Vulcabras Azaleia S.A.

Quarterly financial information
June 30, 2020
(A Free Translation of the original report in Portuguese as published in Brazil contain quarterly financial information prepared in accordance with accounting practices adopted in Brazil and IFRS)

KPDS 708252

Contents

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Report on the review of quarterly information - ITR

To the Board Members and Directors of
Vulcabras Azaleia S/A
Horizonte - CE

Introduction

We have reviewed the interim, individual and consolidated financial information of Vulcabras Azaleia S/A ("Company") contained in the Quarterly Information (ITR) Form for the quarter ended June 30, 2020, which comprise the balance sheet as of June 30, 2020 and related statements of profit or loss, of comprehensive income for the 3 and 6-month periods then ended, of changes in equity and of cash flows for the quarter then ended, including the explanatory notes.

Company's Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with CPC 21(R1) and International Standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this information in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission, applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

Our review was carried out in accordance with the Brazilian and international review standards for interim information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists in asking questions, chiefly to the persons in charge of financial and accounting affairs, and in applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim information

Based on our review, we are not aware of any facts that would lead us to believe that the individual and consolidated interim financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, applicable to the preparation of Quarterly Information (ITR), and presented in a manner consistent with the standards issued by the Securities Commission.

Other matters - Statements of added value

The aforementioned quarterly information includes the individual and consolidated statements of added value for the six-month period ended June 30, 2020, prepared under responsibility of Company's Management, and presented as supplementary information for IAS 34 purposes. These statements have been subject to review procedures performed in conjunction with the review of the quarterly information, in order to determine whether they are reconciled with the interim financial information and book records, as applicable, and whether their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 – Statement of Added Value. Based on our review, we are not aware of any facts that may lead us to believe that these statements of added value have not been prepared, in all material respects, in accordance with the criteria set forth in this Standard and consistently with respect to the individual and consolidated interim financial information taken as a whole.

Fortaleza, August 10, 2020

KPMG Auditores Independentes
CRC SP-014428/O-6 S-CE

Original in Portuguese signed by
Marcelo Pereira Gonçalves
Accountant CRC SP 220026/O-3

Vulcabras Azaleia S.A.

(Publicly-held company)

Balance sheets

June 30, 2020 and December 31, 2019

(In thousands of reais)

		Consolidated		Parent company	
Assets	**Note**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Cash and cash equivalents	4	172,387	62,164	3,469	3,606
Interest earning bank deposits	5	150,000	-	-	-
Trade accounts receivable	6	276,927	448,377	-	-
Inventories	7	288,310	241,238	-	-
Recoverable taxes	8	19,306	14,723	561	631
Income tax and social contribution	9a	4,664	4,580	364	353
Prepaid expenses		9,890	13,631	960	1,236
Amounts receivable from disposal of operation	1.1a	12,653	-	-	-
Other accounts receivable		10,896	9,519	26	30
Total current assets		**945,033**	**794,232**	**5,380**	**5,856**
Interest earning bank deposits	5	4,557	2,823	2	2
Recoverable taxes	8	7,234	7,744	1,802	1,794
Income tax and social contribution	9b	449	330	-	-
Judicial deposits	10	19,018	17,952	540	539
Amounts receivable from disposal of operation	1.1.a	2,600	-	-	-
Other accounts receivable		2,015	2,229	1,585	1,585
Prepaid expenses		731	673	10	4
Assets for sale		194	194	-	-
Non-current assets		**36,798**	**31,945**	**3,939**	**3,924**
Investments	12	59,673	62,046	1,019,570	1,076,837
Investment property	13	2,323	2,530	2,316	2,522
Right to use	19	20,565	15,845	-	-
Property, plant and equipment	14	221,559	235,120	160	161
Intangible assets	15	214,079	213,440	111	111
		518,199	**528,981**	**1,022,157**	**1,079,631**
Total non-current assets		**554,997**	**560,926**	**1,026,096**	**1,083,555**
Total assets		**1,500,030**	**1,355,158**	**1,031,476**	**1,089,411**

		Consolidated		Parent company	
Liabilities	**Note**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Suppliers	17	32,056	40,993	639	1,088
Loans and financing	18	106,700	3,264	-	-
Taxes payable		3,120	8,402	205	83
Tax Recovery Program - REFIS		128	128	-	-
Salaries and vacations payable		28,537	41,394	14	17
Provisions	20	20,473	18,326	411	405
Lease liabilities	19	10,395	7,798	-	-
Commissions payable		7,657	13,536	-	-
Other accounts payable		22,424	15,356	260	132
Total current liabilities		**231,490**	**149,197**	**1,529**	**1,725**
Loans and financing	18	171,754	39,789	-	-
Loans with related parties	11	17,276	16,930	-	-
Provisions	20	35,378	38,183	453	453
Deferred taxes on revaluation of property, plant and equipment	9b	2,626	2,850	-	-
Lease liabilities	19	11,515	8,047	-	-
Taxes payable		-	12,265	-	-
Provision for loss with investment	12	-	-	130	95
Other accounts payable		303	469	-	-
Total non-current liabilities		**238,852**	**118,533**	**583**	**548**
Equity					
Capital	21	1,106,717	1,106,717	1,106,717	1,106,717
Revaluation reserves	21	5,098	5,532	5,098	5,532
Capital reserves	21	1,987	1,517	1,987	1,517
Equity valuation adjustments	21	24,415	16,281	24,415	16,281
Accumulated losses		(108,853)	(42,909)	(108,853)	(42,909)
Equity attributable to controlling shareholders		**1,029,364**	**1,087,138**	**1,029,364**	**1,087,138**
Non-controlling interest		**324**	**290**	**-**	**-**
Total equity		**1,029,688**	**1,087,428**	**1,029,364**	**1,087,138**
Total liabilities		**470,342**	**267,730**	**2,112**	**2,273**
Total liabilities and equity		**1,500,030**	**1,355,158**	**1,031,476**	**1,089,411**

See the accompanying notes to the quarterly financial information.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of profit or loss

June 30, 2020 and June 30, 2019

(In thousands of reais, except net income per share)

		Consolidated		Consolidated		Parent company		Parent company	
	Note	06/30/2020	06/30/2019	04/01/2020–06/30/2020	04/01/2019–06/30/2019	06/30/2020	06/30/2019	04/01/2020–06/30/2020	04/01/2019–06/30/2019
Net sales	22	337,317	626,765	98,681	326,978	-	-	-	-
Cost of sales and resales	23	(233,793)	(413,495)	(72,280)	(215,740)	-	-	-	-
Gross income		**103,524**	**213,270**	**26,401**	**111,238**	**-**	**-**	**-**	**-**
Sales expenses	24	(71,964)	(95,527)	(27,675)	(49,246)	-	-	-	-
PECLD (Estimated credit loss for allowance for doubtful accounts	24	(8,892)	(5,474)	(7,467)	(4,761)	-	-	-	-
Administrative expenses	25	(50,766)	(52,922)	(26,071)	(28,073)	(3,380)	(2,827)	(1,601)	(1,582)
Other operating revenues (expenses), net	26	(38,136)	943	(37,985)	1,770	2,389	2,091	1,167	973
Equity in net income of subsidiaries	12b	(2,373)	(1,055)	(973)	141	(65,455)	57,029	(74,900)	30,668
Income (loss) before net financial expenses and revenues and taxes		**(68,607)**	**59,235**	**(73,770)**	**31,069**	**(66,446)**	**56,293**	**(75,334)**	**30,059**
Financial revenues		23,351	11,667	8,695	6,145	69	57	28	25
Financial expenses		(20,080)	(14,299)	(10,279)	(6,941)	(1)	(174)	(1)	(86)
Net financial revenues and expenses	27	**3,271**	**(2,632)**	**(1,584)**	**(796)**	**68**	**(117)**	**27**	**(61)**
Income (loss) before income taxes		**(65,336)**	**56,603**	**(75,354)**	**30,273**	**(66,378)**	**56,176**	**(75,307)**	**29,998**
Deferred income tax and social contribution	9b	(1,104)	(416)	-	(269)	-	-	-	-
Net income (loss) for the period		**(66,440)**	**56,187**	**(75,354)**	**30,004**	**(66,378)**	**56,176**	**(75,307)**	**29,998**
Income attributable to:									
Controlling shareholders		(66,378)	56,176	(75,307)	29,998	(66,378)	56,176	(75,307)	29,998
Non-controlling shareholders		(62)	11	(47)	6	-	-	-	-
Net income (loss) for the period		**(66,440)**	**56,187**	**(75,354)**	**30,004**	**(66,378)**	**56,176**	**(75,307)**	**29,998**
Earnings per share									
Earnings per common share - basic		(0.2701)	0.2286						
Earnings per common share - diluted		(0.2686)	0.2273						
Number of shares at the end of the period									
Outstanding common shares		245,756,346	245,756,346						
Outstanding common shares with a dilution effect		247,146,346	247,196,346						

See the accompanying notes to the quarterly financial information.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of comprehensive income

June 30, 2020 and June 30, 2019

(In thousands of reais)

	Consolidated		Consolidated		Parent company		Parent company	
	06/30/2020	**06/30/2019**	**04/01/2020–06/30/2020**	**04/01/2019–06/30/2019**	**06/30/2020**	**06/30/2019**	**04/01/2020–06/30/2020**	**04/01/2019–06/30/2019**
Income (loss) for the period	(66,440)	56,187	(75,354)	30,004	(66,378)	56,176	(75,307)	29,998
Other comprehensive income - OCI	8,134	20	707	(302)	8,134	20	707	(302)
Items that can be subsequently reclassified to income (loss)								
Exchange differences from translation of foreign operations	8,146	(17)	674	(302)	8,146	(17)	674	(302)
Financial assets at fair value through other comprehensive income (FVTOCI)	(12)	37	33	-	(12)	37	33	-
Total comprehensive income	(58,306)	56,207	(74,647)	29,702	(58,244)	56,196	(74,600)	29,696
Comprehensive income attributable to:								
Controlling shareholders	(58,244)	56,196	(74,600)	29,696	(58,244)	56,196	(74,600)	29,696
Non-controlling shareholders	(62)	11	(47)	6	-	-	-	-

See the accompanying notes to the quarterly financial information.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statement of changes in equity - Parent company and Consolidated

June 30, 2020 and June 30, 2019

(In thousands of reais)

	Parent company							
	Capital	Reflected revaluation reserve in subsidiaries	Capital reserve	Other comprehensive income	Accumulated losses	Total	Non-controlling interest	Total equity
Balances at January 01, 2019	**1,106,717**	**6,401**	**641**	**1,990**	**(174,587)**	**941,162**	**300**	**941,462**
Realization of revaluation reserve in subsidiary, net of taxes	-	(434)	-	-	434	-	-	-
Transaction with share-based payments	-	-	300	-	-	300	-	300
Other comprehensive income								
Exchange differences from translation of foreign operations	-	-	-	(17)	-	(17)	9	(8)
Financial assets at fair value through other comprehensive income (FVTOCI)				37		37	-	37
Net revenue for the period	-	-	-	-	56,176	56,176	-	56,176
Balances at June 30, 2019	**1,106,717**	**5,967**	**941**	**2,010**	**(117,977)**	**997,658**	**309**	**997,967**
Balances at January 01, 2020	**1,106,717**	**5,532**	**1,517**	**16,281**	**(42,909)**	**1,087,138**	**290**	**1,087,428**
Realization of revaluation reserve in subsidiary, net of taxes	-	(434)	-	-	434	-	-	-
Transaction with share-based payments	-	-	470	-	-	470	-	470
Other comprehensive income								
Exchange differences from translation of foreign operations	-	-	-	8,146	-	8,146	96	8,242
Financial assets at fair value through other comprehensive income (FVTOCI)	-	-		(12)	-	(12)	-	(12)
Net revenue for the period	-	-	-	-	(66,378)	(66,378)	(62)	(66,440)
Balances at June 30, 2019	**1,106,717**	**5,098**	**1,987**	**24,415**	**(108,853)**	**1,029,364**	**324**	**1,029,688**

See the accompanying notes to the quarterly financial information.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of cash flows – Indirect method

June 30, 2020 and June 30, 2019

(In thousands of reais)

	Note	Consolidated		Parent company	
		06/30/2020	06/30/2019	06/30/2020	06/30/2019
Cash flow from operating activities					
Net income (loss) for the period		(66,440)	56,187	(66,378)	56,176
Adjustments for:					
Depreciation and amortization		40,680	38,391	207	209
Provision for impairment loss in inventory	7	9,708	(9,545)	-	-
Interest on provisioned leases		2,370	-	-	-
Net value of written off tangible and intangible assets		1,753	4,281	-	-
Yields from financial investments		(40)	(41)	-	-
Provision for contingencies	20	5,661	1,793	24	112
Equity in net income of subsidiaries	12	2,373	1,055	65,455	(57,029)
Transaction with share-based payments		470	300	470	300
Expected losses for allowance for doubtful accounts	6	8,892	5,358	-	-
Loss in the sale of subsidiary	1,1	2,356	-	-	-
Financial charges and exchange-rate change recognized in income (loss)		11,241	1,856	-	-
Deferred taxes		(343)	(221)	-	-
Non-controlling interest		62	(11)	-	-
		18,743	**99,403**	**(222)**	**(232)**
Changes in assets and liabilities					
Interest earning bank deposits		-	(270)	-	-
Trade accounts receivable		164,459	50,223	-	-
Inventories		(69,529)	(13,852)	-	-
Prepaid expenses		3,649	(1,384)	270	7
Recoverable taxes		(9,081)	(282)	51	(29)
Other accounts receivable		(1,637)	3,248	4	1
Judicial deposits		(4,940)	2,673	(1)	175
Suppliers		(8,066)	13,033	(449)	(303)
Commissions payable		(5,879)	(2,559)	-	-
Taxes payable		-	249	-	-
Taxes and social contributions		(3,413)	2,784	122	(12)
Salaries and vacations payable		(11,554)	14,042	(3)	-
Other accounts payable		7,386	(10,726)	128	41
Provisions		(2,411)	(5,680)	(18)	(60)
		58,984	**51,499**	**104**	**(180)**
Interest paid		(2,614)	(1,343)	-	-
Income taxes paid		(1,104)	-	-	-
		(3,718)	**(1,343)**	**-**	**-**
Net cash flow from (used in) operating activities		**74,009**	**149,559**	**(118)**	**(412)**
Cash flow from investment activities					
Acquisition of property, plant and equipment	14	(31,152)	(52,653)	-	-
Interest earning bank deposits		(151,711)	-	-	-
Fund from the sale of subsidiary, net of cash in the consolidated	1,1	(4,122)	-	-	-
Payment for acquisition of subsidiary		-	(61,627)	-	-
Funds from disposal of property, plant and equipment		387	248	-	-
Purchase of intangible	15	(1,453)	(1,155)	-	-
Increase in investee's interest		-	-	(19)	-
Net cash flow used in investment activities		**(188,051)**	**(115,187)**	**(19)**	**-**
Cash flow from financing activities					
Loans obtained - Principal	18	232,201	4,793	-	-
Payment of loans obtained - Principal	18	(384)	(18,274)	-	-
Loans with related parties	18	346	329	-	-
Receipt of loans with related parties		-	-	-	151
Payment of lease liabilities		(4,536)	(6,110)	-	-
Net cash flow from (used in) financing activities		**227,627**	**(19,262)**	**-**	**151**
Increase in cash and cash equivalents		**113,585**	**15,110**	**(137)**	**(261)**
Cash and cash equivalents at the beginning of the year		62,164	68,626	3,606	916
Effect of the translation of foreign investees		(3,362)	104	-	-
Cash and cash equivalents at the end of year		172,387	83,840	3,469	655
Increase in cash and cash equivalents		**113,585**	**15,110**	**(137)**	**(261)**

See the accompanying notes to the quarterly financial information.

Vulcabras|azaleia S.A.

(Publicly-held company)

Statements of added value

June 30, 2020 and June 30, 2019

(In thousands of reais)

	Consolidated		Parent company	
	06/30/2020	**06/30/2019**	**06/30/2020**	**06/30/2019**
Revenues	**373,245**	**717,328**	**182**	**103**
Sale of merchandise, products and services	381,316	718,282	-	-
Other revenues and expenses	821	4,520	182	103
Provision for impairment of trade accounts receivable	(8,892)	(5,474)	-	-
Inputs acquired from third parties	**(211,504)**	**(299,561)**	**(2,353)**	**(1,887)**
Raw materials used	(99,866)	(183,584)	-	-
Cost of products and goods sold and services rendered	(9,804)	(34,137)	-	-
Materials, energy, outsourced services and other	(101,839)	(81,782)	(2,353)	(1,887)
Loss/recovery of asset values	5	(58)	-	-
Gross added value	**161,741**	**417,767**	**(2,171)**	**(1,784)**
Retentions	**(40,680)**	**(38,391)**	**(206)**	**(209)**
Depreciation, amortization and depletion	(40,680)	(38,391)	(206)	(209)
Net added value generated by the Company	**121,061**	**379,376**	**(2,377)**	**(1,993)**
Added value received as transfer	**23,347**	**12,058**	**(62,893)**	**59,423**
Equity in net income of subsidiaries	(2,373)	(1,055)	(65,455)	57,029
Financial revenues	23,351	11,667	69	57
Other	2,369	1,446	2,493	2,337
Total added value payable	**144,408**	**391,434**	**(65,270)**	**57,430**
Distribution of added value	**144,408**	**391,434**	**(65,270)**	**57,430**
Personnel	**141,312**	**218,466**	**405**	**442**
Direct remuneration	90,032	151,335	-	-
Benefits	22,669	27,007	-	-
FGTS	10,910	12,786	-	-
Sales commissions	12,357	22,562	-	-
Directors' fees	5,344	4,776	405	442
Taxes, duties and contributions	**53,998**	**105,095**	**702**	**638**
Federal	44,196	77,004	469	638
State	9,233	27,772	-	-
Municipal	569	319	233	-
Third-party capital remuneration	**15,538**	**11,686**	**1**	**174**
Interest	15,074	10,773	1	174
Rentals	463	913	-	-
Other	1	-	-	-
Remuneration of own capital	**(66,440)**	**56,187**	**(66,378)**	**56,176**
Interest on own capital	-	-	-	-
Retained earnings (losses)	(66,378)	56,176	(66,378)	56,176
Non-controlling interest	(62)	11	-	-

See the accompanying notes to the quarterly financial information.

Notes to the quarterly financial information

(In thousands of reais - R$, unless otherwise stated)

1 Operations

Vulcabras Azaleia S.A. (“Company”) is a publicly-held company headquartered in Jundiaí - State of São Paulo (SP), Brazil. The industrial operations are concentrated in the subsidiaries located in the Northeast, in the states of Ceará, Bahia and Sergipe. The Company has also investments in other companies, and is engaged in trading and production in the domestic and foreign markets of apparel and accessories products, particularly sportswear, male, female and professional footwear, through its direct and indirect subsidiaries:

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. which has the following subsidiaries:

Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.;

Vulcabras Distribuidora de Artigos Esportivos Ltda.;

Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. which has the following subsidiaries:

Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.;

Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda..;

Calzados Azaléia Colômbia Ltda; and

Calzados Azaléia Peru S.A.

The brands managed by the companies include:

Own brands: Azaléia, Dijean, Olk, Olympikus, Opanka and Vulcabras.

Third parties’ brands: Under Armour

1.1 Relevant events during the periods:

1.1.1- Venda da Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.:

On March 31, 2020, the Company concluded the sale of the indirect subsidiary Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. as provided for in the Quota Purchase and Sale Agreement and Other Covenants entered into January 7, 2020 between its subsidiaries Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. and Dok Participações Societárias Ltda.

a. Consideration received

The sale price to be received in local currency for all quota transfers corresponds to the value of the entity's adjusted equity at the closing date.

The sale price to be considered was R$ 41,493, which will be received as follows:

- R$ 26,140 in cash through the assignment of receivables rights from the SE operation;
- R$ 100 in cash;
- R$ 2,800 in eight installments up to June 2023;
- R$ 12,453 to be paid up to September 30, 2020.

b. Assets transferred

All assets and liabilities transferred on March 31, 2020, based on Management's best judgment and estimates are listed below:

In thousands of reais	**R$**
Cash *	4,222
Current assets (-)	44,012
Non-current assets	16,255
Current liabilities	(5,997)
Non-current liabilities	(14,643)
Equity	**43,849**

The losses incurred on the sale of Vulcabras Azaleia SE, in the amount of R$ 2,356, are disclosed in note 26.

We received R$ 100 on the sale transaction of the subsidiary, which did not materially impact cash. Thus, the amounts receivable were considered non-cash transactions and have not affected the statement of cash flows for the period.

*The amounts received from the transaction were presented net of the cash value of the subsidiary sold.

1.1.2- Impacts of Covid-19 (coronavirus):

The Company’s Management has been monitoring developments related to the COVID-19 pandemic, thoroughly observing the guidelines of government authorities and measuring the possible impacts on its businesses. Even in the face of this crisis scenario, the Company does not foresee any going concern risk, nor any risk to the accounting estimates and judgments made.

The Company has been adopting several measures aimed at preserving the health of its employees, clients, suppliers and the community, and the following measures have been implemented:

(i) Establishment of a Crisis Committee for the management of action plans to minimize the impacts of COVID-19. Subsequently, with the resumption of activities and businesses, this work group started being called “Opportunities Committee”;

(ii) Containment of personnel expenses: Initially, all productive activities were paralyzed, with the granting of collective vacations for the period from March 20 to April 26, 2020. Although partially, the operational resumption occurred as of April 27, 2020. The Company joined the Provisional Measure (PM) No. 936/2020, reducing the working hours and salaries of employees and suspending the contract with others, according to the provisions established by the PM itself. The Itapetinga-Bahia unit resumed its activities as of April 27, 2020, but continued with a reduction in working hours and wages of 70% up to June 25, 2020. At the Parobé-RS, Jundiaí-SP and São Paulo-SP units, the resumption occurred as of May 4, 2020, with a 25% reduction in hours and wages. In the Horizonte-Ceará unit, in compliance with State government decrees, production was only resumed as of June 1, 2020, also partially, and continued with a reduction in working hours and wages of 70% until June 25, 2020. As of June 26, 2020, the Bahia and Ceará units resumed their operations at full capacity.

(iii) Review of its investment plans for 2020;

(iv) Strengthening of the cash position through funding from bank credit facilities. In the period from March to June 2020, the Company raised R$ 232,201 in loans and financing, and further R$ 48,000 thousand after June 30, 2020, as highlighted in note 33.

Also, the Company, based on CVM/SNC Circular Letters No. 02 and 03/2020, analyzed the main risks and uncertainties arising from Covid-19 regarding its quarterly information.

We list the main analyzes performed below:

Cash and equivalents: The Company does not estimate any relevant risks, as the amounts continue to be held in prime banks (see note 29), with immediate liquidity and in investments with fixed rates.

Inventories: The Company’s accounting policy is to record and present its inventory at the lower value between the acquisition average cost and net realizable value. This analysis was carried out on the base date and the balance presented in Note 7. Furthermore, there was an increase in the inventory for resale due to the stoppage of stores at the end of the period.

Aiming to better reflect the impacts of the COVID-19 pandemic on the Company’s results, the relative industrial costs of labor and indirect manufacturing costs were not appropriated to the products due to the stoppage or reduction in the workload at the plants, in the amount of R$ 36.4 million, being transferred to Other operating revenues (expenses), net (see note 26). Even with the aforementioned reclassification, the cost of products sold in the second quarter was impacted by the recognition of the loss of R$ 6,325 with the recording of a provision for write-off due to obsolescence of some raw materials existing in the Company’s inventories. Due to the interruption of the plants, some raw materials ended up exceeding the deadline determined for the classification as “material without turnover”, which resulted in the recognition of the due provision for obsolescence.

With the reclassification made in the Cost of Goods Sold (CGS) in the 2nd quarter of 2020, gross profit and gross margin were negatively impacted by the following factors: (i) recognition of inventory obsolescence losses; (ii) loss of almost all revenues from brick-and-mortar retail channels, both domestically and abroad; and, (iii) higher costs of products manufactured, even with the aforementioned reclassification.

Accounts receivable: The Company maintains an ongoing analysis of the changes in accounts receivable so that, if necessary, it complements the provision for expected loss. Considering the capillarity of sales distribution and the Company's credit policy, there is no concentration of clients in sales or in the receivables portfolio. The Company's policy considers a financial asset as non-performing when: (a) it is very unlikely that the debtor will fully pay its credit obligations, without having to resort to actions like the realization of guarantee (if any); (b) financial asset is overdue for more than 90 days; (c) and analysis of our expected loss matrix, see note 6.c.

The reduction in accounts receivable from January to May, following its historical behavior, occurs due to the decrease in billings for this period versus the billings made at the main retail dates at the end of the year (Black-Friday and Christmas). In March, when a strong resumption of billing was expected, the impacts of the Pandemic emerged as of March 19, 2020, abruptly interrupting our billing resumption.

The Company understands that as a result of the crisis, there may be an impact on its accounts receivable, with an increase in defaults. Therefore, the Executive Board decided to automatically extend the maturity of trade notes for 28 days for notes maturing between April 1, 2020 and April 20, 2020. For maturities after this date, the Company granted additional terms that may vary from 28 to 56 days.

Intangible assets: The most relevant intangible assets, susceptible to the effects of the COVID-19 crisis, are as follows: the goodwill of two Under Armor stores and the goodwill paid on the acquisition of equity interest. These two assets are constantly tested, either in comparison with the current realization values, in the case of the goodwill, or in the expectation of future profitability of the operations acquired, in the case of goodwill.

A provision for impairment is already recognized for goodwill, thus adjusting it to fair value. Therefore, the Company does not believe that there is a need for a new adjustment in value.

For the goodwill paid on the acquisition of ownership interest, we believe that although the effects of COVID-19 may adversely affect the Company's future results, there is enough surplus cash to support the fluctuation. The last analysis of the recoverable amount of goodwill due to expected future results, arising from business combination processes and using discounted cash flow models, obtained an estimated recoverable amount higher than its book value. As of June 30, 2020, the Company reviewed its business plan for the coming years, and the amount determined was higher than the goodwill amount (see note 16).

Regarding the amount recognized in the right-of-use in our assets, which is linked to the lease agreements for properties destined mainly to the retail stores of our brands, it is premature to anticipate any loss, as we intend to resume their operation as soon as we have the approval by the appropriate regulatory bodies.

We expect that the effects of this pandemic will still be felt for many months to come, but believe that the greatest impacts have been those occurring from April to June.

In the face of this situation, the Company is confident in its solidity, knowing that there are still many challenges ahead regarding consumption and the recovery of the macroeconomic scenario. However, it is convinced that the strength of its brands, coupled with the flexibility of its business model, will be the competitive differential that will lead it to quickly overcome this crisis.

1.2 List of subsidiaries

The consolidated quarterly financial information includes the information of the Company and the following direct and indirect subsidiaries, with the following percentage interest on the balance sheet date:

	% Direct interest		% Indirect interest		% Total interest	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	99.99	99.99	-	-	99.99	99.99
Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.	-	-	100.00	100.00	100.00	100.00
Vulcabras Distribuidora de Artigos Esportivos Ltda.	0.22	0.23	99.78	99.77	100.00	100.00
istribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.	-	-	100.00	100.00	100.00	100.00
Globalcyr S.A.	1.55	1.55	98.45	98.45	100.00	100.00
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	-	-	100.00	100.00	100.00	100.00
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	-	-	99.99	99.99	99.99	99.99
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	-	100.00	-	100.00
Calzados Azaleia de Colômbia Ltda.	-	-	100.00	100.00	100.00	100.00
Calzados Azaleia Peru S.A.	-	-	99.11	99.11	99.11	99.11

The accounting policies have been consistently applied in all the consolidated companies and are consistent with those used in the previous year.

In March 2020, the sale of the subsidiary Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. was completed, as commented in note 1.1.

c. Main characteristics of subsidiaries included in consolidation

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. is the company responsible for the manufacture and development of sports shoes. It started its activities with headquarters in the city of Horizonte, State of Ceará, engaged in the production, sale, import and export in general of shoes and sport gear.

Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.
Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda. is engaged in the trading and distribution of footwear, sports apparel and accessories. The Company started its operations on July 25, 2013, headquartered in the city of Jundiaí, State of São Paulo, under the corporate name of UA BRASIL COMÉRCIO E DISTRIBUIÇÃO DE ARTIGOS ESPORTIVOS LTDA., as an affiliated company of Under Armour, Inc. It was acquired by Vulcabras Azaleia CE on October 1, 2018.

Vulcabras Distribuidora de Artigos Esportivos Ltda.
Vulcabras Distribuidora de Artigos Esportivos Ltda. is responsible for the sale and distribution of sports shoes and apparel. It started its activities on June 14, 2006 headquartered in the city of Horizonte, State of Ceará.

Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda., was established on September 1, 2010, headquartered in the city of Itapetinga, State of Bahia. It is engaged in sale and distribution of sports shoes and apparel and boots for professional use. It started its activities in the third quarter of 2011.

Globalcyr S.A.
Globalcyr S.A. started-up its operations headquartered in the city of Montevideo, in Uruguay, and has as corporate purpose the trade and distribution of footwear. Its operations are currently shutdown.

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. is a Brazilian shoes manufacturer, located in the city of Parobé, State of Rio Grande do Sul, mainly engaged in the manufacture, sale, import and export of shoes, apparel and accessories, items of leather, leather-related, plastic or similar materials, and the manufacture of components for its own use or sale to third parties.

Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A is a Brazilian shoes manufacturer, mainly engaged in the manufacture, sale, import and export of sports shoes, women's shoes and boots for professional use. Established on August 3, 1995, headquartered in the city of Itapetinga, State of Bahia.

Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. is a Brazilian shoes manufacturer, mainly engaged in the manufacture, sale, import and export of women's shoes. Established on October 8, 1992, initially in the city of Novo Hamburgo, State of Rio Grande do Sul, started to operate in the city of Frei Paulo, State of Sergipe, on February 6, 2003.

Calzados Azaleia Peru S.A.
Calzados Azaleia Peru S.A. is responsible for the import and sale of shoes and sport gear and women's shoes in the Peruvian market. Acquired at the end of 1998, start-up date of imports and sales under the Company's brands was in 1999.

Calzados Azaleia de Colômbia Ltda.
Calzados Azaleia de Colômbia Ltda. is responsible for the import and sale of shoes and sport gear and women's shoes in the Colombian market. Started in that country in 1999 as an office, and begun to import and sell under the Vulcabras Azaleia S.A. brands in 2000.

2 Preparation basis and presentation of quarterly financial information

2.1 Statement of compliance (in relation to IFRS standards and CPC standards)

The individual and consolidated quarterly financial information was prepared according to CPC 21(R1) and according to the International Standards (IAS 34) approved by the Brazilian Securities Commission - CVM, and covers all the relevant information pertaining to the financial information, and only them, consistent with those used by the Company's Management in the management process.

The authorization for the conclusion of such quarterly financial information was given by the Board of Directors on August 10, 2020.

2.2 Use of estimates and judgments

The preparation of this quarterly financial information, Management used judgments, estimates and assumptions that affect the application of policies of the Company, and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. Reviews in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

d. Judgments

Information about judgment referring to the adoption of accounting policies which impact significantly the amounts recognized in the quarterly financial information are included in the following notes:

Note 19 - lease term: if the Company and its subsidiaries are reasonably certain of exercising extension options;

e. Uncertainties on assumptions and estimates

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment in balances for the next year are included in the following notes:

Note 6 – Accounts receivable: measurement of estimated credit loss for accounts receivable and contract assets: main assumptions in determining the weighted average loss rate;

Note 7 – Inventories: recognition of losses in inventories without movement.

Note 16 - Impairment test of intangible assets and goodwill: main assumptions regarding recoverable values.

Note 20 – Provisions: recognition and measurement of provisions and contingencies: main assumptions about the likelihood and magnitude of the outflows of funds;

3 Significant accounting policies

The practices, policies and main accounting judgments adopted in the preparation of the individual and consolidated interim financial information are consistent with those adopted and disclosed under the Notes to the financial statements for the year ended December 31, 2019, which were disclosed as of March 02, 2020 and should be read jointly.

This individual and consolidated quarterly financial information is being presented in Reais, functional currency of the Company. All quarterly financial information presented in reais (R$) has been rounded to the nearest value, except otherwise indicated.

The Company prepared individual statements of added value in compliance with CPC 09, which are presented as part of quarterly financial information under BRGAAP applicable to publicly-held companies. The consolidated statement of added value is not required under international accounting standards issued by the IASB and is being presented as supplementary information.

3.1 New standards and interpretations not yet effective

The following changed standards and interpretations should not have a significant impact on the Individual and consolidated quarterly financial information:

Changes in the references to the conceptual framework in IFRS standards.

Definition of business (amendments to CPC 15/IFRS 3).

4 Cash and cash equivalents

	Consolidated		**Parent company**	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Current account	1,631	606	22	3
Post-fixed CDB (Invest Fácil)	3,234	8,334	34	73
Post-fixed CDB	161,590	43,941	3,413	3,530
Debentures	-	4,000	-	-
Cash and cash equivalents abroad	5,932	5,283	-	-
	172,387	**62,164**	**3,469**	**3,606**

Balance of checking account is represented by bank deposits without interest accrual.

Interest earning bank deposits classified as cash equivalents consist of short-term investments, with daily liquidity, which can be redeemed at any time regardless of maturity, without forfeiting the yield.

Interest earning bank deposits accruing interest on the bank account balance (Invest Fácil) are made automatically according to the availability of bank balance and the redemptions occur according to the immediate cash requirements of the Company and its subsidiaries. Profitability is from 10% to 40% of the CDI - Interbank Deposit Certificate as of June 30, 2020 and December 31, 2019.

Post-fixed CDBs (Bank Deposit Certificate) are remunerated 97.0–104.0% of CDI as of June 30, 2020 (97.5–98.75% of CDI as of December 31, 2019). See Note 29 on credit risk exposure. This increase in cash from investments is mainly due to the receipts from clients and financing obtained (see note 18).

Investments in Debentures (repurchase and resale agreements) are remunerated at 50% of CDI.

5 Interest earning bank deposits

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Interest earning bank deposits - Domestic:				
Post-fixed CDB	150,000	-	-	-
Investment Funds	4,295	2,529	2	2
Share investment funds	262	294	-	-
	154,557	**2,823**	**2**	**2**
Current	150,000	-	-	-
Non-current	4,557	2,823	2	2

Bank Deposit Certificates with float rates have a redemption grace period of 30 to 90 days and, after the end of such grace period, liquidity occurs daily and they can be redeemed at any time. These investments are remunerated at 104.25% to 105.75% of the Interbank Deposit Certificate (CDI) rate as of June 30, 2020 and do not meet the criteria for immediate convertibility provided for in CPC 03, having their redemption after a grace period in order to earn income.

Investments in fixed income investment funds are remunerated from 162% to 197% of CDI as of June 30, 2020 (from 112% to 132% of CDI as of December 31, 2019), no liquidity, since they are pegged to guarantees of financing contracts (BNB).

Equity investment funds are available for sale and valued at fair value through other comprehensive income. They were valued according to B3's quotation, on the balance sheet date.

6 Trade accounts receivable

a. Breakdown of balances

	Consolidated	
	06/30/2020	**12/31/2019**
Accounts receivable		
Domestic:		
Clients	288,684	467,082
Foreign:		
Clients	39,636	23,373
Subtotal trade accounts receivable	328,320	490,455
Impairment losses	(51,393)	(42,078)
Total trade accounts receivable, net	276,927	448,377

b. Per maturity

	Consolidated	
	06/30/2020	**12/31/2019**
Falling due (days):		
1–30	78,012	138,451
31–60	51,571	130,738
61–90	51,898	80,169
>90	80,709	93,308
	262,190	442,666
Overdue (days):		
1–30	8,006	8,939
31–60	9,094	1,412
61–90	3,250	336
>90	45,780	37,102
	66,130	47,789
	328,320	490,455

The exposure of the Company and its subsidiaries to credit risk is influenced, mainly, by the individual characteristics of each client. However, management also considers the factors that may influence the credit risk of its client base, including the risk of non-payment of the industry, sales and of the country in which the client operates.

Details on gross sales in the foreign and domestic market, by geography, are disclosed in note 22. The Management understands that the amount that better represents its maximum exposure to credit risk for the year ended June 30, 2020 is R$ 51,393 (R$ 42,078 as of December 31, 2019), which represents the criteria mentioned in item (c).

c. Measurement criteria of losses with clients (impairment)

The analysis of the credit granting to the customers is made when he/she is registered in the system of the Company and its subsidiaries, for which there is a requirement related to all necessary documentation, including financial statements and commercial references. The credit limit is revalued at each posting of new orders, due to the seasonality of the financial market.

The Company and its subsidiaries use a matrix of provision to calculate the expected loss on accounts receivable. The provision rates applied are based on arrears for groupings of segments of clients with similar loss patterns, such as, for example, by geographic region, line of product or type of client, credit risk, among other.

The provision matrix is initially based on the historical loss rates observed by the Company and its subsidiaries. The Company and its subsidiaries review the matrix on a forward-looking basis in order to adjust it according to historical loss experience. For example, if there is expectation of deterioration of economic conditions for the following year, which could cause increase of default, the expected loss rates are adjusted, when deemed necessary. In every accounting closing date, the loss rates are updated and the need of changes in the prospective estimates is assessed.

The criteria used to form impairment losses is the same for the portfolio of domestic and foreign clients.

The Company and its subsidiaries carry out an individual analysis of each client, in accordance with the court-ordered reorganization plan.

d. Changes in provision for impairment

Changes in provision for impairment losses in the period ended June 30, 2020 and December 31, 2019 are shown below:

	Consolidated	
	06/30/2020	**12/31/2019**
Opening balance	(42,078)	(33,143)
Supplement of provision	(19,223)	(14,351)
Recovery of provisions	9,908	5,416
Closing balance	(51,393)	(42,078)

Considering the capillarity of sales distribution and the Company's credit policy, there is no concentration of clients in sales or in the receivables portfolio. Thus, at the end of the period as of June 30, 2020, there was a significant change in the participation or concentration in the main clients due to the effects of the pandemic (see Note 1.1.2).

In accordance with the CVM Resolution 564, of December 17, 2008, which approved CPC 12, the Company and its subsidiaries considered that the effects of the present value adjustment of its current and non-current assets are immaterial. The average collection term is approximately 88 days as of June 30, 2020 (75 days as of December 31, 2019).

The exposure of the Company and its subsidiaries to credit and currency risks and impairment losses related to trade accounts receivable and other accounts are disclosed in Note 29.

7 Inventories

	Consolidated	
	06/30/2020	**12/31/2019**
Finished goods	56,063	63,490
Good for resale	99,911	61,270
Work in process	26,496	25,341
Raw materials	63,814	56,769
Packaging and storeroom materials	20,274	23,512
Goods in transit	21,163	9,124
Imports in transit	589	1,732
	288,310	241,238

a. Measurement criteria of provision (impairment)

The Company's subsidiaries, based on a historical analysis and estimate of losses, form a provision for losses in the realization of inventories. An allowance was set up for 100% of the raw materials and work in progress inventories without movement for over 180 days. All items of the finished products and goods for resale inventory were valued and an allowance was set up for potential losses due to the perspectives of sale of each of them, with an allowance for all the items that presented negative contribution margin.

As of June 30, 2020, the provision for losses for finished products and resales is R$ 16,743 (R$ 15,271 as of December 31, 2019), the provision for losses on raw materials is R$ 20,317 (R$ 16,597 at December 31, 2019) and the provision for losses for work in process is R$ 4,423 (R$ 8,367 as of December 31, 2019).

The amount of raw material, labor, and indirect manufacturing costs used in the breakdown of costs of products sold is R$ 190,258 as of June 30, 2020 (R$ 332,059 as of June 30, 2019).

b. Changes in provision (impairment)

Changes in provision for losses in the realization of inventory for the period ended June 30, 2020 and year ended December 31, 2019 are shown below:

	Consolidated	
	06/30/2020	**12/31/2019**
Opening balance	(40,235)	(52,139)
Additions of the year	(18,153)	(14,215)
Reversal of provision (*)	16,906	26,119
Closing balance	**(41,482)**	**(40,235)**

(*) We wrote-off R$ 8,461 due to the sale of indirect subsidiary Vulcabras Azaleia SE as of March 31, 2020.

8 Recoverable taxes

	Consolidated		**Parent company**	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
ICMS	6,815	4,878	20	20
IPI	508	1,103	-	-
PIS/COFINS (*)	12,303	12,522	-	76
FINSOCIAL	2,357	2,349	1,802	1,794
Reintegra	432	550	-	-
Tax credits in other countries	1,805	-	-	-
Other	2,320	1,065	541	535
	26,540	**22,467**	**2,363**	**2,425**
Current	19,306	14,723	561	631
Non-current	7,234	7,744	1,802	1,794

(*) In the period ended June 30, 2020, the subsidiary Vulcabras Distribuidora recorded extemporaneous credit of R$ 3,359 for the obtained proof of claim from the Brazilian Federal Revenue Service regarding the recovery of Pis/Cofins based on the thesis of exclusion of ICMS, which was definitely judged. In the six-month period, it was recognized the amount of R$ 3,387, where R$ 1,805 of principal, was recognized under "Other Operating Revenues", and, R$ 1,582 related to financial update, was recognized as "Financial Revenue". The value recognized refers to the calculation of the "uncontroversial" value.

9 Income tax and social contribution

a. Income tax prepayment

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Income tax prepayment	4,664	4,580	364	353
	4,664	**4,580**	**364**	**353**

b. Deferred income tax and social contribution

	Consolidated	
	06/30/2020	**12/31/2019**
Temporary differences in the period/year		
Revaluation of property, plant and equipment	(2,626)	(2,850)
Deferred income tax - foreign subsidiary	449	330
Deferred income tax and social contribution on temporary differences	**(2,177)**	**(2,520)**
Total deferred income tax and social contribution in assets	449	330
Total deferred income and social contribution tax liabilities	(2,626)	(2,850)

Deferred and current income tax and social contribution in the consolidated income (loss). As shown below: the rates used for determining the tax were 34% in the domestic market and 3% of assumption in the foreign market:

	Consolidated	
	06/30/2020	**06/30/2019**
Current income tax and social contribution	(1,104)	(416)
	(1,104)	(416)

c. Tax loss carryforwards

The Company and its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. e Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. and Vulcabras Distribuidora de Artigos Esportivos Ltda., have significant tax incentives that considerably reduce their capacity to offset any deferred income tax credits. Management is constantly monitoring the renewal of tax incentives. The Company and its subsidiaries do not record the deferred income tax and social contribution on tax losses and temporary differences. As of June 30, 2020 and December 31, 2019, the parent company and its subsidiaries had tax losses to be utilized for offset, related to the following base amounts:

	06/30/2020							
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia S.A.**	**Total**
Tax losses calculated on June 30, 2020	402,833	636,484	83,724	223,161	301,200	31,136	141,618	1,820,156
Negative basis of social contribution as of June 30, 2020	1,191,406	648,506	83,724	255,948	301,200	31,136	143,732	2,655,652

	12/31/2019								
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia S.A.**	**Total**
Tax losses calculated on December 31, 2019	354,753	623,268	125,131	85,021	223,055	288,912	28,646	141,067	1,869,853
Negative basis of social contribution on December 31, 2019	1,123,312	635,291	125,228	85,021	255,842	288,912	28,646	143,182	2,685,433

Compensation of income tax losses and negative basis of social contribution tax may be offset against a maximum of 30% of annual taxable income earned from 1995 onwards, with no statutory limitation period.

d. Reconciliation of effective tax rate

	Consolidated	
	IRPJ / CSLL	
	06/30/2020	**06/30/2019**
Income (loss) before income tax and social contribution	(65,336)	56,603
Investee's income before income tax and social contribution	621	-
Income tax and social contribution at a rate of 34%	(22,214)	(19,245)
Income tax and social contribution at a rate of 34% (deferred not constituted)	(22,425)	-
Income tax and social contribution at a rate of 34% (investee)	211	-
Non-deductible expenses	(1,240)	(609)
Reintegra	12	8
Tax incentives - State (*)	11,662	18,459
Incentive to technological innovation		2,394
Exchange-rate effects	2,279	(175)
Non-taxable revenues	5,872	-
Foreign subsidiaries	3,698	(296)
Other (**)	(1,173)	(952)
Expense with income tax and social contribution	(1,104)	(416)
Effective rate (**)	177.78%	0.73%

(*) See description of tax benefits in Note 31.

(**) Effective rate on income before investee's income tax and social contribution.

10 Judicial deposits

The Company and its subsidiaries have judicial deposits related to civil, labor and tax lawsuits (Note 20), as shown below:

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Judicial deposits				
Civil	3,909	476	19	19
Labor	15,109	17,476	400	401
Tax	-	-	121	119
Total	**19,018**	**17,952**	**540**	**539**

a. Labor

Labor lawsuits refer mainly to requests related to overtime, salary equivalence, health hazard premium, hazardous duty premium, moral damages and occupational illness.

Labor judicial deposits refer mostly to amounts deposited in connection with lawsuits and are related to extraordinary appeals, motions to review, security deposits and online pledges of part of amounts contained in ongoing labor lawsuits.

b. Civil

Civil lawsuits are mostly related to requests for indemnity in general for property damages and pain and suffering, and also requests related to alleged manufacturing defects. Civil judicial deposits are related to these lawsuits, made to guarantee the discussion of the amounts claimed.

c. Tax

The tax judicial deposits refer to the lawsuits in which the Company and its subsidiaries are defendants, mainly involving the following taxes: IRPJ, COFINS, PIS, ICMS.

11 Related party transactions

The main balances of assets and liabilities as of June 30, 2020 and December 31, 2019, as well as the transactions that influenced income (loss) for the period, relating to operations with related parties, result from transactions of the Company with its subsidiaries in Colombia, Brazil and Peru, besides loans with subsidiaries.

Loan agreements are restated at the DI-CETIP rate.

a. Parent company and final parent company

The Company's parent company is Gianpega Negócios e Participações S.A. The ultimate parent company is Mr. Pedro Grendene Bartelle.

b. Transactions with parent company

The transactions between the parent company and its subsidiaries, which are eliminated for consolidation purposes, were carried out under conditions and terms agreed between the parties, as follows:

	Vulcabras Azaleia CE	**06/30/2020**	**06/30/2019**
Income (loss)			
Financial income (loss)	-	-	(169)
Total	**-**	**-**	**(169)**

c. Transactions between subsidiaries

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and subsidiaries

The subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. carries out transactions with its subsidiaries involving purchase and sale transactions and loans to cover temporary cash requirements, which are subject to charges related to changes in the CDI rate, and are comprised as follows:

	Vulcabras Azaleia RS	Calzados Azaleia Colombia	Calzados Azaleia Peru.	Vulcabras Azaleia SP.	Vulcabras Distribuidora	Vulcabras Azaleia BA	Vulcabras Azaleia SE	Distribuidora Cruzeiro do Sul	06/30/2020	12/31/2019
Assets										
Accounts receivable	-	2,499	1,068	20,254	-	24	-	-	23,845	8,894
Other receivables	29	-	-	85	4,709	1,501	-	28	6,352	5,724
Liabilities										
Accounts payable	3	-	-	-	-	3,192	-	-	3,195	2,776
Other debits	4	-	-	-	-	6,780	-	-	6,784	20,729

	Vulcabras Azaleia RS	Calzados Azaleia Colombia	Calzados Azaleia Peru.	Vulcabras Azaleia SP.	Vulcabras Distribuidora	Vulcabras Azaleia BA	Vulcabras Azaleia SE	Distribuidora Cruzeiro do Sul	06/30/2020	06/30/2019
Income (loss)										
Financial income (loss)	-	-	-	-	-	-	-	-	-	223
Intercompany sale	-	1,107	2,477	13,477	-	4,738	81	113	21,993	23,003
Intercompany purchase	-	-	-	-	(481)	(2,943)	(26)	-	(3,450)	(4,103)

Related party balances are eliminated for the purpose of consolidated presentation. The main type of the transactions is the purchase and sale of shoes and apparel and advance for future capital increase.

d. Management remuneration

At the Ordinary General Meeting held on July 24, 2020, the Company established the annual overall remuneration of the Directors at up to R$ 12,788. In the period ended June 30, 2020, the Company paid remuneration to its Managers in the amount of R$ 5,344 (R$ 4,776 on June 30, 2019).

The Company's directors have no loans, advances or other transactions than their normal services with the Company and its subsidiaries.

As of June 30, 2020 and December 31, 2019, the Company and its subsidiaries did not pay the key management personnel in relation to the categories: a) Long-term benefits; b) Benefits on termination of employment contract; and c) share-based payment

e. Other related party transactions

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. through its indirect subsidiary Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. has loan payable to Brisa Indústria de Tecidos Tecnológicos S.A. in the amount of R$ 17,276 as of June 30, 2020 (R$ 16,930 as of December 31, 2019), remunerated at 4% p.a. (4% p.a. and TJLP + 2% p.a. as of December 31, 2019).

12 Investments

a. Breakdown of the balance

	Consolidated		**Parent company**	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Investments in subsidiaries:				
In subsidiaries	-	-	1,019,440	1,076,742
In associated companies	59,673	62,046	-	-
Total	**59,673**	**62,046**	**1,019,440**	**1,076,742**

The subsidiary Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. holds an interest of 50% as of June 30, 2020 (50% as of December 31, 2019) in the associated company PARS Participações Ltda., which holds 100% as of June 30, 2020 (100% as of December 31, 2019) of Brisa Indústria de Tecidos Tecnológicos S.A. Considering that the Company only has significant influence, this investment is not consolidated in the quarterly financial information under the terms of CPC 36 (R3) / IFRS 10 - Consolidated Statements.

b Changes in investments

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Opening balances	62,046	61,754	1,076,742	939,300
Equity in net income of subsidiaries	(2,373)	292	(65,455)	135,389
Exchange differences from translation of foreign operations	-	-	8,146	2,017
Financial assets at fair value through other comprehensive income (FVTOCI)	-	-	(12)	2
Write-off of investment	-	-	-	8
Increase in investee's interest	-	-	19	26
Closing balances	59,673	62,046	1,019,440	1,076,742

c. Information on direct interest - Parent company

	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.		Vulcabras Distribuidora de Artigos Esportivos Ltda.		Vulcabras Azaleia Administracíon S.A.		Globalcyr S.A.		Total	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Total assets	1,359,217	1,248,255	99,475	51,941	-	-	2	1	-	-
Total liabilities	339,699	171,451	73,285	35,269	-	-	8,408	6,150	-	-
Capital	1,363,676	1,363,676	96,045	86,045	-	-	1,056	1,056	-	-
Net revenue	184,624	790,850	32,102	71,406	-	-	-	-	-	-
Income (loss) for the year	(65,453)	135,431	(483)	(15,995)	-	(86)	(47)	(76)	-	-
Number of shares/quotas held (per thousand shares/quotas)	537,467	537,467	200	200	-	-	10	10	-	-
Equity	1,019,518	1,076,804	26,190	16,672	-	-	(8,406)	(6,148)	-	-
Interest in capital at the end of the year - %	99.99%	99.99%	0.22%	0.23%	-	3.96%	1.54%	1.54%	-	-
Permanent ownership interest in subsidiaries	1,019,513	1,076,798	57	39	-	-	-	-	1,019,570	1,076,837
Provision for liabilities for loss on investment	-	-	-	-	-	-	(130)	(95)	(130)	(95)
Equity in net income of subsidiaries	(65,453)	135,430	(1)	(37)	-	(3)	(1)	(1)	(65,455)	135,389

d. Information on indirect interest

As of June 30, 2020 and December 31, 2019, the Company has indirect interest in companies listed below by means of its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A:

(i) Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.

06/30/2020	Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	Vulcabras Distribuidora de Artigos Esportivos Ltda.	Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.	Globalcyr S.A.
Total assets	402,757	99,475	101,315	2
Total liabilities	51,260	73,285	50,045	8,408
Capital	503,549	96,045	402,984	1,056
Equity	351,497	26,190	51,270	(8,406)
Net revenue	1,002	32,102	26,223	-
Income (loss) for the period	(17,227)	(483)	(10,434)	(47)
Equity interest	100.00%	99.78%	100.00%	98.45%

12/31/2019	Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	Vulcabras Distribuidora de Artigos Esportivos Ltda.	Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.	Globalcyr S.A.
Total assets	399,239	51,941	92,416	1
Total liabilities	40,634	35,269	30,712	6,150
Capital	503,549	86,045	402,984	1,056
Equity	358,605	16,672	61,704	(6,148)
Net revenue	1,755	71,406	77,672	-
Income (loss) for the year	49,790	(15,995)	12,529	(76)
Equity interest	100.00%	99.73%	100.00%	98.45%

(ii) Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.

06/30/2020	Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*)	Calzados Azaleia de Colômbia Ltda.	Calzados Azaleia Peru S.A.	PARS Participações Ltda.
Total assets	379,453	10,629	14,161	56,473	118,788
Total liabilities	86,693	17,201	21,691	21,098	1
Capital	459,929	26,207	841	1,072	36,116
Equity	292,760	(6,572)	(7,530)	35,375	118,787
Net revenue	117,787	6,820	3,854	12,959	-
Income (loss) for the period	(4,636)	(2,482)	(3,875)	(6,953)	(4,746)
Interest in capital	100.00%	100.00%	100.00%	99.11%	50.00%

12/31/2019	Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*)	Calzados Azaleia de Colômbia Ltda.	Calzados Azaleia Peru S.A.	PARS Participações Ltda.
Total assets	365,189	78,790	14,080	13,471	43,396	123,535
Total liabilities	67,788	37,661	18,169	16,017	11,903	1
Capital	459,929	92,404	26,207	841	1,072	36,116
Equity	297,401	41,129	(4,090)	(2,547)	31,492	123,534
Net revenue	369,507	79,038	21,562	18,033	63,406	-
Income (loss) for the year	39,555	12,538	(4,546)	(2,039)	1,546	583
Interest in capital	100.00%	100.00%	100.00%	100.00%	99.11%	50.00%

(*) Indirect interest.

13 Investment property

a. Breakdown of account

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Buildings	10,624	10,624	10,574	10,574
Depreciation (*)	(8,301)	(8,094)	(8,258)	(8,052)
Overall total	2,323	2,530	2,316	2,522

(*) Depreciation is calculated under the straight-line method at an average annual rate of 4% (4% as of December 31, 2019), charged to administrative expenses.

b. Changes in depreciation

	Consolidated		
	Balance at 12/31/2019	**Additions**	**Balance at 06/30/2020**
Buildings	(8,094)	(207)	(8,301)
Total	(8,094)	(207)	(8,301)

The Company has a property primarily used for rental in Jundiaí - São Paulo, occupying 40,994.00 m² of built-up and common area, with the respective plot of land occupying 111,547.06 m² classified as investment property. The real estate property is evaluated at the cost method and at fair value as evaluation of specialized companies which is R$ 67,400 as of June 30, 2020 (R$ 67,400 as of December 31, 2019).

In the period ended June 30, 2020 the real estate earned a revenue from rental in the amount of R$ 2,493 (R$ 2,337 as of June 30, 2019) - Note 26, recorded in other operating revenues, net - Revenue from rental. Clauses four, seven and eight of the rental agreement stipulate obligations to maintain and repair the real estate's structure by the Company, where this amount is prorated proportionally to the rented area. The tenants are responsible for the costs deriving from maintenance and wear and tear. The Company did not make structural changes in the property in the period ended June 30, 2020.

The Company's assets are recorded at the cost of acquisition, formation or construction, and depreciation is calculated under the straight-line method at the rates described above. Company's assets have their recoverable value tested, at least on an annual basis, in case there are indicators of impairment.

The fair value measurement of the investment properties was classified as Level 3 based on the adopted inputs.

14 Property, plant and equipment

a. Breakdown of account

June 30, 2020		**Consolidated**					
		06/30/2020			**12/31/2019**		
	Average rate of depreciation % p.a.	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Buildings	2– 4	130,007	(85,805)	44,202	127,881	(83,552)	44,329
Machinery and equipment	10	345,130	(267,017)	78,113	362,297	(276,247)	86,050
Molds	100	266,622	(251,586)	15,036	272,492	(249,011)	23,481
Furniture and fixtures	10–20	31,163	(23,056)	8,107	32,099	(23,541)	8,558
Vehicles	20	2,276	(1,993)	283	2,258	(1,918)	340
IT equipment	20–25	27,844	(22,072)	5,772	27,810	(22,058)	5,752
Land	-	3,486	-	3,486	3,490	-	3,490
Works in progress	-	647	-	647	-	-	-
Facilities	10	115,399	(57,815)	57,584	112,686	(54,327)	58,359
Leasehold improvements	10–20	89	(89)	-	89	(89)	-
Imports in transit	-	5,632	-	5,632	2,279	-	2,279
Leasehold Improvements	20	1,445	(519)	926	3,537	(2,459)	1,078
Other	10–20	3,331	(1,560)	1,771	2,463	(1,059)	1,404
		933,071	**(711,512)**	**221,559**	**949,381**	**(714,261)**	**235,120**

b. Changes in cost

June 30, 2020	**Consolidated**										
	12/31/2018	**12/31/2019**					**06/30/2020**				
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**
Buildings	126,647	1,078	-	-	156	127,881	-	-	-	2,126	130,007
Machinery and equipment	343,117	12,878	(12,982)	19,284	-	362,297	2,928	(23,553)	3,458	-	345,130
Molds	234,741	43,142	(7,906)	2,515	-	272,492	11,197	(17,608)	541	-	266,622
Furniture and fixtures	29,357	2,839	(183)	-	86	32,099	323	(2,066)	-	807	31,163
Vehicles	2,198	101	(54)	-	13	2,258	-	(105)	-	123	2,276
IT equipment	26,040	1,823	(169)	-	116	27,810	537	(1,722)	-	1,219	27,844
Land	3,490	-	-	-	-	3,490	-	(4)	-	-	3,486
Molds in progress	318	4,148	(1,994)	(2,472)	-	-	740	(199)	(541)	-	-
Works in progress	208	752	(986)	-	26	-	584	-	-	63	647
Facilities	86,915	26,085	(314)	-	-	112,686	6,511	(3,798)	-	-	115,399
Leasehold improvements	89	-	-	-	-	89	-	-	-	-	89
Imports in transit	2,076	22,356	(2,826)	(19,327)	-	2,279	8,332	(1,521)	(3,458)	-	5,632
Leasehold improvements	3,212	325	-	-	-	3,537	-	(2,092)	-	-	1,445
Other	2,374	431	(408)	-	66	2,463	-	-	-	868	3,331
	860,782	**115,958**	**(27,822)**	**-**	**463**	**949,381**	**31,152**	**(52,668)**	**-**	**5,206**	**933,071**

c. Changes in depreciation

June 30, 2020	**Consolidated**										
	12/31/2018	**12/31/2019**					**06/30/2020**				
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**
Buildings	(80,015)	(3,491)	-	-	(46)	(83,552)	(1,775)	-	-	(478)	(85,805)
Machinery and equipment	(274,329)	(13,422)	11,503	-	1	(276,247)	(7,262)	16,492	-	-	(267,017)
Molds	(216,358)	(38,256)	5,603	-	-	(249,011)	(19,236)	16,661	-	-	(251,586)
Furniture and fixtures	(22,159)	(1,416)	78	-	(44)	(23,541)	(732)	1,669	-	(452)	(23,056)
Vehicles	(1,805)	(158)	54	-	(9)	(1,918)	(83)	105	-	(97)	(1,993)
IT equipment	(20,593)	(1,541)	145	-	(69)	(22,058)	(869)	1,539	-	(684)	(22,072)
Facilities	(47,227)	(7,101)	1	-	-	(54,327)	(4,685)	1,197	-	-	(57,815)
Leasehold improvements	(89)	-	-	-	-	(89)	-	-	-	-	(89)
Leasehold improvements	(2,181)	(278)	-	-	-	(2,459)	(147)	2,087	-	-	(519)
Other	(1,023)	(186)	182	-	(32)	(1,059)	(122)	-	-	(379)	(1,560)
	(665,779)	**(65,849)**	**17,566**	**-**	**(199)**	**(714,261)**	**(34,911)**	**39,750**	**-**	**(2,090)**	**(711,512)**

Interest on loans and financings was not capitalized in the cost of construction in progress since the main contracts are related to acquisitions of machinery and equipment immediately placed in service.

Every year, the Company and its subsidiaries review the useful life of fixed asset items. The Company and its subsidiaries have a policy of maintaining the main fixed assets items until the end of their useful lives.

15 Intangible assets

a. Breakdown of account

		Consolidated		Parent company	
	Useful life	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Defined useful life					
Software	5 years	37,962	36,413	785	-
Assignment of right	Contractual period	533	391	-	-
Goodwill	Contractual period	10,976	10,976	-	-
Accumulated amortization - Software	5 years	(31,367)	(30,421)	(785)	-
Accumulated amortization - Assignment of right	Contractual period	(386)	(280)	-	-
Provision for impairment (*)		(4,047)	(4,047)	-	-
Total		13,671	13,032	-	-
Undefined useful life					
Trademarks and patents		2,194	2,194	111	111
Goodwill (15d)		198,214	198,214	-	-
Total		200,408	200,408	111	111
Overall total		214,079	213,440	111	111

The amortization of intangible assets is recorded as a counterparty to (loss) in the group of cost of sales (industrial software) and selling expenses (assignment of rights).

(*) The provision for impairment refers to impairment of goodwill in stores of the subsidiary Vulcabras Azaleia SP.

b. Changes in cost

June 30, 2020				Consolidated			
	Useful life	**Amortization methods**	**Balance at 12/31/2019**	**Additions**	**Write-offs**	**Translation adjustment**	**Balance at 06/30/2020**
Defined useful life							
Software	5 years	Straight-line	36,413	1,434	(262)	377	37,962
Assignment of right	Contractual period	Straight-line	391	19	-	123	533
Goodwill	Contractual period	Straight-line	10,976	-	-	-	10,976
Impairment of goodwill	Contractual period	Straight-line	(4,047)	-	-	-	(4,047)
Undefined useful life							
Trademarks and patents			2,194	-	-	-	2,194
Goodwill			198,214	-	-	-	198,214
Total			244,141	1,453	(262)	500	245,832

c. Changes in amortization

June 30, 2020				Consolidated			
	Useful life	Amortization methods	Balance at 12/31/2019	Additions	Write-offs	Translation adjustment	Balance at 06/30/2020
Defined useful life							
Software	5 years	Straight-line	(30,421)	(901)	128	(173)	(31,367)
Assignment of right	Contract Term	Straight-line	(280)	(25)	-	(81)	(386)
Total			(30,701)	(926)	128	(254)	(31,753)

d. Goodwill in business combination

The balances of goodwill determined in the acquisitions of ownership interest in subsidiary Vulcabras Azaleia CE, are supported by reports issued by independent experts and are based on the expectation of future profitability of the acquired operations; in 2009, goodwill balances ceased to be amortized since these are assets with indefinite useful lives, as established by CVM Resolution 553/08 and CPC 01 (R1), and are annually tested for impairment, as described in Note 16.

e. Research and development

In the period ended June 30, 2020, the Company recorded in income (loss), under the “cost of products sold) caption, the amount of R$ 12,365 (R$ 20,481 as of June 30, 2019) related to research and development.

16 Recoverability analysis of tangible and intangible assets

a. Tangible and intangible assets with defined useful life

Management reviews annually the net book value of tangible and intangible assets with defined useful life to assess events or changes in economic, operating or technological circumstances that might indicate an impairment of assets.

For the period ended June 30, 2020, an impairment test of tangible and intangible assets with finite useful lives was carried out by means of calculation of the value in use based on cash projections from financial budgets approved by the Top Management.

No indication of impairment.

b. Goodwill paid on expected future profitability

The balance of goodwill on acquisitions of ownership interest is based on expected future profitability of the acquired business and amounts to R$ 198,214 at June 30, 2019 (R$ 198,214 as of December 31, 2019).

The Company annually tests impairment of its intangible assets with indefinite useful life, which are mostly comprised of goodwill for expected future earnings arising from combination of business processes using the “Value in use” concept by means of discounted cash flow models.

The goodwill arising from the acquisition of investment is impairment tested every year, at the cash generating unit level.

c. Main assumptions used in impairment tests of tangible and intangible assets

For the purpose of impairment test of tangible and intangible assets, Company and its subsidiaries were considered as cash generating units.

Future cash flows were discounted based on the rate representing the capital cost. Following the techniques of economic valuation, the assessment of value in use is carried out for a period of 10 years and, thereafter, considering the perpetuity of the assumptions based on the ability of the company to continue as a going concern for the foreseeable future.

For discounting the future cash flows, the rate used was 8.54%. p.a. as of June 30, 2020 (8.54% p.a. as of December 31, 2019).

The estimate of value in use considered the following assumptions:

Revenues
The sales volume and price were projected on a real basis (without inflation) based on the Company's estimates and result in aggregate compound growth (CAGR) of 3.11% p.a. as of June 30, 2020 (3.39% as of December 31, 2019) between 2020 and 2029.

Cost
The cost of sold products was projected based on the Company's estimates.

After defining the sales projection, the production requirement distribution was projected according to the installed capacity and the efficiency level to be obtained in each plant.

Other manufacturing overheads were based on the budget approved by the Top Management for the indirect cost centers.

Expenses
Variable sales expenses were projected based on historical percentages of the gross operating revenue.

The administrative and general sales expenses were based on the expenditures budgeted and approved by the Top Management for the cost centers.

Net income and Free Cash Generation
Net Income resulting from the application of the above assumptions grows with a compounded growth rate (CAGR) of 7.87% p.a. (8.35% p.a. as of December 31, 2019) between 2020 and 2029.

Free Cash Flow Generation is then calculated based on projections of investments and changes in working capital. For perpetuity, the growth rate used is zero.

The estimated recoverable value was higher than the book value by approximately R$ 2,501 billion as of June 30, 2020 (R$ 2,804 billion as of December 31, 2019).

17 Suppliers

a. Breakdown of account

	Consolidated		Parent company	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Suppliers				
Domestic				
Sundry	28,774	38,374	639	1,088
Abroad				
Sundry	3,282	2,619	-	-
	32,056	40,993	639	1,088

b. Per maturity

	Consolidated	
	06/30/2020	**12/31/2019**
Falling due (days):		
1–30	25,259	31,927
31–60	5,516	7,326
61–90	558	730
>90	723	1,000
	32,056	40,983
Overdue (days):		
1–30	-	10
	-	10
	32,056	40,993

Considering the characteristics of the Company’s products and the supply chain, there is a wide offer of raw materials, supplies and suppliers. Thus, the Company does not present a concentration of the supplier portfolio.

In compliance with CVM Resolution 564 issued December 17, 2008, which approved CPC 12, the Company conducted studies to calculate the adjustment to present value of its current liabilities. Considering the average term of payment of these liabilities of approximately 40 days as of June 30, 2020 (39 days at December 31, 2019), the effects of present value adjustments were considered immaterial and, therefore, were not recognized in income (loss), as occurred with current assets and non-current assets.

18 Loans and financing

a. Breakdown of account

			Consolidated	
	Interest rate 2020	**Interest rate 2019**	**06/30/2020**	**12/31/2019**
Local currency				
Fixed assets	IPCA + 2.04% p.a.	IPCA + 2.04% p.a.	76,219	40,679
Tax incentive	TJLP	TJLP	2,232	2,374
Working capital	CDI + 3.05–3.55% p.a. / 180% CDI p.a.	-	155,168	-
			233,619	**43,053**
Foreign currency				
Export financing				
ACC - Advance on exchange contract	Fixed rate 5.11% p.a.	-	22,086	-
Finimp	Fixed rate 7.10–7.20% p.a.	-	17,315	-
Working capital	Fixed rate 1.18% p.a.	.	5,434	-
			44,835	**-**
Total loans and financing			**278,454**	**43,053**
Current			106,700	3,264
Non-current			171,754	39,789

As of June 30, 2020 and December 31, 2019, installments related to the principal of loans and financing had the following maturities:

	06/30/2020		12/31/2019	
Maturity	**Amount**	**%**	**Amount**	**%**
Current	**106,700**	**38%**	**3,264**	**8%**
2020	820	0%	3,264	8%
2021	143,158	51%	7,568	18%
2022	63,336	23%	7,519	16%
2023	37,719	13%	6,737	16%
2024	12,533	5%	6,737	16%
2025	12,533	5%	6,737	16%
2026	8,355	3%	4,491	10%
Non-current	**171,754**	**62%**	**39,789**	**92%**
Total	**278,454**	**100%**	**43,053**	**100%**

b. Sureties and guarantees

In guarantee of financing, promissory notes, personal guarantee and surety of parent company, mortgage of Horizonte-CE and Itapetinga-BA plants and disposal of machinery and equipment acquired from financing were offered.

c. Covenants

Some financing contracted have covenants that require the Company to demonstrate through document and physical evidences, the purchases of property, plant and equipment and objectives achieved in Research and Development (R&D). These covenants are monitored and have been fully complied with within the deadlines defined in the agreements.

d. Reconciliation of equity changes with cash flows from financing activities

	Liabilities			
	Loans and financing	**Loans with related parties**	**Lease liabilities**	**Total**
Balance at January 1, 2020	**43,053**	**16,930**	**15,845**	**75,828**
Changes in cash flow from financing				
Loans obtained - Principal	232,201	-	-	232,201
Loans with related parties	-	346	-	346
Payment of financial lease liabilities	-	-	(4,536)	(4,536)
Payment of loans obtained - Principal	(384)	-	-	(384)
Total changes in financing cash flows	**231,817**	**346**	**(4,536)**	**227,627**
Other changes related to liabilities				
Interest paid	(1,489)	-	(1,125)	(2,614)
Provin additions (without cash effect)	183	-	-	183
Financial charges recognized in profit or loss	4,890	-	-	4,890
Total other changes related to liabilities	3,584	-	(1,125)	2,459
Balance at June 30, 2020	**278,454**	**17,276**	**10,184**	**305,914**

	Liabilities		Equity	
	Loans and financing	Loans with related parties	Capital	Total
Balance at January 1, 2019	**60,006**	**16,259**	**1,106,717**	**1,182,982**
Changes in cash flow from financing				
Loans obtained - Principal	4,793	-	-	4,793
Loans with related parties	-	329	-	329
Payment of loans obtained - Principal	(18,274)	-	-	(18,274)
Total changes in financing cash flows	(13,481)	**329**	**-**	**(13,152)**
Other changes related to liabilities				
Interest paid	(1,343)	-	-	(1,343)
Provin additions (without cash effect)	288	-	-	288
Financial charges recognized in profit or loss	1,694	-	-	1,694
Total other changes related to liabilities	639	-	-	639
Balance at June 30, 2019	**47,164**	**16,588**	**1,106,717**	**1,170,469**

19 Leases

Definition of lease

According to CPC 06(R2)/IFRS 16, a contract is or contains a lease if it transfers the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company and its subsidiaries evaluate whether the agreement is for or contains a lease.

As a lessee

The Company and its subsidiaries lease only properties.

As a lessee, the Company and its subsidiaries previously classified operating or financial leases based on their assessment as to whether the lease substantially transferred all the risks and rewards of the property. In accordance with CPC 06 (R2)/IFRS 16, the Company and its subsidiaries recognize the right-of-use assets and the lease liabilities and record in the balance sheets:

Operating leases (*)

	Consolidated	
	06/30/2020	**12/31/2019**
Right-of-use		
Opening balance	15,845	-
First-time adoption - IFRS 16	-	23,357
Additions / Adjustments	9,356	5,060
Amortization	(4,636)	(12,572)
Closing balance	**20,565**	**15,845**

	Consolidated	
	06/30/2020	**12/31/2019**
Lease liabilities		
Opening balance	15,845	-
Additions / Adjustments	9,356	28,417
Accrued interest	2,370	-
Payment of principal	(4,536)	(12,572)
Interest	(1,125)	-
Closing balance	**21,910**	**15,845**
Current	10,395	7,798
Non-current	11,515	8,047

(*) The rate of housing loans published by the Central Bank of Brazil in December 2018 was used; i.e 0.77% per month. The average of all financial institutions was considered.

Payment schedules for long-term installments

	06/30/2020		12/31/2019	
Maturity	**Amount**	**%**	**Amount**	**%**
2021	2,360	20%	4,726	59%
2022	4,900	43%	2,616	32%
2023	2,471	21%	705	9%
2024	1,475	13%	-	0%
2025	309	3%	-	0%
Total	**11,515**	**100%**	**8,047**	**100%**

Extension options

A few leases contain extension options exercisable by the Company up to one year prior to the end of the non-cancellable agreement period. Whenever possible, the Company seeks to include extension options in new leases so as to provide operating flexibility.

20 Provisions

The Company and its subsidiaries are parties (defendants) to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, civil and other matters.

Based on information from its legal advisors, Management recognizes provisions in accordance with the procedures established by CVM Resolution 489/05 and CPC 25/IAS 37, which establishes that a provision should be recognized when: (i) the entity has a present obligation deriving from a past event; (ii) an outflow of funds will probably be required to settle the obligation; and (iii) the sum of the obligation can be estimated with sufficient assurance. If any of these conditions are not met a provision should not be made, and it might be necessary to disclose a contingent liability.

The review of pending legal proceedings, based on previous experience relating to amounts claimed, records a provision in an amount deemed sufficient to cover possible losses from the ongoing lawsuits and classified them as current and non-current, as follows:

a. Breakdown of balances

	Consolidated		**Parent company**	
	06/30/2020	**12/31/2019**	**06/30/2020**	**12/31/2019**
Provisions for lawsuits and administrative proceedings				
Civil	18,881	20,107	515	510
Labor	36,816	36,254	229	229
Tax	154	148	120	119
Total	**55,851**	**56,509**	**864**	**858**
Current	**20,473**	**18,326**	**411**	**405**
Non-current	**35,378**	**38,183**	**453**	**453**

b. Labor lawsuits (Consolidated)

Refer mainly to claims regarding overtime, salary differences, health hazard, hazardous duty and occupational disease. The effect of the provision for loss on labor lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

c. Civil lawsuits (Consolidated)

Refer to compensation for property damages and pain and suffering. The effect of the provision for loss on civil lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.
The effects on the provision for indemnities are charged to “selling expenses” in income (loss).

d. Tax lawsuits (Consolidated)

They refer to lawsuits in which the companies of the Companies and its subsidiaries are parties mainly to the following taxes: IRPJ, COFINS, PIS and ICMS. The effect of the provision for loss on tax lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

e. Movement of the proceedings

June 30, 2020	**Consolidated**										
	12/31/2018	**12/31/2019**					**06/30/2020**				
Nature	**Opening balance**	**Additions**	**Reversal**	**Payment**	**Adjustment to net presentation (**)**	**Closing balance**	**Additions**	**Reversal**	**Payment**	**Adjustment to net presentation (**)**	**Closing balance**
Civil	20,250	74	(187)	(30)	-	20,107	514	(1,720)	(20)	-	18,881
Labor	51,282	19,798	(14,476)	(7,719)	(12,631)	36,254	32,496	(33,681)*	376	1,371	36,816
Tax	9,480	9,174	(1,344)	(1,743)	(15,419)	148	234	-	-	(228)	154
Total	**81,012**	**29,046**	**(16,007)**	**(9,492)**	**(28,050)**	**56,509**	**33,244**	**(35,401)**	**356**	**1,143**	**55,851**

June 30, 2020	**Parent company**								
	12/31/2018	**12/31/2019**				**06/30/2020**			
Nature	**Opening balance**	**Additions**	**Reversal**	**Payment**	**Closing balance**	**Additions**	**Reversal**	**Payment**	**Closing balance**
Civil	529	43	(25)	(37)	510	23	-	(18)	515
Labor	302	92	(19)	(146)	229	-	-	-	229
Tax	109	693	(222)	(461)	119	1	-	-	120
Total	**940**	**828**	**(266)**	**(644)**	**858**	**24**	**-**	**(18)**	**864**

(*) The Company wrote-off R$ 7,691 due to the sale of indirect subsidiary Vulcabras Azaleia SE as of March 31, 2020.

(**) The net amounts refer only to reclassifications between judicial deposits and provisions for contingencies in compliance with item 35 of CPC 26 (IAS 1). Thus, said amounts had no cash effect and were not considered in the statements of cash flows.

Contingencies
Based on the opinion of its legal advisors, Management believes that the resolution of the civil, labor and tax matters listed below will not have a material adverse effect on its financial situation.

As of June 30, 2020 and December 31, 2019, the breakdown of the amounts under litigation at various court levels, estimated with a possible loss was as follows:

	Consolidated	
	06/30/2020	**12/31/2019**
Contingencies		
Civil	1,889	2,326
Labor	41,574	40,826
Tax	35,929	35,171
Total	79,392	78,323

There was no material lawsuit in 2020.

21 Equity (Parent company)

a. Capital
As of June 30, 2020, capital totals R$1,106,717 (R$1,106,717 as of December 31, 2019), is represented by 245,756,346 (245,756,346 as of December 31, 2019) common, nominative shares with no par value, as follows:

By means of Board of Directors’ resolution, the Company is authorized to increase the capital, regardless of any amendments to the bylaws up to the limit of R$ 2,000,000.

b. Reserves

(i) Revaluation reserve
The reserve was constituted as a result of the revaluations of fixed assets of its subsidiaries, based on an appraisal report prepared by independent appraisers. Corresponding income tax and social contribution are classified in non-current liabilities. As of June 30, 2020, the balance of revaluation reserve is R$ 5,098 (R$ 5,532, on December 31, 2019).

The revaluation reserve is being realized by depreciation or write-off of revalued assets against accumulated losses, net of tax effects. As permitted by Law 11638/07, Management elected to maintain the revaluation reserves until their full realization.

c. Capital reserve

(i) Stock option

General conditions
The Company has 2 (two) Stock Option Plans in effect.

Although the Board of Directors approved the launch of the third plan in a meeting held on March 2, 2020, its beginning was postponed by the postponement of the Ordinary and Extraordinary General Meeting, which would ratify its approval and authorize management to proceed with the operational procedures.

1st Stock Option Plan

Approval of the Plan

On January 16, 2018 the Board of Directors approved the first granting of options under the Stock Option Contract. The total options granted on this date amounted to 835,000 (eight hundred and thirty-five thousand) options, with a unit strike price of R$ 9.50 (nine reais and fifty centavos), distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6,404, dated December 15, 1976.

Characteristics of the plan

1st Stock Option Plan - 2018	**1st granting**
Grant date	01/16/2018
Quantity of options granted	835,000
Vesting period	3 years
Maturity for the year	03/31/2021
Maximum period for exercise	03/31/2022
Strike price	R$ 9.50 **(1)**
Beneficiaries (employees)	24 **(2)**

(1) The strike price is set at R$ 9.50 (nine reais and fifty cents), restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

(2) Originally, 24 employees qualified for the 1st stock option plan, but on 06/30/2020 due to the separation of 06 employees, the total is 18 beneficiaries.

2nd Stock Option Plan

Approval of the plan

On May 06, 2019, the Board of Directors approved the 2nd stock option plan in the context of the Grant Agreement. The total options granted on this date were 780,000 (seven hundred and eighty thousand) options, with unit strike price of R$7.96 (seven reais and ninety-six cents), distributed among the qualified beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6,404, dated December 15, 1976.

Characteristics of the plan

2nd Stock Option Plan - 2019	**2nd granting**
Grant date	05/06/2019
Quantity of options granted	780,000
Vesting period	3 years
Maturity for the year	03/31/2022
Maximum period for exercise	03/31/2023
Strike price	R$ 7.96**(1)**
Beneficiaries (employees)	22(**2**)

(1) The strike price is set at R$ 7.96, restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

(2) Originally, 22 employees qualified for the 2nd stock option plan, but on 06/30/2020 due to the separation of 02 employees, the total is 20 beneficiaries.

Beneficiaries

Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras Azaleia S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company’s Board of Directors.

Pricing Method

The method used for options pricing is the “Black-Scholes” model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

Option Plan Expense

Amounts of amortizations recorded as expense in financial statements, as a contra-entry to the Company’s equity from grant date to June 30, 2020, are described below:

Plan	**Strike price**	**Grant date**	**Accumulated expense 06/30/2020**	**Accumulated expense 12/31/2019**
1st plan - 2018	R$ 9.50	01/16/2018	R$ 1,253	R$ 1,042
2nd plan - 2019	R$ 7.96	05/05/2019	R$ 734	R$ 474
Total	-		**R$ 1,987**	**R$ 1,516**

d. Equity valuation adjustments

“Equity valuation adjustments” caption includes: (i) accumulated net changes in financial assets at fair value through other comprehensive income until the investments are derecognized or suffer impairment loss; and (ii) accumulated translation adjustments include all foreign currency differences deriving from the translation of quarterly financial information of foreign operations. As of June 30, 2020, the balance of equity valuation adjustment is R$ 24,415 (R$ 16,281, on December 31, 2019).

22 Net sales

	Consolidated	
	06/30/2020	**06/30/2019**
Gross operating revenue		
Sale and resale of goods		
Domestic market	389,510	697,785
Foreign market	41,774	51,268
Services rendered	1,002	945
	432,286	749,998
Deductions		
Taxes on sales and services rendered	(44,966)	(92,402)
Returns, rebates and prompt-payment discount	(50,003)	(30,831)
	(94,969)	(123,233)
Net operating revenue	**337,317**	**626,765**

Changes are commented on in Note 1.1.2 – Impacts of Covid-19 (coronavirus)

23 Cost of sales and resales

	Consolidated	
	06/30/2020	**06/30/2019**
Raw material	(90,030)	(131,099)
LABOR	(50,850)	(101,872)
Indirect costs	(49,387)	(99,088)
Resale	(43,526)	(81,436)
Total cost of sales and resales	**(233,793)**	**(413,495)**

Changes are commented on in Note 1.1.2 – Impacts of Covid-19 (coronavirus)

24 Sales expenses

	Consolidated	
	06/30/2020	**06/30/2019**
Commissions	(12,357)	(22,531)
Freight	(17,963)	(25,044)
Advertising	(24,157)	(27,388)
Royalties	(1,726)	(1,044)
Personnel expenses	(12,674)	(14,678)
Fixed expenditures	(2,140)	(3,673)
Other expenses	(947)	(1,169)
	(71,964)	(95,527)
Impairment losses	(8,892)	(5,474)
Total sales expenses	**(80,856)**	**(101,001)**

25 Administrative expenses

	Consolidated		Parent company	
	06/30/2020	**06/30/2019**	**06/30/2020**	**06/30/2019**
Personnel expenses	(20,289)	(20,551)	(957)	(831)
Third party services	(12,160)	(12,067)	(1,182)	(1,175)
Rentals	(1,356)	(2,304)	-	-
Travel and accommodation	(197)	(534)	-	-
Security guard	(759)	(942)	(82)	(83)
Legal disputes and taxes	(1,074)	(1,405)	(390)	(340)
IT and telecommunications	(3,121)	(3,639)	(26)	(32)
Energy, water and sewage	(326)	(603)	(5)	(6)
Maintenance, cleaning and environment.	(1,205)	(1,703)	(1)	(5)
Other (*)	(10,279)	(9,174)	(737)	(355)
Total administrative expenses	**(50,766)**	**(52,922)**	**(3,380)**	**(2,827)**

(*) The most relevant amounts are comprised of depreciation and amortization, and the lease amortization is due to the impacts of CPC 06 (R2)/IFRS 16, of R$ 4,637 as of June 30, 2020 (R$ 6,110 as of June 30, 2019).

26 Other operating revenues (expenses), net

	Consolidated		Parent company	
	06/30/2020	**06/30/2019**	**06/30/2020**	**06/30/2019**
Rental revenue	2,497	2,347	2,493	2,337
Revenue from sales of power	808	194	-	-
Provision for contingencies	(2,880)	(1,773)	(24)	(112)
Sale of scrap	417	787	-	-
Net income from sale of fixed assets	392	409	-	-
Recovery of PIS/COFINS over ICMS	1,805	2,817	-	-
Idle capacity costs - COVID-19 (*)	(36,384)	-	-	-
Other (**)	(4,791)	(3,838)	(80)	(134)
	(38,136)	**943**	**2,389**	**2,091**

(*) Refers to labor costs and indirect manufacturing costs not appropriated in products due to the stoppage caused by COVID 19.

(**) The principal value on June 30, 2020 is composed of R$ 1,261 related to ICMS expenses on other products and R$ 2,356 for the sale of subsidiary Vulcabras Azaleia SE and as of June 30, 2019, the amount of R$ 2,445 is related to the ICMS expenses on other products.

27 Financial income (loss)

	Consolidated		Parent company	
	06/30/2020	**06/30/2019**	**06/30/2020**	**06/30/2019**
Financial revenues				
Capital structure				
Revenue from investments	2,267	2,416	53	23
Inflation adjustments	-	35		-
Other	-	1	-	-
	2,267	2,452	53	23
Operating				
Interest	1,066	1,093	16	34
Discounts obtained	185	349	-	-
Other (*)	1,635	2,548	-	-
Subtotal	2,886	3,990	16	34
Exchange-rate changes (**)	18,198	5,225	-	-
Total financial revenue	**23,351**	**11,667**	**69**	**57**
Financial expenses				
Capital structure				
Interest	(4,577)	(2,047)	-	(170)
IOF	(78)	(271)	-	-
Other	(1,725)	(606)	-	-
	(6,380)	(2,924)	-	(170)
Operating				
Bank fees	(1,546)	(2,534)	(1)	(3)
Fee/commission sale card	(946)	(743)	-	-
Discounts granted	(530)	(1,166)	-	-
Other rates	-	(1,008)	-	-
Subtotal	(3,022)	(5,451)	(1)	(3)
Exchange-rate changes	(10,678)	(5,924)	-	(1)
Total financial expenses	**(20,080)**	**(14,299)**	**(1)**	**(174)**
Financial income (loss)	**3,271**	**(2,632)**	**68**	**(117)**

(*) The principal value refers to financial update of recovery of Pis/Cofins over ICMS R$ 1,582 (R$ 2,283 on June 30, 2019). See Note 8.

(**) The changes were due to the increase in the dollar exchange rate, which closed at R$ 5.47 as of June 30, 2020 (R$ 4.03 as of December 31, 2019).

28 Earnings per share

The calculation of basic earnings per share is made by dividing the income (loss) for the period, attributed to the holders of common shares of the Company, by the weighted average number of common shares free float during the year.

Diluted earnings per share are calculated by dividing the profit for the period attributable to holders of the Company's common shares by the weighted average number of common shares that would be issued on the conversion of all potentially dilutive shares into their respective shares.

On June 30, 2020, the Company had potential outstanding shares which could affect the dilution of the result per share under CPC 41/IAS 33 in the total amount of 1,390,000 potential shares. Of the total amount, 635,000 potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 755,000 potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019.

As of June 30, 2019, the Company had 1,440,000 potential outstanding shares. Of the total amount, 660,000 (six hundred and sixty thousand) potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 780,000 (seven hundred and eighty thousand) potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019, which could affect the dilution of earnings per share according to CPC 41/IAS 33.

The table below presents the calculations of basic and diluted earnings per share.

	Consolidated Quantity of common shares	
	06/30/2020	**06/30/2019**
Profit or loss attributable to shareholders	(66,378)	56,176
Weighted basic average of outstanding shares in the period	245,756,346	245,756,346
Weighted basic average of outstanding shares in the period	247,146,346	247,196,346
Basic earnings per share (per thousand) - R$	(0.2701)	0.2286
Basic earnings per share (per thousand) - R$	(0.2686)	0.2273

29 Financial instruments and risk management

The main financial assets and liabilities of the Company and its subsidiaries refer to cash and cash equivalents, trade accounts receivable, trade accounts payable and loans and financing.

Financial risk framework and management

The Company and its subsidiaries manage financial risks by monitoring the financial positions of assets and liabilities, controlling exposure limits. Said controls were not changed during the disclosed period.

The Company and its subsidiaries are exposed to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Interest rate risk
- Liquidity risk

The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market.

The risk management policies of the Company and its subsidiaries were established to identify and analyze the exposure, to set adequate limits and controls by monitoring risks and compliance with limits. Risk policies and systems are reviewed regularly to reflect changes in the market conditions and in the activities of the Company and its subsidiaries.

The assessments of financial instruments and risk management are explained below:

(i) Credit risk

The Company and its subsidiaries are exposed to the credit risk due to the possibility of not receiving trade accounts receivable or credits from financial institutions.

The Company and its subsidiaries' risk management adopts the following practices:

(i) analyzing credits granted to clients and establishing sales limits. There are no clients that individually represent more over 6.2% of total trade accounts receivable of the Company as of June 30, 2020 (6.7% on December 31, 2019); and

(ii) careful selection of financial institutions, which are considered as prime line by the market (largest asset management banks in Brazil), State banks or government development agencies, meaning that the credit risk posed by the financial institutions is extremely low and diversifying financial instruments used to invest the company's funds, which are invested in a basket of indexes consisting of the CDI rate, fixed rates or rates restated for inflation.

(ii) Market risk

Foreign exchange risk

Considering the price risk on exports, which correspond to 7.03% of revenue from its subsidiaries as of June 30, 2020 (3.01% as of December 31, 2019), any volatility of the exchange rate represents, in fact, a price risk that can impair the results planned by Management.

Sensitivity analysis

The results of the Company and its subsidiaries are susceptible to significant changes, due to the effects of the volatility of the foreign exchange rate on the liabilities indexed to foreign currencies, especially the USD, which ended the period as of June 30, 2020 with the positive change in 35.86% in relation to the last quotation as of December 31, 2019.

As a strategy to avoid and reduce the effects of foreign exchange fluctuations, Management tried to maintain a natural hedge in restricted assets, also pegged to exchange fluctuations. Management does not enter into financial instruments to eliminate its exposure to foreign exchange risks, which are as follows:

	Consolidated	
US dollar (US$ thousand)	**06/30/2020**	**12/31/2019**
Assets in foreign currency (a)	8,659	9,035
Liabilities in foreign currency (b)	(8,787)	(650)
Surplus/deficit determined (a-b)	(128)	8,385

In order to comply with CVM Resolution 550 dated October 17, 2008, in the light of the fluctuation risk exposure, the Company shows below three scenarios for foreign exchange fluctuations and the respective future outcome created. These are:

1. Probable scenario and that is adopted by the Company and its subsidiaries: dollar rate totaled R$ 5.4760 on June 30, 2020;

2. Possible scenario: as provided in the CVM Resolution, the scenario is built considering a 25% decrease in the US dollar rate amounting to R$ 4.1070; and

3. Remote scenario: also in accordance with CVM standard, in this scenario the US dollar rate is decreased by 50%, amounting to R$ 2.7380.

Foreign exchange sensitivity analysis - effect in come income (loss) as of June 30, 2020

Transaction	Risk	Probable scenario	Possible scenario	Remote scenario
	US$ 128 thousand	FX 5.4760	FX 4.1070	FX 2.7380
Financial income (loss)	US$ decr.	-	175	351

(iii) Interest rate risk

Sensitivity analysis

The Company's and its subsidiaries' results are exposed to fluctuations, not significant, due to the effects of the volatility of the DI-CETIP, TJLP (Long-term interest rate) and IPCA (National Amplified Consumer Price Index) rate on interest earning bank deposits and part of loans and financing linked to these rates.

	Consolidated		**Consolidated**	
	Book value 06/30/2020	**Fair value 06/30/2020**	**Book value 12/31/2019**	**Fair value 12/31/2019**
Assets in CDI	319,117	319,117	58,805	58,505
Liabilities in TJPL	2,232	2,317	2,374	2,413
Liabilities at IPCA	76,219	80,826	40,679	43,308
Liabilities in CDI	155,168	159,739	-	-

In order to comply with the CVM Resolution 550 of October 17, 2008, given the exposure to the risk of changes in the indexes used in interest earning bank deposits and loans, the Company presents below scenarios for the changes in rates and the respective future results that would be generated. These are:

(i) Probable scenario adopted by the Company and its subsidiaries, with a DI-CETIP rate of 2.15% p.a. and TJLP of 4.94% p.a. and IPCA of 2.13% p.a.;

(ii) Possible scenario, including an increase or decrease of 25% on rates;

(iii) Remote scenario, including an increase or decrease of 50% on rates.

Statement of changes in rates as of June 30, 2020 is as follows:

Operation	**Risk**	**Probable scenario**	**Possible scenario - 25%**	**Remote scenario - 50%**
		TJLP 4.94%	TJLP 6.18%	TJLP 7.41%
Loans – TJLP	TJLP incr.	R$ 0	R$ 28	R$ 55
		IPCA 2.13%	IPCA 2.66%	IPCA 3.20%
Loans at IPCA	IPCA incr.	R$ 0	R$ 404	R$ 816
		CDI 2.15%	CDI 2.69%	CDI 3.23%
Loans in CDI	CDI incr.	R$ 0	R$ 838	R$ 1,676
		CDI 2.15%	CDI 1.61%	CDI 1.08%
Investments in CDI	CDI decr.	R$ 0	R$ (1,723)	R$ (3,415)

(iv) Liquidity risk

The Company and its subsidiaries monitor their funds liquidity risk through cash monetary policies to avoid a mismatch between accounts receivable and accounts payable.

In addition, the Company and its subsidiaries maintain balances of interest earning bank deposits with daily liquidity, which may be redeemed at any time to cover possible mismatches between maturity dates of their contract obligations and cash generation.

The scheduled payments of long-term installments of loans and financing are presented below:

	06/30/2020	
Maturity	**Amount**	**%**
2021	35,008	20%
2022	65,945	37%
2023	39,368	22%
2024	13,801	8%
2025	13,561	8%
2026	8,907	5%
Total	**176,590**	**100%**

Breakdown of balances

The estimated realization values of the financial assets and liabilities of the Company and its subsidiaries were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable value.

The Management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

In compliance with CVM Instruction 475/08, the book balances and the fair value of financial instruments included in balance sheets as of June 30, 2020 and December 31, 2019 are shown below:

		Consolidated			
		06/30/2020		12/31/2019	
Description	**Rating**	**Book balance**	**Fair value**	**Book balance**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	172,387	172,387	62,164	62,164
Interest earning bank deposits					
CDB/Investment Fund	Financial assets at fair value through profit or loss	154,295	154,295	2,529	2,529
Share investment funds	Financial assets at fair value through other comprehensive income (FVTOCI)	262	262	294	294
Accounts receivable	Financial assets at amortized cost	276,927	276,927	448,377	448,377
Other accounts receivable	Financial assets at amortized cost	12,910	12,910	11,748	11,748
Loans and financing:					
In domestic currency	Financial liabilities at amortized cost	233,619	237,448	43,053	45,721
In foreign currency	Financial liabilities at amortized cost	44,835	45,934	-	-
Suppliers	Financial liabilities at amortized cost	32,056	32,056	40,993	40,993

(v) Fair value hierarchy

	06/30/2020		12/31/2019	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Interest earning bank deposits				
Post-fixed CDB		150,000	-	-
Investment fund	-	4,295	-	2,529
Share investment funds	262	-	294	-

Level 1 - Prices charged (unadjusted) in active markets for identical assets or liabilities;

Level 2 - different inputs of the prices negotiated in active markets included at Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 - inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

(vi) Criteria, assumptions and limitations used in the calculation of fair value

Interest earning bank deposits
For interest earning bank deposits, the fair value against the income (loss) was calculated based on the market quotations of these securities and are stable considering investment rates and terms. The interest earning bank deposits are remunerated at a percentage of DI-CETIP and are restated at June 30, 2020.

Accounts receivable
Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company and its subsidiaries are responsible. The estimated impairment losses were formed at an amount considered adequate by the management to cover any losses arising on collection of credits.

Loans and financing
The amount of loans and financing calculated at June 30, 2020 are measured at amortized cost using the effective interest method, and are recorded at their contractual values. We currently found interest rates applicable to these instruments identical to the contracts that were signed, given the objective of the financing, time frames and guarantees submitted.

Suppliers
Trade accounts payable derive directly from the commercial operations of the Company and its subsidiaries, are stated at their original values, subject to exchange and monetary restatement, when applicable, up to the balance sheet date.

Limitations
The fair value of instruments was estimated on the balance sheet date, based on “Relevant market information”. Changes in the assumptions may significantly affect the presented estimates.

(vii) Capital management
The capital management of the Company and its subsidiaries aims to ensure that a strong credit rating is maintained before institutions, as well as a solid capital relationship, so as to support the business of the Company and leverage shareholders’ value.

The Company and its subsidiaries include within its net debt structure: loans and financing less cash, cash equivalents and interest earning bank deposits.

	Consolidated	
	06/30/2020	**12/31/2019**
Financing, loans and financing	(278,454)	(43,053)
Cash and cash equivalents	172,387	62,164
Interest earning bank deposits	154,557	2,823
Net debt	**48,490**	**21,934**
Equity	**1,029,688**	**1,087,428**

30 Insurance coverage
The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity.

The risk assumptions adopted are out of the scope of the auditing of quarterly financial statements, and therefore were not examined by our independent auditors.

Coverage amounts as of June 30, 2020 are summarized as follows:

Corporate insurance in reais (R$)		
Object	**Risk covered**	**Amount of coverage**
Equity	Fire, Windstorms, Electrical Damages, Machine Breakdown, Theft, Flooding, Electronic Equipment.	195,000
Loss of profits	Fixed expenses (P.I 3 months)	60,000
D&O	Management civil general liability	20,000
General civil responsibility	General liability	2,000
Light vehicles	Property, body damages, pain and suffering to third parties	23,800
Heavy vehicles	Property, body damages, pain and suffering to third parties	5,400
International transport - Imports	Limit per shipment - Goods / Raw materials	8,214
	Total corporate insurance	**314,414**

31 Governmental grants and assistance

a. Federal incentives

IRPJ REDUCTION -Refer to the right to 75% reduction of the Income Tax and Surtax, calculated based on the operating profit in accordance with article 1 of the Provisional Measure 2199-14 of August 24, 2001, as per the criteria established and also in compliance with the tax incentive regulation. Are considered as onerous conditions met the projects for total modernization currently in areas of the Northeast Development Agency - SUDENE. The beneficiaries of the incentive of 75% reduction of the income tax are the projects located in the states of Ceará, Bahia and Sergipe.

b. State incentives

(i) Ceará

For footwear

PROVIN **-** This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 99% of the ICMS levied on company manufacturing of footwear. On the amount of each installment of the benefit, 1% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

For apparel

PROVIN - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 75% of the ICMS levied on company manufacturing of apparel. On the amount of each installment of the benefit, 25% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

Additional incentives
In addition to PROVIN shoes and apparel, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces that do not have similar item in the State of Ceará, as well as the difference of rates on purchases of capital goods.

PCDM – It is an incentive program to distribution business centers (PCDM), which consists of the reduction by 75% of the debt balance of the ICMS monthly calculated on interstate shipping activities. The subject of this instrument does not include the ICMS withheld of third parties by the company, in view of the tax replacement regime.

Additional incentives
It has as additional to PCDM the deferral of the ICMS levied: In import of foreign goods for subsequent shipment, import from abroad and other states, of goods to comprise fixed assets.

(ii) Bahia

PROBAHIA - Refers to the development program for the State of Bahia, aiming at diversifying and stimulating the transformation of the industrial processes in the state. The incentive is the deferral of ICMS on the total debits calculated on the shipment of goods, where a presumed credit of 99% of the amount due is calculated. Its payment consists in 1% of the debit balance that should be paid in the month subsequent to the ICMS calculation.

Additional incentives

In addition to PROBAHIA, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts, as well as the difference of rates on purchases of capital goods.

	Statement of Government grants		
Subsidiary	**State incentive**	**%**	**Maturity date**
Vulcabras Azaleia CE, Calç. e Art. Esp. S.A.	Provin Calçados	99%	Aug 2031
Vulcabras Azaleia CE Calç. e Art. Esp. S.A.	Provin Confecções	75%	Jun 2022
Vulcabras Azaleia BA Calç. e Art. Esp. S.A.	Probahia	99%	Jul 2027
Vulcabras Distr. Art. Esp. Ltda.	PCDM	75%	Dec 2022

	Statement of Government grants		
Subsidiary	**Federal incentive**	**%**	**Maturity date**
Vulcabras Azaleia CE, Calç. e Art. Esp. S.A.	IRPJ decr.	75%	Dec 2025
Vulcabras Azaleia BA Calç. e Art. Esp. S.A.	IRPJ decr.	75%	Dec 2026

c. Consolidated

Considering that these incentives were recognized directly in profit (loss) of subsidiaries, as a consequence, they were recognized in the Company's profit (loss) through the calculation of equity in net income of subsidiaries, whose effects are shown below:

ICMS			**Equity in net income of subsidiaries in parent company**	
Tax incentive recorded in income (loss) of subsidiaries	**Amount of incentive in Consolidated**	**% Interest**	**06/30/2020**	**06/30/2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	18,212	99.99%	18,210	31,461
Vulcabras Distr. Art. Esp. Ltda.	882	0.22%	2	-
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	13,970	100.00%	13,970	21,765
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	-	1,061
	33,064		32,182	54,287

Reintegra			**Equity in net income of subsidiaries in parent company**	
Tax incentive recorded in income (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**06/30/2020**	**06/30/2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	17	99.99%	17	8
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	16	100.00%	16	9
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	-	7
	33		33	24

32 Product and geographic area information

The information of net sales in the domestic and foreign markets, by region, was prepared based on the country of origin of the revenue, that is, based on the sales made by its subsidiaries in Brazil and through foreign subsidiaries, and are as follows:

	06/30/2020	**06/30/2019**
Net sales		
Athletic shoes	241,283	463,258
Women's shoes	43,115	85,091
Other footwear and others	25,093	35,635
Apparel	27,826	42,781
	337,317	**626,765**
Domestic market	295,072	575,649
Foreign market	42,245	51,116
	337,317	**626,765**

The non-current assets of each geographic region are shown below:

	Consolidated	
	06/30/2020	**12/31/2019**
Noncurrent assets in the domestic and foreign markets as of:		
Brazil	532,688	542,715
Other countries	22,309	18,211
Total	**554,997**	**560,926**

33 Subsequent events

Ordinary General Meeting:
As of April 8, 2020, the Company announced to the market the cancellation of the Ordinary and Extraordinary General Meeting to be held on April 16, 2020. It took place on July 24, 2020 in a totally digital manner.

On July 24, 2020, at the Ordinary and Extraordinary General Meeting the management's proposal for the new stock option plan for the Company's shares was approved, however, to date, the CAD has not yet defined the beneficiaries, as well as the respective amounts of grants under this new plan.

COVID-19 subsequent impacts:
The potential impacts of the COVID-19 pandemic on the Company's future results are still uncertain. After the end of the period of June 30, 2020, with operations paralyzed or partially operational, the Company entered the month of July with the plants operating at full available capacity and the billing was higher when compared to the same month of 2019. The Company resumed its billing directed to retailers located in regions that were authorized to reopen. Receipts in July were as expected.

New funding
According to the guidelines established by its financial committee, after June 30, 2020, the Company made raised new funding in the amount of R$ 48,000 thousand, maturing in June 2023 and remunerated at IPCA rate + 2.0720% p.a.

* * *

Members of the Board of Directors

Pedro Grendene Bartelle
President

André de Camargo Bartelle
1st Vice-president

Pedro Bartelle
2nd Vice-president

Hector Nunez
Board Member

Roberto Faldini
Independent Board Member

Composition of Tax Council

Marcello Joaquim Pacheco
Chairman of the Board of Directors

Benedito Alfredo Baddini Blanc
Board Member

Célio de Melo Almada Neto
Board Member

Members of the Executive Board

Pedro Bartelle
President

Wagner Dantas da Silva
Administrative and Financial Director

Flávio de Carvalho Bento
Industrial Director

Rafael Carqueijo Gouveia
Superintendent Director

Rodrigo Miceli Piazer
Purchasing Director

Evandro Saluar Kollet
Corporate Director of Product Development and Technology

Márcio Kremer Callage
Marketing Director

Investor Relations Director

Wagner Dantas da Silva

Technician Responsible

Manoel Damião da Silveira Neto
Accountant CRC 1RJ052266/O-2 “S”-SP