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Company information / Capital composition

Number of shares (thousands)	Last fiscal year 12/31/2020
Paid-up capital	
Common shares	99,631
Preferred shares	0
Total	99,631
Treasury shares	
Common shares	4
Preferred shares	0
Total	4

Parent company financial statements / Balance sheet – Assets (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
1	Total assets	2,355,157	1,093,447	977,519
1.01	Current assets	850,035	628,975	574,629
1.01.01	Cash and cash equivalents	3,291	1,686	1,102
1.01.02	Cash investments	347,640	222,677	209,174
1.01.02.01	Cash investments at fair value through profit or loss	347,640	222,677	209,174
1.01.02.01.03	Cash investments at fair value	347,640	222,677	209,174
1.01.03	Trade and other receivables	385,479	285,679	270,476
1.01.03.01	Trade receivables	385,479	285,679	255,246
1.01.03.02	Other receivables	0	0	15,230
1.01.04	Inventories	85,694	63,287	45,320
1.01.06	Taxes recoverable	11,461	41,953	36,528
1.01.06.01	Current taxes recoverable	11,461	41,953	36,528
1.01.08	Other current assets	16,470	13,693	12,029
1.01.08.03	Other	16,470	13,693	12,029
1.02	Non-current assets	1,505,122	464,472	402,890
1.02.01	Long-term receivables	144,863	64,320	61,608
1.02.01.04	Trade and other receivables	2,564	10,402	10,720
1.02.01.04.01	Trade receivables	2,564	10,402	10,720
1.02.01.07	Deferred taxes	48,850	15,196	15,746
1.02.01.07.01	Deferred income tax and social contribution	48,850	15,196	15,746
1.02.01.09	Receivables from related parties	75,548	23,736	22,583
1.02.01.09.02	Receivables from subsidiaries	30,523	23,736	22,583
1.02.01.09.05	Loans to related parties	45,025	0	0
1.02.01.10	Other non-current assets	17,901	14,986	12,559
1.02.01.10.03	Judicial deposits	17,585	14,669	12,014
1.02.01.10.04	Other	316	317	545
1.02.02	Investments	1,253,681	301,573	282,804
1.02.02.01	Equity investments	1,251,565	298,556	279,480
1.02.02.01.02	Investments in subsidiaries	1,251,565	298,556	279,480

Parent company financial statements / Balance sheet – Assets (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
1.02.02.02	Investment properties	2,116	3,017	3,324
1.02.02.02.01	Investment properties	2,116	3,017	3,324
1.02.03	Property, plant and equipment	49,068	57,199	26,314
1.02.03.01	Property, plant and equipment in operation	49,068	57,199	26,314
1.02.04	Intangible assets	57,510	41,380	32,164
1.02.04.01	Intangible assets	57,510	41,380	32,164
1.02.04.01.02	Trademarks and patents	5,582	5,336	4,686
1.02.04.01.04	Software licenses	51,928	36,044	27,478

Parent company financial statements / Balance sheet – Liabilities and equity (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
2	Total liabilities	2,355,157	1,093,447	977,519
2.01	Current liabilities	600,230	268,138	173,498
2.01.01	Salaries, vacation pay and social charges payable	31,699	42,855	32,898
2.01.01.01	Social charges	2,852	3,798	3,118
2.01.01.02	Salaries and vacation pay	28,847	39,057	29,780
2.01.02	Trade payables	335,821	121,687	90,545
2.01.02.01	Domestic suppliers	332,760	120,732	90,344
2.01.02.02	Foreign suppliers	3,061	955	201
2.01.03	Taxes payable	8,761	8,894	12,131
2.01.03.01	Federal taxes payable	8,409	8,584	11,100
2.01.03.01.02	Other federal taxes payable	8,409	8,584	11,100
2.01.03.02	State taxes payable	334	302	1,021
2.01.03.03	Municipal taxes payable	18	8	10
2.01.04	Borrowings	142,160	45,419	8,592
2.01.04.01	Borrowings	142,160	45,419	8,592
2.01.04.01.01	In local currency	41,369	5,118	8,592
2.01.04.01.02	In foreign currency	100,791	40,301	0
2.01.05	Other liabilities	81,789	49,283	29,332
2.01.05.02	Other	81,789	49,283	29,332
2.01.05.02.01	Dividends and interest on capital payable	0	22,675	18,172
2.01.05.02.04	Other	75,976	19,782	11,160
2.01.05.02.05	Lease liabilities	5,813	6,826	0
2.02	Non-current liabilities	406,330	79,238	92,679
2.02.01	Borrowings	318,611	3,839	67,090
2.02.01.01	Borrowings	318,611	3,839	67,090
2.02.01.01.01	In local currency	318,611	3,839	67,090
2.02.02	Other liabilities	16,735	25,615	19,563
2.02.02.01	Payables to related parties	0	3,795	19,563
2.02.02.01.04	Payables to subsidiary	0	3,795	19,563

Parent company financial statements / Balance sheet – Liabilities and equity (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
2.02.02.02	Other	16,735	21,820	0
2.02.02.02.04	Lease liabilities	16,735	21,820	0
2.02.04	Provisions	70,771	49,411	5,493
2.02.04.01	Provisions for tax, social security, labor and civil proceedings	5,721	5,508	5,493
2.02.04.01.02	Provision for social security and labor proceedings	3,990	3,608	3,515
2.02.04.01.04	Provision for civil proceedings	56	225	303
2.02.04.01.05	Provision for tax proceedings	1,675	1,675	1,675
2.02.04.02	Other provisions	65,050	43,903	0
2.02.04.02.04	Provision for net capital deficiency	65,050	43,903	0
2.02.06	Deferred profit and revenue	213	373	533
2.02.06.02	Deferred revenue	213	373	533
2.03	Equity	1,348,597	746,071	711,342
2.03.01	Paid-up capital	967,924	352,715	341,073
2.03.02	Capital reserves	49,229	50,538	46,725
2.03.02.02	Special reserve for goodwill arising from merger	21,470	21,470	21,470
2.03.02.05	Treasury shares	-191	-195	-2,332
2.03.02.09	Reserve for share option and restricted stock plans	27,950	29,263	27,587
2.03.04	Revenue reserves	338,414	335,998	319,202
2.03.04.05	Retained earnings reserve	107,895	94,276	165,033
2.03.04.07	Tax incentive reserve	227,937	213,880	136,443
2.03.04.08	Proposed additional dividend	2,582	27,842	17,726
2.03.08	Other comprehensive loss/income	-6,970	6,820	4,342

Parent company financial statements / Statement of income (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
3.01	Revenue from sales of goods and/or services	1,113,236	1,288,071	1,194,460
3.02	Cost of sales and/or services	-744,694	-813,665	-754,119
3.03	Gross profit	368,542	474,406	440,341
3.04	Operating expenses/income	-322,817	-296,882	-271,830
3.04.01	Selling expenses	-241,321	-183,082	-170,107
3.04.02	General and administrative expenses	-116,812	-136,463	-109,695
3.04.05	Other operating expenses	-2,866	18,513	-1,595
3.04.06	Equity in the earnings of equity-accounted subsidiaries	38,182	4,150	9,567
3.05	Profit before finance costs and taxes	45,725	177,524	168,511
3.06	Finance costs – net	-20,993	-2,426	-20,830
3.06.01	Finance income	35,802	17,145	25,590
3.06.01.01	Interest income	14,178	15,499	21,528
3.06.01.02	Foreign exchange gains	21,624	1,646	4,062
3.06.02	Finance costs	-56,795	-19,571	-46,420
3.06.02.01	Interest expense	-26,855	-11,813	-20,538
3.06.02.02	Foreign exchange losses	-29,940	-7,758	-25,882
3.07	Profit before income tax and social contribution	24,732	175,098	147,681
3.08	Income tax and social contribution	23,852	-12,959	-5,037
3.08.01	Current	-9,802	-14,090	-10,694
3.08.02	Deferred	33,654	1,131	5,657
3.09	Profit for the year from continuing operations	48,584	162,139	142,644
3.11	Profit for the year	48,584	162,139	142,644
3.99	Earnings per share (expressed in R$ per share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	0.53020	1.78790	1.58510
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	0.52830	1.77990	1.57570

Parent company financial statements / Statement of comprehensive income (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
4.01	Profit for the year	48,584	162,139	142,644
4.02	Other comprehensive loss/income	-13,790	2,478	6,328
4.02.01	Exchange differences on translation of foreign operations	-13,790	-789	8,518
4.02.02	Net investment hedge	0	3,267	-2,190
4.03	Total comprehensive income for the year	34,794	164,617	148,972

Parent company financial statements / Statement of cash flows – Indirect method (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
6.01	Net cash provided by operating activities	141,329	179,480	150,162
6.01.01	Cash from operations	39,039	203,365	170,496
6.01.01.01	Profit before income tax and social contribution	48,584	162,139	142,644
6.01.01.02	Depreciation and amortization	21,663	27,515	20,748
6.01.01.03	Loss on disposal of property, plant and equipment and intangible assets	333	-145	1,376
6.01.01.05	Equity in the earnings of equity-accounted subsidiaries	-38,182	-4,150	-9,567
6.01.01.06	Provision for labor, tax and civil proceedings	213	15	-633
6.01.01.07	Finance charges and foreign exchange losses on borrowings	28,994	10,268	17,995
6.01.01.08	Interest income on cash investments	-10,170	-10,853	-16,304
6.01.01.09	Provision for impairment of trade receivables	7,553	-3,200	1,996
6.01.01.10	Addition to provision for inventory losses	94	4,060	1,840
6.01.01.11	Share option plan	2,363	3,813	5,364
6.01.01.12	Interest expense on lease liabilities	1,447	944	0
6.01.01.13	Income tax and social contribution	-23,853	12,959	5,037
6.01.02	Changes in assets and liabilities	107,233	-6,296	-5,270
6.01.02.01	Trade receivables	-99,515	-26,914	-6,572
6.01.02.02	Inventories	-22,501	-22,027	-10,893
6.01.02.03	Changes in other current and non-current assets	-2,438	-1,434	3,088
6.01.02.04	Taxes recoverable	30,914	-5,423	-13,038
6.01.02.05	Judicial deposits	-2,915	-2,655	541
6.01.02.07	Trade payables	214,748	31,271	-6,010
6.01.02.08	Salaries and vacation pay	-10,211	9,272	3,308
6.01.02.09	Taxes and social charges payable	-6,888	3,151	19,347
6.01.02.11	Other liabilities	6,039	8,463	4,959
6.01.03	Other	-4,943	-17,589	-15,064
6.01.03.01	Income tax and social contribution paid	0	-14,810	-10,203
6.01.03.02	Interest paid on borrowings	-4,943	-2,779	-4,861
6.02	Net cash used in/provided by investing activities	-384,648	5,480	82,677
6.02.01	Purchases of property, plant and equipment and intangible assets	-29,147	-33,483	-20,258

Parent company financial statements / Statement of cash flows – Indirect method (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
6.02.02	Proceeds from sale of property, plant and equipment and intangible assets	922	500	84
6.02.03	Deposit/withdrawal of cash investments	-116,264	-4,955	102,851
6.02.05	Capital contribution to subsidiaries	-84,949	0	0
6.02.06	Dividends received	19,790	43,418	0
6.02.07	Payment for acquisition of subsidiary	-175,000	0	0
6.03	Net cash provided by/used in financing activities	244,924	-184,376	-235,999
6.03.01	Proceeds from borrowings	527,343	0	0
6.03.02	Repayment of borrowings	-139,881	-28,962	-67,066
6.03.04	Transactions with related parties	-58,552	-16,921	-60,906
6.03.05	Interest on capital paid	-42,415	-43,526	-41,922
6.03.06	Dividends paid	-28,530	-100,000	-73,796
6.03.08	Increase of share capital – Share issue	0	11,642	10,698
6.03.09	Payments for shares bought back	-3,672	0	-3,007
6.03.10	Principal elements of lease payments	-9,369	-6,609	0
6.05	Increase/decrease in cash and cash equivalents	1,605	584	-3,160
6.05.01	Cash and cash equivalents at the beginning of the year	1,686	1,102	4,262
6.05.02	Cash and cash equivalents at the end of the year	3,291	1,686	1,102

Parent company financial statements / Statement of changes in equity – 1/1/2020 to 12/31/2020 (In thousands of reais)

Account code	Account title	Paid-up capital	Capital reserves, share options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity
5.01	Opening balances	352,715	50,538	335,998	0	6,820	746,071
5.03	Adjusted opening balances	352,715	50,538	335,998	0	6,820	746,071
5.04	Equity transactions with shareholders	615,209	-1,309	-48,269	0	0	565,631
5.04.01	Share capital increases	615,209	0	0	0	0	615,209
5.04.05	Acquisition of treasury shares	0	-3,672	0	0	0	-3,672
5.04.07	Interest on capital paid	0	0	-26,978	0	0	-26,978
5.04.08	Share options and restricted stock granted	0	2,363	0	0	0	2,363
5.04.09	Interim dividends paid	0	0	-21,291	0	0	-21,291
5.05	Total comprehensive income	0	0	0	48,584	-13,790	34,794
5.05.01	Profit for the year	0	0	0	48,584	0	48,584
5.05.02	Other comprehensive loss	0	0	0	0	-13,790	-13,790
5.05.02.06	Exchange differences on translation of foreign operations	0	0	0	0	-13,790	-13,790
5.06	Internal changes in equity	0	0	48,103	-46,002	0	2,101
5.06.05	Legal reserve	0	0	2,429	-2,429	0	0
5.06.06	Tax incentive reserve	0	0	43,573	-43,573	0	0
5.06.07	Reversal of expired dividends of related party	0	0	2,101	0	0	2,101
5.07	Closing balances	967,924	49,229	335,832	2,582	-6,970	1,348,597

Parent company financial statements / Statement of changes in equity - 1/1/2019 to 12/31/2019 (In thousands of reais)

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

Parent company financial statements / Statement of changes in equity - 1/1/2018 to 12/31/2018 (In thousands of reais)

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

Parent company financial statements / Statement of value added (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
7.01	Revenue	1,290,327	1,498,750	1,385,013
7.01.01	Sales of goods, products and services	1,297,880	1,495,550	1,387,009
7.01.04	Provision for/reversal of impairment of trade receivables	-7,553	3,200	-1,996
7.02	Inputs acquired from third parties	-1,125,550	-1,174,612	-1,075,984
7.02.01	Cost of sales and services	-945,643	-1,033,225	-957,611
7.02.02	Materials, electricity, outsourced services and other	-175,729	-136,696	-114,866
7.02.04	Other	-4,178	-4,691	-3,507
7.03	Gross value added	164,777	324,138	309,029
7.04	Deductions	-21,663	-27,515	-20,748
7.04.01	Depreciation, amortization and depletion	-21,663	-27,515	-20,748
7.05	Net value added generated by the entity	143,114	296,623	288,281
7.06	Value added received through transfer	63,872	45,318	41,294
7.06.01	Equity in the earnings of equity-accounted subsidiaries	38,182	4,150	9,567
7.06.02	Finance income	24,583	17,144	25,591
7.06.03	Other	1,107	24,024	6,136
7.07	Total value added to distribute	206,986	341,941	329,575
7.08	Distribution of value added	206,986	341,941	329,575
7.08.01	Personnel	130,948	131,971	121,489
7.08.01.01	Direct compensation	82,719	76,978	74,666
7.08.01.02	Benefits	11,087	9,239	8,211
7.08.01.03	Government severance indemnity fund for employees (FGTS)	8,779	7,413	6,457
7.08.01.04	Other	28,363	38,341	32,155
7.08.01.04.01	Employee profit sharing	9,143	18,800	11,072
7.08.01.04.02	Other	15,248	14,029	13,351
7.08.01.04.03	Share option plan	3,972	5,512	7,732
7.08.02	Taxes and contributions	-21,374	20,889	12,925
7.08.02.01	Federal	16,219	62,301	50,902
7.08.02.02	State	-38,260	-42,092	-38,306
7.08.02.03	Municipal	667	680	329

Parent company financial statements / Statement of value added (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
7.08.03	Lenders and creditors	48,828	26,942	52,517
7.08.03.01	Interest	12,876	3,719	11,162
7.08.03.02	Rentals	3,252	7,372	6,096
7.08.03.03	Other	32,700	15,851	35,259
7.08.03.03.01	Finance costs	32,700	15,851	35,259
7.08.04	Shareholders	48,584	162,139	142,644
7.08.04.01	Interest on capital	0	38,105	21,001
7.08.04.02	Dividends	2,582	42,354	42,726
7.08.04.03	Profits reinvested/loss for the year	46,002	81,680	78,917

Consolidated financial statements / Balance sheet – Assets (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
1	Total assets	2,832,545	1,413,249	1,045,032
1.01	Current assets	1,564,868	980,665	842,001
1.01.01	Cash and cash equivalents	38,297	13,808	8,501
1.01.02	Cash investments	522,868	263,875	227,300
1.01.02.01	Cash investments at fair value through profit or loss	522,868	263,875	227,300
1.01.02.01.03	Cash investments at fair value	522,868	263,875	227,300
1.01.03	Trade and other receivables	598,824	413,412	382,728
1.01.03.01	Trade receivables	598,824	413,412	382,728
1.01.04	Inventories	290,896	179,499	150,861
1.01.06	Taxes recoverable	86,034	90,332	49,370
1.01.06.01	Current taxes recoverable	86,034	90,332	49,370
1.01.08	Other current assets	27,949	19,739	23,241
1.01.08.03	Other	27,949	19,739	23,241
1.02	Non-current assets	1,267,677	432,584	203,031
1.02.01	Long-term receivables	118,494	50,438	49,338
1.02.01.04	Trade and other receivables	2,564	10,402	10,720
1.02.01.04.01	Trade receivables	2,564	10,402	10,720
1.02.01.07	Deferred taxes	80,632	15,682	17,491
1.02.01.07.01	Deferred income tax and social contribution	80,632	15,682	17,491
1.02.01.09	Receivables from related parties	1,000	0	0
1.02.01.09.05	Receivables from subsidiaries	1,000	0	0
1.02.01.10	Other non-current assets	34,298	24,354	21,127
1.02.01.10.03	Judicial deposits	30,970	21,863	18,402
1.02.01.10.04	Other	3,328	2,491	2,725
1.02.02	Investments	3,016	3,017	3,324
1.02.02.01	Equity investments	900	0	0
1.02.02.01.04	Investments in jointly-controlled investees	900	0	0
1.02.02.02	Investment properties	2,116	3,017	3,324
1.02.02.02.01	Investment properties	2,116	3,017	3,324

Consolidated financial statements / Balance sheet – Assets (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
1.02.03	Property, plant and equipment	316,300	304,082	83,201
1.02.03.01	Property, plant and equipment in operation	316,300	304,082	83,201
1.02.04	Intangible assets	829,867	75,047	67,168
1.02.04.01	Intangible assets	829,867	75,047	67,168
1.02.04.01.02	Trademarks and patents	7,810	6,494	5,802
1.02.04.01.03	Key money	33,829	28,167	30,643
1.02.04.01.04	Software licenses	55,673	40,386	30,723
1.02.04.01.05	Intangible assets - fair value adjustments to the carrying amounts	266,427	0	0
1.02.04.01.06	Goodwill	466,128	0	0

Consolidated financial statements / Balance sheet – Liabilities and equity (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
2	Total liabilities	2,832,545	1,413,249	1,045,032
2.01	Current liabilities	911,418	464,659	255,889
2.01.01	Salaries, vacation pay and social charges payable	59,269	52,944	43,111
2.01.01.01	Social charges	7,498	5,647	4,949
2.01.01.02	Salaries and vacation pay	51,771	47,297	38,162
2.01.02	Trade payables	399,189	134,967	110,121
2.01.02.01	Domestic suppliers	395,803	134,012	109,920
2.01.02.02	Foreign suppliers	3,386	955	201
2.01.03	Taxes payable	40,481	27,259	24,178
2.01.03.01	Federal taxes payable	21,944	22,734	17,868
2.01.03.01.01	Income tax and social contribution payable	6,361	12,086	4,201
2.01.03.01.02	Other federal taxes payable	15,583	10,648	13,667
2.01.03.02	State taxes payable	18,386	4,521	6,326
2.01.03.03	Municipal taxes payable	151	4	-16
2.01.04	Borrowings	239,483	158,222	43,978
2.01.04.01	Borrowings	239,483	158,222	43,978
2.01.04.01.01	In local currency	53,912	5,191	8,709
2.01.04.01.02	In foreign currency	185,571	153,031	35,269
2.01.05	Other liabilities	172,996	91,267	34,501
2.01.05.02	Other	172,996	91,267	34,501
2.01.05.02.01	Dividends and interest on capital payable	0	22,675	18,172
2.01.05.02.04	Other	120,106	28,447	16,329
2.01.05.02.05	Lease liabilities	52,890	40,145	0
2.02	Non-current liabilities	572,530	202,519	77,801
2.02.01	Borrowings	394,786	22,562	67,440
2.02.01.01	Borrowings	394,786	22,562	67,440
2.02.01.01.01	In local currency	239,553	4,117	9,307
2.02.01.01.02	In foreign currency	155,233	18,445	58,133
2.02.02	Other liabilities	160,470	170,415	1,443

Consolidated financial statements / Balance sheet – Liabilities and equity (In thousands of reais)

Account code	Account title	Last year 12/31/2020	Penultimate year 12/31/2019	Antepenultimate year 12/31/2018
2.02.02.01	Payables to related parties	0	1,502	1,443
2.02.02.01.04	Payables to controlling shareholders	0	1,502	1,443
2.02.02.02	Other	160,470	168,913	0
2.02.02.02.03	Lease liabilities	160,470	168,913	0
2.02.04	Provisions	13,141	9,542	8,385
2.02.04.01	Provisions for tax, social security, labor and civil proceedings	12,928	9,169	8,385
2.02.04.01.02	Provision for social security and labor proceedings	10,290	6,887	6,016
2.02.04.01.04	Provision for civil proceedings	594	238	325
2.02.04.01.05	Provision for tax proceedings	2,044	2,044	2,044
2.02.04.02	Other provisions	213	373	0
2.02.04.02.04	Provision for loss on investments	213	373	0
2.02.06	Deferred profit and revenue	4,133	0	533
2.02.06.02	Deferred revenue	4,133	0	533
2.03	Consolidated equity	1,348,597	746,071	711,342
2.03.01	Paid-up capital	967,924	352,715	341,073
2.03.02	Capital reserves	49,229	50,538	46,725
2.03.02.02	Special reserve for goodwill arising from merger	21,470	21,470	21,470
2.03.02.05	Treasury shares	-191	-195	-2,332
2.03.02.09	Reserve for share option and restricted stock plans	27,950	29,263	27,587
2.03.04	Revenue reserves	338,414	335,998	319,202
2.03.04.05	Retained earnings reserve	107,895	94,276	165,033
2.03.04.07	Tax incentive reserve	227,937	213,880	136,443
2.03.04.08	Proposed additional dividend	2,582	27,842	17,726
2.03.08	Other comprehensive loss/income	-6,970	6,820	4,342

Consolidated financial statements / Statement of income (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
3.01	Revenue from sales of goods and/or services	1,590,992	1,679,235	1,526,659
3.02	Cost of sales and/or services	-835,779	-903,541	-815,987
3.03	Gross profit	755,213	775,694	710,672
3.04	Operating expenses/income	-663,104	-552,592	-519,393
3.04.01	Selling expenses	-529,953	-424,366	-378,922
3.04.02	General and administrative expenses	-162,234	-184,012	-140,865
3.04.05	Other operating expenses	29,083	55,786	394
3.05	Profit before finance costs and taxes	92,109	223,102	191,279
3.06	Finance costs – net	-37,551	-18,176	-21,281
3.06.01	Finance income	65,531	24,720	40,039
3.06.01.01	Interest income	16,463	18,344	22,992
3.06.01.02	Foreign exchange gains	49,068	6,376	17,047
3.06.02	Finance costs	-103,082	-42,896	-61,320
3.06.02.01	Interest expense	-51,604	-29,646	-26,633
3.06.02.02	Foreign exchange losses	-51,478	-13,250	-34,687
3.07	Profit before income tax and social contribution	54,558	204,926	169,998
3.08	Income tax and social contribution	-5,974	-42,787	-27,354
3.08.01	Current	-46,596	-42,659	-31,631
3.08.02	Deferred	40,622	-128	4,277
3.09	Profit for the year from continuing operations	48,584	162,139	142,644
3.11	Consolidated profit for the year	48,584	162,139	142,644
3.11.01	Attributable to owners of the Parent company	48,584	162,139	142,644
3.99	Earnings per share (expressed in R$ per share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	0.53020	1.78790	1.58510
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	0.52830	1.77990	1.57570

Consolidated financial statements / Statement of comprehensive income (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
4.01	Consolidated profit for the year	48,584	162,139	142,902
4.02	Other comprehensive loss/income	-13,790	2,478	6,328
4.02.01	Exchange differences on translation of foreign operations	-13,790	-789	8,518
4.02.02	Net investment hedge	0	3,267	-2,190
4.03	Consolidated comprehensive income for the year	34,794	164,617	149,230
4.03.01	Attributable to owners of the Parent company	34,794	164,617	149,230

Consolidated financial statements / Statement of cash flows – Indirect method (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
6.01	Net cash provided by operating activities	220,316	204,882	117,836
6.01.01	Cash from operations	198,434	297,062	217,801
6.01.01.01	Profit before income tax and social contribution	48,584	162,139	142,644
6.01.01.02	Depreciation and amortization	81,103	80,322	40,882
6.01.01.03	Loss/profit on disposal of property, plant and equipment and intangible assets	20,712	-3,251	-713
6.01.01.06	Provision for labor, tax and civil proceedings	801	784	-481
6.01.01.07	Finance charges and foreign exchange losses on borrowings	34,612	16,517	15,588
6.01.01.08	Interest income on cash investments	-11,650	-13,614	-17,664
6.01.01.09	Provision for impairment of trade receivables	8,938	-2,610	2,354
6.01.01.10	Addition to provision for inventory losses	1,026	4,569	2,473
6.01.01.11	Share option plan	2,363	3,813	5,364
6.01.01.12	Interest expense on lease liabilities	5,972	5,608	0
6.01.01.13	Income tax and social contribution	5,973	42,785	27,354
6.01.02	Changes in assets and liabilities	50,373	-50,887	-66,170
6.01.02.01	Trade receivables	-108,797	-27,753	-47,759
6.01.02.02	Inventories	-38,655	-33,208	-39,845
6.01.02.03	Changes in other current assets	-25,357	2,306	-1,294
6.01.02.04	Taxes recoverable	-15,140	-40,835	-11,396
6.01.02.05	Judicial deposits	-9,108	-3,461	715
6.01.02.07	Trade payables	234,575	29,496	5,705
6.01.02.08	Salaries and vacation pay	-8,610	9,135	3,594
6.01.02.09	Taxes and social charges payable	5,313	1,465	18,618
6.01.02.11	Changes in other current liabilities	16,152	11,968	5,492
6.01.03	Other	-28,491	-41,293	-33,795
6.01.03.01	Income tax and social contribution paid	-19,437	-34,825	-28,746
6.01.03.02	Interest paid on borrowings	-9,054	-6,468	-5,049
6.02	Net cash used in/provided by investing activities	-297,282	-85,409	72,236
6.02.01	Purchases of property, plant and equipment and intangible assets	-46,185	-65,607	-48,614
6.02.02	Proceeds from sale of property, plant and equipment and intangible assets	1,277	6,126	6,437

Consolidated financial statements / Statement of cash flows – Indirect method (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
6.02.03	Deposit/withdrawal of cash investments	-189,024	-25,928	114,413
6.02.05	Capital contribution to subsidiaries	100,000	0	0
6.02.06	Dividends received	54	0	0
6.02.07	Payment for acquisition of subsidiary	-163,404	0	0
6.03	Net cash provided by/used in financing activities	101,451	-114,281	-192,556
6.03.01	Proceeds from borrowings	552,851	153,084	70,400
6.03.02	Repayment of borrowings	-213,882	-88,816	-155,140
6.03.05	Interest on capital paid	-42,415	-43,526	-41,922
6.03.06	Dividends paid	-128,577	-100,000	-73,796
6.03.07	Receivables from/payables to shareholders	-2,502	58	211
6.03.08	Increase in share capital – Share issue	0	11,642	10,698
6.03.09	Acquisition of treasury shares	-3,672	0	-3,007
6.03.10	Principal elements of lease payments	-60,352	-46,723	0
6.04	Foreign exchange gains on cash and cash equivalents	4	115	829
6.05	Increase/decrease in cash and cash equivalents	24,489	5,307	-1,655
6.05.01	Cash and cash equivalents at the beginning of the year	13,808	8,501	10,156
6.05.02	Cash and cash equivalents at the end of the year	38,297	13,808	8,501

Consolidated financial statements / Statement of changes in equity - 1/1/2020 to 12/31/2020 (In thousands of reais)

Account code	Account title	Paid-up capital	Capital reserves, share options granted and treasury shares	Revenue reserves	Retained earnings or accumulated deficit	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	352,715	50,538	335,998	0	6,820	746,071	0	746,071
5.03	Adjusted opening balances	352,715	50,538	335,998	0	6,820	746,071	0	746,071
5.04	Equity transactions with shareholders	615,209	-1,309	-48,269	0	0	565,631	0	565,631
5.04.01	Share capital increases	615,209	0	0	0	0	615,209	0	615,209
5.04.05	Acquisition of treasury shares	0	-3,672	0	0	0	-3,672	0	-3,672
5.04.07	Interest on capital paid	0	0	-26,978	0	0	-26,978	0	-26,978
5.04.08	Share option and restricted stock granted	0	2,363	0	0	0	2,363	0	2,363
5.04.09	Interim dividends paid	0	0	-21,291	0	0	-21,291	0	-21,291
5.05	Total comprehensive income	0	0	0	48,584	-13,790	34,794	0	34,794
5.05.01	Profit for the year	0	0	0	48,584	0	48,584	0	48,584
5.05.02	Other comprehensive loss	0	0	0	0	-13,790	-13,790	0	-13,790
5.05.02.06	Exchange differences on translation of foreign operations	0	0	0	0	-13,790	-13,790	0	-13,790
5.06	Internal changes in equity	0	0	48,103	-46,002	0	2,101	0	2,101
5.06.04	Legal reserve	0	0	2,429	-2,429	0	0	0	0
5.06.06	Tax incentive reserve	0	0	43,573	-43,573	0	0	0	0
5.06.07	Reversal of expired dividends of related party	0	0	2,101	0	0	2,101	0	2,101
5.07	Closing balances	967,924	49,229	335,832	2,582	-6,970	1,348,597	0	1,348,597

Consolidated financial statements / Statement of changes in equity - 1/1/2019 to 12/31/2019 (In thousands of reais)

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

Consolidated financial statements / Statement of changes in equity - 1/1/2018 to 12/31/2018 (In thousands of reais)

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

Consolidated financial statements / Statement of value added (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
7.01	Revenue	1,860,887	1,948,123	1,776,006
7.01.01	Sales of goods, products and services	1,869,825	1,945,513	1,778,360
7.01.04	Provision for/reversal of impairment of trade receivables	-8,938	2,610	-2,354
7.02	Inputs acquired from third parties	-1,340,587	-1,365,828	-1,231,331
7.02.01	Cost of sales and services	-996,271	-1,058,147	-960,572
7.02.02	Materials, electricity, outsourced services and other	-331,039	-298,419	-263,511
7.02.04	Other	-13,277	-9,262	-7,248
7.03	Gross value added	520,300	582,295	544,675
7.04	Deductions	-81,103	-80,322	-40,882
7.04.01	Depreciation, amortization and depletion	-81,103	-80,322	-40,882
7.05	Net value added generated by the entity	439,197	501,973	503,793
7.06	Value added received through transfer	87,639	86,017	48,165
7.06.02	Finance income	54,313	24,720	40,039
7.06.03	Other	33,326	61,297	8,126
7.07	Total value added to distribute	526,836	587,990	551,958
7.08	Distribution of value added	526,836	587,990	551,958
7.08.01	Personnel	232,816	208,616	197,320
7.08.01.01	Direct compensation	171,481	134,439	131,937
7.08.01.02	Benefits	19,755	19,017	18,162
7.08.01.03	Government severance indemnity fund for employees (FGTS)	13,543	12,631	11,909
7.08.01.04	Other	28,037	42,529	35,312
7.08.01.04.01	Employee profit sharing	1,347	18,838	11,145
7.08.01.04.02	Other	22,718	18,179	16,435
7.08.01.04.03	Share option plan	3,972	5,512	7,732
7.08.02	Taxes and contributions	88,942	109,717	96,209
7.08.02.01	Federal	76,677	110,001	93,687
7.08.02.02	State	10,272	-2,205	1,022
7.08.02.03	Municipal	1,993	1,921	1,500
7.08.03	Lenders and creditors	156,494	107,518	115,785

Consolidated financial statements / Statement of value added (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31/2019	Antepenultimate year 1/1/2018 to 12/31/2018
7.08.03.01	Interest	1,866,887	1,946,623	1,776,008
7.08.03.02	Rentals	1,869,625	1,965,510	1,758,465
7.08.03.03	Other	78,918	32,617	52,854
7.08.03.03.01	Finance costs	-1,370,588	-1,366,828	-1,252,872
7.08.04	Shareholders	-996,281	-1,068,149	-960,674
7.08.04.01	Interest on capital	-331,039	-298,415	-263,001
7.08.04.02	Dividends	-13,287	49,264	47,726
7.08.04.03	Profits reinvested	526,900	582,699	544,875
7.04	Deductions	-81,103	-80,322	-40,882
7.04.01	Depreciation, amortization and depletion	-81,103	-80,322	-40,882
7.05	Net value added generated by the entity	439,197	501,973	503,793
7.06	Value added received through transfer	87,639	86,017	48,165
7.06.02	Finance income	54,313	24,720	40,039
7.06.03	Other	33,326	61,297	8,126
7.07	Total value added to distribute	526,836	587,990	551,958
7.08	Distribution of value added	526,836	587,990	551,958
7.08.01	Personnel	232,816	208,616	197,320
7.08.01.01	Direct compensation	171,481	134,439	131,937
7.08.01.02	Benefits	19,755	19,017	18,162
7.08.01.03	Government severance indemnity fund for employees (FGTS)	13,543	12,631	11,909
7.08.01.04	Other	28,037	42,529	35,312
7.08.01.04.01	Employee profit sharing	1,347	18,838	11,145
7.08.01.04.02	Other	22,718	18,179	16,435
7.08.01.04.03	Share option plan	3,972	5,512	7,732
7.08.02	Taxes and contributions	88,942	109,717	96,209
7.08.02.01	Federal	76,677	110,001	93,687
7.08.02.02	State	10,272	-2,205	1,022
7.08.02.03	Municipal	1,993	1,921	1,500
7.08.03	Lenders and creditors	156,494	107,518	115,785

Consolidated financial statements / Statement of value added (In thousands of reais)

Account code	Account title	Last year 1/1/2020 to 12/31/2020	Penultimate year 1/1/2019 to 12/31//2019	Antepenultimate year 1/1/2018 to 12/31/2018
7.08.03.01	Interest	18,346	6,601	8,448
7.08.03.02	Rentals	64,630	64,350	54,465
7.08.03.03	Other	73,518	36,567	52,872
7.08.03.03.01	Finance costs	73,518	36,567	52,872
7.08.04	Shareholders	48,584	162,139	142,644
7.08.04.01	Interest on capital	0	38,105	21,001
7.08.04.02	Dividends	2,582	42,354	42,726
7.08.04.03	Profits reinvested/ loss for the year	46,002	81,680	78,917

(A free translation of the original in Portuguese)

Highlights 4Q20 Earnings Release

- **Gross Revenue surged 39.8%** to R$802.3 million **in 4Q20** vs. 4Q19;
- **Adjusted EBITDA rose 61.1%** to R$122.2 million **vs. 4Q19**, with margin increasing 280 bps;
- **Adjusted Net Income** of R$83.2 million, a **77.8%** growth**;**
- Reserva Group recorded **Gross Revenue of R$90.3 million** in December, and **R$ 168.1 million in 4Q20**;
- **Net opening of 44 stores in 4Q20**, amid a challenging global scenario. Including Reserva Group, Arezzo&Co ends 2020 with 901 stores;
- **Solid digitalization of the company – 20.5% of revenue in 4Q20 stemmed from online channel via Salesperson APP;**
- **Web commerce grows 139.0%** (R$162.4 million) or 22.4% of gross revenue;
- Substantial growth of multibrand channel of **94.5%** in 4Q20;
- **Positive EBITDA of R$6.7 million** in the North-American market, with 19.1% Gross Revenue growth;

Key Digital Initiatives

E-commerce

- Growth of 139% in 4Q20, reaching R$162.4 million in sales;
- Growth of 145.3% in 2020, reaching R$526.4 million in sales;
- 467,000 downloads of brands apps in 4Q20;
- 31.7% of web commerce revenue stemmed from apps (mobile).

Online customer relationship through the "Salesperson APP"

- 3.2 million contacts in 4Q20;
- 20.5% of physical stores' sell out "digitally" originated.

OMNI: channels' integration sales evolution

- Greater engagement of commercial team and franchisees;
- Penetration of online tools in physical stores;
    - Remote Sale by Link: 96%; | Endless aisle: 95%; | Click N' Collect: 76%; | Store Shipping: 68%;
- São Paulo: click n' collect and store shipping accounted for 28% of revenue.

Sell in e-showroom

- Franchisees and multibrands in a unique tool with greater efficiency;
- Capacity for +3,000 simultaneous users.

CRM

- **10 million customers in the base, +3 million of them active at Arezzo&Co and 1 million at Reserva Group;**
- **1 million customers who shopped via online channels in 2020, 3x higher than in 2019;**
- **250,000 new customers acquired and 180,000 reactivated customers;**
- **High level of customer satisfaction, with NPS reaching 82 points.**

Message from Management

Although 2020 was an unusual year for Arezzo&Co, we quickly adapted to the changes imposed by the pandemic: one of the most unparalleled challenges of our time. By incorporating Reserva Group, Arezzo&Co went from a footwear and handbag company **to become a real "house of brands."** Aside from the Covid-19 pandemic, we launched a new marketplace (ZZ MALL) and added a second-hand online platform to our portfolio (TROC). This further reinforced our eco-friendly positioning by investing in a more sustainable circular fashion. After so many challenges, **Arezzo&Co ended 2020 with a level of revenue similar to 2019, even though all physical stores remained closed for nearly 4 months**. In 4Q20, Arezzo&Co posted an outstanding revenue growth of 39.8%, hitting a record of R$802 million. Even considering the incorporation of Reserva Group, the Company ended 2020 with a comfortable cash position.

During the early pandemic, **Arezzo&Co got a head start**, we quickly **ramped up our digital operations** by enhancing online sales with intensive training for both franchisees and sellers, while focusing on the web commerce channel. Also, an **intensive care for suppliers, franchisees, and multibrand continued** by adopting care measures. We offered total support, cancelation of orders, granted additional payment terms.

Aside from the sales front and support for stakeholders, **the R&D teams reinvented themselves** with a wider offering of loungewear options. In just a few weeks, plant production resumed and the **sell in process to franchisees and multibrands now takes place every two weeks**, while novelties are launched more frequently, thanks to the **total control of sourcing chain, which allowed to increment the number of collections** to nearly 20/year. The efficacy of these measures could be seen in **market share gains**, from estimated 24.8% in 2019 to nearly 30.0% by the end of 2020.

We consolidated the web commerce in 2020 with R$526 million in sales, 145% higher than in 2019. Our growth was boosted by an **increased use of brands apps**, which totaled 467,000 downloads and 31.7% of revenue generated by the channel. However, a trend of retail digitalization can also be measured by a strong higher level of **sales originated online by the salesperson, which already account for 20% of sellout in physical stores.**

Also, the **omnichannel sales generated by web saw a significant growth**: in the São Paulo market, the click n' collect and store shopping accounted for 28% of revenue in 4Q20, driven by a rapid technological evolution to expand inventory, thus, enhancing product availability and customer satisfaction, the core element of our strategy.

Message from Management

Despite a year of pandemic, we recorded **over 3 million active customers** (out of a total base of 10 million) and one-third of customers shopped via online channels, 3x higher than in 2019. Online sales growth was accompanied by **high levels of customer satisfaction**, with NPS reaching 82 points.

We reached a new level in CRM operation, increasing by five times the monthly volume of customized activations, with a direct impact on revenue from physical and online channels. We also quickly created an online relationship solution in our salesperson app, allowing 3.2 million contact with customers in 4Q20.

In 2020, Arezzo&Co **launched a new marketplace (**ZZ MALL), it added **TROC** to its ecosystem, **a second-hand online platform**, reinforcing its positioning of an environmentally sustainable company by investing in circular economy, also **created the ZZ Ventures**, liable for acquiring new startups, with a focus on technology assets and insurgent brands.

As far as Arezzo&Co's international operations are concerned, necessary adjustments were made during the most critical period of the pandemic, including reducing footprint of physical stores, adjusting corporate structure, reviewing the Schutz brand pricing positioning and a total focus on e-commerce, with positive results and **profitability at the level of EBITDA already verified in the second half of 2020.**

Arezzo&Co officially incorporated Reserva Group in December, which delivered outstanding results at the end of 2020, hitting an all-time high during Christmas. This integration process happens **in a positive and effective way,** which bolsters our confidence in the execution of our strategic planning over the coming years, with significant value extraction.

With regards to ESG, we aspire **to become a benchmark sustainable company and lead the fashion industry towards its transformation**. Concerning production, Arezzo&Co and Reserva Group work with **96% nationwide manufacturing**, thus, contributing to generate **jobs in Brazil** and collect taxes.

Concerning **waste and emissions,** our goal is to reduce emissions by 10% in 2021, and the Company already works with 12% of environmentally sustainable raw materials. In certifications pillar, we highlight (i) the 100% adhesion of suppliers to ABVTEX in 2021 and 2022; (ii) the certification of 100% leather suppliers with CSCB or LWG in 2021 and (iii) preparation for B Corp System certification in 2022. Lastly, in the **diversity front**, Arezzo&Co has a solid calendar of continued education, awareness and training initiatives.

Aside from the issues mentioned above, **Arezzo&Co envisages innumerous paths for continuous growth**. The year 2020 resulted in a deep disruption that took Arezzo&Co to another level of results. We began 2021 with high confidence that we will accomplish in our efforts. It is possible to affirm that the **figures recorded during the first two months of 2021 were very promising**.

As our priorities for 2021, we list the organic growth of core brands and market share gain; consolidation of Reserva Group; the advancement of digitalization towards a planned ecosystem of brands, products, and services; acquisition of new brands; and continued expansion in the North American market.

On February 2nd, 2021, Arezzo&Co celebrated a decade as a publicly-held company at B3. During these last 10 years, we delivered solid and consistent results, with higher revenue and profitability levels in almost all the quarters. The Company would like to thank all the investors, analysts, and stakeholders for their confidence and dedication throughout this journey. For us, it is only the beginning of a new Arezzo&Co.

2154 is now!

The Management

(A free translation of the original in Portuguese)

Gross Revenue and Operational Indicators

It is worth noting that results below only consider the month of December of Reserva Group[1].

Gross Revenue	4Q20	Part%	4Q19	Part%	Δ (%) 20 x 19	2020	Part%	2019	Part%	Δ (%) 20 x 19
Total Gross Revenue	802.283		573.729		39,8%	2.021.609		2.063.928		(2,1%)
Foreign Market	76.785	9,6%	66.258	11,5%	15,9%	224.767	11,1%	258.982	12,5%	(13,2%)
Exports	7.902	10,3%	8.420	12,7%	(6,2%)	23.714	10,6%	54.509	21,0%	(56,5%)
US Operation	68.883	89,7%	57.838	87,3%	19,1%	201.053	89,4%	204.474	79,0%	(1,7%)
Domestic Market	725.498	90,4%	507.471	88,5%	43,0%	1.796.841	88,9%	1.804.946	87,5%	(0,4%)
By Brand										
Arezzo	295.969	40,8%	282.268	55,6%	4,9%	760.648	42,3%	983.757	54,5%	(22,7%)
Schutz[2]	152.388	21,0%	121.950	24,0%	25,0%	427.641	23,8%	474.295	26,3%	(9,8%)
Reserva Group[3]	90.333	12,5%	-	-	na	90.333	5,0%	-	-	na
Anacapri	83.801	11,6%	76.186	15,0%	10,0%	217.745	12,1%	259.116	14,4%	(16,0%)
Vans	78.410	10,8%	-	-	na	231.908	12,9%	-	-	na
Others[4]	24.597	3,4%	27.067	5,3%	(9,1%)	68.566	3,8%	87.778	4,9%	(21,9%)
By Channel										
Franchises	251.038	34,6%	270.267	53,3%	(7,1%)	562.266	31,3%	899.399	49,8%	(37,5%)
Multibrand	179.246	24,7%	92.158	18,2%	94,5%	471.554	26,2%	423.008	23,4%	11,5%
Owned Stores	132.715	18,3%	76.982	15,2%	72,4%	235.946	13,1%	266.310	14,8%	(11,4%)
Web Commerce	162.400	22,4%	67.948	13,4%	139,0%	526.382	29,3%	214.580	11,9%	145,3%
Others[5]	99	0,0%	116	0,0%	(14,7%)	693	0,0%	1.649	0,1%	(58,0%)
By Channel (ex-Reserva)	635.165		507.471		25,2%	1.706.508		1.804.946		(5,5%)
Franchises	246.291	38,8%	270.267	53,3%	(8,9%)	557.519	32,7%	899.399	49,8%	(38,0%)
Multibrand	174.101	27,4%	92.158	18,2%	88,9%	466.409	27,3%	423.008	23,4%	10,3%
Owned Stores	69.207	10,9%	76.982	15,2%	(10,1%)	172.438	10,1%	266.310	14,8%	(35,2%)
Web Commerce	145.458	22,9%	67.948	13,4%	114,1%	509.440	29,9%	214.580	11,9%	137,4%
Others[5]	108	0,0%	116	0,0%	(6,9%)	702	0,0%	1.649	0,1%	(57,4%)

(1) Incorporation of Reserva figures after CADE's formal approval and closing of the transaction
(2) Excludes revenue from international operation.
(3) Reserva Group comprises the brands Reserva, Reserva Mini, Oficina Reserva, Reserva Go, EVA and INK.
(4) Includes the brands A. Birman, Fiever and Alme only in the domestic market, and other non-specific revenue from the brands.
(5) Includes revenue in the domestic market not specific to the distribution channels.

Indicadores Operacionais[1]	4Q20	4Q19	Δ (%) 20 x 19	2020	2019	Δ (%) 20 x 19
# of pairs sold ('000)	5.497	4.352	26,3%	13.032	14.533	-10,3%
# of handbags sold ('000)	535	509	5,1%	1.374	1.771	-22,4%
# of clothes sold ('000)	633	-	-	935	-	-
# of employees	2.260	2.465	-8,3%	2.260	2.465	-8,3%
# of stores*	901	752	149	901	752	149
Owned Stores	139	53	86	139	53	86
Franchises	762	699	63	762	699	63
Outsourcing (as % of total production)	92,1%	91,0%	1,1 p.p	90,6%	90,7%	-0,1 p.p
SSS[2] Sell in (franchises)	-3,4%	2,8%	-6,2 p.p	-25,2%	1,7%	-26,9 p.p
SSS[2] Sell out (owned stores + franchises + web)	-10,6%	5,7%	-16,3 p.p	-23,8%	3,9%	-27,7 p.p

(1) Operational indicators exclude the incorporation of Reserva Group, except for the lines referring to the number of clothing items sold and the number of owned stores and franchises.
(2) It considers clothing items sold by Vans (full year) and Reserva Group (only in December)
(3) SSS (same-store sales): stores are included in sales of comparable stores as from the 13th month of operation.
* It includes stores abroad

(A free translation of the original in Portuguese)

Key Financial Indicators

It is worth noting that results below only consider the month of December of Reserva Group[1].

Key financial indicators	4Q20 Adjusted	4Q19 Adjusted	△ (%) 20 x 19	2020 Adjusted	2019 Adjusted	△ (%) 20 x 19
Gross Revenues	802.283	573.729	39,8%	2.026.280	2.063.928	(1,8%)
Net Revenues	644.615	467.652	37,8%	1.612.539	1.679.235	(4,0%)
COGS	(328.421)	(249.435)	31,7%	(846.175)	(903.541)	(6,3%)
Depreciation and amortization (cost)	(821)	(664)	23,6%	(3.249)	(2.768)	17,4%
Gross Profit	316.194	218.217	44,9%	766.364	775.694	(1,2%)
Gross margin	*49,1%*	*46,7%*	*2,4 p.p*	*47,5%*	*46,2%*	*1,3 p.p*
SG&A	(212.057)	(160.138)	32,4%	(615.568)	(584.697)	5,3%
% of net revenues	*(32,9%)*	*(34,2%)*	*1,3 p.p*	*(38,2%)*	*(34,8%)*	*(3,4 p.p)*
Selling expenses	**(145.598)**	**(108.582)**	**34,1%**	**(404.532)**	**(368.017)**	**9,9%**
Owned stores and web commerce	(61.317)	(33.064)	85,4%	(153.494)	(119.124)	28,9%
Selling, logistics and supply	(84.281)	(75.518)	11,6%	(251.038)	(248.893)	0,9%
General and administrative expenses	**(49.037)**	**(35.462)**	**38,3%**	**(134.879)**	**(144.963)**	**(7,0%)**
Other operating revenues (expenses)	**(131)**	**1.034**	**(112,6%)**	**(3.274)**	**3.358**	**(197,5%)**
Depreciation and amortization (expenses)	**(17.291)**	**(17.128)**	**1,0%**	**(72.882)**	**(75.075)**	**(2,9%)**
EBITDA	122.249	75.871	61,1%	226.927	268.840	(15,6%)
EBITDA Margin	*19,0%*	*16,2%*	*2,8 p.p*	*14,1%*	*16,0%*	*(1,9 p.p)*
Net Income	83.208	46.803	77,8%	87.317	140.950	(38,1%)
Net Margin	*12,9%*	*10,0%*	*2,9 p.p*	*5,4%*	*8,4%*	*(3,0 p.p)*

(1) Incorporation of Reserva figures after CADE's formal approval and closing of the transaction, in early December.

Non-Recurring Itens

	4Q20	4Q19	2020	2019
Consolidated Reported EBITDA	112.915	93.829	168.240	300.945
Non-Recurring Items				
Net Extemporaneos Tax Credits[1]	2.906	20.705	51.985	39.960
Legal Expenses	(195)	(2.747)	(4.488)	(7.855)
Non-Recurring Items (COVID-19)	-	-	(94.139)	-
M&A Expenses (Reserva and TROC)[2]	(12.045)	-	(12.045)	-
Net Effect of Non-Recurring Items	(9.334)	17.958	(58.687)	32.105
Adjusted Consolidated EBITDA	122.249	75.871	226.927	268.840
Adjusted Gross Revenue	802.283	573.729	2.026.280	2.063.928
Adjusted Net Revenue	644.615	467.652	1.612.539	1.679.235
Adjusted Gross Profit	316.194	218.217	766.364	775.694

(1) Revenue from extemporaneous tax credits (unconstitutionality of ICMS (State VAT) inclusion in the PIS/COFINS (federal taxes on gross revenue) calculation basis), which in turn resulted in greater achievement of the company's profit sharing (PPR) metrics in 4Q19. The positive effect (net of PPR) of these credits on the company's EBITDA totaled R$18.0 million.
(2) Banks, legal counsels, auditors and CADE-related expenses concerning M&A transactions.

Brands Performance

The fourth quarter of the year is traditionally marked by relevant events in Arezzo&Co's calendar, such as the high summer collections, Black Friday, and most important of all, Christmas and year-end holidays. With a mix of assertive and enchanting products, the group's brands delivered outstanding results, evidencing a strong recovery amidst the most critical months of the pandemic faced in 2020. In November, the high summer collection hit stores, showing excellent responsiveness, and in December, the brands launched their Christmas and year-end holidays collections with a focus on gift items at competitive prices.

The Arezzo brand revenue grew 4.9% to R$295.9 million in 4Q20. As discussed in the last earnings release, in November, Arezzo launched its new line of "full plastic" handbags and shoes, the BriZZa line. This line sellout performance came above Arezzo&Co's expectations, accounting for 9% of Arezzo's sales volume in December. In the consolidated quarter, BriZZa recorded a sellout of R$28.5 million. Besides launch at Arezzo's stores, 25 BriZZa exclusive stores were inaugurated, one of them in the city of Trancoso, a frequent vacation destination during summer.

ZZPLAY, Arezzo's first vulcanized sneaker was also launched, which recorded excellent sales performance. The sneakers category already accounts for 19.0% of Arezzo's product mix. In December, Arezzo reinforced its Christmas communication, based on an assertive mix, with varied Christmas gift options and a strong appeal to cross-sell of BriZZa line products. In December, in 60.0% of Arezzo brand sales, at least one product of the BriZZa line was purchased in the same transaction.

The Schutz brand posted revenue of R$152.4 million, a 25.0% growth in the domestic market and 25.9% in the international market. Schutz recorded its best sales performance among Arezzo&Co brands, highlighting the web commerce and multibrand channels, which surged 81.9% and 60.4%, respectively, reinforcing its assertive positioning in the market towards competitors. Highlight in 4Q20 was Schutz's exclusive collaboration with Ginger brand, founded by Brazilian actress and entrepreneur, Marina Ruy Barbosa. Aside from shoes, this collection also relied on clothing items, offering a full-look experience for its women consumers. This collaboration results were amazing, within only 6 days after launch, over 3,000 pairs of shoes were sold, 500 handbags, and 300 clothing items. In December, this collaboration accounted for 7.0% of Schutz's revenue.

The Anacapri brand sales rose 10.0% to R$83.8 million in 4Q20, highlighting the online channel which already accounts for 19.1% of brand sales and grew by 181.2% in the period. In November, Anacapri launched a collection partnering with the Brazilian actress and singer, Manu Gavassi, who also participated in the entire creation process. This collection has 8 models, 7 shoes, and 1 handbag, with exceptional product turnover. Anacapri brand also launched the "Ana de Açúcar", the first renewable and environmentally sustainable brand produced with EVA originated from sugarcane.

Brand Performance

The Alexandre Birman brand revenue grew 5.7% to R$13.0 million in Brazil vs. 2019, highlighting the web commerce channel and owned stores. During 4Q20, the brand inaugurated its 8th store in Brazil, at CJ Shops – a new luxury project in São Paulo. For year-end holidays, the Alexandre Birman brand globally debuted the “Make a Wish” collection, beach sandals, and flip flops with different colors representing new year’s wishes.

The Fiever and Alme brands carried out specific Christmas campaigns and posted solid online sales, which combined, grew by 73.8%.

The Vans brand, licensed at the end of 2019, posted revenue of R$78.4 million in 4Q20. During this period, the Vans brand inaugurated 4 stores, reaching 7 franchises and 7 owned stores in Brazil. The latest inauguration took place in the city of Rio de Janeiro in a premium location (Rua Garcia D’avila), offering the Vans experience to this city with a two-floor flagship store. Since its launch, this store has delivered excellent sales performance.

Every quarter, the Vans brand launches collaborations with iconic representatives in global pop culture, such as bands, brands, movies, and artists, always connecting the brand’s pillars of authenticity and originality to the history and work of their collaborators. In 4Q20, the Vans brand debuted a collaboration with MoMa which exhibited a complete collection of sneakers, clothing, and accessories for all ages, inspired by works of art of Claude Monet, Vasily Kandinsky, Salvador Dalí, and Edvard Munch, among others.

The Reserva brand recorded sellout growth in owned stores + web commerce of 19% vs. 4Q19 and 22% sell in of franchises and multibrand. Certain strategies relating to the product mix were adopted in the quarter. For instance, the Christmas and New Year collection highly focused on linen fabric, with comfy and elegant products, and this category grew by 37% in December. Another relevant addition was the launch of Reserva first women’s sneaker, the “Simples” (Simple). “Simples” sales came above expectations, this model was ranked among the four best-selling products of the chain during its launch. Reserva antiviral face mask was another highlight, ranked among top 8 products sold in 4Q20. Still in 4Q20, Reserva brand kicked off online sales to its multibrand customers (sell in Winter 2021), delivering excellent results.

Channels

Monobrand – Franchises and Owned Stores

Arezzo&Co's POS network (Owned Stores + Franchises + Web Commerce), excluding Reserva Group, reached 91.4% of the sellout posted in 4Q19, due to the temporary closing of some physical stores and partial reopening, with reduced working hours at shopping malls. Note that approximately 70% of the network's stores are located in shopping malls. Same-store sales performance was -10.6% in 4Q20, with significant increase in performance per month, reaching -5.4% in December. In October and November, the same-store sales performance was -20.3% and -9.8%, respectively.

It is worth noting that, despite the closing of some physical stores in the states of São Paulo, Manaus and Belo Horizonte during last days of the year, impact on sales was almost fully mitigated by online sales. **Sales representativeness in December versus 2019 is 99.6%, excluding the closed stores. Including these stores, sales performance stood at 97.0% vs. 2019.**

Arezzo&Co's stores recorded average sales in January and February of 88.1% and 93.5% vs. 2020, including web commerce and Reserva Group's revenue.

The franchise channel has been recovering, plunging 6.9% compared to a 41.4% drop in the third quarter. This performance reflects a gradual recovery of sell in, franchisees' resilience and confidence, as well as a positive performance of stores owing to collections' assertiveness, especially from November, with high summer launches. We also highlight the effect of a strong comparison base in 4Q19 (+10.6%), which reflected the anticipation of sell in revenue from pre-fall to December.

Multibrand

In 4Q20, revenue from the multibrand channel **strongly grew 94.5% from 4Q19**. Excluding revenue from the Vans® brand and Reserva Group in December, this channel would still record a robust growth of 44.0%.

This growth is a result of Arezzo&Co's capacity to develop a wide variety of high-frequency collections and short delivery terms (the same methodology applied in franchise sell in) – a competitive advantage of this channel towards competitors, resulting in greater share of wallet of customers already composing Arezzo&Co portfolio and the conquering of new customers, especially in smaller towns not previously served.

Channels

Multibrand

It is worth noting that in October, the Arezzo brand carried out the BriZZa line sell in to multibrand channel, evidencing high responsiveness to the products and price point. This performance opens new possibilities of expansion to new customers, with products already present in over 1,000 doors.

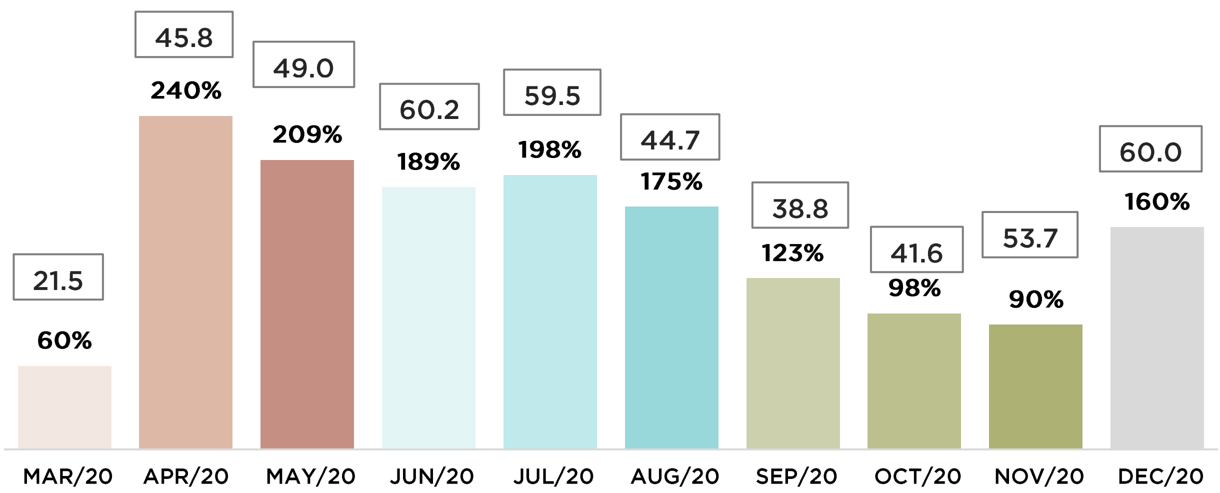
The seven brands of the group are spread across 4,236 points-of-sale, 60.1% higher than in 4Q19. It is worth noting that this figure does not include additions from Reserva Group, which totaled nearly 1,200 doors.

Digital Transformation

In 2020, due to the COVID-19 pandemic, Arezzo&Co saw a strong ramp up of its web commerce channel, as well as its omnichannel initiatives. One of the main fronts was the integration of the physical and online channels, a cornerstone during the most critical period of the pandemic.

In 4Q20, the web commerce channel followed the upward trend of the last quarters, despite the physical stores reopening, and recorded R$162.4 million gross revenue (R$526.4 million in 2020), a growth of 139.0%. The online channel already accounts for 22.4% of Arezzo&Co's consolidated revenue vs. 13.4% in the same period of 2019.

Evolution of SSS *Web Commerce*



SSS of web commerce including the Vans® brand (full year) and Reserva Group (December).

Channels

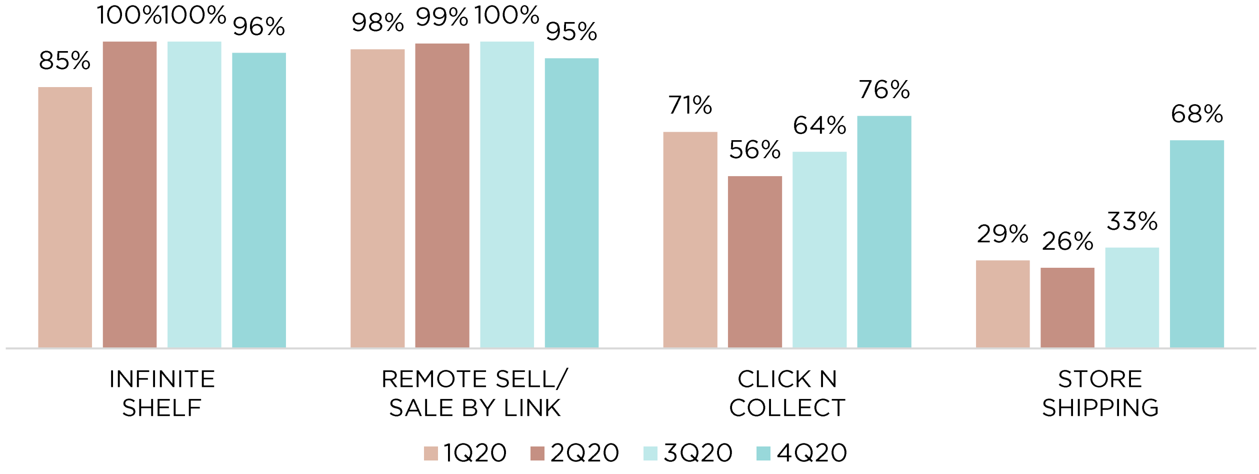
Digital Transformation

Referring to ZZ MALL marketplace, after its official launch, this platform recorded 114.0% increased visits, evidencing a strong consumer adhesion. Aside from the website, ZZ MALL relies on an app that already recorded over 148,000 downloads. Currently, the platform relies on 41 “3P” sellers, and since launch, various brands showed their interest in joining ZZ MALL.

Channels’ integration fronts kept the pace of the web commerce channel and recorded solid evolution at licensed stores and in sales representativeness. Online sales were paramount to sustain revenue levels during the last days of the year, amid the compulsory closing of stores in the states of São Paulo, Manaus and Belo Horizonte.

In 4Q20, sales through the initiatives Click N’ Collect and Store Shipping, which are invoiced by physical stores, recorded revenue 1.8x higher than entire year of 2019. Main improvement action deployed was to make physical stores inventories available in web commerce. The endless aisle and salesperson voucher accounted for 7% of web commerce sales. In this mode, when a customer visits a brick-and-mortar store, she/he can buy a product from web commerce inventory, assisted by a salesperson, who in turn, receives a commission.

Evolution of Licensed Stores | OMNI Initiatives



- *Store delivery: upward figure since stores are partnering with freight companies with high levels of service*
- *Endless aisles and link sale: the percentage of licensed stores declined in 4Q20 due to the opening of pop-ups of BriZZa line.*

Channels

Digital Transformation

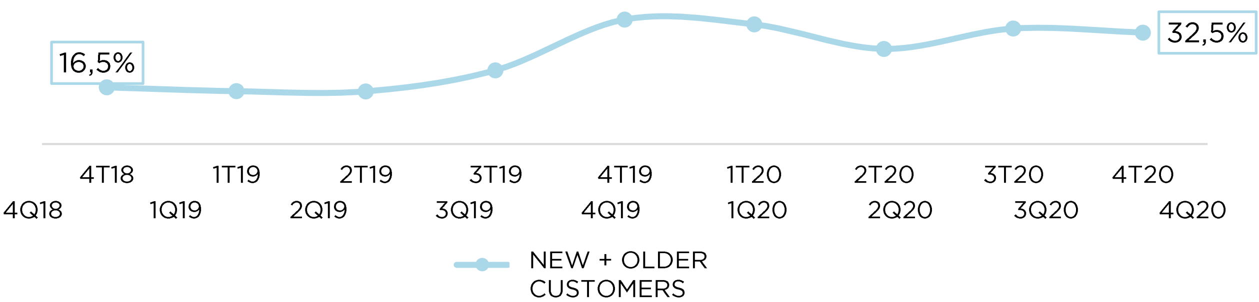
Repurchase Rate[1]

Total repurchase rate in 90 days in Arezzo&Co online channel stood at **32.5%** in 4Q20;

Continued improvement of repurchase rate over the last years, on the back of ongoing CRM actions;

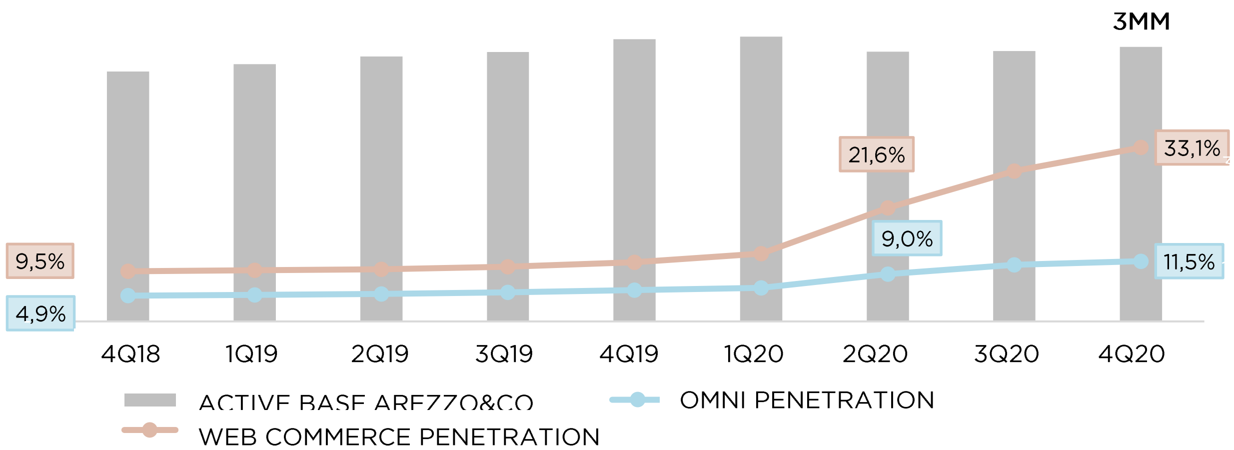
Capacity of retaining customers who only bought via physical channels and became OMNI customers;

High level of reactivated customers who hadn't purchased for over one year.



Online Channel Penetration

- Upward move of online channel penetration in the active customer base of Arezzo&Co;
- **33.1%** of Arezzo&Co customers buy via online channel;
- **11.5%** of customers are omnichannel;
- Great opportunity to increase OMNI penetration following the trend of the last months.



[1] *Data excluding Reserva Group*

(A free translation of the original in Portuguese)

Digital Transformation

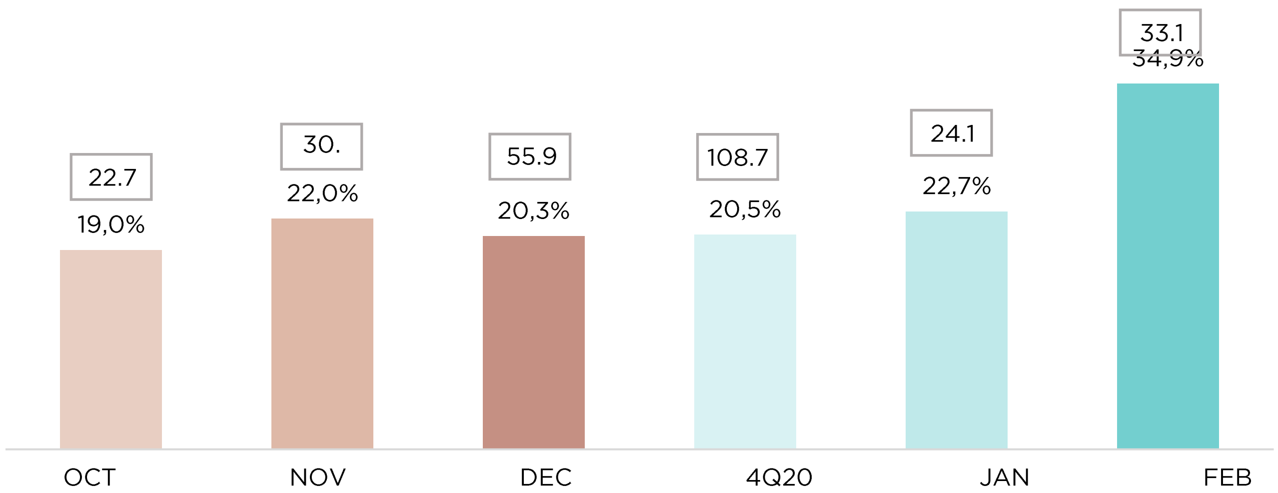
In relationship and CRM fronts, stores heightened the use of Salesperson APP during daily activities. This app consists of a tool wherein it is possible to make digital sales, consult inventory and product details, orders, delivery status, among others, i.e., seller has everything he needs in a single platform.

With the APP, stores set up a daily contact routine with customers concerned with revenue conversion and a long-term relationship. In 4Q20, 20.5% of the sell out in physical stores were influenced by the Salesperson APP, with a solid growth during the first months of 2021, as the graph shows below.

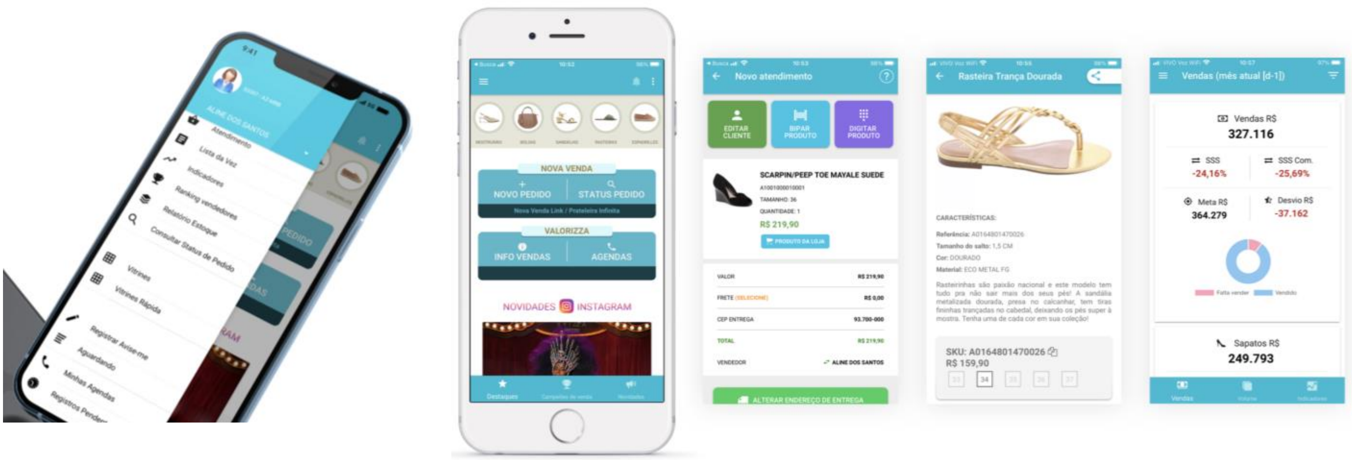
Online Influenced Revenue (vs. Total Revenue)

Salesperson APP

Amounts in R$ MM



Salesperson APP Interface



Export Market

Revenue in the United States grew 19.1% (in USD, decrease was 9.4%). Likewise Brazil, the North American operation posted revenue growth after being impacted by the global COVID-19 pandemic in 2Q20 and 3Q20.

The highlight in 4Q20 was the web commerce and wholesale channels of Schutz brand that surged 55.4% and 33.3% in Reais (23.9% and 12.7% in US dollars), respectively, reinforcing a solid adhesion to the new pricing strategy of the brand, which now composes the "*Contemporary Shoes*" segment. **The Schutz brand ended 2020 with a robust growth in the number of doors at Nordstrom department store, a three-fold increase from 2019.**

As Arezzo&Co reiterated in the second half of 2020, the North American operation sustained its breakeven at the level of EBITDA, with a positive result of R$6.7 million in 4Q20. Greater details of SG&A expenses can be seen on page 23.

Footwear exports to the rest of the world saw a decrease of 6.2% in revenue in 4Q20, due to the global effects of the pandemic, as it continued significantly impacting European and Latin American customers since February 2020. It is worth noting that this channel already shows a recovery compared to the last quarters.

Monobrand Network

The Company ended 2020 with 901 stores, 890 stores in Brazil and 11 abroad, including Reserva Group incorporation.

Excluding the addition of Reserva Group stores in 4Q20, Arezzo&Co posted a net opening of 44 stores, 25 BriZZa stores, 9 Anacapri stores, 4 Arezzo regular stores, 4 stores in the Arezzo light format, 4 Vans stores, 1 Schutz store and 1 Alexandre Birman store.

Store Information	4Q19	1Q20	2Q20	3Q20	4Q20
Sales area[1],[3] - Total (m²)	45.925	46.265	45.544	45.012	56.461
Sales area - franchises (m²)	39.752	39.794	39.302	38.816	42.176
Sales area - owned stores[2] (m²)	6.173	6.472	6.242	6.196	14.285
Total number of domestic stores	737	739	730	724	890
# of franchises	693	693	682	676	756
Arezzo	432	432	428	423	451
Schutz	72	70	68	67	68
Anacapri	185	184	179	179	186
Fiever	1	1	1	-	1
Alme	3	3	3	3	3
Vans	-	3	3	4	7
Reserva Group	-	-	-	-	40
# of owned stores	44	46	48	48	134
Arezzo	10	9	9	9	12
Schutz	17	16	16	16	16
Alexandre Birman	6	6	6	7	8
Anacapri	3	3	3	3	5
Fiever	5	5	5	4	2
Alme	3	3	3	3	2
Vans	-	4	6	6	7
Reserva Group	-	-	-	-	82
Total number of international stores	15	15	11	11	11
# of franchises	6	6	6	6	6
# of owned stores[4]	9	9	5	5	5

(1) Includes store area abroad
(2) Includes 11 outlet stores with total area of 2,450 square meters
(3) Includes expanded store area
(4) Includes 3 Schutz stores in (i) New York at Madison Avenue, (ii) Miami at Shopping Aventura and (iii) Los Angeles at Beverly Drive. Also includes 2 Alexandre Birman stores in (i) New York at Madison Avenue and (ii) Miami at Shopping Bal Harbour.

Gross Profit and Gross Margin

Gross profit in 4Q20 amounted to R$316.2 million, with margin of 49.1%, 240 bps higher than in 4Q19. Among the factors explaining the gross margin, we positively highlight (i) the inclusion of Reserva Group; (ii) a greater share of web commerce in the mix of channels and adversely (i) the mix effect due to a greater share of multibrand channel and smaller share from the owned stores channel; and (ii) the lower consolidated margin in the North American market, due to the new pricing positioning of the Schutz brand, residual mark-down of old inventories and a reduced number of owned stores.

Operating Expenses

Arezzo&Co intends to keep fixed expenses lower than in the last few quarters, while continuing to follow its strategic plan. The plan's main pillars include ongoing market share growth, omnichannel operations, and consolidation in the Brazilian fashion market.

It is worth noting that the analyses below exclude non-recurring effects that impacted 4Q20 and 4Q19 results (reported on page 10).

Selling Expenses

In 4Q20, selling expenses soared 34.1% to R$145.6 million from 4Q19. It is worth noting that excluding the Vans brand and expenses of Reserva Group (December only), selling expenses would increase only 3.6% vs. 4Q19.

(i) Expenses with Owned Stores and Web Commerce (sellout channels), totaled R$61.3 million, 85.4% higher than in 4Q19. Excluding the Vans brand and Reserva Group, expenses would have increased 32.8%, below the 139.0% growth of web commerce and in line with a lower relevance of owned stores channel in the mix. Higher expenses is due to the escalation of the online channel, especially in the marketing digital fronts of brands, logistics, freights, team reinforcement (highlighting the SAC – call center team) and the launch of ZZ MALL.

(ii) Selling, Logistics and Supply Expenses, surged 11.6% to R$84.3 million in 4Q20 versus 4Q19. Excluding the addition of Vans brand and Reserva Group, expenses would have plunged 9.1%.

We point out the R$6.0 million lower expenses in the North American market (a reduction of -27.1%) stemming of structure adjustments and occupation costs of owned stores and offices. Selling, logistics and supply expenses in the United States totaled R$16.0 million in 4Q20.

Adjusted Operating Expenses

The Brazilian operation had the highest savings on the following fronts (i) business travels due to events that now took place 100% online; and (iii) reduced third party and advisory services expenses. Note that due to the actions taken to help franchisees during the pandemic, we saw a significant decrease in revenue from the advertising funds for the brands. Still, the Company continued investing in marketing, primarily focusing on year-end campaigns, highlighting the creation and launch of the BriZZa line, which for the first time, relied on broadcast TV investments. Excluding this effect, expenses would have plunged 15.5% in the Brazilian operation.

General and Administrative Expenses

In 4Q20, general and administrative expenses soared 38.3% to R$49.0 million from 4Q19. Excluding the Vans brand and the month of December of Reserva Group, expenses would have decreased 26.8% to R$35.3 million. Such reduction is primarily due to the organizational restructuring of Brazilian and North American operations to cut layers and positions seeking greater efficiency and operational agility.

Adjusted EBITDA and Adjusted EBITDA Margin

The Company posted an adjusted EBITDA of R$122.2 million in 4Q20, 61.1% higher than in 2019. Excluding the EBITDA of Reserva Group and the Vans brand, not included in the basis of comparison, the adjusted EBITDA would total R$89.4 million, 17.9% higher than in 4Q19.

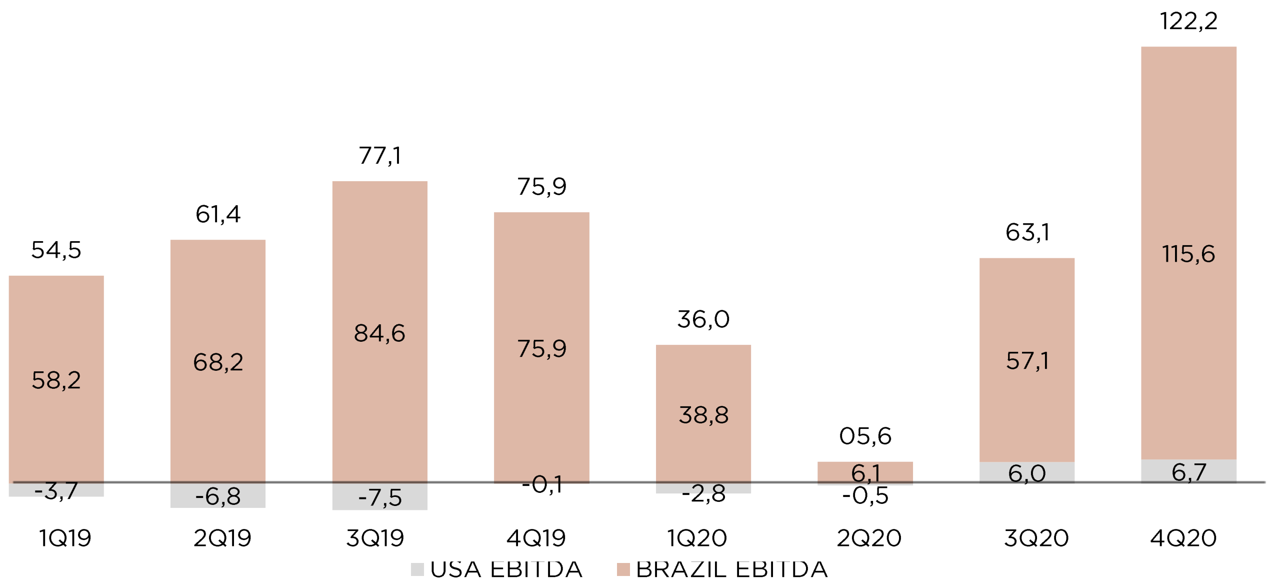
Despite the challenging scenario faced by the country, Arezzo&Co delivered a substantial growth of EBITDA in the period, chiefly due to the high-summer campaign assertiveness, and SG&A increase lagging behind revenue growth. It is also worth mentioning the positive impact of (i) addition of Reserva Group's EBITDA in December; and (ii) the North American operation, that reached an EBITDA of R$6.7 million in the period, with a margin of 11.6%.

	4Q20 EBITDA Adjust.			4Q19 EBITDA Adjust.		
	&Co	**Brazil**	**USA**	**&Co**	**Brazil**	**USA**
Net Revenues	644,6	587,1	57,5	467,7	419,1	48,5
EBITDA	122,2	115,6	6,7	75,9	75,9	(0,1)
EBITDA Mg.	*19,0%*	*19,7%*	*11,6%*	*16,2%*	*18,1%*	*(0,1%)*

Amounts in R$ MM // Amounts according to the adoption of IFRS 16 / CPC 06 (R2)

Adjusted EBITDA & Adjusted EBITDA Margin

Breakdown of Arezzo&Co Adjusted EBITDA (IFRS 16)



Adjusted Results: Exclude the one-off impacts (non-recurring events) and extemporaneous credits of quarters.

Net Income and Net Margin

The Company posted net positive result, with adjusted net income of R$83.2 million in 4Q20, 77.8% higher than in 4Q19, with a net margin of 12.9%, 290 bps higher than in 4Q19.

Net income was positively impacted by (i) an excellent operational performance of Arezzo&Co in the period and the incorporation of Reserva Group, and adversely affected by (ii) greater exchange rate variation; and (iii) increased financial expenses, resulting from a higher volume of financing interest rates (debt funding during the pandemic).

ROIC – Return on Invested Capital

The adjusted return on invested capital (ROIC) i.e., excluding the inorganic actions executed by the Company in 2020, as well as one-off events connected with the pandemic, reached 20.8%, vs. 25.1% in 2019.

The accounting ROIC reached the level of 7.3% in 4Q20. Aside from lower NOPAT (LTM), the lines of working capital (inventories, suppliers, accounts receivable) were impacted by the addition of the Vans® brand and incorporation of Reserva Group, both implemented in 2020. Concerning the incorporation of Reserva, it is worth noting a significant increase in permanent asset (R$834.1 million) coupled with investments, which includes the intangible assets and goodwill stemming from this transaction to be utilized over the coming years.

Income from operations	4Q20 Adjusted	4Q20 Reported	4Q19	4Q18	Δ 20 x 19 (%)
EBIT (LTM)	168.874	92.109	223.102	191.280	(24,3%)
+ IR e CS (LTM)	(10.983)	(5.974)	(42.787)	(27.354)	(74,3%)
NOPAT	**157.891**	**86.135**	**180.315**	**163.926**	**(12,4%)**
Working Capital[1]	300.890	331.768	419.220	412.461	(28,2%)
Accounts Receivable	492.459	598.824	413.412	382.728	19,1%
Inventory	216.948	290.896	179.499	150.861	20,9%
Suppliers	(356.331)	(399.189)	(134.967)	(110.121)	164,0%
Others	(52.186)	(158.763)	(38.724)	(11.007)	34,8%
Permanent assets	346.742	1.149.183	382.146	153.693	(9,3%)
Other long-term assets[2]	37.247	37.862	34.756	31.847	7,2%
Invested capital	**684.879**	**1.518.813**	**836.122**	**598.001**	**(18,1%)**
Average invested capital[3]	**760.500**	**1.177.468**	**717.062**		**6,1%**
ROIC[4]	**20,8%**	**7,3%**	**25,1%**		

(1) Working Capital: Current Assets less Cash, Cash Equivalents and Financial Investments, deducting Current Liabilities less Loans, Financing and Dividends payable.
(2) Deducting deferred Income Tax and Social Contribution.
(3) Average capital invested in the period and in the same period of last year.
(4) ROIC: LTM NOPAT divided by average capital invested.

Investments - CAPEX

In 4Q20, Arezzo&Co invested R$15.4 million in CAPEX, notably:

- The opening of a flagship store under the Vans brand in the city of Rio de Janeiro, 3 owned kiosks of BriZZa line under Arezzo brand and an Alexandre Birman store at CJ Shops in São Paulo.
- Corporate investments include Digital Transformation investments relating to squads and software.

Summary of Investments	4Q20	4Q19	∆ 20 x 19 (%)	2020	2019	∆ 20 x 19 (%)
Total CAPEX	15.389	22.042	(30,2%)	46.185	65.608	(29,6%)
Stores - expansion and refurt	6.253	215	2.808,4%	12.115	8.096	49,6%
Corporate	8.721	19.698	(55,7%)	29.147	33.484	(13,0%)
Other	415	2.129	(80,5%)	4.923	24.028	(79,5%)

Cash Position and Indebtedness

The Company ended 4Q20 with a net debt of R$73.0 million. The highlights of the period include:

- Cash position of R$561.2 million, even after paying the cash amount relating to the incorporation of Reserva Group (R$175 million);
- Total indebtedness of R$634.3 million, compared to R$180.8 million in 4Q19.
- In the second half of March, the Company chose to contract preventive credit lines totaling R$444.1 million, to complement its cash position amid the challenging scenario caused by the COVID-19 pandemic.
- The dynamics between short and long-term indebtedness was altered in relation to 3Q20, due to the lengthening of part of debt raised during the pandemic.
- Aside from the aforementioned issues, the Company's indebtedness also altered due to the incorporation of Reserva Group;
- Net Debt/EBITDA ratio of 0.4x.

Cash position and Indebtedness	4Q20	3Q20	4Q19
Cash	561.165	566.245	277.683
Total debt	634.269	547.245	180.784
Short-term	239.483	440.509	158.222
% total debt	37,8%	80,5%	87,5%
Long-term	394.786	106.736	22.562
% total debt	62,2%	19,5%	12,5%
Net debt	73.104	(19.000)	(96.899)
Net Debt/EBITDA	0,4x	-0,1x	-0,3x

(A free translation of the original in Portuguese)

Balance Sheet

Assets	4Q20	3Q20	4Q19
Current assets	1.564.868	1.344.102	980.665
Cash and Banks	38.297	13.502	13.808
Financial Investments	522.868	552.743	263.875
Trade accounts receivables	598.824	406.902	413.412
Inventory	290.896	241.895	179.499
Taxes recoverable	86.034	100.708	90.332
Other credits	27.949	28.352	19.739
Non-current assets	1.267.677	444.166	432.584
Long-term receivables	118.494	78.920	50.438
Trade accounts receivables	2.564	5.512	10.402
Deferred income and social contribution	80.632	44.113	15.682
Other credits	35.298	29.295	24.354
Investments property	3.016	4.030	3.017
Property, plant and equipment	316.300	277.017	304.082
Intangible assets	829.867	84.199	75.047
Total assets	2.832.545	1.788.268	1.413.249

Liabilities	4Q20	3Q20	4Q19
Current liabilities	911.418	818.362	464.659
Loans and financing	239.483	440.509	158.222
Lease	52.890	42.569	40.145
Suppliers	399.189	226.053	134.967
Other liabilities	219.856	109.231	131.325
Non-current liabilities	572.530	272.647	202.519
Loans and financing	394.786	106.736	22.562
Related parties	0	0	1.502
Other liabilities	17.274	11.264	9.542
Lease	160.470	154.647	168.913
Shareholder's Equity	1.348.597	697.259	746.071
Capital	967.924	352.715	352.715
Capital reserve	49.229	48.801	50.538
Profit reserves	107.895	122.118	94.276
Tax incentive reserve	227.937	213.880	213.880
Other comprehensive income	-4.388	-13.892	34.662
Accumulated Profit	0	-26.363	0
Total liabilities and shareholders' equity	2.832.545	1.788.268	1.413.249

(A free translation of the original in Portuguese)

Statement of Income

Income Statement - IFRS	4Q20	4Q19	Var.%	2020	2019	Var.%
Net operating revenue	644.615	467.652	37,8%	1.590.992	1.679.235	-5,3%
Cost of goods sold	(328.421)	(249.435)	31,7%	(835.779)	(903.541)	-7,5%
Gross profit	316.194	218.217	44,9%	755.213	775.694	-2,6%
Operating income (expenses):	(221.391)	(142.180)	55,7%	(663.104)	(552.592)	20,0%
Selling	(172.091)	(121.208)	42,0%	(529.953)	(424.366)	24,9%
Administrative and general expenses	(52.075)	(55.179)	-5,6%	(162.234)	(184.012)	-11,8%
Other operating income, net	2.775	34.207	-91,9%	29.083	55.786	-47,9%
Income before financial result	94.803	76.037	24,7%	92.109	223.102	-58,7%
Financial income	(20.870)	(4.644)	349,4%	(37.551)	(18.176)	106,6%
Income before income taxes	73.933	71.393	3,6%	54.558	204.926	-73,4%
Income tax and social contribution	3.115	(12.738)	-124,5%	(5.974)	(42.787)	-86,0%
Current	(9.076)	(6.321)	43,6%	(46.596)	(42.659)	9,2%
Deferred	12.191	(6.417)	-290,0%	40.622	(128)	-31835,9%
Net income for period	77.048	58.655	31,4%	48.584	162.139	-70,0%

(A free translation of the original in Portuguese)

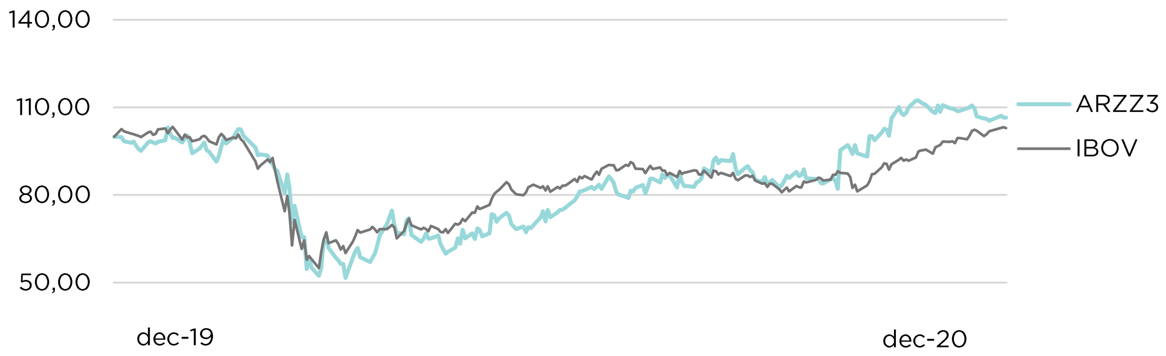
Cash Flow

Cash Flow	4Q20	4Q19	2020	2019
Operating activities				
Net Income	77.048	58.655	48.584	162.139
Ajustes para conciliar o resultado às dispon. geradas pelas atividades operacionais:	1.572	26.271	149.850	134.923
Depreciation and amortization	21.307	20.271	81.103	80.322
Income from financial investments	(2.844)	(2.929)	(11.650)	(13.614)
Interest and exchange rate	(4.511)	(5.945)	34.612	16.517
Income tax and social contribution	(3.115)	12.738	5.973	42.785
Other	(9.265)	2.136	39.812	8.913
Decrease (increase) in assets				
Trade accounts receivables	(107.285)	3.938	(108.797)	(27.753)
Inventory	31.114	(585)	(38.655)	(33.208)
Recoverable taxes	16.965	(34.941)	(15.140)	(40.835)
Change in other current assets	13.176	3.625	(25.357)	2.306
Judicial deposits	(4.590)	1.914	(9.108)	(3.461)
(Decrease) increase in liabilities				
Suppliers	142.598	(13.216)	234.575	29.496
Labor liabilities	5.957	10.744	(8.610)	9.135
Fiscal and social liabilities	4.257	8.665	5.313	1.465
Variation in other liabilities	342	5.691	16.151	11.968
Payment of income tax and social contribution	(2.941)	(6.241)	(19.437)	(34.825)
Lease	(2.579)	(3.068)	(9.054)	(6.468)
Net cash flow from operating activities	175.634	61.452	220.315	204.882
Investing activities				
Sale of fixed and intangible assets	932	(784)	1.277	6.126
Acquisition of fixed and intangible assets	(15.389)	(22.041)	(46.185)	(65.607)
Financial Investments	(743.175)	(316.915)	(2.027.529)	(1.090.118)
Redemption of financial investments	835.354	322.672	1.838.505	1.064.190
Payment of capital by subsidiaries	100.000		100.000	
Acquisition of subsidiary, net cash obtained on acquisition	(163.404)		(163.404)	
Dividend receipt	54		54	
Net cash used in investing activities	14.372	(17.068)	(297.282)	(85.409)
Financing activities with third parties				
Increase in loans	97.610	48.008	552.851	153.084
Payments of loans	(92.454)	(47.302)	(213.882)	(88.816)
Instalment Lease	(21.054)	(11.438)	(60.352)	(46.723)
Net cash used in financing activities with third parties	(15.898)	(10.732)	278.617	17.545
Financing activities with shareholders				
Interest on equity	(148.317)	(27.351)	(170.992)	(143.526)
Receivables (payables) with shareholders	(1.000)	(50)	(2.502)	58
Issuing of shares	-	-	-	11.642
Repurchase of shares	-	-	(3.672)	-
Net cash used in financing activities	(149.317)	(27.401)	(177.166)	(131.826)
Increase (decrease) in cash and cash equivalents	24.791	6.251	24.485	5.192
Cash and cash equivalents				
Foreign exchange effect on cash and cash equivalents	4	(100)	4	115
Cash and cash equivalents - Initial balance	13.502	7.657	13.808	8.501
Cash and cash equivalents - Closing balance	38.297	13.808	38.297	13.808
Increase (decrease) in cash and cash equivalents	24.791	6.251	24.485	5.192

(A free translation of the original in Portuguese)

3. Capital Markets and Corporate Governance

On December 30, 2020, the Company's market capitalization was R$6.8 billion (cotação R$ 68,18), an increase of 6.7% when compared to the same period of 2019.



Arezzo&Co	
Ações emitidas	99.631.414
Ticker	ARZZ3
Início de negócios	02/02/2011
Cotação (30/12/2020)	68,18
Market Cap	6.792.869.807
Desempenho	
2011[1]	20%
2012[2]	71%
2013[3]	(24%)
2014[4]	(9%)
2015[5]	(22%)
2016[6]	27%
2017[7]	118%
2018[8]	(2%)
2019[9]	16%
2020[10]	7%

(1) From 02/02/2011 to 29/12/2011

(2) From 29/12/2011 to 28/12/2012

(3) From 28/12/2012 to 30/12/2013

(4) From 30/12/2013 to 30/12/2014

(5) From 30/12/2014 to 30/12/2015

(6) From 04/01/2016 to 29/12/2016

(7) From 01/01/2017 to 28/12/2017

(8) From 01/01/2018 to 28/12/2018

(9) From 01/01/2019 to 30/12/2019

(10) From 02/01/2020 to 31/12/2020

4. Independent Auditors

Arezzo&Co's financial statements relative to the business year ending on December 30, 2020, were audited by PricewaterhouseCoopers Auditores Independentes ("PwCAI")

5. Investor Relations

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

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

6. Officer's Statement

The Officers of Arezzo Indústria e Comércio S.A. state to have reviewed, discussed and agreed upon the Independent auditors' report and financial statements for the year ended on December 31th, 2020, according and pursuant to CVM Normative Instruction No. 480/09.

7. Disclaimer

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

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

(A free translation of the original in Portuguese)

(All amounts in thousands of reais unless otherwise stated)

1. Corporate information

1.1. General information

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

The Company and its subsidiaries design, develop, manufacture and market women’s shoes, handbags, clothing and accessories.

At December 31, 2020, the Company had 756 franchise stores in Brazil and 6 abroad; 134 Company-operated stores in Brazil and 5 abroad; and an e-commerce channel to sell its products under the Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever, Alme, Vans, Reserva, Reserva Mini, Reserva Go, Oficina and Eva brands.

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

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

ZZAB Comércio de Calçados Ltda. (“ZZAB”)

ZZAB is engaged in the retail sale of shoes, handbags and belts.

ZZSAP Indústria e Comércio de Calçados Ltda. (“ZZSAP”)

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

ZZEXP Comercial Exportadora S/A (“ZZEXP”)

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

ARZZ International Inc. (“ARZZ Inc.”)

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

ARZZ LLC

ARZZ LLC is engaged in selling shoes and business intermediation.

Schutz 655 LLC

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

1. Corporate information--Continued

1.1. General information--Continued

Schutz Cali LLC

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

Showroom Italy

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

Vamoquevamo Empreendimentos e Participações S.A. (“VQV”) and Tiferet Comércio de Roupas Ltda. (“Tiferet”)

On December 4, 2020, the Company acquired 100% of the equity of Vamoquevamo Empreendimentos e Participações S.A. (“Reserva”) and obtained control of the acquiree (Note 5).

Founded in 2011 in Rio de Janeiro, Vamoquevamo is a privately-owned holding corporation and, through its subsidiary Tiferet, operates in the clothing sector with multiple distribution channels across wholesale, retail, e-commerce and franchise stores.

The Reserva Group has 76 Group-owned stores, 32 franchise stores and approximately 1,200 multi-brand stores in 2019, selling products under the following brands:

- Reserva: menswear brand, including Reserva Go brand.
- Reserva Mini: brand for kidswear.
- Eva: women’s clothing brand.
- Oficina: men’s formal wear brand.
- Reserva Ink: custom T-shirt and apparel printing brand.

1.2. Impacts of COVID-19

In response to the COVID-19 global pandemic declared by the World Health Organization that is affecting Brazil and many countries around the world and posing a major public health threat with impacts on the global economy, the Company has taken prevention and mitigation actions in line with guidance from local and international health authorities to minimize the impact of COVID-19 on the health and safety of our employees and their families, business partners and communities, and on our operations.

In this scenario, the Company performed COVID-19 impact analyses which included:

a) **Review of assumptions for impairment testing**

Management has reviewed the carrying amount of intangible and tangible assets with the objective of assessing events or changes in economic, operating or technological environment indicating that the asset may be impaired (Note 16).

1. Corporate information--Continued

1.2. Impacts of COVID-19--Continued

b) Expected credit loss estimation

Management has analyzed the probability of default by customers during this unprecedented challenging time. We are in daily contact with all our customers and, based on credit analyses and more stringent collateral requirements, management has negotiated some extensions of payment terms and intensified collection efforts.

Furthermore, given the economic uncertainty in the second quarter caused by the COVID-19 pandemic, the Company has revised the variables used to estimate credit losses and the effects on recoveries, which resulted in an increase in the credit loss allowance expense. We continue to monitor on a daily basis the amounts due from and the financial position of our customers but in the last quarter it was not necessary to make an additional significant allowance for expected credit loss (Note 8).

c) COVID-19 related inventory impairments

Since the Company took steps to advance the delivery of new products from its suppliers before they suspended production at their plants, management estimates that current inventory levels are sufficient to support a gradual resumption of sales across its network. In addition, possible promotional actions in the points of sale are not expected to have significant impacts on the business' margin, thus management believes that the existing reserves are adequate.

The Company has assessed the potential impacts of COVID-19 on estimates of inventory losses and considers that it is not necessary to make an additional provision for inventory impairment loss (Note 9).

d) Revision of assumptions for measuring financial instruments

The Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets did not change; hence the Company did not need to revise the assumptions used to measure financial instruments (Note 30).

e) Assessment of recoverability of deferred tax assets

The Company has recognized deferred tax assets on temporary differences and tax losses and has not identified any indication that the carrying amount of the assets may not be recoverable (Note 12).

f) Analysis of fulfillment of obligations to customers and suppliers

Management has assessed its main agreements with customers and suppliers and concluded that, despite the impacts of COVID-19, the contractual obligations are being fulfilled and there is no evidence of insolvency or any discontinuance.

g) Analysis of fulfillment of restrictive covenants

The Company does not have any contract containing restrictive covenants (Note 17).

1. Corporate information--Continued

1.2. Impacts of COVID-19--Continued

h) Assessment of Company's liquidity

The Company closed 2019 with a comfortable cash position and took new loans in March and April 2020 (Note 17), which contributed further to an improved cash position. Preserving cash is of utmost importance at this moment, so the Company has taken a number of contingency actions, such as re-evaluation of its strategic investment plans for 2020, reduction of operating expenses, pay and hours cut for some employees, and measures for the U.S. operations which include organizational restructuring, reducing consulting costs, closing down stores and re-evaluating its strategic planning, principally in the second quarter.

We closed fiscal year 2020 with a comfortable cash position and, based on the above analyses, we did not identify any significant impacts on the financial statements and accompanying notes for the year ended December 31, 2020.

2. Accounting policies

2.1. Basis of preparation and presentation of financial statements

2.1.1. Parent company financial statements

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

2.1.2. Consolidated financial statements

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

In preparing these financial statements, the Company followed the same accounting policies and methods of calculation as used for the consolidated financial statements at December 31, 2019 and its accounting policies are already consistent with the new requirements that were effective December 31, 2020.

2. Accounting policies--Continued

2.1.2. Consolidated financial statements--Continued

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The actual amounts that result from the settlement of transactions may differ materially from the estimates made in the financial statements due to an inherent lack of precision in their measurement. The Company reviews estimates and assumptions regularly at intervals of not more than one year.

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

The parent company and consolidated financial statements for the year ended December 31, 2020 were authorized for issue at the Board of Directors' meeting held on March 1, 2021.

(All amounts in thousands of reais unless otherwise stated)

2.2. Basis of consolidation

The consolidated financial statements include the operations of the Company and the following subsidiaries in which the Company holds a controlling financial interest as of the balance sheet date:

		Total ownership interest			
Subsidiaries	**ntry of incorporat**	**2020**		**2019**	
			Indirect	**Direct**	**Indirect**
ZZAB Comércio de Calçados Ltda.	Brazil	**99.99%**	**-**	99,99%	-
ZZSAP Indústria e Comércio de Calçados Ltda.	Brazil	**99,99%**	**-**	99,99%	-
ZZEXP Comercial Exportadora S/A	Brazil	**99,99%**	**-**	99,99%	-
ARZZ International INC.	USA	**100,00%**	**-**	100,00%	-
ARZZ Co. LLC	USA	**-**	**100,00%**	-	100,00%
Schutz 655 LLC	USA	**-**	**100,00%**	-	100,00%
Schutz Cali LLC	USA	**-**	**100,00%**	-	100,00%
ARZZ Itália SRL	Italy	**-**	**100,00%**	-	100,00%
VQV Empreendimentos e Participações S.A.	Brazil	**100,00%**	**-**	**-**	**-**

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases.

2. Accounting policies--Continued

2.2. Basis of consolidation--Continued

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, ownership of a majority of the voting rights presumptively results in control. All intragroup balances, income and expenses, and unrealized gains or losses resulting from intragroup transactions are eliminated in full.

Changes in ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions within equity.

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

2.3. Functional currency

The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency and also the Company's and its subsidiaries' presentation currency. Each subsidiary of the Company determines its own functional currency. The subsidiary ARZZ International INC. has the US dollar as its functional currency and its financial statements are translated into Brazilian reais at the balance sheet date.

2.4. Foreign currency transactions and balances

2.4.1. Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the reporting date. All differences are taken to the statement of income.

2.4.2. Subsidiaries

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

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

2. Accounting policies--Continued

2.5. Revenue recognition

CPC 47/IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized, based on the identification of performance obligations, the transfer of control of goods and services to customers, and the determination of the selling price. CPC 47/IFRS 15 is effective from January 1, 2018 and replaces CPC 30/IAS 18 Revenue, CPC 17/IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The standard applies to all contracts with customers, except for lease contracts (rental income), financial instruments (interest income) and insurance contracts that are within the scope of other standards.

CPC 47/IFRS 15 introduces a model for revenue recognition by applying the following five steps:

I. Identify the contract with a customer;
II. Identify the performance obligations in the contract;
III. Determine the transaction price;
IV. Allocate the transaction price; and
V. Recognize revenue when or as the entity satisfies the performance obligations, either at a point in time or over time.

The following specific revenue recognition criteria must be met before revenue is recognized:

I. Sales of goods

Revenue from the sale of goods is recognized when performance obligations are satisfied.

The Group's revenues come principally from the sale of footwear for women, men and children, handbags, accessories and clothing to end customers. The Group operates in the retail apparel industry where customers generally shop at our stores where prices and discounts are informed by the Group's employees or are displayed in the areas where goods are displayed and control is transferred when the product is delivered directly to the end customer at the sales outlet, then we can conclude that there is only one performance obligation, eliminating therefore the complexity involved in the identification of performance obligations and transfer of control of goods and services to customers.

The Company assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. In addition, revenue is shown net of discounts and returns.

II. Revenue from sale of goods to franchisees and royalty income

Revenue from the sale of goods to franchisees is recognized when the performance obligation is satisfied by transferring the goods to the franchisee. Additionally, royalty income is recognized at the contractually agreed rates when the performance obligation is satisfied.

2. Accounting policies--Continued

2.5. Revenue recognition--Continued

III. Returns and cancellations

Under CPC 47/IFRS 15, for contracts that allow a customer to return a good, revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. Revenue is recognized net of expected returns and cancellations.

IV. Interest income

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

2.6. Trade receivables

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

The loss allowance was recorded at an amount considered adequate by management to provide for potential credit losses based on individual assessment of outstanding balances with default risk.

2.7. Inventories

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

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

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

Provisions for slow-moving or obsolete inventories are recorded when considered necessary by management.

2. Accounting policies--Continued

2.8. Investments in subsidiaries

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

Under the equity method, the investment in a subsidiary is initially recognized at cost and adjusted thereafter for post-acquisition changes.

The aggregate of the Company's share of profit or loss of subsidiaries is shown on the face of the statement of income and represents profit or loss attributable to owners of the Parent company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investments in subsidiaries. At each reporting date, the Company determines whether there is objective evidence that the investments in the subsidiaries are impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value, and then recognizes the loss in the statement of income.

2.9. Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less accumulated depreciation and accumulated impairment losses, when applicable. Depreciation is calculated using the straight-line method at the rates stated in Note 15 over the estimated useful lives of the assets, as follows:

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

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

2.10. Intangible assets

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

2. Accounting policies--Continued

2.10. Intangible assets--Continued

Intangible assets comprise mainly computer software licenses, trademarks and patents, and key money.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

Any gain or loss arising upon derecognition of an intangible asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the statement of income.

Research costs are expensed as incurred.

2.11. Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets at the commencement date of the lease, except for short-term leases and leases of low-value assets.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling the removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

2. Accounting policies--Continued

2.11. Leases--Continued

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. For lease contracts recognized in the year ended December 31, 2020, the Company used a rate of 1.8% for lease contracts in the United States and of 6.1% for leases in Brazil.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. These amounts were included in non-current assets as right-of-use assets and lease liabilities.

Additionally, the Company has applied the practical expedient under CVM Resolution 859/2020 issued on July 7, 2020 concerning COVID-19 Related Rent Concessions - amendments to CPC 06(R2) which states that, as a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification and, instead, to account for any change in lease payments resulting from the COVID-19 related rent concession as if the change were not a lease modification. With the application of the practical expedient, the Company recognized the amounts of R$1,503 (Parent company) and R$11,404 (Consolidated) in profit or loss for the year ended December 31, 2020.

2.12. Impairment of non-financial assets

2.12.1. Goodwill paid for expected future economic benefits

Goodwill is tested for impairment annually or when the circumstances indicate that the carrying value may be impaired.

2.12.2. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Within the current economic environment in Brazil, the Company has assessed the circumstances that could indicate an impairment of its non-financial assets due to COVID-19. The impacts were structured on the basis of the best information currently available. The impairment test did not reveal any need for impairment provision as at December 31, 2020.

2. Accounting policies--Continued

2.12. Impairment of non-financial assets--Continued

2.12.3. Intangible assets, property, plant and equipment and right-of-use assets with finite useful lives

Intangible assets, property, plant and equipment, and right-of-use assets with finite lives are amortized and depreciated, respectively, and assessed for impairment whenever there is an indication that the asset may be impaired. These assets are tested for impairment at least annually, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.13. Provisions

2.14.1. General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.14.2. Provision for tax, civil and labor claims

The Company is a party to several judicial and administrative proceedings. Provisions are recognized for all legal proceedings where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. Assessing the likelihood of an unfavorable outcome includes the evaluation of available evidence, the hierarchy of laws, available case law, most recent court decisions and their relevance to the legal system, as well as external legal advice. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitations, outcomes of tax audits or further exposure to litigation from new matters or court decisions.

2.15. Taxes

2.15.1. Sales tax

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

I. when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
II. when receivables and payables are stated with the amount of sales tax included; and
III. when the net amount of sales tax recoverable from, or payable to, the taxation authority, is included as part of receivables or payables in the balance sheet.

(All amounts in thousands of reais unless otherwise stated)

2. Accounting policies--Continued

2.15. Taxes--Continued

2.15.1. Sales tax--Continued

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

	Tax rates
Value-added Tax on Sales and Services (ICMS)	7.00% to 19.00%
Social Contribution on Revenues (COFINS)	7.6%
Social Integration Program (PIS)	1.65%
Social Security Contribution (INSS)	1.50% to 2.50%
State Sales Tax (USA)	0% to 8.875%

In the statement of income, sales are stated net of these taxes. The tax benefits and special taxation regimes are disclosed in Note 35.

2.15.2. Current income tax

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

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

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

The Company applies IFRIC 23/ICPC 22 which clarifies income tax accounting where there is uncertainty over a tax treatment. If the entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit.

2. Accounting policies--Continued

2.15. Taxes--Continued

2.15.3. Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date.

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

Deferred tax assets and liabilities are presented net in the balance sheet when there is a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

2.16. Other employee benefits

Employees, including directors and management, of the Company receive variable compensation in the form of profit sharing, share options and restricted stock in addition to fixed compensation (wages and salaries, social security contributions (INSS), paid vacation, 13th month salary). These employee benefits are recorded on the accrual basis in the income statement when an obligation to pay exists.

2. Accounting policies--Continued

2.17. Earnings per share

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

2.18. Statement of cash flows and statement of value added

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

The statement of value added is not mandatory under IFRS and is a supplementary financial statement. This statement was prepared in accordance with the Brazilian corporate legislation and the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added", with the objective of providing information regarding the amount of wealth created by the Company during the year and the way the wealth has been distributed by the Company among all the stakeholders.

2.19. Financial instruments

2.19.1. Initial recognition and measurement

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

The Company's principal financial assets include cash, trade receivables and cash investments. These assets were classified as at amortized cost and financial assets at fair value through profit or loss, respectively.

The Company's principal financial liabilities include trade payables and borrowings. These liabilities were classified as at amortized cost.

2.19.2. Subsequent measurement

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

I. Financial assets at fair value through other comprehensive income

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

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

2. Accounting policies--Continued

2.19.2. Subsequent measurement--Continued

II. Financial assets and liabilities at amortized cost

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

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

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

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

2.20. Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its foreign currency risks.

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

2.21. Segment reporting

The Company’s activities are concentrated in the development and marketing of shoes for women, men and children, handbags, accessories and clothing into one single business unit. The Company sells its products under Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever, Alme, Vans, Reserva, Reserva Mini, Reserva Go, Oficina and Eva brand names. Although the Company’s products are distributed through various distribution channels (mono-brand stores, including company-owned stores, franchises and e-commerce, and multi-brand stores), they are not partitioned into distinct independent segments, and the results thereof are monitored and assessed in a centralized way.

For management purposes, consolidated gross revenue is segmented by brand and sales channel.

2. Accounting policies--Continued

2.22. Share-based compensation

2.22.1 Restricted stock plan

The Company approved a restricted stock plan for its directors, executives and selected employees, giving them restricted shares under the terms and conditions laid out in the plan. The expense is recorded on a pro rata basis over the period from the date of grant to the vesting date. The expense represents the number of shares granted multiplied by the fair value of the share at the grant date as well as provision for charges. See Note 34 for details of the plan.

2.23. Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net fair value of the identifiable assets acquired and liabilities assumed. If, after measurement, the net fair value of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred in a business combination includes a contingent consideration arrangement, contingent consideration is measured at its acquisition-date fair value and is included in the consideration transferred in the business combination. Changes in the fair value of consideration that occur after the measurement period are accounted for prospectively in profit or loss. Measurement period adjustments are meant to reflect new information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date and are made to assets acquired and liabilities assumed and goodwill.

2. Accounting policies--Continued

2.23 Business combinations--Continued

Goodwill is initially recognized and measured as described previously. Goodwill is not amortized, but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the CGUs (or groups of CGUs) that is expected for benefit from the synergies of the combination. The CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the unit is less than its carrying amount, the impairment loss must be allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and, then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit. Impairment losses in respect of goodwill are recognized in a subsequent period.

2.24 Capital reserve and revenue reserve

The legal reserve is credited annually with 5% of the profit for the year in accordance with Law 6,404/76 and cannot exceed 20% of capital. In a financial year in which the sum of legal reserve and capital reserve is greater than 30% of share capital, the Company is not required to allocate part of its net profit for the year to the legal reserve.

The Company's bylaws permit the creation of reserves pursuant to Law 6,404/76, provided that the sum of this reserve and other revenue reserves, excluding contingency reserve and unrealized profit reserve, does not exceed 100% of share capital. If this limit is reached, the General Meeting of Shareholders shall decide, pursuant to the provisions of article 199 of the Brazilian corporate legislation, whether the excess amount will be used for contributing or increasing share capital, or paying dividends.

2.25 Dividends

In accordance with the Company's bylaws, all shareholders are entitled each year to a mandatory minimum dividend of 25% of the adjusted net profit pursuant to the Brazilian corporate legislation.

Any dividends in excess of that limit are recognized and remain in equity as "Proposed additional dividends" until the dividends are actually approved by shareholders.

The amounts derived from the realization of the revaluation reserve form the basis for determining mandatory minimum dividend.

2. Accounting policies--Continued

2.26 Tax incentive reserve

The Company and its subsidiaries receive ICMS tax incentives, which Complementary Law 160/17 requires to be classified as investment subsidies. In accordance with this Law, the Company's management is allocating the amounts disclosed in Note 35 to the tax incentive reserve under revenue reserve subject to approval of the Annual General Meeting. The amount of tax incentives does not form a basis for calculating mandatory minimum dividends and can only be incorporated into the share capital pursuant to Law 6,404/76.

3. Significant accounting judgments, estimates and assumptions

3.1. Judgments

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

Estimates and assumptions are continually evaluated and prospectively recognized.

3.2. Estimates and assumptions

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

I. Impairment of non-financial assets

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

3. Significant accounting judgments, estimates and assumptions--Continued

3.2. Estimates and assumptions--Continued

II. Taxes

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

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

III. Fair value of financial instruments

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

IV. Share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and risk-free interest rate. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 34.

V. Provisions for tax, civil and labor claims

The Company recognizes a provision for all lawsuits for which the likelihood of unfavorable outcome is probable. Assessing the likelihood of an unfavorable outcome includes the evaluation of available evidence, the hierarchy of laws, available case law, most recent court decisions and their relevance to the legal system, as well as external legal advice. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitations, outcomes of tax audits or further exposure to litigation from new matters or court decisions.

VI. Leases

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. For lease contracts recognized in the year ended December 31, 2020, the Company used a rate of 1.8% for lease contracts in the United States and of 6.1% for leases in Brazil.

The actual amounts that result from the settlement of transactions may differ materially from the estimates made in the financial statements due to an inherent lack of precision in their measurement. The Company reviews estimates and assumptions at least on a quarterly basis.

3. Significant accounting judgments, estimates and assumptions--Continued

3.2. Estimates and assumptions--Continued

As a result of the COVID-19 pandemic, significant accounting judgments, estimates and assumptions have been reviewed in the light of this new situation for the preparation of the annual financial statements at December 31, 2020. The updates are provided in the respective notes to the financial statements.

4. New and amended standards

The amendments to standards issued by the IASB, which became effective as at January 1, 2020, had no significant impact on the Company's financial statements.

On August 27, 2020, the International Accounting Standards Board (IASB) published Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) which addresses the effects of the interbank offered rate (IBOR) reform, which includes the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments are effective for annual reporting periods beginning on or after January 1, 2021 for IFRS financial statements.

The Company has no LIBOR-based contracts with third parties or hedge accounting as at December 31, 2020.

5. Business combination

On December 4, 2020, the Company acquired 100% of the equity of Vamoquevamo Empreendimentos e Participações S.A. ("Reserva") and obtained control of the acquiree. Reserva is a company that manufactures and sells at retail and wholesale apparel, footwear and accessories, and grants franchises, among other activities. The acquisition is in line with the Company's strategy of complementing its businesses in the fashion retail sector, enlarging the range of products and expanding its portfolio of brands by adding to the portfolio of Arezzo&Co Group (upon consummation of the Transaction) the Reserva, Reserva Mini, Oficina Reserva, Reserva Go, INK and EVA brands.

The provisional fair values of identifiable assets acquired and liabilities assumed are set out in the table below. The amounts have been measured on a provisional basis and will be finalized within 12 months of the acquisition date in accordance with CPC 15 – Business Combination.

(All amounts in thousands of reais unless otherwise stated)

5. Business combination--Continued

The provisional amounts recognized in respect of the business combination made on December 4, 2020 are as follows:

	Carrying amount	Fair value adjustment	Fair value
Assets acquired			
Cash and cash equivalents	71.666	-	71.666
Trade receivables	78.729	-	78.729
Inventories	66.450	6.111	72.561
Other current assets	15.455	-	15.455
Deferred income tax and social contribution	24.329	-	24.329
Property, plant and equipment	58.588	(1.911)	56.677
Investments	900	-	900
Intangible assets	5.943	266.427	272.370
Other non-current assets	454	-	454
Liabilities assumed			
Borrowings	91.806	-	91.806
Lease liabilities	34.712	-	34.712
Trade payables	36.805	-	36.805
Other current liabilities	48.622	-	48.622
Provisions for labor, tax and civil proceedings	2.959	-	2.959
Other non-current liabilities	4.156	-	4.156
Total consideration			
Covered by:			
Cash	175.000	-	175.000
Estimated cash consideration payable	50.000	-	50.000
Equity instruments (8,677,134 Company shares)	**615.209**	-	**615.209**
Total consideration transferred	**840.209**	-	**840.209**
Total goodwill			**466.128**

(All amounts in thousands of reais unless otherwise stated)

5. Business combination--Continued

The acquisition of subsidiary Vamoquevamo Empreendimentos e Participações S.A. did not generate any cash flows and is therefore not reported in the statement of cash flows, as shown below:

	Parent company	Consolidated
	12/31/2020	12/31/2020
Investments	840.209	103.454
Property, plant and equipment (decrease in value) (a)		(1.911)
Intangible assets (increase in value) (b)		266.427
Inventory (increase in value) (c)		6.111
Goodwill		466.128
Increase in share capital through issue of shares		(615.209)
Cash outflow	225.000	225.000
Realized	175.000	175.000
Unrealized	50.000	50.000

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

a) **Property, plant and equipment:** Market comparison technique and cost technique: The valuation model considers market prices for similar assets when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

b) **Intangible assets:** Relief-from-royalty method and multi-period excess earnings method: The relief-from-royalty considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. Intangible assets include trademarks, licensing and internally generated intangibles, and customer relationships.

(All amounts in thousands of reais unless otherwise stated)

5. Business combination--Continued

The key assumptions used to determine adjustments to the fair value estimate for customer relationship and franchise relationship intangible assets were as follows:

	Customer relationship	Franchisee relationship
Revenue	The revenue projection was based on operating revenue from multi-brand customers and estimated turnover.	The revenue projection was based on operating revenue from franchise customers and estimated turnover.
Attrition rate	20.5% based on the average turnover rate of Arezzo's multi-brand customers.	4.8% based on the average number of Arezzo franchisees lost from 1997 to 2019.
Useful life	The remaining useful life was estimated at 11.1 years, considering a concentration of approximately 90% of the total cash flows at present value of the asset being valued.	
Tax amortization benefit	The tax amortization benefit was calculated based on the statutory tax rate of 34% and amortization period equal to the remaining useful life of the asset.	
Discount rate	13.6% based on the weighted average cost of capital (WACC) plus a risk premium.	

The relief-from royalty method was applied to brands:

Revenue	The fair value measurement for Reserva brands considered a revenue base linked to the brands.
Royalty rate	5.5% of projected net sales for brands individually, based on royalties for similar transactions and Arezzo contracts in force.
Useful life	Indefinite
Tax amortization benefit	The tax amortization benefit was calculated based on the statutory tax rate of 34% and amortization period equal to the remaining useful life of the asset.
Discount rate	13.6% based on the weighted average cost of capital (WACC) plus a risk premium.

c) **Inventories:** Market comparison technique: The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories. The effect of the fair value adjustment will not generate temporary differences for recognition of deferred taxes because the inventories turn in a short time.

The trade receivables comprise gross contractual amounts due of R$89,941, of which R$11,212 was expected to be uncollected at the date of acquisition date and so no additional adjustments were necessary.

(All amounts in thousands of reais unless otherwise stated)

5. Business combination--Continued

The goodwill of R$466,128 is attributable to the synergies expected to be achieved from integrating the entity into the Company's existing business and the expansion of the Company's addressable market. The goodwill is expected to be deducted for income tax purposes upon merger of the subsidiary in the future since the transaction was carried out in Brazil and approved by the Brazilian antitrust authority CADE and the report will be filed with the Division of Corporations to meet the requirements for tax deduction of goodwill amortization expenses from this transaction.

The fair value of the 8,677,134 common shares issued as part of the consideration paid by the Company was based on the market share price at the date of acquisition of R$70.90. Acquisition-related costs were R$12,100 and have been included in administrative expenses. Reserva contributed revenues of R$90,333 and R$31,742 to the Company's profit for the period between the date of acquisition and the year-end date.

6. Cash and cash equivalents

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Cash on hand	**634**	450	**2.295**	1.175
Cash at banks	**2.657**	1.236	**36.002**	12.633
Total cash and cash equivalents	**3.291**	1.686	**38.297**	13.808

7. Cash investments

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Current				
Fixed-income securities (i)	**172.265**	4.845	**233.380**	5.393
Exclusive investment fund				
Certificates of bank deposit (CDB)	**2.264**	2.984	**3.737**	3.540
Financial bills (CEF)	**7.618**	40.784	**12.574**	48.395
Financial Treasury bills (LFT)	**165.493**	174.064	**273.177**	206.547
Total cash investments	**347.640**	222.677	**522.868**	263.875

(i) These include CDBs and bonds.

<u>Exclusive investment fund</u>

ZZ Referenciado DI Crédito Privado is a private fixed-income investment fund under management, administration and custody of Banco Santander S.A. This investment fund has no significantly high costs of operation. The fund's costs consist of asset management fees, custody fees, auditor fees, and other operational expenses.

(All amounts in thousands of reais unless otherwise stated)

7. Cash investments--Continued

This investment fund is exclusive to the Company and its subsidiaries and therefore was included in the consolidated financial statements according to CVM Instruction 408/04.

As of December 31, 2020, the fund holdings provide average returns of 97% of the interest rate of interbank deposit certificates (CDI). The fund has 56% of assets in treasury bills (LFTs) and 97% of the fund's assets provide daily liquidity.

The Company's financial investment policy is to concentrate its investments in low-risk securities with top-tier financial institutions (top 10 financial institutions in the country). These investments have its returns based mostly on the CDI rate.

At December 31, 2020, the Company has not pledged any investment as collateral to financial institutions.

8. Trade receivables

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Domestic customers				
Trade notes receivable	**341.208**	292.542	**383.835**	298.350
Trade notes receivable from related parties (Note 13a)	**51.127**	1.580	**-**	-
Foreign customers				
Trade notes receivable	**4.839**	3.574	**44.488**	54.242
Trade notes receivable from related parties (Note 13a)	**30.523**	23.736	**-**	-
Other				
Credit cards	**-**	-	**184.541**	73.775
Checks and other	**61**	24	**95**	80
	427.758	321.456	**612.959**	426.447
(-) Provision for expected credit losses	**(9.192)**	(1.639)	**(11.571)**	(2.633)
Total trade receivables	**418.566**	319.817	**601.388**	423.814
Current	**385.479**	285.679	**598.824**	413.412
Non-current	**33.087**	34.138	**2.564**	10.402

Third-party credit cards – sales through credit card can be made for payment in a lump sum or in installments. The credit risk in these transaction is assumed by the credit card companies.

Trade notes receivable – The Company offers its customers that are legal entities an installment payment option through trade notes. The credit risk in these transaction is assumed by the Company.

(All amounts in thousands of reais unless otherwise stated)

8. Trade receivables--Continued

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

Trade receivables from foreign customers by currency are as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
USD	**35.362**	27.299	**43.864**	51.045
EUR	-	11	**624**	3.197
	35.362	27.310	**44.488**	54.242

The changes in the provision for expected credit losses on trade receivables are as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
At the beginning of the year	**(1.639)**	(4.839)	**(2.633)**	(5.243)
Additions/reversals	**(13.210)**	(2.180)	**(15.210)**	(2.770)
Write-offs	**5.657**	5.380	**6.272**	5.380
At the end of the year	**(9.192)**	(1.639)	**(11.571)**	(2.633)

The aging analysis of these trade receivables is as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Not yet due	**412.798**	307.843	**597.999**	413.328
Up to 30 days past due	**2.244**	4.653	**2.244**	4.653
31-60 days past due	**1.979**	2.615	**1.979**	2.615
61-90 days past due	**703**	1.734	**703**	1.734
91-180 days past due	**2.350**	975	**2.350**	975
181-360 days past due	**6.004**	1.825	**6.004**	1.331
More than 360 days past due	**1.680**	1.811	**1.680**	1.811
	427.758	321.456	**612.959**	426.447

(All amounts in thousands of reais unless otherwise stated)

8. Trade receivables--Continued

In the context of the ongoing COVID-19 pandemic, the default rate, though much higher than usual, continues to decline mainly due to a gradual sell-out increase. We made a small increase in our loss provision based on our parameter used in the credit risk analysis.

Default may be a warning sign that a customer is experiencing payment difficulties, however, the Company is monitoring in a timely manner the market value of the transaction and its customers' inventories and has identified no signs of insolvency. Depending on the market reaction and the sell-out of stores, we can consider extending payment terms for our customers and re-evaluate the necessity of a loss provision.

With the resumption of activities and reopening of stores, the need for new sales is subject to rigorous credit criteria with credit limit check, volume of clearance sales in the last months, always observing the amount of purchase compatible with the sell-out, which has already been revised according to the new scenario.

The Company assesses the risk of loss on outstanding accounts receivable on a periodic basis and recognized an additional provision of R$15,210 at December 31, 2020 (2019 – R$ 2,770) for losses on trade receivable, which was classified in selling expenses.

9. Inventories

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Finished products	**81.506**	60.119	**265.378**	157.622
Raw materials	**3.408**	4.060	**17.098**	17.480
Work in process	**-**	-	**7.750**	6.219
Advances to suppliers	**5.326**	4.825	**7.884**	5.631
(-) Provision for losses	**(4.546)**	(5.717)	**(7.214)**	(7.453)
Total inventories	**85.694**	63.287	**290.896**	179.499

Raw materials are used in the development of new products and collections and in the manufacture of shoes by the subsidiary ZZSAP. Additionally, we have fabrics and notions for use in the production of clothing by the subsidiary Vamoquevamo. Work in process refers mainly to shoes that are in the production process at the subsidiary ZZSAP. Finished products refer mainly to shoes, handbags, clothing and fashion accessories that are ready to replenish the stock of franchisees and for sale through the Company-owned stores and e-commerce.

(All amounts in thousands of reais unless otherwise stated)

9. Inventories--Continued

Changes in the provision for losses are as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
At the beginning of the year	**(5.717)**	(2.860)	**(7.453)**	(4.087)
Additions/reversals	**(94)**	(4.060)	**(1.026)**	(4.569)
Realized	**1.265**	1.203	**1.265**	1.203
At the end of the year	**(4.546)**	(5.717)	**(7.214)**	(7.453)

10. Taxes recoverable

Value-added tax on sales and services (ICMS)	**6.878**	9.243	**19.718**	14.560
Corporate income tax (IRPJ)	**390**	24.794	**791**	25.380
Social contribution (CSLL)	**98**	6.789	**206**	6.924
Social integration program (PIS) and social contri	**-**	3	**55.954**	39.851
Excise tax (IPI)	**-**	-	**1.212**	1.425
Other	**4.095**	1.124	**8.153**	2.192
Total	**11.461**	41.953	**86.034**	90.332

(i) The Company obtained a favorable judgment in the lawsuit filed in the federal court concerning the exclusion of ICMS from the tax base of PIS and COFINS and gained the right to recover, through offsetting, the amounts relating to its subsidiaries ZZAB and ZZSAP, with both having tax credit claims approved by the Brazilian Revenue Service, which were recognized in the statement of income (Note 32).

11. Other receivables

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Advances to advertising fund (i)	**8.228**	7.163	**8.228**	7.163
Advances to franchisees	**623**	623	**623**	623
Advances to suppliers	**4.115**	2.130	**9.512**	2.710
Advances to employees	**805**	1.002	**1.494**	4.628
Prepaid expenses	**1.194**	1.290	**4.260**	1.318
Other receivables	**1.821**	1.802	**7.160**	5.788
Total other receivables	**16.786**	14.010	**31.277**	22.230
Current	**16.470**	13.693	**27.949**	19.739
Non-current	**316**	317	**3.328**	2.491

(All amounts in thousands of reais unless otherwise stated)

11. Other receivables--Continued

(i) Advances to cooperative advertising fund

To pay for national promotions and advertising campaigns for the entire franchise network ("Arezzo Franchise Network", "Schutz Franchise Network", "Anacapri Franchise Network", "Fiever Franchise Network", "Alme Franchise Network" and "Vans Franchise Network"), the franchisees agree to contribute a percentage of gross sales to a national advertising fund called "Arezzo Cooperative Advertising and Promotion Fund", "Schutz Cooperative Advertising and Promotion Fund", "Anacapri Cooperative Advertising and Promotion Fund", "Fiever Cooperative Advertising and Promotion Fund", "Alme Cooperative Advertising and Promotion Fund" and "Vans Cooperative Advertising and Promotion Fund". Advertising funds are contributed by franchisees on a monthly basis and used to pay costs of marketing and advertising strategies, including advertisements and promotions on behalf of the Arezzo Franchise Network, Schutz Franchise Network, Anacapri Franchise Network, Fiever Franchise Network, Alme Franchise Network and Vans Franchise Network, as well as to pay external advertising agencies for creation and development of campaigns, and other advertising and promotional activities at the national level. The advertising funds collected are administered by the franchisor who shall furnish a yearly report to franchisees with information about contributions made and uses thereof.

12. Income tax and social contribution

a) Deferred taxes

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Basis of calculation of deferred income tax (IRPJ) and social contribution (CSLL)				
Unrealized profit on inventories	**21.169**	20.732	**21.169**	20.732
Provision for labor, tax and civil proceedings	**5.721**	5.508	**12.735**	9.169
Provision for expected credit losses on trade receivables	**9.297**	1.887	**10.382**	1.887
Provision for share option plan	**4.030**	4.879	**4.030**	4.879
Provision for commissions	**7.891**	3.461	**7.891**	3.461
Provision for inventory losses	**4.546**	5.717	**10.743**	6.087
Provision for foreign exchange losses	**-**	1.753	**(2.488)**	(1.871)
Other provisions	**596**	757	**596**	476
Bill and hold transactions, net	**2.893**	-	**5.657**	1.305
Tax losses	**87.534**	-	**166.438**	-
Deferred tax assets	**143.677**	44.694	**237.153**	46.125
Deferred income tax and social contribution	**48.850**	15.196	**80.632**	15.682

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

(All amounts in thousands of reais unless otherwise stated)

12. Income tax and social contribution--Continued

b) Deferred taxes--Continued

The reconciliation of deferred tax assets is as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Opening balance	**15.196**	15.746	**15.682**	17.491
Deferred income tax recognized in the statement of income	**33.654**	1.131	**40.622**	(128)
Acquisition of subsidiary	**-**	-	**24.328**	-
Deferred income tax recognized in other comprehensive income	**-**	(1.681)	**-**	(1.681)
Closing balance	**48.850**	15.196	**80.632**	15.682

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

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

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
2021	**24.828**	6.868	**31.528**	7.114
2022	**19.555**	4.164	**26.072**	4.284
2023	**4.467**	4.164	**13.209**	4.284
2024	**-**	-	**9.823**	
Total deferred income tax and social contribution	**48.850**	15.196	**80.632**	15.682

(All amounts in thousands of reais unless otherwise stated)

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

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

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Profit before income tax and social contribution	**24.732**	175.098	**54.558**	204.926
Statutory tax rate	**34,0%**	34,0%	**34,0%**	34,0%
Expected income tax and social contribution expense at the statutory tax rate	**(8.409)**	(59.533)	**(18.550)**	(69.675)
Tax benefit from technological innovation and research expenses - Law 11,196/05	**2.212**	9.190	**2.212**	9.190
Equity in the earnings of equity-accounted subsidiaries	**12.982**	1.411	**-**	-
Interest on capital	**9.173**	12.956	**9.173**	12.956
Deferred income tax and social contribution on unrecognized of subsidiaries	**-**	-	**(32.099)**	(22.340)
Government subsidies (i)	**14.815**	25.122	**36.243**	30.078
Share option plan expenses	**(1.125)**	(1.099)	**(1.125)**	(1.099)
Tax incentives (Workers' Meal Program (PAT), Rouanet Law)	**234**	498	**559**	836
Other permanent differences	**(6.030)**	(1.504)	**(2.387)**	(2.733)
Income tax and social contribution expense	**23.852**	(12.959)	**(5.974)**	(42.787)
Current	**(9.802)**	(14.090)	**(46.596)**	(42.659)
Deferred	**33.654**	1.131	**40.622**	(128)
Income tax and social contribution expense	**23.852**	(12.959)	**(5.974)**	(42.787)
Effective tax rate	**N/A**	**7,4%**	**10,9%**	**20,9%**

(i) ICMS tax incentive according to Complementary Law 160/2017 (Note 35).

d) Assessment of impacts of ICPC 22/IFRIC 23 – “Uncertainty over Income Tax Treatments”

Management assessed the impacts of applying ICPC 22/IFRIC23 that addresses the accounting for income taxes when there is uncertainty over income tax treatments. Based on its assessment, management concluded that it is probable that the tax authority will accept its tax treatment as described below:

Tax Debt Annulment Action No. 1015792-98.2017.4.01.3400 with the 4th Federal Court of the Federal District, to suspend and subsequently annul the debts claimed through notices of assessment subject of administrative proceeding No. 15504.725551/2013-17 (for alleged omissions of interest income from loan agreements with associates in calendar years 2008 and 2009; overdeduction of interest on capital payment expenses in calendar years 2008 and 2009, supposedly disproportionate to the equity interest, and allegedly undue tax amortization of goodwill paid on acquisition of the Company by BRICS on 11/8/2007), as well as for the Company to have the right to deduct goodwill amortization expense from, at least, the social contribution tax basis and to cancel fines for non-payment of amounts allegedly owed, pursuant to article 44, II, of Law No. 9.430/1996 (about 50%). The Company is awaiting an examination by an accounting expert with the objective of demonstrating that the transaction carried out at the time of the acquisition of the shares by BRICS had a substantial purpose and an economic effect.

(All amounts in thousands of reais unless otherwise stated)

13. Balances and transactions with related parties

a) Balances and transactions with subsidiaries and controlling shareholders:

	12/31/2020						
	Current assets		Non-current assets		Non-current	Transactions	
	Accounts receivable	Dividends	Accounts receivable	Loans	Trade payables	Revenues	Purchases
Parent company							
ARZZ International INC	**-**	**-**	**30.523**	**24.271**	**-**	**96**	**-**
ZZAB Comércio de Calçados Ltda.	**47.850**	**-**	**-**	**-**	**5.693**	**329.808**	**4.729**
ZZSAP Indústria e Comércio de Calçados Ltda.	**302**	**-**	**-**	**20.754**	**275**	**21**	**98.439**
ZZEXP Comercial Exportadora S/A	**2.975**	**21.839**	**-**	**-**	**-**	**2.541**	**-**
Total - Parent company	**51.127**	**21.839**	**30.523**	**45.025**	**5.968**	**332.466**	**103.168**

	12/31/2019						
	Current assets		current assets	Current liabilities	current liabilities	Transactions	
	Accounts receivable	Dividends	Accounts receivable	Trade payables	Loans	Revenues	Purchases
Parent company							
ARZZ Co International INC			23.736		3.795	249	-
ZZAB Comércio de Calçados Ltda.	950	-	-	1.992	-	218.124	4.693
ZZSAP Indústria e Comércio de Calçados Ltda.	196	-	-	(707)	-	507	109.109
ZZEXP Comercial Exportadora S/A	434	-	-	-	-	180	-
Total - Parent company	**1.580**	**-**	**23.736**	**1.285**	**3.795**	**219.060**	**113.802**
Consolidated							
Controlling shareholders	-	-	-	-	1.502	-	-
Total - Consolidated	-	-	-	-	1.502	-	-

b) Nature, terms and conditions of transactions with subsidiaries

The transactions with related parties are conducted on commercial and financial terms agreed upon between the parties concerned.

The most common related-party transactions are:

- sales from the Parent company to subsidiaries ZZAB and ARZZ;
- sales from subsidiary ZZEXP to subsidiary ARZZ; and
- sales from subsidiary ZZSAP to the Parent company and to subsidiary ZZEXP.

(All amounts in thousands of reais unless otherwise stated)

c) Management compensation

Compensation of management personnel consists of salaries, profit sharing and share-based payment. At December 31, 2020, total compensation paid to management personnel was R$13,358 (2019 – R$13,257) as shown below:

	2020	**2019**
Annual fixed remuneration - salary	**6.851**	6.763
Variable remuneration - bonuses	**4.410**	3.473
Share option and restricted stock plans (Note 34)	**2.097**	3.021
Total compensation paid to management personnel	**13.358**	13.257

The expenses related to the restricted stock plan (Note 34) are presented as operating expenses before finance income and costs.

The Company has a profit sharing plan with the main goal of rewarding employee performance during the year. On a monthly basis, the Company recognizes a liability and an expense for profit sharing based on the estimates of achievement of the operating targets and specific goals established and approved by management. The profit-sharing payments are recorded in liabilities within "salaries and social charges" and in the statement of income within "general, selling and administrative expenses" (Note 29).

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

d) Transactions or relationships with shareholders

At December 31, 2020, certain Company officers and directors directly own a total interest of 45.8% in the Company (2019 – 50.8%).

e) Transactions with other related parties

The Company has a service agreement with the firm Ethos Desenvolvimento S/C Ltda. owned by Mr. José Ernesto Beni Bolonha, a member of the Company's Board of Directors. In the year ended December 31, 2020, this firm received R$671 (2019 - R$630).

(All amounts in thousands of reais unless otherwise stated)

14. Investments in subsidiaries

a) Summary of balance sheet and statement of income of subsidiaries:

	12/31/2020					
	Assets	Liabilities	Equity	Capital	Net revenue	Profit (loss) for the year
ARZZ International INC	214.423	279.473	(65.050)	212.093	163.968	(94.408)
ZZAB Comércio de Calçados Ltda.	434.821	132.640	302.181	93.614	497.312	81.805
ZZSAP Ind.e Com.de Calçados Ltda.	99.260	39.174	60.086	27.592	110.215	4.020
ZZEXP Comercial Exportadora S/A	125.219	107.871	17.348	2.000	75.478	15.023
VQV Empreendimentos e Participações S.A.	365.958	230.762	135.196	107.044	71.246	31.742

	12/31/2019					
	Assets	Liabilities	Equity	Capital	Net revenue	Profit (loss) for the year
ARZZ International INC	247.340	291.243	(43.903)	127.144	175.597	(65.706)
ZZAB Comércio de Calçados Ltda.	292.513	72.139	220.374	93.614	346.099	35.154
ZZSAP Ind.e Com.de Calçados Ltda.	84.208	28.142	56.066	27.592	138.243	14.662
ZZEXP Comercial Exportadora S/A	161.923	139.807	22.116	2.000	117.657	20.040

Unrealized profit on inventories is presented in the statement of income of the above subsidiaries.

b) Balances of investments and share of profit (loss) of equity-accounted subsidiaries:

	Investments		Share of profit (loss) of equity-accounted subsidiaries	
	2020	2019	2020	2019
ZZAB Comércio de Calçados Ltda.	**302.181**	220.374	**81.805**	35.154
ZZSAP Indústria e Comércio de Calçados Ltda.	**60.086**	56.066	**4.020**	14.662
ZZEXP Comercial Exportadora S/A	**17.348**	22.116	**15.023**	20.040
VQV Empreendimentos e Participações S.A.	**135.196**	-	**31.742**	-
Goodwill arising on acquisition of subsidiary	**736.754**			
Total investments	**1.251.565**	298.556	**132.590**	69.856
ARZZ International INC	**(65.050)**	(43.903)	**(94.408)**	(65.706)
Provision for net capital deficiency	**(65.050)**	(43.903)	**(94.408)**	(65.706)
Total	**1.186.515**	254.653	**38.182**	4.150

(All amounts in thousands of reais unless otherwise stated)

14. Investments in subsidiaries--Continued

c) Changes in investments:

	2020	2019
Balance at the beginning of the year	**254.653**	279.480
Capital contribution	**84.949**	-
Distribution of dividends	**(19.790)**	(28.188)
Acquisition of subsidiary (Note 5)	**840.208**	-
Share of profit of equity-accounted subsidiaries	**38.182**	4.150
Reversal of expired dividends of subsidiary	**2.101**	-
Carrying value adjustments	**(13.788)**	(789)
Balance at the end of the year	**1.186.515**	254.653

In fiscal year 2020, the Company made a capital contribution of R$84,949 to its subsidiary ARZZ.

The effects of exchange rate changes on the equity and results for 2020 of the subsidiary ARZZ that is based in the United States are reported as carrying value adjustments.

Distribution of dividends

On May 8, 2020, the subsidiary ZZEXP Comercial Exportadora S.A. approved a dividend to the Company of R$19,790 out of its net profit for the year ended December 31, 2019.

(All amounts in thousands of reais unless otherwise stated)

15. Property, plant and equipment

	2020			2019		
Parent company	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Computers and peripherals	**21.982**	**(16.155)**	**5.827**	20.297	(13.915)	6.382
Furniture and fittings	**10.789**	**(6.034)**	**4.755**	10.235	(5.075)	5.160
Machinery and equipment	**10.540**	**(6.474)**	**4.066**	9.502	(5.589)	3.913
Facilities and showroom	**27.123**	**(13.393)**	**13.730**	25.261	(10.998)	14.263
Vehicles	**221**	**(212)**	**9**	221	(209)	12
Land	**84**	**-**	**84**	84	-	84
Right-of-use assets	**34.565**	**(13.968)**	**20.597**	34.163	(6.778)	27.385
Total	**105.304**	**(56.236)**	**49.068**	99.763	(42.564)	57.199

	2020			2019		
Consolidated	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Computers and peripheral	**30.9**	**(22.27**	**8.6**	25.050	(17.234)	7.816
Furniture and fittings	**49.912**	**(22.456)**	**27.456**	37.607	(16.020)	21.587
Machinery and equipment	**31.480**	**(18.213)**	**13.267**	25.722	(14.360)	11.362
Facilities and showroom	**128.237**	**(66.461)**	**61.776**	105.501	(46.774)	58.727
Vehicles	**249**	**(234)**	**15**	234	(223)	11
Land	**84**	**-**	**84**	84	-	84
Right-of-use assets	**308.180**	**(103.110)**	**205.070**	245.097	(40.602)	204.495
Total	**549.052**	**(232.752)**	**316.300**	439.295	(135.213)	304.082

(All amounts in thousands of reais unless otherwise stated)

15. Property, plant and equipment--Continued

Changes in property, plant and equipment are as follows:

At December 31, 2018	**4.900**	**4.517**	**3.767**	**13.004**	**25**	**101**	**-**	**26.314**
Initial adoption of CPC 06 (R2)	-	-	-	-	-	-	32.987	32.987
Purchases	3.625	1.492	878	3.373	-	-	1.258	10.626
Depreciation	(2.141)	(849)	(732)	(2.114)	(13)	-	(6.796)	(12.645)
Write-offs	(2)	-	-	-	-	(17)	(64)	(83)
At December 31, 2019	**6.382**	**5.160**	**3.913**	**14.263**	**12**	**84**	**27.385**	**57.199**
Purchases	2.051	553	1.040	1.904	-	-	3.141	8.689
Depreciation	(2.266)	(958)	(884)	(2.426)	(3)	-	(7.658)	(14.195)
Write-offs	(340)	-	(3)	(11)	-	-	(2.271)	(2.625)
At December 31, 2020	**5.827**	**4.755**	**4.066**	**13.730**	**9**	**84**	**20.597**	**49.068**
Average depreciation rate	20%	10%	10%	10%	20%	-	20%	

Consolidated	**Computers and peripherals**	**Furniture and fittings**	**Machinery and equipment**	**Facilities and showroom**	**Vehicles**	**Land**	**Right-of-use assets**	**Total**
At December 31, 2018	**6.432**	**17.163**	**11.540**	**47.941**	**24**	**101**	**-**	**83.201**
Initial adoption of CPC 06 (R2)	-	-	-	-	-	-	199.777	199.777
Purchases	4.241	9.711	1.999	23.318	-	-	41.832	81.101
Depreciation	(2.829)	(4.288)	(2.158)	(11.712)	(13)	-	(40.751)	(61.751)
Write-offs	(55)	(991)	(19)	(1.519)	-	(17)	(928)	(3.529)
Foreign exchange variation	27	(8)	-	699	-	-	4.565	5.283
At December 31, 2019	**7.816**	**21.587**	**11.362**	**58.727**	**11**	**84**	**204.495**	**304.082**
Acquisition of subsidiary	834	9.924	2.265	13.477	7	-	32.082	58.589
Fair value adjustments to the carrying amounts	89	(3.100)	(231)	1.331	-	-	-	(1.911)
Purchases	3.379	5.903	2.219	5.707	-	-	23.724	40.932
Depreciation	(2.928)	(3.925)	(2.331)	(9.391)	(3)	-	(49.843)	(68.421)
Write-offs	(776)	(5.220)	(18)	(13.934)	-	-	(45.029)	(64.977)
Foreign exchange variation	218	2.287	1	5.859	-	-	39.641	48.006
At December 31, 2020	**8.632**	**27.456**	**13.267**	**61.776**	**15**	**84**	**205.070**	**316.300**
Average depreciation rate	20%	10%	10%	10%	20%	-	10% a 20%	

During the year, the Company tested property, plant and equipment for impairment and determined that no provision for impairment loss on property, plant and equipment is needed.

Taking into account the significance of property, plant and equipment to the financial statements as a whole, the Company and its subsidiaries assessed the useful economic life of these assets and concluded that there are no significant adjustments or changes to be recognized as at December 31, 2020.

(All amounts in thousands of reais unless otherwise stated)

16. Intangible assets

During the year, the Company assessed certain intangible assets, including intangible assets with indefinite useful lives (goodwill), for impairment and concluded that no impairment provision is needed.

	2020			2019		
Parent company	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**5.582**	**-**	**5.582**	5.336	-	5.336
Key money (finite)	**954**	**(954)**	**-**	954	(954)	-
Software licenses	**142.286**	**(90.358)**	**51.928**	118.935	(82.891)	36.044
Total	**148.822**	**(91.312)**	**57.510**	125.225	(83.845)	41.380

	2020			2019		
Consolidated	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**261.966**	**-**	**261.966**	6.494	-	6.494
Key money (indefinite)	**35.808**	**(1.979)**	**33.829**	28.047	-	28.047
Key money (finite)	**7.260**	**(7.260)**	**-**	4.159	(4.039)	120
Intangible assets - fair value adjustments to the carrying amount	**12.271**	**-**	**12.271**	-	-	-
Goodwill	**466.128**	**-**	**466.128**	-	-	-
Software licenses	**159.983**	**(104.310)**	**55.673**	124.972	(84.586)	40.386
Total	**943.416**	**(113.549)**	**829.867**	163.672	(88.625)	75.047

(All amounts in thousands of reais unless otherwise stated)

16. Intangible assets--Continued

Changes in intangible assets are as follows:

Parent company	Trademarks and patents	Software licenses	Total
At December 31,2018	4.686	27.478	32.164
Purchases	650	23.466	24.116
Amortization	-	(14.870)	(14.870)
Write-offs	-	(30)	(30)
At December 31, 2019	**5.336**	**36.044**	**41.380**
Purchases	**246**	**23.351**	**23.597**
Amortization	**-**	**(7.467)**	**(7.467)**
At December 31, 2020	**5.582**	**51.928**	**57.510**
Average depreciation rate	Indefinite	20%	

Consolidated	Trademarks and patents	Key money	Key money	Contractual customer relationships	Goodwill	Software licenses	Total
At December 31, 2018	5.802	30.643	-	-		30.723	67.168
Transfers	-	(3.046)	3.046	-	-	-	-
Purchases	650	450	-	-	-	25.240	26.340
Amortization	-	-	(2.926)	-	-	(15.645)	(18.571)
Write-offs	-	-	-	-	-	(30)	(30)
Foreign exchange variation	42	-	-	-	-	98	140
At December 31, 2019	**6.494**	**28.047**	**120**	-	**-**	**40.386**	**75.047**
Acquisition of subsidiary	**760**	**5.175**	**-**	-	**-**	**7**	**5.942**
Transfers	**-**	**120**	**(120)**	-	**-**	**-**	**-**
Purchases	**246**	**1.852**	**-**	-	**466.128**	**26.880**	**495.106**
Fair value adjustments to the carrying amount	**254.156**	**-**	**-**	**12.271**	**-**	**-**	**266.427**
Amortization	**-**	**(48)**	**-**	**-**	**-**	**(12.634)**	**(12.682)**
Write-offs	**-**	**(1.317)**	**-**	**-**	**-**	**(6)**	**(1.323)**
Foreign exchange variation	**310**	**-**	**-**	**-**	**-**	**1.040**	**1.350**
At December 31, 2020	**261.966**	**33.829**	**-**	**12.271**	**466.128**	**55.673**	**829.867**
Average depreciation rate	Indefinite	Indefinite	Finite	Indefinite	Indefinite	20%	

Intangible assets with finite useful lives referred to as "software licenses" consist of software licenses acquired from third parties and internally developed software and are amortized on a straight-line basis over their estimated useful life with a corresponding charge to general and administrative expenses.

16. Intangible assets--Continued

Intangible assets with indefinite useful lives consist of trademarks and patents and key money. Key money is a fee paid by the Company to acquire the rights of tenancy under a commercial property lease, with highly probable renewal periods. The Company will recover these assets when it sells the rights of tenancy to a new tenant or through impairment.

The rights to the occupancy of the leased store spaces are acquired through the full payment of key money, and there are no other obligations arising from the acquisition of these rights in the Company's liabilities. Payment of key money is common in commercial lease transactions.

The goodwill recognized by the Company arises from the acquisition of a subsidiary on December 4, 2020 (Note 5) and is allocated to the CGU Reserva. Therefore, the investment is recognized at fair value at December 31, 2020 and no impairment testing is required for goodwill and customer relationships.

At December 31, 2020, the Company recognized costs of research and development of new products and technology of R$33,799 (2019 - R$33,785) within "General and administrative expenses" in the statement of operations and in intangible assets.

Impairment testing of intangible assets with indefinite useful lives – key money and trademarks

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

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

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

The estimated future cash flows were discounted at a pre-tax discount rate of 18.6% p.a. (equivalent to WACC of 10.8% p.a.) for each cash-generating unit analyzed.

Key assumptions used in value-in-use calculations are as follows:

- Revenues - Revenues were forecasted for the period between 2021 and 2025 considering growth of the customer base of the various cash-generating units, the impacts of new architectural projects of certain stores and the level of each store and brand in the market.

(All amounts in thousands of reais unless otherwise stated)

16. Intangible assets--Continued

Impairment testing of intangible assets with indefinite useful lives – key money and trademarks --Continued

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

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

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

The impairment test performed for intangible assets did not reveal any impairment loss as of December 31, 2020 as the estimated value in use is higher than the carrying amount at the date of valuation.

17. Borrowings

Borrowings can be summarized as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
In local currency	**204.747**	8.957	**287.770**	9.307
FINAME (a)	**-**	-	**279**	350
FINEP (b)	**3.839**	8.957	**3.839**	8.957
Working capital - Law 4,131 (c)	**-**	-	**82.744**	-
Working capital - Law 4,131 (d)	**150.878**	-	**150.878**	-
Working capital - Law 4,131 (e)	**50.030**	-	**50.030**	-
In foreign currency	**256.024**	40.301	**346.499**	171.477
Working capital - Law 4,131 (f)	**103.989**	40.301	**103.989**	40.301
Working capital - Law 4,131 (g)	**156.180**	-	**156.180**	-
Working capital - Law 4,131 (h)	**-**	-	**8.106**	-
ACC (i)	**-**	-	**61.164**	66.453
PPE (j)	**-**	-	**23.788**	64.723
(+/-) Swap - working capital (k)	**(4.145)**	-	**(6.728)**	-
Total borrowings	**460.771**	49.258	**634.269**	180.784
Current	**142.160**	45.419	**239.483**	158.222
Non-current	**318.611**	3.839	**394.786**	22.562

(All amounts in thousands of reais unless otherwise stated)

17. Borrowings--Continued

At December 31, 2020, the maturities and interest rate and charges on borrowings are as follows:

a) Machine and equipment financing (Finame): 6% p.a. with monthly installments and a final maturity in October 2024;
b) Study and project financing (FINEP): 4% p.a. limited to Long-Term Interest Rate (TJLP), with maturities until September 2021;
c) Working capital – Law 4,131: denominated in Brazilian reais plus average interest rate of CDI + 3.242% p.a. at December 31, 2020, with maturity up to July 2023;
d) Working capital – Law 4,131: denominated in Brazilian reais plus average interest rate of CDI + 1.85% p.a. at December 31, 2020, with maturity from March 2022 to December 2022;
e) Working capital – Law 4,131: denominated in Brazilian reais plus average interest rate of CDI + 1.90% p.a. at December 31, 2020, with a maturity in March 2022;
f) Working capital – Law 4,131: denominated in U.S. dollars plus average interest rate of CDI + 3.90% p.a. at December 31, 2020, with maturity from March 2021 to March 2025;
g) Working capital – Law 4,131: denominated in U.S. dollars plus average interest rate of CDI + 2.35% p.a. at December 31, 2020, with a maturity in December 2022;
h) Working capital – Law 4,131: denominated in U.S. dollars with USD/BRL swap plus average interest rate of CDI + 3.24% p.a. at December 31, 2020, with maturity from January 2023;
i) Advance on foreign exchange contract (ACC): denominated in U.S. dollars plus average interest rate of 3.81% p.a. at December 31, 2020. There are several agreements with a final maturity in December 2021;
j) Export prepayment (PPE): denominated in U.S. dollars plus average interest rate of 3.17% p.a. at December 31, 2020, with a final maturity in December 2021;
k) Swap contracts in foreign currency (Law 4,131) to hedge foreign currency risk.

Changes in borrowings are as follows:

Parent company	**FINEP**	**Transaction 4131**	**Total**
At December 31, 2018	17.549	58.133	75.682
Proceeds from borrowings	(8.592)	(20.370)	(28.962)
Payment of principal	(523)	(2.256)	(2.779)
Payment of interest	523	4.794	5.317
At December 31, 2019	8.957	40.301	49.258
Proceeds from borrowings	**-**	**527.344**	**527.344**
Payment of principal	**(5.118)**	**(134.762)**	**(139.880)**
Payment of interest	**(234)**	**(4.710)**	**(4.944)**
Provision for interest and foreign exchange variation	**234**	**28.759**	**28.994**
At December 31, 2020	**3.839**	**456.932**	**460.771**

(All amounts in thousands of reais unless otherwise stated)

17. Borrowings--Continued

Consolidated	FINAME	PPE	ACC	FINEP	Transaction 4131	Total
At December 31, 2018	467	11.873	23.396	17.549	58.133	111.418
Proceeds from borrowings	-	62.916	90.168	-	-	153.084
Payment of principal	-	(11.873)	(47.982)	(8.592)	(20.370)	(88.817)
Payment of interest	(141)	236	(3.784)	(523)	(2.256)	(6.468)
Provision for interest and foreign exchange variation	24	1.570	4.656	523	4.794	11.567
At December 31, 2019	350	64.722	66.454	8.957	40.301	180.784
Proceeds from borrowings	**-**	**18.583**	**6.925**	**-**	**527.343**	**552.851**
Acquisition of subsidiary	**-**	**-**	**-**	**-**	**88.959**	**88.959**
Payment of principal	**(53)**	**(64.722)**	**(8.104)**	**(5.118)**	**(135.888)**	**(213.885)**
Payment of interest	**(37)**	**33**	**(3.847)**	**(234)**	**(4.969)**	**(9.054)**
Provision for interest and foreign exchange variation	**19**	**5.172**	**(264)**	**234**	**29.453**	**34.614**
At December 31, 2020	**279**	**23.788**	**61.164**	**3.839**	**545.199**	**634.269**

The amounts classified as non-current liabilities mature as follows:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
2021	-	-	-	22.357
2022	**318.611**	3.839	**358.751**	73
2023	**-**	-	**22.668**	73
2024	**-**	-	**11.772**	59
2025	**-**	-	**1.595**	-
Total borrowings	**318.611**	3.839	**394.786**	22.562

Borrowings are secured by Group entities' guarantee and bank letters of guarantee, and do not contain financial covenants. Qualitative loan covenants are being met. Finame agreements are secured by the financed assets.

(All amounts in thousands of reais unless otherwise stated)

17. Borrowings--Continued

Other guarantees and commitments

The Company has a technical and financial cooperation agreement with Banco do Nordeste do Brasil S/A ("Bank"), to have borrowing facilities available for Arezzo franchisees that are located in the area where the Bank operates, using the funds from the Northeast Region Constitutional Finance Fund (FNE) to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees through working capital loans, if needed. Under the terms of the agreement, the Company shall be the guarantor for these transactions through a surety bond when contracted by store owners. At December 31, 2020, these transactions amounted to R$1,133 (2019 - R$1,392).

The Company has a technical and financial cooperation agreement with Banco Alfa, to have borrowing facilities available for Arezzo franchisees, using the funds from the National Bank for Economic and Social Development ("BNDES") to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees. The Company is the guarantor for these transactions. At December 31, 2020, the balance of transactions guaranteed by the Company was R$6,605 (2019 - R$8,832).

The Company has no history of losses on such transactions.

18. Trade payables

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Domestic suppliers	**79.466**	51.506	**133.212**	66.071
Supplier finance (i)	**247.326**	67.941	**262.591**	67.941
Related parties (Note 13.a)	**5.968**	1.285	**-**	-
Foreign suppliers	**3.061**	955	**3.386**	955
Total trade payables	**335.821**	121.687	**399.189**	134.967

(i) The Company has agreements with Banco Itaú Unibanco S.A. ("Bank") to structure with its main suppliers a supplier finance arrangement. In this arrangement, the suppliers transfer the right to receive their invoices to the Bank which, in turn, will become the creditor in the transaction. Management has reviewed the portfolio of this transaction and identified a change in payment terms with suppliers from 50 to 120 days. The extended payment term was a production chain strategy adopted by the Company and hence did not change the substance of the supplier finance transaction and did not result in additional costs or changes in prices. Thus, the Company believes that the presentation of this transaction within the account "Trade payables" is adequate.

19. Leases

The Company assessed its portfolio of contracts and identified 156 contracts. It should be noted that 57 contracts came from the entity VQV that was acquired by the Company.

(All amounts in thousands of reais unless otherwise stated)

Of the identified contracts, 46 qualify for exemptions available under the lease standard and 110 fall within the scope of lease. These contracts refer to minimum rent of owned stores, offices, plants and distribution centers.

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

The Company has applied the practical expedient under CVM Resolution 859/2020 issued on July 7, 2020 concerning COVID-19 Related Rent Concessions - amendments to CPC 06(R2) which states that, as a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification and, instead, to account for any change in lease payments resulting from the COVID-19 related rent concession as if the change were not a lease modification. With the application of the practical expedient, the Company recognized the amounts of R$1,503 (Parent company) and R$11,404 (Consolidated) in profit or loss for the year ended December 31, 2020.

a) Movements in right-of-use assets:

	Parent company	Consolidated
Initial application at January 1, 2019		
Recognition under CPC 06(R2)	**32.987**	**199.777**
Additions	1.258	41.832
Write-offs	(64)	(928)
Depreciation	(6.796)	(40.751)
Foreign exchange variation	-	4.565
Total right-of-use assets at December 31, 2019	**27.385**	**204.495**
Total right-of-use assets at December 31, 2019	**27.385**	**204.495**
Acquisition of a subsidiary	-	32.082
Additional	3.141	23.724
Write-offs	(2.271)	(45.029)
Depreciation	(7.658)	(49.843)
Foreign exchange variation	-	39.641
Total right-of-use assets at December 31, 2020	**20.597**	**205.070**

(All amounts in thousands of reais unless otherwise stated)

19. Leases--Continued

b) Movements in lease liabilities:

	Parent company	Consolidated
Lease liabilities at January 1, 2019	**36.640**	**218.607**
Discount to present value	(3.653)	(18.830)
Lease liabilities at January 1, 2019	**32.987**	**199.777**
Lease payments	(6.479)	(42.069)
Interest expense on lease liabilities	944	5.608
Additions	1.258	41.832
Foreign exchange variation	-	4.853
Write-offs	(64)	(943)
Lease liabilities at December 31, 2019	**28.646**	**209.058**
Lease liabilities at December 31, 2019	**28.646**	**209.058**
Acquisition of a subsidiary	-	34.712
Additions	3.427	23.039
Additions discounted to present value	(286)	(1.947)
Write-offs, net	(1.931)	(45.965)
Lease payments	(8.755)	(53.039)
Interest expense on lease liabilities	1.447	5.972
Foreign exchange variation	-	41.529
Lease liabilities at December 31, 2020	**22.548**	**213.360**
Current	**5.813**	**52.890**
Non-current	**16.735**	**160.470**

(All amounts in thousands of reais unless otherwise stated)

19. Leases--Continued

c) Future commitments

In compliance with CVM Circular 02/2019 and CPC 06 (R2)/IFRS 16, given the fact that the Group did not apply the nominal cash flow method because IFRS 16 prohibits future inflation projections and with the aim of providing users of the financial statements with additional information, set out below is the maturity profile of the Company's contracts and undiscounted cash flows as of December 31, 2020:

	Cash flows (present value)		Gross contractual cash flows	
	Parent company	Consolidated	Parent company	Consolidated
2021	5.813	52.891	6.992	59.984
2022	4.536	41.516	5.406	46.363
2023	3.580	37.055	4.206	40.208
2024	2.623	29.155	3.050	30.944
After 2025	5.996	52.743	6.575	54.818
Total	**22.548**	**213.360**	**26.229**	**232.317**
Potential tax credit (PIS and COFIN	2.086	9.115	2.426	10.196

d) Reconciliation of lease payments:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Cash outflow (statement of cash	**(9.369)**	(6.609)	**(60.352)**	(46.723)
Lease payments in the period	**(8.755)**	(6.479)	**(53.039)**	(42.069)
Short-term contracts	**(551)**	(28)	**(2.829)**	(2.988)
Low-value contracts	**(63)**	(102)	**(1.539)**	(102)
Variable lease payments	**-**	-	**(2.945)**	(1.564)

(All amounts in thousands of reais unless otherwise stated)

20. Salaries and vacation pay

	Parent company		Consolidated	
	2020	2019	2020	2019
Salaries payable	**15.653**	25.620	**25.818**	28.103
Accrued vacation pay and charges	**13.194**	13.437	**25.953**	19.194
Total salaries and vacation pay	**28.847**	39.057	**51.771**	47.297

21. Taxes and social charges payable

	Parent company		Consolidated	
	2020	2019	2020	2019
Value-added Tax on Sales and Services	**-**	302	**16.501**	3.947
Withholding income tax	**4.808**	4.679	**6.792**	5.257
Social charges	**2.951**	3.878	**7.406**	5.772
Social Integration Program (PIS) and Social Contribu	**1.365**	2.021	**7.294**	2.958
Corporate Income Tax (IRPJ) and Social Contribution	**6**	-	**6.356**	12.086
Other taxes and charges	**2.483**	1.812	**3.630**	2.886
Total taxes and social charges	**11.613**	12.692	**47.979**	32.906

22. Provisions for labor, tax and civil proceedings

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

	Parent company		Consolidated	
	2020	2019	2020	2019
Labor	**3.990**	3.607	**10.291**	6.887
Tax	**1.675**	1.675	**2.044**	2.044
Civil	**56**	226	**593**	238
Total provisions for labor, tax and civil proceedings	**5.721**	5.508	**12.928**	9.169

(All amounts in thousands of reais unless otherwise stated)

22. Provisions for labor, tax and civil proceedings--Continued

Labor: The Company and its subsidiaries are parties to labor lawsuits related principally to overtime pay and related social charges, health exposure premium, hazard pay, salary equalization and additions to the salary. Based on legal advice and the Company's past experience with claims, management believes that the provision amounts are sufficient to cover probable losses.

Tax: The Company and its subsidiary ZZSAP are parties to tax proceedings discussing the increase in the Accident Prevention Factor (FAP) rate, for which judicial deposits at the same amount were made. Based on legal advice and the Company's past experience with claims, management believes that the provision amounts are sufficient to cover probable losses.

Civil: The Company and its subsidiaries are parties to civil lawsuits related principally to claims for pain and suffering and pecuniary damages, and collection of bills. Based on legal advice and the Company's past experience with claims.

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

Parent company	**Labor**	**Tax**	**Civil**	**Total**
At December 31, 2018	3.515	1.675	303	5.493
Additions/reassessments	1.450	-	386	1.837
Reversals/payments	(1.358)	-	(463)	(1.822)
At December 31, 2019	**3.607**	**1.675**	**226**	**5.508**
Additions/reassessments	**3.564**	**-**	**150**	3.714
Reversals/payments	**(3.181)**	**-**	**(320)**	(3.501)
At December 31, 2020	**3.990**	**1.675**	**56**	**5.721**

Consolidated	**Labor**	**Tax**	**Civil**	**Total**
At December 31, 2018	6.016	2.044	325	8.385
Additions/reassessments	4.388	-	420	4.808
Reversals/payments	(3.517)	-	(507)	(4.024)
At December 31, 2019	**6.887**	**2.044**	**238**	**9.169**
Additions/reassessments	**6.552**	**-**	**162**	**6.714**
Reversals/payments	**(5.230)**	**-**	**(684)**	**(5.914)**
Acquisition of a subsidiary (i)	**-**	**-**	**-**	**2.959**
At December 31, 2020	**8.209**	**2.044**	**(284)**	**12.928**

(i) Final balance as of November 2020 for VQV.

22. Provisions for labor, tax and civil proceedings--Continued

The Company and its subsidiaries have other labor, tax and civil proceedings at the administrative and judicial levels amounting to approximately R$86,152 at December 31, 2020 (2019 - R$110,985), for which the likelihood of loss is considered possible by the legal advisors and, therefore, an accrual is not required. Of total amount at December 31, 2020, R$69,595 (2019 - R$45,071) refers to labor proceedings, R$6,778 (2019 – R$56,926) to tax proceedings and R$9,779 (2019 – R$8,988) to civil proceedings.

The proceedings include the following:

i. Administrative Proceeding No. 15504-725.206/2018-80 arising from the notice of assessment issued on 10/11/2018, in which the tax authorities assesses the debt related to social contribution of the Company (employer's share) and contribution of other entities and funds (third parties' contribution) for the period between June 2014 and September 2017, plus proportional interest and fine. The Company would have paid its employees and individual taxpayers by means of share options under the Share Option Plan, which is considered by the Brazilian tax authorities to be compensation subject to social security contribution. This proceeding was challenged alleging that the Share Option Plan of the Company is of a commercial nature. At present, the appeals filed in the name of the principal debtor (Arezzo Indústria e Comércio S.A.) and co-debtors (ZZAB, ZZEXP and ZZSAP) against the unfavorable decision No. 14-91.305 are pending before the Board of Tax Appeals. The likelihood of loss is possible in the amount of approximately R$6,192.

ii. Debt Cancellation Lawsuit No. 00000033-68.2017.8.21.0087 filed with the 2nd Civil Court of Campo Bom, Rio Grande do Sul, seeking to cancel the debt determined in tax assessment notice No. 25771370 issued for allegedly improper recognition of ICMS tax credits on shipments of goods to buyers established in the Manaus Free Trade Zone (ZFM) and Free Trade Areas (ALC) relating to the period from February 2008 to December 2011. Executable Tax Debt CDA nº 019/0543060. In parallel with the filing of the debt cancellation lawsuit, the tax authority distributed a tax debt collection suit (No. 0006055-45.2017.8.21.0087) to the same court that received the cancellation lawsuit. The Company won the lawsuit and is awaiting the expiration of the time limit within which the State can appeal the decision. The likelihood of loss is possible in the amount of approximately R$6,420.

22. Provisions for labor, tax and civil proceedings--Continued

iii. Lawsuit No. 5001519-32.2019.8.21.0087- Interim relief against tax assessment notice No. 8225966 issued by the Rio Grande do Sul State tax authority on July 21, 2018 related to shipment of goods to buyers established in the Manaus Free Trade Zone and Free Trade Areas in the period from 6/1/2013 to 3/31/2018. According to the tax authority, the following irregularities were detected: (i) non-payment of tax on the shipment of goods to municipalities that do not offer tax incentives (ICMS exemption); (ii) non-payment of tax on the shipment of imported goods to the Manaus Free Trade Zone and Free Trade Areas; (iii) non-payment of tax on the shipment of goods to the Manaus Free Trade Zone and Free Trade Areas without goods entry form issued by the Manaus Free Trade Zone Superintendence (SUFRAMA); and (iv) improper tax credit due to non-reversal of ICMS levied on shipments of goods to the Manaus Free Trade Zone and Free Trade Areas. We obtained an injunction suspending the collection of the amounts claimed. The likelihood of loss is possible in the amount of R$9,927.

Legislation in force

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

Judicial deposits and judicial guarantees

At December 31, 2020, judicial deposits are R$17,585 (2019 - R$14,669) – Parent company, and R$30,970 (2019 - R$21,863) – Consolidated.

The Company has judicial guarantee insurance that is regulated by the Brazilian legislation and used especially as security for lawsuit and/or replaces the guarantees given, and currently is the most economical instrument that protects the equity and capital of the Company. At December 31, 2020, the balance of judicial guarantee insurance is R$79,884.

(All amounts in thousands of reais unless otherwise stated)

23. Other payables

	Parent company		Consolidated	
	2020	2019	2020	2019
Deferred revenue	**160**	160	**160**	160
Advances from customers	**1.419**	718	**4.781**	1.787
Other suppliers	**12.655**	13.209	**26.268**	15.869
Estimated cash consideration (i)	**50.000**	-	**50.000**	-
Provisions for commissions	**9.372**	5.116	**9.372**	5.116
Other	**52.307**	500	**29.525**	5.515
Total - Current	**75.976**	19.782	**120.106**	28.447
Other accounts payable - Non-current	**213**	373	**213**	373

(i) This is the price to be paid for a portion of the shares of subsidiary VQV. The payment is due on the first anniversary of the closing date and is adjusted by reference to the CDI rate, as per the business combination agreement.

24. Share capital and reserves

24.1. Share capital

On November 27, 2020, the Board of Directors approved the merger of shares under the terms of the Protocol and Justification of Merger of Shares of Vamoquevamo Empreendimentos e Participações S.A signed between the parties on November 11, 2020.

Following the merger of shares, the Board of Directors of the Company approved a share capital increase of R$615,209 through a new issue of 8,677 million registered, book-entry shares without par value that will be subscribed in favor of the shareholders of subsidiary VQV in proportion to the number of shares held by them.

	Number of shares (thousands)	Share capital R$
At December 31, 2018	90.303	341.073
Issue of shares under share option plan	651	11.642
At December 31, 2019	**90.954**	**352.715**
Share capital increase with new issue of shares	8.677	615.209
At December 31, 2020	**99.631**	**967.924**

24. Share capital and reserves--Continued

24.2. Capital reserve

The capital reserve was initially established as a result of the corporate restructuring which occurred in 2007, against the merged net assets, and represents the tax benefit arising from the amortization of the merged goodwill. A portion of the special goodwill reserve corresponding to the benefit may be capitalized at the end of each reporting period in favor of the shareholders with a new issue, according to CVM Instruction 319/99.

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

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

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

With the implementation of the share option and restricted stock plans (Note 34), the Company recorded the reserve for options granted in the amount of R$23,593 and the restricted stock reserve in the amount of R$4,357 at December 31, 2020.

24.3. Reserves and retained profits

24.3.1. Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of capital, according to article 193 of Law 6,404/76 as amended (Brazilian corporate law). The balance of the legal reserve at December 31, 2020 is R$57,511 (2019 - R$55,082).

24.3.2. Tax incentive reserve

This reserve represents the tax incentives that the Company received for investments (Note 35). The balance of this reserve at December 31, 2020 is R$227,937 (2019 - R$213,880).

(All amounts in thousands of reais unless otherwise stated)

24. Share capital and reserves--Continued

24.3. Reserves and retained profits--Continued

24.3.3. Retained profits

The retained profit reserve was recorded pursuant to the terms of article 196 of Law 6,404/76, for use in future investments. The profits retained up to December 31, 2020 amount to R$50,384 (2019 - R$64,353).

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

24.4. Carrying value adjustments

Reserve for exchange differences on translation of foreign operations

The Company recognized as other comprehensive income, within equity, exchange differences on the translation of foreign operations, represented by its subsidiaries located in the United States of America, whose functional currency is the U.S. dollar.

24.5. Treasury shares

At December 31, 2020, the balance of treasury shares is R$191 (2019 - R$195) consisting of 3,679 common shares at an average acquisition cost of R$52.03.

The balance of treasury shares is as follows:

	2020	2019
Balance of treasury shares R$	191	195
Quantity	3.679	5.207
Average cost	52,03	37,37

25. Dividends and interest on capital paid and proposed

a) Dividends

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

(All amounts in thousands of reais unless otherwise stated)

25. Dividends and interest on capital paid and proposed--Continued

Dividends were calculated as shown below:

Profit for the year	**48.584**	162.139
Legal reserve	**(2.429)**	(4.243)
Tax incentive reserve	**(43.573)**	(77.437)
Distributable net profit	**2.582**	80.459
Minimum dividend payout mandated by corporate bylaws	**25%**	25%
Mandatory minimum dividend payout	**646**	20.115
Interest on capital paid	**-**	38.105
Withholding income tax (IRRF) on interest on capital	**-**	(4.985)
Interim dividends paid	**-**	14.512
Additional dividends proposed	**2.582**	-
Total	**2.582**	47.632
Dividends in excess of mandatory minimum dividends	**1.936**	27.517
Dividends in excess of mandatory minimum dividends per share	**0,0194**	0,3049

On November 27, 2019, the Board of Directors approved the distribution of interim dividends of R$7,238, at R$0.0796 per share, out of the revenue reserve as per the balance sheet as at September 30, 2019. The interim dividends were paid on January 7, 2020.

On October 23, 2020, the Board of Directors approved the distribution of interim dividends of R$21,291, at R$0.2341 per share, out of the revenue reserve as per the balance sheet as at December 31, 2019. These interim dividends were paid on December 23, 2020.

b) Interest on capital – Law 9,249/95

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

On November 27, 2019, the Board of Directors approved the distribution of interest on capital for fiscal year 2019 of R$17,761, at R$0.1952 per share, which was paid on January 7, 2020.

On October 23, 2020, the Board of Directors approved the distribution of interest on capital relating to the second half of 2020 of R$26,978, at R$0.2966 per share, out of the revenue reserve. This interest on capital was paid on December 23, 2020.

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

(All amounts in thousands of reais unless otherwise stated)

26. Earnings per share

In compliance with CPC 41/ IAS 33, the Company presents below earnings per share information for the years ended December 31, 2020 and 2019.

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares (Note 24.5).

	2020	2019
Profit for the year	**48.584**	162.139
Weighted average number of outstanding common shares	**91.641**	90.687
Basic earnings per share - R$	**0,5302**	1,7879

b) Diluted earnings per share

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

	2020	2019
Profit for the year	**48.584**	162.139
Weighted average number of outstanding common shares	**91.641**	90.687
Adjustment for share options	**315**	407
Weighted average number of common shares for diluted earnings per share	**91.956**	91.094
Diluted earnings per share- R$	**0,5283**	1,7799

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

27. Net sales revenue

Breakdown of net sales revenue is as follows:

(All amounts in thousands of reais unless otherwise stated)

Gross sales revenue	**1.358.095**	1.546.560	**2.021.609**	2.063.929
Domestic market	**1.356.758**	1.542.052	**1.796.841**	1.804.947
Foreign market	**1.337**	4.508	**224.768**	258.982
Returns	**(55.161)**	(45.933)	**(146.677)**	(113.340)
Discounts and rebates	**(5.054)**	(5.077)	**(5.107)**	(5.076)
Taxes on sales	**(184.644)**	(207.479)	**(278.833)**	(266.278)
Net sales revenue	**1.113.236**	1.288.071	**1.590.992**	1.679.235

28. Segment information

For management purposes, consolidated gross revenue is segmented by brand and sales channel.

The Company sells its products under Arezzo, Schutz, Anacapri, Alexandre Birman, Fiever, Alme, Vans, Reserva, Reserva Mini, Reserva Go, Oficina and Eva brand names and through various distribution channels (franchises, multi-brand stores, company-owned stores and e-commerce), but it controls and manages them as a single operating segment, and the results thereof are monitored and assessed in a centralized way.

For operating, commercial, management and administrative purposes, the Company is organized, and has its performance assessed, as a single business unit.

This view is supported by the following factors:

- The Company does not have different divisions responsible for different product lines, brands or sales channels;
- The Company's plant manufactures products for more than one brand and sales channel;
- The Company's strategic decisions are based on market opportunity assessments, and not only on performance by product, brand or sales channel.

(All amounts in thousands of reais unless otherwise stated)

28. Segment information--Continued

The consolidated gross revenue by brand and sales channel is as follows:

Brand	2020	2019
Gross revenue	**2.021.609**	2.063.929
Domestic market	**1.796.841**	1.804.947
Arezzo	**760.648**	983.757
Schutz	**427.641**	474.295
Vans	**217.745**	259.116
Anacapri	**231.908**	-
Reserva	**90.333**	-
Others	**68.566**	87.779
Foreign market	**224.768**	258.982

Sales channel	2020	2019
Gross revenue	**2.021.609**	2.063.929
Domestic market	**1.796.841**	1.804.947
Franchise stores	**562.266**	899.399
E-commerce	**526.382**	214.581
Multi-brand stores	**471.554**	423.008
Company-owned stores	**235.946**	266.310
Others	**693**	1.649
Foreign market	**224.768**	258.982

The revenue from foreign market is not shown separately by geographic area as at December 31, 2020 it represents 11.1% of the gross revenue (2019 – 12.5%). No single customer accounts for more than 5% of the sales on the domestic and foreign markets.

(All amounts in thousands of reais unless otherwise stated)

29. Expenses by nature

The Company's statement of income classifies expenses by function. The expenses are also reported by nature below:

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Expenses by function				
Cost of sales	**(744.694)**	(813.665)	**(835.779)**	(903.541)
Selling expenses	**(241.321)**	(183.082)	**(529.953)**	(424.366)
General and administrative expenses	**(116.812)**	(136.463)	**(162.234)**	(184.012)
Other operating (expenses) income, net	**(2.866)**	18.513	**29.083**	55.786
	(1.105.693)	(1.114.697)	**(1.498.883)**	(1.456.133)
Expenses by nature				
Raw and consumable materials	**(750.110)**	(819.358)	**(847.404)**	(911.823)
Personnel expenses	**(152.513)**	(155.153)	**(263.400)**	(241.065)
Utilities and services	**(64.897)**	(50.514)	**(85.032)**	(60.533)
Advertising costs	**(25.324)**	(8.961)	**(84.983)**	(39.995)
Freight	**(22.270)**	(25.778)	**(59.961)**	(44.521)
Depreciation and amortization charges	**(21.663)**	(27.515)	**(81.103)**	(80.322)
Sales bonus	**(17.847)**	(4.693)	**(17.847)**	(4.693)
Royalty expenses	**(13.134)**	(59)	**(13.134)**	(59)
Store occupancy expenses	**-**	-	**(13.077)**	(25.088)
Other operating expenses	**(37.935)**	(22.666)	**(32.942)**	(48.034)
	(1.105.693)	(1.114.697)	**(1.498.883)**	(1.456.133)

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies

a) Fair values

The following table shows the carrying amounts of the Company's financial assets and financial liabilities and their fair values determined by management:

	Consolidated			
	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**38.297**	38.297	**13.808**	13.808
Cash investments	**522.868**	522.868	**263.875**	263.875
Trade receivables	**601.388**	703.595	**423.814**	423.814
Borrowings	**634.269**	634.269	**180.784**	180.635
Trade payables	**399.189**	399.189	**134.967**	134.967
Lease liabilities	**213.360**	213.360	**209.058**	209.058

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade and other receivables, and trade and other payables - These financial instruments arise directly from the operations of the Company and its subsidiaries and are measured at amortized cost. They are stated at original amount less provision for impairment, and are discounted to present value when applicable. The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair value due to the short-term maturities of these instruments.

- Borrowings - They are classified as other financial liabilities not measured at fair value and are carried at amortized cost in accordance with the contractual terms. This classification was adopted because the amounts are not held for trading, which management understands is the most relevant financial information. The fair values of the borrowings are equivalent to their carrying amounts since these financial instruments have rates of interest based on market interest rates and specific characteristics.

a.1) Fair value hierarchy

Assets and liabilities for which fair value is measured and disclosed are categorized within the fair value hierarchy, by valuation technique:

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

Level 2: Valuation techniques for which all inputs that are significant to the fair value measurement are directly or indirectly observable;

Level 3: Valuation techniques for which inputs that are significant to the fair value measurement are unobservable.

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies--Continued

a) Fair values--Continued

The Company measures the fair values of its financial instruments based on quoted prices in active markets (Level 1) and observable inputs (Level 2).

At December 31, 2020, the consolidated financial instruments of the Company are classified in the following categories:

	At amortized cost
Assets	
Cash and cash equivalents	38.297
Trade receivables	601.388
Cash investments	522.868
Liabilities	
Trade payables	399.189
Borrowings	634.269
Lease liabilities	213.360

b) Foreign exchange risk

The results of operations of the Company and its subsidiaries are affected by changes in USD exchange rates because a part of their sales revenue is linked to the U.S. dollar. The Company and its subsidiaries hedge the exposure to the foreign exchange risk on almost all of their exports by holding borrowings in foreign currencies.

At December 31, 2020 and 2019, the net exposure to changes in USD rate is as follows:

	Consolidated	
	2020	**2019**
Accounts receivable in foreign currency (i)	**13.650**	23.174
Trade payables in foreign currency	**(3.061)**	(955)
Borrowings in foreign currency	**(346.500)**	(171.477)
Net exposure	**(335.911)**	(149.258)

A sensitivity analysis was performed with three different scenarios to demonstrate the sensitivity of assets and liabilities denominated in foreign currency to changes in the exchange rates at December 31, 2020.

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies--Continued

b) Foreign exchange risk--Continued

The table below provides three scenarios, with the most likely scenario being adopted by the Company. The scenarios were defined based on management's expectation about changes in exchange rates at the dates of maturities of the contracts that are exposed to foreign currency risk.

In addition to the most likely scenario, CVM Instruction 475 of December 17, 2008 required two other scenarios with changes of +25 percent and +50 percent in each of the risk variables under analysis. All scenarios are presented in accordance with CVM regulation.

	Currency	Most likely scenario	Scenario A	Scenario B
Increase in exchange rate				
Accounts receivable in foreign currency	R$	13.650	17.063	20.475
Borrowings in foreign currency	R$	(346.500)	(433.125)	(519.750)
Trade payables in foreign currency	R$	(3.061)	(3.829)	(4.589)
Increase in USD rate			25%	50%
USD rate		5,20	6,50	7,79
Effect on profit before tax	**R$**		**(83.980)**	**(167.953)**

c) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's borrowings with interest rates based on TJLP and CDI. The interest rates are disclosed in Note 17.

At December 31, 2020, the Company's borrowings have the following interest rates:

	Consolidated	
	2020	**%**
Fixed rate of interest	85.230	13
Interest rate based on TLP	3.839	1
Interest rate based on CDI	545.200	86
	634.269	**100**

A sensitivity analysis was performed with three different scenarios to demonstrate the sensitivity to changes in interest rates on that portion of borrowings affected at December 31, 2020.

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies--Continued

c) Interest rate risk--Continued

The table below provides three scenarios, with the most likely scenario being adopted by the Company. The most likely scenario for 2019 was defined based on the Long-term Interest Rate (TJLP) and the Interbank Deposit Certificate Rate (CDI) in effect at December 31, 2020, assuming changes of 25 percent and 50 percent as required by CVM Instruction 475.

For each scenario, gross interest expense was calculated, disregarding taxes and the flow of maturities of each agreement. The sensitivity analysis relates to the position as at December 31, 2020, projecting the interest rates for one year.

	Currency	Most likely scenario	Scenario A	Scenario B
Increase in interest expense				
Borrowings with interest rate based on TJLP	R$	175	218	262
Borrowings with interest rate based on CDI	R$	15.048	18.809	22.571
		15.223	**19.027**	**22.833**
Increase in interest rate			25%	50%
TLP		4,55%	5,69%	6,83%
CDI		2,76%	3,45%	4,14%

d) Credit risk

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

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

Most of trade receivables are denominated in Brazilian reais and spread across various customers. To reduce credit risk, the Company performs an individual analysis for new customers but, as a usual market practice, only high-risk customers are required to make advance payments.

No single customer accounts for more than 5% of the Company's total accounts receivable at December 31, 2020 and 2019.

Management monitors outstanding customer receivables on a weekly basis and, based on a credit risk analysis, records adjusting entries on the income statement. The analysis covers outstanding receivables, customer payment history, guarantees provided and renegotiations completed with collaterals. The amounts recorded as actual losses or provision for losses reflect uncollectible accounts or receivables with low chance of recovery.

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies—Continued

The Company and its subsidiaries attempt to limit credit risk from balances with banks and financial institutions by only dealing with reputable banks and financial institutions.

d) Liquidity risk

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

Management monitors the Company's and its subsidiaries' liquidity and cash flows on a daily basis to ensure that the amount of cash generated from their normal business operations and borrowing facilities, when needed, are sufficient to meet obligations when due, without exposing the Company and its subsidiaries to liquidity risk.

The following table shows contractual maturities of financial liabilities:

	Projection including future interest			
	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**	**Total**
Borrowings	242.065	392.204	-	**634.269**
Trade payables	399.189	-	-	**399.189**
Lease liabilities	52.890	107.726	52.744	**213.360**

e) Capital management

The Company's objective when managing capital is to maintain a strong credit rating with the institutions and an optimal capital structure to support the Company's business and maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, take new borrowings, issue debentures, issue promissory notes and enter into derivative transactions. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019.

(All amounts in thousands of reais unless otherwise stated)

30. Financial risk management objectives and policies—Continued

The gearing ratios at December 31, 2020 and 2019 were as follows:

	Consolidated	
	2020	**2019**
Borrowings	**(634.269)**	(180.784)
Cash and cash equivalents	**38.297**	13.808
Cash investments	**522.868**	263.875
Net (debt) cash	**(73.104)**	96.899
Total capital	**1.348.597**	746.071
Gearing ratio - %	**(5,42)**	-

31. Finance income and costs

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Finance income				
Interest income on cash investments	**10.279**	10.336	**11.764**	12.973
Other finance income	**1.774**	1.522	**3.302**	1.677
Interest received	**1.333**	3.641	**1.397**	3.694
Interest income on loans to related parties	**792**	-	**-**	-
	14.178	15.499	**16.463**	18.344
Finance costs				
Interest on borrowings	**(12.866)**	(3.262)	**(18.345)**	(6.601)
Bank charges	**(5.587)**	(3.771)	**(7.330)**	(4.584)
Discounts granted	**(3.109)**	(1.520)	**(4.065)**	(1.791)
Notary public fees	**(3.075)**	(1.633)	**(3.087)**	(1.641)
Interest expense on lease liabilities	**(1.323)**	(874)	**(5.145)**	(5.337)
Other finance costs	**(885)**	(296)	**(1.359)**	(420)
Interest on loans from related parties	**(10)**	(457)	**-**	-
Credit card administration fee	**-**	-	**(12.273)**	(9.272)
	(26.855)	(11.813)	**(51.604)**	(29.646)
Foreign exchange gains, net	**21.624**	(6.112)	**49.068**	(6.874)
Foreign exchange losses, net	**(29.940)**	-	**(51.478)**	-
Total	**(20.993)**	(2.426)	**(37.551)**	(18.176)

(All amounts in thousands of reais unless otherwise stated)

32. Other operating income (expenses), net

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
Restricted stock plan	**(3.972)**	(5.512)	**(3.972)**	(5.512)
Franchise fees	**609**	1.882	**609**	1.882
Tax credits (i)	**-**	19.514	**51.790**	52.429
Recovery of expenses	**1.040**	1.598	**1.115**	1.600
(Loss) gain on disposal of property, plant and equipme	**(333)**	145	**(20.941)**	3.251
Other (expenses) income, net	**(210)**	886	**482**	2.136
Total	**(2.866)**	18.513	**29.083**	55.786

(i) The Company obtained a favorable final judicial resolution in the lawsuit challenging the illegality of the inclusion of ICMS in the PIS and COFINS tax base of one of its subsidiaries. As a result, the Company recognized the right to recover the amounts unduly paid, in the amount of R$49,079 classified as "other income (expenses)" with a corresponding entry of R$2,715 of attorneys' fees and other legal costs to "administrative expenses", resulting in a net effect of R$46,364 on profit or loss for the year ended December 31, 2020.

(ii) In the year ended December 31, 2020 the Company recognized the amount of R$20,784 related to: (a) R$18,737 of write-off of fixed assets of 4 properties of the US operations and 5 properties in Brazil; (b) R$1,781 of write-off of right-of-use assets of the closed stores; (c) R$1,221 of write-off of other fixed assets; and (d) a provision of R$2,363 related to the expected transfer of 6 Company-operated stores in Brazil.

33. Insurance

The Company and its subsidiaries have insurance policies contracted with some of the main insurance companies in the country, taking into account the nature and degree of the risk involved. At December 31, 2020, the Company had insurance coverage against fire and multiple risks for items of property, plant and equipment and inventories. The insurance amounts are considered sufficient by management to cover possible losses, as shown below:

Insured assets	Risks covered	Amounts covered - R$
Inventories and property, plant and equipment	Fire	173.737
	Civil liability	100.000

34. Share-based payments

34.1. Restricted stock plan

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

The purpose of the Plan is permit grants of shares, subject to certain restrictions, to the Company's or a subsidiary's officers and employees ("Recipients") selected by the Board of Directors, as a means of:

a) stimulating the expansion and success of the Company and its subsidiaries and the achievement of their business objectives;
b) promoting improvement in management of the Company and its subsidiaries, giving Recipients the opportunity to become shareholders in the Company, motivating them to optimize all aspects that can increase the Company's value over the long term;
c) aligning the interests of Recipients with those of shareholders; and
d) incentivizing officers and employees to remain with the Company or its subsidiaries.

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

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

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

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

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

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

(All amounts in thousands of reais unless otherwise stated)

34. Share-based payments--Continued

34.1. Restricted stock plan--Continued

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

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

The grants and respective vesting periods are as follows:

	1st grant at 8/29/2017	2nd grant at 7/30/2018	3rd grant at 7/30/2019	Total
Vesting period as from grant date				
From first anniversary	60.728	11.066	2.661	74.455
From second anniversary	60.728	11.066	2.661	74.455
From third anniversary	121.457	22.134	5.321	148.912
From fourth anniversary	364.370	66.398	15.963	446.731
Total	**607.283**	**110.664**	**26.606**	**744.553**

(All amounts in thousands of reais unless otherwise stated)

34. Share-based payments--Continued

34.1. Restricted stock plan--Continued

Movements in the restricted stock plan are set out below:

	1st grant at 8/29/2017	2nd grant at 7/30/2018	3rd grant at 7/30/2019	Total
Balance at December 31, 2018	465.876	110.664	-	**576.540**
Granted (*)	-	-	26.606	**26.606**
Exercised	(49.830)	(8.995)	-	**(58.825)**
Written off (***)	(17.405)	(20.709)	-	**(38.114)**
Balance at December 31, 2019	**398.641**	**80.960**	**26.606**	**506.207**
Exercised (**)	(99.660)	(8.995)	(2.661)	**(111.316)**
Written off (***)	(52.799)	-	-	**(52.799)**
Balance at December 31, 2020	**246.182**	**71.965**	**23.945**	**342.092**

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

(**) Upon satisfaction of performance conditions and with tax effects, in the 3rd tranche (1st grant 2017) 63,403 shares were exercised, in the 2nd tranche (2nd grant 2018) 6,588 shares were exercised, in the 1st tranche (3rd grant 2019) 1,949 shares were exercised.

(***) Write-off due to the termination of participant employees or non-exercise of shares.

In compliance with IFRS 2/CPC 10, the Company determined the fair value of the shares. In the year ended December 31, 2020, the Company determined R$3,972 (2019 – R$5,041) in restricted stock plan expense, which was charged to profit or loss against the capital reserve account in equity.

(All amounts in thousands of reais unless otherwise stated)

34. Share-based payments--Continued

34.1. Restricted stock plan--Continued

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

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

(All amounts in thousands of reais unless otherwise stated)

35. Government tax incentives

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

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

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

c) The State of Rio de Janeiro, through Law 6,331 of October 10, 2012, granted a reduction in the ICMS tax rate on sales for manufacturers of textile products, fabrics, garments, apparel accessories and notions, which benefited the subsidiary VQV through the company Tiferet Comércio de Roupas Ltda.

	Parent company		Consolidated	
	2020	**2019**	**2020**	**2019**
ICMS tax benefits - State of Espiri	**43.573**	62.862	**70.922**	77.416
ICMS tax benefits - State of Rio Gı	**-**	-	**253**	21
ICMS tax benefits - State of Rio de	**-**	-	**35.422**	-
Total	**43.573**	62.862	**106.597**	77.437

With the enactment of Complementary Law 160 on August 7, 2017, which determines that ICMS tax benefits offered by governments are an investment subsidy and, accordingly, no longer subject to income tax and social contribution, at December 31, 2020 the Company recognized a tax incentive reserve of R$43,573 (Parent company) and R$ 62,024 (Consolidated) for tax incentives received during the year. These benefits are credited to ICMS tax expenses in the statement of income.

36. Events after the reporting period

At a meeting held on November 19, 2020, the Board of Directors of the Company approved the acquisition by subsidiary ZZAB Comércio de Calçados Ltda. of 75% of the total and voting capital of TROC.COM.BR - Atividades de Internet S.A. , according to the terms of the Contract of Purchase and Sale, Subscription of Shares and other Covenants.

The closing date of the deal was February 1, 2021 (date of acquisition) as per the material fact notice published by the Company. The amount of consideration paid for TROC was immaterial to the Company.