**SPRINGS GLOBAL PARTICIPAÇÕES S.A.**

CNPJ/MF – 07.718.269/0001-57

NIRE 3130002243-9

Publicly Traded Company

Dear Shareholders,

The management of Springs Global Participações S.A. submits for your consideration the Company's Management´s Discussion and Analysis and Financial Statements for the year of 2020. Such information, prepared in accordance with the International Financial Reporting Standards (IFRS), as well as the accounting practices adopted in Brazil and standards established by "CVM", the Brazilian Securities Exchange Commission, is accompanied by its Independent Auditors' report.

## 2020: The year of accelerating our transformation

The year of 2020, in spite of the great uncertainty for the Brazilian and global economies due to the Covid-19 pandemic, and specifically challenging for the retail sector, in which traditionally the majority of sales was made through physical stores, for us at Springs Global, it was a year of achievements. We leveraged our competitive advantages – strong and traditional brands, and scalable technological solutions for retail – to accelerate our digital transformation and to have a more balanced participation within the wholesale and retail business units in our revenue. We are motivated and working hard to become the largest, the best and the most digital vertically integrated company in the Home & Decoration segment in the Americas, accordingly to our strategic objectives.

### » Make the most of shareholders' investment

In view of the scenario of uncertainty, we reduced our industrial operations from March to August 2020, reducing the Company's working capital needs. With the recovery of sales of bedding, tabletop and bath products, beginning in August, we started a ramp-up of production and, in the last quarter, we operated with a high utilization rate of our capacity, reaching record production levels in spinning and weaving at the Montes Claros plant, within recent years, which enabled higher absorption of fixed industrial production costs, bringing the gross margin to 32.3% in 4Q20.

The exchange rate, despite affecting the price of raw materials and inputs, and consequently margins in the short term, reinforces our business model and increases our competitiveness as a consumer products company, fully integrated, with traditional and leading brands in our market segment.

The new level of the exchange rate favors greater nationalization of our products, which enables a reduction in the operating cycle, and, consequently, greater speed of adjustment in the supply chain, with less need for finished goods inventory and less markdown.

We believe that the 4Q20 result better demonstrates our operational cash generation and profitability capabilities, which would be, in annualized terms, income from operations (EBIT) of R$ 195 million, with operational margin (EBIT margin) of 9.2%.

## » Grow the retail share in our revenue

Our growth has been driven by the Retail business unit, through sales from online channels and expansion of categories, which require less working capital and that are scalable, enabling greater profitability to our shareholders. The retail share in our revenue increased from 23% in 2019 to almost 30% in 2020. We have the target to reach more than 50% in 2022. The revenue from the retail business unit presented a year-over-year (yoy) growth of 34% in 2020.

Since 2017, we have invested heavily in technology, which has proven to be essential in this period of pandemic, when there was the closure of stores or reduced store hours in the physical commerce, as a result, we were able not only to replace the estimated sales to physical stores with online sales, but also to show a 30% growth in sell-out revenue. Orders received in e-commerce in 2020 were almost 4 times the 2019 figure, with an estimated market share of 23% of our online stores in the e-commerce sales of bedding, tabletop, and bath products, including marketplaces.

We believe that this result is due to the combination of tradition, value, and leadership of our brands, with recognition for the quality of our products and high level of recall and association with home products, together with proprietary technology, which allows greater flexibility and speed for changes, all aiming to promote the enchantment of our customers.

In order to enhance the high level of recall and association of our brands with products for the home and lengthen our relationship with our customers, we expanded the offering of new products categories in recent years. Initially, we have expanded our offering of textile products, with our own production, with decorative products, such as curtains, blankets and cushions, the baby and kid lines, as well as the expansion of the utility bedding product line. In 2019, we started the offering of non-textile products in our digital channels, such as decorative, kitchen and table products, through partners. In 2020, we launched mattresses, in the Artex brand, and pet products, in the MMartan brand, among others.

With this strategy of expansion of product categories, we expanded our potential market in Brazil by approximately 7 times, from R$ 12 billion - bedding, tabletop, and bath products, to R$ 86 billion - home & decoration products, at retail prices, according to IBOPE.

We want to be the largest and most complete “one-stop shop” in the Home & Decoration segment in Brazil, with products that (i) are aligned with the positioning of our brands, and, therefore, with curated products for each brand, (ii) stand out and differentiate us in the Home & Decoration market, (iii) generate cross-selling within our main products, and (iv) increase the recurrence of purchases.

In the last two years, we doubled the quantity of SKUs of non-bedding, tabletop, and bath products in our online stores, currently representing around 20% of the products available for sale.

The expanded offering of new product categories enables the growth of our revenue and the strengthening of our brands, increasing the average value and the frequency of purchases by our consumers.

Due to the success of our proprietary technology PIX at the retail market, we will use it, in an adapted way, named PIX-Pro, to expand our distribution penetration, in a very fast, scalable and inexpensive way, in the wholesale market. We are establishing a remote sales force, supported by the use of artificial intelligence and several online tools, from customer prospecting, purchase recommendation, and the granting of credit, the latter in partnership with a Fintech, focusing on small and medium retailers and institutional customers, with low average ticket.

### » Be a customer-centric company

In 2020, we had the opportunity to expand our penetration in retail, in which we had more than 1.4 million new customers in our sales channels, mainly in e-commerce. The increase in the number of online sales brought challenges in our logistics services, which were overcome with improvements in processes and investments, including the expansion of the Blumenau distribution center and the opening of a new distribution center in João Pessoa, enabling us to return to our service level in the last quarter of 2020, with a service level above 97%.

Our brands occupied 3 of the 4 first positions of the ReclameAqui award, with Santista brand winning 1st place, for the 8th consecutive year. We are rated RA1000, the highest in terms of satisfaction and customer service, in ReclameAqui, for our main brands - Santista, Artex and MMartan.

We are committed to our customer. Our goal is to delight our clients, by always offering the best products, excellent services and an experience that exceeds expectations. In this context, we restructured the customer service area in 2020, integrating all channels, with a focus on Customer Experience. We have implemented intelligent FAQ and chat solutions that already represent around 50% of the calls, reducing response times. Additionally, in the "Customer at the Center" program, employees from different areas of the Company actively participate in customer service, to stimulate their focus on the customer.

In order to facilitate a revenue stream for franchisees and, at the same time, preserve the proximity of their relationship with our end customers, we have established distance selling platforms in physical stores. The concept was expanded to digital influencers. We had about 1.5 million new followers in social networks in 2020, with a growth of more than 50%, which will contribute to the growth of our sales through social media channels ("social selling") and, hence, we will be increasingly present in people's daily lives.

We strengthened our investment in digital marketing in 2020. At first, to transfer sales to our digital stores, when physical stores were closed, and, afterwards, to expand our customer base. The acquisition of a new customer has a great return throughout his/her life as a consumer of our products. After his/her first purchase, we will keep in touch with this customer with the use of lower cost tools, such as email marketing, SMS or WhatsApp, with the use of artificial intelligence, offering products more suited to his/her profile and, consequently, with a greater likelihood of sales conversion. In addition, digital marketing also increases sales in physical stores, since the recall of the brand and the perception of the need to purchase also takes the customer to the physical store.

## » Value our culture

As important as our external customers, are our internal customers, our employees. As always, we have prioritized the health and well-being of our employees, who have learned to live everyday with preventive measures, social distancing, and care. We have used technology and innovation to deliver information and training remotely and we have offered support to our collaborators, both to ensure their ergonomics and comfort at home office, as well as their physical and mental health, through content and partnerships.

Our culture of entrepreneurship, innovation, and audaciousness guide us in this transformation, with a great emphasis on experimentation, opening room for new markets and opportunities. In this path, we will seek to exercise our leadership, through example and hard and ethical work, inspiring our peers, customers and society.

Aligned with our mission to “Innovate to deliver experiences that enchant and promote well-being”, we have launched Persono brand, with solutions focused on well-being and quality of sleep, with the purpose of making accessible products and services that enable people to better understand and bring discipline to their sleep routine, resulting in a healthier and more productive life. For the development of technology, Springs Global has entered into partnerships with renowned polysomnography institutes, in addition to investing in data science to develop high precision and efficient sleep monitoring systems. The Persono brand has become one of the sponsors of the Brazilian Olympic Committee (COB). There will be cooperation between the technical and scientific teams of Persono and COB with a focus on sleep quality and its importance for high performance athletes.

As a corporate citizen, in order to contribute to society to fight the Covid-19 pandemic, we entered the market of personal protection products for the health care industry, such as surgical masks and gowns, and hair and foot protectors, in order to replace imports and, additionally, bringing export opportunity. We are developing new sales channels for these products in Brazil and abroad through North American distributors and hospital products companies.

Additionally, we have supported the community to get through this pandemic, with donations made especially to the public health sector. We donated thousands of bed and bath items to Santa Casa hospitals. We donated reusable protective masks to the general public and surgical masks to public health institutions of several cities where we have industrial plants. We participated in major private sector initiatives to support healthcare in Brazil.

## Relationship with independent auditors

In 2020, the Company did not engage its independent auditors for services other than those related to the audit work.

## Acknowledgements

We would like to express our appreciation to our customers, our employees, our suppliers, our shareholders, financial institutions, government officials, trade and social organizations, and everyone that has contributed directly or indirectly to the achievement of the Company´s social goals.

Management

## Company overview

Springs Global Participações S.A. (Springs Global is a company in the Home & Decoration market, leader in bedding, tabletop and bath products, with traditional and leading brands in the segments in which it operates, strategically positioned to target customers of different socioeconomic profiles.

In Brazil, Springs Global´s main brands are Santista, Artex, MMartan, and Casa Moysés. The first is only sold in the wholesale channel, while the last two are only sold in the monobrand retail channel. The Artex brand is sold in both distribution channels. We have an online store for each brand - Casa Moysés, MMartan, Artex and Santista, through an e-commerce proprietary platform.

In Argentina, the Company has the brands Palette, Arco-Íris, and Fantasia, which are market leaders. Our brands have a high rate of awareness among consumers and specialists, being a quality reference in the sector.

Springs Global operates vertically integrated plants, from spinning through weaving, preparation, dyeing, printing, finishing and cutting and sewing, with eight plants located in Brazil, and one in Argentina. All plants have a high degree of automation and flexibility.

Springs Global’s products sold in the wholesale market are classified as: (a) Bedding, Tabletop and Bath (“CAMEBA”), and (b) intermediate products. The CAMEBA line includes bed sheets and pillow cases, sheet sets, tablecloths, towels, rugs and bath accessories. Intermediate products are yarns and fabrics, in their natural state or dyed and printed, sold to small and medium-sized clothing, knitting and weaving companies.

The Company distributes its products through the wholesale channel, in all its markets, and in its monobrand retail stores, in Brazil. The Company also markets third party products, through partnerships, at its online stores.

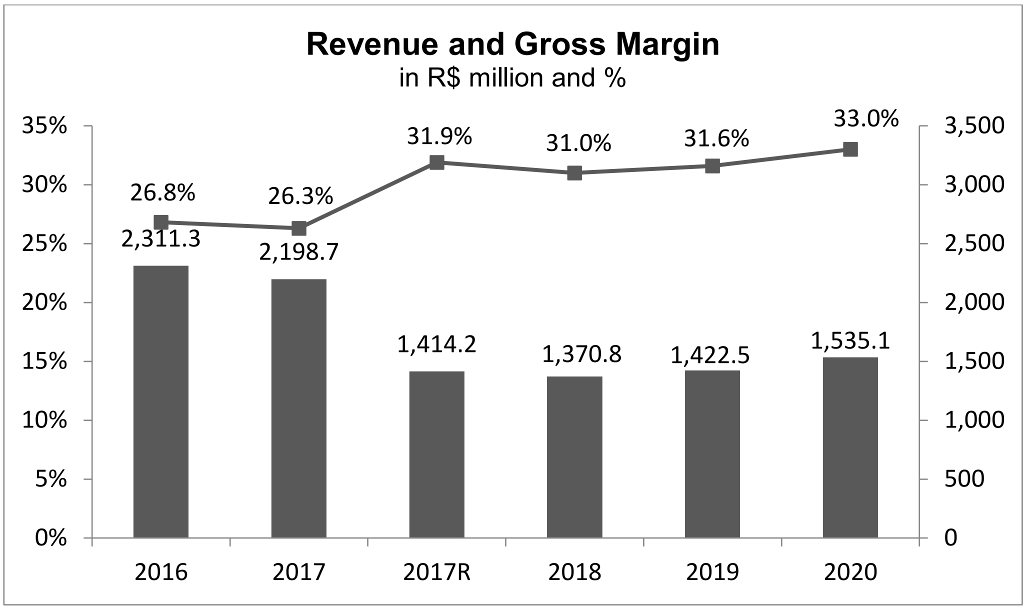
## Financial performance[1]

Springs Global reported 2020 net revenues of R$ 1,535.1, 7.9% higher yoy, with gross margin of 33.0%.

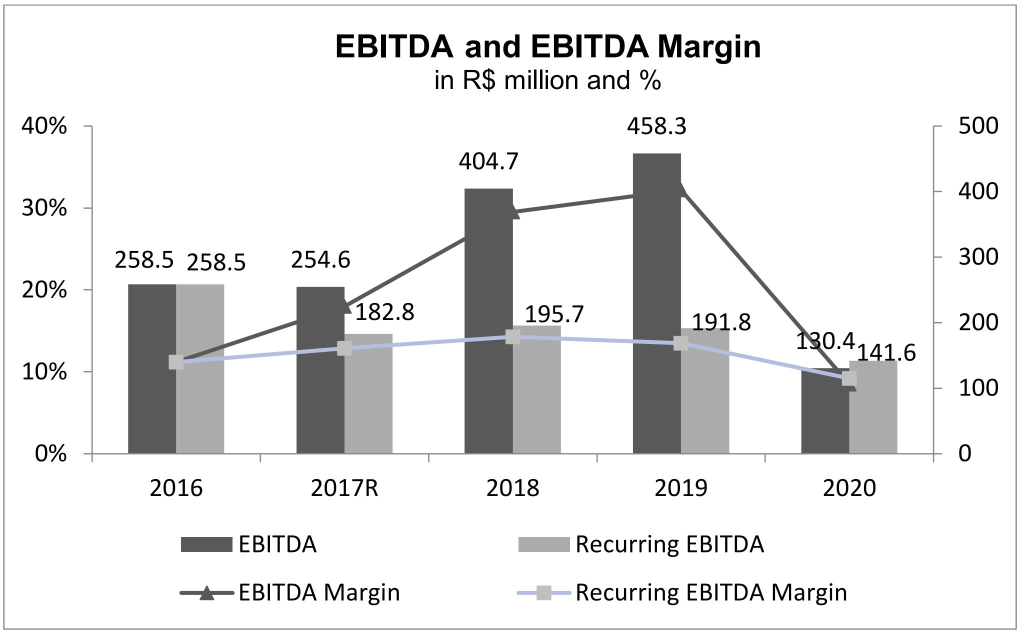
[1] The financial and operational information presented in this release, except when otherwise indicated, is in accordance with accounting policies adopted in Brazil, which are in accordance with international accounting standards (International Financial Reporting Standards – IFRS).

The net loss totaled R$ 320.9 million, of which R$ 254.0 million was from continuing operations and R$ 67.0 million from discontinued operations.

Cash generation, as measured by adjusted EBITDA, related to continuing operations, reached R$ 141.6 million. The discontinued operations had a negative amount of R$ 12.8 million, resulting in a total EBITDA of R$ 130.4 million.




2017R - Reclassified, excluding discontinued operations, for comparison purpose




2017R - Reclassified, excluding discontinued operations from net revenue to calculate EBITDA

**Reconciliation of EBITDA and Adjusted EBITDA**

| in R$ million | 2020 (A) | 2019 [1] (B) | (A)/(B) % |
|---|---|---|---|
| Income (loss) | (320.9) | 45.7 | (801.9%) |
| (+) Income and social contribution taxes from continuing operations | 72.3 | (0.6) | n.a. |
| (+) Income and social contribution taxes from discontinued operations | - | 82.7 | (100.0%) |
| (+) Financial results from continuing operations | 230.8 | 225.0 | 2.6% |
| (+) Financial results from discontinued operations | - | 3.8 | (100.0%) |
| (+) Depreciation and amortization from continuing operations | 94.1 | 92.7 | 1.5% |
| (+) Depreciation and amortization from discontinued operations | - | 1.8 | (100.0%) |
| (-) Equity in affiliate | 11.3 | 7.2 | 57.8% |
| (-) Impairment of investment in affiliate | 42.9 | - | n.a. |
| **EBITDA** | **130.4** | **458.3** | **(71.5%)** |
| **Continuing operations** | | | |
| Income (loss) | (320.9) | 45.7 | (801.9%) |
| (-) Result from discontinued operations | 67.0 | (185.1) | n.a. |
| (+) Income and social contribution taxes from continuing operations | 72.3 | (0.6) | n.a. |
| (+) Financial results from continuing operations | 230.8 | 225.0 | 2.6% |
| (+) Depreciation and amortization from continuing operations | 94.1 | 92.7 | 1.5% |
| **EBITDA from continuing operations** | **143.2** | **177.7** | **(19.4%)** |
| (-) Result from asset sale | (1.6) | 14.1 | n.a. |
| **Adjusted EBITDA from continuing operations** | **141.6** | **191.8** | **(26.2%)** |
| **Discontinued operations** | | | |
| Result from discontinued operations | (67.0) | 185.1 | (136.2%) |
| (+) Income and social contribution taxes from discontinued operations | - | 82.7 | (100.0%) |
| (+) Financial results from discontinued operations | - | 3.8 | (100.0%) |
| (+) Depreciation and amortization from discontinued operations | - | 1.8 | (100.0%) |
| (-) Equity in affiliate | 11.3 | 7.2 | 57.8% |
| (-) Impairment of investment in affiliate | 42.9 | - | n.a. |
| **EBITDA from discontinued operations** | **(12.8)** | **280.6** | **(104.5%)** |
| **EBITDA** | **130.4** | **458.3** | **(71.5%)** |
| **Adjusted EBITDA[2]** | **141.6** | **191.8** | **(0.3)** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

[2] Considering only continuing operations, excluding gain or loss from sale of assets

## Capex and working capital

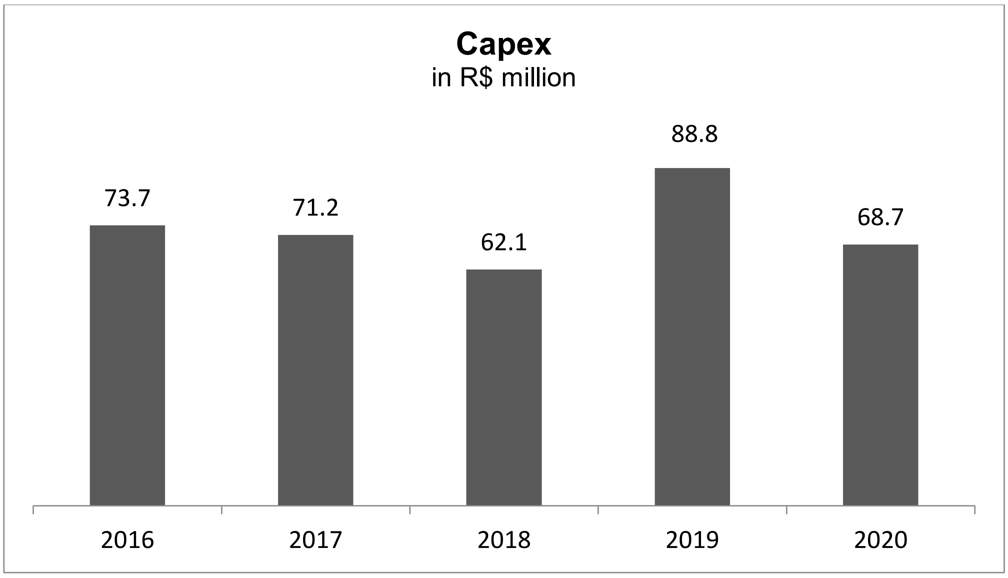
Capital expenditures (Capex) totaled R$ 68.7 million in 2020. We have reduced capital expenditures to preserve the Company's cash, given the uncertainties related to the Covid-19 pandemic.

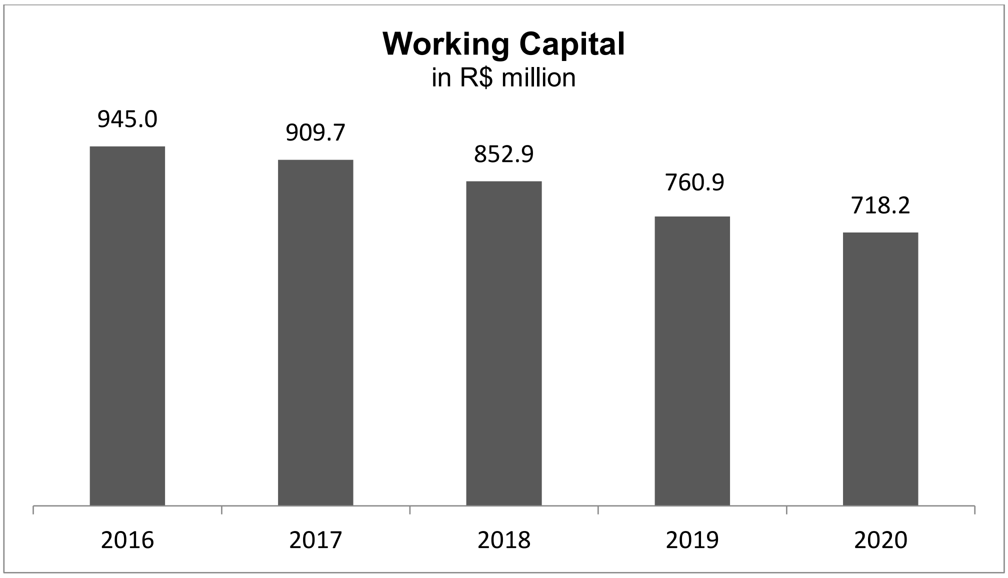
The main investments made were: (i) expansion and improvements in distribution centers, (ii) equipment to produce personal protection products for the health care industry, and (iii) digital and industrial technology.

Investments in distribution centers are to be prepared to serve increasingly larger volumes, within shorter terms, as well as, to reduce the operating cost of the distribution center.

The investment in sophisticated equipment will allow us to launch capsule collections and new products at a unique speed in the Americas, strengthening our brands, in terms of product quality, and allowing greater flexibility to adjust to fluctuations in demand, with lower inventories and lower risk of sale loss or markdown.

The working capital needs amounted to R$ 718.2 million at the end of 2020.



## Debt and debt indicators

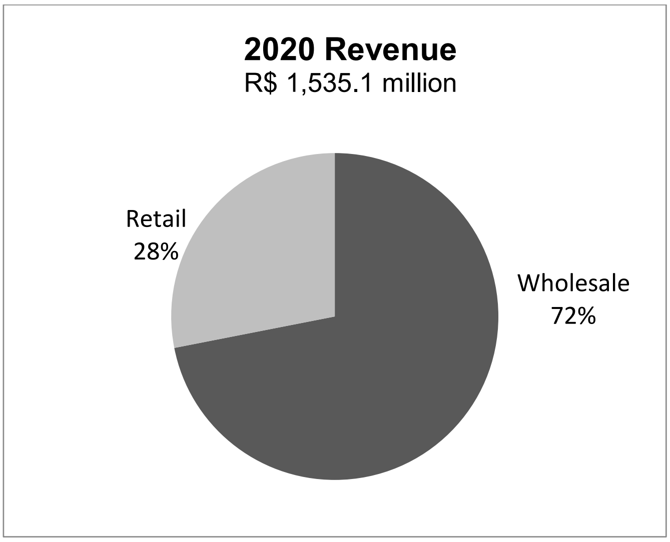
Springs Global’s net debt was R$ 761.6 million as of December 31, 2020.

The Company recognized R$ 208.9 million in tax recovery in 2018, which was enabled and started to be compensated in the second half of 2019. We still have the value of R$ 128.8 million in credit in our balance sheet, which we will continue to realize its cash effect, reducing net debt, during 2021 and the following years.

At the end of 2020, our ownership in affiliate in North America, with a book value of R$ 123.7 million, was reclassified as available for sale. The proceeds will be used entirely to reduce the Company’s debt.

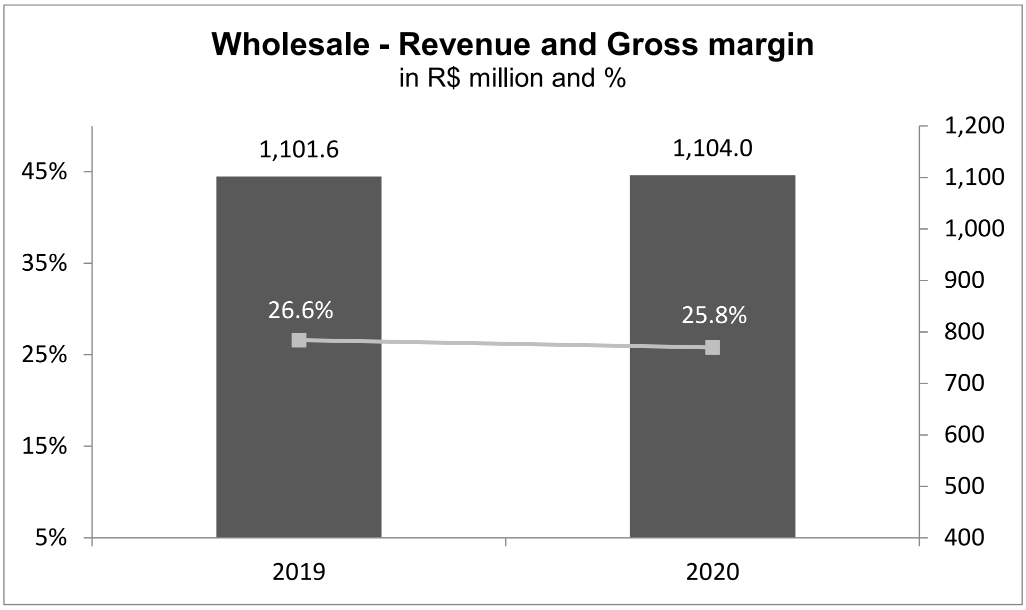
## Performance of the business units

Beginning in 2020, Springs Global presents its results segregated in the following business units: (a) Wholesale, and (b) Retail.




## Wholesale

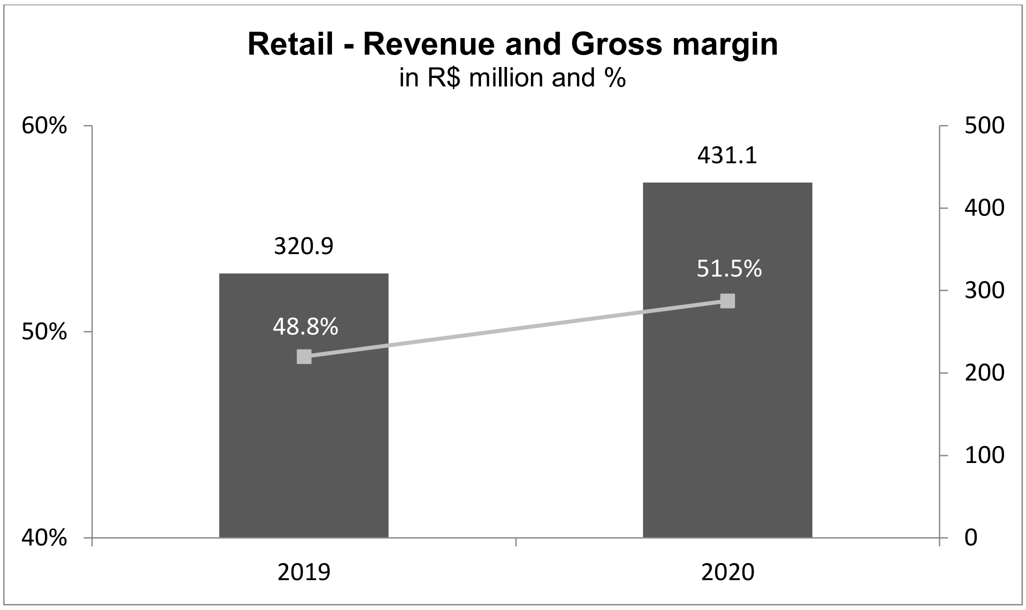
Net revenue for the Wholesale business unit totaled R$ 1,104.0 million in 2020, in line with the amount recorded in 2019, negatively impacted by the closure of stores or reduced store hours in a significant part of the period, due to the Covid-19 pandemic. Gross profit reached R$ 284.3 million, with a gross margin equal to 25.8%.




## Retail

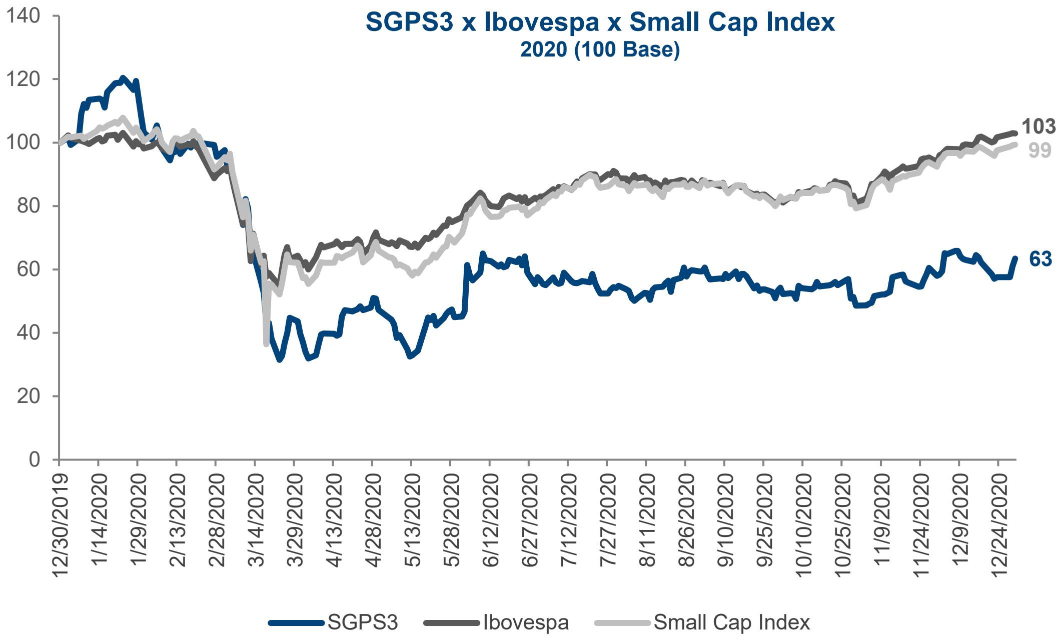
Our proprietary technology enabled us not only to replace the estimated sales to physical stores with online sales, during the pandemic, when there was closure or reduction of store hours in the physical commerce, but also to show growth of 30.1% in sell-out revenue in the Retail business unit, totaling R$ 735.7 million in 2020. E-commerce sale orders were almost 4 times the amount reached in 2019.

Net revenue reached R$ 431.1 million in 2020, with an increase of 34.3% yoy. Gross margin totaled R$ 222.0, with a gross margin of 51.5%.



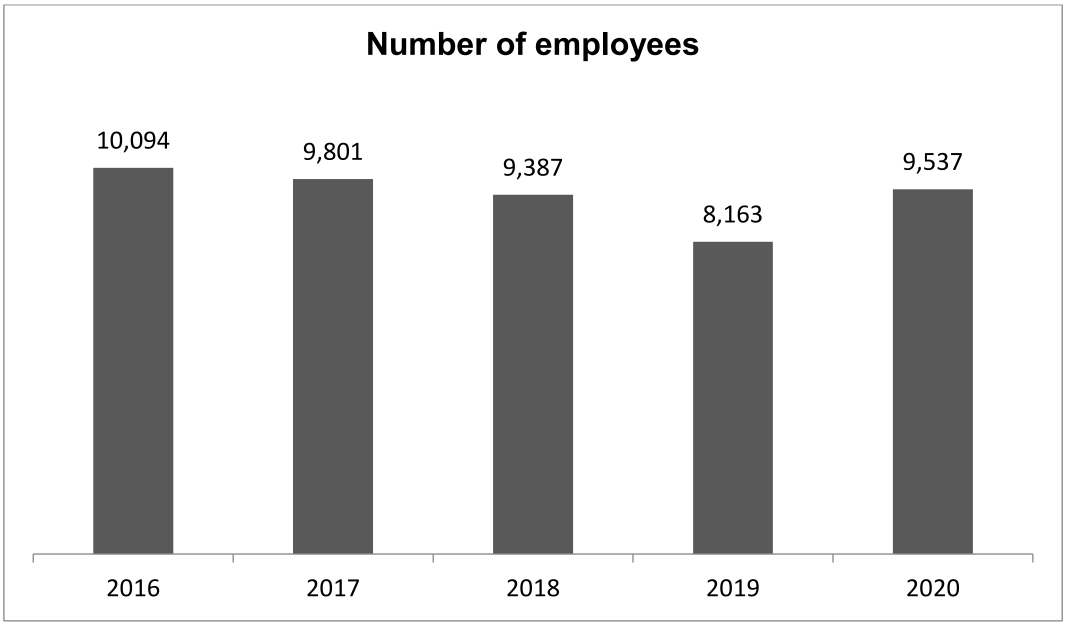
## Value generation to shareholders

The 2020 closing price of Springs Global's shares, traded on the B3 under the ticker SGPS3, was R$ 7.79, 36.6% lower than the 2019 closing price, while the IBOVESPA index increased 2.9% and Small Cap index decreased 0.7% in the same period.




## Human Resources

At the end of 2020, we had 9,537 direct employees, of which 8,950 were in Brazil and 587 overseas, against 8,163 at the end of 2019. The growth in the number of employees is related to the increase in the production capacity in our industrial units in the second half of 2020.



## Awards and Recognitions

The company received several awards and recognitions in 2020, among them: *Reclame Aqui* Award – 1st, 3rd and 4rth places in 2020 *Reclame Aqui* Award in the bedding, tabletop and bath category, represented by the Santista, MMartan and Artex brands, respectively; *Ser Humano* award, regional level, in Paraíba state, promoted by the *Associação Brasileira de Recursos Humanos, Participatory Management: People at the Center for Social Transformation*; and Desafio 4.i 2020 Award promoted by the Instituto Euvaldo Lodi (IEL) of Santa Catarina.

In addition, all manufacturing units were certified with the Gold seal, by ABVTEX (Brazilian Textile Retail Association), which recognizes good practices in the supply chain in favor of a sustainable environment and compliance with decent working conditions.

## Shareholder structure

At the beginning and end of 2020, Springs Global's voting and total capital stock was represented by 50,000,000 common shares. The free float was 46.8%.

## Business outlook

We remain focused on the development of (i) our brands, (ii) our direct sales to the consumer, which strengthen our brands and give us experience to develop products that are more and more suitable for and desired by our consumers, and (iii) our proprietary technology for selling both at the point of sale, as well as, direct sale to the consumer by digital channels, or even to support our remote sales force.

We started the year 2021 with a strong sales order portfolio for the first half. We are investing heavily in the speed of launching new products, which includes relevant investment in technology in the industry, with sophisticated and unique equipment in the Americas, which allow us to accelerate the launch of quality products.

We are increasing the frequency of launches, using capsule collections, leveraging our competitive advantage of having a fully integrated supply chain and flexible production technology, in which we have a faster launch speed, as well as, with a more sustainable technology, due to the lower use of water and energy.

Following the sustainability trend, although our products are already mostly based on cotton, we will introduce new sustainable fabrics, with other natural fibers, such as lyocell, bamboo, and linen.

Finally, we enter the year of 2021 with a lot of optimism, despite the concern about the pandemic. We are very sure of the company's strategic direction and we will continue our journey of transforming Springs Global into becoming the largest, the best and the most digital vertically integrated company in the Home & Decoration segment in the Americas. The growth of our Retail business unit, through the expansion of categories and digital sales, supported by our competitive advantages - integrated chain, strong brands and proprietary technology, will leverage Springs Global's growth.

| in R$ million | 2021 Guidance |
|---|---|
| Net revenue | 1,750 - 1,850 |
| EBIT | 170 - 200 |
| EBITDA | 235 - 265 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)

# Springs Global Participações S.A.

Individual and Consolidated Financial Statements for the Year ended December 31, 2020 and Independent Auditor's Report

BDO RCS Auditores Independentes

Tel.: +55 11 3848 5880
Fax: + 55 11 3045 7363
www.bdo.com.br

Rua Major Quedinho 90
Consolação – São Paulo, SP - Brasil
01050-030

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

To the
Shareholders, Board Members and Management of
**Springs Global Participações S.A.**
Montes Claros - MG

## Opinion

We have audited the individual and consolidated financial statements of **Springs Global Participações S.A. (the "Company")**, identified as parent company and consolidated, respectively, which comprise the individual and consolidated statement of financial position as at December 31, 2020 and the respective individual and consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the corresponding notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of **Springs Global Participações S.A.** as at December 31, 2020, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with Brazilian accounting practices and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

## Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements" section of our report. We are independent of the Company and its controlled companies in accordance with the relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

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

| Relevant components under the caption investments in the individual financial statements and in the consolidation of the financial statements | Audit response |
|---|---|
| The individual and consolidated financial statements are prepared in accordance with Brazilian accounting practices and the IFRS issued by IASB and some relevant and significant controlled and affiliate companies are audited by other independent auditors. See Note 8.<br><br>We understand that, through the evaluation process of these investments, given their relevance in the breakdown of balances, transactions and disclosures in the individual and consolidated financial statements, they are a key audit matter.<br><br>Additionally, the consolidation process has complexities due to the diversified businesses, different functional currencies and elimination of the related parties balances. | Our audit procedures included communication with the significant component auditors in order to discuss the identified audit risks, the emphasis, scope and time of the work.<br><br>We issued audit instructions and reviewed the documentation of sufficient and appropriate audit that supported the opinion of other independent auditors of the significant components, as well as discussed the results achieved.<br><br>Regarding the identified key audit matters, we discussed with the auditors of the significant components and evaluated their impacts on the accompanying individual and consolidated financial statements.<br><br>Regarding the consolidation process, we verified whether the balances and information used were reconciled with the financial statements and accounting records of the investees, and whether they are in accordance with the accounting policies.<br><br>Our exams did not identify significant exceptions in accounting for the investments and in the consolidation process carried out by the Company's Management, therefore, the amounts and information disclosed in the financial statements are adequate. |

## Other matters

### Statements of value added

The individual and consolidated statements of value added, prepared under the responsibility of the Company’s Management and its controlled companies for the year ended December 31, 2020, and presented as supplemental information for IFRS purposes, were submitted to the same audit procedures followed for the audit of the Company’s and controlled companies’ individual and consolidated financial statements. In order to form an opinion, we have checked whether these individual and consolidated statements are reconciled with the individual and consolidated financial statements and accounting records, as applicable, and whether its form and contents meet the criteria established in Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, the individual and consolidated statements of value added were properly prepared, in all material respects, in accordance with the criteria established in the mentioned Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

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

The Management of the Company's and its controlled companies is responsible for this other information that comprises the Management Report.

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

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

## Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Brazilian accounting practices and with the IFRS, issued by IASB, and for such internal control as Management determines is necessary to enable the preparation of individual and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's and its controlled companies' financial reporting process.

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

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

As part of an audit in accordance with Brazilian standards and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its controlled companies' internal controls;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

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

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

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

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

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

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

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 22, 2021.

**BDO RCS Auditores Independentes SS**
**CRC 2 MG 009485/F-O**

**Paulo Sérgio Tufani**
**Accountant CRC 1 SP 124504/O-9 – S - MG**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF DECEMBER 31,2020 and 2019

(In thousands of Brazilian Reais)

ASSETS

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2020 | 2019 |
| CURRENT: | | | | | |
| Cash and cash equivalents | 3 | 332 | 154 | 168,793 | 151,935 |
| Marketable securities | 4 | - | - | 16,311 | 52,341 |
| Accounts receivable | 5 | - | - | 509,086 | 487,822 |
| Financial leases receivable | 11 | - | - | 16,230 | 6,601 |
| Inventories | 6.a | - | - | 403,669 | 385,435 |
| Advances to suppliers | 6.b | - | - | 11,575 | 43,040 |
| Recoverable taxes | 18.c | 16 | 341 | 64,992 | 80,942 |
| Cash holdback amount | 28 | - | - | 20,787 | 25,393 |
| Property, plant and equipment held for sale | 10.b | - | - | - | 12,327 |
| Other receivables | | 964 | 960 | 29,017 | 32,976 |
| Assets held for sale | 28.c | - | - | 123,718 | - |
| Total current assets | | 1,312 | 1,455 | 1,364,178 | 1,278,812 |
| NONCURRENT: | | | | | |
| Long-term assets: | | | | | |
| Marketable securities | 4 | 1,671 | - | 1,671 | 71,010 |
| Receivable – clients | 7 | - | - | 25,171 | 23,968 |
| Related parties | 22 | - | - | 70,341 | 42,905 |
| Advances to suppliers | 6.b | - | - | 42,054 | 66,181 |
| Financial leases receivable | 11 | - | - | 96,659 | 85,118 |
| Recoverable taxes | 18.c | 144 | - | 101,943 | 163,393 |
| Deferred taxes | 18.b | 1,905 | 1,905 | 18,773 | 69,280 |
| Property, plant and equipment held for sale | 10.b | - | - | 16,725 | 12,094 |
| Escrow deposits | 19 | - | - | 10,691 | 13,403 |
| Others | | - | - | 74,335 | 54,558 |
| | | 3,720 | 1,905 | 458,363 | 601,910 |
| Investments in subsidiaries | 8.a | 1,146,045 | 1,420,577 | - | - |
| Investment in affiliate | 8.b | - | - | - | 137,946 |
| Investment properties | 9 | - | - | 405,046 | 406,764 |
| Property, plant and equipment | 10.a | - | - | 635,413 | 618,468 |
| Right-of-use assets | 11 | - | - | 204,641 | 158,263 |
| Intangible assets | 12 | - | - | 97,139 | 92,702 |
| Total noncurrent assets | | 1,149,765 | 1,422,482 | 1,800,602 | 2,016,053 |
| Total assets | | 1,151,077 | 1,423,937 | 3,164,780 | 3,294,865 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF DECEMBER 31,2020 and 2019

(In thousands of Brazilian Reais)

LIABILITIES AND EQUITY

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2020 | 2019 |
| LIABILITIES | | | | | |
| CURRENT: | | | | | |
| Loans and financing | 13 | 19,387 | 12,933 | 522,536 | 511,143 |
| Debentures | 14 | - | - | 91,085 | 87,008 |
| Suppliers | 15 | 22 | 6 | 206,097 | 155,402 |
| Payroll and related charges | | 78 | 79 | 94,524 | 68,415 |
| Taxes | | 69 | 59 | 38,104 | 15,335 |
| Government concessions | 16 | - | - | 27,658 | 22,212 |
| Leases payable | 17 | - | - | 64,447 | 53,049 |
| Other payables | | - | - | 50,634 | 52,376 |
| Total current liabilities | | 19,556 | 13,077 | 1,095,085 | 964,940 |
| NONCURRENT: | | | | | |
| Loans and financing | 13 | 18,685 | 7,979 | 355,577 | 431,495 |
| Debentures | 14 | - | - | - | 12,389 |
| Leases payable | 17 | - | - | 281,307 | 221,153 |
| Related parties | 22 | 7,088 | 16,255 | - | - |
| Government concessions | 16 | - | - | 53,210 | 43,771 |
| Miscellaneous accruals | 19 | - | - | 13,386 | 12,931 |
| Employee benefit plans | 20 | - | - | 131,703 | 106,167 |
| Deferred taxes | 18.b | - | - | 85,042 | 83,629 |
| Other obligations | | - | - | 43,722 | 31,764 |
| Total noncurrent liabilities | | 25,773 | 24,234 | 963,947 | 943,299 |
| EQUITY: | 21 | | | | |
| Capital | | 1,860,265 | 1,860,265 | 1,860,265 | 1,860,265 |
| Capital reserves | | 79,381 | 79,381 | 79,381 | 79,381 |
| Assets and liabilities valuation adjustments | | 113,814 | 117,784 | 113,814 | 117,784 |
| Cumulative translation adjustments | | (185,663) | (229,695) | (185,663) | (229,695) |
| Accumulated deficit | | (762,049) | (441,109) | (762,049) | (441,109) |
| Total equity | | 1,105,748 | 1,386,626 | 1,105,748 | 1,386,626 |
| Total liabilities and equity | | 1,151,077 | 1,423,937 | 3,164,780 | 3,294,865 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In thousands of Brazilian Reais)

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2020 | 2019 |
| NET REVENUES | 26 | - | - | 1,535,079 | 1,422,517 |
| COST OF GOODS SOLD | 25 | - | - | (1,028,826) | (972,577) |
| GROSS PROFIT | | - | - | 506,253 | 449,940 |
| OPERATING INCOME (EXPENSES): | | | | | |
| Selling expenses | 25 | - | - | (335,448) | (267,299) |
| General and administrative expenses | 25 | (982) | (1,037) | (113,915) | (103,627) |
| Management fees | 25 | (913) | (913) | (12,585) | (12,025) |
| Equity in subsidiaries | 8.a | (247,606) | (133,120) | - | - |
| Others, net | | - | - | 4,818 | 18,053 |
| INCOME (LOSS) FROM OPERATIONS | | (249,501) | (135,070) | 49,123 | 85,042 |
| Financial expenses – interests and charges | | (3,293) | (3,668) | (123,954) | (137,478) |
| Financial expenses – interest on leases | 17 | - | - | (13,898) | (27,659) |
| Financial expenses – taxes, discounts and others | | (1,189) | (636) | (88,205) | (64,216) |
| Financial income | | 31 | 16 | 24,854 | 35,079 |
| Exchange rate variations, net | | - | - | (29,582) | (30,683) |
| INCOME (LOSS) FROM OPERATIONS BEFORE TAXES | | (253,952) | (139,358) | (181,662) | (139,915) |
| Income and social contribution taxes: | | | | | |
| Current | 18.a | - | - | (622) | 4,317 |
| Deferred | 18.a | - | - | (71,668) | (3,760) |
| NET LOSS FOR THE YEAR – CONTINUING OPERATIONS | | (253,952) | (139,358) | (253,952) | (139,358) |
| Equity in subsidiary - discontinued operations | 28 | (66,988) | 185,082 | - | - |
| Net income (loss) from subsidiary – discontinued operations | 28 | - | - | (66,988) | 185,082 |
| NET INCOME (LOSS) FOR THE YEAR | | (320,940) | 45,724 | (320,940) | 45,724 |
| BASIC AND DILUTED EARNINGS (LOSS) PER SHARE — R$ | 27 | | | | |
| Continuing operations | | (5.0789) | (2.7871) | | |
| Discontinued operations | | (1.3398) | 3.7016 | | |
| Total | | (6.4188) | 0.9145 | | |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In thousands of Brazilian Reais)

| | Company and consolidated | |
|---|---|---|
| | 2020 | 2019 |
| NET INCOME (LOSS) FOR THE YEAR | (320,940) | 45,724 |
| Other comprehensive income (loss): | | |
| - Items that will impact the statements of operations: | | |
| Exchange rate variations on foreign investments | 44,032 | 12,112 |
| - Items that will not impact the statements of operations: | | |
| Actuarial loss on pension plans | (3,970) | (3,837) |
| Initial valuation adjustment on investment properties | - | 7,585 |
| COMPREHENSIVE INCOME FOR THE YEAR | (280,878) | 61,584 |
| ATTRIBUTABLE TO: | | |
| Owners of the Company | | |
| Continuing operations | (213,890) | (118,860) |
| Discontinued operations | (66,988) | 180,444 |
| | (280,878) | 61,584 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

## STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2019

(In thousands of Brazilian Reais)

| | Note | Capital | Capital reserve | Assets and liabilities valuation adjustments | Cumulative translation adjustments | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|---|
| BALANCES AS OF DECEMBER 31, 2018 | | 1,860,265 | 79,381 | 114,036 | (241,807) | (486,833) | 1,325,042 |
| Comprehensive income (loss): | | | | | | | |
| Net income for the year | | - | - | - | - | 45,724 | 45,724 |
| Exchange rate variations on foreign investments | 2.1.b | - | - | - | 18,069 | - | 18,069 |
| Exchange rate variations on discontinued investments | 2.1.b | - | - | - | (4,638) | - | (4,638) |
| Actuarial loss on pension plans | | - | - | (3,837) | - | - | (3,837) |
| Impact of subsidiaries- | | | | | | | |
| Exchange rate variations on foreign investments | 2.1.b | - | - | - | (1,319) | - | (1,319) |
| Initial valuation adjustment on investment properties | 9 | - | - | 7,585 | - | - | 7,585 |
| Total comprehensive income | | - | - | 3,748 | 12,112 | 45,724 | 61,584 |
| BALANCES AS OF DECEMBER 31, 2019 | | 1,860,265 | 79,381 | 117,784 | (229,695) | (441,109) | 1,386,626 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

(In thousands of Brazilian Reais)

| | Note | Capital | Capital reserve | Assets and liabilities valuation adjustments | Cumulative translation adjustments | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|---|
| BALANCES AS OF DECEMBER 31, 2019 | | 1,860,265 | 79,381 | 117,784 | (229,695) | (441,109) | 1,386,626 |
| Comprehensive income (loss): | | | | | | | |
| Net loss for the year | | - | - | - | - | (320,940) | (320,940) |
| Exchange rate variations on foreign investments | 2.1.b | - | - | - | 122,042 | - | 122,042 |
| Actuarial loss on pension plans | | - | - | (3,970) | - | - | (3,970) |
| Impact of subsidiaries- | | | | | | | |
| Exchange rate variations on foreign investments, net | 2.1.b | - | - | - | (78,010) | - | (78,010) |
| Total comprehensive income (loss) | | - | - | (3,970) | 44,032 | (320,940) | (280,878) |
| BALANCES AS OF DECEMBER 31, 2020 | | 1,860,265 | 79,381 | 113,814 | (185,663) | (762,049) | 1,105,748 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cash flows from operating activities | | | | |
| Net income (loss) for the year | (320,940) | 45,724 | (320,940) | 45,724 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | - | - | 94,051 | 94,537 |
| Equity in subsidiaries | 247,606 | 133,120 | - | - |
| Equity in subsidiaries – discontinued operations | 66,988 | (185,082) | 11,298 | 7,159 |
| Change in fair value of investment properties | - | - | (5,327) | (3,803) |
| Allowance for expected losses on doubtful accounts | - | - | 2,724 | 1,665 |
| Gain from the sale of discontinued operations | - | - | - | (272,971) |
| Income and social contribution taxes | - | - | 72,290 | 82,164 |
| Impairment adjustment on assets | - | - | 42,957 | (1,871) |
| Gain on disposal of property, plant and equipment | - | - | (1,568) | 11,203 |
| Renegotiation of leases | - | - | (5,722) | - |
| Monetary variations | - | - | 15,296 | 4,975 |
| Exchange rate variations | - | - | 29,582 | 30,683 |
| Bank charges, interests and commissions | 4,454 | 4,182 | 170,779 | 159,599 |
| Financial expenses – interest on leases | - | - | 13,898 | 28,754 |
| | (1,892) | (2,056) | 119,318 | 187,818 |
| Changes in assets and liabilities | | | | |
| Marketable securities | (1,671) | - | 105,369 | (16,403) |
| Accounts receivable | - | - | (31,727) | 4,341 |
| Inventories | - | - | (20,057) | (5,134) |
| Advances to suppliers | - | - | 55,591 | 1,313 |
| Recoverable taxes | 181 | (193) | 91,722 | 1,632 |
| Cash holdback amount | - | - | (7,346) | (25,393) |
| Suppliers | 17 | 5 | 44,759 | 32,290 |
| Others | 35 | 78 | 7,296 | (60,995) |
| Net cash provided by (used in) operating activities | (3,330) | (2,166) | 364,925 | 119,469 |
| Interest paid | (1,081) | (2,434) | (68,275) | (99,982) |
| Interest and charges paid on loans | (1,187) | (635) | (36,747) | (26,732) |
| Taxes received (paid) | - | - | (95) | 1,355 |
| Net cash provided by (used in) operating activities after interest and income taxes | (5,598) | (5,235) | 259,808 | (5,890) |
| Cash flows from investing activities | | | | |
| Investment properties | - | - | (855) | (5,679) |
| Property, plant and equipment | - | - | (68,701) | (88,752) |
| Intangibles | - | - | (670) | (125) |
| Proceeds from sale of fixed assets | - | - | 19,411 | 14,300 |
| Proceeds from sale of discontinued operations | - | - | - | 329,350 |
| Loans between related parties | (11,386) | (10,780) | (37,479) | (19,644) |
| Net cash provided by (used in) investing activities | (11,386) | (10,780) | (88,294) | 229,450 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cash flows from financing activities | | | | |
| Proceeds from new loans and debentures, net | 43,824 | 24,288 | 483,004 | 370,523 |
| Repayment of loans and debentures | (26,662) | (8,168) | (598,457) | (541,160) |
| Repayment of leases, net | - | - | (35,887) | (39,028) |
| Net cash provided by (used in) financing activities | 17,162 | 16,120 | (151,340) | (209,665) |
| Effect of exchange rate variations on cash and cash equivalents of foreign subsidiaries | - | - | (3,316) | (1,434) |
| Increase in cash and cash equivalents | 178 | 105 | 16,858 | 12,461 |
| Cash and cash equivalents: | | | | |
| At the beginning of the year | 154 | 49 | 151,935 | 139,474 |
| At the end of the year | 332 | 154 | 168,793 | 151,935 |
| Increase in cash and cash equivalents | 178 | 105 | 16,858 | 12,461 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| REVENUES | | | | |
| Sales of products, goods and services | - | - | 1,872,337 | 1,693,277 |
| Allowance for expected losses on doubtful accounts | - | - | (2,724) | (1,665) |
| Gain on disposal of property, plant and equipment and intangible | - | - | 1,568 | (11,203) |
| | - | - | 1,871,181 | 1,680,409 |
| MATERIALS ACQUIRED FROM THIRD PARTIES | | | | |
| Cost of goods and services sold | - | - | (692,341) | (648,051) |
| Materials, energy, third party services, and others | (2,348) | (1,739) | (522,043) | (398,480) |
| Impairment adjustment on assets | - | - | - | 1,871 |
| Change in fair value of investment properties | - | - | 5,327 | 3,803 |
| | (2,348) | (1,739) | (1,209,057) | (1,040,857) |
| GROSS VALUE ADDED | (2,348) | (1,739) | 662,124 | 639,552 |
| RETENTIONS | | | | |
| Depreciation and amortization | - | - | (94,051) | (92,696) |
| NET VALUE ADDED PRODUCED BY THE COMPANY | (2,348) | (1,739) | 568,073 | 546,856 |
| VALUE ADDED RECEIVED BY TRANSFER | | | | |
| Equity in subsidiaries | (247,606) | (133,120) | - | - |
| Equity in subsidiaries - discontinued operations | (66,988) | 185,082 | - | - |
| Financial income | 31 | 16 | 24,854 | 35,079 |
| Exchange rate variation | - | - | 15,585 | 52,855 |
| Royalties | - | - | 18,827 | 26,574 |
| Others - Net income - discontinued operations | - | - | (66,988) | 185,082 |
| | (314,563) | 51,978 | (7,722) | 299,590 |
| TOTAL VALUE ADDED FOR DISTRIBUTION (TO RETAIN) | (316,911) | 50,239 | 560,351 | 846,446 |
| DISTRIBUTION OF VALUE ADDED | | | | |
| Salary, wages and compensation | - | 79 | 334,594 | 333,800 |
| Taxes, duties and contributions | 736 | 769 | 320,675 | 180,958 |
| Payments to third parties | 3,293 | 3,667 | 226,022 | 285,964 |
| Net income (loss) for the year | (320,940) | 45,724 | (320,940) | 45,724 |
| VALUE ADDED DISTRIBUTED (RETAINED) | (316,911) | 50,239 | 560,351 | 846,446 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020

(Amounts in thousands of Brazilian Reais)

## 1. OPERATIONS

Springs Global Participações S.A. (the “Company”), headquartered at Avenida Lincoln Alves dos Santos, number 955, in Montes Claros – MG, Brazil, was incorporated on November 24, 2005. On January 24, 2006 received as capital contribution 100% of the shares of Coteminas S.A. (“CSA”) and Springs Global US, Inc. (“SGUS”), privately-held companies headquartered in Brazil and in the United States, respectively, whose shareholders were Companhia de Tecidos Norte de Minas – Coteminas (“CTNM”), the Company’s parent company, and the former shareholders of Springs Industries, Inc. (“SI”), respectively.

On April 30, 2009, the Company started its bed, tabletop and bath retail operations, under the brands MMartan and Casa Moyses and later, in October 2011, with the brand Artex. The retail operation of these brands is run by AMMO Varejo Ltda. (“AMMO”), which became an indirect subsidiary of the Company.

The Company has leading brands in their markets, such as MMartan, Casas Moysés, Artex, Santista, Paládio, Calfat, Garcia, Arco Íris, Magicolor, among others. The Company’s products have a privileged market standing on the shelves of the largest and most demanding retail channels of the world.

As disclosed in note 28 of the financial statements, on March 15, 2019, the sale of the operating assets and liabilities of the North American subsidiary SGUS was concluded. As of that date, the subsidiary SGUS holds an ownership interest in Keeco Holdings, LLC, which combined the operations of the two companies. In the fourth quarter of 2020, the subsidiary SGUS made this investment available for sale with the expectation of completion in 2021.

## 2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s Board of Directors on March 22, 2021.

The Company presents its individual (“Company”) and consolidated (“Consolidated”) financial statements, prepared, simultaneously, in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board ("IASB"), and accounting practices adopted in Brazil, which include the standards in the Brazilian Corporate Law and the pronouncements, orientations and interpretations issued by Brazilian Committee of Accounting Pronouncements (“CPC”), approved by the CVM (Brazilian Securities and Exchanges Commission) and the CFC (Federal Accounting Council).

The Company adopted all standards, review of standards and interpretations issued by the IASB and the CPC which were effective on December 31, 2020. All relevant information relating to the financial statements is included herein and corresponds to those used by Company’s management in its administration.

2.1 – Translation of balances in foreign currency

a) Functional and presentation currency

The financial statements of each subsidiary included in the consolidation of the Company and used as a basis for valuation of investments under the equity method are prepared using the functional currency of each entity. The functional currency of an entity is the currency of the primary economic environment in which it operates. To determine the functional currency of each of its subsidiaries, Management considered which currency significantly influences the selling price of their products and services, and the currency in which most of the production cost inputs are paid or incurred.

The consolidated financial statements are presented in Reais (R$), which is the functional and presentation currency of the Company.

b) Conversion of balances

The results and financial position of all subsidiaries included in the consolidation that have functional currencies different from the presentation currency are translated to the presentation currency as follows:

i) assets and liabilities are translated at the exchange rate prevailing on the date of the consolidated financial statements;

ii) income and expenses are translated at the monthly exchange rate; and

iii) all differences resulting from the translation are recognized in equity under the caption "Cumulative translation adjustments" and are presented as other comprehensive income in the statement of comprehensive income.

2.2 – Accounting policies

The significant accounting policies used in the preparation of the financial statements are as follows:

(a) Results of operations--Results of operations are calculated in accordance with the accrual basis of accounting. Revenue is not recognized if there is significant uncertainty regarding its realization. Interest income and expense are recognized using the effective interest rate as financial income and expenses in the statements of operations. The extraordinary gains and losses and the transactions and provisions involving property, plant and equipment are recorded in the statements of operations as "Others, net ".

(b) Financial instruments--The Company classifies financial assets and liabilities in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") and at amortized cost.

i) Non-derivative financial assets and liabilities - recognition and derecognition

The Company recognizes financial assets and liabilities when and only when it becomes part of the contractual provisions of the instruments. The Company derecognizes a financial asset when the contractual rights to the asset’s cash flows benefits expire, or when the Company transfers the rights to the receipt of contractual cash flows on a financial asset in a transaction in which substantially all the risks and benefits of ownership of the financial asset are transferred. Any participation that is created or retained by the Company in such transferred financial assets is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligation is withdrawn, canceled or expired.

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

ii) Non-derivative financial assets - measurement

A financial asset is measured at amortized cost if it meets both of the following conditions:

- the asset is kept within a business model with the purpose of collecting contractual cash flows; and

- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income only if it satisfies both of the following conditions:

- the asset is kept within a business model which the purpose is achieved by collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at initial recognition, the Company may irrevocably designate a financial asset or liability as measured at fair value through profit or loss in order to eliminate or significantly reduce a possible accounting mismatch resulting from the result of the respective asset or liability.

iii) Non-derivative financial liabilities - measurement

Financial instruments classified as liabilities, after their initial recognition at fair value, are measured based on the amortized cost method based on the effective interest rate. Interest, monetary restatement and exchange variation are recognized in income, as financial income or expenses, when incurred.

iv) Derivatives measured at fair value through profit or loss

Contracted derivative instruments are not designated for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the statement of operations.

(c) Impairment of financial instruments--Financial assets not classified as financial assets at fair value through profit or loss, are valued at each balance sheet date to determine whether there is objective evidence of impairment loss. Objective evidence that financial assets had a loss of value includes:

- default or delays by the debtor;
- restructuring of a value due to the Company under conditions that would not be accepted under normal conditions;
- indications that the debtor or issuer will go into bankruptcy or judicial recovery;
- negative changes in the payment situation of debtors or issuers;
- the disappearance of an active market for the instrument due to financial difficulties; or
- observable data indicating that there was a decline in the measurement of the expected cash flows of a group of financial assets.

The Company considers evidence of impairment of assets measured at amortized cost both individually and collectively. All individually significant assets are evaluated for impairment. Those that have not individually suffered a loss of value are then evaluated collectively for any loss of value that may have occurred, but has not yet been identified, which includes the expected credit losses. Assets that are not individually significant are evaluated collectively as to the loss of value based on the grouping of assets with similar risk characteristics.

In evaluating the impairment loss on a collective basis, the Company uses historical trends of the recovery period and the amounts of loss incurred, adjusted to reflect management's judgment as to whether current economic and credit conditions are such that losses are likely to be higher or lower than those suggested by historical trends.

An impairment loss is calculated as the difference between the book value and the present value of the estimated future cash flows discounted at the original effective interest rate of the asset. Losses are recognized in the statement of operations and reflected in the impairment provision account. When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. When a subsequent event indicates a reduction of the impairment loss, the reduction of the impairment provision is reversed through the statement of operations.

An impairment loss relating to an investment accounted for under the equity method is measured by comparing the recoverable value of the investment with its carrying amount. An impairment loss is recognized in profit or loss and reversed if there was a favorable change in the estimates used to determine recoverable value.

(d) Cash and cash equivalents--Includes cash, deposits, cash in transit and short-term investments with immediate liquidity and original maturities of 90 days or less (or without fixed maturity), which are subject to an insignificant risk of change in its value. Cash and cash equivalents are classified as non-derivative financial assets, measured at amortized cost, and interest earned is recognized in the statements of operations of the year.

(e) Marketable securities--Represented by amounts of immediate liquidity with maturities of more than 90 days and are subject to an insignificant risk of change in their value. The marketable securities relating to investment funds in equity instruments are classified as non-derivative financial assets, and are measured fair value through the statement of operations. All other marketable securities are classified as non-derivative financial assets measured at amortized cost and interest earned is recognized in the statements of operations of the year.

(f) Accounts receivable and allowance for expected losses on doubtful debt accounts--Accounts receivable from customers are initially recognized at transaction value and subsequently measured at amortized cost using the effective interest rate method less the estimated loss with doubtful accounts. The Company adopted the measurement of the estimated loss with doubtful accounts based on the entire life of the instruments, using the simplified approach, taking into account the history of movements and historical losses. As a general rule, accounts overdue at more than 180 days represent a relevant indicator of expected loss, and are evaluated individually.

(g) Inventories--Valued at average acquisition or production cost, which is lower than net realizable value and are stated net of provision for losses on discontinued and/or obsolete items. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion of manufacturing and directly related selling expenses.

(h) Property, plant and equipment held for sale--Includes out-of-use machinery and equipment measured at fair value less selling expenses, when this amount is lower than net book value.

(i) Investments--Investments in subsidiaries and affiliated companies are accounted for using the equity method based on the balance sheet of the respective subsidiaries and affiliated companies as of the same date as the Company's balance sheet. The value of the equity of foreign subsidiaries and affiliated companies are converted into Reais based on the current rate of its functional currency and the foreign exchange rate variation is recorded in "Cumulative translation adjustments" in equity and presented as other comprehensive income.

(j) Business combinations--The cost of the acquired entity is allocated to the acquired assets and liabilities, based on their estimated fair value at the acquisition date. Any difference between the entity's cost and the fair value of the acquired assets and liabilities is recognized as goodwill.

(k) Research and development expenses--Are recognized as expenses when incurred, except when they meet the criteria for capitalization.

(l) Investment properties--Are held for income or capital appreciation. Investment properties are initially recorded at cost and include transaction costs. After initial recognition, investment properties are measured at fair value against comprehensive income (loss) net of taxes, and thereafter, are measured annually at fair value and the variations arising from this valuation and taxes are recognized in the statements of operations.

(m) Property, plant and equipment--Recorded at acquisition or construction cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. Expenses incurred that increase the value and extend the estimated useful lives of the assets are capitalized; maintenance and repairs are recorded as expenses when incurred.

The estimated useful life of property, plant and equipment is as follows:

| | Useful life |
|---|---|
| Buildings | 40 years |
| Installations | 15 years |
| Machinery and equipment | 15 years |
| Hydroelectric Plant - Porto Estrela | 35 years |
| Furniture, fixtures and others | 5 to 10 years |

The residual value and useful life of the assets are assessed by Management at least at the end of each year.

(n) Right-of-use assets--The measurement of the right-of-use asset corresponds to the beginning balance of the lease liability plus the initial direct costs incurred. Amortization is calculated using the straight-line method according to the remaining term of the contracts.

(o) Intangible assets--Represented by trademarks acquired, store locations, intellectual property and goodwill on companies acquired. Intangible assets with finite useful lives are amortized using the straight-line method, over their estimated useful lives. Intangible assets with indefinite useful lives are tested for impairment annually, or as deemed necessary, in order to determine the recoverability of their net book values.

(p) Impairment of non-financial assets--Assets included in property, plant and equipment, intangible assets, inventories and other current and noncurrent assets are tested for impairment annually, or when circumstances indicate that the net book value may not be recoverable. When impairment is required, it is recognized in the statements of operations. Previous period impairment losses on these assets may be reversed whenever there is an assessment or reliable evidence that the value of the asset has recovered (except for goodwill from investments). The reversal is recognized in the statement of operations to the extent it does not exceed the previously recognized impairment losses.

(q) Income and social contribution taxes--The provision for income and social contribution taxes is calculated at the rate of approximately 34% on taxable income and is recognized net of the portion related to the income tax exemption. The accrual balance is net of prepayments made during the year, if applicable. For foreign subsidiaries, the tax rate ranges from 24% to 35%, according to the tax legislation of each country.

(r) Deferred income and social contribution taxes--Deferred income and social contribution taxes are recognized on net operating losses and temporary differences arising from provisions stated in the accounting records, which, according to the tax rules, will only be considered deductible or taxable when realized. A deferred tax asset is recognized only when there is an expectation of future taxable income.

(s) Leases payable--The measurement of lease liabilities correspond to total future rent payments. These payment flows are adjusted to present value, considering the incremental borrowing rate, and when applicable, are adjusted by changes and updates provided for in the contracts. The offset entry is accounted for as a right-of-use asset and amortized over the period of the lease under the straight-line method. Financial charges are recognized as financial expense and are appropriated according to the remaining term of the contracts. The incremental borrowing rate corresponds to the interest rate that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

(t) Miscellaneous accruals--Recorded at an amount considered sufficient by Management to cover probable losses. The escrow deposits related to the accruals are presented in noncurrent assets.

(u) Employee benefit plans--Pension plans and postretirement benefit costs are recognized on an accrual basis, based on actuarial calculations. Actuarial gains and losses are recognized in “Assets and liabilities valuation adjustment” when incurred.

(v) Basic and diluted earnings (loss) per share--Basic earnings (loss) per share is calculated by dividing the income or loss for the year attributable to the Company’s shareholders by the weighted average number of outstanding shares. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of outstanding shares assuming conversion of potential shares to be issued. The Company did not identify any potential issuance of new shares and, therefore, a potential dilution in earnings (loss) per share.

(w) Monetary and exchange rate variations--Assets and liabilities subject to monetary or exchange rate variations are restated on the balance sheet dates, in accordance with the Brazilian Central Bank (BACEN) published rates or other contractual indices. Exchange gains and losses and monetary variations are recognized in the statements of operations for the year, except for the exchange gains and losses on investments in foreign subsidiary, which are recognized in “Cumulative translation adjustments” in equity.

(x) Revenue recognition--Revenue is measured at value of the consideration received or receivable, less any estimates of returns, cash discounts and/or trade discounts given to the buyer and other similar deductions. Revenue from operations is recognized when control is transferred, which is at the time of delivery to the customer.

(y) Statements of Value Added ("DVA")--The purpose of these statements is to highlight the wealth created by the Company and its distribution over a given year. They are presented by the Company as required by the Brazilian Corporate Law, as part of its individual financial statements and as supplemental information for the consolidated financial statements, since it is not a statement provided nor required by IFRS standards. The DVAs have been prepared based on information obtained from accounting records that are the basis for the preparation of the financial statements.

2.3 – Accounting estimates

The preparation of financial statements makes use of estimates in order to record certain assets, liabilities and other transactions. To make these estimates, Management used the best information available at the time of preparation of the financial statements, as well as the experience of past and/or current events, also considering estimates regarding future events. Therefore, the financial statements mainly include estimates related to the recovery value of financial assets (notes 2.2.c, No. 5 and No. 7), determination of useful lives of property, plant and equipment (notes 2.2.m and No. 10), estimated recoverable value of non-financial assets (notes 2.2.p, No. 6, No. 10, No. 11 and No. 12), fair value of investment properties (notes 2.2.l and No. 9), provisions necessary for tax, civil and labor liabilities (notes 2.2.t and No. 19), determination of provisions for income tax (notes 2.2.q and No. 18), determination of fair value of financial instruments (assets and liabilities) (notes 2.2.b and No. 23) and other similar instruments, estimates related to the selection of interest rate (note 23.d.5), expected return on assets and the choice of mortality table and expected wage increases applied to the actuarial calculations (notes 2.2.u and No. 20). Actual results of transactions and information could differ from the estimates.

In accordance with Circular Letters Instructions issued by CVM, as well as taking into account the economic scenario and the risks and uncertainties arising from the impacts of COVID-19, we reviewed our accounting estimates listed above and mentioned our assessments in the respective notes, if applicable, in addition, we listed the impacts identified during 2020 due to this new economic reality in note 30.

2.4 – Consolidation criteria

The consolidated financial statements include the accounts of the Company and its subsidiaries CSA and SGUS, of which it owns directly and indirectly 100% of the capital.

The subsidiary CSA, parent company of Coteminas Argentina S.A., da AMMO Varejo Ltda., LAT Capital Ltd., C7S Tecnologia Ltda. and Compañia Textil Guaraní S.R.L., with ownership interest of 100%, was included in consolidation based on its consolidated financial statements.

The subsidiary SGUS, parent company of: (i) Warbird Corporation (Delaware, US); (ii) Springs Home Textiles Reynosa, S.A. de C.V. (Mexico); (iii) Casa Springs S.A. de C.V. (Mexico); (iv) Springmaid International, Inc. (India), all wholly-owned, was included in consolidation based on its consolidated financial statements.

The consolidation of the balance sheets and statement of operations accounts corresponds to the sum of assets, liabilities, revenues and expenses, according to their nature, after eliminating investments in subsidiaries, unrealized profits or losses and intercompany balances.

The effects of the exchange rate variations on foreign investments and equity valuation adjustments are disclosed in a separate caption in the statement of changes in equity, “Cumulative translation adjustments” and “Assets and liabilities valuation adjustments” respectively, and are recognized in the statement of operations upon the sale of the investments that gave rise to them. The accounting practices of the foreign subsidiaries were adjusted to comply with the Company’s accounting practices.

The financial statements of foreign subsidiaries have been translated into Brazilian Reais based on the US Dollar exchange rate as of December 31, 2020 and 2019 for balance sheet accounts and the average monthly exchange rate for statement of operations accounts, as follows:

| | 2020 | 2019 | Variance % |
|---|---|---|---|
| Exchange rate as of: | | | |
| December 31 | 5.1967 | 4.0307 | 28.9% |
| | | | |
| Average exchange rate: | | | |
| December 31 (12 months) | 5.2426 | 3.9443 | 32.9% |

2.5 – New IFRS, revised IFRS and IFRIC interpretations (IASB International Financial Reporting Interpretations Committee).

a) The IASB accounting pronouncements listed below were published and/or revised and are applicable for the annual periods beginning on or after January 1, 2019.

   AMENDMENT CPC 06 R2 (IFRS 16) - Leasing operations

   In May 2020, the IASB approved an amendment to the IFRS 16 standard, which allows rent concessions for lessees to be recognized directly in the statement of operations, during the period impacted by the Covid-19 pandemic, without treating such concessions as lease modifications. On July 7, 2020, the CVM published Resolution No. 859/2020 that approves the revision of CPC 06 (R2) / IFRS 16 that came into effect as of January 1, 2020.

   See note 17.

## 3. CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Repurchase transactions (*) | 68 | - | 122,947 | 123,671 |
| Foreign exchange funds | - | - | 62 | - |
| Foreign deposits | - | - | 38,956 | 25,253 |
| Checking accounts deposits | 264 | 154 | 6,828 | 3,011 |
| | ----------- | ----------- | ------------ | ------------ |
| | 332 | 154 | 168,793 | 151,935 |
| | ====== | ====== | ======= | ======= |

(*) Income from financial investments ranges from 90% to 100% of the rates earned on Interbank Deposit Certificates - CDI.

## 4. MARKETABLE SECURITIES

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Fixed income – foreign | - | 16,225 |
| Investment fund – foreign | 15,792 | 35,713 |
| Restricted deposits (US$) (1) | - | 71,010 |
| Restricted cash (2) | 2,190 | 403 |
| | --------- | --------- |
| | 17,982 | 123,351 |
| Current | (16,311) | (52,341) |
| | --------- | --------- |
| Noncurrent | 1,671 | 71,010 |
| | ===== | ===== |

(1) Refers to foreign deposits, linked to the loan obtained from Santander S.A. The amount was withdrawn in 2020 with the repayment of the respective loan.

(2) On December 31, 2020, the Company had R$1,671 of restricted cash in financial institutions, and subsidiary SGUS had restricted cash of R$519, equivalent to US$100 thousand (US$100 thousand as of December 31, 2019) related to a compensating balance arrangement.

5. ACCOUNTS RECEIVABLE

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Domestic customers | 488,445 | 454,861 |
| Foreign customers | 27,704 | 49,477 |
| Credit card companies | 12,847 | 7,485 |
| Related parties – domestic market | 4,182 | 1,871 |
| Related parties – foreign market | 2,918 | - |
| | ----------- | ----------- |
| | 536,096 | 513,694 |
| Allowance for expected losses on bad debts | (27,010) | (25,872) |
| | ----------- | ----------- |
| | 509,086 | 487,822 |
| | ====== | ====== |

Accounts receivable from customers consist of receivables with an average collection period of approximately 98 days (100 days as of December 31, 2019). Past due amounts are presented below and the allowance for expected losses on doubtful debts accounts is considered by Management sufficient to cover expected losses from these receivables.

The aging list of the consolidated accounts receivable is as follows:

| | 2020 | 2019 |
|---|---|---|
| Current | 469,033 | 450,650 |
| Past due up to 30 days | 9,536 | 10,227 |
| Past due from 31 to 60 days | 2,399 | 1,521 |
| Past due from 61 to 90 days | 440 | 529 |
| Past due from 91 to 180 days | 2,857 | 1,768 |
| Past due greater than 180 days | 51,831 | 48,999 |
| | ------------- | ------------- |
| | 536,096 | 513,694 |
| | ======= | ======= |

Changes in the consolidated allowance for doubtful accounts are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | (25,872) | (24,354) |
| Additions | (597) | (1,665) |
| Exchange rate variation | (541) | 147 |
| | ------------- | ------------- |
| Balance at the end of the year | (27,010) | (25,872) |
| | ======= | ======= |

6. INVENTORIES AND ADVANCES TO SUPPLIERS

a. Inventories

| Consolidated | |
|---|---|
| 2020 | 2019 |

| | | |
|---|---|---|
| Raw materials and supplies | 84,629 | 80,204 |
| Work in process | 129,705 | 95,391 |
| Finished products | 151,320 | 172,943 |
| Repair parts | 38,015 | 36,897 |
| | ------------ | ------------ |
| | 403,669 | 385,435 |
| | ======= | ======= |

Inventories are presented net of the provision for losses. Operating subsidiaries assess the realization of inventories annually or whenever there are indications of probable losses.

The inventory groups of raw materials and supplies and work in process have a low risk of loss, since the conversion into finished products can be managed. The finished products inventory group is evaluated based on its profitability, especially inventories considered to be discontinued and obsolete.

As of December 31, 2020, no additional potential losses were identified in realizing these inventories. Idle costs (including loss resulting from COVID-19) are recognized directly in the income statement for the year and are not considered in the production cost of the finished goods produced.

Changes in the provision are as follows:

| | 2019 | (Additions) Disposals | Exchange rate variations | 2020 |
|---|---|---|---|---|
| Raw materials and supplies | (1,667) | (795) | 211 | (2,251) |
| Work in process | (102) | 107 | (5) | - |
| Finished products | (3) | (22) | 2 | (23) |
| Repair parts | (1,171) | 286 | - | (885) |
| | ------------- | ---------- | ---------- | ---------- |
| | (2,943) | (424) | 208 | (3,159) |
| | ====== | ====== | ====== | ====== |

| | 2018 | (Additions) Disposals | Exchange rate variations | 2019 |
|---|---|---|---|---|
| Raw materials and supplies | (2,446) | 50 | 729 | (1,667) |
| Work in process | (186) | 29 | 55 | (102) |
| Finished products | (5) | - | 2 | (3) |
| Repair parts | (1,203) | 32 | - | (1,171) |
| | ------------- | ---------- | ---------- | ---------- |
| | (3,840) | 111 | 786 | (2,943) |
| | ====== | ====== | ====== | ====== |

b. Advances to suppliers

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Raw material supplier | 18,900 | 78,000 |
| Other advances | 34,729 | 31,221 |
| | ----------- | ----------- |
| | 53,629 | 109,221 |
| | (11,575) | (43,040) |
| Current | ----------- | ----------- |
| Noncurrent | 42,054 | 66,181 |
| | ====== | ====== |

## 7. RECEIVABLE – CLIENTS

| | Consolidated 2020 | Consolidated 2019 |
|---|---|---|
| Clients in judicial reorganization (a) | 11,389 | 11,317 |
| Clients in court recovery plan (b) | 1,469 | 3,599 |
| Installment plan agreed with clients (c) | 4,301 | 4,921 |
| Financing on stores transfer (d) | 3,208 | 2,731 |
| Sale of real estates (e) | 16,165 | 13,141 |
| Others | 914 | 857 |
| | 37,446 | 36,566 |
| Current (*) | (12,275) | (12,598) |
| Noncurrent | 25,171 | 23,968 |

(*) Included in “Other Receivables” in current assets.

(a) Lojas Leader S.A. filed for Judicial Reorganization (RJ) on March 3, 2020, which was deferred on March 6, 2020. Leader recognized all credits with subsidiary CSA. The management of subsidiary CSA is awaiting approval by RJ and expects to recover all credits. As of December 31, 2019, there was an extrajudicial recovery agreement with payment in 48 equal monthly installments, and a rate equivalent to 80% of the interbank deposit certificate index – CDI, and it was complied with regularly.

(b) Increasing semi-annual payments with interest from 0.5% to 3% per year with final maturity in December 2027. On December 31, 2020 a provision for loss in the amount of R$2,127 was recognized.

(c) Payment up to 47 fixed installments, with monthly interest from 1.56% to 1.97% per month.

(d) Financing on store transfers to franchisees, with payment in equal monthly installments, and adjusted based on the IGP-M (general market price index).

(e) Payment up to 50 monthly installments with interest from 0.5% to 0.7% per month, and adjusted based on the IGP-M (general market price index).

Considering the information subsequent to  December 31, 2020, up to the issuance date of the financial statements, no additional losses were identified.

## 8. INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANY

a) Direct investments:

| Subsidiaries | Equity | Ownership interest % | Net income (loss) for the year | Total investment 2020 | Total investment 2019 | Equity in subsidiaries (Company) 2020 | Equity in subsidiaries (Company) 2019 |
|---|---|---|---|---|---|---|---|
| SGUS (*) | 385,394 | 100.0 | (155,579) | 385,394 | 422,901 | (88,591) | (23,267) |
| CSA | 760,651 | 100.0 | (159,015) | 760,651 | 997,676 | (159,015) | (109,853) |
| | | | | ------------- | ------------- | ------------- | ------------- |
| | | | | 1,146,045 | 1,420,577 | (247,606) | (133,120) |
| | | | | ======== | ======== | ======== | ======= |

(*) The net income (loss) for 2020 does not include the discontinued portion of the equity in subsidiaries in the statement of operations of R$66,988 (R$185,082 in 2019). See note 28.

b) Indirect investments:

SGUS' investments

| Affiliate | Equity | Ownership interest % | Total investment 2020 | Total investment 2019 | Equity in subsidiaries 2020 | Equity in subsidiaries 2019 |
|---|---|---|---|---|---|---|
| Keeco Holdings, LLC (California, US) (1) | 29,667 | 14.27 | - | 137,946 | - | - |
| | | | ======== | ======== | ======== | ======= |

(1) On March 15, 2019, the subsidiary SGUS became the holder of 17.5% of Keeco Holdings, LLC, which combines its operations with the operations sold by SGUS. Keeco Holdings, LLC, is a company with a portfolio of leading products and brands in the curtain, utility bedding, and decorative bedding markets, as well as a diversified portfolio of customers, including the leading traditional and digital retail companies in the North American market. In the first quarter of 2020, the purchase price allocation of this investment was determined, allowing the subsidiary SGUS to calculate the goodwill paid for the investment. See note 12.2. In May 2020, a new capital contribution was made to affiliate Keeco, with the entry of a new shareholder. Accordingly, as of that date, the subsidiary holds 14.27% of that affiliate.

In the fourth quarter of 2020, the subsidiary SGUS made this investment available for sale with the expectation of completion in 2021, and therefore reclassified the investment to the line "Assets held for sale". The equity losses of this investment in the years 2020 and 2019 were reclassified to the line "Net income (loss) from subsidiary - discontinued operations". See note 28.

CSA's investment

| | Equity | Ownership interest % | Net income (loss) for the year | Total investment 2020 | Total investment 2019 | Equity in subsidiaries 2020 | Equity in subsidiaries 2019 |
|---|---|---|---|---|---|---|---|
| Subsidiaries - | | | | | | | |
| Coteminas Argentina S.A. (1) | 62,850 | 100.0 | (4,452) | 62,850 | 21,636 | (4,452) | (20,717) |
| LAT Capital Ltd. | 13,175 | 100.0 | 1,223 | 13,175 | 9,219 | 1,223 | 6,048 |
| C7S Tecnologia Ltda. (2) | 24,734 | 100.0 | (1,574) | 24,734 | 19,238 | (1,574) | 709 |
| AMMO Varejo Ltda. (3) | 112,072 | 100.0 | (49,605) | 139,375 | 159,703 | (49,605) | (9,784) |
| Compañía Textil Guaraní S.R.L. (4) | 4,449 | 100.0 | (2,739) | 4,449 | 3,008 | (2,739) | - |
| | | | | ---------- | ---------- | ---------- | ---------- |
| | | | | 244,583 | 212,804 | (57,147) | (23,744) |
| | | | | ====== | ====== | ====== | ====== |

(1) In 2020, the subsidiary CSA subscribed and paid-in capital in the indirect subsidiary in the amount of R$38,347.

(2) In 2020, the subsidiary CSA subscribed and paid-in capital in the indirect subsidiary in the amount of R$7,070.

(3) In 2020, the subsidiary CSA subscribed and paid-in capital in the indirect subsidiary in the amount of R$29,277. As of December 31, 2020, the investment balance includes goodwill on the acquisition of the investment, in the amount of R$27,303, for disclosure purposes in CSA's financial statements (AMMO's parent company).

(4) Textil Guarani is headquartered in Paraguay. During 2020, the subsidiary CSA subscribed and paid-in capital in the indirect subsidiary in the amount of R$3,701.

c) Supplemental information on investments in affiliated company:

| | Keeco Holdings, LLC | |
|---|---|---|
| | 2020 | 2019 |
| Current assets | 1,501,859 | 1,061,992 |
| Noncurrent assets | 1,041,901 | 1,464,611 |
| Total assets | 2,543,760 | 2,526,603 |
| Current liabilities | 1,482,808 | 1,064,559 |
| Noncurrent liabilities | 1,031,285 | 763,856 |
| Total liabilities | 2,514,093 | 1,828,415 |
| Equity – Company | 29,667 | 698,188 |
| Net revenues | 3,981,023 | 2,695,121 |
| Loss for the year – Company | (127,878) | (40,910) |

d) Changes in investments in subsidiaries and affiliate:

| | 2019 | Equity | Exchange rate variations on foreign investments (1) | Assets and liabilities valuation adjustments | Goodwill allocation (2) | Assets held for sale | 2020 |
|---|---|---|---|---|---|---|---|
| Subsidiaries | | | | | | | |
| SGUS | 422,901 | (155,579) | 122,042 | (3,970) | - | - | 385,394 |
| CSA | 997,676 | (159,015) | (78,010) | - | - | - | 760,651 |
| | 1,420,577 | (314,594) | 44,032 | (3,970) | - | - | 1,146,045 |
| Affiliate | | | | | | | |
| Keeco Holdings, LLC | 137,946 | (11,298) | 10,488 | - | (101,985) | (35,151) | - |

| | 2018 | Equity | Exchange rate variations on foreign investments | Assets and liabilities valuation adjustments | Investment addition (disposal) (3) and (4) | Discontinued operations (5) | 2019 |
|---|---|---|---|---|---|---|---|
| <u>Subsidiaries</u> | | | | | | | |
| SGUS | 251,491 | (23,267) | 18,070 | (3,837) | - | 180,444 | 422,901 |
| CSA | 1,101,263 | (109,853) | (1,319) | 7,585 | - | - | 997,676 |
| AMMO | 30,432 | - | - | - | (30,432) | - | - |
| | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- | ------------- |
| | 1,383,186 | (133,120) | 16,751 | 3,748 | (30,432) | 180,444 | 1,420,577 |
| | ======== | ======== | ======== | ======== | ======== | ======== | ======== |
| <u>Affiliate</u> | | | | | | | |
| Keeco Holdings, LLC | - | (7,159) | 4,824 | - | 140,281 | - | 137,946 |
| | ======== | ======== | ======== | ======== | ======== | ======== | ======== |

(1) Exchange rate variations effect on net investments. See note 23.d.3.1.

(2) Goodwill allocation in the amount equivalent to US$25,302 thousand. See note 12.2.

(3) On January 1, 2019, CSA acquired from the Company all the shares representing the capital stock of AMMO Varejo Ltda., which became an indirect subsidiary of the Company.

(4) On March 15, 2019, the subsidiary SGUS became the holder of interest in Keeco Holdings, LLC, which combined its operations with the operations sold by SGUS. See note 28.

(5) Amount related to equity in the amount of R$185,082, less exchange rate variations on investment in the amount of R$4,638, from subsidiary discontinued operations. See note 28.

9. INVESTMENT PROPERTIES

The consolidated balances of investment properties are as follows:

| | Investment properties São Gonçalo | | Investment | |
|---|---|---|---|---|
| | Business complex (1) | Residential complex (2) | Properties Montes Claros (3) | Total |
| Balances as of December 31, 2018 | 248,251 | 44,296 | 55,276 | 347,823 |
| Additions | 5,679 | - | - | 5,679 |
| Disposals, net | - | - | (3,574) | (3,574) |
| Transfer from assets held for sale | 276 | - | - | 276 |
| Transfer from PP&E | 41,264 | - | - | 41,264 |
| Surplus/added value (equity) (a) | 11,493 | - | - | 11,493 |
| Change in fair value (P&L) (b) | (5,413) | 678 | 8,538 | 3,803 |
| | ---------- | ------------ | ---------- | ------------ |
| Balances as of December 31, 2019 | 301,550 | 44,974 | 60,240 | 406,764 |
| Additions | 855 | - | - | 855 |
| Disposals (cost) | - | - | (11,842) | (11,842) |
| Disposals (change in fair value) | - | - | 3,942 | 3,942 |
| Change in fair value (P&L) (b) | 3,831 | 60 | 1,436 | 5,327 |
| | ---------- | ------------ | ---------- | ------------ |
| Balances as of December 31, 2020 | 306,236 | 45,034 | 53,776 | 405,046 |
| | ====== | ====== | ====== | ====== |

(a) Values recorded in assets and liabilities valuation adjustments, in shareholders' equity, net of taxes.
(b) Amounts recognized in the statement of operations in the respective year.

Assessments made by specialists in real estate appraisals to determine the fair value of all properties, and the positive difference between the residual cost of the property and the fair value calculated, net of tax effects, was recorded under "Other comprehensive income", in the category of items that will not affect the statements of operations in the case of an initial evaluation at fair value, and in the statements of operations when the fair value variation is verified as of the second measurement.

(1) Business complex: It is a commercial complex of 319.7 thousand m², known as Centro Comercial Seridó, where 122.2 thousand m² have already been developed and leased. During 2020, rental income was R$8,908 (R$7,676 in 2019).

With the designation of this property for rental activity and with specific returns different from the subsidiary CSA's textile operations, its residual value, previously recorded as property, plant and equipment at cost, was transferred to the investment properties, during their respective vacancy years.

The calculated values were as follows:

| | 2020 | 2019 |
|---|---|---|
| Residual cost of the property | 110,562 | 109,707 |
| Surplus/added value (a) | 195,674 | 191,843 |
| | ---------- | ---------- |
| Fair value (b) | 306,236 | 301,550 |
| | ======= | ======= |

(a) Calculated deferred tax liability of R$65,529 (R$65,227 on December 31, 2019). See note 18.b.1.

(b) Fair value based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the respective years. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of the real estate.

(2) Residential complex: In 2018, the subsidiary CSA made available a new area in the municipality of São Gonçalo do Amarante - RN containing 520 thousand m² to start a housing development. The calculated values were as follows:

| | 2020 | 2019 |
|---|---|---|
| Residual cost of the property | 93 | 93 |
| Surplus/added value (a) | 44,941 | 44,881 |
| | ---------- | ---------- |
| Fair value (b) | 45,034 | 44,974 |
| | ======= | ======= |

(a) Deferred tax liability of R$15,280 (R$15,259 on December 31, 2019). See note 18.b.1.

(b) Fair value based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the respective years. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of real estate.

(3) Investment property Montes Claros: These properties are classified as properties for investment by the subsidiary CSA and are composed as follows:

| | 2020 | 2019 |
|---|---|---|
| Land and installations (old MECA ) (44,402 m²) | 30,304 | 30,270 |
| Land of the ESURB behind CODEVASF (2,770 m²) | 4,240 | 3,750 |
| Land of the ESURB Santa Rita II neighborhood (11,700 m²) | 4,752 | 4,200 |
| Land in Ibituruna (11,842 m²) | - | 7,900 |
| Land new municipality region (72,491 m²) | 14,480 | 14,120 |
| | 53,776 | 60,240 |
| Residual cost of the properties | 39,860 | 51,702 |
| Surplus/added value (a) | 13,916 | 8,538 |
| Fair value (b) | 53,776 | 60,240 |

(a) Calculated deferred tax liability of R$4,731 (R$2,903 on December 31, 2019). See note 18.b.1.

(b) Fair value based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the respective years. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of the real estate.

## 10. PROPERTY, PLANT AND EQUIPMENT AND PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

### a. Property, plant and equipment

| | | 2020 | | | 2019 |
|---|---|---|---|---|---|
| | Rate (*) % | Cost | Accumulated depreciation | Net book value | Net book value |
| Land and improvements | 3.2 | 48,598 | (22,242) | 26,356 | 25,133 |
| Buildings | 2.4 | 348,818 | (161,269) | 187,549 | 192,423 |
| Installations | 5.6 | 204,812 | (157,125) | 47,687 | 48,446 |
| Machinery and equipment | 6.7 | 1,149,213 | (889,795) | 259,418 | 245,869 |
| Hydroelectric Plant - Porto Estrela (**) | 3.8 | 37,666 | (20,894) | 16,772 | 18,208 |
| Furniture, fixtures and others | 8.7 | 152,572 | (124,228) | 28,344 | 20,411 |
| Construction in progress | - | 69,287 | - | 69,287 | 67,978 |
| | | 2,010,966 | (1,375,553) | 635,413 | 618,468 |

(*) Weighted average annual depreciation rate.
(**) See note 16.

Considering the operating profitability and cash generation, including the impacts of COVID-19, the Company and its subsidiaries did not identify evidence of deterioration or non-recovery of balances held as property, plant and equipment.

The changes in consolidated property, plant and equipment are as follows:

| | Land and improvements | Buildings | Installations | Machinery and equipment | Hydroelectric plant - Porto Estrela (1) | Furniture, fixtures and others | Construction in progress (2) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2019 | 25,133 | 192,423 | 48,446 | 245,869 | 18,208 | 20,411 | 67,978 | 618,468 |
| Additions | 816 | 27 | 926 | 29,440 | - | 3,343 | 34,149 | 68,701 |
| Net disposals | (205) | (6) | (323) | (1,032) | - | (232) | (632) | (2,430) |
| Transfers | | | | | | | | |
| - PP&E | - | 982 | 4,904 | 26,991 | - | 545 | (33,422) | - |
| - Assets held for sale | - | - | - | (3,271) | - | - | - | (3,271) |
| - Assets received in lending | - | - | - | - | - | 9,667 | - | 9,667 |
| - Assets provided in lending | - | - | - | (640) | - | 640 | - | - |
| Exchange rate variations | 1,909 | 2,356 | 913 | 2,495 | - | 127 | 1,214 | 9,014 |
| Depreciation in the year | (1,620) | (8,233) | (7,216) | (40,439) | (1,436) | (6,302) | - | (65,246) |
| Impairment adjustment (3) | 323 | - | 37 | 5 | - | 145 | - | 510 |
| | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance as of December 31, 2020 | 26,356 | 187,549 | 47,687 | 259,418 | 16,772 | 28,344 | 69,287 | 635,413 |
| | ======= | ======= | ======= | ======= | ======= | ======= | ======= | ======= |

| | Land and improvements | Buildings | Installations | Machinery and equipment | Hydroelectric plant - Porto Estrela (1) | Furniture, fixtures and others | Construction in progress (2) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | 25,490 | 216,271 | 58,683 | 282,875 | 19,610 | 24,315 | 21,937 | 649,181 |
| Additions | 1,304 | 45 | 450 | 13,631 | 32 | 2,203 | 71,087 | 88,752 |
| Net disposals | (52) | - | (7) | - | - | - | (19) | (78) |
| Transfers | | | | | | | | |
| - PP&E | 75 | 325 | 5,085 | 12,741 | - | 273 | (18,499) | - |
| - Investment properties | (580) | (4,927) | (7,439) | (21,745) | - | (101) | (6,472) | (41,264) |
| - Assets held for sale | - | (10,999) | - | (111) | - | (65) | - | (11,175) |
| Exchange rate variations | 64 | 512 | 25 | 122 | - | 20 | (56) | 687 |
| Depreciation in the year | (1,610) | (8,804) | (8,394) | (41,659) | (1,434) | (5,214) | - | (67,115) |
| Impairment adjustment (3) | 442 | - | 43 | 15 | - | (1,020) | - | (520) |
| | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance as of December 31, 2019 | 25,133 | 192,423 | 48,446 | 245,869 | 18,208 | 20,411 | 67,978 | 618,468 |
| | ======= | ======= | ======= | ======= | ======= | ======= | ======= | ======= |

(1) See note 16.

(2) Construction in progress primarily corresponds to modernization of machinery and equipment.

(3) The Company annually assesses the recoverability of property, plant and equipment, considering cash flow for the period of 5 years. In 2019, the consolidated fixed assets are reduced by a provision for loss in the amount of R$4,793 (R$5,303 as of December 31, 2018).

b. Property, plant and equipment held for sale

The Company's subsidiaries identified assets that were removed from operations and considered held for sale. These assets include machinery and equipment removed as a result of the modernization of the Brazilian subsidiary manufacturing facilities and machinery and equipment from the American subsidiary manufacturing facilities that were shut down. Additionally, the equipment available for sale from the readjustment of productive capacities was also included in this category. These assets were measured at the lower of the net book value or market value, resulting in the recognition of probable impairment losses (reduction of recoverable value).

Changes in property, plant and equipment held for sale are as follows:

| | 2019 | Additions | Disposals | Exchange rate variations | Transfer from PP&E | 2020 |
|---|---|---|---|---|---|---|
| Cost | 396,489 | 652 | (53,829) | 97,221 | 12,699 | 453,232 |
| Depreciation | (334,561) | (486) | 40,055 | (84,173) | (9,428) | (388,593) |
| Provision for loss | (37,507) | (1,951) | 1,264 | (9,720) | - | (47,914) |
| | 24,421 | (1,785) | (12,510) | 3,328 | 3,271 | 16,725 |

| | 2018 | Additions | Disposals | Transfers from PP&E | Transfers to investment property | Exchange rate variations | 2019 |
|---|---|---|---|---|---|---|---|
| Cost | 435,217 | - | (77,599) | 22,181 | (485) | 17,175 | 396,489 |
| Depreciation | (367,074) | (1,334) | 59,282 | (11,006) | 209 | (14,638) | (334,561) |
| Provision for loss | (30,699) | (1,401) | (4,272) | - | - | (1,135) | (37,507) |
| | 37,444 | (2,735) | (22,589) | 11,175 | (276) | 1,402 | 24,421 |

## 11. RIGHT-OF–USE ASSETS AND FINANCIAL LEASES RECEIVABLE

The composition of assets contracted as leases are as follows:

| | | Consolidated | | | |
|---|---|---|---|---|---|
| | | 2020 | | | 2019 |
| | Rate (2) % | Cost | Accumulated amortization | Net book value | Net book value |
| Properties (CSA and AMMO – own use) | 44.1 | 14,114 | (6,342) | 7,772 | 10,895 |
| Properties – plants (Guarani – own use) | 11.7 | 10,661 | (1,242) | 9,419 | - |
| Properties (SGUS – own use) | 8.3 | 46,130 | (7,688) | 38,442 | 32,798 |
| Properties – stores (AMMO – own use) | 24.9 | 88,433 | (32,342) | 56,091 | 42,836 |
| Vehicles | 35.8 | 1,356 | (1,083) | 273 | 566 |
| Investment properties (1) | | 92,644 | - | 92,644 | 71,168 |
| Total right-of-use assets | | 253,338 | (48,697) | 204,641 | 158,263 |
| Financial leases receivable (1) | | 112,889 | - | 112,889 | 91,719 |
| | | 366,227 | (48,697) | 317,530 | 249,982 |

(1) Properties leased and partially subleased by subsidiary SGUS.

(2) The annual average amortization rate corresponds to the average term of the lease contracts of the respective right-of-use assets.

Changes in the right-of-use assets of the leases are as follows:

| | Properties | Properties – plants | Properties – SGUS | Properties – stores | Vehicles | Investment properties | Financial leases receivable | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | - | - | - | - | - | - | - | - |
| Initial adoption of IFRS 16/CPC 06 (R2) (1) | 13,743 | - | 34,590 | 44,230 | 693 | 68,585 | 103,163 | 265,004 |
| Exchange rate variations | - | - | 1,151 | - | - | 2,330 | 3,765 | 7,246 |
| Additions (2) | 363 | - | - | 17,059 | 570 | 875 | - | 18,867 |
| Disposals (3) | - | - | - | (1,613) | - | - | (10,491) | (12,104) |
| Amortization in the year | (3,211) | - | (2,943) | (16,840) | (697) | - | (1,466) | (25,157) |
| Updated sublease contracts | - | - | - | - | - | 4,279 | 9,705 | 13,984 |
| Sublease cash receipts | - | - | - | - | - | (4,901) | (12,957) | (17,858) |
| | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance as of December 31, 2019 | 10,895 | - | 32,798 | 42,836 | 566 | 71,168 | 91,719 | 249,982 |
| Exchange rate variations | - | 1,953 | 9,522 | - | - | 20,645 | 26,589 | 58,709 |
| Additions (2) | 8 | 8,749 | - | 33,433 | 94 | - | - | 42,284 |
| Disposals (3) | - | - | - | (3,267) | - | - | - | (3,267) |
| Amortization in the year | (3,131) | (1,283) | (3,878) | (16,911) | (387) | - | - | (25,590) |
| Interest | - | - | - | - | - | 9,789 | 11,680 | 21,469 |
| Sublease cash receipts | - | - | - | - | - | (8,958) | (17,099) | (26,057) |
| | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance as of December 31, 2020 | 7,772 | 9,419 | 38,442 | 56,091 | 273 | 92,644 | 112,889 | 317,530 |
| | ====== | ====== | ====== | ======= | ====== | ======= | ======= | ======= |

(1) See note 17 for the initial adoption of IFRS 16/CPC 06.

(2) Includes new lease agreements, renewal of existing agreements and update of lease amounts.

(3) Early termination of lease contract.

The amounts receivable arising from the subleasing of the properties at their contracted amounts are as follows:

| Year | Lease receivable 2020 | Lease receivable 2019 |
|---|---|---|
| 2020 | - | 13,145 |
| 2021 | 17,124 | 13,282 |
| 2022 | 17,310 | 13,426 |
| 2023 | 17,508 | 13,580 |
| 2024 then after | 128,860 | 96,361 |
| | 180,802 | 149,794 |
| Present value adjustment | (67,913) | (58,075) |
| | 112,889 | 91,719 |
| Current | (16,230) | (6,601) |
| Noncurrent | 96,659 | 85,118 |

The amounts recognized as finance leases have an expectation of compliance with long-term contracts with sub-tenants and also, for some properties, an expectation of occupancy after a vacancy period, which are updated and evaluated annually. As of December 31, 2020, the subsidiary SGUS had no defaults with the current sub-lease agreements.

## 12. INTANGIBLE ASSETS

| | Consolidated 2020 | Consolidated 2019 |
|---|---|---|
| Goodwill on the acquisition of AMMO (1) | 27,303 | 27,303 |
| Trademarks – owned (3) | 16,267 | 16,267 |
| Trademarks – use license (4) | 9,559 | 8,388 |
| Intellectual property (5) | 18,933 | 15,387 |
| Store locations (real estate intangible) (6) | 25,077 | 25,357 |
| Total | 97,139 | 92,702 |

Changes in consolidated intangible assets for the year were as follows:

| | Goodwill on the acquisition of AMMO (1) | Goodwill on the acquisition of Keeco (2) | Trademarks – owned (3) | Trademarks – use license (4) | Intellectual property (5) | Store locations (real estate intangible) (6) | Total |
|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | 27,303 | - | 16,348 | 9,043 | 7,378 | 21,801 | 81,873 |
| Additions | - | - | - | - | 9,609 | 125 | 9,734 |
| Disposals | - | - | (81) | - | - | (361) | (442) |
| Amortization | - | - | - | (718) | (1,600) | - | (2,318) |
| Exchange rate variations | - | - | - | 63 | - | - | 63 |
| Impairment adjustment (2) (6) | - | - | - | - | - | 3,792 | 3,792 |
| | ----------- | ----------- | ----------- | ----------- | ----------- | ----------- | ----------- |
| Balance as of December 31, 2019 | 27,303 | - | 16,267 | 8,388 | 15,387 | 25,357 | 92,702 |
| Transfers (goodwill allocation) | - | 101,985 | - | - | - | - | 101,985 |
| Additions | - | - | - | - | 7,070 | 670 | 7,740 |
| Disposals | - | - | - | - | - | (2,370) | (2,370) |
| Amortization | - | - | - | (925) | (3,524) | - | (4,449) |
| Exchange rate variations | - | 29,518 | - | 2,096 | - | - | 31,614 |
| Impairment adjustment (2) (6) | - | (42,936) | - | - | - | 1,420 | (41,516) |
| Transfer to assets held for sale (2) | - | (88,567) | - | - | - | - | (88,567) |
| | ----------- | ----------- | ----------- | ----------- | ----------- | ----------- | ----------- |
| Balance as of December 31, 2020 | 27,303 | - | 16,267 | 9,559 | 18,933 | 25,077 | 97,139 |
| | ====== | ====== | ====== | ====== | ====== | ====== | ====== |

(1) Goodwill on the acquisition of AMMO: Goodwill originated from investment in AMMO Varejo.

The Company evaluates the recoverability of this goodwill annually, using accepted market practices, such as discounted cash flow for the business unit that has goodwill. Recoverability of goodwill is evaluated based on analysis and identification of facts and circumstances that could require the tests to be performed at an earlier date. If a fact or circumstance indicates that the recoverability of goodwill is affected, then the test is anticipated.

The projection period for the December 2020 cash flows was five years. The assumptions used to determine the fair value through the discounted cash flow method include: cash flow projections based on management estimates for future cash flows, discount rates and growth rates for determining the perpetuity. Additionally, the perpetuity has been calculated considering the stabilization of operating margins, working capital and investments levels.

The annual discount rate used was 13.3% per year and the perpetuity growth rate considered was 3% per year. The discount rates used were determined taking into consideration market information available on the test date.

The subsidiary CSA did not identify signs of deterioration or non-recovery of the recognized goodwill, considering operating profitability and cash generation of the indirect subsidiary AMMO, including the impacts of COVID-19.

(2) Goodwill on the acquisition of Keeco: Goodwill originated from the investment in Keeco Holdings, LLC.

On March 15, 2019, the subsidiary SGUS became the holder of an ownership interest in Keeco Holdings, LLC, which combined its operations with the operations acquired from SGUS on that date. As of December 31, 2019, the investment was accounted for in the total amount paid by SGUS for its interest in Keeco, US$36,000, which included the goodwill supported by future profitability, less the result of that 9 ½ months period in the amount of US$1,776, totaling US$34,224 or R$137,946.

In the first quarter of 2020, SGUS received the financial statements of that affiliated company with the adjustment of purchase price allocations, thus being able to separate the amount paid on the investment between equity investment and goodwill.

The changes were as follows:

| | US$ thousand | R$ thousand |
|---|---|---|
| Breakdown between equity participation and goodwill paid: | | |
| Investment on December 31, 2019 (a) | 8,922 | 35,961 |
| Equity in affiliate for the year | (2,158) | (11,298) |
| Exchange variation | - | 10,488 |
| Transfer to assets held for sale (c) | (6,764) | (35,151) |
| | ----------- | ----------- |
| Investment on December 31, 2020 | - | - |
| | ====== | ====== |
| Investment on December 31, 2019 (a) | 25,302 | 101,985 |
| Impairment in the 1st quarter of 2020 (b) | (8,259) | (42,936) |
| Exchange variation | - | 29,518 |
| Transfer to assets held for sale (c) | (17,043) | (88,567) |
| | ----------- | ----------- |
| Goodwill on December 31, 2020 | - | - |
| | ====== | ====== |

(a) Investment balance on December 31, 2019 in the amount of R$137,946, or US$34,224.

(b) The investment in Keeco was significantly affected by the COVID-19 pandemic and, given the revised projections received by the Company, it was necessary to recognize impairment in the amount of R$42,936 or US$8,259.

(c) In the fourth quarter of 2020, the subsidiary SGUS made the investment in Keeco available for sale. The investment and goodwill balances were reclassified to the "Assets held for sale" line, and the impairment adjustment for loss was classified as discontinued operations. See note 28.

(3) Trademarks – owned: Trademarks owned are recorded at the acquisition cost, have indefinite useful lives, and therefore are not amortized.

(4) Trademarks – use license: Represents the license to use the trademark "Santista" in Argentina and it is amortized over the term of the contract in 15 years.

(5) Intellectual property: Refers to software developed to integrate retail sales channels (physical stores and E-commerce), and it is amortized over 5 years.

(6) Store locations (real estate intangible): The amounts related to the store locations (real estate intangible) are recorded at the acquisition cost of the respective store, net of impairment of R$6,574 (R$7,994 as of December 31, 2019), based on its market value determined by an independent broker with valuation expertise.

Items (3) to (5) above are tested annually for recoverability. The Company did not identify signs of deterioration or non-recovery of the balances held in these items.

13. LOANS AND FINANCING

| | Currency | Annual interest rate - % | Maturity | Consolidated 2020 | Consolidated 2019 |
|---|---|---|---|---|---|
| Local currency (*): | | | | | |
| Banco do Brasil S.A. (a) | R$ | 130.0 and 294.0 of CDI | 2023 | 382,011 | 390,936 |
| Banco do Brasil S.A. – CDC | R$ | 7.1 to 9.0 | 2021 | 55,657 | 57,761 |
| Banco BBM S.A. – CCB | R$ | 149.0 and 150.5 of CDI and 3.9 and 7.0 + CDI | 2024 | 24,481 | 44,821 |
| Banco ABC do Brasil S.A. – CCE | R$ | 4.3 + CDI | 2022 | 36,320 | 46,637 |
| Banco Bradesco S.A. (*) | R$ | 6.1 + CDI | 2024 | 17,543 | 19,760 |
| BNDES (Finame) | R$ | 3.0 to 9.5 | 2023 | 35 | 168 |
| Banco Daycoval S.A. | R$ | 5.2 to 7.1 + CDI | 2024 | 47,030 | 15,743 |
| Banco Santander S.A. (b) | R$ | 3.5 and 4.7 + CDI | 2021 | 55,228 | - |
| Banco Safra S.A. – CCB | R$ | 6.8 and 7.4 + CDI | 2024 | 54,054 | 46,976 |
| Banco Fibra S.A. – CCE | R$ | 7.5 + CDI | 2022 | 20,075 | 3,350 |
| Banco Sofisa S.A. | R$ | 6.7 and 6.8 + CDI | 2024 | 20,131 | 30,251 |
| Caixa Econômica Federal – CCB (*) (c) | R$ | 180.0 of CDI | 2021 | 18,971 | 15,944 |
| Banco Pine S.A. | R$ | 7.8 + CDI | 2022 | 11,926 | 12,046 |
| Banco Industrial do Brasil S.A. | R$ | 5.2 + CDI | 2021 | 1,255 | - |
| Banco ABC do Brasil S.A. - CCB | R$ | 3,9 + CDI | 2022 | 10,003 | - |
| Banco BTG Pactual S.A. (d) | R$ | 12.5 | 2022 | 36,885 | - |
| Financiadora de Estudos e Projetos - FINEP (*) | R$ | 4,4 | 2025 | 19,101 | - |
| Others | R$ | - | 2021 | 7,864 | 6,637 |
| | | | | ----------- | ----------- |
| | | | | 818,570 | 691,030 |
| Foreign currency: | | | | | |
| Banco Patagônia | $ARG | 30.0 | 2021 | 1,194 | 4,657 |
| Banco Luso Brasileiro S.A. | US$ | 8.5 | 2021 | 10,019 | 9,960 |
| Banco do Brasil S.A. | US$ | 4.8 to 5.0 | 2021 | 37,859 | 36,671 |
| Banco Santander S.A. PPE | US$ | 8.1 | 2021 | - | 124,252 |
| JP Morgan | US$ | Libor + 0.9 | 2020 | - | 18,198 |
| Banco Pine S.A. | US$ | 9.5 | 2021 | 10,471 | 8,221 |
| Banco Itaú Unibanco S.A. | US$ | 7.6 | 2020 | - | 29,388 |
| Banco Fibra S.A. | US$ | 5.0 | 2020 | - | 20,261 |
| | | | | ----------- | ----------- |
| | | | | 59,543 | 251,608 |
| | | | | ----------- | ----------- |
| Total | | | | 878,113 | 942,638 |
| Current | | | | (522,536) | (511,143) |
| | | | | ----------- | ----------- |
| Noncurrent | | | | 355,577 | 431,495 |
| | | | | ======= | ======= |

(*) Loans held in part by the Company in the amount of R$38,072 (R$15,944 plus R$4,968 with Banco do Brasil S.A. on December 31, 2019).

(a) Loan of subsidiary CSA, with early maturity covenants, in which the Company, as guarantor, agreed to comply with the following financial ratios: Net Debt to EBITDA ratio, no greater than 4.0 during the year 2017; 3.5 during the year 2018; 3.0 as of the year 2019, in its annual consolidated financial statements.

(b) Loan of subsidiary CSA, with early maturity covenants, in which the Company, as guarantor, has committed to comply with the following financial ratios in its annual consolidated financial statements: (i) Net Debt to EBITDA ratio, no greater than 3.0; (ii) Net Debt to Shareholders' Equity ratio, no greater than 0.7; and (iii) EBITDA to net financial expenses ratio, no less than 2.0.

(c) Parent company loan, with early maturity covenants, in which the parent company has committed to comply with the following financial ratios in its annual consolidated financial statements: (i) Net Debt to EBITDA ratio, no greater than 3.0, in its annual consolidated financial statements; (ii) Net Debt to Shareholders' Equity ratio, no greater than 0.7 during the period of the agreement; and (iii) EBITDA to net financial expenses ratio, no less than 2.0.

(d) Loan of subsidiary CSA, with early maturity covenants, where subsidiary CSA agreed to comply with the following financial ratios: Net Debt to EBITDA ratio, no greater than 3.0 in its annual consolidated financial statements.

During 2020, due to the reduction in profitability resulting from the effects of the pandemic (COVID-19), described in note 30, the Company and its subsidiary CSA, obtained a waiver from the financial covenants described above, with the financial institutions.

The terms used to describe the financial ratios described in items (a) to (d) above have their definition determined in the contract and may differ from the accounting items.

Loans are collateralized by: (i) registered security interest in real estate, machinery and equipment; (ii) guarantee from the controlling shareholder; and (iii) receivables.

Maturities are as follows:

| | 2021 | 2022 | 2023 | 2024 and 2025 | Total |
|---|---|---|---|---|---|
| Local currency: | | | | | |
| Banco do Brasil S.A. | 153,295 | 119,866 | 108,850 | - | 382,011 |
| Banco do Brasil S.A. - CDC | 55,657 | - | - | - | 55,657 |
| Banco BBM S.A. - CCB | 16,147 | 2,858 | 2,857 | 2,619 | 24,481 |
| Banco ABC do Brasil S.A. - CCE | 20,280 | 16,040 | - | - | 36,320 |
| Banco Bradesco S.A. | 5,203 | 4,936 | 4,936 | 2,468 | 17,543 |
| BNDES (Finame) | 15 | 14 | 6 | - | 35 |
| Banco Daycoval S.A. | 17,913 | 17,381 | 10,903 | 833 | 47,030 |
| Banco Santander S.A. | 55,228 | - | - | - | 55,228 |
| Banco Safra S.A. - CCB | 45,959 | 2,857 | 2,857 | 2,381 | 54,054 |
| Banco Fibra S.A. - CCE | 13,409 | 6,666 | - | - | 20,075 |
| Banco Sofisa S.A. | 11,797 | 2,858 | 2,857 | 2,619 | 20,131 |
| Caixa Econômica Federal - CCB | 18,971 | - | - | - | 18,971 |
| Banco Pine S.A. | 8,726 | 3,200 | - | - | 11,926 |
| Banco Industrial do Brasil S.A. | 1,255 | - | - | - | 1,255 |
| Banco ABC do Brasil S.A. - CCB | 4,447 | 5,556 | - | - | 10,003 |
| Banco BTG Pactual S.A. | 26,411 | 10,474 | - | - | 36,885 |
| Financiadora de Estudos e Projetos - FINEP | 416 | 4,771 | 4,771 | 9,143 | 19,101 |
| Others | 7,864 | - | - | - | 7,864 |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| | 462,993 | 197,477 | 138,037 | 20,063 | 818,570 |
| Foreign currency: | | | | | |
| Banco Patagônia | 1,194 | - | - | - | 1,194 |
| Banco Luso Brasileiro S.A. | 10,019 | - | - | - | 10,019 |
| Banco do Brasil S.A. | 37,859 | - | - | - | 37,859 |
| Banco Pine S.A. | 10,471 | - | - | - | 10,471 |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| | 59,543 | - | - | - | 59,543 |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| Total | 522,536 | 197,477 | 138,037 | 20,063 | 878,113 |
| | ======= | ======= | ====== | ======= | ======= |

Changes in consolidated loans and debentures were as follows:

| | 2020 | | | 2019 |
|---|---|---|---|---|
| | Loans | Debentures | Total | Total |
| Beginning balance | 942,638 | 99,397 | 1,042,035 | 1,093,381 |
| Debt proceeds or renewal | 477,608 | - | 477,608 | 328,820 |
| Accrued interest | 62,836 | 6,095 | 68,931 | 99,161 |
| Paid principal | (585,957) | (12,500) | (598,457) | (384,219) |
| Paid interest | (65,116) | (3,159) | (68,275) | (99,013) |
| Exchange rate variations | 41,960 | - | 41,960 | 5,956 |
| Prepaid charges, net | 4,144 | 1,252 | 5,396 | (2,051) |
| | ----------- | ----------- | ----------- | ----------- |
| Ending balance | 878,113 | 91,085 | 969,198 | 1,042,035 |
| | ======= | ======= | ======= | ======= |

14. DEBENTURES

a) On June 12, 2017, subsidiary CSA issued the 3rd series of non-convertible debentures with the following terms, which, on the same date, were fully subscribed by Gaia Agro Assessoria Financeira Ltda. (“Subscriber”). Subsequently, the Subscriber sold the debentures to Gaia Securitizadora Agro S.A. ("Securitization"), with the objective of relating the resources of the debentures to the issuance of Agribusiness Receivables Certificates ("CRA").

| 3rd Series Debentures Terms | |
|---|---|
| Quantity of issued debentures | 50,000 |
| Debentures unit price (amount in Brazilian Reais) | R$1,000 |
| Amortization: | |
| Maturity of 1st installment – 25.00% | 12/18/2018 |
| Maturity of 2nd installment – 25.00% | 06/18/2019 |
| Maturity of 3rd installment – 25.00% | 12/18/2019 |
| Maturity of 4th installment – 25.00% | 06/18/2020 |
| Return | 110% of CDI |
| Interest amortization | Semiannual |

The debentures were fully settled at maturity.

b) On February 19, 2018, subsidiary CSA issued the 4th series of non-convertible debentures with the following terms, which, on February 19, 2018, was fully subscribed and modified on May 14, 2020.

4th Series Debentures Terms

| | February 2018 | May 2020 |
|---|---|---|
| Quantity of issued Debentures | 150,000 | 87,500 |
| Debentures unit price (amount in Brazilian Reais) | R$1,000 | R$1,000 |
| Amortization | 12 equal quarterly installments | 1 installment |
| Initial maturity | 05/19/2018 | - |
| Final maturity | 02/19/2021 | 02/19/2021 |
| Return | 100% of CDI + 2.75% per annum | 100% of CDI + 4.75% per annum |
| Interest amortization | 12 equal quarterly installments | 1 installment on 02/19/2021 |
| Guarantees | (1) | (1) |
| Covenants | (2) | (2) |

On May 14, 2020, at a general meeting, the Debenture Holders resolved to: (i) change the interest rate of the debentures, by changing the spread from 2.75% per year to 4.75% per year; (ii) change the frequency of payment of the interest on the debentures to a single payment on the maturity date; and (iii) change the frequency of payment of the amortization of the nominal unit value of the debentures, to a single payment on the maturity date. The debenture holders' changes and approvals were reflected in the respective minutes.

(1) Guarantees:

Secured Guarantee: Property of the subsidiary CSA, see note 9.1, whose fair value must remain higher than 1.43 times the issue value of the Debentures in the first year and in the following years 1.67 times. In addition, the lease contracts of the property are part of the guarantee, and the fiduciary agent may, in case of default, retain the rent receivables until the default is resolved.

Fidejussory guarantee: Surety given by the Company and by Josué Christiano Gomes da Silva.

(2) Covenants:

No commitment to maintain financial ratios.

Balances of the debentures on December 31, 2020 and 2019 were as follows:

| | Debentures from | | Company and consolidated | |
|---|---|---|---|---|
| | 3rd series | 4th series | 2020 | 2019 |
| Original amount | - | 87,500 | 87,500 | 100,000 |
| Prepaid interest | - | (132) | (132) | (1,385) |
| Accrued interest | - | 3,717 | 3,717 | 782 |
| Debentures total | - | 91,085 | 91,085 | 99,397 |
| Current | - | (91,085) | (91,085) | (87,008) |
| Noncurrent | - | - | - | 12,389 |

## 15. SUPPLIERS

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Domestic market | 181,301 | 128,390 |
| Foreign market | 24,796 | 27,012 |
| | 206,097 | 155,402 |

Accounts payable to suppliers consist of amounts with an average maturity term of approximately 75 days (58 days as of December 31, 2019).

## 16. GOVERNMENT CONCESSIONS

The subsidiary CSA has equity interest in a consortium for an electric power generation concession with the companies CEMIG Geração e Transmissão S.A. and Vale (formerly known as Companhia Vale do Rio Doce), in equal percentages of 33.33%. No legally independent entity was established for the management of this consortium. Accounting records, equivalent to its interest, are maintained under CSA's control.

As consideration for the concession granted, CSA, together with the other consortium members, will pay installments over the concession period to the Federal Government, as presented below:

| | |
|---|---|
| Beginning of concession period: | July 10, 1997 |
| Concession period: | 35 years |
| Total concession amount: | R$333,310 |
| Monetary adjustment: | IGP-M (general market price index) |

Total annual installments of the concession:

| | Years 5 to 15<br>2002 to 2012 | Years 16 to 25<br>2013 to 2022 | Years 26 to 35<br>2023 to 2032 |
|---|---|---|---|
| Historical amounts: | | | |
| Minimum installment | 120 | 120 | 120 |
| Additional installment | - | 12,510 | 20,449 |
| Annual installment | 120 | 12,630 | 20,569 |
| Total installments | 1,320 | 126,300 | 205,690 |
| Monetarily adjusted installments | 8,672 | 829,728 | 1,351,265 |

For accounting purposes, subsidiary CSA recognizes expenses incurred on an accrual basis, as a contra entry to noncurrent liabilities, on a straight-line basis, based on its share in the total concession amount, 33.33%, at present value, considering a basic interest rate when contracting the concession, updated by the IGP-M. The changes in the concession balances are as follows:

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Opening balance | 65,983 | 65,448 |
| Appropriation of the grant installment | 4,483 | 4,027 |
| Payments | (22,440) | (21,518) |
| Interest (7.5% p.a.) | 18,652 | 15,726 |
| Monetary variation (IGPM) | 14,190 | 2,300 |
| | ----------- | ----------- |
| | 80,868 | 65,983 |
| Current | (27,658) | (22,212) |
| | ------------ | ------------ |
| Noncurrent | 53,210 | 43,771 |
| | ======= | ======= |

As of December 31, 2020, the net book value of the property, plant and equipment related to the current concession is R$16,772 (R$18,208 as of December 31, 2019) (see note 10), considering CSA's equity interest in the investments for the construction of the Porto Estrela Hydroelectric Plant, located on the Santo Antônio River, 270 km from Belo Horizonte, with installed capacity of 112 MW. The plant began generation activities at the end of 2001.

## 17. LEASES PAYABLE

The breakdown of leases payable is as follows:

| | | Consolidated | |
|---|---|---|---|
| | Maturity | 2020 | 2019 |
| Properties | 2024 | 8,471 | 11,366 |
| Properties – plant | 2028 | 9,877 | - |
| SGUS (*) | 2030 | 266,286 | 217,120 |
| Properties – stores | 2025 | 60,833 | 45,142 |
| Vehicles | 2021 | 287 | 574 |
| | | 345,754 | 274,202 |
| Current | | (64,447) | (53,049) |
| Noncurrent | | 281,307 | 221,153 |

The maturities of leases payable are as follows:

| | 2021 | 2022 | 2023 | 2024 to 2030 | Total |
|---|---|---|---|---|---|
| Properties | 3,666 | 3,666 | 2,174 | 70 | 9,576 |
| Properties – plant | 1,807 | 1,806 | 1,806 | 8,278 | 13,697 |
| SGUS (*) | 42,037 | 41,594 | 41,928 | 303,173 | 428,732 |
| Properties – stores | 21,754 | 15,994 | 14,678 | 18,567 | 70,993 |
| Vehicles | 300 | - | - | - | 300 |
| Gross total | 69,564 | 63,060 | 60,586 | 330,088 | 523,298 |
| Adjust to present value | (5,117) | (6,971) | (13,151) | (152,305) | (177,544) |
| Total payable | 64,447 | 56,089 | 47,435 | 177,783 | 345,754 |

(*) Liability corresponding to right-of-use assets classified as: (i) Real Estate - SGUS; (ii) Investment properties; and (iii) Leases receivable. See note 11.

Changes in the consolidated leases payable were as follows:

| | 2020 | | | | | | 2019 |
|---|---|---|---|---|---|---|---|
| | Properties | Properties – plant | SGUS | Properties – stores | Vehicles | Total | Total |
| Balance at the beginning of the year | 11,366 | - | 217,120 | 45,142 | 574 | 274,202 | 23,221 |
| Initial adoption IFRS 16/CPC 06 R2 (1) | - | - | - | - | - | - | 265,004 |
| Additions (2) | 8 | 8,749 | - | 33,433 | 94 | 42,284 | 17,992 |
| Disposals (3) | - | - | - | (3,492) | - | (3,492) | (12,555) |
| Charges | 931 | 984 | 28,128 | 5,607 | 42 | 35,692 | 29,168 |
| Payments | (3,834) | (1,794) | (41,758) | (14,135) | (423) | (61,944) | (56,886) |
| Renegotiations (4) | - | - | - | (5,722) | - | (5,722) | - |
| Exchange variation | - | 1,938 | 62,945 | - | - | 64,883 | 8,165 |
| Others | - | - | (149) | - | - | (149) | 93 |
| Balance at the end of the year | 8,471 | 9,877 | 266,286 | 60,833 | 287 | 345,754 | 274,202 |

(1) The Company's management opted for the simplified retrospective transition approach. This approach does not impact retained earnings (shareholders' equity) on the initial adoption date, since the amount of the right-of-use asset is equal to the lease payable amount adjusted to present value and enables the use of practical expedients. The Company's management considered as leasing component for stores only the fixed minimum rent value for purposes of assessing the liabilities. The measurement of the lease liability corresponds to the total of future payments of fixed rents, considering the terms of the contracts. These payment flows are adjusted to present value, considering the incremental borrowing rate. Financial charges are recognized as financial expenses. The incremental borrowing rate corresponds to the interest rate that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment (varies between 9% and 10% per year).

(2) Includes new lease agreements, renewal of existing agreements and update of lease amounts.

(3) Early termination of lease contract.

(4) Due to the COVID-19 pandemic, the indirect subsidiary AMMO Varejo renegotiated the rent of some stores with the lessors, obtaining an exemption or reduction in the minimum rent for the months in which the stores were closed, in accordance with the guidelines of each municipality. According to the revision of CPC 06 (R2), the indirect subsidiary AMMO Varejo adopted the practical expedient, and adjusted the lease liabilities in the amount of the reductions obtained.

The effects on results as of December 31, 2020 and 2019 are as follows:

| Continuing operations | 2020<br>Properties | Properties – plant | SGUS | Properties – stores | Vehicles | Consolidated | 2019<br>Consolidated |
|---|---|---|---|---|---|---|---|
| Lease payments in the year | 3,834 | 1,794 | 41,758 | 14,135 | 423 | 61,944 | 55,059 |
| PIS and COFINS recovered | - | - | - | (1,307) | - | (1,307) | (1,801) |
| Renegotiations | - | - | - | 5,722 | - | 5,722 | - |
| Amortization of right-of-use assets | (3,131) | (1,283) | (3,878) | (16,911) | (387) | (25,590) | (23,911) |
| PIS and COFINS on amortization | - | - | - | 982 | - | 982 | 1,387 |
| Interest net | (931) | (984) | (6,659) | (5,607) | (42) | (14,223) | (28,073) |
| PIS and COFINS on interest | - | - | - | 325 | - | 325 | 414 |
| Disposals, net | - | - | - | 225 | - | 225 | 451 |
| Updated sublease contracts | - | - | - | - | - | - | 13,984 |
| Sublease cash receipts | - | - | (26,057) | - | - | (26,057) | (17,858) |
| | ------------ | ------------ | ------------ | ------------ | ------------ | ------------ | ------------ |
| Total effects with the application of IFRS 16 | (228) | (473) | 5,164 | (2,436) | (6) | 2,021 | (348) |
| | ======= | ======= | ======= | ======= | ======= | ======= | ======= |

| Discontinued operations | Consolidated<br>2020 | 2019 |
|---|---|---|
| Lease payments in the year | - | 1,827 |
| Amortization of right-of-use assets | - | (1,246) |
| Interest on leases in the year | - | (1,095) |
| | ------------ | ------------ |
| Total effects with the application of IFRS 16 | - | (514) |
| | ======= | ======= |

## 18. INCOME TAX AND OTHER TAXES

a. Income taxes reconciliation (income and social contribution taxes)

| | 2020 | | | | |
|---|---|---|---|---|---|
| | SGPSA (Parent Co.) | CSA Consolidated | SGUS | Others (2) | Consolidated |
| Income (loss) from operations before taxes (1) | (320,940) | (156,746) | (85,757) | 314,793 | (248,650) |
| Equity in subsidiaries | 314,594 | - | 11,298 | (314, 594) | 11,298 |
| Investment support | - | (34,190) | - | - | (34,190) |
| Foreign net income | - | 1,289 | - | - | 1,289 |
| Permanent differences from foreign subsidiaries | - | - | (4,037) | - | (4,037) |
| Other | - | 602 | - | - | 602 |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| Income tax basis | (6,346) | (189,045) | (78,496) | 199 | (273,688) |
| 34% income tax rate | 2,158 | 64,275 | 26,689 | (68) | 93,054 |
| Unrecognized tax credits | (2,158) | (66,241) | (27,003) | 68 | (95,334) |
| Valuation allowance adjustment | - | - | (69,707) | - | (69,707) |
| Tax credit of foreign subsidiary | - | (43) | - | - | (43) |
| Others | - | (260) | - | - | (260) |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| Total income taxes | - | (2,269) | (70,021) | - | (72,290) |
| | ======= | ======= | ======= | ======= | ======= |
| Continuing operations | | | | | |
| Income taxes – current | - | (308) | (314) | - | (622) |
| Income taxes – deferred | - | (1,961) | (69,707) | - | (71,668) |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| | - | (2,269) | (70,021) | - | (72,290) |
| | ======= | ======= | ======= | ======= | ======= |

(1) Includes income from discontinued operations before taxes. See notes 28 and 29.

(2) Includes effect of exchange rate variations of foreign subsidiaries and eliminations for consolidations.

| | 2019 | | | | |
| --- | --- | --- | --- | --- | --- |
| | SGPSA (Parent Co.) | CSA Consolidated | SGUS | Others (2) | Consolidated |
| Income (loss) from operations before taxes (1) | 45,724 | (106,061) | 246,733 | (58,508) | 127,888 |
| Equity in subsidiaries | (51,962) | - | 7,159 | 51,962 | 7,159 |
| Investment support | - | (40,447) | - | - | (40,447) |
| Permanent differences from foreign subsidiaries | - | - | (4,338) | - | (4,338) |
| Other | 79 | 1,072 | - | - | 1,151 |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| Income tax basis | (6,159) | (145,436) | 249,554 | (6,546) | 91,413 |
| 34% income tax rate | 2,094 | 49,448 | (84,848) | 2,226 | (31,080) |
| Unrecognized tax credits | (2,094) | (52,819) | 6,537 | (2,226) | (50,602) |
| Tax credit of foreign subsidiary | - | (120) | (291) | - | (411) |
| Others | - | (301) | 230 | - | (71) |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| Total income taxes | - | (3,792) | (78,372) | - | (82,164) |
| | ======= | ======= | ======= | ======= | ======= |
| Continuing operations | | | | | |
| Income taxes – current | - | (323) | 4,640 | - | 4,317 |
| Income taxes – deferred | - | (3,469) | (291) | - | (3,760) |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| | - | (3,792) | 4,349 | - | 557 |
| | ======= | ======= | ======= | ======= | ======= |
| Discontinued operations | | | | | |
| Income taxes – current | - | - | (2,535) | - | (2,535) |
| Income taxes – deferred | - | - | (80,186) | - | (80,186) |
| | ------------ | ------------ | ------------ | ------------ | ------------ |
| | - | - | (82,721) | - | (82,721) |
| | ======= | ======= | ======= | ======= | ======= |

(1) Includes income from discontinued operations before taxes. See notes 28 and 29.

(2) Includes effect of exchange rate variations of foreign subsidiaries and eliminations for consolidations.

b. Deferred income and social contribution taxes

As a holding Company, the Company's operations consist of equity in subsidiaries and income from investment activities. Foreign subsidiaries' income is taxed as an addition to the taxable income and they receive tax credits for taxes paid in their respective countries, which is up to 25% of its income tax base. If there are tax losses, tax credits are not considered in Brazil, but they are offset with future income generated by the foreign subsidiary. Therefore, as a holding Company, tax credit recognition is allowed in specific situations.

Deferred income and social contribution taxes recorded in the consolidated financial statements arise from subsidiaries' temporarily nondeductible provisions, transferred tax credit, and subsidiaries' net operating losses.

Deferred income and social contribution taxes are composed as follows:

| | 2019 | Recognized in: Statement of operations | Recognized in: Equity | Exchange rate variations | Other | 2020 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Temporary differences (CSA – Argentina) (1) (a) | 649 | - | - | - | (261) | 388 |
| Temporary differences (CSA – Brasil) (1) (p) | 15,635 | 1,148 | - | - | - | 16,783 |
| Net operating losses (CSA – Brasil) (1) (p) | 1,148 | (1,148) | - | - | - | - |
| Tax credits from foreign subsidiary (CSA – Brasil) (1) (p) | 7,167 | - | - | - | - | 7,167 |
| Net operating losses (SGUS – EUA) (2) (a) | 66,501 | (69,707) | - | 19,265 | - | 16,059 |
| Temporary differences (AMMO – Brasil) (1) (a) | 225 | - | - | - | 196 | 421 |
| Net operating losses (SGPSA – Brasil) (a) | 1,905 | - | - | - | - | 1,905 |
| | 93,230 | (69,707) | - | 19,265 | (65) | 42,723 |
| Deferred tax liabilities: | | | | | | |
| Investment properties (CSA – Brasil) (1) (p) | (83,389) | (3,151) | - | - | - | (86,540) |
| Hyperinflationary adjustment (CSA – Argentina) (1) (p) | (6,651) | - | - | - | 548 | (6,103) |
| Temporary differences (CSA – Brasil) (1) (p) | (17,539) | 1,190 | - | - | - | (16,349) |
| Total deferred taxes, net | (14,349) | (71,668) | - | 19,265 | 483 | (66,269) |
| Noncurrent assets (sum of a) | 69,280 | (69,707) | - | 19,265 | (65) | 18,773 |
| Noncurrent liabilities (sum of p) | (83,629) | (1,961) | - | - | 548 | (85,042) |

As of December 31, 2020, the Company had net operating losses of R$131,172 (R$124,826 as of December 31, 2019) and social contribution tax losses of R$131,173 (R$124,827 as of December 31, 2019), whose tax assets were not recognized in the financial statements.

(1) <u>Deferred taxes of subsidiary CSA:</u>

Deferred tax assets:

The subsidiary CSA, based on its business plan and future projections, maintained deferred tax assets derived, from accumulated tax losses. Future projections consider the Company's operating results for the next 10 years adjusted to present value and a reduction of interest rates during that period and the resulting cost of debt, among other actions.

Based on these actions and the assumptions used in the preparation of the business plan, the management of that subsidiary has expectations to generate future taxable income that will allow the realization of the deferred tax credits shown as follows:

| Year | Consolidated: Temporary differences | Consolidated: Operating losses (*) | Consolidated: CSA consolidated |
|---|---|---|---|
| 2021 | 3,846 | (3,846) | - |
| 2023 and thereafter | 13,746 | 11,013 | 24,759 |
| | 17,592 | 7,167 | 24,759 |

(*) Includes compensation of taxes paid in Argentina.

Temporary differences are fully deductible from taxable income, while tax losses are limited to 30% of taxable income. Both have no deadline for expiration.

Additionally, as of December 31, 2020, CSA had net operating losses of R$1,003,472 (R$915,612 as of December 31, 2019) and social contribution tax losses of R$1,009,600 (R$921,695 as of December 31, 2019), whose tax assets were not recognized in the financial statements. As of December 31, 2020, the indirect subsidiary AMMO had net operating losses of R$335,239 (R$283,948 on December 31, 2019) and social contribution tax losses of R$335,268 (R$282,322 on December 31, 2019).

Deferred tax liabilities – investment properties:

Income and social contribution taxes resulting from added value in investment properties. See note 9.

| | Investment properties São Gonçalo | | Investment properties Montes Claros (9.3) | Total |
|---|---|---|---|---|
| | Business complex (9.1) | Residential complex (9.2) | | |
| Fair value | 306,236 | 45,034 | 53,776 | 405,046 |
| Total residual cost | (110,562) | (93) | (39,860) | (150,515) |
| Surplus/added value | 195,674 | 44,941 | 13,916 | 254,531 |
| Income and social contribution taxes liability on surplus/added value (34%) | 66,529 | 15,280 | 4,731 | 86,540 |

(2) Deferred taxes of subsidiary SGUS:

The subsidiary SGUS, based on its business plan and future projections, maintained deferred tax assets derived, primarily, from accumulated tax losses. Based on the projections of its operating results, the subsidiary SGUS had a deferred tax assets balance, as of December 31, 2020, totaling R$16,059 (R$66,501 as of December 31, 2019). The reduction in the deferred tax assets was caused by the negative impact of COVID-19 on the profitability projections of its affiliate Keeco Holdings, LLC. The revised projections of the continuing operations consider the revenues and expenses of the subsidiary SGUS, including the profitability of its affiliate, for the next 10 years.

Based on the assumptions utilized in the preparation of business plan, SGUS management expects to generate future taxable income that will allow the realization of the deferred tax credits.

The estimated realization for the deferred tax assets of subsidiary SGUS, as of December 31, 2020, is shown below:

| Year | Subsidiary SGUS |
|---|---|
| 2021 | 16,059 |

Temporary differences are fully deductible from taxable income and have no deadline for utilization. The net operating tax losses are also fully deductible, but the federal losses will expire between 2022 and 2034 and the state losses will expire between 2020 and 2034.

Additionally, on December 31, 2020, subsidiary SGUS had R$1,213,899 in tax losses (R$499,688 at December 31, 2019) whose tax assets were not recognized in the financial statements.

c. Recoverable taxes

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| ICMS (state VAT) | - | - | 10,931 | 9,878 |
| Income and social contribution taxes prepayments | 160 | 341 | 11,420 | 12,390 |
| Recoverable PIS and COFINS (*) | - | - | 128,769 | 204,754 |
| Recoverable INSS | - | - | - | 15,391 |
| IVA – Gross proceeds (Argentina) | - | - | 4,354 | 1,416 |
| IPTU credit | - | - | 10,901 | - |
| Recoverable IPI | - | - | 83 | 83 |
| Other recoverable taxes | - | - | 477 | 423 |
| | ----------- | ----------- | ----------- | ----------- |
| | 160 | 341 | 166,935 | 244,335 |
| Current | (16) | (341) | (64,992) | (80,942) |
| | ----------- | ----------- | ----------- | ----------- |
| Noncurrent | 144 | - | 101,943 | 163,393 |
| | ======= | ======= | ======= | ======= |

(*) Includes credits from purchases and amounts related to credits resulting from the elimination of ICMS from the PIS and COFINS calculation basis.

## 19. MISCELLANEOUS ACCRUALS

The Company and its subsidiaries are challenging in court the legality of certain taxes and civil and labor claims. The accrual was recognized based on the risk assessment made by Management and its legal counsel for all lawsuits in which losses are considered probable.

The Company and its subsidiaries have tax, labor and civil claims, whose loss was estimated as possible in the amount of R$27,204, R$3,683 and R$41,058, respectively, (R$22,799, R$4,402 and R$40,043, respectively, on December 31, 2019). The main tax claims relate to infraction notices referring to: (i) imports of raw materials under the Drawback program (R$7,559); (ii) calculation of presumed FAIN credit (R$5,871); and (iii) ex-tariff IPI exemption (R$3,160). The main labor lawsuits are related to labor claims of former employees and third parties. The main civil claims correspond to a writ of mandamus filed against the Electric Energy Trading Chamber (CCEE), in the amount of R$38,701, seeking to eliminate possible financial burdens arising from judicial decisions that determine the sharing of losses among power generators. The main labor claims correspond to labor claims by former employees and third parties.

The claims for which losses are considered probable are summarized as follows:

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| Tax litigation claims – others | 110 | 108 |
| Labor | 9,542 | 9,472 |
| Civil and others | 3,734 | 3,351 |
| | ---------- | ----------- |
| Total | 13,386 | 12,931 |
| | ===== | ===== |
| Escrow deposits | 10,691 | 13,403 |
| | ===== | ===== |

Labor – The subsidiary CSA is the defendant in lawsuits from former employees and third parties.

Civil – The subsidiary CSA is a plaintiff in a lawsuit against the Federal Government disputing the legality of the collection of "COFURH – Compensação Financeira pela Utilização de Recursos Hídricos".

Changes in the consolidated accrual are as follows:

| | Tax litigation claims Others | Labor | Civil and Others | Total |
|---|---|---|---|---|
| Balance on December 31, 2018 | 98 | 11,468 | 1,367 | 12,933 |
| Additions | 10 | 1,295 | 2,518 | 3,823 |
| Disposals | - | (3,066) | (210) | (3,276) |
| Exchange variation | - | (225) | (324) | (549) |
| | ---------- | --------- | --------- | ---------- |
| Balance on December 31, 2019 | 108 | 9,472 | 3,351 | 12,931 |
| Additions | 3 | 2,448 | 531 | 2,982 |
| Disposals | (1) | (2,339) | (75) | (2,415) |
| Exchange variation | - | (39) | (73) | (112) |
| | ---------- | --------- | --------- | ---------- |
| Balance on December 31, 2020 | 110 | 9,542 | 3,734 | 13,386 |
| | ====== | ====== | ====== | ====== |

## 20. EMPLOYEE BENEFIT PLANS

Substantially all of the employees of the subsidiary SGUS are covered by defined-contribution plans. Some executives of SGUS are covered by defined-benefit plans. Subsidiary SGUS may make contributions to the defined-contribution plan at its discretion, and these contributions are considered by means of a percentage of each participant's eligible compensation. In addition, should eligible participants contribute a percentage of their compensation to some defined-contribution plans, SGUS may, at its discretion, make a contribution in the proportion of the amounts contributed by the participants.

Subsidiary SGUS sponsors a defined-benefit pension plan for some of its employees, whose expected pension costs are accrued based on actuarial studies. Contributions of retired employees and subsidiary SGUS are adjusted periodically. Subsidiary SGUS' contributions to the defined-benefit plans are made pursuant to the “US Employee Retirement Income Security Act”, and benefits are generally based on years of service and salary (compensation) levels.

The defined-benefit plans’ assets are invested in diversified equity securities and fixed-income funds (including US government debt). Subsidiary SGUS also provides retirement benefits to eligible executives under nonqualified supplemental executive retirement plans.

The table below includes summarized information on the pension and postretirement plans as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Changes in benefit obligation: | | |
| Benefit obligation at beginning of year | 164,983 | 155,727 |
| Service cost | 1,463 | 1,049 |
| Interest cost | 7,550 | 6,779 |
| Actuarial (gain) loss | 10,679 | 9,995 |
| Benefit payments | (18,145) | (14,898) |
| Exchange rate variation | 47,713 | 6,331 |
| | ----------- | ----------- |
| Benefit obligation at end of year | 214,243 | 164,983 |
| Changes in plan assets: | | |
| Fair value of plan assets at beginning of year | 51,960 | 46,578 |
| Return on assets | 10,108 | 8,796 |
| Employer contributions | 13,316 | 9,533 |
| Benefit payments | (18,145) | (14,898) |
| Exchange rate variation | 14,985 | 1,951 |
| | ----------- | ----------- |
| Fair value of plan assets at end of year | 72,224 | 51,960 |
| | ----------- | ----------- |
| Present value of unfunded obligations | 142,019 | 113,023 |
| | ====== | ====== |
| Actuarial assumptions to determine the benefit obligations at year end: | | |
| Discount rate (per annum) | 2.10% a 2.45% | 3.05% a 3.25% |
| Rate of compensation increase (per annum) | - | - |
| Assumptions used to determine net expense for the years ended: | | |
| Discount rate and expected rate of return on assets (per annum) | 3.05% a 3.25% | 4.15% a 4.30% |
| Rate of compensation increase (per annum) | - | - |
| Components of net periodic benefit cost: | | |
| Service cost | 1,463 | 1,049 |
| Interest cost, net | 4,022 | 4,196 |
| | ----------- | ----------- |
| Net periodic benefit cost | 5,485 | 5,245 |
| | ====== | ====== |

SGUS' investment strategy is to invest in a diversified portfolio that will maximize returns, considering an acceptable risk level. Pension plan assets are invested in mutual funds which have a target allocation of 40% in equity securities and 60% in fixed income funds. The expected returns on plan assets were developed in conjunction with external advisors and take into account long-term expectations for future returns based on SGUS' current investment strategy.

| | 2020 | 2019 |
|---|---|---|
| Investments in plan assets: | | |
| Equity securities | 28,736 | 17,938 |
| Fixed income | 39,862 | 33,254 |
| Cash and cash equivalents | 3,626 | 768 |
| Plan assets fair value at the end of year | 72,224 | 51,960 |

The subsidiary SGUS expects to contribute R$13,164 to the defined-benefit plans in 2021. Expected benefit payments for the next 10 years are:

| | Defined-benefit pension plans |
|---|---|
| 2021 | 18,393 |
| 2022 | 15,935 |
| 2023 | 15,378 |
| 2024 | 14,822 |
| 2025 | 14,299 |
| 2026 – 2030 | 62,911 |

The balances of employee benefit plans and deferred compensation are as follows:

| | 2020 | 2019 |
|---|---|---|
| Pension plan obligations | 142,019 | 113,023 |
| Other employee benefit obligations | 2,893 | 2,761 |
| Total employee benefit plans | 144,912 | 115,784 |
| Current (a) | (13,209) | (9,617) |
| Noncurrent | 131,703 | 106,167 |

(a) Presented on caption "Payroll and related charges".

## 21. EQUITY

a. Capital

The subscribed and paid-in capital is represented by 50,000,000 common shares with voting rights. There was no change in the number of shares subscribed and paid for the period between January 1, 2019 and December 31, 2020.

b. Dividends and realizable earnings reserve

Shareholders are entitled to dividends equivalent to 1/3 of annual net income, adjusted as per Company's bylaws and the Brazilian Corporate Law.

c. Retained earnings reserve

The retained earnings reserve is determined in compliance with article 196 of law 6,404/76 and it is intended to be used on future investments.

d. Cumulative translation adjustments

Represents the exchange variations on investments, net of foreign related parties' balances, in foreign direct and indirect subsidiaries.

e. Assets and liabilities valuation adjustments

Represents the unrealized gains and losses on: (i) subsidiaries' initial added value of investment properties at fair value; and (ii) actuarial gains and losses on defined benefit plans of subsidiaries.

## 22. RELATED-PARTY BALANCES AND TRANSACTIONS

| | Receivable | | Payable | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Company: | | | | |
| Coteminas S.A. | - | - | 7,088 | 16,255 |
| | ---------- | ---------- | ---------- | ---------- |
| | - | - | 7,088 | 16,255 |
| | ====== | ====== | ====== | ====== |
| Consolidated: | | | | |
| Companhia de Tecidos Norte de Minas – Coteminas | 51,622 | 32,368 | - | - |
| Coteminas International Ltd. | 5,681 | 1,795 | - | - |
| Argentina branch | 20 | 17 | - | - |
| Santanense Argentina | 50 | 51 | - | - |
| Companhia Tecidos Santanense | 12,968 | 8,674 | - | - |
| | ---------- | ---------- | ---------- | ---------- |
| | 70,341 | 42,905 | - | - |
| | ====== | ====== | ====== | ====== |

| | Finance charges Income (expenses) | |
|---|---|---|
| | 2020 | 2019 |
| Company: | | |
| Coteminas S.A. | (2,218) | (1,094) |
| Companhia de Tecidos Norte de Minas – Coteminas | (1) | - |
| | ---------- | ---------- |
| | (2,219) | (1,094) |
| | ====== | ====== |
| Consolidated: | | |
| Companhia de Tecidos Norte de Minas – Coteminas | 10,368 | 12,991 |
| Companhia Tecidos Santanense | 1,779 | 242 |
| Coteminas International Ltd. | 92 | 82 |
| Wembley S.A. | - | 4 |
| Encorpar Empreendimentos Imobiliários Ltda. | (3) | - |
| | ---------- | ---------- |
| | 12,236 | 13,319 |
| | ====== | ====== |

The balances refer to loans contracted with the Company under fair conditions in accordance with market practices. The charges are calculated according to the average cost of the lending company's loans.

The Board of Directors meeting held on December 29, 2015 also approved payment of 2% commission (two percent annually), limited to the cumulative amount of R$47,750, on sureties/guarantees provided by the controlling shareholder on loans and financing contracted by the Company and its subsidiaries. As of December 31, 2020, the amount of R$9,251 was recorded with R$3,380 (R$4,418 as of December 31, 2019) in the caption “Other receivables” in current assets and R$5,871 in the caption “Others” in noncurrent assets (R$9,251 as of December 31, 2019), related to guarantees on existing contracts and credit facilities. During 2020, the amount of R$4,418 was recorded as interest expenses under the caption “Financial expenses – bank charges and others” (R$5,288 in 2019).

During 2020, the subsidiary CSA supplied intermediate products to a related party, Companhia Tecidos Santanense, in the amount of R$31,377 (R$18,232 in 2019). The receivable balance related to these transactions is presented in note 5.

CTNM and the indirect subsidiary AMMO Varejo have a rental agreement for the property where their distribution center and office are located. During 2020, payments were made in the amount of R$3,816 (R$3,621 in 2019).

On December 31, 2020, the indirect subsidiary LAT Capital Ltd. had R$15,792 (R$32,495 as of December 31, 2019) in investments in foreign funds and deposit accounts, received from Coteminas International Ltd., a company under common control.

All of the above transactions, buying and selling products and loan transactions, are conducted at market prices and rates.

The amounts paid to key Management personnel are disclosed in the statements of operations, under caption "Management fees" and include existing long-term and post-employment benefits. The management fees balances are described below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Advisers | 913 | 913 | 1,259 | 1,173 |
| Statutory officers | - | - | 3,146 | 3,201 |
| Other directors | - | - | 8,180 | 7,651 |
| | ------- | ------- | ------- | ------- |
| | 913 | 913 | 12,585 | 12,025 |
| | ==== | ==== | ==== | ==== |

## 23. FINANCIAL INSTRUMENTS

a) General--The Company and its subsidiaries can conduct transactions derivatives and non-derivatives financial instruments, whose risks are managed through strategic financial positions and controls to limit exposure to such risks. All transactions are fully recognized in the financial statements and their balances are described in the table below.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| FINANCIAL ASSETS | | | | |
| Amortized cost: | | | | |
| Cash and cash equivalents | 332 | 154 | 168,793 | 151,935 |
| Marketable securities (current) | - | - | 16,311 | 33,976 |
| Accounts receivable | - | - | 509,086 | 487,822 |
| Cash holdback amount | - | - | 20,787 | 25,393 |
| Other receivables | 964 | 960 | 29,017 | 32,976 |
| Marketable securities (noncurrent) | 1,671 | - | 1,671 | 71,010 |
| Receivable – clients | - | - | 25,171 | 23,968 |
| Related parties | - | - | 70,341 | 42,905 |
| Escrow deposits | - | - | 10,691 | 13,403 |
| Others | - | - | 74,335 | 54,558 |
| | | | | |
| Fair value through profit or loss: | | | | |
| Marketable securities (current) | - | - | - | 18,365 |
| | | | | |
| FINANCIAL LIABILITIES | | | | |
| Amortized cost: | | | | |
| Loans and financing (current) | 19,387 | 12,933 | 522,536 | 511,143 |
| Debentures (current) | - | - | 91,085 | 87,008 |
| Suppliers | 22 | 6 | 206,097 | 155,402 |
| Government concessions (current) | - | - | 27,658 | 22,212 |
| Other accounts payable | - | - | 50,634 | 52,376 |
| Loans and financing (noncurrent) | 18,685 | 7,979 | 355,577 | 431,495 |
| Debentures (noncurrent) | - | - | - | 12,389 |
| Related parties | 7,088 | 16,255 | - | - |
| Government concessions (noncurrent) | - | - | 53,210 | 43,771 |
| Other obligations | - | - | 43,722 | 31,764 |

The main risk factors to which the Company and its subsidiaries are exposed reflect strategic-operational and economic-financial matters. The strategic-operational risks (such as demand trend, competition, technological innovation, significant changes in the industry structure, among others) are inherent to the Company's operating activities and are addressed by its Management.

The economic-financial risks mainly reflect customers' delinquency, macro-economic trends, such as currency exchange and interest rates, as well as the nature of the derivative instruments used by the Company, its subsidiaries, and its counter-parties. These risks are managed through internal control policies, specific strategies and establishment of approval authorities.

b) Fair value--The fair values of loans and financing and debentures are similar to their amortized cost recorded in the financial statements because they are indexed to floating interest rates (TJLP, CDI and LIBOR), which accompany market rates. Considering the maturities of other financial instruments, the Company estimates that their fair values approximate book values.

c) Classification of financial instruments--Except for derivatives, and certain marketable securities, which are classified and measured at fair value through profit or loss, all financial assets and liabilities listed above are classified and measured as "Amortized Cost". The derivative financial instruments are measured at fair value through profit or loss and the portion related to the cash flow hedge, which effectiveness can be measured, has its gains and losses recognized directly in shareholders' equity as valuation adjustments and presented in the statement of comprehensive income.

d) Risk management and derivative and non-derivative financial instruments:

d.1 – Objectives and risk management strategies--The Company believes that risk management is important in driving its strategy of profitable growth. The Company is exposed to market risks, mainly related to changes in exchange rates, commodity prices (cotton) and volatility of interest rates. The goal of managing these risks is to eliminate possible unexpected variations in the results of the group's companies, arising from these variations.

The purpose of derivative transactions is always related to the elimination of market risks, identified in our policies and guidelines and, also, to the management of the volatility of financial flows. The measurement of efficiency and evaluation of results occurs throughout the life of the contracts. The monitoring of the impact of these transactions is analyzed quarterly by the Cash and Debt Management Committee where the mark-to-market of these transactions is discussed and validated. All derivative financial instruments are recorded at fair value in the Company's financial statements. As of December 31, 2020 and 2019, there were no outstanding derivative financial instruments.

d.2 – Derivatives use policy--According to internal policies, the Company's financial results should be related to cash provided by its business and not by gains in the financial market. Therefore, it considers the use of derivatives as a tool to protect eventual exposures related to risks arising from such exposures, and not for speculative purposes. The derivative transactions goal is to reduce Company's market risks exposures.

d.3 – Exchange rate risk--This risk arises from the possibility that the Company and its subsidiaries may incur losses due to exchange rate fluctuations that would reduce the nominal billed amounts or increase funds raised in the market.

d.3.1) Exchange rate risk on foreign investments:

The Company has foreign investments that increase its foreign currency exchange exposure, as follows:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | R$ | $ARG | US$ | $PYG | Exchange rate variation on foreign investments R$ |
| Foreign investments: | | | | | |
| Coteminas Argentina | 62,850 | 1,017,728 | - | - | 7,319 |
| LAT Capital | 13,175 | - | 2,535 | - | 2,733 |
| Textil Guarani | 4,449 | - | - | 5,943,094 | 479 |
| SGUS | 385,394 | - | 74,161 | - | 122,042 |
| | 465,868 | 1,017,728 | 76,696 | 5,943,094 | 132,573 |
| Related parties: | | | | | |
| LAT Capital | (115,329) | - | (22,193) | - | (25,403) |
| SGUS | (256,291) | - | (49,318) | - | (63,138) |
| | (371,620) | - | (71,511) | - | (88,541) |
| Total of foreign investments net | 94,248 | 1,017,728 | 5,185 | 5,943,094 | 44,032 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| | R$ | $ARG | US$ | $PYG | Exchange rate variation on foreign investments R$ |
| Foreign investments: | | | | | |
| Coteminas Argentina | 21,636 | 321,478 | - | - | (1,770) |
| LAT Capital | 9,219 | - | 2,287 | - | 366 |
| Textil Guarani | 3,008 | - | - | 4,824,379 | 85 |
| SGUS | 422,901 | - | 104,920 | - | 18,069 |
| Total of foreign investments net | 456,764 | 321,478 | 107,207 | 4,824,379 | 16,750 |

d.3.2) Exchange rate risks on financial instruments of the Company and its subsidiaries:

The financial instruments exposure of the Company and its Brazilian subsidiaries is as follows:

| Financial instruments | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | 62 | - |
| Accounts receivable | 22,038 | 46,415 |
| Marketable securities | - | 71,010 |
| Suppliers | (10,467) | (7,933) |
| Loan and financing | (58,349) | (228,753) |
| Related parties | 2,405 | (295,050) |
| | ----------- | ----------- |
| Total exposure in Brazilian Reais | (44,311) | (414,311) |
| | ====== | ====== |
| Total exposure in equivalent thousands of US Dollars | (8,527) | (102,789) |
| | ====== | ====== |

The sensitivity analysis of financial instruments, considering the US Dollar denominated cash flows, as of December 31, 2020, is shown below:

| | | | Scenarios | | |
|---|---|---|---|---|---|
| Maturity | Risk | Exposure value in thousands of US$ | Probable | II | III |
| 2021 | US Dollar appreciation | (8,527) | (68) | (11,163) | (22,258) |
| | | ====== | ====== | ====== | ====== |

Amounts in parenthesis (negative numbers) stated in the scenarios above refer to exchange rate variance losses. The positive amounts relate to exchange rate variations gains. The “Probable” scenario represents the result of the probable exchange rate variation, considering the cash flow of the assets and liabilities presented above, applying future dollar exchange rates and comparing to the dollar exchange rate at the end of the current year. Scenarios II and III reflect 25% and 50% deterioration of future dollar exchange rates, respectively. The future dollar exchange rates were obtained from B3 S.A. – Brasil, Bolsa, Balcão.

d.4 – Commodities price risk (cotton)--This risk arises from the possibility of the Company and its subsidiaries may incur losses due to fluctuations in the price of cotton, its main raw material. As of December 31, 2020 and 2019 there were no outstanding contracts subject to price fluctuation.

d.5 – Interest rates risk--Cash and cash equivalents and marketable securities yield, approximately, the equivalent to CDI (Certificate of Interbank Deposit) rates. Interest-bearing liabilities (except as described in d.5.1 and d.5.2 below), which reflect rates equivalent to LIBOR, or fixed interest rates, are disclosed in notes 13 and 22. Considering the cash flows of these liabilities and the contracted interest rates, Management determined that the exposure to market changes on the contracted interest rates is not significant. Therefore, the sensitivity analysis is deemed unnecessary.

d.5.1 – Variable interest rate risks on derivative financial instruments:

Interest rates swap contracts--Are presented and measured at fair value and are based on the cash flow of the loans denominated in foreign currency. Gains or losses are recorded under the “Financial expenses – interest” caption in the statements of operations. There were no interest rate derivatives in the years ended December 31, 2020 and 2019.

d.5.2 – Variable interest rate risk on non-derivatives financial instruments:

The amounts related to the Company and its subsidiaries' non-derivatives financial instruments subject to variable interest rate exposure are as follows:

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| Description | Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | Payable |
| Loan Agreement --<br>Interest: 130.0% of CDI<br>Counterpart: Banco Brasil S.A. – NCE<br>Maturity: November/2023 | 165,000 | 305 | (2,237) | 163,068 | 162,464 |
| Loan Agreement --<br>Interest: 130.0% of CDI<br>Counterpart: Banco Brasil S.A. – NCE<br>Maturity: November/2023 | 165,000 | 305 | (2,237) | 163,068 | 162,464 |
| Loan Agreement --<br>Interest: 294.0% of CDI<br>Counterpart: Banco Brasil S.A. – CCB<br>Maturity: March/2022 | 56,250 | 136 | (511) | 55,875 | 66,008 |
| | | | | ------------ | ------------ |
| (Refer to Note 13) | | | | 382,011 | 390,936 |
| | | | | ------------ | ------------ |
| Loan Agreement --<br>Interest: 149.0% of CDI<br>Counterpart: Banco BBM S.A. – CCB<br>Maturity: June/2021 | 6,644 | 85 | - | 6,729 | 22,992 |
| Loan Agreement --<br>Interest: CDI + 3.9%<br>Counterpart: Banco BBM S.A. – CCB<br>Maturity: July/2021 | 1,447 | 38 | - | 1,485 | 5,018 |
| Loan Agreement --<br>Interest: 150.5% of CDI<br>Counterpart: Banco BBM S.A. – CCB<br>Maturity: July/2021 | 3,216 | 42 | - | 3,258 | 8,807 |
| Loan Agreement --<br>Interest: 149.0% of CDI<br>Counterpart: Banco BBM S.A. – CCB<br>Maturity: November/2021 | 3,000 | 1 | - | 3,001 | 8,004 |
| Loan Agreement --<br>Interest: CDI + 7.0%<br>Counterpart: Banco BBM S.A. – CCB<br>Maturity: November/2024 | 10,000 | 8 | - | 10,008 | - |
| | | | | ------------ | ------------ |
| | | | | 24,481 | 44,821 |
| (Refer to Note 13) | | | | ------------ | ------------ |
| Loan Agreement --<br>Interest: CDI + 4.3%<br>Counterpart: Banco ABC Brasil S.A. – CCB<br>Maturity: April/2022 | 13,636 | 34 | - | 13,670 | 17,552 |
| Loan Agreement --<br>Interest: CDI + 4.3%<br>Counterpart: Banco ABC Brasil S.A. – CCE<br>Maturity: April/2022 | 7,531 | 19 | - | 7,550 | 9,695 |
| Loan Agreement --<br>Interest: CDI + 4.3%<br>Counterpart: Banco ABC Brasil S.A. – CCE<br>Maturity: April/2022 | 7,531 | 19 | - | 7,550 | 9,695 |

| Description | 2020 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 2019 Payable |
|---|---|---|---|---|---|
| Loan Agreement --<br>Interest: CDI + 4.3%<br>Counterpart: Banco ABC Brasil S.A. – CCE<br>Maturity: April/2022 | 7,531 | 19 | - | 7,550 | 9,695 |
| (Refer to Note 13) | | | | 36,320 | 46,637 |
| Loan Agreement --<br>Interest: CDI + 6.1%<br>Counterpart: Banco Bradesco S.A.<br>Maturity: April/2024 | 17,277 | 266 | - | 17,543 | - |
| (Refer to Note 13) | | | | 17,543 | - |
| Loan Agreement --<br>Interest: CDI + 4.5%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: September/2020 | - | - | - | - | 10,072 |
| Loan Agreement --<br>Interest: CDI + 4.5%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: October/2020 | - | - | - | - | 5,671 |
| Loan Agreement --<br>Interest: CDI + 5.2%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: July/2023 | 12,814 | 174 | - | 12,988 | - |
| Loan Agreement --<br>Interest: CDI + 5.2%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: July/2023 | 12,659 | 172 | - | 12,831 | - |
| Loan Agreement --<br>Interest: CDI + 6.5%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: July/2022 | 11,120 | 54 | - | 11,174 | - |
| Loan Agreement --<br>Interest: CDI + 7.1%<br>Counterpart: Banco Daycoval S.A.<br>Maturity: April/2024 | 10,000 | 37 | - | 10,037 | - |
| (Refer to Note 13) | | | | 47,030 | 15,743 |
| Loan Agreement --<br>Interest: CDI + 3.5%<br>Counterpart: Banco Santander S.A. – CCE<br>Maturity: October/2021 | 31,820 | 192 | - | 32,012 | - |
| Loan Agreement --<br>Interest: CDI + 4.7%<br>Counterpart: Banco Santander S.A. – CCE<br>Maturity: December/2021 | 23,144 | 72 | - | 23,216 | - |
| (Refer to Note 13) | | | | 55,228 | - |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: February/2020 | - | - | - | - | 838 |
| Loan Agreement -- | | | | | |

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| Description | Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | Payable |
| Interest: CDI + 8.6%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: July/2020 | - | - | - | - | 20,007 |
| Loan Agreement --<br>Interest: CDI + 8.6%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: August/2020 | - | - | - | - | 20,129 |
| Loan Agreement --<br>Interest: CDI + 5.5%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: September/2020 | - | - | - | - | 4,001 |
| Loan Agreement --<br>Interest: CDI + 5.5%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: September/2020 | - | - | - | - | 2,001 |
| Loan Agreement --<br>Interest: CDI + 7.4%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: May/2021 | 40,000 | 3 | - | 40,003 | - |
| Loan Agreement --<br>Interest: CDI + 7.4%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: February/2021 | 4,000 | 29 | - | 4,029 | - |
| Loan Agreement --<br>Interest: CDI + 6.8%<br>Counterpart: Banco Safra S.A. – CCB<br>Maturity: October/2024 | 10,000 | 22 | - | 10,022 | - |
| (Refer to Note 13) | | | | 54,054 | 46,976 |
| Loan Agreement --<br>Interest: CDI + 6.5%<br>Counterpart: Banco Fibra S.A.<br>Maturity: October/2020 | - | - | - | - | 3,350 |
| Loan Agreement --<br>Interest: CDI + 7.5%<br>Counterpart: Banco Fibra S.A.<br>Maturity: April/2022 | 20,000 | 75 | - | 20,075 | - |
| (Refer to Note 13) | | | | 20,075 | 3,350 |
| Loan Agreement --<br>Interest: CDI + 7.9%<br>Counterpart: Banco Sofisa S.A.<br>Maturity: July/2020 | - | - | - | - | 10,093 |
| Loan Agreement --<br>Interest: CDI + 12.7%<br>Counterpart: Banco Sofisa S.A.<br>Maturity: July/2020 | - | - | - | - | 10,067 |
| Loan Agreement --<br>Interest: CDI + 12.7%<br>Counterpart: Banco Sofisa S.A.<br>Maturity: July/2020 | - | - | - | - | 10,091 |
| Loan Agreement --<br>Interest: CDI + 6.8%<br>Counterpart: Banco Sofisa S.A.<br>Maturity: February/2021 | 10,000 | 73 | - | 10,073 | - |

| Description | 2020 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 2019 Payable |
|---|---|---|---|---|---|
| Loan Agreement --<br>Interest: CDI + 6.8%<br>Counterpart: Banco Sofisa S.A.<br>Maturity: November/2024 | 10,000 | 58 | - | 10,058 | - |
| (Refer to Note 13) | | | | 20,131 | 30,251 |
| Loan Agreement --<br>Interest: 180.0% of CDI<br>Counterpart: Caixa Econômica Federal – CCB<br>Maturity: April/2021 | 18,958 | 13 | - | 18,971 | 15,944 |
| (Refer to Note 13) | | | | 18,971 | 15,944 |
| Loan Agreement --<br>Interest: CDI + 7.8%<br>Counterpart: Banco Pine S.A.<br>Maturity: November/2020 | - | - | - | - | 2,015 |
| Loan Agreement --<br>Interest: CDI + 7.8%<br>Counterpart: Banco Pine S.A.<br>Maturity: December/2020 | - | - | - | - | 2,001 |
| Loan Agreement --<br>Interest: CDI + 7.8%<br>Counterpart: Banco Pine S.A.<br>Maturity: February/2021 | 500 | 4 | - | 504 | - |
| Loan Agreement --<br>Interest: CDI + 7.8%<br>Counterpart: Banco Pine S.A.<br>Maturity: December/2022 | 6,400 | 17 | - | 6,417 | 8,030 |
| Loan Agreement --<br>Interest: CDI + 7.8%<br>Counterpart: Banco Pine S.A.<br>Maturity: November/2021 | 5,000 | 5 | - | 5,005 | - |
| (Refer to Note 13) | | | | 11,926 | 12,046 |
| Loan Agreement --<br>Interest: CDI + 5.2%<br>Counterpart: Banco Industrial do Brasil S.A.<br>Maturity: March/2021 | 1,250 | 5 | - | 1,255 | - |
| (Refer to Note 13) | | | | 1,255 | - |
| Loan Agreement --<br>Interest: CDI + 3.9%<br>Counterpart: Banco ABC do Brasil S.A. – CCE<br>Maturity: October/2022 | 10,000 | 3 | - | 10,003 | - |
| (Refer to Note 13) | | | | 10,003 | - |
| Debentures 3rd series --<br>Interest: 110.0% of CDI<br>Counterpart: Gaia Agro Sec. S.A.<br>Maturity: June/2020 | - | - | - | - | 12,237 |

| Description | 2020 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 2019 Payable |
|---|---|---|---|---|---|
| Debentures 4th series -- Interest: CDI + 4.75% Counterpart: Several debenture holders Maturity: February/2021 | 87,500 | 3,717 | (132) | 91,085 | 87,160 |
| (Refer to Note 14) | | | | 91,085 | 99,397 |
| | 789,228 | 6,002 | (5,117) | 790,113 | 706,101 |

The sensitivity analysis of the non-derivative financial instruments above, considering the scheduled payments of principal and interest as of December 31, 2020, is as follows:

| Maturity | Risk | Principal average balance | Scenarios Probable | II | III |
|---|---|---|---|---|---|
| 2021 | CDI increase | 675,398 | 23,150 | 32,804 | 37,259 |
| 2022 | CDI increase | 274,446 | 9,307 | 23,782 | 27,813 |
| 2023 | CDI increase | 107,903 | 3,501 | 10,461 | 12,254 |
| 2024 | CDI increase | 7,329 | 397 | 772 | 860 |

Amounts shown in the scenarios above represent projected interest expense, in their respective years and scenarios, considering the average loan balances on each year.

The “Probable” scenario represents the result of the probable CDI variations, considering the principal and interest maturity dates. Scenarios II and III reflect 25% and 50% increase in the future CDI index, respectively. The future CDI rates were obtained at B3 S.A. – Brasil, Bolsa, Balcão.

d.6 – Credit risk--The Company is subject to credit risk on its cash and cash equivalents and marketable securities. This risk is mitigated by the policy of entering into transactions only with major financial institutions.

The credit risk on accounts receivable is reduced due to the selectivity of customers and credit policy. The Company has a credit management system based on the combination of information originated by several departments of the Company, primarily sales, finance, accounting, legal and external sources that enable the credit and collection departments to establish credit limits for its customers that are approved by a credit committee.

d.7 – Liquidity risk management--The Company’s financial liabilities, according to their cash flows, based on their approximate maturity date, and using nominal contractual interest rates, are summarized as follows:

| Contractual obligations | Total | Estimated settlement Less than 1 year | From 1 to 3 years | From 3 to 5 years |
|---|---|---|---|---|
| Loans and financing | 925,941 | 561,582 | 342,982 | 21,377 |
| Debentures | 91,709 | 91,709 | - | - |
| Suppliers | 206,097 | 206,097 | - | - |
| Lease payable, net | 342,496 | 52,440 | 88,828 | 201,228 |
| | 1,566,243 | 911,828 | 431,810 | 222,605 |

d.8 – Capital management risk--The Company manages its capital structure to ensure the continuity of its operational activities and, at the same time, to maximize the returns to its shareholders. The Company's strategy remained unchanged in the period covered by these financial statements.
The Company's net debt is as follows:

| | Consolidated 2020 | 2019 |
|---|---|---|
| Loans and financing | 878,113 | 942,638 |
| Debentures | 91,085 | 99,397 |
| Cash and cash equivalents | (168,793) | (151,935) |
| Marketable securities | (17,982) | (123,351) |
| Total net debt | 782,423 | 766,749 |
| Total equity | 1,105,748 | 1,386,626 |
| Total net debt and equity | 1,888,171 | 2,153,375 |
| Total net debt | 782,423 | 766,749 |
| Cash holdback amount | (20,787) | (25,393) |
| Total net debt after cash holdback amount | 761,636 | 741,356 |

## 24. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate financial statements are available and evaluated regularly by the decision maker, with the purpose of determining the allocation of resources to an individual segment and evaluate its performance. Decisions on strategic planning, finance, purchasing, investment and application of resources, as well as evaluation of investment and key executives' performance of the Company are made on a consolidated basis. The Company and its subsidiaries have concluded that they have two operating segments: "Wholesale" and "Retail".

The Company owns several factories that supply each other so that, together, they form an integrated industry in spinning, weaving, finishing and manufacturing of home textile products. The Company does not have separate operating segments in its sales categories and the reports used for strategic and operational decision making are always consolidated. There are no specific operational units for each category of goods sold. Therefore, these operations are denominated "Wholesale" because its products are not sold to the final consumer.

The subsidiaries AMMO and C7S have a set of separate information and investment decisions, pricing, store expansion multichannel sales, and others that are individually made, and are denominated “Retail” as its products are sold directly to the final consumer.

The financial statements, segregated by the segments previously explained, are presented below (in millions of Reais):

| | 2020 (continuing operations) | | | |
|---|---|---|---|---|
| | Wholesale | Retail | (*) Others unallocated | Total |
| Net revenues | 1,104.0 | 431.1 | - | 1,535.1 |
| Cost of goods sold | (819.7) | (209.1) | - | (1,028.8) |
| Gross profit | 284.3 | 222.0 | - | 506.3 |
| Selling, general and administrative expenses | (235.2) | (208.4) | (18.4) | (462.0) |
| Other | 8.7 | (1.9) | (2.0) | 4.8 |
| Results of operations | 57.8 | 11.7 | (20.4) | 49.1 |
| Financial results (without exchange rate variations) | - | - | (201.2) | (201.2) |
| Exchange rate variations | - | - | (29.6) | (29.6) |
| Income (loss) before taxes | 57.8 | 11.7 | (251.2) | (181.7) |
| Depreciation and amortization | 63.7 | 25.7 | 4.7 | 94.1 |

| | 2019 (continuing operations) | | | |
|---|---|---|---|---|
| | Wholesale | Retail | (*) Others unallocated | Total |
| Net revenues | 1,101.6 | 320.9 | - | 1,422.5 |
| Cost of goods sold | (808.4) | (164.2) | - | (972.6) |
| Gross profit | 293.2 | 156.7 | - | 449.9 |
| Selling, general and administrative expenses | (216.9) | (151.7) | (14.4) | (383.0) |
| Other | (5.5) | 12.5 | 11.1 | 18.1 |
| Results of operations | 70.8 | 17.5 | (3.3) | 85.0 |
| Financial results (without exchange rate variations) | - | - | (194.2) | (194.2) |
| Exchange rate variations | - | - | (30.7) | (30.7) |
| Income (loss) before taxes | 70.8 | 17.5 | (228.2) | (139.9) |
| Depreciation and amortization | 64.9 | 23.3 | 4.5 | 92.7 |

(*) Includes Company expenses and the results from the continuing operations of subsidiary SGUS.

The Company, through the analysis of sales performance, classifies its products under the categories of sales (or product lines) such as: bedding, tabletop and bath, intermediate products, and retail.

Revenue information by category or product lines is as follows:

| | Consolidated | |
| --- | --- | --- |
| | 2020 | 2019 |
| Net revenues (in millions of Reais): | | |
| Bedding, tabletop and bath | 827.4 | 861.4 |
| Intermediate products | 276.6 | 240.2 |
| Retail | 431.1 | 320.9 |
| | 1,535.1 | 1,422.5 |
| Volume (in thousands of tons): | | |
| Bedding, tabletop and bath | 21.4 | 26.8 |
| Intermediate products | 24.5 | 22.7 |
| | 45.9 | 49.5 |

The Company has over 10,000 active clients in the wholesale segment as of December 31, 2020.

## 25. EXPENSES BY NATURE

The Company presents its consolidated statements of operations by function. The expenses by nature and their classification by function are presented as follows:

By nature:

| | Consolidated | |
| --- | --- | --- |
| | 2020 | 2019 |
| Cost of raw materials, goods and services acquired from third parties | (994,763) | (878,599) |
| Employee benefits | (334,594) | (333,800) |
| INSS | (37,417) | (36,690) |
| Depreciation and amortization | (94,051) | (92,696) |
| Finished goods and work in process inventory variations | (4,364) | (12,758) |
| Costs resulting from reduced production volume - COVID-19 | (25,585) | - |
| Other | - | (985) |
| Total by nature | (1,490,774) | (1,355,528) |

By function:

| | Consolidated | |
| --- | --- | --- |
| | 2020 | 2019 |
| Cost of goods sold | (1,028,826) | (972,577) |
| Selling expenses | (335,448) | (267,299) |
| General and administrative expenses | (113,915) | (103,627) |
| Management fees | (12,585) | (12,025) |
| Total by function | (1,490,774) | (1,355,528) |

## 26. NET REVENUES

The reconciliation between gross revenues and net revenues presented in the statements of operations is as follows:

| | Consolidated | |
|---|---|---|
| | 2020 | 2019 |
| OPERATING REVENUES: | | |
| Gross revenues | 2,019,778 | 1,911,114 |
| Revenue deductions | (484,699) | (488,597) |
| | ------------- | ------------- |
| NET REVENUES | 1,535,079 | 1,422,517 |
| | ======== | ======== |

## 27. BASIC AND DILUTED INCOME (LOSS) PER SHARE

Basic income (loss) per share was calculated as follows:

| | 2020 | 2019 |
|---|---|---|
| NET LOSS FOR THE YEAR OF THE CONTINUED OPERATIONS | (253,952) | (139,358) |
| NET INCOME (LOSS) FOR THE YEAR OF THE DISCONTINUED OPERATIONS | (66,988) | 185,082 |
| | ------------- | ------------- |
| NET INCOME (LOSS) FOR THE YEAR | (320,940) | 45,724 |
| Weighted-average outstanding common shares | 50,000,000 | 50,000,000 |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE (R$) | | |
| From continuing operations | (5.0789) | (2.7871) |
| From discontinued operations | (1.3398) | 3.7016 |
| | ----------- | ----------- |
| | (6.4188) | 0.9145 |
| | ====== | ===== |

The Company does not have shares with dilutive potential. Therefore, the basic income (loss) per share equals the diluted income (loss) per share.

## 28. DISCONTINUED OPERATIONS

(a) On December 28, 2018, the Company announced a material fact, informing it had entered into an "Asset Purchase and Contribution Agreement" ("Agreement") with Keeco, a US company for home products, to combine its North American operations. Under the terms of the Agreement, concluded on March 15, 2019 (see note 29), SGUS agreed to sell the assets and liabilities used in its operations to Keeco for US$126 million, including: US$90 million in cash, of which US$83.7 million at closing and US$6.3 million as cash holdback amount retained for 18 months and US$36 million in common shares of the combined company, representing an interest of 17.5% in the combined company's capital, Keeco Holdings, LLC.

(b) In September 2020, Keeco was expected to pay the cash holdback amount of US$6.3 million. While not paying it, Keeco claimed that there were divergences in the working capital amount, among other matters, and retained the entire holdback amount until the dispute is resolved. The subsidiary SGUS, advised by its lawyers, understood that the amount was due, and responded to Keeco by requesting immediate payment or the initiation of the dispute resolution procedures defined in the contract. Unsuccessful in its request, the subsidiary SGUS filed legal action in the US court, in November, requesting that the procedures provided for in the contract be initiated, which includes engaging a dispute resolution auditor to provide a final determination. In February 2021, an agreement was reached where Keeco paid US$4.0 million equivalent to R$20,787 on December 31, 2020.

(c) In the fourth quarter of 2020, the investment in the affiliate Keeco Holdings, LLC was discontinued and the investment and goodwill balances were reclassified to the “Assets held for sale” line. Accordingly, in accordance with CPC 31 and IFRS 5, the result of the operations of this affiliate, previously presented in the operating segment “Others unallocated”, were presented as “Discontinued operations” in the income statements for the years ended December 2020 and 2019, as well as the investment and goodwill balances were presented in the balance sheet on December 31, 2020 as “Assets held for sale”. The statements of comprehensive income and cash flows, for the year ended December 31, 2019, are restated for comparison purposes, as discontinued operations.

The balance of the discontinued operations on December 31, 2020 are as follow:

| | Consolidated |
|---|---|
| ASSETS | |
| NONCURRENT: | |
| Investment | 35,151 |
| Goodwill | 88,567 |
| | ------------- |
| ASSETS HELD FOR SALE | 123,718 |
| | ======== |

The results of discontinued operations highlighted in the statements of operations for the year ended on December 31, 2020 and 2019 are presented below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| NET REVENUES | - | - | - | 199,739 |
| COST OF GOODS SOLD | - | - | - | (177,698) |
| GROSS PROFIT | - | - | - | 22,041 |
| OPERATING INCOME (EXPENSES): | | | | |
| Selling expenses | - | - | - | (5,320) |
| General and administrative expenses | - | - | - | (8,054) |
| Equity in subsidiaries (*) | (66,988) | 185,082 | (11,298) | (7,159) |
| Impairment adjustment on assets | - | - | (42,936) | - |
| Others, net | - | - | (12,754) | (2,926) |
| INCOME (LOSS) FROM OPERATIONS | (66,988) | 185,082 | (66,988) | (1,418) |
| Financial expenses – interests and other charges | - | - | - | (3,750) |
| INCOME (LOSS) FROM OPERATIONS BEFORE TAXES | (66,988) | 185,082 | (66,988) | (5,168) |
| Income and social contribution taxes: | | | | |
| Current | - | - | - | (197) |
| Income (loss) for the year from discontinued operations, before gain on sale of the net assets held for sale | (66,988) | 185,082 | (66,988) | (5,365) |
| Gain on sale of the net assets held for sale | - | - | - | 190,447 |
| NET INCOME (LOSS) FOR THE YEAR – DISCONTINUED OPERATIONS | (66,988) | 185,082 | (66,988) | 185,082 |

(*) The amounts related to 2019 were restated.

The cash flow statements of discontinued operations are presented below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cash flows from discontinued operations activities: | | | | |
| Net income (loss) for the year | (66,988) | 185,082 | (66,988) | 185,082 |
| Depreciation and amortization | - | - | - | 1,841 |
| Equity in subsidiaries (*) | 66,988 | (185,082) | 11,298 | 7,159 |
| Income and social contribution taxes | - | - | - | 82,721 |
| Gain on the sale of discontinued operations | - | - | - | (272,971) |
| Bank charges, interests and commissions | - | - | - | 2,668 |
| Impairment adjustment on assets | - | - | 42,936 | - |
| | ---------- | ---------- | ---------- | ---------- |
| | - | - | (12,754) | 6,500 |
| Changes in assets and liabilities | | | | |
| Accounts receivable | - | - | - | (1,617) |
| Inventories | - | - | - | (11,635) |
| Suppliers | - | - | - | (6,173) |
| Others | - | - | 12,754 | 3,031 |
| | ---------- | ---------- | ---------- | ---------- |
| Net cash used in discontinued operations activities before interest and taxes | - | - | - | (9,894) |
| Interest paid | - | - | - | (969) |
| Income and social contribution taxes paid | - | - | - | (521) |
| | ---------- | ---------- | ---------- | ---------- |
| Net cash used in discontinued operations activities after interest and income taxes | - | - | - | (11,384) |
| | ---------- | ---------- | ---------- | ---------- |
| Cash flows from investing discontinued operations activities: | | | | |
| Proceeds from sale of discontinued operations | - | - | - | 469,631 |
| | ---------- | ---------- | ---------- | ---------- |
| Net cash provided by investing discontinued operations activities | - | - | - | 469,631 |
| | ---------- | ---------- | ---------- | ---------- |
| Cash flows from discontinued financing activities: | | | | |
| Proceeds from new loans | - | - | - | 43,754 |
| Repayment of loans | - | - | - | (156,941) |
| | ---------- | ---------- | ---------- | ---------- |
| Net cash used in financing activities | - | - | - | (113,187) |
| Total cash provided by discontinued operations | - | - | - | 345,060 |
| | ====== | ====== | ====== | ====== |

(*) The amounts related to 2019 were restated.

29. GAIN ON SALE OF THE NET ASSETS HELD FOR SALE

| | March 15, 2019 | |
|---|---|---|
| | US$ thousand | R$ thousand (*) |
| Proceed from the sale of assets and liabilities | 126,000 | 490,984 |
| Net assets held for sale | (49,924) | (194,538) |
| Change on net working capital | 1,723 | 6,643 |
| Transaction costs | (7,729) | (30,118) |
| | --------- | ----------- |
| Gain before income taxes | 70,070 | 272,971 |
| Current income tax absorption | (600) | (2,338) |
| Deferred income tax realization (noncash) | (20,578) | (80,186) |
| | --------- | --------- |
| Gain on sale of the net assets held for sale | 48,892 | 190,447 |
| | ===== | ===== |

(*) Amounts in Reais calculated using the exchange rate as of March 30, 2019, of R$3.8967.

30. PANDEMIC-RELATED EFFECTS – COVID-19

In 2020, due to the coronavirus pandemic - COVID-19, there was a forced reduction in the level of economic activities in the country.

On March 23, 2020, the Company issued a statement to the market informing about the closure of its physical stores, and that they would remain closed in accordance with the directives issued by health authorities and local authorities. The digital channels continued to sell products through the websites and applications of the brands Santista, Artex, MMartan and Casas Moysés. In June, the reopened stores were mostly, operating at reduced hours, following the determination of the authorities of each municipality. In the third quarter, the stores were still operating with some schedule reductions in the months of July and August, and returned to their regular operation hours in September.

As determined by the Argentine authorities, our industrial plant located in the province of Santiago del Estero has remained closed since March 20, 2020, and partially resumed operations in early June 2020. In the third quarter, the plant partially operated in July and returned to regular operation in August and September.

The subsidiary CSA continued to operate normally at its Montes Claros, Campina Grande and Blumenau facilities and, at a reduced level, at the João Pessoa and Macaíba facilities, since March, including the entire second quarter. In the third quarter, starting in mid-August, all facilities resumed regular operation.

Customers and franchisees have requested, and the subsidiaries have granted, several payment extensions in all markets in which we operate, impacting our working capital and which was normalized in the 4th quarter.

The 29% devaluation of the real against the US currency during the year impacted our financial expense on foreign currency loans by R$32 million, increasing the net debt by the same amount. Additionally, the currency devaluation impacted the cost of raw materials that are linked to the US currency.

The impacts on sales, margins, expenses and results can be summarized as follows:

<u>Wholesale</u>: In Brazil, in the first quarter, a decrease in sales in March of approximately R$40 million. In the second quarter, the sales reduction was approximately R$110 million. In Argentina, in the first quarter, sales stalled in March with effects of approximately of R$15 million in sales reduction. In the second quarter, sales partially resumed in May and June, with a significant reduction in sales in the quarter of approximately R$20

million.  The profitability of the wholesale segment was affected by the reduction in sales and also by the fixed costs not absorbed by the reduction in production volumes.

Retail: Physical stores closed on March 23, 2020. We had an increase in expenses with digital media for sales at our websites, digital channels and applications. In the first quarter, the reduction in net sales, in the physical stores in March, without the corresponding reduction in rental and personnel expenses, which started in April, impacted margins and affected EBITDA.  In the second quarter, physical stores were closed for much of the quarter, but the loss of sales in physical stores was more than offset by the 8.7 times increase in sales through the digital channel, in that period. In the third quarter, the stores were still operating with some schedule reductions in the months of July and August, and returned to their regular operation hours in September.

We estimated the total impacts of COVID-19 in the six months period ended on June 30, 2020 at R$65 million in EBITDA reduction, driven by the reduction in sales and the increase in unit costs due to the reduction in volumes produced and residual costs of physical stores, which remained closed for approximately 90 days. The impacts for the third quarter were not estimated. In the fourth quarter we returned to regular operations.

SGUS: SGUS' results are basically comprised of lease expenses (net of sublease) and pension plan expenses, among others of lesser importance, which remained unchanged. In the first quarter, our investment in the affiliate Keeco was significantly affected by the pandemic in the United States and, due to the new profitability projections received by the Company, it was necessary to recognize a partial goodwill impairment, determined on the acquisition of that investment, in the amount of R$43 million. In addition, as a result of these new projections, we reassessed the realization of deferred tax assets of that subsidiary, resulting in a valuation allowance adjustment of R$70 million. In the second and third quarter, the results were in line with the revised plan. In the fourth quarter there was a recovery in the affiliate's sales level, and the revised projections for the pandemic did not materialize, returning to the projections prior to the pandemic. In the fourth quarter of 2020, the subsidiary SGUS made the investment available for sale with the expectation of completion in 2021.

Scenario for 2021 - COVID-19

Until the publication of the financial statements, the plants are operating normally maintaining production volumes. During the month of March 2021, some stores had their opening hours reduced and / or closed due to government determinations. E-commerce sales have not been interrupted. The Company awaits the decisions of the public authorities for the reopening of physical stores.

* * * * * * * * * * * * *