# Grupo Mateus

Combined financial statements and independent auditors' report

**At June 30, 2020**

Grant Thornton

# Contents

# Independent auditors' report on the combined financial statements

**Grant Thornton Auditores Independentes**

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To the Shareholders and Directors
**Grupo Mateus**
São Luís – MA

## Opinion on the combined financial statements prepared in accordance with accounting practices adopted in Brazil

We have audited the combined financial statements of Grupo Mateus (consisting of the companies listed in Note 1), which comprise the combined statements of financial position as at June 30, 2020, and the related combined statements of income, the comprehensive statements of income, the statement of changes in equity and statements of cash flows and added value for the period then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the aforementioned combined financial statements present fairly, in all material respects, the combined financial and equity position of Grupo Mateus as of June 30, 2020, the combined performance of its operations and respective combined cash flows for the period then ended, in conformity with the accounting practices adopted in Brazil and technical pronouncement NBC TG 44 - Combined Statements.

## Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards.
Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the combined financial statements section of our report. We are independent of Grupo Mateus in accordance with the ethical requirements that are relevant to our audit of the financial statements in Brazil, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

 

## Emphasis of matter paragraphs

### Presentation of the combined financial statements

As described in Note 1, as of June 30, 2020 Grupo Mateus elected to present combined financial statements because it believes they provide more useful and representative information to readers about the operations, management and equity position of the Group, and to facilitate a comparative analysis with the combined financial statements as of December 31, 2019.

## Restatement of the combined financial statements as of June 30, 2020 and 2019 and the combined financial statements for the year ended December 31, 2019

We draw attention to Note 2.5 regarding the restatement and respective reissuances of the combined financial statements as of June 30, 2020 and December 31, 2019 to reflect the enhancement of certain disclosures, as requested by the Brazilian Securities Commission (CVM). We previously audited the combined financial statements as of June 30, 2020 and for the year ended December 31, 2019, whose unmodified audit reports were issued on August 14, 2020. Said combined financial statements are being restated as of this date, September 17, 2020. Due to the reissuance of the combined financial statements mentioned in Note 2.5, we are issuing this new audit report on the aforementioned combined financial statements. Our conclusion has not been qualified regarding this matter

## Key audit matters

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

## Adoption of accounting pronouncements NBC TG 06(R2) – Leases (CVM Resolution 787/17) (Notes 10 and 16)

### Why the matter was determined to be a KAM

As disclosed in Notes 10 and 16 to the combined financial statements, on January 01, 2019 the Company adopted the new accounting pronouncement NBC TG 06 (R2) - Leases, considering the right of use equal to the lease liability at the initial adoption date. Comparative information was not re-presented.

The adoption of NBC TG 06 (R2) was a key audit matter, as it required significant judgment by Company management to determine the incremental interest rate and lease terms, which are key estimates used to calculate the right-of-use asset and lease liability. Changes to these estimates could significantly impact the amounts recognized by the Group.

Due to the judgment involved in determining the lease term and the complexity involved in determining the assumptions used to determine the discount rates to calculate the lease liability and the materiality of the impacts that this rate change could have on the measurement of the lease liability and asset right of use and the materiality of the disclosures of the effects triggered by the initial adoption of NBC TG 06 (R2), we consider this to be a key audit matter.

 

### How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- Assessing the Group's accounting practices to determine lease terms;
- Ascertaining the incremental interest rate from official bank documents;
- We selected a sample of lease contracts to determine the mathematical accuracy of the right-of-use asset and lease liability determined by the Group by relying on the contractual data;
- We tested the integrity and accuracy of the data used in the calculations made by Group management;
- We also assessed whether the disclosures in the combined financial statements took the material information into account, especially relating to the specific disclosure requirements relating to the standard's transition and its accounting impacts.

Based on the evidence obtained through the procedures summarized above, we consider that the amounts recognized as right-of-use assets and lease liabilities and the related disclosures are acceptable within the context of the combined financial statements taken as a whole.

## Provisions for risks (Note 19)

### Why the matter was determined to be a KAM

Grupo Mateus is party to judicial and administrative, civil, tax and labor proceedings, for which Management estimates the amounts involved, discloses them and makes a provision for cases it rates as a probable defeat.

This area remained the focus of our audit due to its materiality, complexity, subjective nature and critical judgments exercised by management to determine the chance of defeat assigned to each case, the measurement and definition of the recognition and/or disclosure of a provision. Changes in these assessments and/or judgments could have material impacts on the Group's combined financial statements.

### How the matter was addressed in our audit

Our audit procedures in this area included, among others, updating our understanding of material internal controls involving the identification, making of the provision and the disclosures in notes to the financial statements.

We also updated our understanding of the calculation method used, which uses the historic assessment of defeat in similar proceedings and the opinions of legal advisers.

We confirmed the information with the law firms handling the judicial and administrative cases regarding the assessment of the chances of defeat, the completeness of the information and the value of the provisions. We discussed with management and its legal advisers the chances of defeat evaluated for significant cases.

In our opinion the criteria and premises adopted by management to determine the provision for risks and the disclosures made are consistent with the opinions of the legal advisers when analyzed in the context of the combined financial statements taken as a whole for the period ended June 30, 2020.

## Recognition of commercial agreement (Note 23)

**Why the matter was determined to be a KAM**

The Group receives significant commercial discounts under agreements negotiated with its suppliers. These commercial agreements vary according to the negotiations, and range from agreements on purchase volumes, price reductions and/or differences, margin replenishment, proceeds (% of purchases), cooperative advertising and other special negotiations. The form of discount varies according to the conditions established in the supply agreements, which permits factoring and the bonus receipt of goods. Supplier bonuses are measured and recognized based on the contracts and agreements signed, and recorded in profit and loss as the corresponding inventory is sold.

Due to the large volume of transactions, the materiality of the amounts involved and the degree of judgment exercised by the Group regarding the nature and performance of the obligations established in the agreements negotiated with suppliers and the estimates to determine the amounts to be recorded and the period during which the proceeds from the agreement should be charged to the cost of goods sold in the combined financial statements, we consider this to be a key audit matter.

**How the matter was addressed in our audit**

Our audit procedures in this area included, among others:

- We assessed the design and implementation of internal controls deemed as key to the commercial agreements and procurement process;
- We recalculated the amounts "commercial agreements - proceeds" - receivable for a sample of purchase transactions. We assessed the terms established in the agreement, recalculated the proceeds receivable, compared them against the carrying amount, examined subsequent financial settlement and/or receipt of the bonus goods by examining the purchase invoice;
- We carried out the sampling for other commercial agreements (price reduction/difference, store opening, cooperative advertising etc.), obtained the supporting documentation for the agreements made, including evidence of subsequent financial settlement and/or deduction for receipt of the bonus goods, by examining the purchase invoice;
- We also observed the due date in the supporting documentation and validated the entire aging list presented by the Company. We also evaluated the adequacy of the recognition of entries selected for testing;
- We analyzed the monthly changes in balances recognized with commercial discounts in relation to sales costs, taking into account trends, seasonal factors and historic information; and
- We also assessed whether the disclosures in the combined financial statements take the material information about commercial discounts into account.

Based on the evidence obtained through the aforesaid procedures, we consider the recorded balances of Commercial agreements and related disclosures to be acceptable within the context of the combined financial statements taken as a whole.

 

## Government grants – ICMS (Note 25)

**Why the matter was determined to be a KAM**

Under the state legislation, the subsidiary Armazém Mateus S.A. qualifies for the Special Arrangement Agreement – ICMS, which consists of using the presumed credit on the reduction of the ICMS Calculation Base, which results in 2% of the full amount of tax owed to Maranhão state in internal and interstate sales operations.

Government grants are recognized in profit or loss on a systematic basis over the period in which the entity recognizes the expenses which the grants are intended to compensate. This accounting concept applies because management believes that the government grant is received from a source other than shareholders and arises from a management act in benefit of the entity and the entity earns them through compliance with their conditions and meeting the envisaged obligations.

Due to the materiality of the amounts involved and the fact the assumptions made to determine the accounting concept could impact the amount recognized in the combined financial statements, we consider this to be a key audit matter.

**How the matter was addressed in our audit**

Our audit procedures in this area included,

among others:

- With the assistance of our tax experts, inquiries submitted to the Group tax personnel and sample-based testing, we understood the methodology used to record government grants in the combined financial statements;
- We recalculated the ICMS government grant and evaluated the adequacy of the revenue and cost balances, in addition to the records; and
- We also evaluated whether the disclosures in the combined financial statements include the material information, especially that related to the premises and conditions of NBC TG 07 (R1) – Government Subsidies.

Based on the evidence obtained through the aforesaid procedures, we consider acceptable the balances recorded by the Group to determine the ICMS Government Grants recorded in the combined financial statements taken as a whole.

## Responsibilities of management and those charged with governance for the combined financial statements

Grupo Mateus management is responsible for the preparation and fair presentation of the combined financial statements in accordance with the accounting practices adopted in Brazil and technical pronouncement NBC TG 44, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, Management is responsible for assessing Grupo Mateus's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using this accounting basis in preparing the combined financial statements unless Management either intends to liquidate Grupo Mateus or to cease operations, or has no realistic alternative but to do so.

Those charged with Grupo Mateus's governance are responsible for overseeing the combined financial reporting process.

## Auditors’ responsibilities for the audit of the combined financial statements

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

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

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo Mateus’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting

  estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Grupo Mateus’s ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors’ report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause Grupo Mateus to cease to continue as a going concern.
- We evaluated the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

 

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report

unless a certain law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, September 17, 2020

Daniel Menezes Vieira
Assurance Partner

Grant Thornton Auditores Independentes

 

# Grupo Mateus

## Combined balance sheets as of June 30, 2020 and December 31, 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$)

### ASSETS

| | Notes | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 944,126 | 406,905 |
| Trade and other receivables | 6 | 964,031 | 804,165 |
| Inventories | 7 | 1,587,934 | 1,518,243 |
| Recoverable taxes | 8 | 26,293 | 55,392 |
| Other assets | - | 11,679 | 11,772 |
| **Total current assets** | | 3,534,063 | 2,796,477 |
| **Non-current assets** | | | |
| Financial investments | 5 | 14,603 | 14,608 |
| Related parties | 18 | 48,406 | 70,740 |
| Recoverable taxes | 8 | 89,579 | 29,529 |
| Other assets | - | 479 | 904 |
| Judicial deposits | 19 | 13,300 | 11,912 |
| Right-of-use assets | 10 | 464,426 | 408,048 |
| Intangible assets | - | 450 | 450 |
| Property, plant and equipment | 9 | 965,038 | 860,773 |
| **Total noncurrent assets** | | 1,596,281 | 1,396,964 |
| **Total assets** | | 5,130,344 | 4,193,441 |

**See the accompanying Management notes to the financial statements.**

# Grupo Mateus

## Combined balance sheets as of June 30, 2020 and December 31, 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$)

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | Notes | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 11 | 694,082 | 553,543 |
| Loans and financing | 12 | 196,125 | 161,359 |
| Debentures | 13 | 29,884 | 30,503 |
| Labor liabilities | 14 | 200,715 | 132,106 |
| Tax liabilities | 15 | 94,707 | 64,362 |
| Payable taxes in installments | 17 | 1,406 | 1,269 |
| Lease liabilities | 16 | 78,374 | 69,083 |
| Other liabilities | - | 54,547 | 17,719 |
| **Total current liabilities** | | 1,349,840 | 1,029,944 |
| **Noncurrent liabilities** | | | |
| Loans and financing | 12 | 516,638 | 242,982 |
| Debentures | 13 | 458,906 | 473,606 |
| Payable taxes in installments | 17 | 4,517 | 4,614 |
| Provision for risks | 19 | 15,155 | 15,088 |
| Lease liabilities | 16 | 382,650 | 337,287 |
| Related parties | 18 | 86,479 | 97,980 |
| **Total noncurrent liabilities** | | 1,464,345 | 1,171,557 |
| **Equity** | 20 | | |
| Share capital | 20.a | 1,863,829 | 1,144,169 |
| AFAC - Advance for future capital increase | 20.c | 44,217 | 11,900 |
| Legal reserve | 20.b | 46,688 | 44,195 |
| Profit retention reserve | 20.b | 298,122 | 791,676 |
| **Equity attributable to owners of the Company** | | 2,252,856 | 1,991,940 |
| Equity attributable to noncontrolling interests | | 63,303 | - |
| **Total shareholders’ equity** | | 2,316,159 | 1,991,940 |
| **Total liabilities and shareholders’ equity** | | 5,130,344 | 4,193,441 |

**See the accompanying Management notes to the financial statements.**

# Grupo Mateus

## Combined statements of income for the periods ended June 30, 2020 and 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais, except for basic and diluted earnings per share - in reais - R$)

| | Notes | 30/06/2020 | 30/06/2019 |
|---|---|---|---|
| **Net sales revenue** | 22 | 5,124,041 | 3,933,972 |
| Cost of services provided and goods sold | 23 | (3,826,573) | (2,900,259) |
| **Gross profit** | | 1,297,468 | 1,033,713 |
| **Operating income (expenses)** | | | |
| Commercial, administrative and general expenses | 23 | (918,247) | (790,773) |
| Other net operating income (expenses) | | (244) | (5,077) |
| | | (918,491) | (795,850) |
| **Operating income before financial income/loss** | | 378,977 | 237,863 |
| **Finance income** | | | |
| Finance revenue | 24 | 35,410 | 48,688 |
| Finance costs | 24 | (117,211) | (102,963) |
| | | (81,801) | (54,275) |
| **Profit before income and social contribution taxes** | | 297,176 | 183,588 |
| Current income and social contribution taxes | 21 | - | - |
| Deferred income and social contribution taxes | 21 | - | - |
| | | - | - |
| **Net income for the period** | | 297,176 | 183,588 |
| Net income attributable to noncontrolling shareholders | | 23 | - |
| Net income attributable to controlling shareholders | | 297,153 | - |

**See the accompanying Management notes to the financial statements.**

# Grupo Mateus

## Combined statements of comprehensive income for the periods ended June 30, 2020 and 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$)

| | 30/06/2020 | 30/06/2019 |
|---|---|---|
| **Net income for the period** | 297,176 | 183,588 |
| Other comprehensive income | - | - |
| **Total comprehensive income for the period** | 297,176 | 183,588 |
| **Total net income attributable to:** | | |
| Controlling shareholders | 297,153 | - |
| Noncontrolling shareholders | 23 | - |
| **Total comprehensive income for the period** | 297,176 | - |

**See the accompanying management notes to the financial statements.**

# Grupo Mateus

## Statements of changes in shareholders' equity for the periods ended June 30, 2020 and 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$)

| | | | | | Profit retention reserve | | |
|---|---|---|---|---|---|---|---|
| | | **Share capital** | **Advance for future capital increase** | **Legal reserve** | **Tax reserve** | **Retained earnings** | **Combined shareholders' equity** |
| **Balances at December 31, 2018** | | 1,064,228 | 76,151 | 25,908 | 444,263 | 39,015 | 1,649,565 |
| Advance for future capital increase | 20.c | - | 10,256 | - | - | - | 10,256 |
| Net income for the period | | - | - | - | - | 183,588 | 183,588 |
| **Balances at June 30, 2019** | | 1,064,228 | 86,407 | 25,908 | 444,263 | 222,603 | 1,843,409 |
| **Balances at December 31, 2019** | | 1,144,169 | 11,900 | 44,195 | 752,661 | 39,015 | 1,991,940 |
| Advance for future capital increase | 20.c | - | 66,683 | - | - | - | 66,683 |
| Net income for the period | | - | - | - | - | 297,176 | 297,176 |
| Capital increase | 20.a | 952,628 | (66,522) | - | (886,084) | (39,038) | (39,016) |
| Share change due to acquisition of investees on 6/30/2020 | 20.d | (232,968) | 32,156 | 2,493 | 134,392 | - | (63,927) |
| **Balances at June 30, 2020** | | 1,863,829 | 44,217 | 46,688 | 969 | 297,153 | 2,252,856 |

**See the accompanying Management notes to the financial statements.**

# Grupo Mateus

## Combined statements of cash flows for the periods ended June 30, 2020 and 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$)

| | Notes | # | 30/06/2020 | 30/06/2019 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit before income and social contribution taxes** | | | 297,176 | 183,588 |
| **Adjustments to reconcile net income before tax to net cash provided by operating activities:** | | | | |
| Depreciation and amortization | 9 and 10 | | 94,251 | 69,127 |
| Lease liabilities remeasurement | 16 | | 17,401 | 8,455 |
| Provision for obsolescence and breakages | 7 | | 591 | 3,230 |
| Allowance for expected credit losses | 6 | | 7,637 | 859 |
| Interest on loans, financing and debentures provisioned for | 12 and 13 | | 35,466 | 28,747 |
| Property, plant and equipment disposals | 9 | | 2,898 | 926 |
| Provision for risks | 19 | | 67 | - |
| **Increase (decrease) in operating assets:** | | | | |
| Trade and other receivables | 6 | | (167,503) | 204,351 |
| Inventories | 7 | | (70,282) | 38,283 |
| Recoverable taxes | 8 | | (30,951) | (949) |
| Judicial deposits | 19 | | (1,388) | 53 |
| Other assets | - | | 518 | 10,490 |
| **Increase (decrease) in operating liabilities:** | | | | |
| Trade payables | 11 | | 140,539 | (241,774) |
| Labor and tax obligations | 14 and 15 | | 98,954 | 23,154 |
| Payable taxes in installments | 17 | | 40 | 920 |
| Other liabilities | - | | 36,567 | (2,501) |
| **Net cash provided by operations** | | | 461,981 | 326,959 |
| Interest paid | 12 | | (15,209) | (20,116) |
| **Net cash provided by operations** | | | 446,772 | 306,843 |
| **Cash flows from investing activities** | | | | |
| Acquisition of property, plant and equipment | 9 | | (157,902) | (65,238) |
| Intangible assets | - | | - | (3,383) |
| Investment in securities | 5 | | 5 | 4,082 |
| **Net cash used in investment activities** | | | (157,897) | (64,539) |
| **Cash flow from financing activities** | | | | |
| New loans and financing and debentures | 12 and 13 | | 366,912 | 45,792 |
| Related parties transactions | 18 | | 10,833 | 10,145 |
| Advance for future capital increase | 20 | | 66,683 | - |
| Capital increase | 20 | | (39,016) | - |
| Amortization of loans and financing and debentures | 12 and 13 | | (94,066) | (143,951) |
| Payment of lease liability | 16 | | (63,000) | (36,619) |
| **Net cash provided by (used in) financing activities** | | | 248,346 | (124,633) |
| **Increase in cash and cash equivalents** | | | 537,221 | 117,671 |
| Cash and cash equivalents at beginning of year | 4 | | 406,905 | 271,909 |
| Cash and cash equivalents at end of year | 4 | | 944,126 | 389,580 |
| **Increase in cash and cash equivalents** | | | 537,221 | 117,671 |

**See the accompanying Management notes to the financial statements.**

# Grupo Mateus

## Combined statement of value added for the periods ended June 30, 2020 and 2019

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In thousands of reais - R$, except for basic and diluted earnings per share - in reais)

| | 30/06/2020 | 30/06/2019 |
|---|---|---|
| **Revenue** | | |
| Sales of merchandise, goods and services | 6,047,006 | 4,721,880 |
| Creation of provision for expected credit losses | (7,638) | - |
| **Total** | 6,039,368 | 4,721,880 |
| **Inputs acquired from third parties** | | |
| Cost of goods, merchandise and services sold | (3,826,573) | (2,900,259) |
| Materials, energy, third-party services and others | (313,308) | (357,808) |
| **Total** | (4,139,881) | (3,258,067) |
| **Gross value added** | 1,899,487 | 1,463,813 |
| **Depreciation and amortization** | | |
| Depreciation and amortization | (94,701) | (69,127) |
| **Net value added** | 1,804,786 | 1,394,686 |
| **Transferred added value** | | |
| Finance income | 35,410 | 48,688 |
| **Total added value to be distributed** | 1,840,196 | 1,443,374 |
| **Personnel** | | |
| Direct compensation | (316,761) | (263,627) |
| Benefits | (20,677) | (16,465) |
| Government Severance Indemnity Fund for Employees (FGTS) | (30,863) | (23,907) |
| **Total** | (368,301) | (303,999) |
| **Taxes, fees and contributions** | | |
| Federal | (474,974) | (365,194) |
| State | (541,501) | (399,939) |
| Municipal | (1,694) | (2,700) |
| **Total** | (1,018,169) | (767,833) |
| **Return on debt capital** | | |
| Interest | (117,211) | (102,963) |
| Rents | (39,343) | (84,995) |
| **Total** | (156,554) | (187,958) |
| **Interest on own capital** | | |
| Net income attributable to controlling shareholders | (297,153) | (183,588) |
| Non-controlling interests in retained earnings | (23) | - |
| **Total** | (297,176) | (183,588) |
| **Total distributed added value** | (1,840,196) | (1,443,374) |

**See the accompanying Management notes to the financial statements.**

# Notes to the combined financial statements for the period ended June 30, 2020 and the financial year ended December 31, 2019

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

## 1. Operations

At this baseline date June 30, 2020 Grupo Mateus ("Group") is formed of Exitus Holdings S.A. and the companies described below:

| | **Interest in total capital** | |
|---|---|---|
| **Investees** | **6/30/2020** | **12/31/2019** |
| **Subsidiaries** | | |
| Armazém Mateus S.A. **(a)** | 99.99% | 99.99% |
| Mateus Supermercados S.A. **(b)** | 99.99% | 99.99% |
| Indústria de Pães e Massas Mateus **(c)** | 98.00% | 98.00% |
| Rio Balsas Participações e Empreendimentos Ltda. **(d)** | 99.99% | Related parties |
| Posterus Supermercados Ltda. **(e)** | 96.27% | Related parties |

Based in the city of São Luís, Maranhão state, Grupo Mateus began operating in 1986 and is now the largest supermarket chain in Brazil with 100% domestic capital. As Rio Balsas Participações e Empreendimentos Ltda. and Posterus Supermercados Ltda. were under common control as of December 31, 2019 (controlling shareholder) they form an economic group and have similar operations, and became direct subsidiaries of the Company on June 30, 2020 after the controlling shareholder's capital was paid in.

Management elected to present the Company’s combined financial statements as per the table cited above for the period ended June 30, 2020, which present the financial year ended December 31, 2019 and the period ended June 30, 2019.

These combined financial statements are not therefore the financial statements of any one entity of the Group individually and should not be relied on for calculating dividends, taxes or any other corporate purposes, and being presented as a single set of financial statements for entities under joint control. The combined financial statements have been prepared to present accounting information as if the various entities under joint control were a single entity, prepared in the same way as the consolidated financial statements, while maintaining historic operations effectively occurred (in line with NBC TG 44/CVM 708/13).

## 1.1 The impacts of Covid-19

Covid-19 was discovered in 2019 in China and spread around the world quickly. On March 11, 2020 the World Health Organization (WHO) declared it to be a pandemic.
The disease’s impact has also hit the economy, which suffered and is still suffering substantial disruption. Companies have therefore been exposed to a series of strategic and operational risks, such as delays in or interruption to the supply of raw materials, changing consumer demands, higher costs, logistical shortfalls leading to late deliveries, employee health and safety issues, insufficient workforce and challenges on importing and exporting produce.

In light of this situation, the Company is continually monitoring developments related to the virus and has taken the measures described below. For the time being it does not expect the Company’s operations to be impacted.

- We have introduced safety measures to protect the health of our customers and employees in line with WHO guidelines and state decrees;
- Lead times and prices are being negotiated with suppliers to improve relations during the pandemic and to avoid increases in product prices being passed through to customers;
- Constant supply of distribution centers and stores, greater efforts to improve the “Mateus APP” by rolling out the delivery system.

The pandemic has resulted in a significant and atypical increase in the flow of customers and sales on the same period of 2019, with 24.25% in Retail and 21.61% in Wholesale. A greater impact was witnessed in the appliances sector as the respective stores had to close during the pandemic by order of state decree.

The Company evaluated accounting estimates and found it was not necessary to adopt new criteria beyond that adopted by it, such as the provision for inventory losses, allowance for doubtful accounts or possible impairment impacts.

New measures were assessed for the financial sector, especially accounts payable and receivable by way of the collection sector, which evaluated the payment terms and interest rates awarded to customers.

The Company reached the overall conclusion that despite the magnitude of the pandemic and impacts unleashed by it, it was not necessary to significantly adjust the information and operational continuity thereof. We will constantly monitor the developments of this situation and disclose new measures as/when necessary.

# 2. Presentation of the combined financial statements and basis of preparation

## 2.1 Statement of compliance and basis of preparation

The combined financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil.

The accounting practices adopted in Brazil include those established in the Brazilian Corporate Law as well as the pronouncements, instructions and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities Commission (CVM) and Federal Accounting Council (CFC).

Group Management represents that all material information relevant to combined financial statements, and that alone, is being disclosed, as used by it in its management.

The combined financial statements have been prepared based on historical cost, except for certain financial instruments measured at fair value, as described below under Description of significant accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of combined financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company and financial statements are disclosed in Note 3.

## 2.2 Statement of Added Value (DVA)

The Group prepared the Statements of Value Added pursuant to technical pronouncement CPC 09 - Statement of value added. They are presented as an integral part of the financial statements in accordance with the BR GAAP applicable to publicly-held companies, while under IFRS they represent additional information.

## 2.3. Use of judgments and estimates

The preparation of the combined financial statements requires Management to make estimates and assumptions that could affect the reported amounts of certain assets, liabilities, revenue and expenses and disclosures in the notes. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the probability treatment inherent in the estimation process.
The Group reviews its estimates and assumptions at least annually to ensure they are reasonable in the light of previous experience and the current economic situation. In addition to using estimates, Group Management is obliged to exercise its judgment to determine the appropriate accounting treatment for certain transactions and activities and how it should be applied.

In addition to using estimates, Group Management is obliged to exercise its judgment to determine the appropriate accounting treatment for certain transactions and activities and how it should be applied.

The main estimates and judgments used to prepare these combined financial statements are related to:

- **Note 6** - formation of the allowance for doubtful accounts;
- **Note 7** - The main assumptions underlying the net realizable value of inventory;
- **Note 22** - Recognition of deferred tax assets and availability of future taxable profit against which tax losses carried forward can be used;

- **Note 17** - Leases;
- **Note 20** - Measurement of provisions for contingencies and other provisions related to the business, the main assumptions about the probability and scale of any outflow of proceeds.

## 2.4) Basis of combination

The combined financial statements include all the individual financial statements of the Company and its subsidiaries listed in Note 1. The combined financial statements are only being presented to provide additional analysis to third parties, and do not represent the individual or consolidated financial statements of the company and its subsidiaries and should not therefore be taken for the purpose of calculating dividends, taxes or any other corporate purposes.

By this method, the components of the assets, liabilities and P&L figures are combined and the entity value of NCI is determined by multiplying the percentage interest thereof to the subsidiaries' equity based on the combination criteria presented below:

Subsidiaries are all entities (including specific purpose entities) for which the Group has the right to **(i)** direct main operations **(ii)** exposure, or rights, to variable returns from its interest in the investee and **(iii)** the ability to use its power over the investee to affect the amount of the returns to the investor.

The following criteria were adopted to combine the financial statements of each entity subject to the combination:

- Elimination of inter-company asset and liability account balances.
- Elimination of inter-company transactions, including balances, profits, gains or losses. All unrealized losses are also eliminated from the combined financial statements, unless there is evidence that the transaction is related to impairment losses on intercompany asset transfers.

**Changes in equity interests not resulting in a change of control**

The Company records at historic cost interests resulting from corporate reorganizations acquired from related parties with no economic substance. The difference between the cost and acquisition price is recorded in equity, when the transaction takes place between companies under joint control. The transactions do not qualify as a business combination under CPC 15R.

## 2.5 Restatement of the combined statements

As per the improvements requested by the Brazilian Securities Commission (CVM) and in line with Technical Pronouncement CPC 23 / IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and CPC 26 (R1) / IAS 1 – Presentation of Financial Statements, the combined financial statements as of June 30, 2020 (previously approved by management on August 14, 2020) are being restated in order to enhance the following issues:

i) Note 17 - Lease liability - disclosures were included related to the potential right to recoverable PIS and COFINS, comparison of the inflation effects against the real and indicative flow from assets which were not subject to the requirements of items 22 to 49 of CPC 06 (R2) – Leases;

ii) Note 21 – Equity, item "a) Share capital " – we adjusted the distributed percentages of equity interests held by shareholders as of June 30, 2020 (there was no change to the number of shares per shareholder).

# 3. Significant accounting policies

The main accounting practices adopted by the Company and its subsidiaries are as follows:

**a) Foreign currency translation**

**(i) Functional and presentation currency**

The items included in the Company and its subsidiaries' financial statements are measured in the currency of the main economy in which they operate ("functional currency"). The financial statements are presented in Reais (R$), the functional currency and presentation currency of the Company and its subsidiaries.

**(ii) Transactions and balances**

Foreign-currency transactions are translated into the functional currency at the exchange rates prevailing on the transaction or valuation dates, on which the items are remeasured. Exchange gains and losses resulting from the settlement of these transactions and the translation at the exchange rates at the end of the financial year for monetary assets and liabilities denominated in foreign currency are recognized in current profit or loss.

**b) Financial instruments**

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments.

The financial assets and liabilities are initially measured at fair value. The transaction costs directly attributable to the acquisition or issuance of financial assets and liabilities are added to or subtracted from the fair value of financial assets or liabilities, when applicable, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are immediately recognized in profit or loss.

**Financial assets**

All regular acquisitions or sales of financial assets are recognized and derecognized as of the trading date. Regular acquisitions or sales consist of financial asset acquisitions or sales requiring the delivery of assets within the time frame established by a market practice or standard.

All financial assets recognized are subsequently measured in their entirety at amortized cost or fair value, depending on their classification.

**Classification of financial assets**

The debt instruments meeting the following conditions are subsequently measured at amortized cost:

- The financial asset is maintained within a business model with the objective of maintaining financial assets in order to receive contractual cash flows.
- The contractual terms of the financial asset generate the cash flows on specific dates that solely constitute payments of principal and interest on the outstanding principal.

The debt instruments meeting the following conditions are subsequently measured at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset generate the cash flows on specific dates that solely constitute payments of principal and interest on the outstanding principal.

In general, all other financial assets stated are subsequently measured at fair value through profit or loss.

In addition to this, the Company can make the following irrevocable option/designation upon initial recognition of a financial asset:

- The Company can irrevocably elect to present subsequent changes to the fair value of the investment in equity instruments in other comprehensive income, if certain criteria are met (see item **(ii)** below).
- The Company can irrevocably designate an investment in debt instruments that meets the criteria for amortized cost or fair value through other comprehensive income as measured at fair value through profit or loss if by doing this the Company eliminates or significantly reduces an accounting mismatch.

**(i) Amortized cost and effective interest rate method**

The effective interest rate method is used to calculate the amortized cost of a debt instrument and to allocate its interest revenue for the respective period.

For financial assets, except for financial assets acquired or originated subject to impairment (i.e., assets subject to impairment upon initial recognition), the effective interest rate is the rate that precisely discounts estimated future cash receipts (including all fees and points paid or received, that constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, over the expected life of the debt instrument or a shorter period, where appropriate, for the initial recognition date of the gross carrying amount of the debt instrument. For acquired or originated financial assets subject to impairment, an effective interest rate adjusted to the credit is calculated by discounting the estimated future cash flows, including expected credit losses, for the amortized cost of the debt instrument at the date of initial recognition.

The amortized cost of a financial asset is the value at which the financial asset is measured upon initial recognition, less amortization of the principal, plus the accumulated amortization using the effective interest method of any difference between that initial amount and the maturity amount adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any loss allowance.

Interest revenue is recognized using the effective interest method for debt instruments measured subsequently to amortized cost. Except for acquired or originated credit-impaired financial assets, for financial assets the interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, except for financial assets that subsequently become credit-impaired financial assets (see below). For financial assets that subsequently become credit-impaired, the Company recognizes interest revenue by applying the effective interest rate to the amortized cost of the financial asset. If in subsequent reporting periods, the credit risk of the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, the interest revenue is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For credit-impaired acquired or originated financial assets, the Company recognizes interest revenue by applying the effective interest rate adjusted to the amortized cost of the financial asset subsequent to initial recognition.
The calculation does not reverse the gross base even if the financial asset's credit risk improves subsequently meaning the financial asset is no longer credit-impaired.

Interest revenue is recognized in profit or loss under “Finance income” (Note- 22).

**(ii) Equity instruments at fair value through other comprehensive income**

At initial recognition, the Company can elect the irrevocable option (instrument by instrument) to designate investments in equity instruments at fair value through other comprehensive income. The designation at fair value through other comprehensive income is not permitted if the investment in equity instruments is held for trading or a contingent consideration is recognized by an acquirer in a business combination.

A financial asset is held-for-trading if it:

- Was acquired mainly for selling in the short term;
- On initial recognition it is part of a portfolio of identified financial instruments jointly managed by the Group and for which there is a recent actual pattern of short-term profit-taking;
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments measured at fair value through other comprehensive income are initially measured at fair value plus transaction costs. They are subsequently measured at fair value with gains and losses resulting from fair value changes recognized in other comprehensive income and accumulated in the investment revaluation reserve. Accumulated gains or losses are not reclassified to profit or loss upon the sale of the investments in equity instruments, on the contrary, they are transferred to retained earnings.

Dividends on such equity instrument investments are recognized in profit or loss in accordance with CPC 48 unless the dividend clearly represents a recovery of part of the cost of the investment. Dividends are included in “Financial revenue” in profit or loss.

**(iii) Financial assets at fair value through profit or loss**

Financial assets not meeting the criteria to be measured at amortized cost (see item **(i)** above) are measured at fair value through profit or loss. Debt instruments not meeting the criteria to be measured at amortized cost (see item **(i)** above) are classified at fair value through profit or loss.

Debt instruments not meeting the criteria to be measured at amortized cost or at fair value through other comprehensive income (see items **(i)** and **(ii)** above) are classified at fair value through profit or loss.

**Financial liabilities and equity**

**Classification as debt or shareholders' equity**

Debt and equity instruments are classified as financial liabilities or shareholders' equity according to the nature of the contractual agreement and the definitions of financial liability and equity instrument.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized when the funds are received, net of direct issuance costs.

Equity instrument buybacks are recognized and deducted directly from equity. No gain or loss is recognized in profit or loss resulting from the purchase, sale, issuance or cancellation of the Company's equity instruments.

**Financial liabilities**

All financial liabilities are subsequently measured at amortized cost by the effective interest rate method or at fair value through profit or loss.

However, the financial liability resulting from a financial assets transfer does not qualify for derecognition or when the ongoing involvement approach applies, the financial guarantee contracts issued by the Company are measured according to the specific accounting policies described below.

**Financial liabilities at fair value through profit or loss**

Financial liabilities are classified at fair value through profit or loss when the financial liability is **(i)** a contingent consideration from an acquirer in a business combination; **(ii)** held for trading; or **(iii)** designated at fair value through profit or loss.

A financial liability is classified as held-for-trading if it:

- Was acquired mainly for buyback in the short term;
- On initial recognition, is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking.

Except for a financial liability held for trading or a contingent consideration from an acquirer in a business combination, the financial liability can be designated at fair value through profit or loss upon initial recognition if:

- This designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability is part of a group of financial assets or financial liabilities or both that is managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis;
- The financial liability is part of a contract containing one or more embedded derivatives, and CPC 48 permits that the combined contract be fully designated at fair value through profit or loss.

**Financial liabilities subsequently carried at amortized cost**

Financial liabilities that are not: **(i)** a contingent consideration from an acquirer in a business combination; **(ii)** held for trading; or **(iii)** designated at fair value through profit or loss, are subsequently measured at amortized cost by the effective interest rate method. The effective interest rate method is used to calculate the amortized cost of a financial liability and to allocate its interest expenses for the respective period. The effective interest rate is the rate that precisely discounts estimated future cash payments (including all fees and points paid or received, that constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the estimated life of the financial liability or a shorter period (where appropriate), to the amortized cost of the financial liability.

**c) Cash and cash equivalents**

The balance presented consists of amounts with immediate liquidity held to honor short-term commitments, swiftly convertible into cash, and subject to an insignificant risk of impairment.

**d) Short-term investments**

These consist of temporary investments held through maturity, convertible into cash more than 90 days from the investment date. They are recognized at cost plus income accrued as of the reporting date not exceeding market or realization value.

**e) Trade and other receivables**

Accounts receivable primarily consists of receivables from the sales activities of its subsidiaries Armazém Mateus S/A and Mateus Supermercados S/A, from retail and wholesale operations and credit card receivables.

They consist of active financial instruments classified at “amortized cost”.

Trade accounts receivable are initially recognized at the amount billed and adjusted to present value when applicable, and include the respective direct taxes the Company is responsible for. The estimated losses on doubtful accounts is recognized, when necessary, based on the estimated capacity of the borrower to pay the amount owed and the time the receivable has been overdue.

Under CPC 48 - Financial Instruments, accounts receivable is derecognized when the Company delivers control and transfers to the buyer substantially all of the associated risks and rewards.

**f) Inventory**

Under CPC 16, inventory is recorded at average cost and includes all components of the cost of purchasing the sold goods and takes into account discounts and commercial returns negotiated with the suppliers.

Inventories are measured at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated additional costs of completion necessary to make the sale. The Company regularly adjusts the realization of inventory due to losses and damages and to reflect the elimination of profit in the inventory of the subsidiary Supermercado Mateus S/A, where a substantial part of the transactions purchasing products from Supermercado take place with its related party Armazém Mateus S.A.

Provisions for inventory losses are recorded based on percentages applied to slow-moving inventory goods and average inventory losses.

**g) Property, plant and equipment**

Property, plant and equipment is stated at acquisition or construction cost, plus interest capitalized during the construction period, when applicable, in the case of qualifying assets, less accumulated depreciation and the allowance for impairment losses on discontinued assets without expectation of reuse or realization. Depreciation is computed by the straight-line method, based on the estimated useful life of each asset, at the rates stated in Note 9.

The estimated useful life and depreciation methods are reviewed at the end of each year and the effects of any changes in estimates are recognized prospectively. The balance of property, plant and equipment includes all expenses allocable to the assets during their construction and/or preoperating test phases.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from their ongoing use or disposal. Any gain or loss on derecognition of assets are recognized in profit or loss.

Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. The cost of major refurbishments is included in the carrying value of the asset when future economic benefits exceed the performance initially expected for the asset. Refurbishment expenses are depreciated over the remaining useful life of the related asset.

**h) Leases**

**Lease usage rights**

The Company recognizes a right-of-use asset at the commencement date of the lease (i.e. when the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any new remeasurement of the lease liabilities.

The cost of right-of-use assets includes recognized lease liabilities, initial direct costs incurred and lease payments made up to the start date. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets.

**Leases payable**

At the lease start date, the Company recognizes the lease liabilities measured at present value of the lease payments to be made over the lease term. Variable lease payments not depending on an index or rate are recognized as expenses in the period in which the event or condition that triggers those payments occurs.

The Company uses both the initial measurement and the remeasurement of observable nominal rates when calculating the present value of lease payments.

**Short-term leases and low-value assets**

The Company applies recognition exemptions for short-term leases (i.e. leases that terminate within 12 months as from the start date and not contain a purchase option). It also applies the recognition exemption awarded to low value assets for leases of office equipment considered low value. Short-term lease payments and low-value leases are recognized by the straight-line method as an expense over the lease term.

**i) Asset impairment testing**

The Company analyzes its assets for impairment annually. If such evidence is found, the asset's recoverable value is estimated. An assets' recoverable value is the greater of **(a)** its fair value less selling costs and **(b)** its value in use. The value in use is equal to the discounted cash flows (before tax) deriving from the continuous use of the asset. When the residual carrying amount of the asset exceeds its recoverable value, the Company shall recognize (provision for) the impairment for this asset. For impairment testing purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating Units - CGUs).

Under CPC 01 - Asset Impairment, definite-lived intangible assets and property, plant and equipment are tested for impairment whenever events or changes in the market indicate that the recoverable value of an individual amount and/or a Cash Generating Unit (CGU) could be lower than its carrying amount. Individual assets or groups of assets are tested for impairment, by comparing their carrying amount against their recoverable value, defined as the maximum fair value less selling costs and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. An impairment loss is recognized if the recoverable amount is lower than the carrying amount.

Impairment losses of property, plant and equipment, investment funds and intangible assets (except goodwill) can be reversed in future periods, providing that the carrying amount increase attributable to the reversal does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had impairment not been recognized for the assets in prior years. No impairment was identified for non-financial assets in the financial years ended December 31, 2019 and 2018.

**j) Provisions**

A provision is recognized when the Company has a legal or unofficial obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation, which can be reliably estimated. When the Company expects a provision to be reimbursed, in part or full, for example as a result of an insurance contract, the reimbursement is recognized as a separate value, but only when the reimbursement is a virtual certainty.

**k) Loans, financings, and debentures**

Loans, financing and debentures are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financing costs that are directly attributed to the acquisition, construction or production of a qualifying asset, i.e. an asset that requires a long time to be concluded for the purpose of use or sale, are capitalized as part of the asset's cost when it is probable that they will result in future economic benefits for the entity and that such costs can be reliably measured. Other financing costs are recorded as an expense in the period they are incurred in.

**l) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable in exchange for goods or services, excluding taxes on sales and net of any benefits awarded to customers (returns and commercial discounts). The Company recognizes revenue when: **(i)** significant risks and rewards of ownership have been transferred to the customer, **(ii)** recovery of the consideration is probable, **(iii)** the associated costs and possible return of goods can be reliably estimated, **(iv)** there is no ongoing involvement with the goods sold and **(v)** and the amount of revenue can be measured reliably. The adjustment to present value is made and recorded under accounts receivable and charged to net operating revenue. Revenue is measured net of returns and commercial discounts.

**m) Government grants**

Government grants are not recognized until there is reasonable certainty that the Company will meet the conditions imposed and that the grants will be received. These grants are recognized under “net operating revenue” in the years when the Company expenses the corresponding costs the grants intend to offset. Upon transferring the net income for the year to equity, the amounts are allocated according to their nature, Investment Subsidy or costing method subsidy, which is added to profit or loss for the year.

**n) Cost of goods sold**

The costs of goods sold consists of the cost of acquisitions net of discounts and bonuses received from suppliers, inventory changes and logistics costs.
The Company appropriates to net income for the year bonuses received from suppliers as/when the inventory generating the bonus is realized.

**o) Income taxes**

**Current taxes**

The provision for income tax is based on the taxable earnings for the year. Taxable income differs from profit as reported in the statement of income as it excludes items of income or expenses that are taxable or deductible in other years and it further deducts items that are never taxable or deductible. The Company calculates the provision for income tax at the rates in force, as follows:

- Corporate Income Tax (IRPJ): rate of 15% plus the rate of 10% for taxable earnings in excess of R$ 240.
- Social Contribution Tax on Net Income (CSLL): calculated at the rate of 9%.

The current income and social contribution tax expense is calculated according to tax legislation enacted by the year-end date, and Brazilian tax regulations.

Management periodically reviews the positions stated in the income tax return, regarding situations in which the applicable tax regulation may be interpreted in different forms and accrues provisions, when applicable, according to the amounts that are expected to be paid to the Revenue Service.

**Deferred taxes**

Deferred income tax ("deferred tax") is calculated on temporary differences at the end of each financial year between assets and liabilities in the financial statements and the tax base used to determine the taxable income, including the balance of tax losses, when applicable. Deferred tax liabilities are generally recognized on all taxable temporary differences and deferred tax assets are recognized on all deductible temporary differences, only when it is likely that the Company will generate future taxable earnings in an amount sufficient for these deductible temporary differences to be used.

The recovery of the balance of deferred tax assets is reviewed at the end of each reporting period, and when it is no longer likely that future taxable earnings will be available to permit the recovery of the entire asset, or part thereof, the balance of the asset is adjusted to the amount expected to be recovered.

Deferred tax assets and liabilities are measured by the rate applicable in the period over which the liability is expected to be settled or the asset realized, based on the rates established in the existing tax legislation at the end of each financial year, when the new legislation has been substantially improved. Deferred tax assets and liabilities are measured based on the tax consequences that result from the way the Company expects to recover or settle the carrying amount of these assets and liabilities at the end of each financial year.

Deferred tax assets and liabilities are only offset when there is a legal right to offset the current tax asset against the current tax liability for taxes administrated by the same tax authority and the Company intends to settle the amount net of its current tax assets and liabilities.

**p) Profit sharing**

When applicable, the proposal for distribution of dividends and interest on equity made by Company Management and that is within the share equivalent to the minimum non-discretionary dividend is recorded as liabilities in ‘Dividends payable’ because it is considered as a mandatory obligation set forth in the Company's by-laws. However, in the applicable cases, the portion of dividends and interest on equity exceeding the minimum mandatory dividend, declared by Management after the accounting period embraced by the financial statements but before the date the issuance of the financial payments was authorized, is recorded in the item ‘Dividends and interest on equity’, in equity, with effects disclosed in a note to the financial statements.

**q) Adjustment of assets and liabilities to present value**

Monetary assets and liabilities as adjusted to their present value at initial recognition of the transaction, taking into account the contractual cash flows, the implicit and explicit interest rates, based on the market rates used for transactions similar to the respective assets and liabilities. Subsequently, these effects are reallocated to finance income or cost, in profit or loss, using the related discount rate and the amortized cost method.

**r) Basic and diluted net income per share**

The Company calculates the earnings per share by using the weighted average number of shares in the respective period, pursuant to technical pronouncement CPC 41. The Company does not have dilutive factors to measure dilutive earnings per share, and the basic and diluted earnings per share are therefore the same.

## s) Change in accounting policies and disclosures:

### Revisions and new interpretations of accounting pronouncements

The new standards below issued by the IASB and enacted by the CFC became effective from January 01, 2019. The Company adopted them as mentioned below.

### (i) CPC 06 (R2) - Leases

CPC 06 (R2) came into force for annual reporting periods commencing on or after January 01, 2019 and replaces CPC 06 (R1) - Leases (IAS 17) and corresponding interpretations. It essentially states that all commercial lease contracts, be they operating or financial, should be recorded by recognizing the assets and liabilities involved, where certain short-term contracts might not be subject to this new standard.

At the start date of a lease contract, the lessee recognizes a liability relating to the lease payments (i.e. a lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. right-of-use assets). Lessors are obliged to separately recognize the interest expense on the lease liability and the depreciation expense on right-of-use assets. Lessors should also revalue the lease liability in the case of certain events (for example, a change to the lease term). The lessor will generally recognize the value of the revalued lease liability as an adjustment to the right-of-use assets.

The lessee may opt to adopt the standard using the full retrospective approach or modified respective approach. The standard’s transitory provisions permit certain exemptions.

**Initial adoption**

The Company adopted the standard CPC 06 with the respective approach and a cumulative effect on the initial adoption date (i.e. from January 01, 2019, considering the right of use equal to the lease liability at the initial adoption date). Comparative information was not re-presented. Management assessed the impact on its financial statements caused by the initial adoption of the standard, as explained in Notes 10 and 16.

The Company only classified property rental contracts as leases in accordance with the standard. The parent company does not have changes in rent. The liabilities were measured at the present value of the remaining lease payments, discounted at incremental rates of 8.5% per annum as of January 01, 2019, obtained at the main banks with which the Company has a relationship, the initial adoption of which is shown in the table below, without impacts on equity.

| | Consolidated |
|---|---|
| **Assets** | |
| Property, plant and equipment - Right-of-use (note 9) | 281,229 |
| **Liabilities** | |
| Commercial lease - short-term | 58,310 |
| Commercial lease - long-term | 222,919 |
| | **281,229** |

**ICPC 22 - “Uncertainty over Income Tax Treatments”**

Issued in May 2017, aims to clarify the accounting of tax positions that might not be accepted by the tax authorities in respect of IRPJ and CSLL. In general terms, the main issue of the interpretation to be analyzed is the probability of the tax authority accepting the tax treatment chosen by the Company. ICPC 22 is effective for annual periods beginning on or after January 01, 2019.

Management did not identify material impacts on its financial statements resulting from the initial adoption of the standard.

**(ii) CPC 33 - Employee benefits**

Clarifies procedures for measuring and recognizing in profit or loss the effects of reductions and settlements in employee benefit plans.

Management did not identify material impacts on its financial statements resulting from the initial adoption of the standard.

**Standards effective from 2020**

Whilst encouraged by the IASB, the early adoption of standards in Brazil is not permitted by the CPC. The following standard has been revised by the IASB, but is not in force for FY 2019:

**(iv) Alterations to NBC TG 15: Business Combination**

In October 2018 the IASB issued alterations to the business definition in IFRS 3, with these alterations reflected in review 14 of the CPC, altering CPC 15 (R1) to help entities determine whether an acquired set of activities and assets constitutes a business or not. They clarify the minimum requisites for a company, eliminate the assessment as to whether market participants can substitute any absent element, include guidelines to help entities assess whether an acquired process is substantive, outline better business and products definitions and introduce an optional fair value concentration test. New illustrative cases have been supplied along with the alterations.

As the alterations are applied prospectively to transactions or other events occurring on the date or after the initial application, the Company and its subsidiaries will not be affected by these alterations at the transition date.

**(v) IAS 1 and IAS 8 - Defining Materiality**

Clarifies materiality issues for classification of the accounting standard where this concept applies.

Management does not expect material impacts on its financial statements resulting from the adoption of the standard.

## 4. Cash and cash equivalents

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Cash | 306 | 16,217 |
| Banks | 227,246 | 278,535 |
| Short-term investments | 716,574 | 112,153 |
| **Total** | **944,126** | **406,905** |

Short-term investments yield an average rate of 100% of the Interbank Deposit Certificate (CDI) as of June 30, 2020 and December 31, 2019 in short-term Bank Deposit Certificates (CDBs), readily convertible to known amounts of cash, and that are subject to an insignificant risk of impairment.

## 5. Short-term investments (noncurrent)

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Banco do Nordeste do Brasil S.A. Reserves **(*)** | 13,751 | 14,034 |
| Banco do Nordeste do Brasil S.A. Capitalization | 852 | 574 |
| **Total** | **14,603** | **14,608** |

**(*)** Deposit made to secure payment of the financing loan from Banco do Nordeste do Brasil, held in long-term financial investments. Over the entire contractual terms the Companies should maintain restricted funds in these reserve accounts intended to receive the entire surplus funds from operating activities in accordance with the contracted facility.

These short-term investments are classified as noncurrent assets as they are subject to an impairment risk if redeemed before the term. On average they are redeemed after 05 years.

## 6. Trade and other receivables

### a) Aging list

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Notes receivable | 375,799 | 365,565 |
| Credit card | 618,747 | 461,477 |
| **Subtotal** | **994,546** | **827,042** |
| Allowance for doubtful accounts | (30,515) | (22,877) |
| **Total** | **964,031** | **804,165** |

See below the changes in the allowance for doubtful accounts:

| Balance at 12/31/2019 | Change | Balance at 6/30/2020 |
|---|---|---|
| **(22,877)** | (7,637) | **(30,515)** |

| Balance at 12/31/2018 | Change | Balance at 6/30/2019 |
|---|---|---|
| **(22,017)** | (859) | **(22,876)** |

The Company and its subsidiaries always measure the estimated loss on doubtful accounts at an amount equal to the Expected Credit Losses (PCE). Estimated credit losses on trade accounts receivable are estimated using a provision matrix based on the debtor's past default history and an analysis of the debtor's current financial position, adjusted for factors specific to the borrowers, general economic conditions in the sector where the borrowers operate and an assessment of the current and projected status of conditions at the reporting date.

As of June 30, 2020 and December 31, 2019 there is no accounts receivable submitted as security by the Company and its subsidiaries.

**b) Aging list**

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Neither past due nor impaired | 750,655 | 627,754 |
| **Accounts receivable - overdue:** | | |
| 1 to 30 days | 153,233 | 99,243 |
| 31 to 60 days | 26,588 | 36,232 |
| 61 to 90 days | 13,891 | 12,614 |
| 91 to 180 days | 14,820 | 15,430 |
| Over 180 days | 35,359 | 35,769 |
| **Total** | **994,546** | **827,042** |

# 7. Inventory

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Goods for resale | 1,576,462 | 1,507,881 |
| Provision for obsolescence and breakages **(a)** | (5,262) | (4,673) |
| Inventory bonus **(b)** | (782) | (3,705) |
| Advance to suppliers | 17,516 | 18,740 |
| **Total** | **1,587,934** | **1,518,243** |

Change in the provision for obsolescence and breakages:

| Balance at 12/31/2019 | Change | Balance at 6/30/2020 |
|---|---|---|
| **(4,671)** | (591) | **(5,262)** |

| Balance at 12/31/2018 | Change | Balance at 6/30/2019 |
|---|---|---|
| **(1,443)** | (3,230) | **(4,673)** |

**(a)** The nature of the wholesale operations entails major internal movement of goods. These movements result in inherent losses, such as losses during transportation, losses due to incorrect handling, storage losses, deterioration or quality losses, losses due to expiration, losses due to conditioning, losses due to sampling of goods and losses caused by theft in the distribution center. The Company and its subsidiaries monitor these occurrences via a specific department and take the applicable measures to diminish the occurrence thereof.

**(b)** The Company and its subsidiaries appropriate to net income for the year bonuses received from suppliers as/when the inventory generating the bonus is realized. Inventory bonuses received and not realized amount to R$ 782 as of June 30, 2020 (R$ 3,705 as of December 31, 2019).

As of June 30, 2020 and December 31, 2019 there is no inventory submitted as security by the Company and its subsidiaries.

## 8. Recoverable taxes

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Value-Added Tax on Sales and Services (ICMS) recoverable | 5,543 | 4,670 |
| Value-Added Tax on Sales and Services (ICMS) recoverable - CIAP **(a)** | 31,805 | 25,614 |
| Corporate Income Tax (IRPJ) recoverable | 729 | 729 |
| Income tax on short-term investments | 1,195 | 1,181 |
| Social Contribution on Net Income (CSLL) recoverable | 262 | 262 |
| Social Integration Program (PIS) **(a)** | 13,737 | 9,434 |
| Social Security Contribution (Cofins) | 62,601 | 43,031 |
| **Total** | **115,872** | **84,921** |
| | | |
| Current | 26,293 | 55,392 |
| Noncurrent | 89,579 | 29,529 |
| **Total** | **115,872** | **84,921** |

**(a)** This mainly refers to credits on the acquisition of property, plant and equipment. The noncurrent portion essentially consists of tax credits, expected to be realized in the long term.

The Company has periodically evaluated the growth of these accumulated tax credits and the required provision for losses, in order to use them. These taxes are realized based on growth projections, operating issues and the generation of debts to consume these credits by the Group's companies.

| In | 6/30/2020 | 12/31/2019 |
|---|---|---|
| In 01 year | 26,293 | 55,392 |
| 01 to 02 years | 89,579 | 29,529 |
| **Total** | **115,872** | **84,921** |

## 9. Property, plant and equipment

| | % - weighted average deprec. rate p.a. | Balance at 12/31/2019 Combined | Additions | Write-offs | Transfers | Balance at 6/30/2020 Combined |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Land | - | 10,516 | - | - | - | **10,516** |
| Buildings | - | 25,300 | - | - | - | **25,300** |
| Machinery and equipment | - | 341,512 | 24,661 | (137) | 7,954 | **373,990** |
| Furniture and fixtures | - | 100,952 | 2,501 | - | 673 | **104,126** |
| Vehicles | - | 29,765 | 69 | - | - | **29,834** |
| IT equipment | - | 32,601 | 4,257 | - | 72 | **36,930** |
| Property, plant and equipment in progress **(a)** | - | 300,614 | 2,964 | (2,761) | (8,994) | **291,823** |
| Buildings on rented property **(b)** | - | 459,076 | 123,450 | - | 295 | **582,821** |
| **Total** | | 1,300,336 | 157,902 | **(2,898)** | **-** | **1,455,340** |
| | | | | | | |
| **Depreciation** | | | | | | |
| Buildings | 4 | (9,425) | (1,550) | - | - | **(10,975)** |
| Machinery and equipment | 10 | (134,683) | (16,009) | - | - | **(150,692)** |
| Furniture and fixtures | 10 | (44,243) | (4,408) | - | - | **(48,651)** |
| Vehicles | 20 | (24,418) | (1,353) | - | - | **(25,771)** |
| IT equipment | 20 | (20,725) | (2,244) | - | - | **(22,969)** |
| Buildings on rented property | 10 | (206,069) | (25,175) | - | | **(231,244)** |
| **Total** | | (439,563) | (50,739) | **-** | **-** | **(490,302)** |
| | | | | | | |
| **Balance** | | **860,773** | **107,163** | **(2,898)** | **-** | **965,038** |

| | % - weighted average deprec. rate p.a. | Balance at 12/31/2018 Combined | Additions | Write-offs | Transfers | Balance at 6/30/2019 Combined |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Land | | **425** | 30 | - | 10,000 | **10,455** |
| Buildings | | **25,300** | - | - | - | **25,300** |
| Machinery and equipment | | **255,573** | 8,221 | (573) | 14,313 | **277,534** |
| Furniture and fixtures | | **78,476** | 2,870 | (5) | 3,637 | **84,978** |
| Vehicles | | **20,050** | 495 | (50) | - | **20,495** |
| IT equipment | | **26,752** | 2,678 | (2) | - | **29,428** |
| Property, plant and equipment in progress **(a)** | | **255,948** | 41,455 | 253 | (28,016) | **269,640** |
| Building work in progress | | **8,630** | 9,489 | (566) | 66 | **435,638** |
| Buildings on rented properties **(b)** | | **418,019** | 30 | - | 10,000 | **10,455** |
| **Total** | | **1,089,173** | **65,238** | **(943)** | **-** | **1,153,468** |
| | | | | | | |
| **Depreciation** | | | | | | |
| Buildings | 4 | **(8,242)** | (505) | - | - | **(8,747)** |
| Machinery and equipment | 10 | **(105,447)** | (13,204) | 14 | - | **(118,637)** |
| Furniture and fixtures | 10 | **(35,639)** | (7,110) | - | - | **(42,749)** |
| Vehicles | 20 | **(19,126)** | (2,636) | 1 | - | **(21,761)** |
| IT equipment | 20 | **(16,290)** | (1,823) | - | - | **(18,113)** |
| Buildings on rented property | 10 | **(171,748)** | (16,104) | 2 | - | **(187,850)** |
| **Total** | 4 | **(356,492)** | **(41,382)** | **17** | **-** | **(397,857)** |
| | | | | | | |
| **Balance** | | **732,681** | **23,856** | **(926)** | **-** | **755,611** |

**(a)** Consists of construction work and expansions in distribution centers and stores under the Company and its subsidiaries' expected growth plan;

**(b)** Consists of construction work and expansions in the distribution centers rented from Tocantins Participações e Empreendimentos Ltda.

Depreciation is recognized based on the estimated useful life of each asset, and is reviewed at the end of each year. Based on their analyses, the company and its subsidiaries did not detect evidence that could change the useful life or reduce the realization value of its assets as of June 30, 2020 and December 31, 2019.

The subsidiaries took out loans for the acquisition, construction or production of an asset, which requires a substantial period of time to be completed for the intended use or sale (qualifying asset). The loan interest attributed to the property, plant and equipment is capitalized as part of the respective cost of the assets during their construction. From the date the corresponding asset comes into operation, the capitalized costs are depreciated over the estimated useful life of the asset.

As of June 30, 2020 and December 31, 2019 the Company and its subsidiaries had items of property, plant and equipment securing loans and financing in the amounts of R$ 82,562 and R$ 80,862 respectively.

The consolidated loan costs capitalized in the financial year ended June 30, 2020 amounted to R$ 284,350 (R$ 59,613 at December 31, 2019). The rate adopted to determine the loan arrangement costs eligible for capitalization was 4.65% (14.70% as of December 31, 2019) of the CDI rate, corresponding to the effective interest rate of the loans taken out by the subsidiaries.

## 10. Right-of-use assets

| | % - weighted average deprec. rate p.a. | Balance at 12/31/2019 Combined | Additions | Write-offs | Balance at 6/30/2020 Combined |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Lease right of use | - | 471,476 | 99,890 | - | 571,366 |
| Depreciation | 18.72 | (63,428) | (43,512) | - | (106,940) |
| **Total** | | **408,048** | **56,378** | **-** | **464,426** |

| | % - weighted average deprec. rate p.a. | Balance at 1/1/2019 Combined | Additions | Write-offs | Balance at 6/30/2019 Combined |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Lease right of use | - | 339,597 | 68,451 | - | 408,048 |
| Depreciation | 21.10 | (58,368) | (27,745) | - | (86,113) |
| **Total** | | **281,229** | **40,706** | **-** | **321,935** |

**(a)** The lease right-of-use is amortized over the total length of the lease agreement between the Company and the lessor (related party, see Note 19), for the term of 01 to 20 years.

The changes to the right-of-use in the period ended June 30, 2020 were as follows:

The R$ 339,597 recognized upon initial adoption in 2019 did not affect the cash flow statements and the lease right-of-use depreciation of R$ 58,368 was recognized as operating cost in the year.

The Company determined its discount rates of 8.85% after consulting financial institutions and based on the weighted average borrowing rates for the year.

## 11. Trade payables

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Products | 623,412 | 525,492 |
| Services | 29,107 | 16,922 |
| Property, plant and equipment | 24,455 | 10,706 |
| Consumption | 17,108 | 423 |
| **Total** | **694,082** | **553,543** |

**Commercial agreements**

Include commercial agreements and supplier discounts. These amounts are established in contracts and include amounts for discounts on volume purchases, joint marketing programs, freight reimbursements and other similar programs. The receipt takes place via discounts from invoices payable to suppliers, according to the terms of the supply agreements, so that payments take place at the net amount.

## 12. Borrowings and financing

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Leasing **(a)** | 72,365 | 51,042 |
| Working capital **(b)** | 546,441 | 293,810 |
| Machinery and equipment financing (Finame) **(c)** | 93,957 | 59,489 |
| **Total** | **712,763** | **404,341** |
| | | |
| Current | 196,125 | 161,359 |
| Noncurrent | 516,638 | 242,982 |
| **Total** | **712,763** | **404,341** |

**(a)** Financing to open new units and renovate existing distribution centers incurs annual interest ranging from 1.01% to 1.81% plus restatement by the Long-Term Interest Rate (TJLP), and is secured by the financed items themselves and trade notes in the amount of R$ 1,358, plus partner aval. Final maturity is on November 30, 2023;

**(b)** Working capital loans are realized to avoid delays in payments and generate cash flow from credit sales made, especially in the bazaar and household appliance sectors with annual interest rates ranging from 7.06% to 19.13% + CDI. They are secured by partner aval.
Final maturity is on June 12, 2026;

**(c)** Financing for the Acquisition of Machinery and Equipment (Finame) incurs annual interest ranging from 3.0 to 3.5% plus restatement by UR - TJLP varying between 5.0% in the PSI format - BNDES Investment Funding Program and secured by the financed items themselves and partner aval. Final maturity is on January 15, 2025.

The change in the current and noncurrent balances of loans and financing in the financial years ended June 30, 2020 and December 31, 2019 is shown below:

| | 12/31/2019 | Funding | Restatements | Principal | Interest | 6/30/2020 |
|---|---|---|---|---|---|---|
| *Leasing* | **51,042** | 29,026 | 3,483 | (8,159) | (3,026) | 72,366 |
| Financing | **59,489** | 53,536 | 4,413 | (16,572) | (6,909) | 93,957 |
| Loans | **293,810** | 284,350 | 13,468 | (39,914) | (5,274) | 546,440 |
| **Total** | **404,341** | **366,912** | **21,364** | **(64,645)** | **(15,209)** | **712,763** |

| | 12/31/2018 | Funding | Restatements | Principal | Interest | 6/30/2019 |
|---|---|---|---|---|---|---|
| *Leasing* | **38,320** | 1,913 | 2,733 | (6,331) | (2,727) | 33,908 |
| Financing | **61,476** | 29,766 | 7,971 | (31,473) | (8,728) | 59,012 |
| Loans | **364,650** | 14,113 | 3,333 | (78,350) | (8,661) | 295,085 |
| **Total** | **464,446** | **45,792** | **14,037** | **(116,154)** | **(20,116)** | **388,005** |

The long-term maturities break down as follows:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| 2021 | 96,028 | 84,159 |
| 2022 | 175,190 | 66,701 |
| 2023 | 109,347 | 38,948 |
| 2024 | 73,522 | 23,474 |
| 2025 | 39,541 | 16,114 |
| 2026 onwards | 23,010 | 13,586 |
| **Total** | **516,638** | **242,982** |

### Covenants

Under the loans and financing contracts, the Company and its subsidiaries undertake to comply with various covenants under pain of early maturity of the debt. These covenants include maintaining guarantees, not incurring protests in the name of the Company and its subsidiaries, not closing deposit accounts at the bank, not filing for judicial reorganization, taking out mandatory insurance, guarantees, and other requirements. These covenants are monitored and complied with in accordance with the contracts. The Company and its subsidiaries are not aware of any facts or circumstances that would indicate a situation of non-compliance or non-performance of covenants.

### Guarantees and security

The investees “Mateus Supermercado S.A”. and “Armazém Mateus S.A.” are joint guarantors and intervening guarantors in the loans and financing of the related party “Tocantins Participações e Empreendimentos Ltda.”.

The loans of “Tocantins Participações e Empreendimentos Ltda.” secured by the aforesaid companies amounted to R$ 254,092 as of June 30, 2020, as shown below:

| Description | 6/30/2020 | 12/31/2019 |
|---|---|---|
| CRI Financing - Real Estate Loan (Itaú) | 58,242 | 61,761 |
| Real Estate Receivables Certificates - CRI 212 (XP Investimentos) | 195,850 | - |
| **Total** | **254,092** | **61,761** |

## 13. Debentures

| | 12/31/2019 | Funding | Interest | Amortization | 6/30/2020 |
|---|---|---|---|---|---|
| Single series **(a)** | - | - | - | - | - |
| Single series **(b)** | 231,490 | - | 6,266 | (6,266) | 231,490 |
| Series 1 **(c)** | 57,405 | - | 1,583 | (6,976) | 52,012 |
| Series 2 **(c)** | 30,844 | - | 319 | (5,800) | 25,363 |
| Series 1 **(d)** | 147,496 | - | 4,986 | (4,986) | 147,496 |
| Series 2 **(d)** | 36,874 | - | 948 | (5,393) | 32,429 |
| **Total** | **504,109** | **-** | **14,102** | **(29,421)** | **488,790** |
| | | | | | |
| Current | 30,503 | | | | 29,884 |
| Noncurrent | 473,606 | | | | 458,906 |
| **Total** | **504,109** | | | | **488,790** |

| | 12/31/2018 | Funding | Interest | Amortization | 6/30/2019 |
|---|---|---|---|---|---|
| Single series **(a)** | 35,258 | - | 2,268 | (7,470) | 30,056 |
| Series 1 **(c)** | 62,271 | - | 3,156 | (5,300) | 60,127 |
| Series 2 **(c)** | 33,458 | - | 1,427 | (6,427) | 28,458 |
| Series 1 **(d)** | 160,000 | - | 6,066 | (6,066) | 160,000 |
| Series 2 **(d)** | 40,000 | - | 1,793 | (2,534) | 39,259 |
| **Total** | **330,987** | **-** | **14,710** | **(27,797)** | **317,900** |
| | | | | | |
| Current | 37,264 | | | | 37,011 |
| Noncurrent | 293,723 | | | | 280,889 |
| **Total** | **330,987** | | | | **317,900** |

**(a)** On December 20, 2014 Mateus Supermercados issued a single series of ordinary registered nonconvertible debentures amounting to R$ 60,000 and R$ 100 per debenture, maturing on December 20, 2021 and yielding 100% of the DI rate, plus 2.3% p.a. The debentures are waived from the requirement to register for distribution at the Brazilian Securities Commission (CVM) established by Article 19 (main section) of Law 6.385 enacted December 7, 1976 and subsequent amendments thereto, pursuant to Article 6 of CVM Instruction 476/2009, as this is a public offering with restricted distribution efforts;

**(b)** On November 12, 2019 Mateus Supermercados issued a single series of ordinary registered debentures nonconvertible into company shares or shares of other companies or securities of any nature amounting to R$ 230,000 and R$ 1000 per debenture, maturing on November 12, 2026 and yielding 100% of the DI rate, plus 2.00% p.a. The debentures are waived from the requirement to register for distribution at the Brazilian Securities Commission - CVM established by Article 19 (main section) of Law 6.385 enacted December 07, 1976 and subsequent amendments thereto, pursuant to Article 6 of CVM Instruction 476/2009, as this is a public offering with restricted distribution efforts;

**(c)** On January 10, 2017 Armazém Mateus issued two series of ordinary registered nonconvertible debentures, with series 1 amounting to R$ 60,000, and series 2 to R$ 40,000 and R$ 1 per debenture maturing on January 10, 2025 and January 10, 2022 respectively. The Series 1 debentures yield the change in the 100% DI rate plus 3.30% p.a. The Series 2 debentures yield the change in the 100% DI rate plus 3.10% p.a. Both debentures are waived from the requirement to register for distribution at the Brazilian Securities Commission - CVM established by Article 19 (main section) of Law 6.385 enacted December 07, 1976 and subsequent amendments thereto, pursuant to Article 6 of CVM Instruction 476/2009, as this is a public offering with restricted distribution efforts;

**(d)** On November 14, 2018 Armazém Mateus issued two series of ordinary registered nonconvertible debentures, with series 1 amounting to R$ 160,000, and series 2 to R$ 40,000 and R$ 1 per debenture maturing on November 14, 2026 and November 14, 2023 respectively. The Series 1 debentures yield the change in the 100% DI rate plus 2.35% p.a.
The Series 2 debentures yield the change in the 100% DI rate plus 2.18% p.a. Both debentures are waived from the requirement to register for distribution at the Brazilian Securities Commission - CVM established by Article 19 (main section) of Law 6.385 enacted December 07, 1976 and subsequent amendments thereto, pursuant to Article 6 of CVM Instruction 476/2009, as this is a public offering with restricted distribution efforts;

See below the general terms of the subsidiaries' debentures:

| Series | Number in circulation | Compensation | Payment of interest |
|---|---|---|---|
| Single series | 6,000 | 100% DI + 2.30% | Quarterly through August 2015 and quarterly through maturity |
| Single series | 230,000 | 100% DI + 2.00% | Quarterly through November 2021 and monthly through maturity |
| Series 1 | 60,000 | 100% DI + 3.30% | Quarterly through January 2019 and quarterly through maturity |
| Series 2 | 40,000 | 100% DI + 3.10% | Quarterly through January 2018 and quarterly through maturity |
| Series 1 | 160,000 | 100% DI + 2.35% | Quarterly through August 2020 and monthly through maturity |
| Series 2 | 40,000 | 100% DI + 2.18% | Quarterly through May 2019 and monthly through maturity |

**Guarantees for the first and second issuances**

Statutory assignment contract between Armazém Mateus, the trustee, and Banco Bradesco S.A., as the lead bank, in accordance with the provisions of article 66-B, of Law 4.728/65, as reworded by article 55 of Law 10.931/04.

**Covenants**

Under the financing contract, the subsidiaries Armazém Mateus and Mateus Supermercados undertake to perform the following covenants under pain of early maturity of the debt:

**(a)** Annual calculation within the debt amortization period of the net debt over "Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA", which should remain within the limit of 2 to 2.5%;

**(b)** Other contractual terms such as using the funds in the distribution center and supplying it with inventory, amongst others.

As of June 30, 2020 and December 31, 2019 the subsidiaries were in compliance with the applicable covenants.

**Maturity of long-term payments**

At June 30, 2020 and December 31, 2019, the long-term installments mature as follows:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| 2020 | - | - |
| 2021 | 49,590 | 64,292 |
| 2022 | 94,056 | 94,056 |
| 2023 | 90,815 | 90,815 |
| 2024 | 82,667 | 82,667 |
| 2025 | 75,167 | 75,165 |
| 2026 onwards | 66,611 | 66,611 |
| **Total** | **458,906** | **473,606** |

## 14. Labor liabilities

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Payroll payable | 40,084 | 39,659 |
| Provision for vacations | 73,881 | 70,587 |
| Provision for 13th month salary | 27,562 | - |
| Severances payable | 321 | 283 |
| Trade Union Fees | 104 | 176 |
| INSS payable | 43,287 | 14,305 |
| Income Tax Withheld at Source (IRRF) | 1,334 | 2,493 |
| Government Severance Indemnity Fund (FGTS) | 14,142 | 4,603 |
| **Total** | **200,715** | **132,106** |

## 15. Tax liabilities

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Value-Added Tax on Goods and Services (ICMS) | 52,146 | 47,701 |
| PIS and Cofins withheld at source | 345 | 383 |
| PIS and Cofins payable | 33,500 | 3,303 |
| Corporate Income Tax (IRPJ) | 5,125 | 8,246 |
| Social Contribution on Net Income (CSLL) | 1,875 | 3,008 |
| Other | 1,408 | 1,424 |
| Services tax (ISS) | 308 | 297 |
| **Total** | **94,707** | **64,362** |

## 16. Lease liability

The lease liability is amortized over the total length of the lease agreement between the Company and the lessor (related party, see Note 19), for the term of 15 years.

The changes to leases payable in the periods ended June 30, 2019 and June 30, 2020 were as follows:

| | % - average weighted amortization rate p.a. | Balance at 12/31/2019 Combined | Additions | Write-offs | Balance at 6/30/2020 Combined |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Lease liability | - | 685,843 | 204,745 | (63,000) | 827,588 |
| ( - ) Unappropriated interest | 44.29 | (279,473) | (104,492) | 17,401 | (366,564) |
| **Total** | | **406,370** | **100,253** | **(45,599)** | **461,024** |
| Current | | 69,083 | | | 78,374 |
| **Noncurrent** | | 337,287 | | | 382,650 |

| | % - average weighted amortization rate p.a. | Balance at 1/1/2019 Combined | Additions | Write-offs | Balance at 6/30/2019 Combined |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Lease liability | - | **380,810** | 275,842 | (35,600) | 621,052 |
| ( - ) Unappropriated interest | 44.75 | **(159,581)** | (77,022) | 8,455 | (228,148) |
| **Total** | | **221,229** | **198,820** | **(27,145)** | **392,904** |
| **Current** | | **58,310** | | | **66,794** |
| **Noncurrent** | | **162,919** | | | **326,110** |

The amounts classified in noncurrent liabilities break down as follows by year of maturity:

| **Year of maturity** | **Combined 6/30/2020** |
|---|---|
| 2021 | 86,307 |
| 2022 | 37,382 |
| 2023 | 35,044 |
| 2024 | 32,546 |
| 2025 onwards | 278,462 |
| Embedded interest | (87,091) |
| **Total** | **382,650** |

The indication of the potential right to recoverable PIS and COFINS not measured of the lease cash flows is shown below:

| | **Nominal** | **Adjusted to present value** |
|---|---|---|
| Cash flow | Combined | Combined |
| Lease consideration | 893,575 | 464,426 |
| Potential PIS/COFINS (9.25%) | 82,656 | 42,959 |

The inflationary effects in the comparison period against the real flow, using the IGP-M rate estimated by FGV for 2020 of 4.03%, are as follows:

| **Right-of-use assets** | | **Lease Liabilities** | |
|---|---|---|---|
| | **Combined** | | **Combined** |
| **Real flow** | **6/30/2020** | **Real flow** | **6/30/2020** |
| Right-of-use | 571,367 | Lease liability | 816,557 |
| Depreciation | (106,941) | Finance cost | (355,533) |
| | **464,426** | | **461,024** |

| | **Combined** | | **Combined** |
|---|---|---|---|
| **Inflation-restated flow** | **6/30/2020** | **Inflation-restated flow** | **6/30/2020** |
| Right-of-use | 595,936 | Lease liability | 851,669 |
| Depreciation | -111,539 | Finance cost | -370,821 |
| | **484,396** | | **480,848** |

Assets which were not subject to the requisites of items 22 to 49 of CPC 06 (R2) – Leases, which are short-term or low-value leases, impacted profit as follows:

| | **Parent company** | | **Combined** | |
|---|---|---|---|---|
| | **01/01/ to 12/31/2019** | **01/01 to 12/31/2018** | **01/01 to 6/30/2020** | **01/01 to 12/31/2019** |
| Property rental | - | - | (38,601) | (52,295) |
| | **-** | **-** | **(38,601)** | **(52,295)** |

## 17. Payment of taxes in installments

| | **6/30/2020** | **12/31/2019** |
|---|---|---|
| ICMS financing **(a)** | 1,382 | 1,332 |
| Refis financing **(b)** | 3,004 | 3,179 |
| Federal tax financing **(c)** | 1,537 | 326 |
| IRPJ financing **(d)** | - | 1,046 |
| **Total** | **5,923** | **5,883** |
| | | |
| Current | 1,406 | 1,269 |
| Noncurrent | 4,517 | 4,614 |
| **Total** | **5,923** | **5,883** |

| | 6/30/2020 | | | 12/31/2019 | | |
|---|---|---|---|---|---|---|
| | Value of principal | Fines and interest | Total | Value of principal | Fines and interest | Total |
| **Current** | | | | | | |
| ICMS financing **(a)** | 494 | 161 | **655** | 446 | 145 | **591** |
| REFIS financing **(b)** | 345 | 183 | **528** | 333 | 174 | **507** |
| Federal tax financing **(c)** | 174 | 50 | **223** | 39 | 12 | **51** |
| IRPJ financing **(d)** | - | - | **-** | 96 | 24 | **120** |
| **Total current** | **1,013** | **394** | **1,406** | **914** | **355** | **1,269** |
| | | | | | | |
| **Noncurrent** | | | | | | |
| ICMS financing **(a)** | 543 | 184 | **727** | 553 | 188 | **741** |
| REFIS financing **(b)** | 1,574 | 902 | **2,476** | 1,716 | 956 | **2,672** |
| Federal tax financing **(c)** | 992 | 323 | **1,315** | 210 | 65 | **275** |
| IRPJ financing **(d)** | - | | | 695 | 231 | **926** |
| **Total noncurrent** | **3,109** | **1,409** | **4,517** | **3,174** | **1,440** | **4,614** |

**(a)** 07 ICMS financing programs were entered by June 30, 2020, over 24, 36, 48 and 60 instalments, maturing in 2021, 2023, 2024 and 2025. ICMS financing programs were entered in 2019, over 36, 48 and 60 instalments, maturing in 2022, 2023 and 2024 respectively.

**(b)** In 2018 ICMS taxes were financed over 48 instalments, with final payment in August 2022. In 2014, Mateus Supermercados entered the Refis tax financing program introduced by Law 12.996, enacted June 18, 2014, mature in February 2032 and consisting of 175 instalments.

**(c)** In 2017 federal taxes were financed over 120 instalments, with final payment in April 2027.

**(d)** In 2011 IRPJ taxes were financed over 180 instalments, with final payment in August 2030.

There were no guarantees or attachment of assets related to the tax financing carried out by the Company and its subsidiaries.

The long-term maturities break down as follows:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| 2021 | 742 | 758 |
| 2022 | 719 | 734 |
| 2023 | 423 | 433 |
| 2024 | 387 | 395 |
| 2025 | 387 | 395 |
| 2026 onwards | 1,859 | 1,899 |
| **Total** | **4,517** | **4,614** |

## 18. Related-party transactions

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| **Non-current assets** | | |
| Tocantins Participações e Empreendimentos Ltda. **(c)** | 42,891 | 62,908 |
| Armazém Mateus | 3 | - |
| Mateus Eletrônica Ltda. **(d)** | 3,885 | 3,987 |
| Invicta Prod. Farmacêuticos | - | 2,018 |
| It Happens Ltda. **(a)** | 1,627 | 1,827 |
| **Total** | **48,406** | **70,740** |
| | | |
| **Non-current liabilities** | | |
| Mateus Locações e Empreendimentos Ltda. **(e)** | 56,578 | 78,578 |
| Indústria de Pães e Massas Ltda. | 6 | |
| Indústrias Blanco Ltda **(h)** | 10,504 | - |
| Invicta Produtos Farmacêuticos Ltda. **(f)** | 14,444 | 19,185 |
| Tocantins Participações e Empreendimentos Ltda. **(g)** | 4,946 | 217 |
| Mateus Supermercados Ltda. | 1 | - |
| **Total** | **86,479** | **97,980** |
| | | |
| **Lease liabilities** | | |
| Tocantins Participações e Empreendimentos Ltda. **(g)** | 461,024 | 390,250 |
| | | |
| **Rent expenses** | | |
| Rio Balsas Participações e Empreendimentos Ltda. | - | 29,388 |
| | | |
| **Finance lease expenses** | | |
| Tocantins Participações e Empreendimentos Ltda. | 14,561 | 19,510 |

**(a) It Happens Ltda.**

The balance consists of outstanding invoices for the provision of services by It Happens Ltda. that do not incur interest. This balance matures contractually in 2020.

**(b) Posterus Supermercados Ltda.**

The balance consists of invoices issued by Posterus Supermercados Ltda. that do not incur interest. This balance matures contractually in 2020.

**(c) Tocantins Participações e Empreendimentos Ltda.**

The balance consists of receivables of Armazém Mateus S.A. that do not incur interest. This balance matures contractually in 2020.

**(d) Mateus Eletrônica Ltda.**

The balance consists of Supermercado receivables on sales made to Mateus Eletrônica Ltda. that do not incur interest. This balance matures contractually in 2020.

**(e) Mateus Locações e Empreendimentos Ltda.**

Armazém handles its own logistics and distribution using vehicles rented from Mateus Locações. The company stopped renting vehicles in 2013. This balance matures contractually in 2020.

**(f) Invicta Produtos Farmacêuticos Ltda.**

The balance consists of R$ 14,444 with Armazém Mateus S.A., primarily for diaper supplies. This balance matures contractually in 2020.

**(g) Tocantins Participações e Empreendimentos Ltda.**

The balance of R$ 4,946 denotes the rental of properties rented by Tocantins Part. e Empreendimentos Ltda. to Mateus Supermercados S.A. to carry out its operations under the rental contract. This balance matures contractually in 2020. No interest is charged. The amount recorded as a lease liability is also a balance payable to Tocantins. For further information see Note 18.

**(h) Indústria Blanco Ltda.**

The balance consists of R$ 10,504 for the sale of goods to Armazém Mateus and Mateus Supermercados.

**Compensation of key management personnel of the Company and its subsidiaries**

The group has no Board of Directors and there are therefore no amounts to be presented.
The table below shows the D&O compensation paid:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Short-term D&O compensation | 143 | 404 |
| **Total** | **143** | **404** |

## 19. Provision for risks

The Company and its subsidiaries are party to judicial and administrative proceedings in courts and government agencies, arising from the normal course of operations, involving tax, civil and labor issues. Based on information from its legal advisers, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed for tax claims, Management recorded a provision at June 30, 2020 and December 31, 2019 in an amount considered sufficient to cover the estimated probable losses.

**a)** The provision for contingencies and risks classified as probable losses is as follows:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| Labor, civil and tax | 15,155 | 15,088 |
| **Total** | **15,155** | **15,088** |

See below the change in provisions:

| | Labor | Tax | Civil | Total |
|---|---|---|---|---|
| **Balances at December 31, 2018** | **2,057** | **485** | **380** | **2,922** |
| Change | 9,347 | 1,958 | 861 | 12,166 |
| **Balances at December 31, 2019** | **11,404** | **2,443** | **1,241** | **15,088** |
| Change | 67 | - | - | 67 |
| **Balances at June 30, 2020** | **11,471** | **2,443** | **1,241** | **15,155** |

The Company and its subsidiaries are also party to a number of judicial labor and civil proceedings arising out of the normal course of operations, which the legal advisors have rated as possible and remote defeats. As of June 30, 2020 the proceedings rated as a possible defeat and not therefore provisioned for amount to R$ 10,233 (R$ 7,176 as of December 31, 2019).

The Group's companies are party to a number of administrative and tax proceedings resulting from complaints and assessment notices resulting from tax audits. The main proceedings to which the Group's companies are party are as follows:

- **Labor**

  The Group's companies are primarily party to proceedings relating to labor claims filed through administrative proceedings brought by former employees, government agencies, outsourced employees etc. Most of the cases address working hours, work-related accidents and claims regarding compliance with the labor legislation.

- **Civil**

  The Group is party to proceedings originating from disputes taking place inside stores resulting in material or moral damages for customers.

- **Tax claims**

  The Group is continually party to tax audits resulting in assessment notices for discrepancies and information submitted to the government agencies responsible.

- **Judicial deposits - noncurrent assets**

  The Company and its subsidiaries have judicial deposits relating to tax, labor and civil provisions, which break down as follows:

| | **6/30/2020** | **12/31/2019** |
|---|---|---|
| Labor, civil and tax | 13,300 | 11,912 |
| **Total** | **13,300** | **11,912** |

## 20. Equity

### a) Capital

The paid-in share capital as of June 30, 2020 is R$ 1,863,829, consisting of 1,863,829,195 registered shares worth R$ 1,00 each (R$ 1,144,169 as of December 31, 2019 consisting of 1,144,169 registered shares worth R$ 1,00 each).

| | **6/30/2020** Shares | **%** | **12/31/2019** Shares | **%** |
|---|---|---|---|---|
| Ilson Mateus Rodrigues | 983,148,486 | 52.75 | 621,169,350 | 54.29 |
| Maria Barros Pinheiro | 717,485,181 | 38.49 | 423,571,364 | 37.02 |
| Ilson Mateus Rodrigues Junior | 81,597,764 | 4.38 | 48,169,515 | 4.21 |
| Denílson Pinheiro Rodrigues | 81,597,764 | 4.38 | 48,169,515 | 4.21 |
| Jesuíno Martins Borges Filho | - | | 3,089,256 | 0.26 |
| **Total** | **1,863,829,195** | **100** | **1,144,169,000** | **100** |

**b) Calculating dividends and allocating profit**

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| **Net income for the period/year** | **297,176** | **164,848** |
| ( - ) Formation of legal reserve (5%) | (14,859) | (8,242) |
| **Net income for the period/year after making the legal reserve** | **282,318** | **156,606** |
| Minimum mandatory dividend (25%) | 70,580 | 39,152 |

At the meeting held March 18, 2020 the partners mutually agreed not to pay out the minimum mandatory dividends, instead using them to improve and expand the Group's economic activities.

The bylaws of Armazém Mateus S.A. and Mateus Supermercados S.A. require that 5% of the net income for the year be allocated to the legal reserve, which shall not exceed 20% of the share capital, as determined by Law 6.404/76. The net income for the financial year shall therefore be distributed amongst the shareholders as follows:

**(i)** 25% to the payment of dividends to the shareholders, adjusted in accordance with Law 6.404/76;

**(ii)** The remaining balance shall be allocated as established by the General Meeting.

**c) Advance for future capital increase and capital subscription**

On December 31, 2019 the shareholder Ilson Mateus made the following advances for future capital increases:

**i)** Advance for future capital increase of the Company on June 13, 2019, via the assignment of rights over the shares held by the shareholder Ilson Mateus in Indústria Blanco Ltda., in the amount of R$ 10,256, which reflects the carrying amounts of equity in this investee at the transaction date, as the operation took place between related parties comprising the same economic group and under joint control. Indústria Blanco Ltda. was founded on June 13, 2019, receiving a capital contribution in cash from the shareholder Ilson Mateus in the amount of R$ 10,256.

On June 30, 2020 the shareholder Ilson Mateus made the following advances for future capital increases:

**i)** Advance for future capital increase of the Company on June 30, 2020, via the assignment of rights over the shares held by the shareholder Ilson Mateus in Posterus Supermercados Ltda., in the amount of R$ 66,105, which reflects the carrying amounts of equity in this investee at the transaction date, as the operation took place between related parties comprising the same economic group and under joint control. Posterus Supermercados Ltda. was founded on June 30, 2017.

**ii)** Advance for future capital increase of the Company on June 30, 2020, via the assignment of rights over the shares held by the shareholder Ilson Mateus in Rio Balsas Participações e Empreendimentos Ltda., in the amount of R$ 10,834, which reflects the carrying amounts of equity in this investee at the transaction date, as the operation took place between related parties comprising the same economic group and under joint control. Rio Balsas Participações e Empreendimentos Ltda. was founded on July 09, 2007.

**iii)** By way of its 1st bylaws amendment, on June 30, 2020 the company Indústria Blanco Ltda was no longer a subsidiary of Grupo Mateus S.A, with the reversal of the AFAC (Advance for future capital increase) of R$ 10,256 which reflects the carrying amount of the parent company's equity.

**d) Share change due to acquisition of investees on 6/30/2020**

Changes included to reflect the corporate restructuring of Posterus Supermercados Ltda and Rio Balsas Participações e Empreendimentos Ltda., which as of June 30, 2020 are direct subsidiaries of Grupo Mateus S.A. and as of December 31, 2019 were related parties and their equity balances were added in the combined financial statement.

# 21. Income and social contribution taxes

**a) Breakdown of the deferred income and social contribution taxes**

As of June 30, 2020 and December 31, 2019 the Company did not have any net deferred taxes calculated on non-deductible temporary differences at the combined rate of 34%. The Company opted to make the valuation allowance as there are no prospects of making taxable earnings.

| | **6/30/2020** | **12/31/2019** |
|---|---|---|
| Allowance for loan losses | 30,515 | 22,876 |
| Provisions for nonrealization of inventories | 5,263 | 4,671 |
| Provision for civil and labor risks | 15,155 | 15,088 |
| **Total** | **50,933** | **42,635** |
| Income and social contribution taxes on the temporary fiscal difference (34%) | 17,317 | 14,496 |
| ( - ) Valuation allowance | (17,317) | (14,496) |
| **Total deferred IR and CSSL recorded** | **-** | **-** |

The Company's subsidiaries Armazém Mateus and Mateus Supermercados have qualified for tax incentives in their operations, where these incentives are being excluded from income and social contribution taxes in the respective financial years these incentives are recognized in. In line with supplementary law 160 enacted August 07, 2017, all tax incentives and benefits are now classified as investment subsidies, and taxation thereof is deferred until these amounts have been distributed to the Company’s shareholders. For further information see Note 25.

At the subsidiaries Armazém Mateus and Supermercados Mateus these incentives generated profits of R$ 2,655,295 in the period 2013 to June 30, 2020. Distributing these amounts would generate income and social contribution taxes payable of approximately R$ 902,800. The Company does not expect to pay out these amounts and no deferred income tax liability was therefore recognized in its financial statements.

As of December 31, 2019 the subsidiary Armazém Mateus has a tax loss and negative basis of social contribution of R$ 937,441, on which Management opted not to record deferred income and social contribution taxes as there was no prospect of recording sufficient future taxable earnings to realize the asset, because the tax subsidy was greater than past taxable earnings.

**b) Reconciliation between the income and social contribution tax expense**

The income tax and social contribution amounts presented in profit or loss are reconciled to their standard rates as follows:

| | 6/30/2020 | 6/30/2019 |
|---|---|---|
| **Profit before income and social contribution taxes** | **297,176** | **164,848** |
| Income and social contribution taxes at the rate of 34% | (101,039) | (56,048) |
| Temporary and permanent differences: | | |
| Tax subsidy | 101,039 | 56,048 |
| **Total IR and CSLL on profit** | **-** | **-** |
| Current income and social contribution tax | - | - |
| Deferred income and social contribution taxes | - | - |
| **Total income tax and social contribution revenue** | **-** | **-** |

## 22. Net sales revenue

| | 6/30/2020 | 6/30/2019 |
|---|---|---|
| Resale goods | 6,148,162 | 4,700,334 |
| Services rendered | 9,968 | 6,832 |
| | | |
| **( - ) Deductions from revenue:** | | |
| ICMS | (541,503) | (400,545) |
| Cofins | (313,108) | (243,272) |
| PIS | (67,679) | (52,684) |
| ISS | (676) | (383) |
| Returns and bonuses | (111,123) | (76,310) |
| **Total** | **5,124,041** | **3,933,972** |

Sales taxes primarily consist of ICMS (rate of 0% to 30%), PIS (rate of 0% to 1.65%) and Cofins (rate of 0% to 7.6%).

## 23. Expenses by nature

### Cost of goods sold

The costs of goods sold consists of the cost of acquisitions net of discounts and commercial agreements received from suppliers, inventory changes and logistics costs.
The Commercial Agreement received from suppliers is measured based on the contracts and agreements between the parties. The costs of sales includes the cost of logistical operations administered or outsourced by the Company and its subsidiaries, consisting of storage, handling and freight costs incurred until the goods have been made available for sale. The transportation costs are included in the acquisition costs.

### Sales expenses

Sales expenses consist of all expenses incurred by stores, such as wages, marketing, rental, maintenance, credit card administrator expenses etc. Marketing expenses consist of advertising campaigns for each segment Grupo Mateus operates in.
The main means of communication used by Grupo Mateus are: radio, television, newspapers and magazines, and the commercial agreement amounts are recognized in profit or loss for the year upon realization.

### General and administrative expenses

General and administrative expenses consist of indirect expenses and the cost of corporate units, including purchases and supplies, information technology and financial activities.

| | 6/30/2020 | 6/30/2019 |
|---|---|---|
| Resale cost | (4,044,540) | (3,128,134) |
| Bonuses and proceeds | 217,967 | 223,357 |
| Personnel expenses | (462,173) | (372,906) |
| Labor claim settlements | (533) | (1,393) |
| Depreciation and amortization | (53,582) | (41,382) |
| Lease depreciation | (45,702) | (27,745) |
| Water, electricity and telephone | (47,507) | (3,442) |
| Freight and transportation | (61,920) | (40,809) |
| Consumables | (33,702) | (31,798) |
| Services rendered | (69,020) | (61,402) |
| Taxes | (4,673) | (5,295) |
| Insurance | (3,689) | (716) |
| Travel and training | (15,936) | (29,728) |
| Rent and maintenance charges | (40,472) | (83,293) |
| Maintenance | (15,887) | (20,401) |
| Advertising and marketing | (8,347) | (9,545) |
| General expenses | (55,104) | (56,400) |
| **Total** | **(4,744,820)** | **(3,691,032)** |
| | | |
| Cost of services provided and goods sold | (3,826,573) | (2,900,259) |
| Commercial, administrative and general expenses | (918,247) | (790,773) |
| **Total** | **(4,744,820)** | **(3,691,032)** |

## 24. Finance income

| | 6/30/2020 | 6/30/2019 |
|---|---|---|
| **Financial revenue** | | |
| Interest on payables received | 15,862 | 17,520 |
| Negative goodwill on tax credit rights | - | 15,011 |
| Interest on short-term investments | 972 | 2,400 |
| Exchange variance | - | 2,834 |
| Financial discounts obtained | 2,140 | 1,675 |
| Other financial revenue | 16,436 | 9,248 |
| **Total financial revenue** | **35,410** | **48,688** |
| | | |
| **Finance costs** | | |
| Tax on Financial Transactions (IOF) | (2) | (146) |
| Interest of loans, financing and debentures | (31,413) | (31,950) |
| Interest paid | (3,276) | (3,929) |
| Financing interest | (105) | (288) |
| Finance lease expenses | (17,401) | (10,787) |
| Bank expenses | (15,650) | (7,701) |
| Financial loss | (1,415) | (6,643) |
| Monetary variance losses | (6,814) | (3,156) |
| Other financial expenses | (5) | - |
| Credit card percentage | (37,666) | (29,738) |
| Discounts awarded | (3,464) | (8,625) |
| **Total financial expenses** | **(117,211)** | **(102,963)** |
| | | |
| **Total financial income** | **(81,801)** | **(54,275)** |

## 25. Government grants

The subsidiary Armazém Mateus S.A. benefited from the Special Arrangement Agreement - ICMS under decree 19.714/2014 issued by Sefaz - MA.

The benefit consists of using the presumed credit on the reduction of the ICMS calculation base, which results in 2% of the full amount of tax owed to Maranhão state in internal and interstate sales operations.

In the financial year ended June 30, 2020 the subsidiary was entitled to state subsidies of R$ 316,526 (December 31, 2019: R$ 448,167).

Government grants shall be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate, providing the conditions of CPC 07 are met. A government grant may not be credited directly to shareholders' equity.

Arguments in support of the income approach are as follows:

- **(a)** Because government grants are receipts from a source other than shareholders, they should not be recognized directly in equity but should be recognized in profit or loss in appropriate periods.
- **(b)** Government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognized in profit or loss over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.

**(c)** As is the case for tax which are expensed in profit or loss, it is logical to record government grants, which are an extension of fiscal policies, as revenue in profit or loss.

## 26. Financial instruments

**a) Policies and categories of financial instruments**

The Company understands that financial instruments recognized in the financial statements at carrying amount are substantially similar to those that would be obtained if they were traded in the market, and Management understands that the amounts recorded approximate fair value. The assets and liabilities presented in this note were selected because of their materiality.

Management considered that the likeliest scenario at the maturity of each operation was the B3 market curves (currency and interest). The probable scenario **(i)** therefore has no impact on the fair value of the financial instruments. For the sole purpose of the sensitivity analysis, scenarios **(ii)** and **(iii)** factored in a deterioration of 25% and 50% respectively in the financial instruments' risk variables, in accordance with the rules published by the CVM, for a time frame of up to one year. The Company disclosed the net exposure of derivative financial instruments, the corresponding financial instruments and certain financial instruments in the sensitivity analysis table below, for each of these scenarios.

The Company's main financial instruments have been classified as follows:

| | 6/30/2020 | 12/31/2019 |
|---|---|---|
| **Financial assets at amortized cost** | | |
| Cash and cash equivalents | 944,126 | 406,905 |
| Accounts receivable | 964,031 | 804,165 |
| Related-party transactions | 48,406 | 70,740 |
| Short-term investments | 14,603 | 14,608 |
| **Total** | **1,971,166** | **1,296,418** |
| | | |
| **Financial liabilities carried at amortized cost** | | |
| Borrowings and financing | 712,763 | 404,341 |
| Debentures | 488,790 | 504,109 |
| Related-party transactions | 86,479 | 97,980 |
| Trade payables | 694,082 | 553,543 |
| **Total** | **1,982,114** | **1,559,973** |

**b) Financial risk factors**

The Company's activities expose it to financial and regulatory risks. The Company's risk management policy considers the unpredictability of the financial markets and seeks to mitigate the potential adverse effects on the Company's financial performance. In the financial year ended June 30, 2020 the Company did not enter into contracts that could be considered derivative instruments.

Risk management is carried out by the Company's treasury, according to policies approved by the executive board. The Company's financial sector detects, assesses and hedges the Company against any financial risks. The Executive Board lays down principles for global risk management and for the specific practices.

**i) Market risk**

This risk stems from the possibility of the Company suffering losses due to variations to the interest rates, which increase financial expenses on loans and financing obtained in the market.

**ii) Credit risk**

The risk arises from the possibility of the Company incurring losses as a result of the assets chosen to comprise its investment portfolio, the financial capacity of counterparties in derivatives contracts and difficulties to receive proceeds from sales and nonperformance of obligations to deliver goods or services paid through advances to suppliers.

Credit risk arises from cash and cash equivalents, deposits at banks and other financial institutions, as well as credit exposures, including outstanding receivables.

**iii) Risk of early maturity of loans and financing**

Risk posed by nonperformance of covenants in the Company's debenture agreement, which are mentioned in Note 14.

**iv) Liquidity risk**

Liquidity risk is the risk that the Company may not have sufficient cash resources available to settle its obligations due to realization / settlement terms of rights and obligations. Future receipt and payment premises are established to administrate cash liquidity, which are directly monitored by the Treasury Department. The table below presents an analysis of the Company's financial liabilities by age range, for the remaining period in the statement of financial position until the contractual maturity date. The amounts shown in the table are the non-discounted cash flows contracted.

| | Less than one year | Between one and two years | Between three and five years | Over five years |
|---|---|---|---|---|
| **At June 30, 2020** | | | | |
| Borrowings and financing | 99,061 | 282,774 | 111,793 | 23,010 |
| Debentures | 49,590 | 184,871 | 157,834 | 66,611 |
| Trade payables | 693,170 | 518 | 183 | 211 |
| Related-party transactions | - | 86,479 | - | - |
| **At December 31, 2019** | | | | |
| Borrowings and financing | 159,759 | 147,150 | 75,841 | 13,354 |
| Debentures | 30,503 | 158,348 | 248,649 | 66,609 |
| Trade payables | 549,467 | 1,382 | 28 | 398 |
| Related-party transactions | - | 106,364 | - | - |
| **At December 31, 2018** | | | | |
| Borrowings and financing | 183,830 | 168,762 | 78,867 | 30,042 |
| Debentures | 37,264 | 110,575 | 92,870 | 90,278 |
| Trade payables | 488,861 | 208,796 | 572 | 2,252 |
| Related-party transactions | - | 111,479 | - | - |
| **At December 31, 2017** | | | | |
| Borrowings and financing | 108,948 | 120,496 | 73,610 | 56,760 |
| Debentures | 40,490 | 92,482 | 75,750 | 32,917 |
| Trade payables | 503,626 | 90,084 | 1 | 140 |
| Related-party transactions | - | 115,168 | - | - |

## c) Capital management

The Company manages its capital with a view to safeguarding its future as a going concern and to yield returns for shareholders and benefits for other stakeholders, in addition to maintaining an ideal capital structure, which can further optimize cost.

In order to maintain or adjust the Company's capital structure, Management can, or propose to, in cases where shareholder approval is required, revise the dividend payment policy, return capital to shareholders or even issue new shares or sell assets to reduce debt levels, for example.

### i) Debt index

In line with other companies in the sector, the Company monitors capital based on the financial leverage index. This index denotes the net debt stated as a percentage of total capital. Net debt, in turn, corresponds to total loans (including short- and long-term loans, as demonstrated in the balance sheet), less cash and cash equivalents and short-term investments. Total capital is calculated by adding the shareholders' equity, as demonstrated in the consolidated statement of financial position, to net debt.

The debt ratio at the end of the period ended June 30, 2020 and financial year ended December 31, 2019 is as follows:

| | **6/30/2020** | **12/31/2019** |
|---|---|---|
| Debt | 1,201,553 | 908,450 |
| Cash and cash equivalents | (944,126) | (406,905) |
| Securities | (14,603) | (14,608) |
| Net debt | 242,824 | 486,397 |
| Equity | 2,316,159 | 1,991,939 |
| Net debt index | 0.10 | 0.24 |

## d) Interest rate risk

### i) Sensitivity analysis for interest rate exposure

The interest rate risk is the risk that the fair value of the future cash flows of a financial investment fluctuates due to changes in market interest rates.
The Company is exposed to interest rates on its short-term investments, cash and cash equivalents and securities denominated in the CDI rate and loans and financing denominated in the TJLP rate. Sensitivity analyses were conducted in relation to possible changes in these interest rates.

At the end of the reported year, Management estimated scenarios of changes in the CDI and TJLP rates. The current scenario used the rates in force at the end of the reported period and the probable scenarios used rates according to market expectations.

These rates were subject to an increase and decrease of 25% and 50%, and served as a parameter for the sensitivity tests of adverse scenarios, as shown below.

Projected simulation of the CDI and TJLP rates, as shown below:

| | Current scenario | Scenario I (-50%) | Scenario II (-25%) | Probable scenario | Scenario III (+25%) | Scenario IV (+50%) |
|---|---|---|---|---|---|---|
| **Balance of short-term investments (cash equivalents)** | **716,574** | **722,952** | **726,176** | **729,329** | **732,554** | **735,707** |
| Average rate (% of CDI) | | 100% | 100% | 100% | 100% | 100% |
| Projected CDI | | 0.89% | 1.34% | 1.78% | 2.23% | 2.67% |
| | | | | | | |
| **Balance of short-term investments** | **14,603** | **14,733** | **14,799** | **14,863** | **14,929** | **14,993** |
| Average rate (% of CDI) | | 100% | 100% | 100% | 100% | 100% |
| Projected CDI | | 0.89% | 1.34% | 1.78% | 2.23% | 2.67% |
| | | | | | | |
| **Balance of Financing for Investment in Machinery and Equipment - FINAME (BNDES)** | **93,957** | **102,141** | **103,287** | **104,443** | **105,598** | **106,754** |
| Interest on financing (TJLP + 6.25%) | | 8.71% | 9.93% | 11.16% | 12.39% | 13.62% |
| Projected TJLP | | 2.46% | 3.68% | 4.91% | 6.14% | 7.37% |
| | | | | | | |
| **Balance of working capital loans** | **546,441** | **642,396** | **649,063** | **655,784** | **662,505** | **669,226** |
| Interest on loans (TJLP + 15.10%) | | 17.56% | 18.78% | 20.01% | 21.24% | 22.47% |
| Projected TJLP | | 2.46% | 3.68% | 4.91% | 6.14% | 7.37% |
| | | | | | | |
| **Leasing balance** | **72,365** | **75,166** | **76,048** | **76,938** | **77,829** | **78,719** |
| Interest on leasing (TJLP + 1.41%) | | 3.87% | 5.09% | 6.32% | 7.55% | 8.78% |
| Projected TJLP | | 2.46% | 3.68% | 4.91% | 6.14% | 7.37% |
| | | | | | | |
| **Balance of debentures** | **488,790** | **510,932** | **516,895** | **522,908** | **528,920** | **534,932** |
| Interest on debentures (TJLP + 2.07%) | | 4.53% | 5.75% | 6.98% | 8.21% | 9.44% |
| Projected TJLP | | 2.46% | 3.68% | 4.91% | 6.14% | 7.37% |

**ii) Fair value hierarchy of financial instruments**

The fair value hierarchy levels 1 to 3 were based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those resulting from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are obtained from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and
- Level 3 fair value measurements are inputs obtained through appraisal techniques that include information about the asset or liability that is not based on observable market data (unobservable information).

The carrying amounts as of June 30, 2020 of the financial instruments for the Company's assets and liabilities approximate their market values and have been duly presented. The effects of gains and losses are recognized in profit or loss as they are measured and incurred. The financial instruments presented in these financial statements were classified as level 3 in the fair value hierarchy.

The Company does not invest in financial derivatives.

## 27. Earnings (loss) per share

**a) Accounting policy**

The Company has two methods for calculating earnings per share: **(i)** basic earnings (loss); and **(ii)** diluted earnings (loss). Basic earnings (loss) per share is calculated based on the weighted average number of shares in the free float in the year, except for shares issued to pay dividends and treasury stock. Diluted earnings (loss) takes into account the weighted average number of shares in the free float in the year, shareholder interests in future years, such as stock options which if exercised by their holders would increase the number of the Company’s common and/or preferred shares, diminishing the profits per share.

**b) Table of earnings per share**

The table below presents the net profit (loss) determined for shareholders and the weighted average of shares in the free float used to calculate the basic and diluted profit (loss) per share, excluding shares bought by the Company and held as treasury stock in each year presented.

To calculate net earnings per share we use the current composition of common shares for the comparative period, as required by CPC 41 - Earnings per Share, maintaining the basic and diluted denominator in comparative bases.

| | **6/30/2020** | **12/31/2019** |
|---|---|---|
| **Net income attributable to Company shareholders** | **297,153** | **164,848** |
| Weighted average number of common shares (free float) | 1,863,829 | 911,201 |
| **Basic net income per share - R$** | **0.15** | **0.18** |

## 28. Insurance

The Company and its subsidiaries have a risk management program in order to detect risks and seek insurance coverage consistent with its size and operations.
The related parties Armazém Mateus and Mateus Supermercados have taken out insurance policies in amounts below considered sufficient to cover claims determined based on the nature of our business, the risks involved in our operations and the advice of our insurance advisors.

| Type of insurance | Insured amount | Award | Term |
|---|---|---|---|
| Operational risk | 841,711 | 4,112 | December 2, 2022 |

## 29. Transactions not affecting cash

| | Combined | |
|---|---|---|
| | 6/30/2020 | 12/31/2019 |
| Initial recognition - right-of-use assets | - | 380,810 |

## 30. Subsequent Events

**Contract of general terms for submitting collateral**

On September 16, 2020 the investees Mateus Supermercado S.A and Armazém Mateus S.A. signed a contract regarding the general terms for collateral submission with the company Tocantins Participações e Empreendimentos Ltda, which regulated the terms and conditions for both parties to submit collateral, in order to perform any and all obligations (including all bonuses, interest, fines, fees, taxes, charges and other expenses) undertaken by the parties to the creditors (“Secured Obligations”). It is hereby agreed that the parties undertake to determine the total outstanding balance of the Obligations Secured by each Party and any difference determined will incur a fee at the rate of 1% (one percent) per annum, as consideration for the secured obligations. The fee should be reviewed annually and adjusted as necessary to reflect the rates usually used by the market for this type of operation. The fee is due until the Secured Obligations have not been fully settled or as long as the Guarantor Party is still a guarantor of the respective Secured Obligations.

## 31. Authorization to issue the financial statements

Authorization for the issuance of these financial statements was given by the Company's Executive Board on September 17, 2020.

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