The franchise channel accounted for 53.3% of domestic sales in 4Q19 and recorded SSS sell-in of 2.8% and SSS sell-out of 2.3%.

The web commerce channel grew 51.2% compared to 4Q18, representing 13.4% of the company's domestic revenues. It is worth mentioning the excellent performance of the channel on the days of “Black Friday” (Friday to Sunday) which registered SSS sell-out of 78.3%.

Multibrand

In 4Q19, multibrand channel revenues grew by 21.7% compared to 4Q18, over a comparable base of 12.3% comparison basis. All brands demonstrated excellent performance in the channel, highlighting the Schutz and Fiever brands, which presented a high sell throught of the collections and a great attractiveness for the channel's clients.

The group's six brands were distributed through 2,646 stores in 4Q19, up 6.2% over 4Q18, and are present in 2,590 cities.

Foreign Market

In the United States, the revenue recorded a 52.8% growth. In dollars, the increase was 41.8%. All channels of both Schutz and Alexandre Birman brands showed significant growth in the period, with a highlight to the growth of the Wholesale channel, whose sales were boosted by the dropship* model growth, as well as the regular sale of products through the web commerce of those stores. The brands ended the year with 119 doors, an increase of 30% when compared to the same period of 2018.

In addition to the Wholesale channel growth, the online operation showed a relevant growth of 133.4%, due to increasing investments in marketing and brand awareness, with a direct impact on traffic and conversion indicators. Owned Stores channel showed a good performance, with a growth of 56.1%, due to the higher SSS in the stores and the openings in the last twelve months. At the beginning of March, Schutz brand opened a *pop-up* store in Los Angeles at The Grove mall.

The exports to the rest of the world had a retraction of 42.1% in Reais in 4Q19 compared to the same period of 2018, partially explained by the postponement of some orders referring for revenues in the 4Q19 for 1Q20 and by the decrease of the revenues in specific countries such as Argentina and Chile.

On a consolidated basis, in the 4Q19, the Company's foreign market revenue was 26.5% higher than in 4Q18, representing 11.5% of total revenues compared to 10.4% in the same period of the previous year.

**Dropship: availability of products in owned inventory in the United States in the websites of stores such as Nordstrom, Bloomingdale's, Saks Fifth Avenue, Dillards and Neiman Marcus*

Digital Transformation

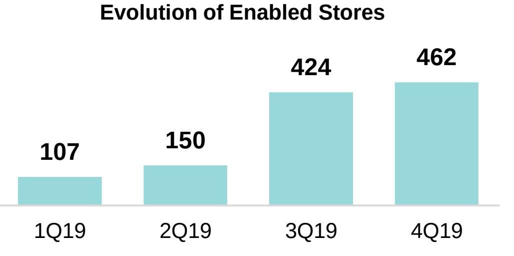
In 2018 Arezzo&Co started its process of Digital Transformation through the implementation of agile methodologies based in squads that aim the integration of all sales channels, digitizing the business with the implementation of BI and merchandising technology.

The channel integration front has made significant progress with the increase in the number of stores able to operate omnichannel tools and the higher franchisees' engagement to improve store conversion and Arezzo&Co's shopping experience.

Click n Collect

Click n Collect consists in the purchase of the product through web commerce with free withdrawal from physical store, in shorter times.

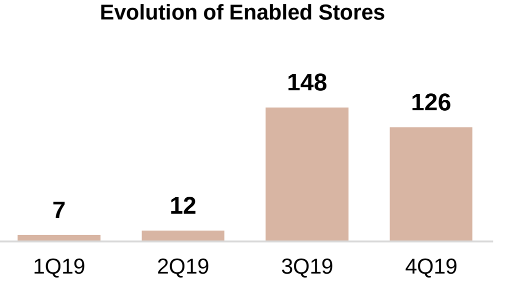
By the end of 4Q19, 462 stores were enabled.



Store Shipping

Store Shipping consist in the purchase of the product through the web commerce and same-day delivery to the customer's home.

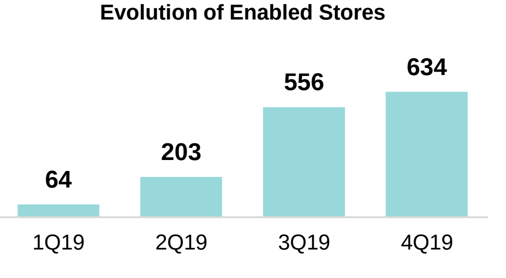
By the end of 4Q19, 126 stores were enabled. It's worth mentioning that this modality depends on partnership with local couriers.



Infinite Shelf

The Infinite Shelf allows online shopping in the store environment when the consumer does not find the desired model/size available.

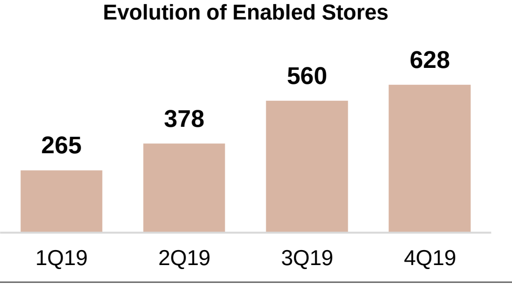
By the end of 4Q19, 634 stores were enabled.



Remote Sell

Remote Sell consist in the remote sale made through the physical store. The store is able to sell its products remotely by sending a credit card payment link through Whatsapp.

By the end of 4Q19, 628 stores were enabled.



Expansion of the Monobrand Channel

Arezzo&Co ended the quarter with 752 stores, (737 in Brazil and 15 abroad) – an increase of 4.5%, with 67 net openings in the last 12 months.

In 4Q19, 37 stores (net) were opened: 13 Arezzo brand stores (11 in the light format), 20 Anacapri, 2 Alme, 2 Alexandre Birman and 1 Fiever.

Store Information	4Q18	1Q19	2Q19	3Q19	4Q19
Sales area[1],[3] - Total (m^2)	**43,965**	**44,086**	**44,322**	**44,835**	**45,925**
Sales area - franchises (m^2)	37,691	37,704	37,768	38,739	39,752
Sales area - owned stores[2] (m^2)	6,274	6,382	6,553	6,096	6,173
Total number of domestic stores	**673**	**677**	**681**	**700**	**737**
# of franchises	**628**	**632**	**636**	**658**	**693**
Arezzo	405	405	406	419	432
Schutz	73	74	73	73	72
Anacapri	150	153	157	165	185
Fiever	–	–	–	–	1
Alme	–	–	–	1	3
# of owned stores	**45**	**45**	**45**	**42**	**44**
Arezzo	14	14	14	10	10
Schutz	17	17	17	17	17
Alexandre Birman	4	4	4	4	6
Anacapri	3	3	3	3	3
Fiever	5	5	5	5	5
Alme	2	2	2	3	3
Total number of international stores	**12**	**13**	**15**	**15**	**15**
# of franchises	6	6	6	6	6
# of owned stores[4]	6	7	9	9	9

(1) Includes areas in square meters of the stores overseas
(2) Includes seven outlet type stores with a total area of 2,217 m²
(3) Includes areas in square meters of expanded stores
(4) Includes Alexandre Birman and Schutz stores, 2 in New York, 2 in Miami, 1 in Los Angeles, 1 in Las Vegas, 1 in New Jersey, and 1 in San Francisco and 1 in Dallas.

Comments on Company performance

Key financial indicators	4Q19	4Q18	Δ (%) 19 x 18	4Q19 Pro forma[4]	Δ (%) 19 x 18
Gross Revenues	573,729	505,511	13.5%	573,729	13.5%
Net Revenues	467,652	412,211	13.4%	467,652	13.4%
COGS	(249,435)	(217,487)	14.7%	(249,428)	14.7%
Depreciation and amortization (cost)	(664)	(412)	n/a	(469)	n/a
Gross Profit	218,217	194,724	12.1%	218,224	12.1%
Gross margin	*46.7%*	*47.2%*	*(0.5 p.p)*	*46.7%*	*(0.5 p.p)*
SG&A	(142,180)	(143,607)	(1.0%)	(142,587)	(0.7%)
% of net revenues	*(30.4%)*	*(34.8%)*	*4.4 p.p*	*(30.5%)*	*4.3 p.p*
Selling expenses	**(108,582)**	**(97,168)**	**11.7%**	**(115,433)**	**18.8%**
Owned stores and web commerce	(33,064)	(36,261)	(8.8%)	(35,167)	(3.0%)
Selling, logistics and supply	(75,518)	(60,907)	24.0%	(80,266)	31.8%
General and administrative expenses	**(50,678)**	**(38,038)**	**33.2%**	**(52,321)**	**37.5%**
Other operating revenues (expenses)	**34,208**	**4,187**	**n/a**	**34,208**	**n/a**
Depreciation and amortization (expenses)	**(17,128)**	**(12,588)**	**36.1%**	**(9,041)**	**(28.2%)**
EBITDA	93,829	64,117	46.3%	85,146	32.8%
EBITDA Margin	*20.1%*	*15.6%*	*4.5 p.p*	*18.2%*	*2.6 p.p*
Net Income	58,655	42,243	38.9%	59,388	40.6%
Net Margin	*12.5%*	*10.2%*	*2.3 p.p*	*12.7%*	*2.5 p.p*
Working capital[1] - as % of revenues	25.0%	27.0%	(2.0 p.p)	27.4%	0.4 p.p
Invested capital[2] - as % of revenues	42.7%	36.8%	5.9 p.p	37.8%	1.0 p.p
Net cash/EBITDA LTM	**0.3x**	**0.5x**	**-**	**0.4x**	**-**
Cash	277,683	235,801	17.8%	277,683	17.8%
Total debt	180,784	111,418	62.3%	180,784	62.3%
Net cash[3]	96,899	124,383	(22.1%)	96,899	(22.1%)

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less from current liabilities minus loans and financing and dividends payable.
(2) Invested Capital: working capital plus fixed assets and other long term assets less income tax and deferred social contributions.
(3) Net debt is equal to total interest bearing debt position at the end of a period less cash, cash equivalents and short-term financial investments.
(4) Excluding the impacts of IFRS 16 / CPC 06 (R2)
(5) Includes revenue related to extemporaneous tax credits (the unconstitutionality of the insertion of "ICMS" in the calculation basis of "PIS/COFINS"), which resulted to the greater achievement of the company's profit sharing plan whose additional financial impact was allocated on the recurring expenses lines (G&A). The positive effect (net of profit sharing plan) of such credits in the company's EBITDA was R$ 18.0 million.

Comments on Company performance

Key financial indicators	2019	2018	Δ (%) 19 x 18	4Q19 Pro forma[4]	Δ (%) 19 x 18
Gross Revenues	2,063,929	1,865,768	10.6%	2,063,929	10.6%
Net Revenues	1,679,235	1,526,659	10.0%	1,679,235	10.0%
COGS	(903,541)	(815,987)	10.7%	(903,583)	10.7%
Depreciation and amortization (cost)	(2,768)	(1,459)	n/a	(1,867)	n/a
Gross Profit	775,694	710,672	9.1%	775,652	9.1%
Gross margin	*46.2%*	*46.6%*	*(0.4 p.p)*	*46.2%*	*(0.4 p.p)*
SG&A	(552,592)	(519,392)	6.4%	(553,299)	6.5%
% of net revenues	*(32.9%)*	*(34.0%)*	*1.1 p.p*	*(32.9%)*	*1.1 p.p*
Selling expenses	**(368,023)**	**(349,297)**	**5.4%**	**(400,229)**	**14.6%**
Owned stores and web commerce	(119,130)	(130,886)	(9.0%)	(131,917)	0.8%
Selling, logistics and supply	(248,893)	(218,411)	14.0%	(268,312)	22.8%
General and administrative expenses	**(165,281)**	**(131,068)**	**26.1%**	**(171,138)**	**30.6%**
Other operating revenues (expenses)	**55,787**	**393**	**n/a**	**55,771**	**n/a**
Depreciation and amortization (expenses)	**(75,075)**	**(39,420)**	**90.4%**	**(37,703)**	**(4.4%)**
EBITDA	300,945	232,159	29.6%	261,922	12.8%
EBITDA Margin	*17.9%*	*15.2%*	*2.7 p.p*	*15.6%*	*0.4 p.p*
Net Income	162,139	142,644	13.7%	166,708	16.9%
Net Margin	*9.7%*	*9.3%*	*0.4 p.p*	*9.9%*	*0.6 p.p*
Working capital[1] - as % of revenues	25.0%	27.0%	(2.0 p.p)	27.4%	0.4 p.p
Invested capital[2] - as % of revenues	42.7%	36.8%	5.9 p.p	37.8%	1.0 p.p
Net cash/EBITDA LTM	**0.3x**	**0.5x**	**-**	**0.4x**	**-**
Cash	277,683	235,801	17.8%	277,683	17.8%
Total debt	180,784	111,418	62.3%	180,784	62.3%
Net cash[3]	96,899	124,383	(22.1%)	96,899	(22.1%)

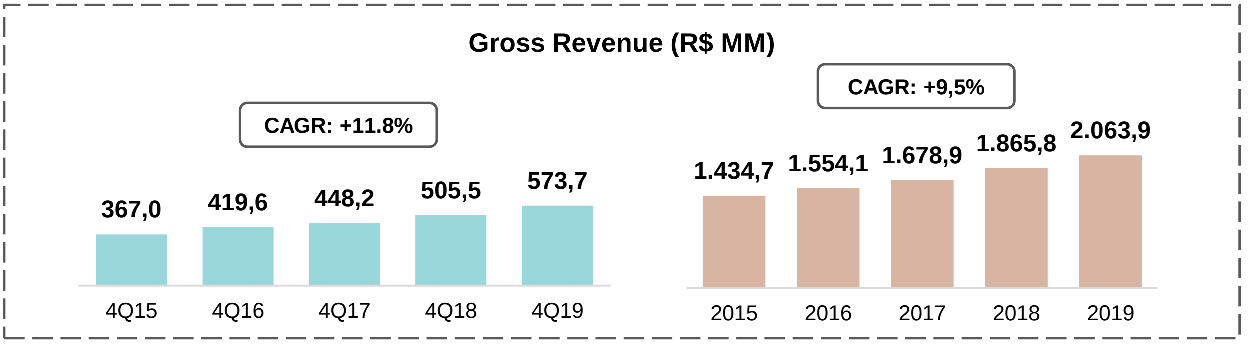
(1) Working Capital: current assets minus cash, cash equivalents and financial investments less from current liabilities minus loans and financing and dividends payable.
(2) Invested Capital: working capital plus fixed assets and other long term assets less income tax and deferred social contributions.
(3) Net debt is equal to total interest bearing debt position at the end of a period less cash, cash equivalents and short-term financial investments.
(4) Excluding the impacts of IFRS 16 / CPC 06 (R2)

Comments on Company performance

Gross Revenue

The company's Gross Revenue in this quarter totaled R$ 573.7 million, 13.5% increase against 4Q18. Among the main factors driving this growth, worthy of mention are:

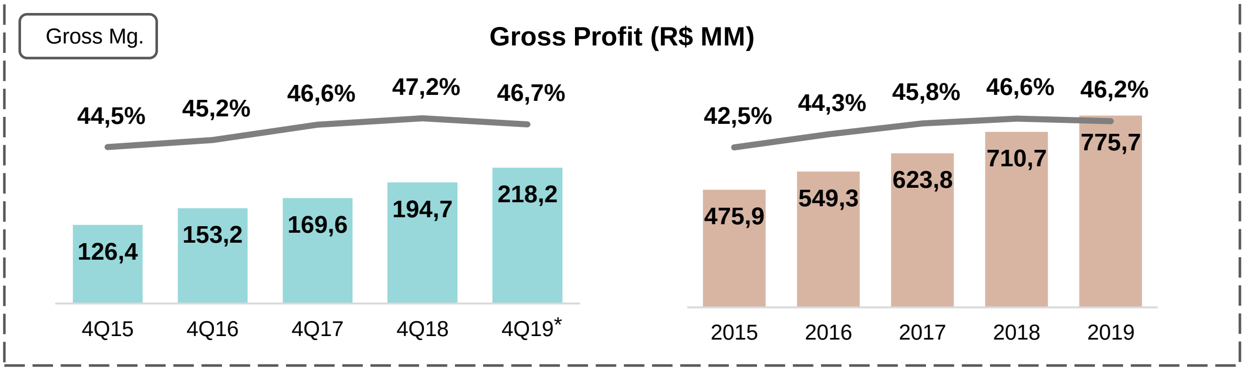
- Growth of 52.8% in the US Operation;
- Growth of 51.2% in the web commerce channel;
- Revenue increase of 16.5% in the Anacapri and of 13.2% in the Schutz brand;
- Growth of 10.6% in the Franchise channel.



Gross Profit (Pro forma)

The Gross Profit for 4Q19 totaled R$ 218.2 million, a 12.1% increase against 4Q18, with a gross margin decrease of 50 bps reaching 46.7% in the period.

Among the factors responsible for the gross margin, the negative highlight was the lower share of the owned stores in the mix after the conversion of 10 stores into franchises in the last twelve months (5 Arezzo and 5 Schutz).



Gross profit before the adoption of IFRS 16 / CPC 06 (R2)

Operating Expenses (Pro forma)

Arezzo&Co remains loyal to its organic brand development plan, and most of the expenses presented below reflect the investments in new brands and new markets/geographies.

Selling Expenses

In 4Q19, there was a 18.9% expansion of commercial expenses when compared to 4Q18, reaching R$115.5 million. It is worth mentioning that commercial expenses include:

(i) Expenses of Owned Stores and Web Commerce (sell-out channels), which totaled R$ 35.2 million – a decrease of 3.0% compared to 4Q18 – below the 51.2% growth in the web commerce channel and in line with the lower share of owned stores in the mix.

(ii) Sales, Logistics, and Supply expenses, totaled R$80.3 million – an increase of 31,9% over 4Q18. It's worth mentioning the incremental expenses related to investments in the US operation, which revenues are expected to bring greater operational leverage over the next quarters. Additionally, it is important to highlight the investments on the pilot project of the RFID on the Schutz brand and the expenses related to the Vans® brand integration process.

General and Administrative Expenses

In 4Q19, general and administrative expenses reached R$ 52.2 million, an increase of 37.3% over 4Q18, partially explained by the higher achievement of the company's profit sharing plan and related legal expenses, due to the recovery of extemporaneous tax credits. Additionally, the level of the expenses were also impacted by non-recurring labor suits.

**Expenses before the adoption of IFRS 16 / CPC 06 (R2)*

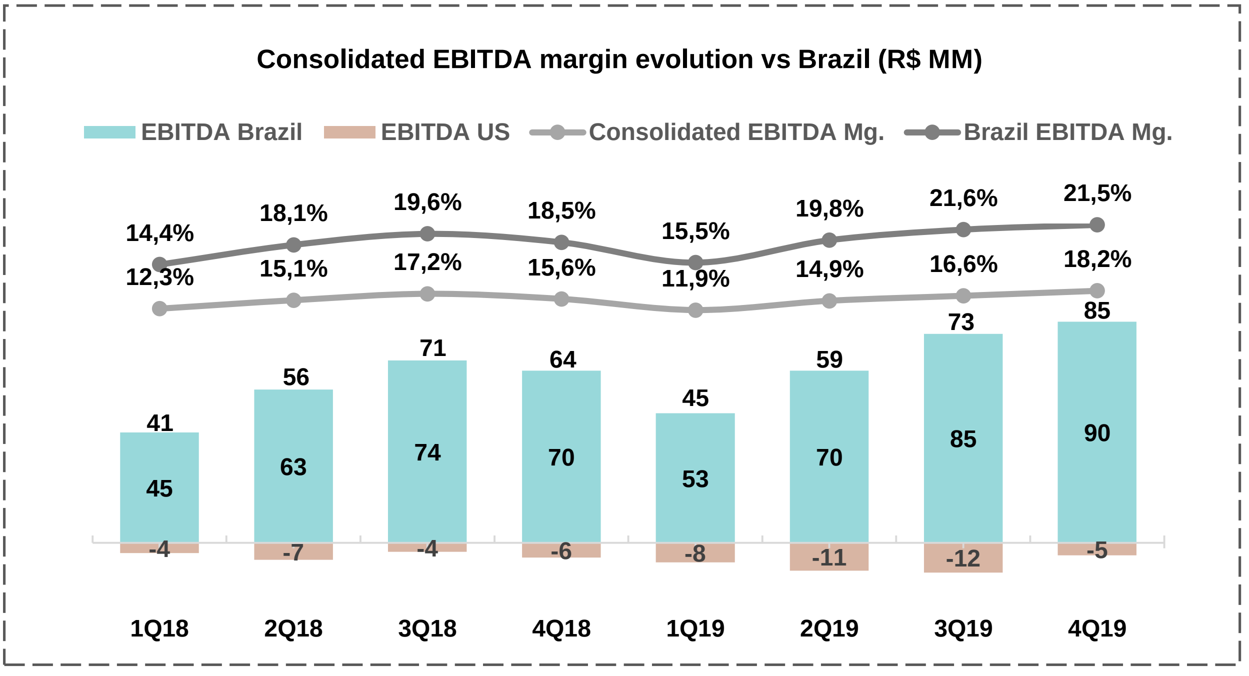
EBITDA and EBITDA Margin (Pro forma)

The Company's adjusted EBITDA totaled R$ 85.2 million in 4Q19, which represents a margin of 18.2% and an increase of 32.8% against the results reported in 4Q18. Among the main reasons are:

- Net Revenue growth of 13.4% against 4Q18;
- A 12,1% increase in Gross Profit (50bps preassure in gross margin);
- Excluding the US Operation, the Company's consolidated EBITDA margin would have increased 331 bps in the quarter;
- Excluding some non-recurring elements earned on 4Q18 and 4Q19, the Brazil EBITDA margin would have decreased 40 bps.

	4Q19			4Q18			2019			2018		
	&Co	Brazil	US	&Co	Brazil	US	&Co	Brazil	US	&Co	Brazil	US
Net Revenue	467.7	419.1	48.5	412.2	380.0	32.2	1,679.3	1,509.3	170.0	1,526.6	1,423.5	103.2
EBITDA	85.1	90.2	(5.0)	64.1	70.2	(6.1)	261.9	298.5	(36.5)	232.2	253.1	(20.9)
EBITDA Mg.	***18.2%***	***21.5%***	-	***15.6%***	***18.5%***	-	***15.6%***	***19.8%***	-	***15.2%***	***17.8%***	-
US Impact	**331 bps**			**292 bps**			**418 bps**			**257 bps**		

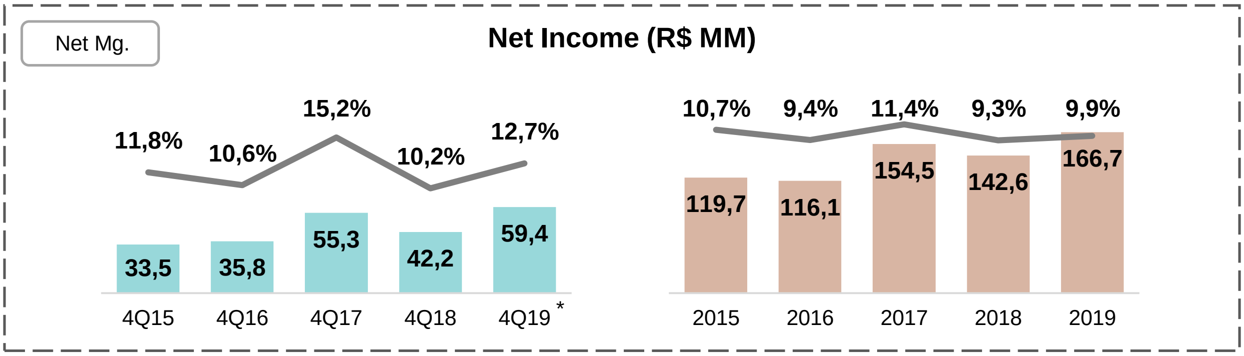
Values in R$ MM



**EBITDA before the adoption of IFRS 16 / CPC 06 (R2)*

Net Income and Net Margin (Pro forma)

The Company posted a net income of R$ 59.4 million, 40.6% higher against 4Q18, with positive impact of the tax credits recovery. The net margin reached 12,7% in 4Q19, 250bps higher than the same period of 2018.



**Net income before the adoption of IFRS 16 / CPC 06 (R2)*

Operating Cash Flow

Arezzo&Co generated operating cash of R$ 61.5 million in 4Q19, due to higher profits before income tax and social contribution as well as a higher depreciation and amortization (IFRS-16 effects) compared to 4Q18.

Operating Cash Flow	4Q19	4Q18	2019	2018
Profits before income tax and social contribution	**58,655**	**42,243**	**162,139**	**142,644**
Income tax and social contribution	**12,738**	**5,549**	**42,785**	**27,354**
Depreciation and amortization	**20,271**	**13,002**	**80,322**	**40,882**
Others	**(9,806)**	**(8,916)**	**5,348**	**1,872**
Decrease (increase) in assets / liabilities	**(14,165)**	**(2,104)**	**(50,887)**	**(66,170)**
Trade accounts receivables	3,938	2,248	(27,753)	(47,759)
Inventories	(585)	(4,921)	(33,208)	(39,845)
Suppliers	(13,216)	(17,424)	29,496	5,705
Change in other noncurrent and current assets and liabilities	(4,302)	17,993	(19,422)	15,729
Payment of income tax and social contribution	**(6,241)**	**(14,750)**	**(34,825)**	**(28,746)**
Net cash flow generated by operational activities	**61,452**	**35,024**	**204,882**	**117,836**

Investments - CAPEX

The Company makes investments of three types:

i) Investments in expansion and remodeling of owned stores in Brazil;

ii) Corporate investments that include IT, facilities, showrooms and offices; and

iii) Other investments, mainly related to the US operation and the industrial operation.

In 4Q19, Arezzo&Co invested R$ 22.0 milion in CAPEX, highlighting:

Brazilian Operation: (i) investments on Digital Transformation, such as BI and channels integration, (ii) investments on the pilot project of RFID of Schutz brand and, (iii) adjustments in the Distribution Center in Cariacica - ES in order to incorporate the Vans® brand.

US Operation: (i) residual values regarding the opening of the stores of Alexandre Birman brand in Dallas, (ii) investments on system integration, and on the web commerce channel of the brands and, (iii) refurbishment of Schutz brand store located at Madison Avenue in New York.

Summary of Investments	4Q19	4Q18	Δ 19 x 18 (%)	2019	2018	Δ 19 x 18 (%)
Total CAPEX	**22,042**	**12,648**	**74.3%**	**65,608**	**48,614**	**35.0%**
Stores - expansion and refurbishi	215	1,433	(85.0%)	8,096	10,796	(25.0%)
Corporate	19,698	4,133	376.6%	33,484	20,257	65.3%
Other	2,129	7,082	(69.9%)	24,028	17,561	36.8%

Cash position and indebtedness

The Company ended 4Q19 with R$ 96.9 million in cash. The debt policy remains conservative, as follows:

- Total indebtedness of R$ 180.8 million in 4Q19 against R$ 111.4 million in 4Q18;
- Net cash of 0.4x versus 0,5x EBITDA in 4Q18.

Cash position and Indebtedness	4Q19	3Q19	4Q18
Cash	**277,683**	**275,344**	**235,801**
Total debt	**180,784**	**189,092**	**111,418**
Short-term	158,222	183,678	43,978
% total debt	87.5%	97.1%	39.5%
Long-term	22,562	5,414	67,440
% total debt	12.5%	2.9%	60.5%
Net cash	**96,899**	**86,252**	**124,383**

ROIC - Return on Invested Capital (Pro forma)

Return on invested capital (ROIC) reached 28.3% compared to 29.2% in 4Q18, mainly due to higher working capital levels explained by higher inventory volumes, reflecting the organic growth and the inventory integration of Vans® brand. In addition, working capital was also impacted by a higher volume of taxes to be recovered.

Income from operations	4Q19	4Q19 Pro forma	4Q18	4Q17	Δ 19 x 18 Reported	Δ 19 x 18 Pro Forma
EBIT (LTM)	223,102	222,353	191,280	173,633	16.6%	16.2%
+ IR e CS (LTM)	(42,787)	(42,787)	(27,354)	(28,463)	56.4%	56.4%
NOPAT	**180,315**	**179,566**	**163,926**	**145,170**	**10.0%**	**9.5%**
Working Capital[1]	419,220	459,342	412,461	342,283	1.6%	11.4%
Permanet assets	382,146	177,679	153,693	149,754	148.6%	15.6%
Other long-term assets[2]	34,756	34,756	31,847	33,375	9.1%	9.1%
Invested capital	**836,122**	**671,777**	**598,001**	**525,412**	**39.8%**	**12.3%**
Average invested capital[3]	**717,062**	**634,889**	**561,707**		**27.7%**	**13.0%**
ROIC[4]	**25.1%**	**28.3%**	**29.2%**			

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less current liabilities minus loans and financing and dividends payable.
(2) Less deferred income tax and social contribution.
(3) Average invested capital in the period and same period previous year.
(4) ROIC: NOPAT for the last 12 months divided by average invested capital.

Comments on Company performance

Balance Sheet

Assets	4Q19	3Q19	4Q18
Current assets	**980,665**	**949,191**	**842,001**
Cash and Banks	13,808	7,657	8,501
Financial Investments	263,875	267,687	227,300
Trade accounts receivables	413,412	415,431	382,728
Inventory	179,499	180,736	150,861
Taxes recoverable	90,332	56,891	49,370
Other credits	19,739	20,789	23,241
Non-current assets	**432,584**	**442,450**	**203,031**
Long-term receivables	50,438	59,248	49,338
Trade accounts receivables	10,402	10,829	10,720
Deferred income and social contribution	15,682	22,099	17,491
Other credits	24,354	26,320	21,127
Investments property	3,017	3,017	3,324
Property, plant and equipment	304,082	317,786	83,201
Intangible assets	75,047	62,399	67,168
Total assets	**1,413,249**	**1,391,641**	**1,045,032**

Liabilities	4Q19	3Q19	4Q18
Current liabilities	**464,659**	**482,982**	**255,889**
Loans and financing	158,222	183,678	43,978
Lease	40,145	39,617	0
Suppliers	134,967	148,756	110,121
Other liabilities	131,325	110,931	101,790
Non-current liabilities	**202,519**	**198,004**	**77,801**
Loans and financing	22,562	5,414	67,440
Related parties	1,502	1,551	1,443
Other liabilities	9,542	9,858	8,918
Lease	168,913	181,181	0
Shareholder's Equity	**746,071**	**710,655**	**711,342**
Capital	352,715	352,715	341,073
Capital reserve	50,538	49,810	46,725
Profit reserves	94,276	90,033	165,033
Tax incentive reserve	213,880	136,443	136,443
Other comprehensive income	6,820	5,788	4,342
Accumulated Profit	27,842	75,866	17,726
Total liabilities and shareholders' equity	**1,413,249**	**1,391,641**	**1,045,032**

Comments on Company performance

Income Statement

Income Statement - IFRS	4Q19	4Q18	Var. %	4Q19 Pro forma	Var. %
Net operating revenue	**467,652**	**412,211**	**13.4%**	**467,652**	**13.4%**
Cost of goods sold	(249,435)	(217,487)	14.7%	(249,428)	14.7%
Gross profit	**218,217**	**194,724**	**12.1%**	**218,224**	**12.1%**
Operating income (expenses):	**(142,180)**	**(143,607)**	**-1.0%**	**(142,588)**	**-0.7%**
Selling	(121,208)	(106,655)	13.6%	(121,737)	14.1%
Administrative and general expenses	(55,179)	(41,140)	34.1%	(55,059)	33.8%
Other operating income, net	34,207	4,188	716.8%	34,208	716.8%
Income before financial result	**76,037**	**51,117**	**48.8%**	**75,636**	**48.0%**
Financial income	(4,644)	(3,325)	39.7%	(3,510)	5.6%
Income before income taxes	**71,393**	**47,792**	**49.4%**	**72,126**	**50.9%**
Income tax and social contribution	(12,738)	(5,549)	129.6%	(12,738)	129.6%
Current	(6,321)	2,913	-317.0%	(6,321)	-317.0%
Deferred	(6,417)	(8,462)	-24.2%	(6,417)	-24.2%
Net income for period	**58,655**	**42,243**	**38.9%**	**59,388**	**40.6%**

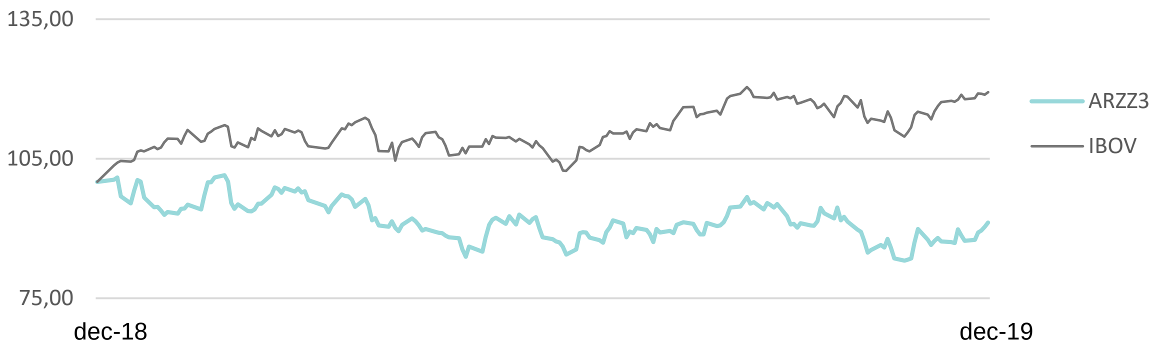
Income Statement - IFRS	2019	2018	Var.%	2019 Pro Forma	Var.%
Net operating revenue	**1,679,235**	**1,526,659**	**10.0%**	**1,679,235**	**10.0%**
Cost of goods sold	(903,541)	(815,987)	10.7%	(903,583)	10.7%
Gross profit	**775,694**	**710,672**	**9.1%**	**775,652**	**9.1%**
Operating income (expenses):	**(552,592)**	**(519,393)**	**6.4%**	**(553,300)**	**6.5%**
Selling	(424,366)	(378,922)	12.0%	(425,488)	12.3%
Administrative and general expenses	(184,012)	(140,865)	30.6%	(183,583)	30.3%
Other operating income, net	55,786	394	14058.9%	55,771	14055.1%
Income before financial result	**223,102**	**191,279**	**16.6%**	**222,352**	**16.2%**
Financial income	(18,176)	(21,281)	-14.6%	(12,857)	-39.6%
Income before income taxes	**204,926**	**169,998**	**20.5%**	**209,495**	**23.2%**
Income tax and social contribution	(42,787)	(27,354)	56.4%	(42,787)	56.4%
Current	(42,659)	(31,631)	34.9%	(42,659)	34.9%
Deferred	(128)	4,277	-103.0%	(128)	-103.0%
Net income for period	**162,139**	**142,644**	**13.7%**	**166,708**	**16.9%**

Cash Flow

Cash Flow	4Q19	4Q18	2019	2018
Operating activities				
Income before income tax and social contribution	58,655	42,243	162,139	142,644
Adjustments to reconcile net income with cash from operational activities	**23,203**	**9,635**	**128,455**	**70,108**
Depreciation and amortization	20,271	13,002	80,322	40,882
Income from financial investments	(2,929)	(3,950)	(13,614)	(17,664)
Payments of Interest on loans	(3,068)	(1,865)	(6,468)	(5,049)
Interest and exchange rate	(5,945)	(1,820)	16,517	15,588
Income tax and social contribution	12,738	5,549	42,785	27,354
Other	2,136	(1,281)	8,913	8,997
Decrease (increase) in assets				
Trade accounts receivables	3,938	2,248	(27,753)	(47,759)
Inventory	(585)	(4,921)	(33,208)	(39,845)
Recoverable taxes	(34,941)	(3,225)	(40,835)	(11,396)
Change in other current assets	3,625	6,023	2,306	(1,294)
Judicial deposits	1,914	1,873	(3,461)	715
(Decrease) increase in liabilities				
Suppliers	(13,216)	(17,424)	29,496	5,705
Labor liabilities	10,744	(6,197)	9,135	3,594
Fiscal and social liabilities	8,665	18,006	1,465	18,618
Variation in other liabilities	5,691	1,513	11,968	5,492
Payment of income tax and social contribution	(6,241)	(14,750)	(34,825)	(28,746)
Lease	-	-	-	-
Net cash flow from operating activities	**61,452**	**35,024**	**204,882**	**117,836**
Investing activities				
Sale of fixed and intangible assets	(784)	5,753	6,126	6,437
Acquisition of fixed and intangible assets	(22,041)	(12,648)	(65,607)	(48,614)
Financial Investments	(316,915)	(279,712)	(1,090,118)	(1,010,083)
Redemption of financial investments	322,672	335,400	1,064,190	1,124,496
Net cash used in investing activities	**(17,068)**	**48,793**	**(85,409)**	**72,236**
Financing activities with third parties				
Increase in loans	48,008	15,652	153,084	70,400
Payments of loans	(47,302)	(69,123)	(88,816)	(155,140)
Instalment Lease	(11,438)	-	(46,723)	-
Net cash used in financing activities with third parties	**(10,732)**	**(53,471)**	**17,545**	**(84,740)**
Financing activities with shareholders				
Interest on equity	(2,351)	-	(43,526)	(41,922)
Profit distribution	(25,000)	(24,998)	(100,000)	(73,796)
Receivables (payables) with shareholders	(50)	(48)	58	211
Issuing of shares	-	-	11,642	10,698
Repurchase of shares	-	-	-	(3,007)
Net cash used in financing activities	**(27,401)**	**(25,046)**	**(131,826)**	**(107,816)**
Increase (decrease) in cash and cash equivalents	**6,251**	**5,300**	**5,192**	**(2,484)**
Cash and cash equivalents				
Foreign exchange effect on cash and cash equivalents	(100)	(189)	115	829
Cash and cash equivalents - Initial balance	7,657	3,390	8,501	10,156
Cash and cash equivalents - Closing balance	13,808	8,501	13,808	8,501
Increase (decrease) in cash and cash equivalents	**6,251**	**5,300**	**5,192**	**(2,484)**

4. Capital Markets and Corporate Governance

On December 30, 2019, the Company's market capitalization was R$5,82 billion (R$ 64,00), an increase of 16,2% when compared to the same period of 2018



Arezzo&Co	
Ações emitidas	90,954,280
Ticker	ARZZ3
Início de negócios	2/2/2011
Cotação (30/12/2019)	64.00
Market Cap	5,821,073,920
Desempenho	
2011[1]	20%
2012[2]	71%
2013[3]	(24%)
2014[4]	(9%)
2015[5]	(22%)
2016[6]	27%
2017[7]	118%
2018[8]	(2%)
2019[9]	16%

(1) From 02/02/2011 to 29/12/2011
(2) From 29/12/2011 to 28/12/2012
(3) From 28/12/2012 to 30/12/2013
(4) From 30/12/2013 to 30/12/2014
(5) From 30/12/2014 to 30/12/2015
(6) From 04/01/2016 to 29/12/2016
(7) From 01/01/2017 to 28/12/2017
(8) From 01/01/2018 to 28/12/2018
(9) From 01/01/2019 to 30/12/2019

To ensure greater predictability and transparency to shareholders, the Company has seminnanual distribution of dividends for its shareholders.

Reference Date	Payment Date	Remuneration	R$	Gross amount by ordinary share (R$)
2018	01/15/2019	Interest on Equity	R$ 0.23099332338	R$ 20,847,214.20
2019	04/02/2019	Dividends	R$ 0.83102226964	R$ 75,000,000.00
2019	10/15/2019	Dividends	R$ 0.19641373027	R$ 17,726,395.92
2019	07/25/2019	Interest on Equity	R$ 0.22379624077	R$ 20,343,561.91
2019	10/15/2019	Dividends	R$ 0.07997447187	R$ 7,273,604.00

(1) Subject to tax withholding at a source rate of 15%, except for proven immune or exempt shareholders, or shareholders domiciled in countries or jurisdictions to which the rules establish different aliquot.

It also provides that the Company shall distribute the dividends, including interest on capital, dividends from other, equivalent to at least 25% of Net income to shareholders. For more information about Arezzo&Co's remuneration policy, please see: www.arezzoco.com.br.

5. Independent Auditors

Arezzo&Co's financial statements relative to the business year ending on December 30, 2019, were audited by PricewaterhouseCoopers Auditores Independentes ("PwCAI"). The services provided by PwCAI to the company in 2019 and connected to audit or review activities can be summarized as follows:

• Full audit conducted according to the Brazilian and international audit standards, of the company's individual and consolidated financial statements prepared according to the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) for the business year ending on December 31, 2019;
• Reviews of the company's Quarterly Information on March 31, June 30, and September 30, 2019; and
• Review of the management statements related to Advertising Funds allocated to Arezzo, Schutz and Anacapri for the business year ending on December 31, 2019.

The fees for the services above were quoted at R$ 451,347.38 net of taxes. The total amount paid was of R$ 526,352.20.

The company's policy regarding the purchase of services unrelated to external audits aims at preventing conflicts of interest. It is based on principles that uphold the Independent Auditor's independence and basically comprises current international standards such as: (a) auditors must not audit their own work; (b) auditors must not hold management positions in the company; (c) auditors must not advance the company's interests; and (d) auditors must not provide any services that may be barred by the legislation in force. Additionally, the senior management obtains from the independent auditors a statement that the special services provided do not affect their professional independence.

Independent auditors state that they will report all relationships and other matters existing between the Independent Auditors, or other firms belonging to their organization, and the company, relationships and matters which, according to their professional judgment, may be reasonably related to their independence (including total fees charged for services related or unrelated to audits and provided by the Independent Auditors). Independent Auditors further report on the safeguards they have applied to eliminate threats detected against their independence or reduce them to an acceptable level.

6. Investor Relations

Shareholders, analysts and market participants have at their disposal information available on the Company's IR webpage, www.arezzoco.com.br, CVM webpage, www.cvm.gov.br, and at BM&FBovespa webpage, www.bmfbovespa.com.br.

For further information, direct contact can be made with IR department by the e-mail ri@arezzoco.com.br, or telephone +55 (11) 2132-4300.

7. Officer's Statement

The Officers of Arezzo Indústria e Comércio S.A. state to have reviewed, discussed and agreed upon the Independent auditors' report and financial statements for the year ended on December 31th, 2018, according and pursuant to CVM Normative Instruction No. 480/09.

Disclaimer

The information contained here may include forward-looking information and reflects the executive office's current perception and prospects for the macroeconomic environment, the industry situation, the Company's performance and financial results. Any statements, expectations, capacities, plans and projections contained here which do not describe historical facts, such as information about the dividend payment statement, the future course of operations, the introduction of relevant financial strategies, the investment program and the factors or trends affecting the financial condition, liquidity or the operating results are considered forward-looking information as defined by the "U.S. Securities Litigation Reform Act" of 1995 and involve a number of risks and uncertainties. These results are not guaranteed to materialize. These statements are based on several factors and expectations, including the economic and market conditions, level of competition in the industry and operating factors. Any changes in these expectations and factors may lead to real results materially different from the current expectations.

The consolidated financial information of Arezzo Indústria e Comércio S/A – Arezzo&Co presented here complies with the International Financial Reporting Standards – IFRS, issued by the International Accounting Standards Board – IASB, based on audited financial information. The non-financial information, as well as other operating information, was not audited by the independent auditors.

1. Company information

Arezzo Indústria e Comércio S.A. (the "Company" or "Parent company") is a listed company headquartered at Rua Fernandes Tourinho, 147 – sala 402, in the city of Belo Horizonte, State of Minas Gerais. The Company has shares traded on the "Novo Mercado" (New Market) listing segment of the São Paulo Commodities, Futures and Stock Exchange ("BM&FBOVESPA") under the ticker symbol ARZZ3 since February 2, 2011.

The Company and its subsidiaries manufacture, develop, mold and sell women's shoes, handbags, clothing and accessories.

At December 31, 2019, the Company had 693 franchise-operated stores in Brazil and 6 abroad; 44 company-operated stores in Brazil and 9 abroad; and an e-commerce channel to sell its products of Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever and Alme brands.

The franchise system is controlled by the Company and company-owned stores form part of Company subsidiaries.

All the following subsidiaries of the Company are included in the consolidated financial statements:

ZZAB Comércio de Calçados Ltda. ("ZZAB")

ZZAB is engaged in the retail sale of shoes, handbags and belts, and has stores in the cities of Cajamar, São Roque, São Paulo, Itupeva, all of them in the State of São Paulo, Federal District, Cariacica in the State of Espirito Santo, Alexânia in the State of Goias, Belo Horizonte in the State of Minas Gerais, Curitiba in the State of Parana, Rio de Janeiro and Duque de Caxias in the State of Rio de Janeiro, Tijuca in the State of Santa Catarina, Porto Alegre, Gramado and Novo Hamburgo in the State of Rio Grande do Sul, selling all brands of the Group (Parent company and its subsidiaries).

ZZSAP Indústria e Comércio de Calçados Ltda. ("ZZSAP")

ZZSAP manufactures, sells, imports and exports leather shoes, handbags and belts, footwear components, clothing and accessories.

ZZEXP Comercial Exportadora S/A ("ZZEXP")

ZZEXP exports leather shoes, handbags and belts, clothing and accessories of the Group.

ARZZ International Inc. ("ARZZ Inc.")

ARZZ Inc. is engaged in selling shoes and business intermediation. ARZZ Inc. owns a direct equity interest in ARZZ LLC, Schutz 655 LLC, Schutz Cali and Showroom Italy.

ARZZ LLC

ARZZ LLC is engaged in selling shoes and business intermediation.

Schutz 655 LLC

Schutz 655 LLC is engaged in selling exclusive Schutz-brand shoes, handbags and belts at retail.

1. Company information (Continued)

Schutz Cali LLC

Schutz Cali LLC sells exclusive Schutz-brand shoes, handbags and belts at retail.

Showroom Italy

Showroom Italy was opened in 2018 to display Alexandre Birman shoes, handbags and belts and represent the Alexandre Birman brand.

2. Accounting policies

2.1. Basis of preparation and presentation of the financial statements

2.1.1. Parent company financial statements

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

2.1.2. Consolidated financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as according to the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC) and its technical interpretations (ICPC) and guidance (OCPC), approved by the Brazilian Securities Commission (CVM), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

In preparing these financial statements, the Company followed the same accounting policies and methods of calculation as used for the consolidated financial statements at December 31, 2018. Except for CPC 06 (R2)/IFRS 16, the Company does not have transactions that are affected by the new standards and interpretations issued by the CPC or the IASB and therefore its accounting policies are consistent with the new requirements that were in effect at December 31, 2019.

The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets and financial liabilities which measured at fair value or at amortized cost.

(All amounts in thousands of reais unless otherwise stated)

2. Accounting policies (Continued)

2.1. Basis of preparation and presentation of the financial statements (Continued)

2.1.2. Consolidated financial statements (Continued)

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to the uncertainties inherent in making any accounting estimates. The Company reviews estimates and assumptions at intervals not greater than one year.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The parent company and consolidated financial statements for the year ended December 31, 2019 were authorized for issue at the Board of Directors' meeting held on February 28, 2020.

2.2. Basis of consolidation

The consolidated financial statements include the operations of the Company and the following subsidiaries in which the Company directly or indirectly has a controlling financial interest, as summarized below:

		Total ownership interest			
Subsidiaries	**ntry of incorporat**	**2019**		**2018**	
		Direct	**Indirect**	**Direct**	**Indirect**
ZZAB Comércio de Calçados Ltda.	Brazil	**99,99%**	**-**	99,99%	-
ZZSAP Indústria e Comércio de Calçados Ltda.	Brazil	**99,99%**	**-**	99,99%	-
ZZEXP Comercial Exportadora S/A	Brazil	**99,99%**	**-**	99,99%	-
ARZZ International INC.	USA	**100,00%**	**-**	100,00%	-
ARZZ Co. LLC	USA	**-**	**100,00%**	-	100,00%
Schutz 655 LLC	USA	**-**	**100,00%**	-	100,00%
Schutz Cali LLC	USA	**-**	**100,00%**	-	100,00%

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is an assumption that the majority of voting rights results in control.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies for all consolidated entities. All intra-group balances, income and expenses and unrealized gains or losses resulting from intra-group transactions are fully eliminated.

2. Accounting policies (Continued)

2.2. Basis of consolidation (Continued)

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control is accounted for as equity transactions within equity.

The profit for the year is fully attributable to the owners of the Parent company since non-controlling interests represent 0.0001% of the consolidated equity.

2.3. Functional currency

The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency, and also the Company's and its subsidiaries' presentation currency. Each subsidiary of the Company determines its own functional currency and the financial statements of the Company's subsidiaries that have a functional currency different from the Brazilian real are translated into Brazilian reais at the balance sheet date.

2.4. Foreign currency transactions and balances

2.4.1. Transactions and balances

Foreign currency transactions are initially translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All foreign exchange differences arising on translation are taken to profit or loss.

2.4.2. Subsidiaries

The assets and liabilities of foreign subsidiaries are translated into Brazilian reais at the exchange rate prevailing at the balance sheet date, and the related statements of income are translated monthly at average foreign exchange rates for the periods. All resulting foreign exchange differences are recognized as a separate component of equity, in the account "Carrying value adjustments". When a foreign operation is disposed of or sold, foreign exchange differences that were recorded in equity are recognized in the statement of income.

On consolidation, foreign exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to equity.

2. Accounting policies (Continued)

2.5. Revenue recognition

Revenue is recognized when it is probable that future economic benefits will result from the transaction and when the amount of revenue can be reliably measured. Revenue comprises the fair value of the consideration received, and is shown net of discounts, rebates, taxes or charges on sales. The Company assesses sales transactions based on specific criteria to determine whether it is acting as a principal or as an agent in the transaction and concluded that it is acting as a principal in all arrangements. The following specific conditions must be satisfied for revenue to be recognized:

I. Sales of goods

Revenue from the sale of goods is recognized when control of the goods passes to the buyer.

II. Royalty income

Royalty income is recognized on the accrual basis in accordance with the substance of the relevant agreements.

III. Interest income

Interest income or expense is recognized for all financial instruments carried at amortized cost and interest-bearing financial assets using the effective interest rate that is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Interest income is included in the statement of income as “Finance income”.

2.6. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of the Group’s business. Trade receivables are stated at amortized cost and receivables from foreign customers are restated using the foreign exchange rates prevailing at the reporting date. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

The provision for impairment of trade receivables was recorded based on a customer-by-customer analysis of outstanding receivables with risk of default, the amount of which is considered sufficient by management to cover probable losses on collection of accounts receivable.

2. Accounting policies (Continued)

2.7. Inventories

Inventories are stated at the lower of cost and net realizable value. Costs incurred in bringing the inventories to their present location and condition are recorded as specified below:

I. Raw materials: average acquisition cost.
II. Finished goods and work in process: cost of direct materials and labor and related production overheads based on normal operating capacity.

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

The provisions for slow-moving or obsolete inventories are recognized when considered necessary by management.

2.8. Investments in subsidiaries

In the parent company financial statements, investments in subsidiaries are accounted for using the equity method.

Under the equity method, investments in subsidiaries are recorded in the balance sheet of the Parent company at cost plus any changes after acquisition of ownership interest in the subsidiary.

The Company's share of the profit or loss of its subsidiaries is recognized in the statement of income as equity in the earnings (loss) of subsidiaries and represents the profit or loss attributable to owners of the Parent company.

After applying the equity method for purposes of the parent company financial statements, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in subsidiaries. The Company assesses at each reporting date whether there is objective evidence that investments in subsidiaries are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and recognizes the amount in the statement of income.

2. Accounting policies (Continued)

2.9. Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, based on the rates mentioned in Note 14, as follows:

	Estimated average useful life
Facilities and showroom	10 years
Machinery and equipment	10 years
Furniture and fittings	10 years
Computers and peripherals	5 years
Vehicles	5 years

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income when the item is derecognized.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, at the end of each reporting period.

2.10. Intangible assets

Separately acquired intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets comprise mainly computer software licenses, trademarks and patents, and store use rights.

The useful life of intangible assets is assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

2. Accounting policies (Continued)

2.10. Intangible assets (Continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Research costs are expensed as incurred.

2.11. Impairment of non-financial assets

Management reviews annually the net carrying amount of the assets with the objective of assessing events or changes in economic, operational or technological environment that might indicate that an asset is impaired. Where such evidence is identified and the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized by writing down the asset's carrying amount to its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its net selling price and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. An asset's net selling price is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between knowledgeable, willing parties, adjusted for incremental costs that would be directly attributable to the disposal of the asset or, if there is no binding sale agreement, is based on the asset's market price of an active market or on the price of the most recent transaction for similar assets.

2.12. Adjustment to present value of assets and liabilities

Long-term monetary assets and liabilities are adjusted to present value. Adjustment to present value of short-term monetary assets and liabilities is calculated and recorded only if considered material in relation to the financial statements taken as a whole.

The adjustment to present value is calculated taking into account the contractual cash flows and the explicit interest rate and, in some cases the implicit interest rate, of respective assets and liabilities. Accordingly, the interest embedded in revenue, expenses and costs associated with these assets and liabilities is discounted for recognition on an accrual basis. Subsequently, this interest is reclassified to finance costs and income in the statement of income using the effective interest rate method for the contractual cash flows.

The Company periodically evaluates the effect of this procedure and in 2019 and 2018 there were no long-term transactions (and no material short-term transactions) that would qualify for adjustments.

(All amounts in thousands of reais unless otherwise stated)

2. Accounting policies (Continued)

2.13. Provisions

2.13.1. General

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

2.13.2. Provisions for tax, civil and labor contingencies

The Company is a party to several judicial and administrative proceedings. Provisions are recognized for all judicial proceedings where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, previous court decisions, most recent court decisions and their relevance in the judicial context, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits or additional exposures identified based on new issues or court decisions.

2.14. Income taxes and other taxes

2.14.1. Sales taxes

Revenue and expenses are recognized net of the amount of sales tax, unless:

I. the sales tax incurred on the purchase of goods or services is not recoverable from the relevant taxation authority. In this case, it is recognized as part of the cost of acquisition of the asset or as part of an item of the expense, as applicable;
II. receivables and payables are stated inclusive of the amount of sales tax receivable or payable; and
III. the net amount of sales tax recoverable from, or payable to, the relevant taxation authority, is included with other receivables or payables in the balance sheet.

The Company's sales and service revenue is subject to the following taxes and contributions at the specified tax rates:

	Tax rates
Value-added Tax on Sales and Services (ICMS)	7.00% to 19.00%
Social Contribution on Revenues (COFINS)	7.6%
Social Integration Program (PIS)	1.65%
Social Security Contribution (INSS)	1.5%
State Sales Tax (USA)	0% to 8.875%

In the statement of income, sales are stated net of these taxes.

2. Accounting policies (Continued)

2.14. Income taxes and other taxes (Continued)

2.14.2. Current income tax and social contribution

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities, and are classified as current or non-current depending on the expected period of realization and/or settlement. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

In Brazil, the main country where the Company operates, the taxes on profit comprise income tax and social contribution. The income tax is charged on taxable income at a rate of 15% plus a surcharge of 10% on annual taxable income in excess of R$240, and the social contribution is charged at a rate of 9% on taxable income recognized on the accrual basis. Thus, the additions of temporary non-deductible expenses to, or the exclusions of temporary non-taxable income from, accounting profit, when calculating current taxable income generate deferred tax assets or liabilities. The amounts prepaid or amounts to be offset are included in current or non-current assets depending on the expected period of realization.

Current income taxes relating to items recognized directly in equity are also recognized directly in equity. Management periodically evaluates positions taken by the Company in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate.

2.14.3. Deferred taxes

Deferred taxes are recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences, except:

I. where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
II. in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Accounting policies (Continued)

2.14. Income taxes and other taxes (Continued)

2.14.3. Deferred taxes (Continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

I. where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
II. in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the end of each reporting period.

Deferred tax relating to items recognized directly in equity is also recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are netted if there is a legal or contractual right to offset the amounts and they relate to the same taxable entity and the same taxing authority.

2.15. Other employee benefits

The Company provides variable compensation such as profit sharing, share option plan and restricted stock plan to its employees and executives in addition to their fixed compensation (normal wages and salaries, social security contribution (INSS), paid vacation and 13th month salary). These benefits are recognized on the income statement on the accrual basis when the Company has an obligation.

2. Accounting policies (Continued)

2.16. Earnings per share

The Company calculates basic earnings per share based on the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares, in conformity with Technical Pronouncement CPC 41 (IAS 33). Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential common shares with dilutive effects.

2.17. Statement of cash flows and statement of value added

The statements of cash flows were prepared under the indirect method and are presented in accordance with Technical Pronouncement CPC 03 R2 (IAS 7) - “Statement of Cash Flows”, issued by the CPC (IASB).

The presentation of the statement of value added is required by the Brazilian corporate legislation, while it is not required by IFRS. The statement of value added is presented as supplementary information for IFRS purposes and was prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". The purpose of value added statement is to show wealth created by the Company during the year and how is that wealth distributed among various stakeholders.

2.18. Financial instruments

2.18.1. Initial recognition and measurement

Financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except in the case of financial assets not recorded at fair value through profit or loss.

The Company’s main financial assets comprise cash, trade receivables and cash investments. These assets were classified into the categories of amortized cost and financial assets at fair value through profit or loss, respectively.

The Company’s main financial liabilities comprise trade payables and borrowings. These liabilities were classified into the category of amortized cost.

2. Accounting policies (Continued)

2.18. Financial instruments (Continued)

2.18.2. Subsequent measurement

Subsequent measurement of financial instruments occurs at each balance sheet date and depends on the category into which the financial instrument is classified. The Company's financial assets and liabilities are classified into the following categories:

I. Financial assets at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

II. Financial assets and liabilities at amortized cost

A financial asset or liability shall be measured at amortized cost if both of the following conditions are met:

a) the financial asset or liability is held within a business model whose objective is to hold financial instruments in order to collect contractual cash flows; and
b) the contractual terms of the financial asset or liability give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

III. Financial assets and liabilities at fair value through profit or loss

A financial asset or liability that is not measured at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss.

2. Accounting policies (Continued)

2.19. Derivative financial instruments and hedging activities

The Company uses derivatives to hedge its exposure to fluctuations in foreign exchange rates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, in the case of adoption of hedge accounting and, if so, the nature of the item being hedged.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income.

2.20. Segment reporting

The Company is managed as a single business unit engaged in manufacturing and selling women's shoes, handbags and accessories. The Company has six brands - Arezzo, Schutz, Alexandre Birman, Anacapri, Fiever and Alme. Although the Company's products are sold to customers through various channels (mono-brand stores, which comprise company-owned stores, franchises and web commerce, and multi-brand stores), they are not controlled and run by management as separate operating segments, and the Company's results are monitored and assessed in an integrated way.

2.21. Share-based compensation

2.21.1. Share option plan

The Company approved a share option plan for selected officers and executives, offering them the opportunity to buy shares in the Company under certain terms and conditions specified in the plan. The fair value of the options granted is calculated on the date of the grant and the expense is recorded on a pro rata basis over the period from the date of grant to the vesting date. See Note 32 for details of the Company's share option plan.

2.21.2. Restricted stock plan

The Company approved a restricted stock plan for its officers, executives and selected employees, giving them restricted shares under the terms and conditions laid out in the plan. The expense is recorded on a pro rata basis over the period from the date of grant to the vesting date. The expense represents the number of shares granted multiplied by the fair value of the share at the grant date as well as provision for charges. See Note 32 for details.

3. Critical accounting judgments, estimates and assumptions

3.1. Judgments

The preparation of parent company and consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions are continually evaluated and prospectively recognized.

3. Critical accounting judgments, estimates and assumptions (Continued)

3.2. Estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

I. Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from sales transactions for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the assets' performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow method as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

II. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable profits. The Company establishes provisions based on applicable estimates for anticipated outcomes of tax audits in the jurisdictions in which it operates. The provision amounts are based on various factors, such as experience from prior tax audits and divergent interpretations of tax regulations by the taxable entity and the relevant taxation authority. Such divergent interpretations may arise from a wide range of issues, depending on the conditions prevailing in the domicile of the Company.

Significant judgment by management is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

3. Critical accounting judgments, estimates and assumptions (Continued)

3.2. Estimates and assumptions (Continued)

III. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

IV. Share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value of share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and risk-free interest rate. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 32.

V. Provisions for tax, civil and labor contingencies

The Company recognizes a provision for all lawsuits involving risks of loss assessed as probable. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, previous court decisions, most recent court decisions and their relevance in the judicial context, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits or additional exposures identified based on new issues or court decisions.

The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to the inaccuracies inherent in making accounting estimates. The Company reviews its estimates and assumptions at least on a quarterly basis.

4. New or revised pronouncements

I. New or revised pronouncements applied for the first time in 2019

As from January 1, 2019 the Company's accounting policies in respect of leases are consistent with the new pronouncements CPC 06 (R2)/IFRS 16 Leases and with interpretation ICPC 22/IFRIC 23 Uncertainty over Income Tax Treatments.

4.1. CPC 06 (R2) – Leases

The IASB published in January 2016 new lease guidance IFRS 16, equivalent to Brazilian standard CPC 06 (R2). IFRS 16 significantly changes how a lessee recognizes and measures leases.

Under IFRS 16, with few exceptions, all leases will be accounted for on the lessee's balance sheet by recognizing:

- a liability for the future lease payments; and
- a right-of-use asset.

The lease expense will be recorded as interest expense and amortization. This will result in higher amounts of lease expense recognized early in the life of the lease and the variable elements of the lease payments are excluded for calculation of the lease liability and are now recorded as operating expense.

From now on, the definition of a lease applies to all contracts that conveys the right to control the use of an identifiable asset, including rental contracts and potentially some components of service contracts.

CPC 06 (R2) came into effect on January 1, 2019 and permits entities to follow one of two approaches in adopting the new standard: the retrospective approach or the modified approach.

The Company elected the modified retrospective approach, meaning the rule was applied to all contracts existing on the date of initial application, without restatement of comparative information.

The new standard provides optional practical expedients. The Company has applied the following practical expedients on transition:

- The Company did not reassess whether a contract is, or contains, a lease at the date of initial application. Instead, it applied the standard to contracts that were previously identified as leases under CPC 06 (R2)/IAS 17 and ICPC 03/IFRIC 4;
- The Company elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component;
- The Company applied the recognition exemption to leases for which the lease term ends within 12 months of the date of initial application;
- The Company applied the recognition exemption to leases for which the underlying asset, when new, is of low value (with a value of R$20 or less);

4. New or revised pronouncements (Continued)

4.1. CPC 06 (R2) – Leases (Continued)

- The Company excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- The Company used hindsight, e.g. in determining the lease term if the contract contains options to extend or terminate the lease, among others; and

Pursuant to CVM Circular Letter 02/19 issued on December 18, 2019, the Company applied a single nominal discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). For this reason, the rate varies from 1.8% to 6.9%, and the lease liability is gross of taxes (PIS and COFINS) and will be reduced based on the lease payments.

The impacts of applying this new standard are shown in Notes 14 and 18.

4.2. ICPC 22 (IFRIC 23) – Uncertainty over Income Tax Treatments

ICPC 22/IFRIC 23 clarifies how to apply the recognition and measurement requirements in CPC 32 when there is uncertainty over income tax treatments. The Company's management shall recognize and measure its current or deferred tax asset or liability applying the requirements in CPC 32 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. The Interpretation was approved on December 21, 2018 and is effective for annual periods beginning on or after January 1, 2019.

The Company assesses that no material impacts are expected to result from this Interpretation because all procedures adopted for determining and paying income taxes are supported by law and administrative and judicial precedents.

There are no other IFRSs or IFRIC interpretations that are not yet effective that, in management's opinion, would be expected to have a material impact on the Company's profit or equity.

(All amounts in thousands of reais unless otherwise stated)

5. Cash and cash equivalents

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash	**450**	283	**1.175**	1.168
Banks	**1.236**	819	**12.633**	7.333
Total cash and cash equivalents	**1.686**	1.102	**13.808**	8.501

6. Cash investments

	Parent company		Consolidated	
	2019	2018	2019	2018
Current				
Fixed income (a)	**4.845**	3.149	**5.393**	3.443
Exclusive investment fund				
Certificates of bank deposit (CDB)	**2.984**	21.109	**3.540**	22.936
Financial bills (CEF)	**40.784**	41.155	**48.395**	44.717
Financial Treasury bills (LFT)	**174.064**	143.761	**206.547**	156.204
Total cash investments	**222.677**	209.174	**263.875**	227.300

(a) Includes CDBs and securities.

<u>Exclusive investment fund</u>

ZZ Referenciado DI Crédito Privado is a private fixed-income investment fund under management, administration and custody of Banco Santander S.A. There is no specified holding period for this investment fund and so shares can be redeemed without a material risk of loss. The investment fund does not have significant financial obligations. Financial obligations include asset management fees, custody fees, audit fees and expenses.

The fund is for the exclusive benefit of the Company and its subsidiaries. Thus, in accordance with CVM Instruction 408/04, the exclusive investment fund in which the Company invests money has been consolidated.

At December 31, 2019, the average rate of return of the investment fund and other cash investments is 98.83% of the Interbank Deposit Certificate rate (CDI) (December 31, 2018 – 99.0%). LFTs are 74% of the fund's assets and 82.57% of the assets provide daily liquidity.

The Company has cash investment policies in place that require it to concentrate its investments in low-risk securities that substantially provide a return based on the CDI variance and to place its investments with top-tier financial institutions (top 10 financial institutions in the country).

At December 31, 2019, the Company has no investment pledged as collateral to financial institutions.

(All amounts in thousands of reais unless otherwise stated)

7. Trade receivables

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Domestic customers				
Trade notes receivable	**292.542**	259.932	**298.350**	265.141
Trade notes receivable - related parties (Note 12a)	**1.580**	355	**-**	-
Foreign customers				
Trade notes receivable	**3.574**	10.493	**54.242**	58.861
Trade notes receivable - related parties (Note 12a)	**23.736**	22.583	**-**	-
Other				
Checks	**24**	25	**80**	96
Credit cards	**-**	-	**73.775**	74.593
	321.456	293.388	**426.447**	398.691
(-) Provision for impairment of trade receivables	**(1.639)**	(4.839)	**(2.633)**	(5.243)
Total trade receivables	**319.817**	288.549	**423.814**	393.448
Current	**285.679**	255.246	**413.412**	382.728
Non-current	**34.138**	33.303	**10.402**	10.720

The customer sales policies are subordinated to the credit policies established by management and are designed to minimize problems arising out of failure of customers to pay on due date. Sales transactions with retail customers are included in “credit cards”, and transactions with sales representatives and distributors (franchisees), which have a structured relationship with the Company, are included in the account “trade notes receivable – domestic customers”.

Trade receivables from foreign customers by currency are as follows:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
USD	**27.299**	33.012	**51.045**	55.488
EUR	**11**	64	**3.197**	3.373
	27.310	33.076	**54.242**	58.861

(All amounts in thousands of reais unless otherwise stated)

7. Trade receivables (Continued)

Changes in the provision for impairment of trade receivables are as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
At the beginning of the year	**(4.839)**	(2.843)	**(5.243)**	(2.889)
Additions/reversals	**(2.180)**	(3.826)	**(2.770)**	(4.184)
Realization	**5.380**	1.830	**5.380**	1.830
At the end of the year	**(1.639)**	(4.839)	**(2.633)**	(5.243)

The aging analysis of these trade receivables is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Not yet due	**307.843**	273.938	**413.327**	379.240
Up to 30 days past due	**4.656**	2.079	**4.656**	2.079
31-60 days past due	**2.614**	2.494	**2.614**	2.494
61-90 days past due	**1.734**	10.099	**1.734**	10.099
91-180 days past due	**974**	3.430	**974**	3.430
181-360 days past due	**1.824**	572	**1.331**	572
Over 360 days past due	**1.811**	776	**1.811**	777
	321.456	293.388	**426.447**	398.691

Based on the current economic environment and credit analyses, Company made negotiations with some customers to extend the collection periods for accounts receivable. In addition, the Company has put more stringent credit analysis and guarantee rules in place to reduce its credit risk. Such negotiations are documented by specific legal documents, guarantee documents and restatement of amounts at rates linked to the Interbank Deposit Certificate rate (CDI). The aging analysis of trade receivables shown above takes into account the terms of these negotiations.

The Company assesses the risk of loss on outstanding accounts receivable on a periodic basis and recognized an additional provision of R$2,770 for the year ended December 31, 2019 (December 31, 2018 - R$4,184) and R$9,299 (December 31, 2018 - R$5,079) of losses on accounts receivable, which was classified in selling expenses. Management believes that the balance of the provision is sufficient to cover losses on uncollectible accounts.

(All amounts in thousands of reais unless otherwise stated)

8. Inventories

	Parent company		Consolidated	
	2019	2018	2019	2018
Finished products	**60.119**	39.781	**157.622**	126.041
Raw materials	**4.060**	5.348	**17.480**	18.108
Work in process	**-**	-	**6.219**	6.297
Advances to suppliers	**4.825**	3.051	**5.631**	4.502
(-) Provision for losses	**(5.717)**	(2.860)	**(7.453)**	(4.087)
Total inventories	**63.287**	45.320	**179.499**	150.861

Raw materials are used in the development of new products and collections and in the manufacture of shoes of the subsidiary ZZSAP. Work in process refers mainly to shoes that are currently in production at the subsidiary ZZSAP. Finished products refer mainly to manufactured shoes and handbags in stock that are available for customer purchase and for sale at the Company-owned stores and e-commerce.

Changes in the provision for losses are as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
At the beginning of the year	**(2.860)**	(2.954)	**(4.087)**	(3.548)
Additions/reversals	**(4.060)**	(1.840)	**(4.569)**	(2.473)
Realization	**1.203**	1.934	**1.203**	1.934
At the end of the year	**(5.717)**	(2.860)	**(7.453)**	(4.087)

9. Taxes recoverable

	Parent company		Consolidated	
	2019	2018	2019	2018
Value-added tax on sales and services (ICMS) recove	**9.243**	6.881	**14.560**	12.506
Prepaid corporate income tax (IRPJ)	**24.794**	24.837	**25.380**	25.129
Prepaid social contribution (CSLL)	**6.789**	4.431	**6.924**	4.547
Social integration program (PIS) and Social contribut	**3**	-	**39.851**	4.313
Excise tax (IPI) recoverable	**-**	-	**1.425**	1.021
Other	**1.124**	379	**2.192**	1.854
Total taxes recoverable	**41.953**	36.528	**90.332**	49.370

(All amounts in thousands of reais unless otherwise stated)

10. Other receivables

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Advances to the advertising fund (a)	**7.163**	5.031	**7.163**	5.031
Advances to franchisees	**623**	623	**623**	623
Advances to suppliers	**2.130**	2.436	**2.710**	5.444
Advances to employees	**1.002**	974	**4.628**	8.130
Travel advances	**56**	202	**57**	237
Prepaid expenses	**1.290**	1.751	**1.318**	1.774
Other receivables	**1.746**	1.557	**5.731**	4.727
Total other receivables	**14.010**	12.574	**22.230**	25.966
(-) Current	**13.693**	12.029	**19.739**	23.241
Non-current	**317**	545	**2.491**	2.725

(a) Advances to the advertising fund

To pay for national promotions and advertising campaigns for the entire franchise system ("Arezzo Franchise Network", "Schutz Franchise Network" and "Anacapri Franchise Network"), the franchisees agree to contribute a percentage of their gross purchases to a national advertising fund called "Arezzo Cooperative Advertising and Promotion Fund", "Schutz Cooperative Advertising and Promotion Fund" and "Anacapri Cooperative Advertising and Promotion Fund". National advertising funds are paid by franchisees each month and used to pay for expenses to create marketing and advertising strategies, including advertisements and promotions for the benefit of the Arezzo Franchise Network, Schutz Franchise Network and Anacapri Franchise Network, as well as to pay external advertising agencies for creation and development of campaigns, and other advertising and promotional activities at the national level. The national advertising funds are administered by the franchisor who shall furnish a yearly report disclosing contributions made and uses thereof. During the year, the Company makes advances to meet total advertising fund commitments.

(All amounts in thousands of reais unless otherwise stated)

11. Income tax and social contribution

a) Deferred taxes

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Basis of calculation of deferred income tax (IRPJ) and social contribution (CSLL)				
Unrealized profit on inventories	**20.732**	18.877	**20.732**	18.877
Provision for foreign exchange variation	**1.753**	1.329	**(1.871)**	(1.268)
Provision for inventory losses	**5.717**	2.860	**6.087**	4.087
Provision for labor, tax and civil contingencies	**5.508**	5.693	**9.169**	8.586
Provision for impairment of trade receivables	**1.887**	5.457	**1.887**	5.457
Provision for share option plan	**4.879**	3.369	**4.879**	3.369
Provision for commissions	**3.461**	2.954	**3.461**	2.954
Tax loss	**-**	-	**-**	3.144
Foreign exchange hedge	**-**	4.951	**-**	4.951
Other provisions	**757**	823	**1.781**	1.286
Deferred tax assets	**44.694**	46.313	**46.125**	51.443
Deferred income tax and social contribution	**15.196**	15.746	**15.682**	17.491

Deferred taxes are calculated on income tax (IRPJ) and social contribution (CSLL) losses and the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In Brazil, the currently enacted tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Deferred income tax and social contribution on:				
Temporary differences	**16.877**	14.065	**17.363**	15.534
Carrying value adjustments - Hedge	**(1.681)**	1.681	**(1.681)**	1.681
Tax loss carryforwards	**-**	-	**-**	276
Total deferred income tax and social contribution (i)	**15.196**	15.746	**15.682**	17.491

(i) Deferred tax asset arising from deductible temporary differences, principally on provisions for labor, tax and civil contingencies and on tax loss carryforwards of subsidiary.

(All amounts in thousands of reais unless otherwise stated)

11. Income tax and social contribution (Continued)

a) Deferred taxes (Continued)

The reconciliation of deferred tax assets is as follows:

	Parent company		Consolidated	
	2019	**2018**	**1905**	**2018**
Opening balance	**15.746**	8.408	**17.491**	11.533
Tax expense recognized in the statement of income	**1.131**	5.657	**(128)**	4.277
Deferred income tax recognized in other comprehensive income	**(1.681)**	1.681	**(1.681)**	1.681
Balance at the end of the year	**15.196**	15.746	**15.682**	17.491

The studies and projections carried out by the Company's management indicate that there will be sufficient future taxable profit to allow the related tax benefit to be utilized in the next years.

Based on projections of future taxable profits, deferred tax assets are expected to be recovered as follows:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
2019	**-**	8.266	**-**	9.107
2020	**6.868**	3.740	**7.114**	4.192
2021	**4.164**	3.740	**4.284**	4.192
2022	**4.164**	-	**4.284**	-
Total deferred income tax and social contribution	**15.196**	15.746	**15.682**	17.491

(All amounts in thousands of reais unless otherwise stated)

11. Income tax and social contribution (Continued)

b) Reconciliation of tax charges between statutory and effective tax rates

A reconciliation of tax expense calculated at the statutory tax rates to tax expense at the effective tax rate is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Profit before income tax and social contribution	**175.098**	147.681	**204.926**	169.998
Statutory tax rate	**34,0%**	34,0%	**34,0%**	34,0%
Expected income tax and social contribution expense at the statutory tax rate	**(59.533)**	(50.212)	**(69.675)**	(57.799)
Deferred income tax and social contribution on unrecognized losses of subsidiaries	**-**	-	**(22.340)**	(15.675)
Effect of income tax and social contribution on permanent differences:				
Tax benefit from technological research and innovation expenses - Law 11,196/05	**9.190**	8.060	**9.190**	8.060
Equity in the earnings of subsidiaries	**1.411**	3.253	**-**	-
Interest on capital	**12.956**	14.229	**12.956**	14.229
Government subsidies (i)	**25.122**	19.725	**30.078**	24.407
Share option plan expense	**(1.099)**	(1.222)	**(1.099)**	(1.222)
Tax incentives (Workers' Meal Program (PAT), Rouanet Law, other)	**498**	269	**836**	399
Other permanent differences	**(1.504)**	861	**(2.733)**	247
Income tax and social contribution expense	**(12.959)**	(5.037)	**(42.787)**	(27.354)
Current	**(14.090)**	(10.694)	**(42.659)**	(31.631)
Deferred	**1.131**	5.657	**(128)**	4.277
Income tax and social contribution expense	**(12.959)**	(5.037)	**(42.787)**	(27.354)
Effective tax rate	**7,4%**	3,4%	**20,9%**	16,1%

(i) ICMS tax incentives are considered investment subsidy pursuant to Complementary Law 160/2017, as detailed in Note 33.

(All amounts in thousands of reais unless otherwise stated)

12. Balances and transactions with related parties

a) Balances and transactions with subsidiaries and controlling shareholders

	2019						
	Current assets		Non-current	Current liabilities	Non-current	Transactions	
	Trade notes receivable	Dividends	Receivables	Trade payables	Loans	Revenues	Purchases
Parent company							
ARZZ International INC	-	-	23.736	-	3.795	249	-
ZZAB Comércio de Calçados Ltda.	950	-	-	1.992	-	218.124	4.693
ZZSAP Indústria e Comércio de Calçados Ltda.	196	-	-	(707)	-	507	109.109
ZZEXP Comercial Exportadora S/A	434	-	-	-	-	180	-
Total - Parent company	**1.580**	**-**	**23.736**	**1.285**	**3.795**	**219.060**	**113.802**
Consolidated							
Controlling shareholders	-	-	-	-	1.502	-	-
Total - Consolidated	**-**	**-**	**-**	**-**	**1.502**	**-**	**-**

	2018						
	Current assets		current assets	Current liabilities	current liabilities	Transactions	
	Trade notes	Dividends	Receivables	Trade payables	Loans	Revenues	Purchases
Parent company							
ARZZ International INC	-	-	22.583	-	19.563	1.253	-
ZZAB Comércio de Calçados Ltda.	-	-	-	1.792	-	197.843	-
ZZSAP Indústria e Comércio de Calçados Ltda.	149	-	-	-	-	41	100.866
ZZEXP Comercial Exportadora S/A	206	15.230	-	-	-	37	-
Total - Parent company	355	15.230	22.583	1.792	19.563	199.174	100.866
Consolidated							
Controlling shareholders	-	-	-	-	1.443	-	-
Total - Consolidated	-	-	-	-	1.443	-	-

b) Nature, terms and conditions of transactions with subsidiaries

The transactions with related parties are conducted on commercial and financial terms agreed upon between the parties concerned. The most common transaction is the sale of shoes and accessories by the Company (parent) to ZZAB stores and to ARZZ International Inc. (subsidiaries) and the purchase of shoes and accessories from manufacturer ZZSAP (subsidiary). In September 2016, ZZEXP (subsidiary) began to purchase from ZZSAP and sell to ARZZ International Inc.

(All amounts in thousands of reais unless otherwise stated)

12. Balances and transactions with related parties (Continued)

c) Management compensation

Management compensation is composed of management fees, profit sharing and share option plans. At December 31, 2019, the compensation paid to management totaled R$13,257 (December 31, 2018 - R$12,914) as shown below:

	2019	2018
Annual fixed compensation - salary/management fees	**6.763**	6.021
Variable pay - bonus	**3.473**	3.751
Share option and restricted stock plans (Note 32)	**3.021**	3.142
Total compensation	**13.257**	12.914

The expenses related to the share option and restricted stock plans (Note 32) are presented as operating expense before finance income and costs.

The Company and its subsidiaries do not provide post-employment benefits, termination benefits or other benefits to their management and employees.

d) Transactions or relationships with shareholders

At December 31, 2019, certain Company officers and directors directly own a total interest of 50.8% in the Company.

e) Transactions with other related parties

The Company has a service agreement with the firm Ethos Desenvolvimento S/C Ltda. owned by Mr. José Ernesto Beni Bolonha, a member of the Company’s Board of Directors. In the year ended December 31, 2019, this firm received R$630 (December 31, 2018 - R$671).

(All amounts in thousands of reais unless otherwise stated)

13. Investments

a) Summary of balance sheet and statement of income of subsidiaries at December 31, 2019:

Subsidiary	Assets	Liabilities	Equity	Capital	Net revenue	Profit (loss) for the year
ARZZ International INC	247.340	291.243	(43.903)	127.144	175.597	(65.706)
ZZAB Comércio de Calçados Ltda.	292.513	72.139	220.374	93.614	346.099	35.154
ZZSAP Ind.e Com.de Calçados Ltda.	84.208	28.142	56.066	27.592	138.243	14.662
ZZEXP Comercial Exportadora S/A	161.923	139.807	22.116	2.000	117.657	20.040

b) Balances of investments and equity in the earnings (loss) of subsidiaries:

	Investments		Equity in the earnings (loss) of subsidiaries	
Subsidiary	2019	2018	2019	2018
ARZZ International INC	**-**	23.513	**(65.706)**	(46.104)
ZZAB Comércio de Calçados Ltda.	**220.374**	184.443	**35.154**	22.648
ZZSAP Indústria e Comércio de Calçados Ltda.	**56.066**	41.365	**14.662**	4.962
ZZEXP Comercial Exportadora S/A	**22.116**	30.159	**20.040**	28.061
Total investments	**298.556**	279.480	**4.150**	9.567
ARZZ International INC	**(43.903)**	-	**-**	-
Provision for loss on investments	**(43.903)**	-	**-**	-
Total	**254.653**	279.480	**4.150**	9.567

c) Changes in investments:

	2019	2018
Balance at the beginning of the year	**279.480**	276.625
Distribution of dividends	**(28.188)**	(15.230)
Equity in the earnings of subsidiaries	**4.150**	9.567
Cumulative translation adjustments (CTA	**(789)**	8.518
Balance at the end of the year	**254.653**	279.480

<u>Distribution of dividends</u>

On May 2, 2019, the subsidiary ZZEXP Comercial Exportadora S.A. approved a distribution of dividends to the Company of R$28,061 out of the profit earned by it in the year ended December 31, 2018 after setting aside amount for the legal reserve as required by the Brazilian corporate legislation. The dividends were paid on December 30, 2019.

(All amounts in thousands of reais unless otherwise stated)

14. Property, plant and equipment

Parent company	2019 Cost	2019 Depreciation	2019 Net	2018 Cost	2018 Depreciation	2018 Net
Computers and peripherals	**20.297**	**(13.915)**	**6.382**	16.677	(11.777)	4.900
Furniture and fittings	**10.235**	**(5.075)**	**5.160**	8.749	(4.232)	4.517
Machinery and equipment	**9.502**	**(5.589)**	**3.913**	8.624	(4.857)	3.767
Facilities and showroom	**25.261**	**(10.998)**	**14.263**	21.888	(8.884)	13.004
Vehicles	**221**	**(209)**	**12**	222	(197)	25
Land	**84**	**-**	**84**	101	-	101
Right-of-use assets	**34.163**	**(6.778)**	**27.385**	-	-	-
Total	**99.763**	**(42.564)**	**57.199**	56.261	(29.947)	26.314

Consolidated	2019 Cost	2019 Depreciation	2019 Net	2018 Cost	2018 Depreciation	2018 Net
Computers and peripherals	**25.050**	**(17.234)**	**7.816**	20.873	(14.441)	6.432
Furniture and fittings	**37.607**	**(16.020)**	**21.587**	29.163	(12.000)	17.163
Machinery and equipment	**25.722**	**(14.360)**	**11.362**	23.745	(12.205)	11.540
Facilities and showroom	**105.501**	**(46.774)**	**58.727**	85.680	(37.739)	47.941
Vehicles	**234**	**(223)**	**11**	234	(210)	24
Land	**84**	**-**	**84**	101	-	101
Right-of-use assets	**245.097**	**(40.602)**	**204.495**	-	-	-
Total	**439.295**	**(135.213)**	**304.082**	159.796	(76.595)	83.201

(All amounts in thousands of reais unless otherwise stated)

14. Property, plant and equipment (Continued)

Changes in property, plant and equipment are as follows:

Parent company	Computers and peripherals	Furniture and fittings	Machinery and equipment	Facilities and showroom	Vehicles	Land	Right-of-use assets	Total
At December 31, 2017	5.040	3.664	4.085	8.626	45	101	-	21.561
Purchases	1.925	2.018	587	6.886	-	-	-	11.416
Depreciation	(2.056)	(752)	(822)	(1.871)	(20)	-	-	(5.521)
Write-offs	(9)	(413)	(83)	(637)	-	-	-	(1.142)
At December 31, 2018	**4.900**	**4.517**	**3.767**	**13.004**	**25**	**101**	**-**	**26.314**
Initial application of CPC 06 (R2)	-	-	-	-	-	-	**32.987**	**32.987**
Purchases	**3.625**	**1.492**	**878**	**3.373**	-	-	**1.258**	**10.626**
Depreciation - CPC 06(R2)	-	-	-	-	-	-	**(6.796)**	**(6.796)**
Depreciation	**(2.141)**	**(849)**	**(732)**	**(2.114)**	**(13)**	-	-	**(5.849)**
Write-offs	**(2)**	-	-	-	-	**(17)**	**(64)**	**(83)**
At December 31, 2019	**6.382**	**5.160**	**3.913**	**14.263**	**12**	**84**	**27.385**	**57.199**
Average depreciation rate	20%	10%	10%	10%	20%	-		

Consolidated	Computers and peripherals	Furniture and fittings	Machinery and equipment	Facilities and showroom	Vehicles	Land	Right-of-use assets	Total
At December 31, 2017	6.152	13.176	9.172	38.991	44	101	-	67.636
Purchases	2.952	9.373	4.509	19.819	-	-	-	36.653
Depreciation	(2.669)	(3.193)	(2.038)	(9.223)	(20)	-	-	(17.143)
Write-offs	(72)	(2.366)	(103)	(2.805)	-	-	-	(5.346)
Foreign exchange variation	69	173		1.159	-	-	-	1.401
At December 31, 2018	**6.432**	**17.163**	**11.540**	**47.941**	**24**	**101**	**-**	**83.201**
Initial application of CPC 06 (R2)	-	-	-	-	-	-	**199.777**	**199.777**
Purchases	**4.241**	**9.711**	**1.999**	**23.318**	-	-	**41.832**	**81.101**
Depreciation - CPC 06(R2)	-	-	-	-	-	-	**(40.751)**	**(40.751)**
Depreciation	**(2.829)**	**(4.288)**	**(2.158)**	**(11.712)**	**(13)**	-	-	**(21.000)**
Write-offs	**(55)**	**(991)**	**(19)**	**(1.519)**	-	**(17)**	**(928)**	**(3.529)**
Foreign exchange variation	**27**	**(8)**	-	**699**	-	-	**4.565**	**5.283**
At December 31, 2019	**7.816**	**21.587**	**11.362**	**58.727**	**11**	**84**	**204.495**	**304.082**

Taking into account the significance of property, plant and equipment to the financial statements as a whole, the Company and its subsidiaries evaluated the useful economic life of these assets and concluded that there are no material adjustments or changes to be recognized as at December 31, 2019.

(All amounts in thousands of reais unless otherwise stated)

During the year, the Company did not identify any indication that the carrying value of certain items of property, plant and equipment may exceed their recoverable amount and therefore no provision for impairment was required.

15. Intangible assets

	2019			2018		
Parent company	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**5,336**	**-**	**5,336**	4,686	-	4,686
Store use rights (finite)	**954**	**(954)**	**-**	954	(954)	-
Software licenses	**118,935**	**(82,891)**	**36,044**	95,519	(68,041)	27,478
Total	**125,225**	**(83,845)**	**41,380**	101,159	(68,995)	32,164

	2019			2018		
Consolidated	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**6,494**	**-**	**6,494**	5,802	-	5,802
Store use rights (indefinite)	**28,167**	**-**	**28,167**	30,643	-	30,643
Store use rights (finite)	**4,039**	**(4,039)**	**-**	4,334	(4,334)	-
Software licenses	**124,972**	**(84,586)**	**40,386**	99,686	(68,963)	30,723
Total	**163,672**	**(88,625)**	**75,047**	140,465	(73,297)	67,168

Changes in intangible assets are as follows:

Parent company	**Trademarks and patents**	**Store use rights**	**Store use rights**	**Software licenses**	**Total**
At December 31, 2017	3.927	818	-	34.120	38.865
Transfers	-	(694)	694	-	-
Purchases	759	-	-	8.083	8.842
Amortization	-	-	(694)	(14.533)	(15.227)
Write-offs	-	(124)	-	(192)	(316)
At December 31, 2018	**4.686**	**-**	**-**	**27.478**	**32.164**
Purchases	**650**	**-**	**-**	**23.466**	**24.116**
Amortization	**-**	**-**	**-**	**(14.870)**	**(14.870)**
Write-offs	**-**	**-**	**-**	**(30)**	**(30)**
At December 31, 2019	**5.336**	**-**	**-**	**36.044**	**41.380**
Average depreciation rate	Indefinite	Indefinite	Finite	20%	

(All amounts in thousands of reais unless otherwise stated)

15. Intangible assets (Continued)

Consolidated	Trademarks and patents	Store use rights	Store use rights	Software licenses	Total
At December 31, 2017	4.051	39.603	-	35.539	79.193
Transfers	-	(9.073)	9.073	-	-
Purchases	1.779	237	-	9.945	11.961
Amortization	-	-	(9.012)	(14.727)	(23.739)
Write-offs	-	(124)	(61)	(193)	(378)
Foreign exchange variation	(28)	-	-	159	131
At December 31, 2018	**5.802**	**30.643**	**-**	**30.723**	**67.168**
Transfers	**-**	**(2.926)**	**2.926**	**-**	**-**
Purchases	**650**	**450**	**-**	**25.240**	**26.340**
Amortization	**-**	**-**	**(2.926)**	**(15.645)**	**(18.571)**
Write-offs	**-**	**-**	**-**	**(30)**	**(30)**
Foreign exchange variation	**42**	**-**	**-**	**98**	**140**
At December 31, 2019	**6.494**	**28.167**	**-**	**40.386**	**75.047**
Average depreciation rate	Indefinite	Indefinite	Finite	20%	

Intangible assets with a finite useful life referred to as “software licenses” are software licenses acquired from third parties and internally developed software and are amortized on a straight-line basis over the estimated useful life of the assets, with a contra entry to general and administrative expenses.

Intangible assets with an indefinite useful life refer to trademarks and patents and store use rights. Store use rights refer to expenditures incurred by the Company in connection with the installation of stores at rented commercial premises, and the related lease contracts provide for highly probable renewal periods. The recovery of these assets will occur upon the disposal of the commercial premises or through impairment.

The store use rights are acquired through cash payments for release of the commercial premises and there are no other obligations arising out of these acquisitions in the Company’s liabilities. Such negotiations are usual in this type of commercial transaction due to the business characteristics.

According to the annual Expansion Plan, the Company revised the useful life of certain intangible assets classified as store use rights from indefinite to finite and set an amortization period of up to one year.

The amount of R$33,785 (December 31, 2018 - R$29,946) in expenses associated with the research and development of new products and technology was recorded within “General and administrative expenses” in the parent company and consolidated statement of income and in intangible assets.

15. Intangible assets (Continued)

Impairment test for indefinite-lived intangible assets

The Company tested intangible assets for impairment based on the value-in-use approach using a discounted cash flow model for cash-generating units, which represent its stores.

Determining the value in use involves the use of assumptions, judgments and estimates of cash flows, such as rates of growth of revenues, costs and expenses, estimates of future investments, working capital and discount rates. The assumptions related to growth, cash flows and future cash flows forecasts are based on the Company's business plan approved by management as well as on comparable market data and represent management's best estimate of economic conditions that will exist over the economic lives of the various cash-generating units, the group of assets that generate cash flows. Future cash flows were discounted based on the rate that represents the cost of capital.

In line with the economic valuation techniques, the value-in-use calculation is made for a period of five years and, thereafter, considering the perpetuity of the assumptions in view of the ability to continue to operate indefinitely.

The estimated future cash flows were discounted at a pre-tax discount rate of 14.9% p.a. (equivalent to WACC of 10.0% p.a.) for each cash-generating unit analyzed.

The key assumptions used for estimating the value in use are as follows:

- Revenues – Revenues were forecasted for the period between 2020 and 2024 considering growth of the customer base of the various cash-generating units, the impacts of new architectural projects of certain stores and the level of each store and brand in the market.

- Operating costs and expenses – Costs and expenses were forecasted in line with the Company's historical performance as well as with the historical growth of revenues.

- Capital expenditure – Capital expenditure was estimated considering the infrastructure needed for the Company to offer its products based on the Company's history.

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

The impairment test performed on the Company's intangible assets did not reveal any need to recognize impairment losses for the year ended December 31, 2019, since the estimated value in use exceeded the net carrying amount at the date of valuation.

(All amounts in thousands of reais unless otherwise stated)

16. Borrowings

Borrowings can be summarized as follows:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Equipment financing (FINAME) (a)	**-**	-	**350**	467
Advance on foreign exchange contracts (ACC) (b)	**-**	-	**66.453**	23.396
Study and project financing (FINEP) (c)	**8.957**	17.549	**8.957**	17.549
Borrowing in foreign currency (d)	**40.301**	58.133	**40.301**	58.133
Export prepayment (PPE) (e)	**-**	-	**64.723**	11.873
Total borrowings	**49.258**	75.682	**180.784**	111.418
Current	**45.419**	8.592	**158.222**	43.978
Non-current	**3.839**	67.090	**22.562**	67.440

The maturities and interest rate and charges on borrowings are as follows:

a) Finame: 6% p.a., with monthly installments and a final maturity in October 2024;
b) ACC: denominated in U.S. dollars plus average interest rate of 3.84% p.a. at December 31, 2019. There are several agreements with a final maturity until December 2020;
c) FINEP: rate of 4.0% p.a. limited to Long-Term Interest Rate (TJLP), with maturities until September 2021;
d) Working capital in foreign currency - "transaction 4.131": denominated in U.S. dollars plus average interest rate of 3.35% p.a. at December 31, 2019, with a maturity in June 2020;
e) PPE: denominated in U.S. dollars plus average interest rate of 3.91% p.a. at December 31, 2019, with a final maturity in December 2021.

(All amounts in thousands of reais unless otherwise stated)

16. Borrowings (Continued)

Changes in borrowings are as follows:

Parent company	ACC	FINEP	Transaction 4131	Total
At December 31, 2017	-	26.456	99.285	125.741
Proceeds from borrowings	-	-	-	-
Payment of installments	-	(8.925)	(58.142)	(67.067)
Interest payment	-	(927)	(3.934)	(4.861)
Provision for interest and foreign exchange variation	-	945	17.050	17.995
Foreign exchange variation (comprehensive income)	-	-	3.874	3.874
At December 31, 2018	-	17.549	58.133	75.682
Payment of installments	**-**	**(8.592)**	**(20.370)**	**(28.962)**
Interest payment	**-**	**(523)**	**(2.256)**	**(2.779)**
Provision for interest and foreign exchange variation	**-**	**523**	**4.794**	**5.317**
At December 31, 2019	**-**	**8.957**	**40.301**	**49.258**

Consolidated	FINAME	PPE	ACC	FINEP	Transaction 4131	Total
At December 31, 2017	623	-	55.381	26.456	99.285	181.745
Proceeds from borrowings	-	11.223	59.177	-	-	70.400
Payment of installments	-	-	(88.074)	(8.925)	(58.142)	(155.141)
Interest payment	(188)	-	-	(927)	(3.934)	(5.049)
Provision for interest and foreign exchange variation	32	650	(3.088)	945	17.050	15.589
Foreign exchange variation (comprehensive income	-	-	-	-	3.874	3.874
At December 31, 2018	467	11.873	23.396	17.549	58.133	111.418
Proceeds from borrowings	**-**	**62.916**	**90.168**	**-**	**-**	**153.084**
Payment of installments	**-**	**(11.873)**	**(47.982)**	**(8.592)**	**(20.370)**	**(88.817)**
Interest payment	**(141)**	**236**	**(3.784)**	**(523)**	**(2.256)**	**(6.468)**
Provision for interest and foreign exchange variation	**24**	**1.570**	**4.656**	**523**	**4.794**	**11.567**
At December 31, 2019	**350**	**64.722**	**66.454**	**8.957**	**40.301**	**180.784**

(All amounts in thousands of reais unless otherwise stated)

16. Borrowings (Continued)

At December 31, the non-current borrowings mature as follows:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
2020	**-**	63.251	**-**	63.324
2021	**3.839**	3.839	**22.357**	3.911
2022	**-**	-	**73**	73
2023	**-**	-	**73**	132
2024	**-**	-	**59**	-
Total	**3.839**	67.090	**22.562**	67.440

Borrowings are secured by Group entities' guarantee and bank letters of guarantee, and do not contain restrictive covenants. Finame agreements are secured by the financed assets.

Other guarantees and commitments

The Company has a technical and financial cooperation agreement with Banco do Nordeste do Brasil S/A ("Bank"), to have borrowing facilities available for Arezzo franchisees that are located in the area where the Bank operates, using the funds from the Northeast Region Constitutional Finance Fund (FNE) to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees through working capital loans, if needed. Under the terms of the agreement, the Company shall be the guarantor for these transactions through a surety bond when contracted by store owners. At December 31, 2019, these transactions amounted to R$1,392 (December 31, 2018 - R$1,275).

The Company has a technical and financial cooperation agreement with Banco Alfa, to have borrowing facilities available for Arezzo franchisees, using the funds from the National Bank for Economic and Social Development ("BNDES") to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees. Under the terms of the agreement, the Company is the guarantor for these transactions. At December 31, 2019, the balance of transactions guaranteed by the Company was R$8,832 (December 31, 2018 - R$10,580).

The Company has no history of loss experience on such transactions.

(All amounts in thousands of reais unless otherwise stated)

17. Trade payables

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Domestic suppliers	**51.506**	30.597	**66.071**	51.965
Reverse factoring (a)	**67.941**	57.955	**67.941**	57.955
Related parties (Note 12.a)	**1.285**	1.792	**-**	-
Foreign suppliers	**955**	201	**955**	201
Total trade payables	**121.687**	90.545	**134.967**	110.121

a) The Company has agreements with Banco Itaú Unibanco S.A. ("Bank") to structure with its main suppliers a reverse factoring arrangement. In this arrangement, the suppliers transfer the right to receive their invoices to the Bank which, in turn, will become the creditor in the transaction. Management has reviewed the portfolio of this transaction and concluded that there was no significant change in maturities, prices and conditions that were previously established upon a complete analysis of suppliers by category; therefore, the Company shows this transaction within the account "Trade payables".

18. Leases

In the context of applying CPC 06 (R2), as described in Note 4, the Company assessed its portfolio of contracts and identified 110 contracts with lease components, of which 53 qualify for exemptions available under CPC 06 (R2) and 57 fall within the scope of lease. These contracts refer to minimum rent of owned stores, offices, plants and distribution centers.

For contracts falling within the scope of the new standard, the Company recognized a right-of-use asset at an amount equal to the lease liability. The lease liability was recognized at the present value of the remaining lease payments, discounted at the actual market interest rate ranging from 1.8% to 6.1%.

There have been significant changes in the balance sheet accounts as a result of the recognition of all future lease payments under contracts falling within the scope of lease. At the date of initial application, the right-of-use asset is equal to the lease liability of R$32,987 (Parent company) and R$199,777 (Consolidated), discounted to present value.

(All amounts in thousands of reais unless otherwise stated)

18. Leases (Continued)

a) Changes in right-of-use assets:

	Parent company	Consolidated
Initial application at January 1, 2019		
Recognition under CPC 06(R2)	**32.987**	**199.777**
Total right-of-use assets at January 1, 2019	**32.987**	**199.777**
Additions	**1.258**	**41.832**
Write-offs	**(64)**	**(928)**
Depreciation	**(6.796)**	**(40.751)**
Foreign exchange variation	**-**	**4.565**
Total right-of-use assets at December 31, 2019	**27.385**	**204.495**

b) Changes in lease liabilities:

	Parent company	Consolidated
Initial application at January 1, 2019	**36.640**	**218.607**
Discount to present value	(3.653)	(18.830)
Lease liabilities at January 1, 2019	**32.987**	**199.777**
Additions	1.258	41.832
Write-offs, net	(64)	(943)
Lease payments	(6.479)	(42.069)
Interest expense on lease liabilities	944	5.608
Foreign exchange variation	-	4.853
Lease liabilities at December 31, 2019	**28.646**	**209.058**
Current	**6.826**	**40.145**
Non-current	**21.820**	**168.913**

c) Future commitments

	Cash flows (present value)		Gross contractual cash flows	
	Parent company	Consolidated	Parent company	Consolidated
2020	6.826	40.145	7.632	45.118
2021	5.157	34.823	5.770	38.735
2022	3.752	28.658	4.224	31.692
2023	3.847	27.046	4.199	29.344
After 2024	9.064	78.386	9.620	82.523
Total	**28.646**	**209.058**	**31.445**	**227.412**
Potential tax credit (PIS and COFIN	2.650	6.988	2.909	7.499

(All amounts in thousands of reais unless otherwise stated)

d) Reconciliation of lease payments:

	Parent company	Consolidated
Cash outflow (statement of cash flows)	**(6.609)**	**(46.723)**
Lease payments in the period	(6.479)	(42.069)
Short-term contracts	(28)	(2.988)
Low-value contracts	(102)	(102)
Variable lease payments	-	(1.564)

e) Additional information:

Pursuant to CVM Circular Letter 02/2019 issued on December 18, 2019, lessees are required to forecast future inflation on cash flows to be discounted so as to avoid a technical error in calculation, due to the flexibility provided in CPA 06 (R2), and consequently preserve the quality of the information to be presented to the investors in the Brazilian market.

For cash flow projection, the Company used the inflation rate published by the Brazilian Central Bank for contracts in Brazil and the inflation rate set by the US Federal Reserve for US contracts.

Parent company	**2019**	**2020**	**2021**	**2022**	**2023**	**After 2024**
Lease liabilities						
Opening balance (discount to preser	**97.336**	**78.859**	**57.630**	**39.057**	**25.719**	**14.265**
Interest expense (nominal interest r	4.958	4.118	2.915	1.931	1.204	1.385
Lease payments (*)	(22.467)	(24.244)	(19.810)	(13.601)	(10.894)	(12.529)
Future inflation not incorporated in lease payments	(968)	(1.103)	(1.678)	(1.668)	(1.764)	(3.121)
Closing balance	**78.859**	**57.630**	**39.057**	**25.719**	**14.265**	**-**
Lease payments						
Real cash flows	22.467	24.244	19.810	13.601	10.894	12.529
Nominal cash flows	23.435	25.347	21.488	15.269	12.658	15.650
Future inflation not incorporated in lease payments	**(968)**	**(1.103)**	**(1.678)**	**(1.668)**	**(1.764)**	**(3.121)**

(*) This does not include lease payments of contracts written off in 2019.

(All amounts in thousands of reais unless otherwise stated)

18. Leases (Continued)

e) Additional information: (Continued)

Consolidated	2019	2020	2021	2022	2023	After 2024
Lease liabilities						
Opening balance (discount to preser	**166.910**	**149.844**	**130.915**	**113.302**	**95.874**	**77.343**
Interest expense (nominal interest r	2.686	2.563	2.223	1.912	1.587	3.289
Lease payments (*)	(19.460)	(20.879)	(18.930)	(18.095)	(18.454)	(70.009)
Future inflation not incorporated in lease payments	(292)	(613)	(906)	(1.245)	(1.664)	(10.623)
Closing balance	**149.844**	**130.915**	**113.302**	**95.874**	**77.343**	**-**
Lease payments						
Real cash flows	19.460	20.879	18.930	18.095	18.454	70.009
Nominal cash flows	19.752	21.492	19.836	19.340	20.118	80.632
Future inflation not incorporated in lease payments	**(292)**	**(613)**	**(906)**	**(1.245)**	**(1.664)**	**(10.623)**

(*) This does not include lease payments of contracts written off in 2019.

19. Salaries and vacation pay

	Parent company		Consolidated	
	2019	2018	2019	2018
Salaries payable	**25.620**	18.459	**28.103**	21.113
Accrued vacation pay and charges	**13.437**	11.321	**19.194**	17.049
Total	**39.057**	29.780	**47.297**	38.162

20. Taxes and social charges payable

	Parent company		Consolidated	
	2019	2018	2019	2018
Value-added Tax on Sales and Services (ICMS)	**302**	1.018	**3.947**	6.032
Withholding income tax	**4.679**	6.388	**5.257**	6.945
Social charges payable	**3.878**	3.155	**5.772**	5.028
Social Integration Program (PIS) and Social Contribu	**2.021**	2.974	**2.958**	4.685
Corporate Income Tax (IRPJ) and Social Contribution	**-**	-	**12.086**	4.201
Other taxes and charges	**1.812**	1.714	**2.886**	2.236
Total	**12.692**	15.249	**32.906**	29.127

(All amounts in thousands of reais unless otherwise stated)

21. Provisions for labor, tax and civil contingencies

The Company and its subsidiaries are parties to judicial and administrative proceedings involving tax, social security, labor and civil matters, arising in the normal course of business. Based on the information provided by its legal advisors and the analysis of pending lawsuits, management recorded a provision at an amount considered sufficient to cover estimated probable losses that may arise from the final outcome of lawsuits in progress supported by judicial deposits, as follows:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Labor	**3.608**	3.515	**6.887**	6.016
Tax	**1.675**	1.675	**2.044**	2.044
Civil	**226**	303	**237**	325
Total provisions for labor, tax and civil contingencies	**5.509**	5.493	**9.168**	8.385

Labor - the Company and its subsidiaries are parties to labor lawsuits related principally to overtime pay and related social charges, health exposure premium, hazard pay, salary equalization and additions to the salary. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

Tax - the Company and its subsidiary ZZSAP are parties to tax proceedings discussing the increase in the Accident Prevention Factor (FAP) rate, for which judicial deposits at the same amount were made. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

Civil - the Company and its subsidiaries are parties to civil lawsuits related principally to claims for pain and suffering and pecuniary damages, and collection of bills. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

(All amounts in thousands of reais unless otherwise stated)

21. Provisions for labor, tax and civil contingencies (Continued)

Based on the information provided by its legal advisors and the analysis of pending lawsuits, management set up a provision at an amount considered sufficient to cover estimated probable losses that may arise from the final outcome of lawsuits in progress, as shown below:

Parent company	**Labor**	**Tax**	**Civil**	**Total**
At December 31, 2017	4.195	1.675	256	6.126
Additions/reassessments	1.231	-	298	1.529
Reversals/payments	(1.911)	-	(251)	(2.162)
At December 31, 2018	**3.515**	**1.675**	**303**	**5.493**
Additions/reassessments	**1.452**	**-**	**385**	**1.837**
Reversals/payments	**(1.359)**	**-**	**(463)**	**(1.822)**
At December 31, 2019	**3.608**	**1.675**	**225**	**5.508**

Consolidated	**Labor**	**Tax**	**Civil**	**Total**
At December 31, 2017	6.535	2.044	287	8.866
Additions/reassessments	2.434	-	345	2.779
Reversals/payments	(2.953)	-	(307)	(3.260)
At December 31, 2018	**6.016**	**2.044**	**325**	**8.385**
Additions/reassessments	**4.388**	**-**	**420**	**4.808**
Reversals/payments	**(3.517)**	**-**	**(507)**	**(4.024)**
At December 31, 2019	**6.887**	**2.044**	**238**	**9.169**

The Company and its subsidiaries have other civil, tax and labor proceedings at the administrative and judicial levels, amounting to approximately R$110,985 (December 31, 2018 - R$91,980), involving risks of loss classified by the legal advisors as possible and, therefore, requiring no provision. Of total amount at December 31, 2019, R$45,071 (2018 - R$30,649) refers to labor proceedings, R$56,926 (2018 – R$58,601) to tax proceedings and R$8,988 (2018 – R$2,730) to civil proceedings.

21. Provisions for labor, tax and civil contingencies (Continued)

The proceedings include the following:

i. Tax Debt Cancellation Lawsuit No. 1015792-98.2017.4.01.3400 filed with the 4th Federal Court of the Federal District to suspend and subsequently cancel the debt claimed in the notice of deficiency issued by tax authorities that is the subject matter of Administrative Proceeding No. 15504.725551/2013-17 (for alleged omission of interest income on loan agreements with associates in calendar years 2008 and 2009; excessive deduction for interest on capital payment expenses in calendar years 2008 and 2009, supposedly disproportionate to the equity interest, and supposed undue tax amortization of goodwill paid on acquisition of an equity interest in the Company by BRICS on 11/8/2007), as well as for the Company to have the right to deduct goodwill amortization expense from, at least, the social contribution tax basis and to cancel fines for non-payment of amounts allegedly owed, pursuant to article 44, II, of Law No. 9.430/1996 (about 50%). The Company is awaiting an examination by an accounting expert with the objective of demonstrating that the transaction carried out at the time of the acquisition of the shares by BRICS had a substantial purpose and an economic effect. The likelihood of loss is possible in the amount of R$26,746.

ii. Administrative Proceeding No. 15504-725.206/2018-80 arising from the notice of deficiency issued on 10/11/2018, in which the tax authorities determines the debt related to social contribution of the Company (employer's share) and contribution of other entities and funds (third parties' share) for the period between June 2014 and September 2017, plus proportional interest and fine, alleging that the Company would have paid its employees and individual taxpayers by means of share options under the Share Option Plan which, according to the Brazilian tax authorities, are compensation subject to social security contribution. This proceeding was challenged alleging that the Share Option Plan utilized by the Company is of a commercial nature. At present, the appeals filed in the name of the principal debtor (Arezzo Indústria e Comércio S.A.) and co-debtors (ZZAB, ZZEXP and ZZSAP) against the unfavorable decision No. 14-91.305 are pending before the Board of Tax Appeals. The likelihood of loss is possible in the amount of R$6,092.

iii. Debt Cancellation Lawsuit No. 00000033-68.2017.8.21.0087 filed with the 2nd Civil Court of Campo Bom, Rio Grande do Sul, seeking to cancel the debt determined in tax delinquency notice No. 25771370 issued for allegedly improper recognition of ICMS tax credits on shipments of goods to buyers established in the Manaus Free Trade Zone (ZFM) and Free Trade Areas (ALC) relating to the period from February 2008 to December 2011. Executable Tax Debt CDA nº 019/0543060. In parallel with the filing of the debt cancellation lawsuit, the tax authority distributed a tax debt collection suit (No. 0006055-45.2017.8.21.0087) to the same court that received the cancellation lawsuit. The Company won the lawsuit and is awaiting the expiration of the time limit within which the State can appeal the decision. The likelihood of loss is possible in the amount of R$6,880.

iv. Lawsuit No. 5001519-32.2019.8.21.0087- Interim relief against tax delinquency notice No. 8225966 issued by the Rio Grande do Sul State tax authority on July 21, 2018 related to shipment of goods to buyers established in the Manaus Free Trade Zone and Free Trade Areas in the period from 6/1/2013 to 3/31/2018. According to the tax authority, the following irregularities were detected: (i) non-payment of tax on the shipment of goods to municipalities that do not offer tax incentives (ICMS exemption); (ii) non-payment of tax on the shipment of imported goods to the Manaus Free Trade Zone and Free Trade Areas; (iii) non-payment of tax on the shipment of goods to the Manaus Free Trade Zone and Free Trade Areas without goods entry form issued by the Manaus Free Trade Zone Superintendence (SUFRAMA); and (iv) improper tax credit due to non-reversal of ICMS levied on shipments of goods to the Manaus Free Trade Zone and Free Trade Areas. We obtained an injunction suspending the collection of the amounts claimed. The likelihood of loss is possible in the amount of R$1,762.

<u>Legislation in force</u>

Pursuant to the legislation in force in Brazil, federal, state and municipal taxes and social charges are subject to examination by tax authorities for periods varying from five to thirty years. The legislation of the United States of America (where certain subsidiaries of the Company operate) prescribes different periods of limitations.

<u>Judicial deposits and judicial guarantees</u>

At December 31, 2019, judicial deposits of the parent company are R$14,669 (December 31, 2018 - R$12,014) and consolidated judicial deposits are R$21,863 (December 31, 2018 - R$18,402).

The Company uses the judicial guarantee insurance that is regulated by the Brazilian legislation and used especially as security for lawsuit and/or replaces the guarantees given, and currently is the most economical instrument that protects the equity and capital of the Company. At December 31, 2019, the balance of judicial guarantee insurance is R$6,620.

(All amounts in thousands of reais unless otherwise stated)

22. Share capital and reserves

22.1. Share capital

On May 27, 2019, the Board of Directors approved an increase of R$11,642 in the Company's share capital by reason of the exercise by certain plan participants of their respective share options in the amount of 651 thousand registered, book-entry, common shares without par value, under the terms of the Share Option Plan

	Number of shares (thousands)	Share capital R$
At December 31, 2017	89.766	330.375
Issue of shares under share option plan	537	10.698
At December 31, 2018	**90.303**	**341.073**
Issue of shares under share option plan	651	11.642
At December 31, 2019	**90.954**	**352.715**

22.2. Capital reserve

The capital reserve was initially established as a result of the corporate restructuring process performed in 2007, against the merged net assets, and represents the amount of the tax benefit earned through the amortization of the merged goodwill. The portion of the special goodwill reserve corresponding to the benefit may be capitalized for the benefit of shareholders at the end of each financial year through the issue of new shares, according to CVM Instruction 319/99.

The corporate events which gave rise to the capital reserve in connection with the corporate restructuring are as follows:

a) On June 1, 2008, BRICS Participações S/A ("BRICS") was merged into the Company, and merged net assets comprised goodwill paid on acquisition of the investment in the Company based on the future profitability of the acquired business, net of the provision set forth in CVM Instruction 319/99, in the amount of R$13,935. With the extinction of BRICS after merger, BRICS' equity interest in the Company was transferred to FIGEAC Holdings S/A ("FIGEAC").
b) On December 1, 2009, FIGEAC was merged into the Company, and merged net assets comprised goodwill paid on acquisition of the investment in the Company based on the future profitability of the acquired business, net of the provision set forth in CVM Instruction 319/99, in the amount of R$7,535.

On September 30, 2011, the Company recorded an additional provision for costs of the stock public offering amounting to R$550 (R$363, net of tax effects), and this net amount was subtracted from the capital reserve.

22. Share capital and reserves (Continued)

22.2. Capital reserve (Continued)

With the implementation of the share option and restricted stock plans, the Company recorded the reserve for options granted in the amount of R$23,593 (December 31, 2018 - R$23,122) and the restricted stock reserve in the amount of R$5,670 (December 31, 2018 - R$4,466) as described in Note 32.

22.3. Reserves and retained profits

Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of the capital, according to article 193 of Law 6,404/76 as amended (Brazilian corporate law). The balance of the legal reserve at December 31, 2019 is R$55,082 (December 31, 2018 - R$50,839).

Investment reserve

The investment reserve is to fund research and development of new products, according to the capital budget prepared by management and approved at the Annual Shareholders' Meeting. The balance of the investment reserve at December 31, 2019 and 2018 is R$2,683.

Tax incentive reserve

Refers to the tax incentives (Note 33) that the Parent company and its subsidiaries received for investments. The balance of this reserve at December 31, 2019 is R$213,880 (December 31, 2018 - R$136,443).

Retained profits

The retained profits reserve was recorded pursuant to the terms of article 196 of Law 6,404/76, for use in future investments. The profits retained up to December 31, 2019 amount to R$36,511 (December 31, 2018 - R$111,511).

According to article 199 of Law 6,404/76, the balance of this reserve plus other revenue reserves cannot exceed the amount of the share capital.

22.4. Other comprehensive income

Reserve for exchange differences on translation of foreign operations

The Company recognized as other comprehensive income, within equity, exchange differences on the translation of foreign operations, represented by its subsidiaries located in the United States of America, whose functional currency is the U.S. dollar. For the year ended December 31, 2019, the amount is a loss of R$790 (December 31, 2018 - R$8,518).

22.5. Treasury shares

On March 27, 2017, the Board of Directors approved a Share Repurchase Plan ("Repurchase Plan") for the Company to buy back its own shares, without reducing the amount of share capital, and keep them in its own treasury to make them available at a later date for the Restricted Stock Plan (Note 32), or then cancel or sell those shares.

(All amounts in thousands of reais unless otherwise stated)

The balance of treasury shares is as follows:

	2019	2018
Balance of shares R$	195	2.332
Quantity of shares	5.207	52.119
Average cost	37,37	44,75

23. Dividends and interest on capital proposed and paid

a) Dividends

In accordance with the Company's bylaws, the shareholders are entitled to a mandatory minimum dividend of 25% of the profit for the year after transfer to legal reserve as required by the Brazilian corporate legislation. Interest on capital, when calculated, is considered as distribution of profits for purposes of determination of the minimum dividend to be distributed.

Dividends were calculated as shown below:

	2019	2018
Profit for the year	**162.139**	142.644
Legal reserve	**(4.243)**	(7.132)
Tax incentive reserve	**(77.437)**	(71.785)
Profit to allocate	**80.459**	63.727
Minimum dividend payout mandated by corporate bylaws	**25%**	25%
Mandatory minimum dividend payout	**20.115**	15.932
Dividends and interest on capital		
Interest on capital paid	**38.105**	21.001
Withholding income tax (IRRF) on interest on capital	**(4.985)**	(2.828)
Interim dividends paid	**14.512**	25.000
Proposed additional dividends	**27.842**	17.726
Total	**75.474**	60.899
Dividends in excess of mandatory minimum dividends	**55.359**	44.967
Dividends in excess of mandatory minimum dividends per share	**0,6087**	0,4982

23. Dividends and interest on capital proposed and paid (Continued)

a) Dividends (Continued)

On February 20, 2019, the Board of Directors approved the payment of interim dividends totaling R$75,000, at R$0.8310 per share, out of revenue reserve as per the balance sheet at December 31, 2018. These interim dividends were paid on April 2, 2019.

On April 30, 2019, the General Shareholders' Meeting approved the distribution of supplementary dividends totaling R$17,726, at R$0.1964 per share, which were paid on October 15, 2019.

On September 26, 2019, the Board of Directors approved the distribution of interim dividends in the total amount of R$7,274, at R$0.0800 per share, out of the profit for the current year as per the balance sheet at June 30, 2019. These interim dividends were paid on October 15, 2019.

On November 27, 2019, the Board of Directors approved the distribution of interim dividends in the amount of R$7,238, at R$0.0796 per share, out of the profit for the year as per the balance sheet at September 30, 2019, which was paid on January 15, 2020.

The Executive Board submitted to the Board of Directors for approval at the meeting to be held at February 27, 2020 the proposal for allocation of profit for the year ended December 31, 2019, including the proposal for distribution of additional dividends of R$27,842 (R$0.3061 per share), subject to subsequent approval of shareholders at the General Shareholders' Meeting.

b) Interest on capital – Law 9,249/95

In order to comply with tax rules, the Company recorded interest on capital paid in the year in "finance costs". For the purposes of these financial statements, this interest on capital was reversed from the statement of income to retained earnings, as determined by accounting practices. Income tax was withheld at the rate of 15% from the payment of this interest on capital, except for shareholders that are legally tax-exempt or shareholders that are domiciled in countries or jurisdictions in which the tax legislation establishes a different tax rate.

On June 24, 2019, the Board of Directors approved the distribution of interest on capital of R$20,344, at R$0.2238 per share, for the first half of 2019. This interest on capital was paid on July 25, 2019.

On November 27, 2019, the Board of Directors approved the distribution of interest on capital of R$17,761, at R$0.1953 per share, for the second half of 2019, which was paid on January 15, 2020.

The interest on capital paid during the year is an advance payment of mandatory minimum dividend.

(All amounts in thousands of reais unless otherwise stated)

24. Earnings per share

In compliance with CPC 41 (IAS 33), the Company presents below earnings per share information for the years ended December 31, 2019 and 2018

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares (Note 22.5).

	2019	2018
Profit for the year	**162.139**	142.644
Weighted average number of outstanding common shares	**90.687**	89.992
Basic earnings per share - R$	**1,7879**	1,5851

b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares, plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares. The Company has one category of potential common shares with dilutive effects: share options, as shown below:

	2019	2018
Profit for the year	**162.139**	142.644
Weighted average number of outstanding common shares	**90.687**	89.992
Adjustment for share options	**19**	534
Weighted average number of common shares for diluted earnings per share	**90.706**	90.526
Diluted earnings per share - R$	**1,7875**	1,5757

There were no other transactions involving common shares or potential common shares between the balance sheet date and the date of completion of these financial statements.

(All amounts in thousands of reais unless otherwise stated)

25. Net sales revenue

Breakdown of net sales revenue is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Gross sales revenue				
Domestic market	**1.542.052**	1.414.519	**1.804.947**	1.678.868
Foreign market	**4.508**	10.057	**258.982**	186.900
Sales returns	**(45.933)**	(34.349)	**(113.340)**	(84.190)
Discounts and rebates	**(5.077)**	(3.218)	**(5.076)**	(3.218)
Taxes on sales	**(207.479)**	(192.549)	**(266.278)**	(251.701)
Net sales revenue	**1.288.071**	1.194.460	**1.679.235**	1.526.659

26. Segment reporting

The Company has only one operating segment, which is defined as shoes, handbags and accessories. The Company is organized, and has its performance assessed, as a single business unit for operating, commercial, management and administrative purposes.

This view is supported by the following factors:

- There is no segregation in its structure for the management of different product lines, brands or sales channels;

- Its manufacturing plant operates for more than one brand and sales channel;

- The Company's strategic decisions are based on studies that indicate market opportunities and not only on performance by product, brand or sales channel.

The Company's products are distributed through different brands (Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever and Alme) and multiple channels (franchises, multi-brand stores, company-owned stores and e-commerce), however they are controlled and run by management as a single operating segment, and the results therefrom are monitored and evaluated in a centralized way.

For management purposes, management monitors the consolidated gross revenue by brand and sales channel, as shown below:

(All amounts in thousands of reais unless otherwise stated)

26. Segment reporting (Continued)

Sales channel	2019	2018
Gross revenue	**2.063.929**	1.865.768
Domestic market		
Franchises	**899.399**	831.365
Multi-brand stores	**423.008**	384.272
Company-owned stores	**266.310**	298.706
E-commerce	**214.581**	162.640
Other	**1.649**	1.885
Foreign market	**258.982**	186.900

The revenue from foreign market is not shown separately by geographic area as at December 31, 2019 it represents 12.5% of the gross revenue (December 31, 2018 – 10.0%). No single customer accounts for more than 5.0% of the sales on the domestic and foreign markets.

27. Expenses by nature

The Company elected to present its income statement by function. Disclosure of expenses by nature is presented below:

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Expenses by function				
Cost of sales	**(813.665)**	(754.119)	**(903.541)**	(815.987)
Selling expenses	**(183.082)**	(170.107)	**(424.366)**	(378.922)
General and administrative expenses	**(136.463)**	(109.695)	**(184.012)**	(140.865)
Other operating income (expenses), net	**18.513**	(1.595)	**55.786**	394
	(1.114.697)	(1.035.516)	**(1.456.133)**	(1.335.380)
Expenses by nature				
Depreciation and amortization (i)	**(27.515)**	(20.748)	**(80.322)**	(40.882)
Personnel expenses	**(155.153)**	(143.876)	**(241.065)**	(229.102)
Raw and consumable materials	**(819.358)**	(758.353)	**(911.823)**	(822.738)
Freight	**(25.778)**	(25.243)	**(44.521)**	(33.829)
Store rental expenses (ii)	**-**	-	**(25.088)**	(42.136)
Advertising costs	**(8.961)**	(5.590)	**(39.995)**	(33.834)
Other operating expenses	**(77.932)**	(81.706)	**(113.319)**	(132.859)
	(1.114.697)	(1.035.516)	**(1.456.133)**	(1.335.380)

(i) Includes depreciation of lease contracts as described in Note 18.

(ii) Refers to the balance of rentals that fall out of the scope of IFRS 16 as described in Note 4.1.

(All amounts in thousands of reais unless otherwise stated)

28. Financial risk management objectives and policies

a) Fair value

The table below shows the carrying amounts and fair values of the Company's financial assets and liabilities calculated by the Company's management:

	Consolidated			
	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**13,808**	13,808	**8,501**	8,501
Cash investments	**263,875**	263,875	**227,300**	227,300
Trade receivables	**423,814**	423,814	**393,448**	393,448
Borrowings	**180,784**	180,635	**111,418**	111,441
Trade payables	**134,967**	134,967	**110,121**	110,121
Leases	**209,058**	209,058	**-**	-

At December 31, 2019, consolidated financial instruments by category are as follows:

	Measured at	
	Fair value through profit or loss	Amortized cost
Assets		
Cash and cash equivalents	-	13.808
Trade receivables	-	423.814
Cash investments	263.875	-
Liabilities		
Trade payables	-	134.967
Borrowings	-	180.635
Leases	-	209.058

28. Financial risk management objectives and policies (Continued)

a) Fair value (Continued)

The following methods and assumptions were used for fair value measurement:

• Cash investments – the carrying amounts stated in the balance sheet equal the fair value because the interest rates for the cash investments are based on the variation of the Interbank Deposit Certificate (CDI), Certificate of Bank Deposit (CDB) and Financial Treasury Bills (LFT) (Note 6).

• Cash and cash equivalents, trade and other receivables, trade and other payables – These items derive directly from the operations of the Company and its subsidiaries and are measured at amortized cost. They are stated at original amount less provision for impairment and present value adjustment when applicable. The carrying amount approximates fair value due to the short-term nature of these instruments.

• Borrowings – These are classified as other financial liabilities not measured at fair value and are carried at amortized cost according to the contractual terms. This classification was adopted because the amounts are not held for trading, which management understands is the most relevant financial information. The fair values of the borrowings are equivalent to their carrying amounts as these financial instruments are subject to rates equivalent to market rates and have specific characteristics.

a.1) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company uses quoted prices in active markets (Level 1) and observable prices (Level 2) to measure the fair value of its financial instruments.

(All amounts in thousands of reais unless otherwise stated)

28. Financial risk management objectives and policies (Continued)

b) Foreign exchange risk

The results of operations of the Company and its subsidiaries are exposed to the U.S. dollar exchange rate risk because a portion of their sales revenue is linked to the U.S. dollar. To reduce the foreign exchange risk, almost all of their exports have financing pegged to the respective currency.

At December 31, 2019 and 2018, the net exposure to the U.S. dollar is as follows:

	Consolidated	
	2019	**2018**
Trade receivables in foreign currency	**23.174**	34.690
Borrowings in foreign currency	**(171.477)**	(35.269)
Net exposure	**(148.303)**	(579)

To measure the sensitivity of the Company's foreign currency-denominated assets and liabilities which expose it to foreign exchange risk at December 31, 2019, three different scenarios were simulated and a sensitivity analysis relating to exchange rate fluctuations was prepared.

The table below shows three scenarios, and the Company adopts the probable scenario. These scenarios were defined based on management's expectations of foreign exchange rate changes at the dates of maturity of the agreements exposed to foreign exchange risk.

In addition to this scenario, the CVM through Instruction 475 of December 17, 2008 (CVM Instruction 475) determined that two other scenarios should be presented, applying an appreciation of 25% and 50% of the risk variable under analysis. These scenarios are presented according to CVM regulation.

Operation	Currency	Probable scenario	Scenario A	Scenario B
Appreciation in the exchange rate				
Trade receivables in foreign currency	R$	23.174	28.968	34.761
Borrowings in foreign currency	R$	(171.477)	(214.346)	(257.216)
Appreciation in the exchange rate against			25%	50%
US dollar		4,03	5,04	6,05
Effect on pre-tax profit	**R$**		**(37.075)**	**(74.152)**

(All amounts in thousands of reais unless otherwise stated)

28. Financial risk management objectives and policies (Continued)

c) Interest rate risk

The Company is exposed to interest rate risk because of borrowings subject to the Long-term Interest Rate (TJLP). The rates are disclosed in Note 16.

At December 31, 2019, borrowings are subject to the following interest rates:

	Consolidated	
	2019	**%**
Fixed interest rate	131.526	73
Interest rate based on TJLP and Libor	49.258	27
	180.784	**100**

To measure the sensitivity of the Company's borrowings to interest rates to which the Company was exposed at December 31, 2019, three different scenarios were simulated and a sensitivity analysis relating to interest rate shifts was prepared.

The table below shows three scenarios, and the Company adopted the probable scenario. Based on the amounts of TJLP and Libor in effect at December 31, 2019, the probable scenario for the year 2019 was defined, applying variances of 25% and 50% as required by CVM Instruction 475.

For each scenario, gross interest expense was calculated, without taking into consideration taxes and the flow of maturities of each agreement. The base date used for borrowings was December 31, 2019, projecting the interest rates for one year and verifying the sensitivity of the same rates in each scenario.

Operation	Currency	Probable scenario	Scenario A	Scenario B
Increase in interest expense				
Borrowings - TJLP	R$	499	624	748
Borrowings - Libor	R$	790	987	1.185
		1.289	**1.611**	**1.933**
Increase in interest rate for financial liabilities			25%	50%
TJLP		5,57%	6,96%	8,36%
Libor		1,96%	2,45%	2,94%

(All amounts in thousands of reais unless otherwise stated)

28. Financial risk management objectives and policies (Continued)

e) Credit risk

Credit risk arises from the difficulty in collecting the amounts due from customers for goods sold and services rendered.

The Company and its subsidiaries are also subject to credit risk arising from their cash investments.

Most of trade receivables are denominated in Brazilian reais and spread across various customers. To reduce the credit risk, the Company performs an individual analysis for new customers but, as a usual market practice, only high-risk customers are required to make advance payments. No single customer accounts for more than 5% of the Company's total accounts receivable at December 31, 2019 and 2018.

Management monitors the risk of the receivables portfolio on a weekly basis and, if there is the risk of default on a receivable, adjusts the income statement. The analysis covers receivables, customer payment history, guarantees provided and renegotiations completed with collaterals. The amounts recorded as actual losses or provision for losses reflect uncollectible accounts and receivables with low chance of recovery.

With regard to the credit risk associated with financial institutions, the Company and its subsidiaries use top-tier financial institutions.

f) Liquidity risk

Liquidity risk reflects the probability that Company and its subsidiaries will not have sufficient cash on hand to meet their obligations by reason of different currencies and maturities of their receipts and payments.

The liquidity and cash flow of the Company and its subsidiaries is monitored on a daily basis by management to ensure that the amount of cash generated from their normal business operations and borrowing facilities, when needed, are sufficient to meet their scheduled obligations, without exposing the Company and its subsidiaries to the liquidity risk.

The table below shows contractual payments due under financial liabilities:

	Projection including future interest			
	Less than 1 year	**From1 to 5 years**	**More than 5 years**	**Total**
Borrowings	158.222	22.562	-	**180.784**
Trade payables	134.967	-	-	**134.967**
Leases	40.145	90.527	78.386	**209.058**

g) Capital management

The Company's objective when managing capital is to ensure that the Company has a strong credit rating with the institutions and an optimal capital structure to support the Company's business and maximize the value for shareholders.

(All amounts in thousands of reais unless otherwise stated)

The Company controls its capital structure by making adjustments to reflect current economic conditions. In order to maintain or adjust the capital structure, the Company can make dividend payments, return capital to shareholders, take new borrowings, issue debentures, issue promissory notes and enter into derivative transactions. There was no change in capital structure objectives, policies or processes during the years ended December 31, 2019 and 2018.

The gearing ratios at December 31, 2019 and 2018 were as follows:

	Consolidated	
	2019	**2018**
Borrowings	**(180.784)**	(111.418)
Cash and cash equivalents	**13.808**	8.501
Cash investments	**263.875**	227.300
Net cash position	**96.899**	124.383
Total capital	**742.720**	711.342

29. Finance income and costs

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Finance income				
Interest income	**3.641**	3.868	**3.694**	3.890
Interest income on cash investments	**10.336**	15.543	**12.973**	16.846
Other finance income	**1.522**	2.013	**1.677**	2.256
	15.499	21.528	**18.344**	22.992
Finance costs				
Credit card administration fee	**-**	**-**	**(9.272)**	(7.595)
Discounts granted	**(1.520)**	(2.906)	**(1.791)**	(3.174)
Interest expense on borrowings	**(3.262)**	(6.619)	**(6.601)**	(8.448)
Interest expense on loans from related parties	**(457)**	(4.543)	**-**	-
Interest expense on lease liabilities	**(874)**	-	**(5.337)**	-
Bank charges	**(3.771)**	(3.387)	**(4.584)**	(3.968)
Notary public fees	**(1.633)**	(2.898)	**(1.641)**	(2.924)
Other finance costs	**(296)**	(185)	**(420)**	(524)
	(11.813)	(20.538)	**(29.646)**	(26.633)
Foreign exchange variation, net	**(6.112)**	(21.820)	**(6.874)**	(17.640)
Total	**(2.426)**	(20.830)	**(18.176)**	(21.281)

(All amounts in thousands of reais unless otherwise stated)

30. Other operating income (expenses), net

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
Share option and restricted stock plans	**(5.512)**	(7.732)	**(5.512)**	(7.732)
Franchise fees	**1.882**	1.732	**1.882**	1.732
Recovery of expenses	**1.598**	1.128	**1.600**	1.375
Gain (loss) on disposal of property, plant and equipr	**145**	(1.376)	**3.251**	713
Other income (expenses), net	**20.400**	4.653	**54.565**	4.306
Total	**18.513**	(1.595)	**55.786**	394

The Company obtained a favorable final judicial resolution in the lawsuit challenging the illegality of the inclusion of presumed ICMS credit in the IRPJ and CSLL tax base, in the lawsuit concerning the IRPJ credit due to the change in the calculation of the tax incentive from the workers' meal program, and in the lawsuit challenging the illegality of the inclusion of ICMS in the PIS and COFINS tax base. As a result, the Company recognized the right to recover the amounts unduly paid, in the amount of R$52,687 classified as "other income (expenses)" with a contra entry of R$6,749 of attorneys' fees and other legal costs to "administrative expenses", resulting in a net effect of R$45,938 on profit or loss for the year ended December 31, 2019.

Of the credits recognized, the amount of R$8,049 is an estimate made by the Company relating to the final decision on the lawsuit challenging the illegality of the inclusion of ICMS in the PIS and COFINS tax base of one of its subsidiaries. The amount is being determined based on tax documents and is pending validation by the Company's legal and accounting advisors and is therefore subject to change after review.

(All amounts in thousands of reais unless otherwise stated)

31. Insurance

The Company and its subsidiaries have insurance policies contracted with some of the main insurance companies in the country, taking into account the nature and degree of the risk involved. At December 31, 2019, the Company had insurance coverage against fire and multiple risks for items of property, plant and equipment and inventories. The insurance amounts are considered sufficient by management to cover possible losses, as shown below:

Insured assets	Risks covered	Coverage amount - R$
Inventories and property, plant and equipment	Fire	214.100
	Civil liability	20.000

32. Share-based compensation

32.1. Share option plan

At the Extraordinary General Meeting held on May 25, 2012, the Company's shareholders approved a Share Option Plan for officers, employees and service providers of the Company or other entities under its control, which became effective on that same date. The Option Plan is administered by the Board of Directors that can, at its discretion, set up a Committee to manage the Plan.

The Option Plan is limited to a maximum number of options resulting in a dilution of 5% of the Company's share capital. The dilution corresponds to the percentage represented by the maximum number of shares underlying the options by the total number of shares issued by the Company.

On May 28, 2012, the Board of Directors approved the first grant of options under the Option Plan. The first grant totaled 386,404 options: 68,231 options of Lot I and 318,173 options of Lot II.

On May 27, 2013, the Board of Directors approved the second grant of options under the Option Plan. The second grant totaled 686,901 options: 25,757 options of Lot I and 661,144 options of Lot II.

On May 26, 2014, the Board of Directors approved the third grant of options under the Option Plan. The third grant totaled 974,237 options: 29,395 of Lot I and 944,842 of Lot II.

On May 25, 2015, the Board of Directors approved the fourth grant of options under the Option Plan. The fourth grant totaled 942,079 options: 73,955 of Lot I and 942,079 of Lot II.

On June 3, 2016, the Board of Directors approved the fifth grant of options under the Option Plan. The fifth grant totaled 1,284,986 options: 99,538 of Lot I and 1,185,448 of Lot II.

(All amounts in thousands of reais unless otherwise stated)

32.1. Share option Plan (Continued)

Under the Option Plan, the options of Lot I granted to the plan participants: (i) will become exercisable on the business day subsequent to the grant date; (ii) can be exercised within 30 days from the date they become exercisable; and (iii) the shares resulting from the exercise cannot be traded over a three-year blackout period from the date of exercise. If, prior to the end of the aforementioned blackout period, the participant leaves the Company at his/her own will, quitting the job, resigning from the officer position or terminating the service agreement; or in case of Company's decision, through dismissal for cause, removal from position due to violation of duties and responsibilities as an officer, or termination of the service agreement, the Company may, at its sole discretion, repurchase the restricted shares for the exercise price paid by the participant to acquire the restricted shares.

The plan participants may exercise their options of Lot II within three years from the date they become exercisable. The vesting period will be up to 3 years for each release, which will be in the following proportion: 25% from the first anniversary of the respective grant date; 25% from the second anniversary of the respective grant date; and 50% from the third anniversary of the respective grant date.

The breakdown of the option plan, considering the vesting period, is as follows:

	1st grant	2nd grant	3rd grant	4th grant	5th grant	Total
Vesting period as from grant date						
Up to 30 days from the grant date	45.059	22.539	21.744	52.741	53.735	**195.818**
From first anniversary	54.731	158.228	195.787	162.992	176.476	**748.214**
From second anniversary	54.731	158.228	195.787	162.992	176.476	**748.214**
From third anniversary	109.462	316.455	391.572	325.984	352.952	**1.496.425**
Total	**263.983**	**655.450**	**804.890**	**704.709**	**759.639**	**3.188.671**
Changes						
Balance at December 31, 2017	1.053	16.328	34.186	508.806	633.508	**1.193.881**
Options exercised	(755)	(16.328)	(33.436)	(458.574)	(27.431)	**(536.524)**
Options written off (*)	(298)	-	-	(32.144)	(5.939)	**(38.381)**
Balance at December 31, 2018	**-**	**-**	**750**	**18.088**	**600.138**	**618.976**
Options exercised	**-**	**-**	**(1.000)**	**(50.232)**	**(600.141)**	**(651.373)**
Options written off (*)	**-**	**-**	**250**	**32.144**	**3**	**32.397**
Balance at December 31, 2019	**-**	**-**	**-**	**-**	**-**	**-**

(*) Write-offs due to termination of participant employees

(All amounts in thousands of reais unless otherwise stated)

32.1. Share option plan (Continued)

In compliance with IFRS 2/CPC 10, the Company calculated the fair value of the options, based on aforementioned vesting periods. In the year ended December 31, 2019, the Company determined the amount of R$471 (December 31, 2018 – R$1,754) for option plan expense, which was charged to the income statement with a contra entry to a separate capital reserve account within equity. The Black & Scholes model was used to calculate the fair value of the options from the 2012 grant, while for the 2013 to 2016 grants, management opted for the binomial option pricing model.

Assumptions used for determining the fair value of the share options were as follows:

	1st grant June 2012		2nd grant June 2013		3rd grant June 2014		4th grant June 2015		5th grant June 2016	
Lot	I	II	I	II	I	II	I	II	I	II
Quantity of shares										
1st tranche	68.231	79.543	25.757	165.286	29.395	236.211	73.955	217.031	99.538	296.362
2nd tranche	N/A	79.543	N/A	165.286	N/A	236.211	N/A	217.031	N/A	296.362
3rd tranche	N/A	159.087	N/A	330.572	N/A	472.420	N/A	434.062	N/A	592.724
Exercise price (R$)	20,86	20,86	27,61	27,61	18,42	18,42	19,91	19,91	17,68	17,68
Fair value per share (R$)										
1st tranche	6,66	9,05	7,36	13,82	4,95	9,82	1,55	8,52	6,66	6,16
2nd tranche	N/A	11,33	N/A	16,37	N/A	10,22	N/A	9,23	N/A	4,15
3rd tranche	N/A	13,32	N/A	16,72	N/A	11,47	N/A	9,84	N/A	2,68
Expected dividend yield	-	-	4,85%	4,85%	5,03%	5,03%	1,89%	1,89%	1,56%	1,56%
Volatility of the share price	40,36%	40,36%	36,29%	41,18%	27,95%	40,91%	24,93%	31,69%	24,01%	32,40%
Risk-free interest rate										
1st tranche	8,50%	7,81%	7,86%	10,47%	10,81%	11,75%	13,41%	12,48%	14,12%	12,59%
2nd tranche	N/A	8,59%	N/A	10,60%	N/A	11,80%	N/A	12,33%	N/A	12,62%
3rd tranche	N/A	9,35%	N/A	10,69%	N/A	11,86%	N/A	12,25%	N/A	12,68%
Expected time to maturity (calendar days)										
1st tranche	30	365	30	365	30	365	30	365	30	365
2nd tranche	N/A	730	N/A	730	N/A	730	N/A	730	N/A	730
3rd tranche	N/A	1.095	N/A	1.095	N/A	1.095	N/A	1.095	N/A	1.095

32.2. Restricted stock plan

On June 23, 2017, the extraordinary general meeting approved the design and implementation of a new restricted stock plan (the "Plan") for the Company. On August 28, 2017, the Board of Directors approved the execution of restricted stock award agreements between the Company and Award Recipients under the Restricted Stock Plan and the First Stock Award Program. And on July 30, 2018, the Board of Directors approved the execution of restricted stock award agreements between the Company and Award Recipients under the Restricted Stock Plan and the Second Stock Award Program. On July 25, 2019, the Board of Directors approved the execution of restricted stock award agreements between the Company and Award Recipients under the Restricted Stock Plan and the Third Stock Award Program.

The purpose of the Plan is permit grants of shares, subject to certain restrictions, to the Company's or a subsidiary's officers and employees ("Recipients") selected by the Board of Directors, as a means of: (i) stimulating the expansion and success of the Company and its subsidiaries and the achievement of their business objectives; (b) promoting improvement in management of the Company and its subsidiaries, giving Recipients the opportunity to become shareholders in the Company, motivating them to optimize all aspects that can increase the Company's value over the long term; (c) aligning the interests of Recipients with those of shareholders; and (d) incentivizing officers and employees to remain with the Company or its subsidiaries.

For purposes of this Plan, the Board of Directors may, upon prior recommendation of the Committee, grant a certain number of registered, book-entry common shares that must not exceed five percent (5%) of the Company's total share capital at the date of approval of the Plan.

Without affecting other terms and conditions laid out in the respective Award Agreements, Recipients shall become fully vested in the restricted stock grant only if they remain continuously employed by the Company or any subsidiary, as applicable, and achieve required performance goals stipulated in each Program and in the respective Award Agreements, in the period between the date of grant and the vesting dates of the respective vesting tranches:

(i) up to 10% after the first anniversary of the grant date;

(ii) up to 10% after the second anniversary of the grant date;

(iii) up to 20% after the third anniversary of the grant date; and

(iv) up to 60% after the fourth anniversary of the grant date.

Notwithstanding the items (i) to (iv) above, a Recipient may receive an additional up to 10% of the total number of restricted shares granted by the Board of Directors if he/she exceeds the applicable performance goals specified in the Program and in the respective Award Agreement, as it may be determined by the Board of Directors, which may at its discretion establish various vesting dates with respect to the restricted shares granted.

In order to satisfy the grant of restricted shares under the Plan, the Company, subject to applicable law and regulation, will dispose of treasury shares through a private transaction at no cost to Recipients, in accordance with CVM Instruction 567.

(All amounts in thousands of reais unless otherwise stated)

32.2. Restricted stock plan (Continued)

The grants and respective vesting periods are as follows:

	1st grant at 8/29/2017	2nd grant at 7/30/2018	3rd grant at 7/30/2019	Total
Vesting period as from grant date				
From first anniversary	60.728	11.066	2.661	74.455
From second anniversary	60.728	11.066	2.661	74.455
From third anniversary	121.457	22.134	5.321	148.912
From fourth anniversary	364.370	66.398	15.963	446.731
Total	**607.283**	**110.664**	**26.606**	**744.553**
Changes:				
Balance at December 31, 2017	607.283	-	-	607.283
Granted (*)	-	110.664	-	110.664
Exercised (**)	(51.764)	-	-	(51.764)
Written off (***)	(89.643)	-	-	(89.643)
Balance at December 31, 2018	**465.876**	**110.664**	**-**	**576.540**
Granted (*)	-	-	26.606	26.606
Exercised (**)	(49.830)	(8.995)	-	(58.825)
Written off (***)	(17.405)	(20.709)	-	(38.114)
Balance at December 31, 2019	**398.641**	**80.960**	**26.606**	**506.207**

(*) Grant before tax effects and performance conditions of the restricted stock plan.

(**) With the effects of the performance conditions of the restricted stock plan and tax effects, at the 2nd vesting date (1st grant 2017) 39,738 shares were exercised and at the 1st vesting date (2nd grant 2018) 7,174 shares were exercised.

(***) Write-offs due to termination of employees who participated in the share option plan or non-exercise of shares.

In compliance with IFRS 2/CPC 10, the Company determined the fair value of the shares, based on the stated vesting periods. In the year ended December 31, 2019, the Company determined R$5,041 (December 31, 2018 – R$4,466) in restricted stock plan expense, which was charged to the statement of income with a contra-entry to the capital reserve account within equity.

(All amounts in thousands of reais unless otherwise stated)

32.2. Restricted stock plan (Continued)

The following assumptions were adopted to determine the fair value of restricted shares:

	1st grant 2017	2nd grant 2018	3rd grant 2019
Number of shares	**607.283**	**110.664**	**26.606**
1st tranche	60.728	11.066	2.661
2nd tranche	60.728	11.066	2.661
3rd tranche	121.457	22.134	5.321
4th tranche	364.370	66.398	15.963
Share price (R$)	**35,50**	**43,38**	**50,74**
Fair value per share (R$)			
1st tranche	34,73	43,37	50,50
2nd tranche	33,97	43,37	50,50
3rd tranche	33,24	43,37	50,50
4th tranche	32,51	43,37	50,50
Expected dividend yield	**2,20%**	**3,14%**	**3,25%**
Volatility of the share price			
1st tranche	32,2%	45,0%	29,5%
2nd tranche	36,5%	39,1%	38,0%
3rd tranche	36,6%	39,5%	36,2%
4th tranche	36,8%	38,8%	37,3%
Risk-free interest rate			
1st tranche	7,9%	7,3%	5,4%
2nd tranche	8,4%	8,5%	5,7%
3rd tranche	9,0%	9,3%	6,2%
4th tranche	9,4%	10,0%	6,6%
Expected time to maturity (years)			
1st tranche	1	1	1
2nd tranche	2	2	2
3rd tranche	3	3	3
4th tranche	4	4	4

(All amounts in thousands of reais unless otherwise stated)

33. Government tax incentives

Presumed tax credit of State Value-added Tax on Sales and Services (ICMS)

a) Under Regulations 088-R of October 29, 2015 and 077-R of June 1, 2016, the State of Espirito Santo has registered the Company, through its parent and one subsidiary, respectively, to receive ICMS tax benefits under the tax benefit arrangement called Competitiveness Agreement.

b) The State of Rio Grande do Sul, through state internal regulation, grants presumed credits of ICMS on sales of shoes to other states.

	Parent company		Consolidated	
	2019	**2018**	**2019**	**2018**
ICMS tax benefits - State of Espiri	**62.862**	58.014	**77.416**	71.216
ICMS tax benefits - State of Rio Gı	**-**	-	**21**	569
Total	**62.862**	58.014	**77.437**	71.785

With the enactment of Complementary Law 160 on August 7, 2017, which determines that ICMS tax benefits offered by governments are an investment subsidy and, accordingly, no longer subject to income tax and social contribution, at December 31, 2019 the Company recognized a tax incentive reserve of R$77,437 (December 31, 2018 – R$71,785) for tax incentives received during the year.

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Arezzo Indústria e Comércio S.A.

Parent company and consolidated financial statements at December 31, 2019 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Arezzo Indústria e Comércio S.A.

Opinion

We have audited the accompanying parent company financial statements of Arezzo Indústria e Comércio S.A. (the "Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2019 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Arezzo Indústria e Comércio S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arezzo Indústria e Comércio S.A. and of Arezzo Indústria e Comércio S.A. and its subsidiaries as at December 31, 2019, and its financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

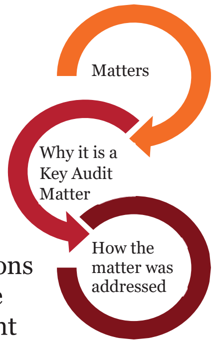
Basis for opinion

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

Arezzo Indústria e Comércio S.A.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We planned and performed our audit for the year ended December 31, 2019 taking into consideration that the parent company and consolidated operations have not changed significantly in relation to the prior year, in addition to the adoption of the new accounting pronouncements effective as from the current year. Accordingly, we present below the key audit matters.

Why it is a key audit matter	How the matter was addressed in the audit
Adequacy of costing and existence and valuation of inventories (Notes 2.7 and 8)	
The Company and its subsidiaries have an exclusive business model operating a multi-brand and multi-channel business, in which the product research and development team and the supply structure enable several collections to be marketed throughout the year. The accounting standards require inventories at the balance sheet date to reflect the amount of the existing items valued at the average purchase or production cost, adjusted to the estimated realizable value, whenever lower. These aspects, together with the large number of items, the seasonality of the collections and the model for the receipt and supply of the products, including from own and independent factories, that result in the monitoring of the number of items available and the costing and valuation of the inventories being very complex activities that we consider to be relevant in our audit.	We updated our understanding of the processes of monitoring of the inventory quantities and of the methodology and criteria used by management to determine purchase and production costs. In addition, we selected raw material items, work in process and finished products for tests of the calculation of the purchase and production costs. We monitored and tested, on sample bases, inventory counts in various units and we tested the movement of inventory receipts and shipments, from the inventory dates to the balance sheet date. We also obtained an understanding of and tested the assumptions and criteria used by management to determine the provisions for realization of inventories, whether due to the existence of obsolete items or negative margins. The results obtained from the tests of the existence and costs of the inventory items, as well as of the methodology, data and assumptions used in determining the provisions for losses were satisfactory.

Why it is a key audit matter	How the matter was addressed in the audit
Recoverability of goodwill balances (Notes 2.10, 2.11 and 15)	
The Company and its subsidiaries make payments for certain business locations in order to facilitate the installation of their stores in places considered strategic. These assets, when considered as having an indefinite useful life, are classified as intangible assets and are subject to annual impairment tests. The accounting standards require that intangible assets with indefinite useful lives be subject to impairment tests by management at least once every 12 months, unless there is evidence that may indicate the need to carry out an earlier test. Management carried out an impairment test using the Discounted Cash Flow method and did not identify the need to record a provision for impairment for this category of assets. The cash flow projections used for the purpose of these impairment tests are performed individually, per cash-generating unit (in this case, per store) and take into account sensitive estimates and assumptions that were considered significant in our audit. The use of different assumptions in future cash flow projections, such as: revenue growth rates, EBITDA margins and discount rate used could significantly change the conclusions of these tests, therefore, we focused on this area in our audit.	We updated our understanding of the methodology, significant assumptions and data used by the Company in carrying out the annual impairment test of goodwill balances. The audit approach used was to review the calculation model used for testing, assess the reasonableness of the assumptions used by management and compare the historical data used in the calculation with those in the accounting records. In addition, we performed sensitivity analyses regarding the main assumptions used in the analysis prepared by management. The results of the impairment tests carried out by management at the balance sheet date were reasonable and the disclosures in the explanatory notes are consistent with management analyses.

Arezzo Indústria e Comércio S.A.

Why it is a key audit matter	How the matter was addressed in the audit
Adoption of new accounting pronouncement – IFRS 16/CPC 06 (R2) (Notes 4.1 and 18)	
Accounting pronouncement "IFRS 16/CPC 06 (R2) -Leases" is effective as from January 1, 2019. The Company's management decided to adopt this standard with the recognition of the effect of the transition in the opening balance as at January 1, 2019. Due to the nature of the segment in which it operates, the Company has a significant amount of lease agreements, mainly in relation to stores in commercial locations and shopping malls, therefore, subject to the application of the standard. The application of the new standards demanded significant involvement and judgment by the Company's management in several activities, such as: (i) review of commercial agreements; (ii) identification of the contractual assets; (iii) definition of certain assumptions and model for the definition of the term and discount rate applicable to each contract; and (iv) design of manual and automatic controls for the proper identification, measurement, recording and disclosure of transactions and balances in the financial statements, among others.	We obtained an understanding of the significant internal controls related to the process of identification, measurement, recording and disclosure of lease agreements, and assessed the reports and/or tools implemented by the Company's management to ensure the completeness and integrity of the commercial agreements. Our audit approach comprised the analysis of the main assumptions used by the Company's management to determine the impacts of the adoption of these accounting standards, as well as exceptions adopted as permitted by the standards. We also tested, on a sample basis, the lease agreements, and assessed the adequacy of the disclosures presented in the explanatory notes. Based on the procedures performed, we consider that the main assumptions and estimates made by the Company's management as to the identification, management, recording and disclosure of this new accounting standard in the financial statements are consistent with the information and documents presented.

Other matters

Statements of value added

The parent company and consolidated statements of value added for the year ended December 31, 2019, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements were reconciled with the financial statements and accounting records, as applicable, and if their form and content were in accordance with the criteria defined in Technical Pronouncement CPC 09 of the Brazilian Accounting Pronouncements Committee - "Statement of Value Added". In our opinion, these statements of value added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

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

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

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

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

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

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Porto Alegre, February 28, 2020

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Adriano Machado
Contador CRC PR042584/O-7

Attachment

FISCAL COUNCIL OPINION

The Fiscal Council of **AREZZO INDÚSTRIA E COMÉRCIO S.A.** ("Company"), in the exercise of its attributions and legal responsibilities, at a meeting held on Fabruary 20, 2020, at the Company's office located in the City of Campo Bom, State of Rio Grande do Sul, at Liberato Salzano Vieira da Cunha Street, nº 108, CEP 93700-000, proceeded the of the company's financial statements information, the profit destination and other reports prepared by the Company for the business year ending on December 31, 2019.

Based on the examination carried out and the information and clarifications received by the Company and the independent auditors, issued by PriceWaterhouseCoopers Auditores Independentes without restrictions, the Fiscal Council is in favor of company's financial statements information, the profit destination, notes and other documents properly express the Company's financial and equity situation.

In line with the article 163 of Law 6,404/76, the fiscal council opinion was expressed by forwarding these documents for consideration at Company's the General Shareholders' Meeting.

Campo Bom, February 20, 2020.

Martin da Silva Gesto

João Luiz Trindade Telles da Silva

Ricardo Gus Maltz

ATTACHMENT I-A

OFFICER'S STATEMENTS

STATEMENT PURSUANT TO ARTICLE 25 OF CVM NORMATIVE INSTRUCTION No. 480/09

<u>Officer's Statement with regard to the Financial Statements</u>

The undersigned Officers of AREZZO INDÚSTRIA E COMÉRCIO S.A., a publicly-held corporation with its principal place of business in the City of Belo Horizonte, State of Minas Gerais, at Rua Fernandes Tourinho, 147, suites 1301 and 1303, postal code 30112-000, enrolled with the CNPJ/MF under No. 16.590.234/0001-76, with its articles of incorporation filed with the Commercial Registry of the State of Minas Gerais under NIRE 31.300.025.91-8 ("Company"), hereby state that they reviewed, discussed and agree with the financial statements of the Company for the fiscal year ended December 31, 2019, as provided for and for the purposes of § 1, item VI of article 25 of CVM Ruling 480, of December 7, 2009, as amended.

São Paulo, March 04, 2020.

Alexandre Café Birman – Chief Executive Officer
Rafael Sachete da Silva – Vice President of Corporate and Chief Financial Officer
Aline Ferreira Penna – Investor Relations Officer

ATTACHMENT II-B

OFFICER'S STATEMENTS

STATEMENT PURSUANT TO ARTICLE 25 OF CVM NORMATIVE INSTRUCTION No. 480/09

Officer's Statement with regard to the Independent Auditor's Report

The undersigned Officers of AREZZO INDÚSTRIA E COMÉRCIO S.A., a publicly-held corporation with its principal place of business in the City of Belo Horizonte, State of Minas Gerais, at Rua Fernandes Tourinho, 147, suites 1301 and 1303, postal code 30112-000, enrolled with the CNPJ/MF under No. 16.590.234/0001-76, with its articles of incorporation filed with the Commercial Registry of the State of Minas Gerais under NIRE 31.300.025.91-8 ("Company"), hereby state that they reviewed, discussed and agree with the opinions expressed in the independent auditors' report relating to the financial statements of the Company for the fiscal year ended December 31, 2019, as provided for and for the purposes of § 1, item V of article 25 of CVM Ruling 480, of December 7, 2009, as amended.

São Paulo, March 04, 2020.

Alexandre Café Birman – Chief Executive Officer
Rafael Sachete da Silva – Vice President of Corporate and Chief Financial Officer
Aline Ferreira Penna – Investor Relations Officer