Listed company

Brazilian Corporate Tax Number (CNPJ/MF): 89.850.341/0001-60

NIRE: 23300021118-CE

Report of Management 2019

BOARD OF DIRECTORS

Alexandre Grendene Bartelle
Chair of the Board of Directors

Pedro Grendene Bartelle
Vice-Chair of the Board of Directors

Members of the Board of Directors
Maílson Ferreira da Nóbrega
Oswaldo de Assis Filho
Renato Ochman
Walter Janssen Neto

AUDIT BOARD

João Carlos Sfreddo
Chair of the Audit Board

Members of the Audit Board
Eduardo Cozza Magrisso
Herculano Aníbal Alves

THE EXECUTIVE BOARD

Rudimar Dall' Onder
Chief Executive Officer and
Chief Administrative and Financial Officer

Gelson Luis Rostirolla
Deputy CEO

Luiz Antônio Moroni
Chief Investor Relations Officer

Luiz Carlos Schneider
Accountant – CRC/CE – SEC – 70.520/O-5

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REPORT OF MANAGEMENT FOR 2019

In accordance with the provisions of law and the Company's Bylaws, the management of Grendene S.A. presents to you, below, the Report of Management and the Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and also based on accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM). The Company has adopted all the rules, revisions of rules and interpretations issued by IASB which are in effect for financial statements at December 31, 2019.

I. Message from Management

Grendene's performance in 2019 was lower than our expectations. Performance in the first half of 2019 was well below Grendene's historic average, and we have commented on the reasons in our quarterly media releases. In the second half we improved our performance, but the result was still lower than we expected.

In response to this new situation, we have sought to strengthen our relationship with the trade, adjust our sales policy, and the portfolio: increasing new archetypes, and expanding our area of operation in exports, contracting new distributors and replacing those that had showed weak performance.

In further execution of the strategy, the Online Business management unit began the process of selection of highly reputed professionals in this area, and also development of an Innovation Laboratory focused on access to the consumer.

We continued with our project of expansion of franchises of ***Clube Melissa*** outside Brazil. We now have 10 of these 'Clubs' operating (in Serbia, Singapore, Thailand, Indonesia, Argentina and Croatia) – and a further 10 stores should be operating by the end of the first half of 2020. As well as these spaces, we will inaugurate five company-owned Melissa stores in the United States, in 2020. In Brazil, the ***Clube Melissa*** project continues to make progress: We now have 336 Clubs – at the end of 2019 – of which 18 are '*Mini-Clubes*' – our new format to serve the children's market. This means an addition to the network of 25 new stores in the year – an increase of 8% in the brand's selling area. We now have the following exclusive stores outside Brazil: 141 ***Melissa*** stores, 164 single-brand stores (***Ipanema, Rider*** or ***Zaxy***), and 441 Grendene multi-brand stores – a total of 746 stores.

We have also made progress with the *Omnichannel* project in the ***Melissa*** brand, which was begun in the first half of 2019: the 21 '*Melissa Clubs*' are now able to serve the public in an integrated manner in three modes of operation: 'endless aisles', 'store pickup' or 'express delivery'. We expect integration of all the *Clubes Melissa* into the Omnichannel model in March 2020.

In the sphere of sustainability, we earned the *Vegan* and *Biobased* seals in 2019. All Grendene's footwear is registered with the *Vegan Society* (headquartered in the UK). The Seal provides worldwide recognition that Grendene footwear does not contain any component of animal origin, and that we do not carry out any tests on animals. The **Biobased** Seal certifies that products of the ***Ipanema*** brand contain between 20% and 40% of material of renewable origin. This certification is carried out by TUV, a certification agency based in Austria, recognized worldwide.

These seals underline the Company's commitment to sustainability: It is worth remembering that all our products are made with reusable materials and are 100% recyclable, non-toxic and free of any substances that are hazardous or could cause allergy.

In our view, these actions strengthen us and position us to make the most of opportunities for growth and increase of margins, when levels of production and capacity utilization return to the levels we have reached in the past.

It is also worth noting that these efforts are not momentary phenomena, but are part of our business model, in line with the fact that our actions to resume growth have begun to show signs of improvement.

In 2019, even with the lower revenue, Grendene reports net profit for the year of R$ 495 million, representing a return on equity of 15% in the full year. Of this amount, the Company proposes to distribute R$ 276 million in dividends and Interest on Equity, reinvesting the remaining amount in the Company. The book value per share has grown by 6% in the year, from R$ 3.84 to R$ 4.08. Since Grendene's stock was listed in October 2004, the Company has reinvested R$ 3.0 billion, incorporated into equity, and increased its annual profit by R$ 290 million; and in this period (including the proposed amounts for 2019) has distributed an aggregate R$ 3.4 billion to stockholders as dividends and Interest on Equity.

With utilization of only 60% of our installed production capacity of approximately 250 million pairs per year, pressures on costs arose from idle capacity, causing a reduction in all margins. Even with these difficulties we have not sacrificed the future in exchange for short-term results – we have invested approximately R$ 55 million in technological innovation and development; and R$ 123 million in building our brands via advertising, and marketing actions – all these are recorded in the accounts as expenses in 2019.

Seasonally, the second half of the year usually has stronger results, and the figures we present for the second half of 2019 show the improvement in the scenario – but this year this has not been enough to offset the weak result of the first half of 2019, which was one of the weakest in the Company's history.

Operational cash flow in 2019 was R$ 426.8 mn. The proposed dividends represent a dividend payout (defined as {sum of dividends and Interest on Equity} divided by {profit after the legally required reserves}) of 53.9%, and a dividend yield of 3.3%.

A look at a longer period (table, below) shows that management has generated value for stockholders, providing a significant return on equity (in this table all amounts are from the formal accounting, without any adjustment):

(R$ $ '000)	Initial Stockholders' equity[1]	Net profit	Dividends	Reinvestment	Return on equity	Stockholders' equity at end of period[1]
2004	692,726	204,865	64,152	140,713	29.6%	733,566
2005	733,566	200,116	81,181	118,935	27.3%	847,373
2006	847,373	257,343	128,261	129,082	30.4%	998,510
2007	998,510	260,508	119,724	140,784	26.1%	1,132,718
2008	1,132,718	239,367	109,000	130,367	21.1%	1,274,080
2009	1,274,080	272,211	110,000	162,211	21.4%	1,430,569
2010	1,430,569	312,399	121,738	190,661	21.8%	1,624,542
2011	1,624,542	305,446	219,526	85,920	18.8%	1,713,743
2012	1,713,743	429,003	293,503	135,500	25.0%	1,848,309
2013	1,848,309	433,540	300,057	133,483	23.5%	1,957,295
2014	1,957,295	490,244	220,814	269,430	25.0%	2,232,649
2015	2,232,649	551,223	275,925	275,298	24.7%	2,520,866
2016	2,520,866	634,492	351,383	283,109	25.2%	2,792,976
2017	2,792,976	660,929	377,773	283,156	23.7%	3,087,479
2018	3,087,479	585,530	315,076	270,454	19.0%	3,341,108
2019	3,341,108	494,954	275,699	219,255	14.8%	3,569,195

1) Stockholders' equity adjusted by exclusion of the balance of corporate action payments payable in the future.

In this period (2004-2019), the Company's stockholders' equity increased from R$ 693 million to R$ 3.6 billion, with an average return of 23.1%, and in the same period the Company paid R$ 3.4 billion in dividends.

Also in this period, the value of Grendene's shares (adjusted for changes in the number of shares) increased from R$ 3.44 to R$ 12.28 – and the Company's market valuation increased from R$ 3.1 billion, to R$ 11.1 billion on December 31, 2019.

To achieve these results, we highlight our skill in building strong brands that have a privileged relationship with clients, and developing solid relationships with the distribution channels through a long term process with cumulative effects. In the last 16 years, among many other efforts, we have invested approximately

R$ 2 billion in advertising, as a means of consolidating construction of value, and in coming years we will seek this approximation with Grendene's final clients with even more vigor. We believe that understanding of the client's needs is a fundamental factor for the success of our business model.

All these actions are coherent with our Values, which highlight precisely the aspects for which we have received reiterated public recognition: profitability, competitiveness, innovation, agility, and ethics.

Finally, an essential tribute: In these 49 years we have never lacked the decisive support and trust of suppliers, clients, partners, stockholders – and especially our thousands of employees, who are dedicated and committed to our business vision and values.

We thank you all !

The Management

II. Main consolidated indicators (IFRS)

R$ mn	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
Gross revenue from sales	2,720.3	2,631.8	2,483.0	2,727.7	2,825.0	2,513.3	(11.0%)	(1.6%)
Domestic market	2,077.7	1,899.8	1,870.3	2,106.6	2,168.0	1,979.5	(8.7%)	(1.0%)
Exports	642.6	732.0	612.7	621.1	657.0	533.8	(18.8%)	(3.6%)
Net revenue	2,233.3	2,202.8	2,045.1	2,252.0	2,333.4	2,071.0	(11.2%)	(1.5%)
Cost of goods sold	(1,207.4)	(1,134.9)	(1,048.6)	(1,151.2)	(1,227.3)	1,126.5	(8.2%)	(1.4%)
Gross profit	1,025.9	1,067.9	996.5	1,100.8	1,106.1	944.5	(14.6%)	(1.6%)
Operational expenses	(636.5)	(667.2)	(596.9)	(635.2)	(649.2)	(590.9)	(9.0%)	(1.5%)
Ebit	389.4	400.7	399.6	465.6	457.0	353.5	(22.6%)	(1.9%)
Ebitda	436.9	454.4	457.5	526.2	522.7	430.8	(17.6%)	(0.3%)
Net financial revenue	135.5	182.3	268.5	238.5	158.9	178.1	12.1%	5.6%
Net profit	490.2	551.2	634.5	660.9	585.5	495.0	(15,5%)	0.2%
Capex (PP&E + Intangible)	119.1	73.2	71.5	107.5	72.3	52.4	(27.4%)	(15,5%)
Stockholders' equity	2,327.9	2,616.8	2,922.1	3,217.6	3,465.0	3,682.4	6.3%	9.7%

R$ per pair	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
Gross revenue per pair, R$	13.27	14.58	15.18	15.92	16.33	16.66	2.0%	4.7%
Domestic market	13.60	14.12	15.13	16.67	16.36	16.50	0.9%	3.9%
Exports	12.29	15.91	15.33	13.81	16.22	17.30	6.7%	7.1%
Exports (in US$)	5.22	4.78	4.39	4.33	4.44	4.39	(1.1%)	(3.4%)
Cost of goods sold	5.89	6.29	6.41	6.71	7.09	7.47	5.4%	4.9%

R$	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
Basic profit per share	0.5443	0.6114	0.7034	0.7328	0.6501	0.5489	(15.6%)	0.2%
Diluted profit per share	0.5431	0.6102	0.7019	0.7306	0.6483	0.5480	(15.5%)	0.2%
Dividend per share	0.2450	0.3059	0.3895	0.4188	0.3494	0.3057	(12.5%)	4.5%

Millions of pairs	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
Volumes	204.9	180.4	163.6	171.4	173.0	150.9	(12.8%)	(5.9%)
Domestic market	152.7	134.5	123.6	126.4	132.5	120.0	(9.4%)	(4.7%)
Exports	52.2	45.9	40.0	45.0	40.5	30.9	(23.8%)	(10.0%)

Margins. %	2014	2015	2016	2017	2018	2019	Change. p.p.[2]. 2018–2019	Change. p.p.[2]. 2014–2019
Gross	45.9%	48.5%	48.7%	48.9%	47.4%	45.6%	(1.8 p.p.)	(0.3 p.p.)
Ebit	17.4%	18.2%	19.5%	20.7%	19.6%	17.1%	(2.5 p.p.)	(0. 3 p.p.)
Ebitda	19.6%	20.6%	22.4%	23.4%	22.4%	20.8%	(1.6 p.p.)	1.2 p.p.
Net	22.0%	25.0%	31.0%	29.3%	25.1%	23.9%	(1.2 p.p.)	1.9 p.p.

R$	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
Dollar at end of period	2.6562	3.9048	3.2591	3.3080	3.8748	4.0307	4.0%	8.7%
Average US dollar	2.3536	3.3315	3.4901	3.1920	3.6545	3.9451	8.0%	10.9%

Liquidity	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR[1] 2014–19
General liquidity ratio	6.3	6.0	8.4	8.6	8.5	9.1	7.1%	7.6%
Current liquidity ratio	6.8	5.4	9.1	8.8	8.0	8.9	11.3%	5.5%
Quick ratio	6.0	4.6	8.1	8.0	7.2	8.0	11.1%	5.9%

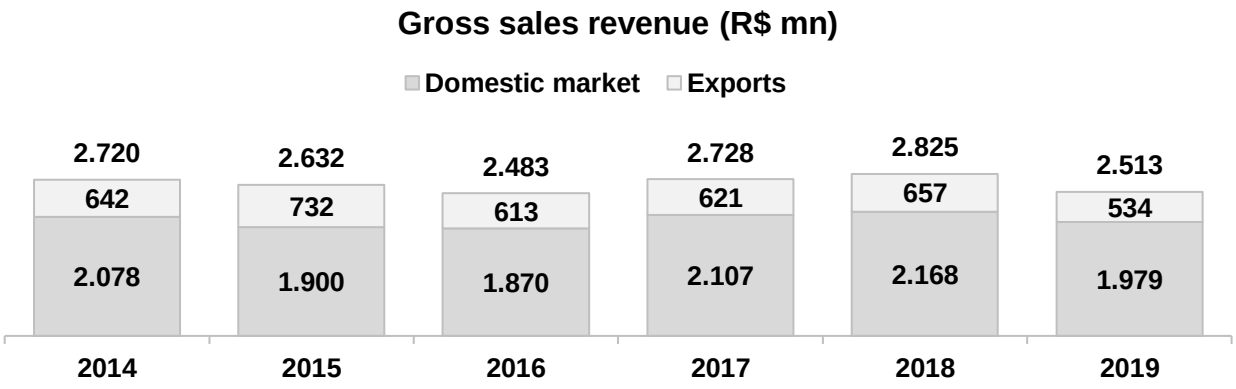
1) *CAGR = Compound annual growth rate.*
2) *p.p. = percentage points*

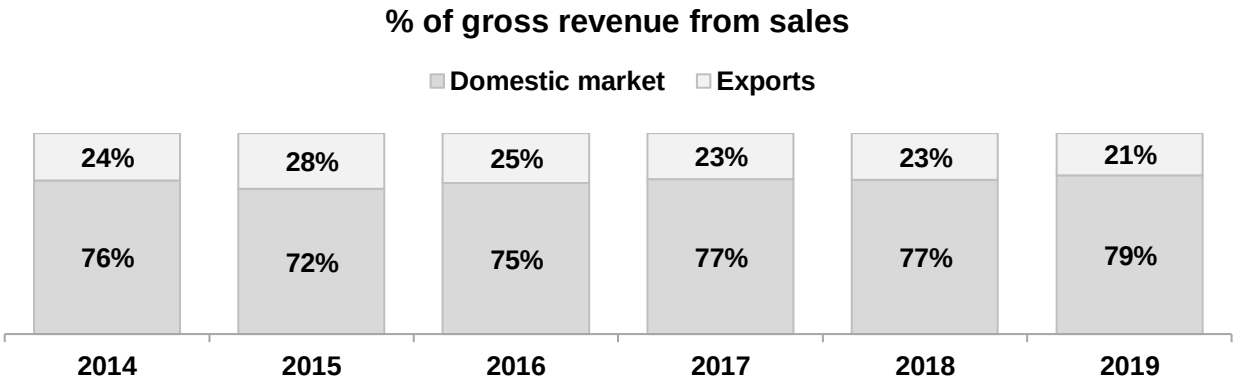
III. Financial results

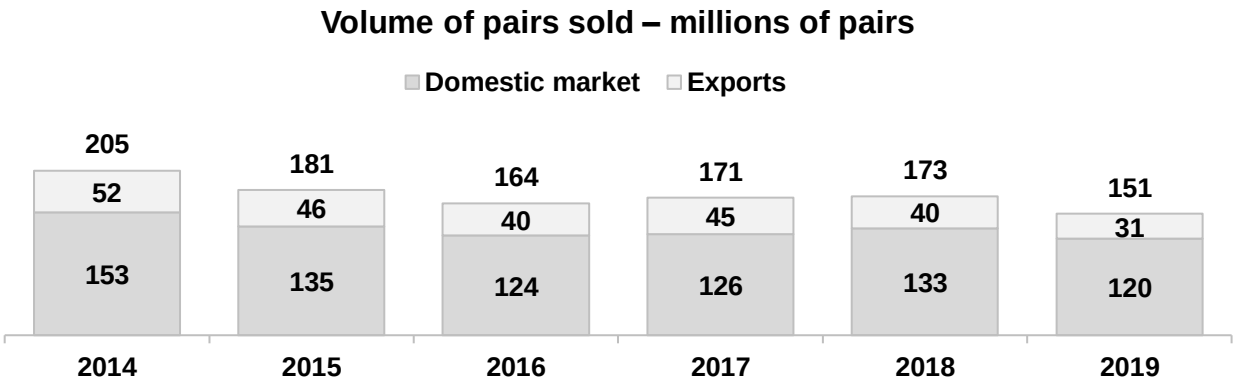
1. Gross revenue from sales

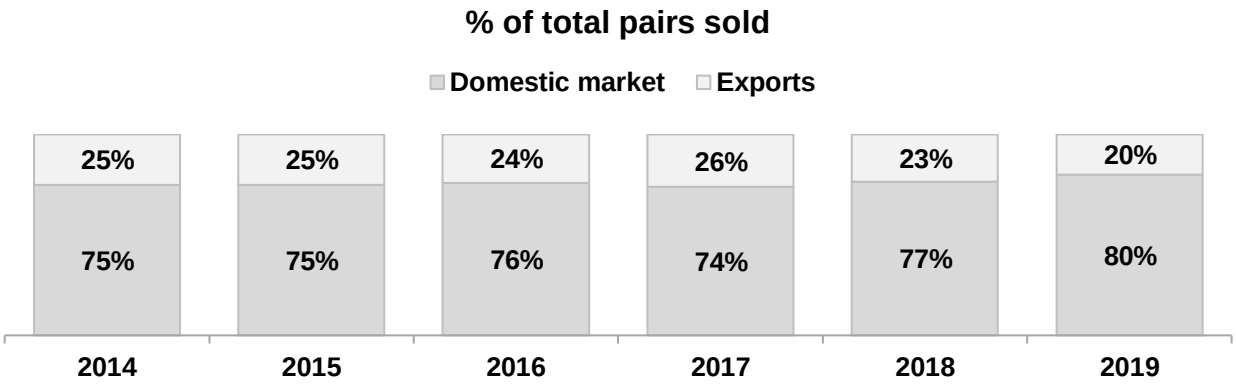
The weak performance of gross revenue in 2019 (down 11% year-on-year) reflects: gross revenue in the domestic market 8.7% lower, and gross revenue from exports 18.8% lower. In the domestic market, we also saw that the reduction was close to 10% for all the segments we operate in, and as a result of the adverse situation we experienced in 1H19, in our assessment we conclude that have lost market share. In exports, we were already expecting a difficult year due to the international economic scenario, where several barriers to imports, and bureaucratic bottlenecks, persist. In this market the most significant reduction was in South America (40% lower).

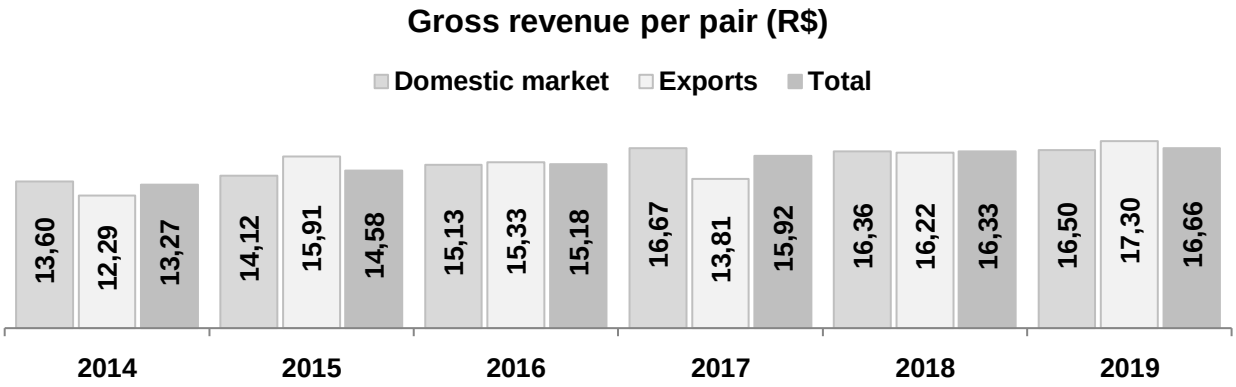
These charts give a clearer picture of the numbers:







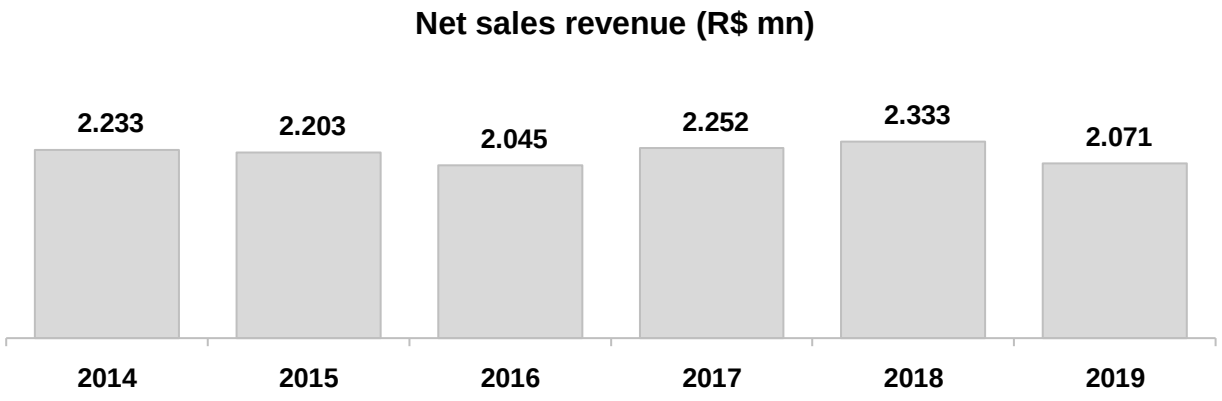




According to data from the Trade Ministry, the External Department of the Central Bank, and the Brazilian Footwear Manufacturers' Association Abicalçados, Brazilian footwear exports were 0.9% lower in dollars in 2019 than 2018, and 1.9% lower in dollars in price per pair exported, with total volume of pairs sold 0.9% higher. In comparison, Grendene's export revenue in dollars was 24.7% lower, its average price in dollars was 1.1% lower, and its number of pairs exported was 23.8% lower.

Our share in Brazilian footwear exports in 2019 was 26.9%.

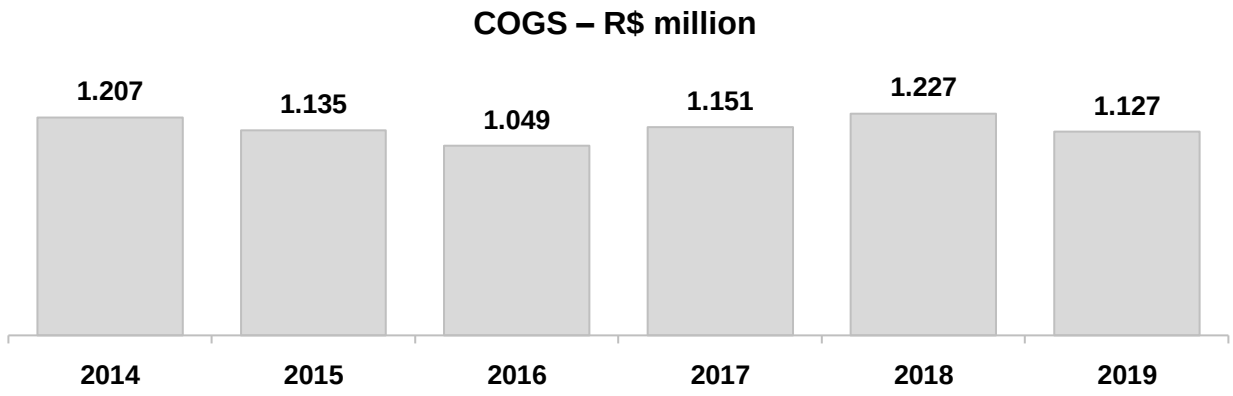
2. Net sales revenue

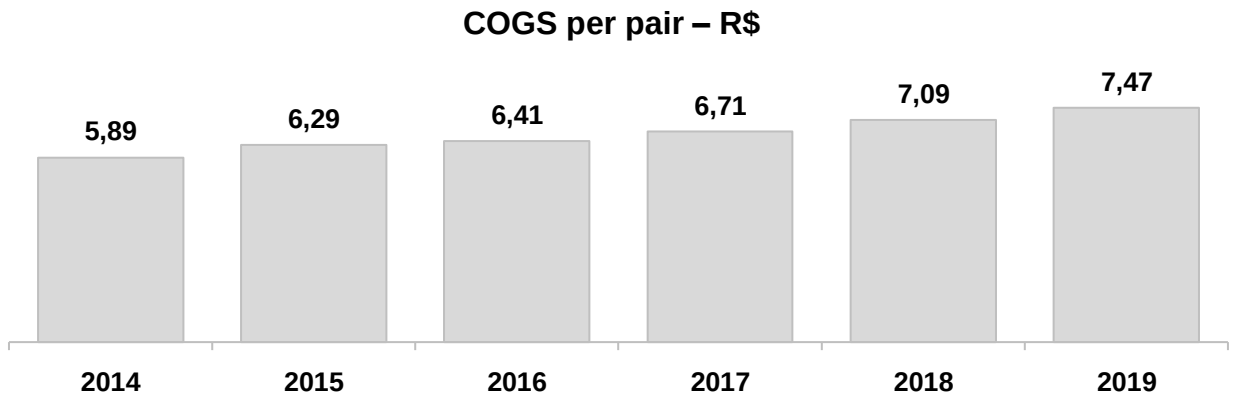


3. Cost of goods sold/pair

COGS was negatively affected in 2019 by expenditure of R$ 10 million on adaptation of the structure to a new situation of lower volumes. Total cost was 8.2% lower, a much smaller reduction than the reduction in revenue and in volume of pairs. This reflects the dilution of fixed costs on this lower volume, and the effect of the mix. The combination of these effects increased cost per pair by 5.4%.

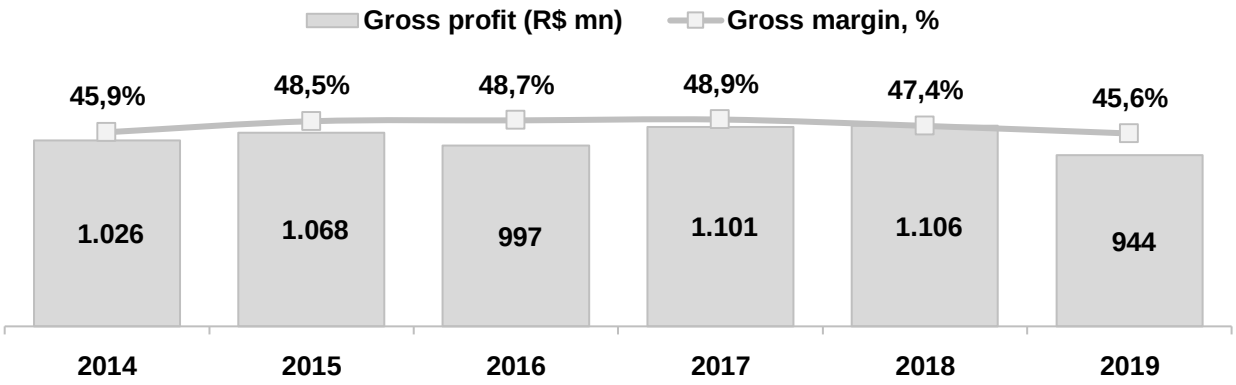
Even so, in the last five years, with all the FX volatility, increases in the minimum wage and domestic inflationary pressures, our unit cost (per pair sold) grew at the rate of 4.9% p.a., lower than inflation in the period. Over the whole of this period, total COGS was reduced at a Compound Average Reduction Rate of 1.4% p.a., practically in line with the CARR – reduction – in net revenue, of 1.5% p.a.





4. Gross profit

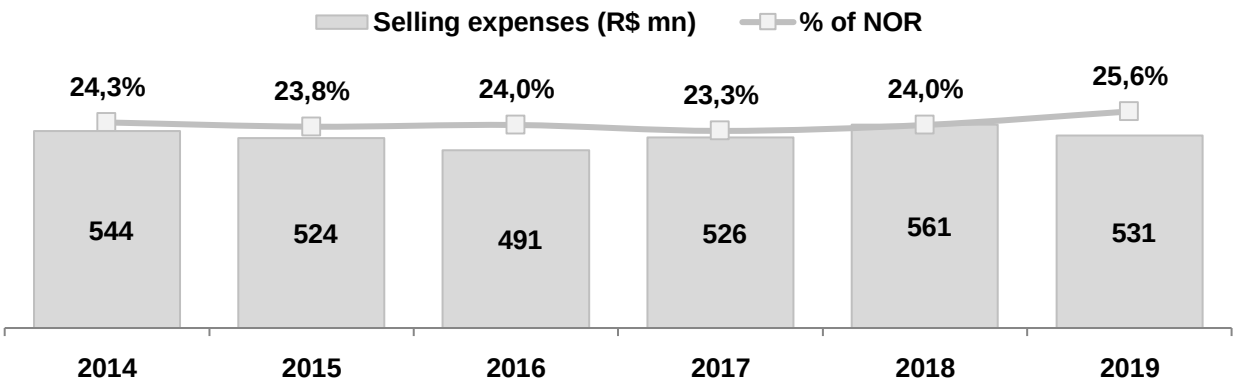
The reductions in 2019 of net revenue (11.2%) and volumes (12.8%), greater than the reduction in costs, had a direct impact on gross profit and gross margin – which were respectively 14.6% and 1.8 percentage points lower than in



5. Operational expenses (SG&A)

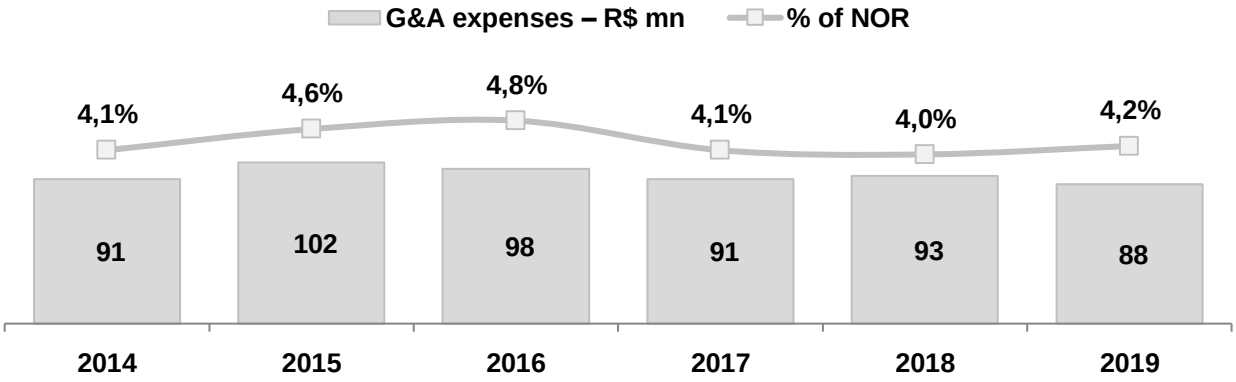
5.1. Selling expenses

Grendene's selling expenses predominantly comprise variable items such as freight, licensings, commissions, advertising and marketing. Over the period they remained between 24% and 25% of net revenue:



5.2. General and administrative expenses (G&A)

General and administrative expenses remained at the same percentage of net revenue, around 4%: although this was higher than the target we have for, it was below inflation.



6. Ebit and Ebitda

6.1. Ebit

Ebit (Earnings before interest and taxes) = Operational profit before Financial revenue (expenses).
We believe that because we have a high cash position which generates significant financial revenues, the operational profit of our activity is best characterized by Ebit.

Reconciliation of Ebit and Ebitda* (R$ mn)	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR 2014–19
Net profit for the year	**490,244**	**551,223**	**634,492**	**660,929**	**585,530**	**494,594**	**(15.5%)**	**0.2%**
Non-controlling stockholders	(4,985)	(11,912)	(537)	(26)	-	-	-	-
Taxes on profit	39,678	43,768	34,157	43,189	30,311	36,646	20.9%	(1.6%)
Net financial revenue (expenses)	(135,524)	(182,347)	(268,518)	(238,502)	(158,878)	178,072	12.1%	5.6%
Ebit	**389,413**	**400,732**	**399,594**	**465,590**	**456,963**	**353,528**	**(22.6%)**	**(1.9%)**
Depreciation and amortization	47,461	53,652	57,878	60,639	65,761	77,222	17.4%	10.2%
Ebitda	**436,874**	**454,384**	**457,472**	**526,229**	**522,724**	**430,750**	**(17.6%)**	**(0.3%)**
Ebit margin	**17.4%**	**18.2%**	**19.5%**	**20.7%**	**19.6%**	**17.1%**	**(2.5 p.p.)**	**(0.3 p.p.)**
Ebitda margin	**19.6%**	**20.6%**	**22.4%**	**23.4%**	**22.4%**	**20.8%**	**(1.6 p.p.)**	**1.2 p.p.**

* Stated as per CVM Instruction 527 of October 4, 2012.

6.2. Ebitda

Our business is low capital-intensive. Depreciation is around 3.0% of net revenue. The Company regularly invests an amount equivalent to depreciation in any period, to keep its production capacity up to date. It also maintains positive net cash, and has no costs of interest that need to be paid with funds from operations. As a result we believe that analyzing Ebit makes more sense as an indicator for the Company's operational management.

7. Net financial revenue (expenses)

The Company has a solid cash position, and its financial revenues are an important part of its net profit. The aim of foreign exchange transactions is hedging, mainly of receivables from exports. In these transactions Grendene is vendor of dollars, and the objective is that their net result in the long term should be very close to zero. Thus the result of Financial revenue (expenses) is basically influenced by the interest rate (Selic), and the average level of cash held by the Company.

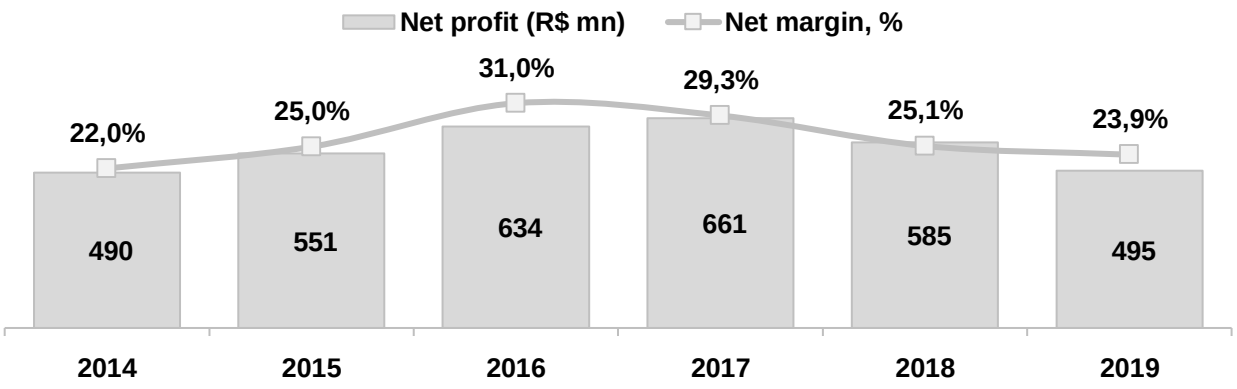
Any higher-risk investment opportunities are assessed by the Investment Committee, created for this purpose and which, according to the Company's policy, is able to allocate up to R$ 300 million for this type of investment.

For 2019 Grendene reports net financial revenues, of R$ 178.1 mn, which is 12.1% more than in 2018, as follows:

R$ mn	2014	2015	2016	2017	2018	2019	Change 2018–19	CAGR 2014–19
Interest received from clients	1.9	2.9	2.2	2.2	2.1	2.1	0.9%	2.7%
Revenue from cash investments	100.1	168.2	207.7	169.8	135.5	144.8	6.9%	7.7%
Other financial revenues	5.2	4.1	3.3	3.0	7.5	3.1	(57.9%)	(9.7%)
Subtotal	**107.2**	**175.2**	**213.2**	**175.1**	**145.1**	**150.1**	**3.4%**	**7.0%**
Costs of financings	(21.8)	(20.5)	(18.3)	(10.9)	(10.4)	(9.0)	(13.8%)	(16.2%)
Cofins and PIS tax on fin. revenues	-	(5.0)	(11.0)	(8.3)	(6.9)	(7.1)	3.3%	-
Other financial expenses	(5.6)	(9.6)	(4.9)	(3.8)	(4.1)	(3.5)	(13.6%)	(9.0%)
Subtotal	**(27.4)**	**(35.1)**	**(34.2)**	**(23.0)**	**(21.5)**	**(19.7)**	**(8.2%)**	**(6.4%)**
Net financial revenues (expenses) (1)	**79.8**	**140.1**	**179.0**	**152.1**	**123.7**	**130.4**	**5.5%**	**10.3%**
Oper. revenue on FX derivatives (B3)	16.6	66.3	49.1	30.0	62.1	54.0	(13.0%)	26.6%
Foreign exchange gains	41.9	118.8	69.7	34.5	75.2	54.2	(27.9%)	5.3%
Subtotal	**58.5**	**185.1**	**118.8**	**64.5**	**137.3**	**108.2**	**(21.2%)**	**13.1%**
Oper. expenses on FX derivatives (B3)	(24.0)	(123.6)	(11.6)	(19.8)	(81.9)	(47.6)	(41.9%)	14.6%
FX variation gain / loss	(33.5)	(80.3)	(82.4)	(31.2)	(74.0)	55.4	(25.1%)	10.6%
Subtotal	**(57.5)**	**(203.9)**	**(94.0)**	**(51.0)**	**(155.9)**	**(103.0)**	**(33.9%)**	**12.4%**
Net gain (loss) on FX variations (2)	**1.0**	**(18.8)**	**24.8**	**13.4**	**(18.6)**	**5.1**	**(127.8%)**	**37.9%**
Adjustments to present value (APV)	54.7	61.0	64.7	73.0	53.8	42.5	(21.1%)	(4.9%)
Net financial revenues (expenses) (3)	**54.7**	**61.0**	**64.7**	**73.0**	**53.8**	**42.5**	**(21.1%)**	**(4.9%)**
Net financial revenue (exp.): (1) + (2) + (3)	**135.5**	**182.3**	**268.5**	**238.5**	**158.9**	**178.1**	**12.1%**	**5.6%**

8. Net profit for the year

In the last five years (2014–19) the effective CAGR of net profit has been 0.2% p.a., with net margin evolving from 22.0% to 23.9% over the same period.



9. Cash generation

In 2019, cash generated from operations, of R$ 426.8mn, was allocated for payment of: loans and leases in the net amount of R$ 80.0mn; acquisition of an affiliated company and investments in fixed and intangible assets totaling R$ 83.9mn; dividends and Interest on Equity of R$ 289.4mn; R$ 25.3mn in redemptions of cash investments; and a net gain of R$ 2.7mn on purchase and sales of shares in the Company for exercise by holders under the stock options plan. This resulted in the amount held in cash and cash equivalents being R$ 1.5mn higher at the end of the year. The complete cash flow can be seen in the financial statements.

10. Net cash and cash equivalents

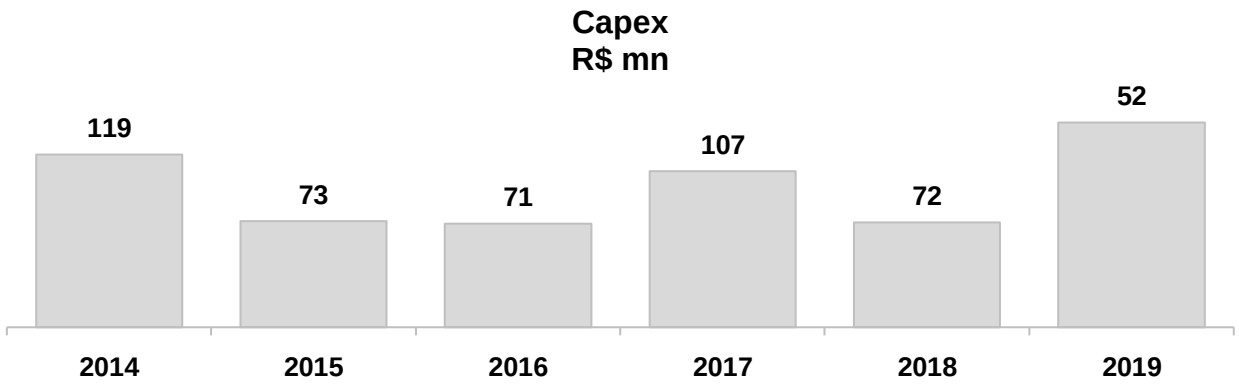
The chart below shows the distribution of the cash position (cash, cash equivalents and short and long-term financial investments), loans and financings (short-term and long-term) and net cash:

R$ mn	2014	2015	2016	2017	2018	2019
Cash and cash equivalents plus cash investments*	996.0	1,281.9	1,589.4	1,780.6	1,976.9	2,097.0
Loans and financings	(171.4)	(212.8)	(125.4)	(123.6)	(152.9)	(95.2)
Net cash	824.6	1,069.1	1,464.0	1,657.0	1,824.0	2,001.8

* Short and long term.

11. Capex (fixed and intangible)

In 2019, investments were below than expected, but enough for: maintenance of industrial buildings and facilities; replacement of fixed assets; and acquisition of new equipment for modernization of the manufacturing plant and greater efficiency of production.



We are estimating that we will invest around R$90 mn in 2020.

12. External auditors – CVM Instruction 381/03

Complying with CVM Instruction 381/2003 Grendene S.A., reports that it used the independent auditing services of Ernst & Young Auditores Independentes S.S. (EY) for a special review of its quarterly financial information, and auditing of its financial statements for the period December 31, 2019. Total fees paid were R$ 456,100. During this business year EY carried out other services relating to fiscal and tax advice, and to Technological Innovation Incentives, in the amount of R$186,900. Also during this business year, there was a payment of R$652,200 in fees relating to the proceedings brought by Grendene against Eletrobras relating to a compulsory loan, begun in 2001. Thus the total of other services was R$839,100, corresponding to 67.1% of the total of external auditing services.

The Company's policy in contracting of the external auditors for any services not related to external auditing is based on the principles that preserve the auditor's independence, namely: (a) the auditor may not audit its own work; (b) the auditor must not exercise management functions in its client; and (c) the auditor must not promote the interests of its client.

The services provided by EY in relation to assurance work were executed in compliance with the Brazilian Accounting Rules – NBC PA 291 (R1) – *Independence – Other assurance work*, as approved by Federal Accounting Council Resolution 1311/10, of December 9, 2010, and do not include any services that could compromise independence as described in those rules.

12.1. External auditors' Statement of Reasons – EY

The rendering of other professional services not related to external auditing, described above, does not affect the independence nor the objectivity in conduct of external auditing examination made on Grendene S.A. and its subsidiaries. Grendene's operational policy in provision of services not related to external auditing is based on the principles that preserve the independence of the External Auditor, and all these principles were complied with in provision of the said services.

IV. V. Capital markets and corporate governance

1. Capital markets

In 2019 a total of 282.2 million common shares were traded (1.04 times the total number of shares in the free float), in 928,600 trades, with total financial volume of R$ 2.4 billion. Daily averages were: quantity: 1,137,900 common shares (0.42% of the free float); financial volume: R$ 9.8 mn; number of trades: 3,744.

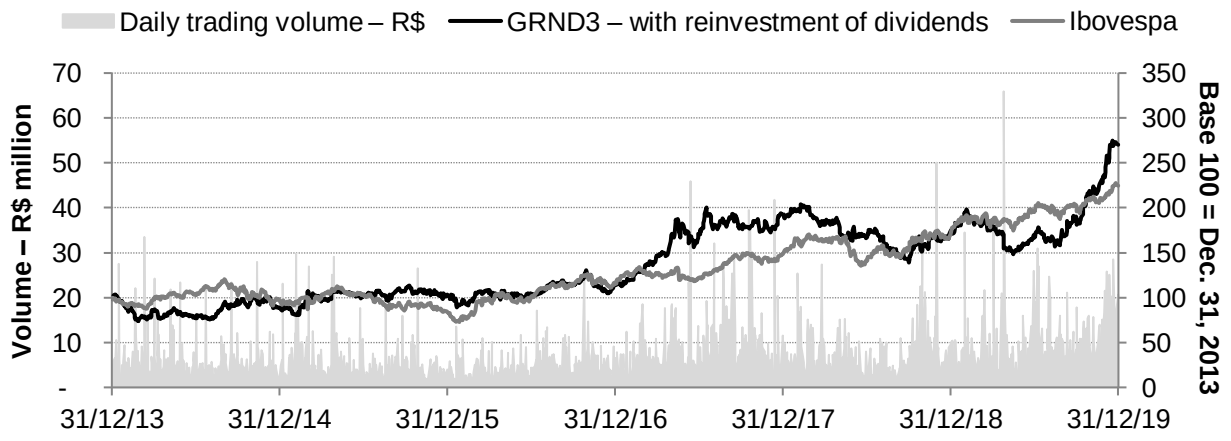
Over full-year 2019 Grendene's shares (GRND3) provided a return of 55.4%, when reinvestment of dividends is included, and the share price varied with a minimum of R$ 6.82 on May 17, 2019 and a maximum of R$ 12.65 on December 23. In the same period the Ibovespa index rose 31.6%. The dividend yield calculated on the basis of the weighted average price of the share in 2019 was 3.3% p.a. (4.0% p.a. in 2018).

Number of shares traded, financial volume, and daily average trading:

Year	No. of trading sessions	No. of trades	Number of shares	Volume R$	Price R$		Number of shares		Daily trading volume – R$	
					Weighted average	Close	Trade	Daily	Trade	Daily
2014	248	352.905	281.075.700	1.422.422.174	5.06	5.10	796	1,133,370	4,031	5,735,573
2015	246	331.468	236.060.100	1.317.558.400	5.58	5.61	712	959,594	3,975	5,355,928
2016	249	336.512	212.426.100	1.214.895.573	5.72	5.86	631	853,117	3,610	4,879,099
2017	246	381.336	264.217.200	2.202.354.443	8.34	9.48	693	1,074,054	5,775	8,952,660
2018	245	530.403	207.637.700	1.710.201.770	8.24	8.20	391	847,501	3,224	6,980,415
2019	248	928.550	282.204.700	2.428.829.992	8.61	12.28	304	1,137,922	2,616	9,793,669

This chart shows the performance of Grendene ON shares compared to the Bovespa index (Base: Dec. 31, 2013 = 100), and daily trading volume.

GRND3 – Daily trading volume and stock price vs. Ibovespa



On Tuesday, December 31, 2019 Brazilian institutional investors held 9.2% of the share capital of Grendene S.A. (30.7% of the free float); foreign investors held 13.7% (45.2%% of the free float); small investors including individuals and shares held in treasury totaled 7.2% (24.1% of the free float); and the other 69.9% of the share capital was in the possession of the controlling stockholders and managers.

Participation in share capital, %	2014	2015	2016	2017	2018	2019
Controlling stockholders and managers	73.6%	72.6%	72.6%	71.9%	70.0%	69.9%
Non-Brazilian investors	15.2%	15.5%	16.3%	17.9%	15.2%	13.7%
Institutional investors	7.7%	8.6%	7.0%	6.5%	7.3%	9.2%
Individuals	2.2%	2.3%	3.0%	2.8%	7.0%	7.2%
Other expenses	1.3%	1.0%	1.1%	0.9%	0.5%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

% of Free float	2014	2015	2016	2017	2018	2019
Non-Brazilian investors	58.2%	56.9%	59.5%	63.5%	51.4%	45.1%
Institutional investors	29.4%	31.2%	25.5%	23.2%	24.4%	30.7%
Individuals	8.3%	8.3%	11.0%	9.9%	23.3%	23.8%
Public and private companies	4.1%	3.6%	4.0%	3.4%	0.8%	0.3%
Financial institutions	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2. Dividends

2.1. Dividend Policy

For 2020, we maintain our policy, established on February 13, 2014 and published in a Material Announcement on that date, of distributing, as dividends, after the constitution of the Legal reserve and the Reserve under the by-laws, the totality of such Profits as do not originate from tax incentive arrangements with individual Brazilian states. We remind you that these dividends may be paid in the form of Interest on Equity, as allowed by the legislation.

Additionally, we will maintain our policy of quarterly distribution of dividends.

2.2. Dividends and Interest on Equity decided

Under Grendene's by-laws, the minimum obligatory dividend is calculated as 25% of the net profit remaining for the year after payments to reserves specified by law.

This table shows the totals for payment of Interest on Equity, and dividends:

R$ mn	2014	2015	2016	2017	2018	2019
Minimum dividend - 25%	55.2	66.4	87.8	96.7	82.7	68.9
Additional dividend	165.6	209.5	263.6	281.1	232.4	206.8
Total	**220.8**	**275.9**	**351.4**	**377.8**	**315.1**	**275.7**

	2014	2015	2016	2017	2018	2019
Dividend + Interest on Equity, per share (R$)	0.2450	0.2893	0.3629	0.3921	0.3278	0.2874
Payout, % (*)	46.1%	48.6%	53.1%	55.2%	52.0%	53.9%
Dividend yield, % (**)	4.8%	5.2%	6.3%	4.7%	4.0%	3.3%

(*) Payout: (Dividend plus net Interest on Equity), divided by (net profit after constitution of the legal reserves).

(**) Dividend yield: (Dividend per share + net Interest on Equity per share in the period) divided by (weighted average price of the share in the period, annualized).

Under the bylaws and the present dividend policy, based on the amount shown below, management proposes allocation of the net profit for the 2019 business year as follows:

a) **R$ 68,924,756.83** as minimum mandatory dividend, corresponding to 25% of the dividend calculation base, shown below;

b) **R$ 206,774,270.47** in dividends additional to the minimum mandatory dividend.

The sum of these amounts is a total of **R$ 275,699,027.30**, which after deduction of the quarterly interim payments already made totaling R$ 145,958,044.00 (dividends), results in a balance of

R$ 129,740,983.30, which the Company will pay, subject to confirmation by the Annual General Meeting that approves the accounts for the business year 2019, as from **Wednesday, May 6, 2020** as follows:

a) R$ 110,000,000.00 as Interest on Equity (gross), which is imputed as part of and on account of the dividend (net amount R$ 93,500,000.00);

b) R$ 19,740,983.30 as complementary dividends for the 2019 business year.

The Interest on Equity, and the complementary Dividends, will be payable to holders of GRND3 (common shares – GRND3) in the Company's records on Wednesday, April 22, 2020 (the cut-off date). As from this date, the credits of Interest on Equity will be credited individually to stockholders, with retention of the income tax applicable at source, in accordance with the legislation. Thus Grendene shares (GRND3) will be traded ex-dividend and ex-Interest on Equity on Thursday, April 23, 2020 on the B3 (São Paulo stock exchange).

Basis for the distribution of dividends in 2019

Grendene S.A. (Holding company)	R$
Net profit for the year	494,953,972.30
(–) Tax Incentives reserve	(204,744,469.88)
Basis for calculation of the Legal reserve	290,209,502.42
(–) Constitution of Legal reserve	(14,510,475.12)
Amount of the dividend resulting from the whole business year 2019 (Interest on Equity + Dividends)	275,699,027,30
Minimum obligatory dividend payable – 25%	68,924,756.83
Dividend proposed in excess of the mandatory minimum dividend	206,774,270.47

Allocation of the proposed corporate action payments (Interest on Equity and Dividends)

Total of dividends + Interest on Equity proposed by management	275,699,027.30
(–) Interim dividends paid	(145,958,044.00)
(=) Balance available for the 2019 business year	129,740,983.30
Balance to be distributed in the form of dividends	19,740,983.30
Balance to be distributed in the form of Interest on Equity	110,000,000.00
(–) Income tax withheld at source (15%)	(16,500,000.00)
(+) Interest on Equity net of tax	93,500,000.00

Dividends + Interest on Equity distributed / proposed							
Dividends / Interest on Equity	**Date approved**	**Ex-dividend date**	**Date of start of payment**	**Gross value R$**	**Gross value per share R$**	**Net value R$**	**Net value per share, R$**
Dividend [1]	Apr. 25, 2019	May 5, 2019	May 22, 2019	36,765,755.22	0.040753032	36,765,755.22	0.040753032
Dividend [1]	Aug. 1, 2019	Aug. 9, 2019	Aug. 21, 2019	15,380,529.76	0.017048561	15,380,529.76	0.017048561
Dividend [1]	Oct. 24, 2019	May 11, 2019	Nov. 19, 2019	93,811,759.02	0.104000708	93,811,759.02	0.104000708
Dividend [1]	Feb. 13, 2020	Apr. 23, 2020	May 6, 2020	19,740,983.30	0.021890887	19,740,983.30	0.021890887
Interest on Equity [1, 2]	Feb. 13, 2020	Apr. 23, 2020	May 6, 2020	110,000,000.00	0.121979618	93,500,000.00	0.103682676
Total				**275,699,027.30**	**0.305672806**	**259,199,027.30**	**0.287375864**

1 Dividends approved 'ad referendum' the Annual General Meeting of Stockholders that considers the financial statements for the 2019 business year.

2 Value of the dividends and Interest on Equity per share, subject to alteration depending on the balance of shares in treasury on the cutoff date (Apr. 22, 2020). The value of dividends and Interest on Equity per share is shown at base date December 31, 2019.

3. Statement by the Executive Board

In compliance with CVM Instruction 480/09 the members of the Executive Board declare that they have discussed, reviewed and agree with the opinions expressed in the opinion of the external auditors and with the financial statements for the business year ended December 31, 2019.

V. Sustainable development

We believe that the concept of sustainable development goes beyond products with lower environmental impact. Grendene's *Journey in Sustainable Development* considers various areas of learning, and discoveries related to behavior and attitudes that can have a positive or negative affect on certain indicators. This path is developed with in-depth experiments and analyzes for decision on the best way forward.

We are seeking solutions to reduce waste, and opportunities to practice the circular economy, ensure greater efficiency in processes, and contribute to the wellbeing of employees and the communities where our factories are located.

In 2019 we published our Sustainable Development Policy – which aims to organize the structure of actions carried out previously; plan future actions; and stipulate guidelines for creation of a future that we want to live in.

The Policy is based on the UN Sustainable Development Goals, and a series of targets related to the evolution of global standards for quality of life and productive activity up to 2030. Grendene adopts eight objectives as guidelines of its policy:

Our action in relation to these objectives takes place in three major parts: attributing value and respect to people; eco-efficient operations; and products with lower impact.

More information: http://www.grendene.com.br/sustentabilidade

The following topics provide information on our indicators for energy, wastes and water:

Energy efficiency: Through monitoring and control of processes, together with management of industrial indicators, we have achieved a result 0.7% lower in kWh/pair in 2019 than 2018. This is equivalent to a year-on-year reduction of 626 MWh, corresponding avoidance of emissions equivalent to 313 tons of CO_2.

Own consumption of electricity	2016	2017	2018	2019	Change 2018–19
Annual consumption (GWh)	98.94	106.59	107.02	92.02	(14.0%)
Consumption of electricity (kWh/pair)	0.604	0.628	0.618	0.614	0.7%

With the responsibility to use carbon-free energy, our photovoltaic solar generation plant at our unit at Sobral (Ceará State) generated 2,630 MWh from June 2018 to December 2019, corresponding to elimination of 1,315 tons of CO_2 equivalent*.

* Basis of calculation: Brazilian National CO_2 Equivalents Inventory, as calculated under the current structure of Brazilian supply. Average for January-October 2019.
(Available at: https://www.mctic.gov.br/mctic/opencms/ciencia/SEPED/clima/textogeral/emissao_despacho.html. Accessed Jan. 17, 2020).

Management of wastes – our principal raw material, PVC, is a reusable material, and 100% recyclable – and we have our own technology for recycling. Industrial wastes that are not re-used are allocated to external recycling or co-processing (use for energy), which results in zero industrial wastes sent to landfills.

We have developed a biogas generation system using food and other wastes, at our Farroupilha unit (State of Rio Grande do Sul). This project was recognized in the 26th *Expressão de Ecologia* Awards, published in *Guia Sustentabilidade* (Sustainability Guide) – in the category *Principal Environmental Projects of the South*.

In 2019 our generation of waste per pair produced increased by 4.8%, from 2018. This result was impacted by the development phase of a new process of manufacture of materials, in which various experiments were carried out until full stabilization of the process was achieved. For 2020, we will maintain the projects for reduction of wastes, with a target of 6% reduction in this indicator.

	2016	2017	2018	2019	Change 2018–19
Waste (grams / pair)	8.92	9.28	8.27	8.67	4.8%

Water consumption: Our industrial operations are in an arid region, which strengthens our efforts to increase availability of water – and consequently reduce our water-consumption footprint.

a) We reused more than 93 million liters of effluent, corresponding to 54% of all the effluents treated in the year 2019. The re-used water is currently employed in toilet flushing, and for irrigation of the Company's green area and gardens.

b) We currently have one of the lowest water-consumption footprints in footwear production.

c) Approximately 75% of the consumption of water is for human use.

d) We have a target of delivering 100% reutilization capacity of treated effluents, by 2020. Present capacity is 78%

In 2019 our water consumption per pair produced increased by 5.6% – this is directly related to the lower volume of pairs produced.

	2016	2017	2018	2019	Change 2018–19
Consumption of drinking water (liters / pair)	1.55	1.37	1.41	1.49	5.6%

The Circular Economy

On October 15, 2019 – Conscious Consumption Day – the ***Melissa*** brand made a pause in all sales to communicate with consumers and make them more aware about the brand's sustainability initiatives. The more than 300 *Clubs*, and the São Paulo *Galeria Melissa*, emptied their shelves and dedicated the day to a dialog with consumers on the sustainability agenda. Collection units were made available in these locations for proper disposal of pairs for which there was no remaining option for use, reuse (donation) and exchange: these units are now permanent in all the brand's official channels, including the *Melissa Galerias* in New York and London, and the manufacturing units.

Actions in education for sustainability

Through education, Grendene seeks to contribute to reduction of environmental impacts in the communities that are local to its operations. The main objective of our Educational Program for Sustainable Development is to engage students as agents of change through practical activities: pupils are trained and informed in sustainability practices, with development of critical thought and awareness on combat of daily waste practices.

By 2019, more than 2,000 children in primary education of the communities of Farroupilha (Rio Grande do Sul) and Sobral (Ceará) received the direct benefit of the Program. In 2020 Grendene intends to extend the program to the communities of Fortaleza (Ceará) and Crato (Ceará).

Sustainable Development audits and certifications for operations

In 2019 we received approval and certification in ten social responsibility, environmental and work safety audits in our factories, carried out by both Brazilian and international clients.

The Brazilian Textile Retail Association (ABVTEX) is a sector effort led by fashion retailers to consolidate good practices in the supply chain, and to foster a sustainable environment, compliant with dignified working conditions. In 2019, as a result of all the initiatives and care that we implement in relation to the environment, Grendene received ABVTEX Recertification – for the 6th year running – reaffirming Grendene's commitment to ethics and sustainable development. This seal qualifies the Company to provide its products to signatory retail chains in the program, and makes possible further opening of the market, since this certification is recognized as a credential of best sustainability practices.

Sustainability Certificates for Products

VEGAN: All Grendene footwear is registered with the Vegan Society and bears the **Vegan Seal.** This seal is recognized worldwide and is granted by the Vegan Society (headquartered in the UK), which grants registration of vegan products all over the world. The Seal certifies that Grendene footwear does not contain any component of animal origin, and that we do not carry out any tests on animals.

BIOBASED: The **Biobased Seal** certifies that products of the **Ipanema** brand contain between 20% and 40% of material of renewable origin. The certification is carried out by TUV, a certification agency based in Austria, recognized worldwide. It has been providing analyses and certifications since 1905.

VI. Human resources

As part of the Company's principles, Grendene recognizes a protagonist attitude taken by people for their growth. This is why people are at the center of everything we do. We believe that when people grow, we also grow, and it is through respect that we build the relationship with our employees.

The HR department engages with the challenge of developing the employees' knowledge, capacities and skills, to ensure that the business and human abilities that are seen as critical for the business's strategy are sustained, through the *Grendene University*; and the Company's managers are continually trained for the exercise of leadership.

Our Human Resources area has the mission of contributing to the strategy of the business, through integrated and competitive people management actions. Aligned with our values, we give priority to professional realization – both individually and as a part of a team, through constant feedback, education programs and training. We also encourage the collaborative environment, and the balance between professional and personal life.

In other words, we work hard in our human resources initiatives, mainly on the culture of learning. The return on the investment in our people is reflected in the Company's low turnover, and in the maintenance of its track record of good results.

Social and corporate data	2014	2015	2016	2017	2018	2019
Employees (average/yr)	26,543	24,176	20,401	20,080	20,240	18,809
Hours of training (per employee)	50	67	79	86	65	76
Meals (year)	4,990,607	4,815,696	5,046,305	5,247,901	5,147,132	4,363,688
Employees with special needs	1,146	1,088	971	1,012	1,001	948
Dental service (appointments/year)	17,818	17,555	15,391	17,822	13,530	14,685
Absenteeism	2.47%	2.17%	1.88%	1.83%	2.01%	1.71%
Turnover (month)	1.66%	1.58%	1.72%	1.49%	1.53%	1.29%
'Basic food baskets' distributed (units/yr) *	317,514	290,269	243,229	233,419	244,012	220,066

(*) Grendene's policy for distribution of 'basic food baskets' aims to reinforce the employee's food security. It has been adopted since 1990. The nutritional value of this 'basic basket' is maintained over time, with a varying set of options in the items offered. All the employees and interns of Grendene, without distinction, receive it after the first month of work, until they leave the Company.

Grendene University ('UG')

Since 2005, Grendene has been investing in and improving its corporate education process, based on the needs of employees and the business. We are focused on optimization of employees' potential, through an integrated system of training and development, aligned with the Company's values.

The architecture of the Grendene University includes educational schools and solutions that set out the central issues for knowledge and Grendene technical and behavioral learning.

A key figure from 2019: more than 5,000 hours of training, delivered to more than 10,500 employees.

Through learning methodologies, constructive collective work and themes linked to the needs of the business and of people, we boost organizational efficiency, and innovation. We also encourage employees to take home the knowledge that they acquire at Grendene and share it with their family and the community.

Appendix I

OPINION OF THE AUDIT BOARD

The Audit Board of Grendene S.A., in compliance with the provisions of law and the by-laws, has examined the Report of Management and the Individual Financial Statements of the Company (holding company) prepared in accordance with accounting practices adopted in Brazil, and the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for the business year ended December 31, 2019, which were approved by the Company's Board of Directors on February 13, 2020. Based on our reviews, and further considering the report of Ernst & Young Auditores Independentes S.S., with qualification, dated February 12, 2020, and the information and explanations received during the business year, it is the opinion of this Audit Board that the said documents are in the proper condition to be considered by the Annual General Meeting of Stockholders.

Farroupilha, February 13, 2020.

João Carlos Sfreddo
Member of the Audit Board

Eduardo Cozza Magrisso
Member of the Audit Board

Herculano Aníbal Alves
Member of the Audit Board

Appendix II

Grendene®

Parent company and consolidated financial statements for the years ended December 31, 2019 and 2018.

Grendene

Financial statements
December 31, 2019 and 2018

INDEX

Independent auditor's report on individual and consolidated financial statements

To the Shareholders, Board of Directors and Officers of
Grendene S.A.
Sobral - CE

Qualified opinion

We have audited the individual and consolidated financial statements of Grendene S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter mentioned in the "Basis for qualified opinion" section below, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Grendene S.A. as at December 31, 2019, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for qualified opinion

As described in note 14.c) to the financial statements, on February 13, 2019, the Company obtained a final and unappealable court decision granting it the exemption to include the State VAT (ICMS) in the tax base of the Contribution Taxes on Gross Revenue for Social Integration Program and for Social Security Financing (PIS and COFINS), and thus ensuring the right to offset the amounts overpaid since April 2002. Still in accordance with the aforementioned note, the Company filed with the Brazilian IRS (RFB), the request for approval of PIS and COFINS tax credits to which it is entitled to recover from tax authorities, which was approved on September 19, 2019 and which restated amounts total R$496,035 thousand. In the year ended December 31, 2019, the Company recorded in its statement of financial position, under "Tax credits", solely the amount of R$51,629 thousand, as it understands that this is the portion no longer considered a contingent asset, while the amount of remaining credits of R$444,406 thousand was not accounted for as it understands that this portion is still a contingent asset for the reasons described in note 14.c). However, Accounting Pronouncement CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (IAS 37) determines that if it is virtually certain that there will be an outflow of economic benefits, the asset and the corresponding gain are recognized in the financial statements for the period in which the change in estimate occurs, which, according to our judgment, corresponds to the date on which a final and unappealable decision was handed down. Thus, at December 31, 2019, the assets and liabilities are understated by R$ 444,406 thousand and R$17,776 thousand (corresponding to attorney's fees), respectively, and shareholders' equity and P&L for the year ended on that date are understated at approximately R$325,000 thousand, net of tax effects.

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy ("CFC") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Management is responsible for such other information, which comprise the Management Report.

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. As described in the "Basis for qualified opinion" section above, in February 2019, the Company obtained a final and unappealable court decision granting it removal of the required inclusion of ICMS to the PIS and COFINS tax base, and thus guaranteeing the right to offset the amounts overpaid since April 2002. In the year ended December 31, 2019, the Company recorded in its statement of financial position, under "Tax credits", solely the amount of R$51,629 thousand, as it understands that this is the portion that is no longer considered a contingent asset, while the amount of remaining credits of R$444,406 thousand was not accounted for as it understands that this portion is still a contingent asset for the reasons described in note 14.c). However, Accounting Pronouncement CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (IAS 37) determines that if it is virtually certain that there will be an outflow of economic benefits, the asset and the corresponding gain are recognized in the financial statements for the period in which the change in estimate occurs, which we understand corresponds to the date on which a final and unappealable decision is handed down. Thus, at December 31, 2019, the assets and liabilities are understated by R$ 444,406 thousand and R$17,776 thousand (corresponding to attorney's fees), respectively, and equity and P&L for the year ended on that date are understated at approximately R$325,000 thousand, net of tax effects.

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 individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Basis for qualified opinion" section, we determined that the matters described below are the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Sales revenues recognition

The Company produces and ships daily a large number of products ordered by its customers, which are grouped according to orders and transported by independent carrier trucks, delivered to all regions of the country.

In view of the large volume sales and number of customers, and the significance of the respective amount recorded in its financial statements, the Company controls the product delivery confirmation to account for these revenues in the appropriate accrual period. The determination of the amount of revenue to be recognized, as well as the timing of its recognition, requires Company management to carry out a detailed analysis of the sales terms and conditions, in addition to involving the use of professional judgment. This professional judgment can lead to the risk of early recognition of revenue, especially with regard to the monthly accounting closing period. The disclosure of revenues earned by the Company is included in Note 22 and its recognition criteria are described in Note 4 (a).

Due to these aspects, we consider revenue recognition a key audit matter.

How our audit addressed this matter:

Our procedures included, among others: (i) the assessment of the design and the operational effectiveness of the key controls implemented by the Company on determining the timing of revenue recognition; (ii) analysis of the monthly changes in revenue balances recognized by the Company in order to assess the existence of variations contrary to our expectations established based on our knowledge of the sector and the Company; and (iii) for a sample of sales recorded in the year, we obtained the respective supporting documentation to assess whether the revenue was recognized in the appropriate accounting period.

Additionally, we performed audit tests on sales transactions carried out at the end of the year in order to confirm the consistency of the application of the accounting policy for revenue recognition, having identified an audit adjustment indicating the need to reverse certain revenues and costs recognized in advance by the Company in the cut-off period, which was not adjusted by the Company due to its immateriality on the financial statements taken as a whole.

Deficiencies in the design of internal controls related to the cut-off in revenue recognition that resulted in the adjustment identified by the aforementioned audit, altered our assessment as to the nature, timing and expanded the scope of our planned substantive procedures to obtain sufficient and appropriate audit evidence regarding Company's revenues. Based on the procedures performed and the results obtained, we consider that the estimates prepared by management and the disclosures are appropriate in the context of the overall financial statements.

Government grants

As mentioned in Note 16, the Company benefits from a tax incentive related to State VAT (ICMS) arising from the Program to Encourage the Industrial Development (PROVIN) on its activities located in the state of Ceará.

This incentive represents part of the Company's consolidated net revenue and its recognition arises from compliance with the conditions established in the agreements, among which are the compliance with specific clauses related to the corresponding requirements and the effectiveness of the respective programs.

In this context, we consider this a key audit matter due to the significance of the tax benefit amounts when compared to the result of its operations and the necessary rigor to comply with the requirements of each of the agreements, in addition to the process of determining these incentives, which require controls and criteria to comply with current legislation.

How our audit addressed this matter:

Our procedures included, among others: (i) the understanding and tests in the calculations for determining the benefit; (ii) the analysis of the documentation to fulfill the conditions for the enjoyment of said tax incentive; and (iii) checking the reasonableness of sales taxes and the tax benefit recognized under Revenues, in comparison to the net sales revenue.

Based on the result of the audit procedures carried out, which is consistent with management's assessment, we consider the policies for the recognition and measurement of government grants appropriate in the context of the overall financial statements. These policies are used to support judgments, estimates and information contained therein.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2019, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, except for the effects on value added arising from the matter described in the "Basis for qualified opinion", the individual and consolidated statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined abovementioned accounting pronouncement and are consistent in relation to the overall individual and consolidated financial statements.

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

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

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

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

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

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- 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 the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

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

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

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

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

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

Porto Alegre, February 12, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP015199/O-6

Guilherme Ghidini Neto
Accountant CRC-RS-067795/O-5

Grendene

Balance sheet
December 31, 2019 and 2018
(All amounts in thousands of reais)

	Note	Parent company 2019	Parent company 2018	Consolidated 2019	Consolidated 2018
Assets					
Current assets					
Cash and cash equivalents		**5,984**	3,081	**18,072**	16,562
Financial investments	6	**1,314,338**	1,548,914	**1,314,338**	1,548,914
Trade receivables	7	**912,136**	955,428	**908,297**	944,214
Inventories	8	**258,263**	263,934	**277,106**	288,120
Tax credits	9	**83,468**	40,954	**87,446**	44,361
Income tax and social contribution recoverable		**-**	4,666	**276**	4,852
Securities receivable	16	**19,026**	59,481	**19,063**	59,560
Costs and prepaid expenses		**4,323**	4,504	**7,719**	7,870
Other receivables		**22,295**	15,621	**22,407**	15,860
Total current assets		**2,619,833**	2,896,583	**2,654,724**	2,930,313
Non-current assets					
Long-term receivables:					
Financial investments	6	**764,561**	411,482	**764,561**	411,482
Judicial deposits		**1,096**	1,078	**1,164**	1,149
Tax credits	9	**1,014**	996	**1,014**	996
Deferred income tax and social contribution	17	**49,876**	55,230	**49,287**	54,899
Advance against future capital increase in subsidiary		**5,860**	-	**-**	-
Securities to receive	16	**37,247**	-	**37,247**	-
Other receivables		**850**	680	**7,390**	6,896
		860,504	469,466	**860,663**	475,422
Investments	10	**73,861**	48,253	**31,898**	412
Property, plant and equipment	11	**391,641**	408,515	**484,823**	423,746
Intangible assets	12	**29,695**	28,253	**32,339**	30,863
Total non-current assets		**1,355,701**	954,487	**1,409,723**	930,443
Total assets		**3,975,534**	3,851,070	**4,064,447**	3,860,756

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

Grendene

Balance sheet
December 31, 2019 and 2018
(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Liabilities					
Current liabilities					
Borrowings	13	**77,110**	126,313	**77,110**	126,313
Leasing contracts	13	**-**	-	**15,768**	-
Trade payables		**27,105**	41,006	**27,845**	42,095
Contractual obligations - Licensing		**16,259**	12,238	**20,641**	17,192
Commissions payable		**45,080**	46,084	**45,191**	45,897
Taxes and contributions		**29,331**	34,659	**29,515**	34,836
Income tax and social contribution payable		**5,780**	5,946	**5,780**	5,946
Salaries and social security charges payable		**53,941**	69,853	**55,666**	71,122
Provision for labor risks, tax and civil	14	**2,772**	3,315	**2,780**	3,512
Advances from clients		**16,854**	19,117	**17,181**	19,436
Other payables		**403**	532	**465**	560
Total current liabilities		**274,635**	359,063	**297,942**	366,909
Non-current liabilities					
Borrowings	13	**18,082**	26,614	**18,082**	26,614
Leasing contracts	13	**-**	-	**64,205**	-
Provision for labor risks	14	**381**	351	**381**	531
Other debits		**-**	-	**1,401**	1,660
Total non-current liabilities		**18,463**	26,965	**84,069**	28,805
Equity	15				
Share capital		**1,231,302**	1,231,302	**1,231,302**	1,231,302
Capital reserves		**6,658**	9,109	**6,658**	9,109
Revenue reserves		**(3,928)**	(15,565)	**(3,928)**	(15,565)
Treasury shares		**2,428,454**	2,222,040	**2,428,454**	2,222,040
Other comprehensive income		**19,950**	18,156	**19,950**	18,156
Total equity		**3,682,436**	3,465,042	**3,682,436**	3,465,042
Total liabilities and equity		**3,975,534**	3,851,070	**4,064,447**	3,860,756

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

Grendene

Statement of income
December 31, 2019 and 2018
(All amounts in thousands of reais, except earnings per share)

	Note	Parent company 2019	Parent company 2018	Consolidated 2019	Consolidated 2018
Net sales revenue	22	**2,040,821**	2,305,866	**2,071,034**	2,333,452
Cost of goods sold	24	**(1,119,728)**	(1,224,300)	**(1,126,511)**	(1,227,328)
Gross profit		**921,093**	1,081,566	**944,523**	1,106,124
Selling expenses	24	**(470,580)**	(500,778)	**(530,825)**	(560,749)
General and administrative expenses	24	**(83,541)**	(88,783)	**(87,631)**	(92,623)
Other operating income	25	**58,741**	24,984	**58,952**	25,788
Other operating expenses	25	**(29,724)**	(21,211)	**(31,491)**	(21,577)
Equity in the results of subsidiaries	10	**(43,208)**	(39,029)	**-**	-
Operating profit before finance result and taxes		**352,781**	456,749	**353,528**	456,963
Finance result	26				
Finance income		**300,091**	335,374	**300,786**	336,205
Finance costs		**(121,530)**	(176,257)	**(122,714)**	(177,327)
		178,561	159,117	**178,072**	158,878
Profit before taxation		**531,342**	615,866	**531,600**	615,841
Income tax and social contribution	17				
Current		**(31,034)**	(30,697)	**(31,034)**	(30,583)
Deferred		**(5,354)**	361	**(5,612)**	272
		(36,388)	(30,336)	**(36,646)**	(30,311)
Profit for the year		**494,954**	585,530	**494,954**	585,530
Profit per share					
Basic earnings per share	15.g	**0.5489**	0.6501		
Diluted earnings per share	15.g	**0.5480**	0.6483		

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

Grendene

Statement of comprehensive income
December 31, 2019 and 2018
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2019	2018	2019	2018
Profit for the year	**494,954**	585,530	**494,954**	585,530
Items potentially reclassifiable to the Statement of income in the future:				
Exchange differences on subsidiaries abroad	**1,794**	5,709	**1,794**	5,709
Comprehensive income for the year, net of taxes	**496,748**	591,239	**496,748**	591,239

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of changes in equity
December 31, 2019 and 2018
(All amounts in thousands of reais)

			Capital reserves			Income reserves				Comprehensive income		
		Share capital	Options granted	Gains from sale of treasury shares	Treasury shares	Legal reserve	Reserve for the acquisition of shares	Tax incentives	Additional proposed dividends	Retained earnings	Other comprehensive income	Total
On December 31, 2017		1,231,302	8,385	-	(134)	147,934	23,862	1,663,683	130,130	-	12,447	3,217,609
Total comprehensive income		-	-	-	-	-	-	-	-	*585,530*	*5,709*	*591,239*
Profit for the year		-	-	-	-	-	-	-	-	585,530	-	585,530
Exchange differences on subsidiaries abroad	10.b	-	-	-	-	-	-	-	-	-	5,709	5,709
Purchase of treasury shares		-	-	-	(35,148)	-	-	-	-	-	-	(35,148)
Change of the stock option or purchase subscription plan:												
Stock options exercised in the exercise		-	-	(19,717)	19,717	-	-	-	-	-	-	-
Sale of treasury shares through exercise of purchase options		-	-	6,050	-	-	-	-	-	-	-	6,050
Result on sale of shares related to the stock option or subscription plan	21.b	-	(5,840)	13,667	-	-	(7,827)	-	-	-	-	-
Expenses with stock option or subscription plan	21.b	-	6,564	-	-	-	-	-	-	-	-	6,564
Proposed appropriations:												
Tax incentives reserve	15.d	-	-	-	-	-	-	237,155	-	(237,155)	-	-
Legal reserve	15.d	-	-	-	-	17,419	-	-	-	(17,419)	-	-
Reserve for the acquisition of shares	15.d	-	-	-	-	-	15,880	-	-	(15,880)	-	-
Dividends distributed	15.f	-	-	-	-	-	-	-	(19,630)	(171,642)	-	(191,272)
Additional proposed dividends	15.f	-	-	-	-	-	-	-	13,434	(13,434)	-	-
Interest on Equity distributed	15.f	-	-	-	-	-	-	-	(110,500)	-	-	(110,500)
Interest on Equity (counted as part of total dividends)	15.f	-	-	-	-	-	-	-	110,500	(130,000)	-	(19,500)
On December 31, 2018		1,231,302	9,109	-	(15,565)	165,353	31,915	1,900,838	123,934	-	18,156	3,465,042
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***494,954***	***1,794***	***496,748***
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**494,954**	**-**	**494,954**
Exchange differences on subsidiaries abroad	10.b	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,794**	**1,794**
Purchase of treasury shares		**-**	**-**	**-**	**(3,928)**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,928)**
Change of the stock option or purchase subscription plan:												
Stock options exercised in the exercise		**-**	**-**	**(15,565)**	**15,565**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sale of treasury shares through exercise of purchase options		**-**	**-**	**6,660**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,660**
Result on sale of shares related to the stock option or subscription plan	21.b	**-**	**(6,758)**	**8,905**	**-**	**-**	**(2,147)**	**-**	**-**	**-**	**-**	**-**
Expenses with stock option or subscription plan	21.b	**-**	**4,307**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,307**
Proposed appropriations:												
Tax incentives reserve	15.d	**-**	**-**	**-**	**-**	**-**	**-**	**204,744**	**-**	**(204,744)**	**-**	**-**
Legal reserve	15.d	**-**	**-**	**-**	**-**	**14,510**	**-**	**-**	**-**	**(14,510)**	**-**	**-**
Dividends distributed	15.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,434)**	**(145,959)**	**-**	**(159,393)**
Additional proposed dividends	15.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,741**	**(19,741)**	**-**	**-**
Interest on Equity distributed	15.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(110,500)**	**-**	**-**	**(110,500)**
Interest on Equity (counted as part of total dividends)	15.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,500**	**(110,000)**	**-**	**(16,500)**
On December 31, 2019		**1,231,302**	**6,658**	**-**	**(3,928)**	**179,863**	**29,768**	**2,105,582**	**113,241**	**-**	**19,950**	**3,682,436**

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

Grendene

Statement of cash flows
December 31, 2019 and 2018
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit for the year	**494,954**	585,530	**494,954**	585,530
Adjustments to reconcile results to cash generated by operating activities:				
Equity in the results of subsidiaries	**43,208**	39,029	**-**	-
Depreciation and amortization	**63,684**	62,961	**77,222**	65,761
Deferred income tax and social contribution	**5,354**	(361)	**5,612**	(272)
Gain on sale and write-off of investment	**-**	55	**-**	-
Residual value after write-down the property, plant and equipment and intangible	**3,925**	5,976	**4,006**	6,046
Stock option or subscription plan	**4,307**	6,564	**4,307**	6,564
Reducing accounts receivable from clients	**8,439**	(4,515)	**8,153**	(4,581)
Estimated losses for obsolete inventories	**(2,305)**	4,064	**(519)**	4,064
Provision for labor risks	**(513)**	2,570	**(882)**	2,758
Interest expenses on borrowings	**1,484**	1,804	**1,484**	1,804
Interest expenses on leasing	**-**	-	**3,306**	-
Interest income on financial investments	**(143,763)**	(134,274)	**(143,763)**	(134,274)
Foreign exchange variations, net	**6,878**	26,656	**7,890**	29,857
	485,652	596,059	**461,770**	563,257
Changes in assets and liabilities:				
Trade receivables	**34,853**	(92,982)	**27,764**	(89,288)
Inventories	**7,976**	(9,681)	**11,533**	(12,917)
Other receivables	**(41,339)**	17,787	**(42,182)**	17,526
Trade payables	**(13,901)**	5,619	**(14,250)**	5,390
Salaries and social security charges payable	**(15,912)**	10,597	**(15,456)**	11,180
Taxes and contributions	**(2,328)**	(2,759)	**(2,321)**	(2,761)
Income tax and social contribution payable	**(166)**	(456)	**(166)**	(479)
Advances from clients	**(2,263)**	(12,035)	**(2,255)**	(11,948)
Other payables	**2,888**	3,837	**2,389**	3,875
Net cash provided by operating activities	**455,460**	515,986	**426,826**	483,835
Cash flows from investing activities:				
Investment in affiliated company	**(31,486)**	-	**(31,486)**	-
Capital increase in subsidiary	**(35,536)**	(39,927)	-	-
Purchases of property, plant and equipment and intangible	**(52,177)**	(71,715)	**(52,431)**	(72,266)
Financial investments	**(3,610,334)**	(3,750,932)	**(3,610,334)**	(3,750,932)
Redemption of financial investments	**3,490,409**	3,527,483	**3,490,409**	3,527,483
Interest received	**145,185**	147,853	**145,185**	147,853
Loan to subsidiary	**-**	5,623	**-**	-
Loss on disposal of investment	**(5,860)**	-	**-**	-
Net cash used in investing activities	**(99,799)**	(181,615)	**(58,657)**	(147,862)
Cash flows from financing activities:				
New borrowings	**328,358**	435,200	**328,358**	435,200
Repayments of borrowings	**(393,370)**	(432,830)	**(393,370)**	(432,830)
Payment of leasing transactions	**-**	-	**(13,901)**	-
Interest paid	**(1,085)**	(1,530)	**(1,085)**	(1,530)
Dividends paid	**(159,393)**	(191,272)	**(159,393)**	(191,272)
Interest on Equity paid	**(130,000)**	(130,000)	**(130,000)**	(130,000)
Purchase of treasury shares	**(3,928)**	(35,148)	**(3,928)**	(35,148)
Sale of treasury shares through exercise of purchase options	**6,660**	6,050	**6,660**	6,050
Net cash used in financing activities	**(352,758)**	(349,530)	**(366,659)**	(349,530)
Increase (decrease) in cash and cash equivalents	**2,903**	(15,159)	**1,510**	(13,557)
At the beginning of the year	**3,081**	18,240	**16,562**	30,119
At the end of the year	**5,984**	3,081	**18,072**	16,562
Item not affecting cash flow:				
Foreign exchange variations on investments	**(1,794)**	(5,709)	**-**	-
Provision for losses in subsidiary	**-**	5,480	**-**	-
Right of use – initial recognition	**-**	-	**(90,568)**	-

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

Grendene

Statement of value added
December 31, 2019 and 2018
(All amounts in thousands of reais)

	Parent company				Consolidated			
	2019		2018		2019		2018	
Revenue								
Sales of goods	**2,370,158**		2,653,122		**2,401,478**		2,681,999	
Other income /expenses	**1,205**		(2,595)		**1,174**		(2,033)	
Provision for impairment of trade receivables	**(9,801)**		5,976		**(9,519)**		6,007	
	2,361,562		2,656,503		**2,393,133**		2,685,973	
Inputs acquired from third parties								
Raw materials used	**(602,798)**		(689,705)		**(588,510)**		(668,378)	
Other production costs	**(4,535)**		(6,310)		**(24,608)**		(29,763)	
Materials, electricity, outsourced services and other	**(546,221)**		(592,838)		**(573,570)**		(623,386)	
Impairment and recovery of assets	**2,305**		(4,064)		**504**		(4,064)	
	(1,151,249)		(1,292,917)		**(1,186,184)**		(1,325,591)	
Gross value added	**1,210,313**		1,363,586		**1,206,949**		1,360,382	
Retentions								
Depreciation and amortization	**(61,861)**		(61,283)		**(75,397)**		(64,083)	
	(61,861)		(61,283)		**(75,397)**		(64,083)	
Net value added	**1,148,452**		1,302,303		**1,131,552**		1,296,299	
Value added received through transfer								
Equity in the results of subsidiaries	**(43,208)**		(39,029)		**-**		-	
Finance income	**300,091**		335,374		**300,786**		336,205	
Rentals	**105**		134		**105**		134	
	256,988		296,479		**300,891**		336,339	
Value added to distribute	**1,405,440**		1,598,782		**1,432,443**		1,632,638	
Distribution of value added								
Personnel								
Direct compensation	**436,342**		470,533		**449,153**		483,058	
Benefits	**49,938**		58,001		**50,152**		58,237	
Government Severance Indemnity Fund for Employees (FGTS)	**50,518**		43,186		**50,626**		43,249	
	536,798	**38.19%**	571,720	35.76%	**549,931**	**38.39%**	584,544	35.80%
Taxes and contributions								
Federal	**202,823**		218,699		**204,009**		219,536	
State	**52,536**		49,400		**53,392**		50,233	
Municipal	**895**		811		**3,258**		2,798	
	256,254	**18.23%**	268,910	16.82%	**260,659**	**18.20%**	272,567	16.70%
Third-party capital remuneration								
Interest, discounts and financial charges	**114,382**		169,339		**115,538**		170,378	
Rentals	**3,052**		3,283		**11,361**		19,619	
	117,434	**8.36%**	172,622	10.80%	**126,899**	**8.86%**	189,997	11.64%
Remuneration of own capital								
Dividends	**165,700**		185,076		**165,700**		185,076	
Interest on Equity (counted as part of total dividends)	**110,000**		130,000		**110,000**		130,000	
Profits reinvested for the year	**219,254**		270,454		**219,254**		270,454	
	494,954	**35.22%**	585,530	36.62%	**494,954**	**34.55%**	585,530	35.86%
	1,405,440	**100%**	1,598,782	100%	**1,432,443**	**100%**	1,632,638	100%

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

1. General information

a) Operational Context

Mercado segment, trading under the ticker GRND3, on the São Paulo stock exchange (B3 S.A. – Brasil, Bolsa, Balcão). It began trading in 1971. Its head office is at Av. Pimentel Gomes 214, Sobral, Ceará State, Brazil. Grendene S.A. is controlled by Alexandre Grendene Bartelle.

The Company and its subsidiaries ('the Group') have the following principal activities: development, production, distribution and sale of plastic footwear for all the socio-economic classes, in the women's, men's and children's market segments.

The Group currently has five industrial plants, in three States of Brazil: Ceará, Bahia and Rio Grande do Sul. It owns the brands Melissa, Grendha, Zaxy, Rider, Cartago, Ipanema, Pega Forte and Grendene Kids.

b) Authorization for issuance of the financial statements

Issuance of the Company's financial statements for the period ended December 31, 2019, was authorized by the Executive Board on February 12, 2020.

2. Basis of preparation and presentation of the financial statements

Of the accounting policies presented on December 31, 2018, those which have changed are the result of new accounting rules which came into effect on January 1, 2019, and they do not present any significant effect on the financial statements, but they have an impact on the accounting of future transactions or contracts:

- IFRS 16 / CPC 06 (R2) – Leases. (See Note 13.b)

Other rules and interpretations in force as from 2019 do not have any impact on the Individual and Consolidated financial statements.

a) Statement of compliance

The parent company financial statements of the Company has been prepared in accordance with accounting policies adopted in Brazil and rules of the Brazilian Securities Commission (*Comissão de Valores Mobiliários* – CVM), obeying the accounting rules stated in the Brazilian Corporation Law legislation (Law 6.406 of 1976) and also International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

2. Basis of preparation and presentation of the of the financial statements --Continued

a) Statement of compliance--Continued

All the material information in the financial statements accounting information, and only that information, is being presented, and is the information used by the Company in its management.

b) Basis of measurement

The financial statements have been prepared considering the historic cost as the basis of value, except in the case of certain financial instruments and the stock options plan, when applicable.

c) Functional currency and currency of presentation

These individual and consolidated financial statements are presented in Reais, which is the Company's functional currency.

d) Rules, and interpretations of rules, not yet in force

The rules, revisions and interpretations issued by the IASB, but not yet adopted up to the date of reporting of these financial statements, are as follows:

Rules	Nature of change	Comes into force
IAS 1 / CPC 26 and IAS 8 / CPC 23 – Definition of "material"	Changes the definition of "material", clarifying aspects of the application of the concept of materiality in information published.	January 1, 2020
CPC 00 – Conceptual framework for financial reports	Conceptual Framework, which introduces alterations in certain rules and interpretations, to clarify application of new definitions of Assets/liabilities and Expenditures/revenues, as well as concepts and orientations on presentation and disclosure.	January 1, 2020
IFRS 3 / CPC 15 – Definition of "business"	This alteration consists of a revision of the definition of "business" in accounting for business combinations.	January 1, 2020
Technical Pronouncements – Revision 14	Makes changes to certain pronouncements, interpretations and technical orientations.	January 1, 2020
Technical Pronouncements – Revision 15	Changes certain technical pronouncements as a result of the definition of the term "Interest Rate Benchmark Reform", in relation to accounting of hedge transactions.	January 1, 2020
IFRS 17 – Insurance Contracts	IFRS 17 replaces IFRS 4 / CPC11 – Insurance Contracts. The objective of the change is to ensure that the entity provides material information that faithfully represents the essence of these contracts, through a consistent accounting model.	January 1, 2021

The Company plans to adopt new rules on the effective date, and according to the prior assessment by the Company's Management, will not have any impact on its financial statements.

2. Basis of preparation and presentation of the of the financial statements --Continued

d) Rules, and interpretations of rules, not yet in force--Continued

These are the only rules and interpretations issued which have not yet been adopted and which might, in the opinion of Management, have a significant effect on the profit or net equity disclosed by the Company.

3. The consolidated of the financial statements

The consolidated financial statements include the operations of the Company and its subsidiaries, as shown in this table:

	Principal characteristics	Country of head office	Stake	Percentage interest (%)	
				2019	2018
MHL Calçados Ltda.	Manufacture and sale of footwear.	Brazil	Direct	**99.998%**	99.998%
Grendene USA, Inc.	Commercial representative, selling and distributing our products in the US market. This is the parent company of Grendene New York L.L.C., which has head office in United States and operates in the same market segment.	USA	Direct	**100.00%**	100.00%
Grendene UK Limited.	Commercial representative, selling and distributing our products. Parent company of Grendene Italy S.R.L., a company with head office in Italy which operates in the same market segment.	United Kingdom	Direct	**100.00%**	100.00%
Grendene New York, L.L.C. (through Grendene USA, Inc.)	Commercial representative, selling and distributing our products in the US market.	USA	Indirect	**100.00%**	100.00%
Grendene Italy, S.R.L. (through Grendene UK Limited)	Commercial representative, selling and distributing our products.	Italy	Indirect	**100.00%**	100.00%

The business years of the financial statements of the subsidiaries included in the consolidation are coincident with those of the parent company, and the accounting policies having been applied uniformly in the consolidated companies and are consistent with international accounting rules and with accounting practice adopted in Brazil.

4. Accounting policies

a) Recognition of revenue

Revenue is recognized in the Profit and loss account when its amount can be reliably measured and reflects the consideration that the entity expects to have the right to an exchange for transfer of products to clients. Revenue is measured based on fair value of the consideration received, excluding discounts, deductions and taxes or charges on the sale. The Company evaluates revenue transactions in accordance with the specific criteria for determining whether it is acting as agent or principal and, in the last analysis, has concluded that it is acting as principal in all its revenue contracts. A revenue is not recognized if there is significant uncertainty of its realization.

a.1) *Revenue from sale*

Revenue from sale of products is recognized in the Profit and loss account, when the control of the product is transferred to the client and the Company and its subsidiary have no further control or responsibility over the merchandise sold.

a.2) *Financial revenue*

Interest income is recognized using the effective interest rate. Interest revenues are included in the account line financial revenues, in the profit and loss account.

b) Transactions and balances in foreing currency

The monetary assets and liabilities of transactions in foreign currency are converted to the entity's functional currency, using the exchange rate of the reporting date, and profit and loss account items are converted at the average monthly rates for the periods. Non-monetary assets are converted from their functional currency to Reais at the FX rate of the accounting transaction. The functional currencies used in the conversion of the financial statements of these subsidiaries outside Brazil are: US dollars, pounds sterling and Euros.

c) Financial instruments

Financial instruments are measured at amortized cost or at fair value and classified in one of the following three categories:

1. Financial instruments at amortized cost.
2. Financial instruments measured at fair value through Comprehensive income.
3. Financial instruments measured at fair value through Profit or loss.

4. Accounting policies--Continued

c) Financial instruments--Continued

Subsequent measurement

Their subsequent measurement takes place at each recording date in accordance with the rules established for each type of classification of financial assets and liabilities.

The Company and its subsidiaries have classified their financial assets and liabilities in the category of amortized cost, in accordance with the purpose for which they were acquired or issued:

a. Financial assets at amortized cost: These are measured in a business model the objective of which is to receive contractual cash flows where the contractual terms give rise to cash flows which are, exclusively, payment of the principal and/or interest on it.

b. Financial assets measured at fair value through profit or loss: Any financial assets that are not classified in the aforementioned category stated above are measured and recognized at fair value through Profit or loss. Financial assets that are held for training and managed on the basis of fair value are also included in this category.

c. Financial liabilities: The entity should classify all financial liabilities as measured at amortized cost, except in the case of: (a) financial liabilities measured at fair value through Profit or loss; (b) financial liabilities that arise when the transfer of the financial asset does not qualify for derecognition, or when the continuing involvement approach is applicable; (c) a financial guarantee contract; (d) undertakings to grant loans with interest rates below market; or (e) a contingent consideration recognized by an acquiring party in a business combination to which CPC 15 should be applied.

c.1) *Derivative financial instruments and hedging activities*

The Company operates with derivative financial statements for the purpose of hedging, but does not use the practice of hedge accounting to account for its derivative transactions, which are not made for speculative purposes.

Derivatives are recorded initially at fair value on the date of contracting, and subsequently revalued, also at fair value, with any gains or losses being recognized in Financial revenue/expenses.

4. Accounting policies--Continued

d) Cash and equivalents

Cash and equivalents include amounts in physical cash, bank deposits not attracting interest, and cash investments with immediate liquidity, able to be redeemed within three months or less from the date of acquisition, and with insignificant risk of change in value.

e) Trade receivables

These are initially recognized at sale value; augmented by variation, when applicable; and subsequently recorded at amortized cost, less estimated losses on doubtful receivables, and discounts for punctuality.

The estimated credit losses are analyzed and constituted based on the amount billed to the customer, based on the track record of default and individual analysis of clients, and excluding those that have court or out-of-court agreements, or guarantees. Management considers the amounts to be sufficient to cover any losses.

Estimated discounts for punctuality are recorded at the estimated amount of discount to be given, on trade bills becoming due at maturity, with counterpart in Deductions from sales.

Transactions in accounts receivable from clients have been adjusted to present value, taking into account the cash flows of the transaction and the implicit interest rate of the related assets.

f) Inventories

Valued at the average of acquisition or production cost, not exceeding their net realizable value. The net realizable value is calculated as the difference between the sale price in the Company's normal operation, less costs incurred to achieve the sale.

Estimated losses, for low-turnover or obsolete stock, are constituted on the basis of application of the average non-recoverable percentage on the balance of this inventory. The percentage takes into account the history of loss on resale of inventory, in which the Company recovers part of this cost. The Company's Management considers that estimated losses have been constituted in an amount sufficient for the low-turnover or obsolete inventory.

4. Accounting policies--Continued

g) Investments

The Company has investments in directly and indirectly-controlled and affiliated companies, which are valued by the equity method. The other investments are recorded at acquisition cost and adjusted to market cost when applicable.

In the acquisition of the investment, any differences between the cost of the investment and the investor's share in the net fair value of the identifiable assets and liabilities of the investee should be considered as goodwill.

h) Property, plant and equipment

PP&E is recorded as cost of acquisition or construction, less depreciation, net of credits of PIS, COFINS and ICMS taxes offsettable, and reduced to recovery value, if appropriate. Depreciation of goods is calculated by the straight-line method at the rates mentioned in Note 11 and takes into consideration the estimated useful life of the assets. Residual values and the useful life of assets are reviewed and adjusted, if appropriate, at the end of each business year.

When significant parts of PP&E need to be replaced, their cost is recognized at the book value of the asset as a replacement, if the criteria for recognition had been met. All other expenses on repairs and maintenance are recognized in the profit and loss account, when they take place, and the book value of items or parts replaced is written off.

i) Intangible assets

Intangible assets have a defined useful life and are recognized at acquisition cost, net of accumulated amortization and impairment if any. Amortizations are calculated by the straight-line method at the rates mentioned in Note 12.

j) Perda por redução ao valor recuperável de ativos *(impairment)*

Fixed assets, intangible assets and other assets which present indications that their recorded costs are higher than their recovery value should be revised in detail to determine the need for posting of any impairment.

The Company carries out an annual analysis of impairment. In the December 31, 2019 and 2018 business year no assets were identified that presented a need to calculate impairment.

4. Accounting policies--Continued

k) Taxation

k.1) *Current income tax and social contribution*

The provisions for current income tax and Social Contribution tax are calculated individually, by the Company and its subsidiaries, based on the tax laws in effect on the reporting date, in the countries where they generate tax revenue.

Current taxes are presented net, and reported in assets when the balances paid in advance exceed the total payable on the reporting date, or in liabilities when there is an amount payable.

k.2) *Deferred income tax and social contribution*

Deferred taxes are recognized only if there is a possibility of future generation of taxable profit in an amount significant to enable those temporal differences to be used.

Deferred income tax and Social Contribution tax are calculated by applying the rates expected to be in force on the reporting date at which the temporary differences are expected to be realized or demanded.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets with current tax liabilities, and if they are related with the taxed imposed by the same tax authority.

l) Borrowings

Borrowings are posted at contracted value, plus agreed charges including interest and monetary or FX updating incurred. After initial recognition they are measured at amortized cost using the effective rates method.

5. Judgments, estimated and accounting assumptions

The preparation of the individual and financial statements requires the use of certain critical accounting estimates and also the exercise of judgment by Management in the process of application of the accounting policies, for the accounting of certain assets, liabilities, revenues and expenses.

5. Judgments, estimates and accounting assumptions--Continued

Estimates and the exercise of judgment are continuously reviewed and the results of this process are recognized in a timely manner and in any future periods affected. Actual results may diverge from these estimates when they materialize.

Information on judgments, estimates and accounting assumptions that could result in significant effects on the amounts recognized in the financial statements are as follows:

Notes	Nature
Note 7	Estimated losses for doubtful receivables, estimated discounts for punctuality and the rates and periods applied in determining adjustments to present value;
Note 8	Estimated losses for obsolete inventory;
Notes 11 and 12	Selection of useful lives of fixed and intangible assets, and impairments;
Note 14	Provisions for employment-law, tax, civil and environmental risk and contingent assets;
Note 17	Deferred income tax and Social Contribution tax;
Note 19	Sensitivity analyses of financial instruments;
Note 21	The fair value of measuring the stock option or subscription plan.

6. Financial investments

Cash investments are reported at acquisition value, plus returns earned up to the reporting date. These amounts are close to fair value and do not exceed market or realization value.

The Company's cash investments comprise the following components:

Type	Index	Average rate of return (y.y)	Parent company / Consolidated	
			2019	2018
Current assets				
Bank certificates of deposit (CDBs)	CDI	102.23% e 101.73%	**818,344**	657,353
Leasing Receivable Notes	CDI	101.33% e 102.24%	**258,726**	697,285
Treasury Bills	CDI	111%	**204,673**	-
Treasury Bills	IPCA +	6.46%	**-**	188,298
Investment funds	Mercado	10.63%	**-**	5,978
Debentures with repurchase guarantees	CDI	100.75%	**2,414**	-
Assignment of receivables	CDI +	3.25%	**30,181**	-
			1,314,338	1,548,914
Non-current assets				
Bank certificates of deposit (CDBs)	CDI	99% e 99.20%	**8,809**	9,257
Treasury Bills	CDI	105.86% e 111%	**498,594**	191,919
Treasury Bills	IPCA +	5.66%	**171,279**	155,471
Treasury notes (NTNs)	IPCA +	6.05%	**56,908**	54,835
Non-convertible debentures	CDI +	5.85%	**10,976**	-
Investment funds	CDI +	6.00%	**17,995**	-
			764,561	411,482
			2,078,899	1,960,396

6. Financial investments--Continued

Note 18 gives the classification of these securities. Note 19 gives the exposure of the Company and its subsidiaries to interest rate risks, and a sensitivity analysis of their effects on financial assets and liabilities.

7. Trade receivables

	Parent company		Consolidated	
	2019	2018	2019	2018
Domestic market	**749,365**	750,021	**749,494**	750,535
Foreing market	**217,584**	251,781	**213,664**	240,387
	966,949	1,001,802	**963,158**	990,922
Estimated losses on doubtful receivables	**(14,011)**	(4,210)	**(14,050)**	(4,519)
Punctuality discounts estimated	**(31,476)**	(32,012)	**(31,484)**	(32,037)
Adjustment to Present Value (AVP)	**(9,326)**	(10,152)	**(9,327)**	(10,152)
	912,136	955,428	**908,297**	944,214

On December 31, 2019 the average period for receipt of sales in the domestic market was 107 days (96 days in 2018), and for sales in the export market 82 days (84 days in 2018).

The amounts of accounts receivable from clients are not subject to any lien or charge, nor guarantee given, nor any restrictions.

a) Classification by maturity and estimated losses for doubtful receivables

The constitution of estimated losses for doubtful receivables on past due trade bills, by maturity, is as follows:

	Parent company			
	2019		2018	
	Balance	Provision	Balance	Provision
Not yet due	**926,392**	**-**	973,732	(2)
Overdue for up to 30 days	**20,984**	**(4,342)**	12,743	(3)
Overdue from 31 to 60 days	**1,704**	**(473)**	2,740	(2)
Overdue from 61 to 90 days	**1,864**	**(1,353)**	439	(10)
Past due for more than 91 days	**16,005**	**(7,843)**	12,148	(4,193)
	966,949	**(14,011)**	1,001,802	(4,210)

7. Trade receivables--Continued

a) Classification by maturity and estimated losses for doubtful receivables--Continued

	Consolidated			
	2019		2018	
	Balance	Provision	Balance	Provision
Not yet due	**921,508**	**-**	961,287	(2)
Overdue for up to 30 days	**21,091**	**(4,342)**	13,205	(3)
Overdue from 31 to 60 days	**1,893**	**(473)**	2,902	(2)
Overdue from 61 to 90 days	**2,051**	**(1,353)**	484	(10)
Past due for more than 91 days	**16,615**	**(7,882)**	13,044	(4,502)
	963,158	**(14,050)**	990,922	(4,519)

b) Changes

The changes in estimated losses on doubtful receivables and estimated discounts for punctuality are as follows:

	Estimated losses on doubtful receivables		Punctuality discounts estimated	
	Parent company	Consolidated	Parent company	Consolidated
Balances at 12/31/2017	(10,186)	(10,549)	(27,907)	(27,943)
Additions	(4,632)	(4,836)	(98,745)	(98,831)
Realizations	9,606	9,842	82,940	83,038
Reversals	1,188	1,238	11,700	11,699
Exchange variation	(186)	(214)	-	-
Balances at 12/31/2018	(4,210)	(4,519)	(32,012)	(32,037)
Additions	**(15,086)**	**(15,417)**	**(91,756)**	**(91,786)**
Realizations	**3,105**	**3,655**	**76,607**	**76,652**
Reversals	**2,182**	**2,245**	**15,685**	**15,687**
Exchange variation	**(2)**	**(14)**	**-**	**-**
Balances at 12/31/2019	**(14,011)**	**(14,050)**	**(31,476)**	**(31,484)**

8. Inventories

	Parent company		Consolidated	
	2019	2018	2019	2018
Footwear	**48,579**	50,838	**68,777**	74,596
Inputs and components	**32,886**	37,909	**32,993**	37,971
Raw materials	**86,831**	90,371	**86,842**	90,390
Packaging materials	**15,812**	15,168	**15,825**	15,183
Intermediate and other materials	**27,901**	30,793	**28,005**	30,881
Goods for resale	**555**	795	**751**	1,039
Molds and tooling	**23,294**	22,098	**23,294**	22,098
Advances to suppliers	**14,106**	8,092	**14,106**	8,092
Imports in transit	**6,851**	7,866	**6,851**	7,866
Inventories held by third parties	**16,792**	17,653	**16,792**	17,653
Estimated losses for obsolete inventories	**(15,344)**	(17,649)	**(17,130)**	(17,649)
	258,263	263,934	**277,106**	288,120

8. Inventories--Continued

The changes in the estimated losses for obsolete inventories were as follows:

	Parent company	Consolidated
Balances at 12/31/2017	(13,585)	(13,585)
Additions	(43,118)	(43,118)
Realizations	6,711	6,711
Reversals	32,343	32,343
Balances at 12/31/2018	(17,649)	(17,649)
Additions	**(25,875)**	**(27,756)**
Realizations	**7,119**	**7,153**
Reversals	**21,061**	**21,107**
Exchange variation	**-**	**15**
Balances at 12/31/2019	**(15,344)**	**(17,130)**

There are no liens, pledges and/or restrictions to the full utilization of the inventories.

9. Tax credits

	Parent company		Consolidated	
	2019	2018	2019	2018
Income tax withheld at source	**21,280**	23,430	**22,208**	23,907
IPI tax recoverable	**733**	644	**956**	866
ICMS tax recoverable	**10,567**	6,354	**12,500**	8,305
PIS and Cofins taxes recoverable (*)	**51,902**	307	**51,902**	307
INSS tax recoverable	**-**	11,215	**-**	11,223
Other expenses	**-**	-	**894**	749
	84,482	41,950	**88,460**	45,357
Current assets	**83,468**	40,954	**87,446**	44,361
Non-current assets	**1,014**	996	**1,014**	996

(*) In December 2019 the Company reported a gain of R$ 51,629 related to the final judgment (i.e. against which there is no further appeal) in the legal action to exclude amounts of ICMS tax from the basis of calculation of the PIS and COFINS taxes. The application to qualify for rebate related to this amount was granted on September 19, 2019. See Note 14, Sub-clause c.

10. Investments

a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Holdings in subsidiaries	**45,865**	52,465	**-**	-
Equity interest in affiliated company	**31,486**	-	**31,486**	-
Unrealized profits in subsidiaries	**(3,902)**	(4,624)	**-**	-
Other investments	**412**	412	**412**	412
	73,861	48,253	**31,898**	412

b) Changes in investments

The changes in investments are as follows:

	Subsidiaries				Affiliated company					
	MHL Calçados Ltda.	Grendene USA, Inc. (a) (b)	Grendene UK Limited. (a) (b)	A3NP Indústria e Comércio de Móveis S.A. (b) (c)	SCP Pensilvânia	SCP Henrique Monteiro	SCP Neto de Araujo	SCP Jesuíno Maciel	Others	Total
Balances at 12/31/2017	13,997	21,637	11,135	-	-	-	-	-	412	47,181
Capital increase in subsidiary	-	23,560	10,751	5,616	-	-	-	-	-	39,927
Equity in the results of subsidiaries	91	(26,996)	(12,043)	(81)	-	-	-	-	-	(39,029)
Exchange differences on subsidiaries abroad	-	4,446	1,263	-	-	-	-	-	-	5,709
Realization for provision for losses in subsidiary	-	-	-	(5,480)	-	-	-	-	-	(5,480)
Disposal of investment	-	-	-	(55)	-	-	-	-	-	(55)
Balances at 12/31/2018	14,088	22,647	11,106	-	-	-	-	-	412	48,253
Investment in affiliated company	**-**	**-**	**-**	**-**	**8,000**	**15,945**	**7,000**	**541**	**-**	**31,486**
Capital increase in subsidiary	**-**	**26,926**	**8,610**	**-**	**-**		**-**	**-**	**-**	**35,536**
Equity in the results of subsidiaries	**(1,072)**	**(27,208)**	**(14,928)**	**-**	**-**		**-**	**-**	**-**	**(43,208)**
Exchange differences on subsidiaries abroad	**-**	**1,111**	**683**	**-**	**-**		**-**	**-**	**-**	**1,794**
Balances at 12/31/2019	**13,016**	**23,476**	**5,471**	**-**	**8,000**	**15,945**	**7,000**	**541**	**412**	**73,861**

10. Investments--Continued

c) Summarized financial information of direct and indirect subsidiaries (consolidated)

	MHL Calçados Ltda.		Grendene USA, Inc. (a) (b)		Grendene UK Limited (a) (b)	
	2019	2018	2019	2018	2019	2018
Current assets	**12,989**	13,977	**24,529**	27,819	**10,160**	12,858
Non-current assets	**211**	647	**85,233**	16,186	**25,582**	7,668
Total assets	**13,200**	14,624	**109,762**	44,005	**35,742**	20,526
Current liabilities	**184**	356	**24,109**	16,860	**8,648**	7,635
Non-current liabilities	**-**	180	**59,052**	920	**20,846**	739
Total liabilities	**184**	536	**83,161**	17,780	**29,494**	8,374
Equity of subsidiaries	**13,016**	14,088	**26,601**	26,225	**6,248**	12,152
Percentage of interest	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	100.00%
Interest in equity (investment)	**13,016**	14,088	**26,601**	26,225	**6,248**	12,152

	MHL Calçados Ltda.		Grendene USA, Inc. (a) (b)		Grendene UK Limited (a) (b)		A3NP Indústria e Comércio de Móveis S.A. (b) (c)
	2019	2018	2019	2018	2019	2018	2018
Revenue	**1,444**	3,296	**36,696**	40,679	**16,505**	16,968	-
Costs and expenses	**(2,516)**	(3,205)	**(64,357)**	(67,405)	**(31,702)**	(28,595)	(81)
Profit (loss) of the subsidiaries for the year	**(1,072)**	91	**(27,661)**	(26,726)	**(15,197)**	(11,627)	(81)
Percentage of interest	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	100.00%	100.00%
Equity in the results of subsidiaries	**(1,072)**	91	**(27,661)**	(26,726)	**(15,197)**	(11,627)	(81)
Unrealized profits	**-**	-	**453**	(270)	**269**	(416)	-
Total equity in results of subsidiaries	**(1,072)**	91	**(27,208)**	(26,996)	**(14,928)**	(12,043)	(81)
Net cash provided by (used in) operating activities	**(685)**	862	**44,040**	(22,974)	**3,235**	(10,261)	-
Net cash provided by (used in) investing activities	**(10)**	(75)	**(70,131)**	(464)	**(18,674)**	(13)	-
Net cash provided by (used in) financing activities	-	-	**26,926**	23,560	**14,470**	10,751	-
Increase (decrease) in cash and cash equivalents	**(695)**	787	**835**	122	**(969)**	477	-

a) Review by other independent auditors.
b) Amount consolidated in the subsidiary Grendene USA Inc, and indirect subsidiary Grendene New York L.L.C.; Amount consolidated in the subsidiary Grendene UK Limited and indirect subsidiary Grendene Italy, S.R.L.; and
Amount consolidated in the subsidiary A3NP Indústria e Comércio de Móveis S.A. and indirect subsidiary Z Plus EUR Company S.R.L..
c) On February 21, 2018 a meeting of the Executive Board approved sale of the subsidiary A3NP Indústria e Comércio de Móveis S.A. On the same date a share purchase agreement was signed, assigning and transferring the total of the Company's equity A3NP Indústria e Comércio de Móveis S.A., for the agreed total price of R$55.

10. Investments--Continued

d) Investment in affiliated company

In the 2019 business year investments were made in affiliated companies, as follows:

Affiliated companies	Principal characteristics	Ostensive partner and administrator	Percentage interest
SCP Pensilvânia	Acquisition of real estate properties, structuring, development, commercial operation and sale of real estate projects.	Valdespino Empreendimentos Imobiliários Ltda.	25.389%
SCP Henrique Monteiro	Development of the project in the real estate property, that is to say, development and approval of projects, promotion and realization of construction and total or partial sale to third parties, of the future buildings comprising autonomous units.	Henrique Monteiro Empreendimentos Imobiliários – SEP S.A.	42.47%
	Acquisition of real estate properties, structuring, development, commercial operation and sale of a real estate project.	Remigio Empreendimentos Imobiliários Ltda.	26.887%
SCP Jesuíno Maciel	Acquisition of real estate properties, structuring, development, commercial operation and sale of a real estate project.	Even-SP 56/11 Empreendimentos Imobiliários Ltda.	26.961%

11. Property, plant and equipment

	Parent Company						
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
Cost of PPE							
Balances at 12/31/2017	339,920	387,733	28,513	36,438	29,183	5,282	827,069
Purchases	407	27,295	2,063	7,247	25,076	332	62,420
Disposals	(358)	(16,319)	(200)	(1,349)	(1,540)	-	(19,766)
Transfers	20,931	8,641	465	(26)	(30,023)	12	-
Balances at 12/31/2018	360,900	407,350	30,841	42,310	22,696	5,626	869,723
Purchases	**2,966**	**13,564**	**1,447**	**3,969**	**22,014**	**-**	**43,960**
Disposals	**(944)**	**(7,000)**	**(270)**	**(1,705)**	**(1,204)**	**(176)**	**(11,299)**
Transfers	**20,337**	**4,255**	**1,110**	**-**	**(25,707)**	**5**	**-**
Balances at 12/31/2019	**383,259**	**418,169**	**33,128**	**44,574**	**17,799**	**5,455**	**902,384**
Accumulated depreciation	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	**-**
Balances at 12/31/2017	(181,238)	(197,106)	(14,269)	(24,289)	-	(3,217)	(420,119)
Depreciation	(17,985)	(29,080)	(2,357)	(4,885)	-	(588)	(54,895)
Disposals	239	12,230	106	1,231	-	-	13,806
Transfers	119	(119)	(4)	4	-	-	-
Balances at 12/31/2018	(198,865)	(214,075)	(16,524)	(27,939)	-	(3,805)	(461,208)
Depreciation	**(18,031)**	**(30,848)**	**(2,510)**	**(4,953)**	**-**	**(568)**	**(56,910)**
Disposals	**600**	**5,193**	**225**	**1,294**	**-**	**63**	**7,375**
Balances at 12/31/2019	**(216,296)**	**(239,730)**	**(18,809)**	**(31,598)**	**-**	**(4,310)**	**(510,743)**
Net book value							
At 12/31/2018	162,035	193,275	14,317	14,371	22,696	1,821	408,515
At 12/31/2019	**166,963**	**178,439**	**14,319**	**12,976**	**17,799**	**1,145**	**391,641**
Assets in use fully depreciated							
At 12/31/2018	67,949	97,125	6,464	16,967	-	1,378	189,883
At 12/31/2019	**77,135**	**107,302**	**7,369**	**19,687**	**-**	**1,860**	**213,353**

11. Property, plant and equipment--Continued

	Consolidated							
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Right of use (*)	Other	Total
Cost of PPE								
Balances at 12/31/2017	357,022	389,998	30,951	39,099	29,183	-	5,482	851,735
Purchases	496	27,366	2,371	7,288	25,076	-	332	62,929
Disposals	(385)	(17,538)	(542)	(1,542)	(1,540)	-	-	(21,547)
Transfers	20,931	8,641	465	(26)	(30,023)	-	12	-
Foreign exchange variation	2,363	-	327	369	-	-	27	3,086
Balances at 12/31/2018	380,427	408,467	33,572	45,188	22,696	-	5,853	896,203
Initial recognition (*)	**-**	**-**	**-**	**-**	**-**	**90,568**	**-**	**90,568**
Purchases	**2,966**	**13,564**	**1,601**	**4,020**	**22,014**		**-**	**44,165**
Disposals	**(944)**	**(7,231)**	**(323)**	**(1,719)**	**(1,204)**	**-**	**(176)**	**(11,597)**
Transfers	**20,337**	**4,255**	**1,110**	**-**	**(25,707)**	**-**	**5**	**-**
Foreign exchange variation	**1,120**	**-**	**113**	**110**	**-**	**-**	**6**	**1,349**
Balances at 12/31/2019	**403,906**	**419,055**	**36,073**	**47,599**	**17,799**	**90,568**	**5,688**	**1,020,688**
Accumulated depreciation	**4%, 10% and 20%**	**10% e 20%**	**10%**	**20%**	**–**	**–**	**5% and 10%**	
Balances at 12/31/2017	(185,348)	(199,200)	(15,941)	(25,645)	-	-	(3,240)	(429,374)
Depreciation	(20,058)	(29,133)	(2,586)	(5,232)	-	-	(624)	(57,633)
Disposals	241	13,427	425	1,424	-	-	-	15,517
Transfers	119	(119)	(4)	4	-	-	-	-
Foreign exchange variation	(562)	-	(235)	(165)	-	-	(5)	(967)
Balances at 12/31/2018	(205,608)	(215,025)	(18,341)	(29,614)	-	-	(3,869)	(472,457)
Depreciation	**(20,226)**	**(30,882)**	**(2,737)**	**(5,314)**	**-**	**(10,595)**	**(606)**	**(70,360)**
Disposals	**600**	**5,399**	**255**	**1,308**	**-**	**-**	**63**	**7,625**
Foreign exchange variation	**(528)**	**-**	**(74)**	**(69)**	**-**	**-**	**(2)**	**(673)**
Balances at 12/31/2019	**(225,762)**	**(240,508)**	**(20,897)**	**(33,689)**	**-**	**(10,595)**	**(4,414)**	**(535,865)**
Net book value								
At 12/31/2018	174,819	193,442	15,231	15,574	22,696	-	1,984	423,746
At 12/31/2019	**178,144**	**178,547**	**15,176**	**13,910**	**17,799**	**79,973**	**1,274**	**484,823**
Assets in use fully depreciated								
At 12/31/2018	68,081	97,868	7,686	18,035	-	-	1,378	193,048
At 12/31/2019	**77,272**	**107,909**	**8,693**	**20,877**	**-**	**-**	**1,860**	**216,611**

(*) This refers to the value of the Right of Use within a leasing contract (IFRS 16 / CPC 06 (R2)), as described in Note 13, Sub-item (b).

Certain property, plant and equipment items are pledged in guarantee of borrowings, as disclosed in Note 13.e.

12. Intangible assets

	Parent Company					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
Balances at 12/31/2017	54,300	20,720	4,374	9,500	5,855	94,749
Purchases	2,067	1,317	-	-	5,911	9,295
Disposals	(14)	-	-	-	(2)	(16)
Transfers	999	-	-	-	(999)	-
Balances at 12/31/2018	57,352	22,037	4,374	9,500	10,765	104,028
Purchases	**1,025**	**1,257**	**-**	**968**	**4,967**	**8,217**
Disposals	**(3)**	**(456)**	**(2,077)**	**-**	**-**	**(2,536)**
Transfers	**5,628**	**-**	**-**	**-**	**(5,628)**	**-**
Balances at 12/31/2019	**64,002**	**22,838**	**2,297**	**10,468**	**10,104**	**109,709**
Accumulated amortization	**20%**	**10%**	**20%**	**20%**	–	
Balances at 12/31/2017	(44,708)	(13,204)	(4,374)	(5,423)	-	(67,709)
Amortization	(5,290)	(1,357)	-	(1,419)	-	(8,066)
Balances at 12/31/2018	(49,998)	(14,561)	(4,374)	(6,842)	-	(75,775)
Amortization	**(4,162)**	**(1,377)**	**-**	**(1,235)**	**-**	**(6,774)**
Disposals	**2**	**456**	**2,077**	**-**	**-**	**2,535**
Balances at 12/31/2019	**(54,158)**	**(15,482)**	**(2,297)**	**(8,077)**	**-**	**(80,014)**
Net book value						
At 12/31/2018	7,354	7,476	-	2,658	10,765	28,253
At 12/31/2019	**9,844**	**7,356**	**-**	**2,391**	**10,104**	**29,695**

	Consolidated					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
Balances at 12/31/2017	55,054	22,889	4,374	9,500	5,855	97,672
Purchases	2,109	1,317	-	-	5,911	9,337
Disposals	(38)	-	-	-	(2)	(40)
Transfers	999	-	-	-	(999)	-
Foreign exchange variation	131	368	-	-	-	499
Balances at 12/31/2018	58,255	24,574	4,374	9,500	10,765	107,468
Purchases	**1,074**	**1,257**	**-**	**968**	**4,967**	**8,266**
Disposals	**(55)**	**(456)**	**(2,077)**	**-**	**-**	**(2,588)**
Transfers	**5,628**	**-**	**-**	**-**	**(5,628)**	**-**
Foreign exchange variation	**41**	**101**	**-**	**-**	**-**	**142**
Balances at 12/31/2019	**64,943**	**25,476**	**2,297**	**10,468**	**10,104**	**113,288**
Accumulated amortization	**20%**	**10%**	**20%**	**20%**	–	
Balances at 12/31/2017	(45,373)	(13,221)	(4,374)	(5,423)	-	(68,391)
Amortization	(5,351)	(1,358)	-	(1,419)	-	(8,128)
Disposals	24	-	-	-	-	24
Foreign exchange variation	(110)	-	-	-	-	(110)
Balances at 12/31/2018	(50,810)	(14,579)	(4,374)	(6,842)	-	(76,605)
Amortization	**(4,250)**	**(1,377)**	**-**	**(1,235)**	**-**	**(6,862)**
Disposals	**21**	**456**	**2,077**	**-**	**-**	**2,554**
Foreign exchange variation	**(36)**	**-**	**-**	**-**	**-**	**(36)**
Balances at 12/31/2019	**(55,075)**	**(15,500)**	**(2,297)**	**(8,077)**	**-**	**(80,949)**
Net book value						
At 12/31/2018	7,445	9,995	-	2,658	10,765	30,863
At 12/31/2019	**9,868**	**9,976**	**-**	**2,391**	**10,104**	**32,339**

At December 31, 2019 and 2018, the Company does not have internally generated intangible assets.

13. Borrowings

a) Loans and financing

Obligations under loans and financings are as follows:

	Parent company / Consolidated							
			2019			2018		
	Index	Interest rate (p.y.)	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
In local currency								
Property, plant and equipment	Fixed	4.12% and 4.31%	**10,352**	**10,341**	**20,693**	10,727	20,681	31,408
Provin and Proapi	Long-term Interest Rate (TJLP)	-	**56**	**7,741**	**7,797**	-	5,933	5,933
			10,408	**18,082**	**28,490**	10,727	26,614	37,341
In foreign currency								
Working capital - ACE	US Dollar +	2.44% and 3.36%	**66,702**	**-**	**66,702**	115,586	-	115,586
			66,702	**-**	**66,702**	115,586	-	115,586
			77,110	**18,082**	**95,192**	126,313	26,614	152,927

a.1) Fixed assets

These obligations refer to the financing contracted by the Company with Banco do Nordeste do Brasil S.A., through the FNE (*Fundo Constitucional de Financiamento do Nordeste*), for construction of a distribution center at the principal industrial plant; and financing for acquisition of industrial machines and equipment.

a.2) Provin and Proapi

The financings classified here relate to non-incentive-bearing portions of the government subsidies (Note 16) granted through the Industrial Development Fund (FDI) of the state of Ceará, through the financing agents established by that Fund as intermediary, arising from ICMS tax owed (Provin) and products exported (Proapi) which must be settled within 36 or 60 months after the granting.

The benefit of the reduction in the amounts owed is recognized at the moment of obtaining the financings, as the most appropriate reflection of the accrual method of accounting, since the costs of the taxes referring to the incentive-bearing transactions are registered simultaneously with the benefits.

a.3) Working capital – ACEs

The Company has contracted funding for financing of its exports in the modality, known as Advances on Delivered Shipping Documents, or ACEs.

13. Borrowings--Continued

a) Loans and financing--Continued

a.4) Payment schedule

Maturities of the long-term portions are as follows:

Maturities	2021	2022	2023	2024	Total
Property, plant and equipment	10,341	-	-	-	**10,341**
Proapi	-	4,336	-	-	**4,336**
Provin	494	577	1,270	1,064	**3,405**
Total	**10,835**	**4,913**	**1,270**	**1,064**	**18,082**

a.5) Guarantees

The amounts financed are covered by fiduciary liens on the goods acquired, and by a surety guarantee given by the majority stockholders of the Company.

b) Leasing contracts

The Company has made an analysis of its contracts and has initially identified leasing contracts of subsidiary companies outside Brazil eligible for application of FRS 16, which were judged to be immaterial in scale by Management. In the fourth quarter, there was an amendment to one of these contracts, which modified the terms of the leasing, extending the minimum leasing period, which was judged to be of material effect. Thus, the Company has now begun to record eligible leasing contracts in accordance with the requirements of IFRS 16.

The Company and its subsidiaries have assessed the impacts of the initial adoption of IFRS 16 / CPC 06 (R2) – Leases, and have applied the simplified transition approach ('the modified retrospective approach') and have not presented comparative values for the year prior to the adoption.

The Group assesses, on the start date of the contract, whether that contract is or contains leasing, that is to say, whether the contract transmits the right to control the use of an identified asset for a given period.

The Group applies a single approach of recognition and measurement to all leasing arrangements, except contracts for leasing whose periods end in 12 months, and leasing arrangements in which the assets are of low value.

13. Borrowings--Continued

b) Leasing contracts--Continued

The Group has rental contracts for stores and distribution centers, signed with third parties, which are being classified as commercial leasing, and which provide an option for renewal or rescission. These options are negotiated by Management to obtain flexibility in management of the portfolio of leased assets, and so as to be aligned with the Group's business needs. The Company and its subsidiaries are not allowed to assign or sub-license the assets that are leased.

The discount rates that express the time of realization of the rights of use have been obtained based on the principal inflation indices of the market and an estimated rate for interest on lending, in the event that the Company were to opt to obtain the object of the leasing for similar periods and in similar scenarios. The table below shows the rates practiced, the maturities and the periods of the contract:

Contract	End date	Maturity	Average rates (p.a.)
Real estate rental contract – Grendene USA	11/30/2021	5 years	3.00%
Real estate rental contract – Grendene NY	11/30/2025	10 years	4.00%
Real estate rental contract – Grendene UK	5/12/2023	10 years	6.00%
Real estate rental contract – Grendene Italy	8/31/2025	5 years	6.84%

There is no effect on the Individual financial statements arising from adoption of CPC 06 (R2). The effect of adoption on the Consolidated financial statements is as follows:

	Consolidated
Right of Use	
Initial recognition	90,568
Depreciation	(10,595)
Balance at 12/31/2019	**79,973**
Leasing liability	
Initial recognition	90,568
Interest appropriated	3,306
Payments	(13,901)
Balance at 12/31/2019	**79,973**
Current	15,768
Non-current	64,205

This table shows the future commitments arising from these contracts:

Maturity	2021	2022	2023	2024	2025	Total
Leasing contracts – Long term	15,743	14,695	14,801	9,967	8,999	**64,205**

14. Provisions, contingent liabilities and contingent assets

The Company and its subsidiaries are parties in administrative and court actions of an employment-law, tax, civil and environmental nature, arising from the normal course of business.

The Company periodically revises its list of contingencies, upon assessment by its legal department and external legal advisors and classifies the changes of loss into three categories: *(i)* Probable; *(ii)* Possible; and *(iii)* Remote.

a) Provisions – Probable loss risk

The estimated losses have been provisioned in an amount sufficient to cover any adverse judgments.

The changes in provisions for employment-law, tax and civil risks are as follows:

	Parent company				Consolidated			
	Labor	Tax	Civil	Total	Labor	Tax	Civil	Total
Balances at 12/31/2017	1,096	-	-	1,096	1,285	-	-	1,285
Additions	1,723	2,427	150	4,300	1,921	2,427	150	4,498
Realizations	(1,646)	-	-	(1,646)	(1,654)	-	-	(1,654)
Reversals	(56)	(28)	-	(84)	(58)	(28)	-	(86)
Balances at 12/31/2018	1,117	2,399	150	3,666	1,494	2,399	150	4,043
Additions	**1,987**	**345**	**36**	**2,368**	**1,992**	**345**	**36**	**2,373**
Realizations	**(1,373)**	**(1,094)**	**(150)**	**(2,617)**	**(1,567)**	**(1,094)**	**(150)**	**(2,811)**
Reversals	**(264)**	**-**	**-**	**(264)**	**(444)**	**-**	**-**	**(444)**
Balances at 12/31/2019	**1,467**	**1,650**	**36**	**3,153**	**1,475**	**1,650**	**36**	**3,161**
Current liabilities	**1,086**	**1,650**	**36**	**2,772**	**1,094**	**1,650**	**36**	**2,780**
Non-current liabilities	**381**	**-**	**-**	**381**	**381**	**-**	**-**	**381**

Employment-law cases: The majority of these are claims from former employees for alleged non-compliance with employment-law rules, relating to: severance pay, additional payment for unhealthy conditions, and amounts alleged to be due for subsidiary liability.

Tax issues: These refer to PIS and COFINS taxes on imports, on services received from outside Brazil (R$1,176); and alleged omissions in offsetting of corporate income tax carryforwards, with debit of Social Contribution tax (R$474).

Civil cases: This refers to indemnity in a legal action relating to intellectual property.

b) Contingent liabilities – Possible loss risk

The Company has labor, tax, civil and environmental contingencies involving risks classified by management as possible losses, based on the evaluation of the legal advisors, for which no provision was recognized. The analysis and the estimates are as follows:

14. Provisions, contingent liabilities and contingent assets--Continued

b) Contingent liabilities – Possible loss risk--Continued

	Parent company		Consolidated	
	2019	2018	2019	2018
Labor	**2,032**	3,204	**2,212**	3,311
Tax	**8,577**	522	**8,577**	522
Civil	**29,154**	32,542	**29,154**	32,542
Environmental	**500**	500	**500**	500
	40,263	36,768	**40,443**	36,875

Employment-law cases: Most of these are complaints by former employees of the Company and its subsidiaries, for alleged non-compliance with employment-law rules indemnity amounts and additional payments for alleged unhealthy conditions.

Tax issues: These refer to tax notices to post debits for the social security contribution on the collective life insurance policy made available to employees (R$571), adjustment in relation to (i) offsetting of a presumed credit of IPI tax, found to exist as reimbursement in relation to COFINS (Social Security Financing Contribution) tax and PIS tax (R$6,801), and (ii) offsetting of COFINS tax (R$ 1,205).

Civil cases: The actions for indemnity by former commercial representatives (R$18,300); an action for indemnity by a former client alleging the existence of a distribution contract (R$6,000); actions to annul a tax claim for supposed non-compliance with consumer rules (R$3,372) and various other actions for indemnity (R$1,482).

Environmental: These are for amounts arising under inspection notices for supposed non-compliance with conditions of environmental licenses.

c) Contingent assets

The Group is in discussion, in the courts and in the administrative system, on reimbursement of federal taxes. The possibility of success in these matters has been assessed by our legal advisors as ‘probable’, as follows:

Nature	Description	Estimate
Tax matters	Inclusion of ICMS tax in the amount on which liability for PIS and COFINS taxes is calculated. (*)	R$ 444,406
Tax matters	Inclusion of ICMS tax within the basis of calculation of the Social Security contribution on Gross Revenue.	R$ 7,500

(*) The estimate is for the updated value sought by the company, less the amount recognized on December 31, 2019, as described below.

On February 13, 2019 all appeals expired on the judgment given by the Regional Federal Appeal Court of the 5th Region, which had awarded the Company an order of *mandamus* determining that amount paid or payable in ICMS (value-added) tax could not be included in the amount on which the applicable PIS and COFINS taxes are calculated.

14. Provisions, contingent liabilities and contingent assets--Continued

c) Contingent assets--Continued

The judgment, however, has one generic and not easily quantifiable element, as a result of which the precise amount to be recovered has not yet been set. In the procedural steps necessary for future compensation of amounts of tax paid in excess, the Company realized the protocol of its administrative procedure for prior qualification with the federal tax authority, requesting an updated amount, at December 31, 2019, of R$496,035, in accordance with the best interpretation by management and its legal advisers, and this request was granted on September 19, 2019.

As a result of this permission, and in the light of the decisions given by the judiciary, on the status of Special Appeal 574.706, the motions presented by the federal tax authority, and Internal Consultation Solution (COSIT) 13/2018, the Company recognized in the group's accounting, under Other operational revenues, the amount of R$51,629 as a gain originating from this process which, in the opinion of the management and its legal advisers, is practically certain to be realized, because it is in accordance with the most rigorous and restrictive reading possible of the legal situation of this matter on December 31, 2019. The rest of the claim (in the amount of R$444,406) remains classified as probable, but not practically certain, as per the amounts indicated in the above table. We note that, in our best judgment, substantial doubts persist on the exact amount of the gain to be receivable by the Company. On this matter, there was expectation that the Federal Supreme Court would clarify the points in doubt, including the Application for Modulation, in the plenary session of **December 5**, 2019, when hearing the Motion for Declaration brought by the National Tax Authority against the joint judgment in Special Appeal 574.706. However, as is now well known to the public, the judgment was transferred to the plenary session of **April 1, 2020**. Consequently, on **December 31, 2019**, the rest of the claim continues to have the status of 'probable but not in practice certain', since it is strongly susceptible to the future decision by the Plenary Session of the Supreme Court.

For a fuller understanding of the amount recorded by the company, we transcribe here an excerpt from the decision given on the application for qualification:

> "Since the requirements in §1 of Article 100 and in Items I to V of Article 101 of Federal Revenue Service Instruction 1717, of 2017, have been met, as per information on pages 43 to 45 (cf. Sub-item VII of Article 2 of FRS Order 1098/2013, taken with §1, Article 50 of Law 9784/1999), I hereby grant this present Application for Qualification of Credit arising from the court decision now subject to no further appeal.
> Note that the acceptance of the request for qualification of the credit **does not result in recognition of the rights to the credit, nor ratification of the amount of compensation** (our emphasis), as stated in the sole sub-paragraph of Article 101 of that same provision of Law".

15. Equity

a) Capital

On December 31, 2019 and 2018 the share capital, fully paid-up, comprised 902,160,000 nominal book-entry common shares without par value. The shares are all of the same class as regards their holders' rights, and all have equal right to vote, subject to the conditions of law.

This table shows the Company's ownership structure:

	Ownership structure			
	2019		2018	
	Common Shares	%	Common Shares (*)	%
Alexandre Grendene Bartelle	**371,651,807**	**41.20%**	371,691,807	41.20%
Pedro Grendene Bartelle	**125,312,376**	**13.89%**	125,312,376	13.89%
Giovana Bartelle Veloso	**37,132,797**	**4.12%**	37,132,797	4.12%
Pedro Bartelle	**35,760,597**	**3.96%**	36,465,597	4.04%
André de Camargo Bartelle	**29,201,277**	**3.24%**	29,201,277	3.24%
Gabriella de Camargo Bartelle	**28,912,677**	**3.20%**	28,912,677	3.20%
3G Radar Gestora de Recursos Ltda	**45,851,300**	**5.08%**	19,792,600	2.19%
Executive Board and Boar of Directors' Members	**2,259,156**	**0.25%**	2,476,002	0.27%
Treasury shares	**370,000**	**0.04%**	1,905,000	0.21%
Outstanding shares	**225,708,013**	**25.02%**	249,269,867	27.64%
	902,160,000	**100.00%**	902,160,000	100.00%

b) Capital reserve

This corresponds to the amount of stock options granted by the Company to its managers as described in Note 21.

c) Treasury shares

The Company has acquired its own shares, for compliance with the stock options plan (Note 21) as decided at the 78st meeting of the Board of Directors on April 25, 2019, without reduction of the share capital.

The following shows the changes in treasury shares, taking into account the effects of the split:

	Parent company	
	Common shares	R$
Balances at 12/31/2017	(22,629)	(134)
Acquisition of shares	(3,937,029)	(35,148)
Share options exercised	2,054,658	19,717
Balances at 12/31/2018	(1,905,000)	(15,565)
Acquisition of shares	**(370,000)**	**(3,928)**
Share options exercised	**1,905,000**	**15,565**
Balances at 12/31/2019	**(370,000)**	**(3,928)**

15. Equity--Continued

c) Treasury shares--Continued

	Stock price		
	Minimum	Maximum	Medium cost
At 12/31/2018	7.92	10.00	8.93
At 12/31/2019	**7.28**	**12.50**	**10.62**

d) Income reserves

d.1) Legal reserve

Constituted on December 31, 2019 in the amount of R$179,863 (R$165,353 at December 31, 2018), based on 5% of the net profit for the period, less the amount of the tax incentives, limited to 20% of the paid-up share capital.

d.2) Reserve for acquisition of shares

This is the balance of R$29,768 on December 31, 2019 (R$31,915 at December 31, 2018), used for repurchase or acquisition of shares in the Company, in compliance with the share-based remuneration offered to participants in the Company's stock options plan.

The reserve is limited to a total value equal to 20% of the share capital; it may be made up of up to 100% of the net profit remaining after the deductions required by law and by the by-laws.

d.3) Tax incentives

This is the portion of profit arising from government subsidies for investments as described in Note 16. These amounts have been excluded from the basis for calculation of dividends.

The changes are as follows:

	Parent company / Consolidated		
	ICMS and Exports	Income tax	Total tax incentives
Balances at 12/31/2017	1,076,879	586,804	1,663,683
Incentives generated by the operation	158,411	78,744	237,155
Balances at 12/31/2018	1,235,290	665,548	1,900,838
Incentives generated by the operation	**141,953**	**62,791**	**204,744**
Balances at 12/31/2019	**1,377,243**	**728,339**	**2,105,582**

15. Equity--Continued

e) Other comprehensive income

This corresponds to the accumulated effect of FX conversion from the functional currency to the original currency of the financial statements of the subsidiaries outside Brazil, calculated on the stockholding investments held outside Brazil, valued by the equity method. This accumulated effect will be reverted to the profit for the business year as a gain or loss, when the investment is sold or written off.

f) Dividends and interest on equity

In accordance with the Company's bylaws, the minimum mandatory dividend is calculated as 25% of the profit for the period, after deduction of the transfers to reserves required by law.

Based on the profits for the years ended December 31, 2019 and 2018 and on the Company's capacity of generating operating cash, management submitted for approval at the General Meeting of Stockholders the distribution of dividends above the minimum mandatory, as follows:

	Parent company	
	2019	2018
Profit for the year	**494,954**	585,530
Legal reserve	**(14,510)**	(17,419)
Tax incentive reserve	**(204,744)**	(237,155)
Minimum mandatory dividends calculation basis	**275,700**	330,956
Reserve for acquisition of shares	**-**	(15,880)
Dividends calculation basis	**275,700**	315,076
Minimum mandatory dividend – 25%	**68,925**	82,739
Dividend proposed in addition to the minimum mandatory amount	**206,775**	232,337
Total of dividends proposed by management	**275,700**	315,076
Proposed allocation:		
Prepaid corporate action payments:		
Interim dividends	**145,959**	171,642
Corporate action payments proposed:		
Additional dividend proposed	**19,741**	13,434
Interest on equity imputed as part of dividends (R$93,500, net of tax withheld at source)	**110,000**	130,000
	275,700	315,076

The 77rd Meeting of the Board of Directors, held at February 14, 2019, approved payment of an additional dividend proposed at December 31, 2018 by the management in the amount of R$13,434, and Interest on Equity in the amount of R$130,000 (R$110,500, net of income tax withheld at source), which were paid in May 08, 2019.

15. Equity--Continued

f) Dividends and interest on equity--Continued

The table below shows the timetable for corporate action payments approved and proposed by the Board of Directors for the year ended December 31, 2019:

	Parent company			
	2019			
Description of proceeds	**Date approved**	**Date of payment**	**Per share**	**R$**
Interim dividends, yet paid				
Dividends	4/25/19	5/22/19	0.0408	36,766
Dividends	8/01/19	8/21/19	0.0170	15,381
Dividends	10/24/19	11/19/19	0.1040	93,812
Total interim payments				**145,959**
Proposed, not yet paid:				
Dividends			0.0219	19,741
Interest on Equity			0.1220	110,000
Total amounts relative to the 2019 business year				**275,700**

The dividends and Interest on Equity additional, proposed and not paid, are subject to approval by the Annual General Meeting of Stockholders, and are not recognized as a liability at December 31, 2019.

The Company calculated Interest on Equity using the Long-term Interest Rate (TJLP) in effect during the period. This is counted as part of the total of dividends. The Interest on Equity is posted in Stockholders' equity, and its tax effect in the Profit and loss account.

g) Earnings per share

Reconciliation of net income to the amounts used to calculate basic and diluted earnings per share (all amounts in thousands of Reais, except earnings per share), are as follows:

	Parent company	
	2019	2018
Numerator		
Profit for the year (a)	**494,954**	585,530
Denominator (Thousands of shares)		
Weighted average number of common shares	**902,160,000**	902,160,000
Weighted average number of common treasury shares	**(361,250)**	(1,416,931)
Weighted average number of outstanding common shares (b)	**901,798,750**	900,743,069
Potential increase in common shares due to the stock option or subscription plan	**1,423,473**	2,458,869
Weighted average of the number of common shares, considering potential increment (c)	**903,222,223**	903,201,938
Basic earnings per common share (a/b)	**0.5489**	0.6501
Diluted earnings per common share (a/c)	**0.5480**	0.6483

16. Government grants for investments

The government subsidies received by the Company and its subsidiary MHL Calçados Ltda. have the nature of a subsidy for investment, and are as follows: *(i)* tax incentives applying to ICMS tax, relating to its operational activities located in the states of Ceará and Bahia; and *(ii)* reduction, of 75%, in the ICMS tax payable on profits of enterprises established in the state of Ceará calculated on the operational profit.

Government subsidies are recognized when there is reasonable certainty that the conditions established in the agreements governing them have been complied with.

a) State tax incentives

Provin – Program of Incentive to the Industrial Development Fund of Ceará (FDI), which consists of the deferral equivalent to 75% for the unit of Sobral and 81% for the unit of Crato and Fortaleza of the effectively paid ICMS, levied on the Company's production. Of the amount of each portion of the benefit, the equivalent to 1% will be paid at once, on the last day of the maturity month, after 60 months and will be dully restated, from the date of the disbursement up to the maturity date, by applying the Long-Term Interest Rate (TJLP).

Units benefited by the incentive	Percentage reduction	Expiration date
Sobral – CE	75%	Mar/2019 to Apr/2025
Crato – CE	81%	Up to Sep/2022
	75%	Oct/2022 to Apr/2025
Fortaleza – CE	81%	Up to Apr/2025

Proapi – The incentive program for port and industrial activities of the State of Ceará, which was in effect up to March 31, 2017, for the Company's unit at Sobral, in the State of Ceará.

Resolution 131 of the Industrial Development Council (CEDIN) of Ceará State, published on November 14, 2019, enabled the State to pay the balance of the credits of the Proapi incentive amounts receivable in 60 successive, equal monthly installments.

As a result, the balance posted by the Company as amounts receivable – which was R$57,088 – when brought to present value is reduced to R$51,976 at December 31, 2019 (the amount of the adjustment to present value is R$ 5,112).

16. Government grants for investments--Continued

a) State tax incentives--Continued

Procomex – Program of Incentive of Foreign Trade, with the purpose of stimulating exports of products manufactured in the State of Bahia and the financing of the tax on import of products for sale and manufacture promoted by industrial units headquartered in the state, Subsidiary MHL Calçados Ltda. has ICMS tax credit equivalent to 11% of the FOB value of the transactions of exports of footwear and its components. The incentive is valid up to December, 2021.

Probahia – Program for the Development of Bahia, with the purpose of promoting diversification, and stimulating the transformation and industrial processes of the state.

Subsidiary MHL Calçados Ltda. has ICMS tax credit of 90% of the incurring tax on transactions of output and footwear and its components and deferral of the ICMS paid in relation to the differential of rate by the acquisition of property, plant and equipment and in the imports and internal operations with inputs, packages and components, for the moment in which the output of their products occurs. The incentive is valid up to November, 2021.

The balances of the incentive amounts are reported in the Profit and loss account of the Holding company and in the Consolidated accounts, under Net sales revenue, as shown in Note 22. These amounts were allocated to the *Tax incentives reserve* account in Profit reserves. The amounts arising from the incentives given by States may be allocated differently, as specified in Law 12,973 of May 13, 2014.

b) Federal fiscal tax incentive

The Company is beneficiary of the following tax incentive: reduction of 75% in income tax on the profits of undertakings located in the industrial units headquartered in the area of activity of Sudene, as shown in the table below:

Units benefited by the incentive	Project	Percentage reduction	Expiration date
Fortaleza – CE	Modernization	75%	Dec/2020
Sobral – CE	Modernization	75%	Dec/2022
	Modernization	75%	Dec/2023
Crato – CE	Modernization	75%	Dec/2026

The balances of this incentive are posted in the Company's Profit and loss account, under Current income tax, as shown in Note 17. In counterpart, these amounts were posted in the Tax incentives reserve account, in Profit reserves, in Stockholders' equity.

17. Income tax and social contribution tax

a) Current income tax and social contribution tax

Current income tax and social contribution tax amounts recorded in the expense for the year, net of tax incentives, are as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Income tax				
Amount due	**(67,656)**	(78,945)	**(67,656)**	(78,815)
Tax incentives	**62,791**	78,744	**62,791**	78,744
	(4,865)	(201)	**(4,865)**	(71)
Social contribution				
Amount due	**(26,169)**	(30,496)	**(26,169)**	(30,512)
	(31,034)	(30,697)	**(31,034)**	(30,583)

b) Deferred income tax and social contribution tax

Deferred income tax and social contribution tax are comprised as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Estimated losses on doubtful receivables	**2,267**	773	**2,268**	773
Punctuality discounts estimated	**4,800**	4,882	**4,803**	4,886
Adjustment to Present Value (AVP)	**2,202**	1,548	**2,202**	1,548
Estimated losses for obsolete inventory	**2,340**	2,691	**2,340**	2,691
Provision for labor risks, tax and civil	**481**	559	**483**	617
Interest on equity (counted as part of total dividends	**37,400**	44,200	**37,400**	44,200
Other	**386**	577	**(209)**	184
	49,876	55,230	**49,287**	54,899

c) Estimate for realization of deferred income tax and Social Contribution tax

Realization of deferred income tax and Social Contribution tax is supported by technical feasibility studies, which show an estimate of the realization of the differed assets.

17. Income tax and social contribution tax--Continued

c) Estimate for realization of deferred income tax and Social Contribution tax--Continued

Below is the timetable of the estimated periods for realization of the tax credits which exist at December 31, 2019:

	Party company	Consolidated
2020	**46,998**	**46,706**
2021	**883**	**586**
2022	**942**	**942**
2023	**803**	**803**
2024	**250**	**250**
	49,876	**49,287**

d) Reconciliation of tax expense to statutory rates

The amounts of income tax and Social Contribution tax, calculated at nominal rates, reported in the Profit and loss account, are reconciled as follows:

	Party company		Consolidated	
	2019	2018	2019	2018
Pretax income	**531,342**	615,866	**531,600**	615,841
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	**(180,656)**	(209,395)	**(180,744)**	(209,386)
Adjustments to show effective rate				
Equity in the results of subsidiaries	**(14,936)**	(13,037)	**-**	-
Non-deductible costs and expenses	**(2,283)**	(2,368)	**(2,349)**	(2,378)
Adjustments to present value – AVP	**(804)**	496	**(804)**	496
Stock options plan	**(1,464)**	(2,231)	**(1,464)**	(2,231)
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	**170**	1,552	**170**	1,552
State tax incentives	**48,264**	53,860	**48,271**	53,885
Technological innovation incentive	**11,069**	11,152	**11,069**	11,152
Corporate tax incentive deductions – Income tax	**5,011**	5,743	**5,011**	5,744
Interest on equity counted as part of total dividends	**37,400**	44,200	**37,400**	44,200
Other additions and exclusions	**(950)**	948	**(15,997)**	(12,089)
Amount before deduction of corporate tax incentives	**(99,179)**	(109,080)	**(99,437)**	(109,055)
Tax incentive reductions of corporate income tax (calculated on operational profit)	**62,791**	78,744	**62,791**	78,744
Total taxes posted in profit and loss account	**(36,388)**	(30,336)	**(36,646)**	(30,311)
Current taxes	**(31,034)**	(30,697)	**(31,034)**	(30,583)
Deferred taxes	**(5,354)**	361	**(5,612)**	272
Effective rate	**6.8%**	4.9%	**6.9%**	4.9%

18. Financial instruments

The Company has transactions with financial instruments, the risks of which are managed through financial position strategies and exposure limit systems. All transactions are fully recognized in the accounting records.

18. Financial instruments--Continued

The table below gives the classification of the principal financial assets and liabilities of the Company and its subsidiary.

	Party company		Consolidated	
	2019	2018	2019	2018
Financial assets at amortized cost				
Cash and cash equivalents	**5,984**	3,081	**18,072**	16,562
Financial investments (*)	**2,078,899**	1,954,418	**2,078,899**	1,954,418
Trade receivables	**912,136**	955,428	**908,297**	944,214
Financial instruments measured at fair value through profit of loss				
Financial investments (*)	**-**	5,978	**-**	5,978
Derivatives	**1,371**	843	**1,371**	843
Financial liabilities at amortized cost				
Borrowings	**95,192**	152,927	**95,192**	152,927
Leasing contracts	**-**	-	**79,973**	-
Trade payables	**27,105**	41,006	**27,845**	42,095
Commissions payable	**45,080**	46,084	**45,191**	45,897

(*) The company measures its financial instruments at amortized cost and at fair value through profit of loss, in accordance with Level 1 of the hierarchy, that is to say they are valued at the quoted prices (without adjustments), in active markets, for identical assets or liabilities.

a) Foreign exchange rate hedging transactions

The strategy when contracting these transactions is to hedge the sales revenue and financial assets of the Company and its subsidiaries that are subject to foreign exchange exposure. These instruments are used for the specific purpose of hedging, and the portfolio includes sale of U.S. dollar futures through financial instruments used for this purpose such as: sales on the São Paulo Futures, Commodities and Securities Exchange – BM&F and advances on future exports (ACE).

In transactions involving BM&F sales, the impact on the cash flow of the Company and its subsidiaries is assessed through the calculation of daily adjustments to the U.S. dollar exchange rate until the settlement of the contracts.

To reduce the net effects of exposure of its business the managers may negotiate future contracts for sale of USD on the BM&F up to the maximum limit defined by the sum of the following items: *(i)* bank balances in foreign currency held outside Brazil; *(ii)* financial investments held outside Brazil; *(iii)* balances of accounts receivable (denominated in USD) of exchange transactions to be contracted; *(iv)* up to 25% of the forecasts of annual exports equivalent to approximately 90 days of forecast exports (normally corresponding to orders in the order book and negotiations for sales in progress), less: *(a)* balances of suppliers held in foreign currency; *(b)* imports in progress; and *(c)* ACCs (Advances against exchange contract).

18. Financial instruments--Continued

a) Foreign exchange rate hedging transactions--Continued

These risks are monitored daily and administered through internal controls aimed to demonstrate the limits of exposure and adapt them to the Company's risk management policy.

Other forms of foreign exchange hedges without the express authorization of the Company's officers are not permitted, Up to date, the Company has not authorized the use of foreign exchange hedges other than those disclosed in the previous paragraph.

Foreign exchange hedging transactions are usually made with the BM&F through specialized brokers, without the need to deposit margin. The guarantee amounted to R$56,908 at December 31, 2019 (R$54,835 at December 31, 2018) and usually comprises the Company's investments in government securities, considering the limits and exposures to foreign exchange risk, as defined in the policy for management of counterparty risk.

The table below shows the positions at December 31, 2019 and 2018, with the notional and fair value.

	Notional value – US$		Notional value – R$		Amount receivable (payable)	
	2019	2018	2019	2018	2019	2018
Futures contracts						
Sell commitment	**50,000**	53,500	**201,122**	207,504	**1,371**	843

It should be noted that these transactions are linked to sales and financial assets in foreign currency, which are also subject to foreign exchange rate changes, offsetting any gains or losses. The balance receivable at December 31, 2019 in the amount of R$1,371 (R$843 in December 31, 2018) is classified in securities receivable.

19. Financial risk management

The activities of the Company and its subsidiaries, and their financial conditions and results of operations, may be adversely affected by financial risk factors.

The Company's risk management is administered based on the internal control policy, which establishes techniques of continuous accompaniment, measuring and monitoring of its exposure, under the management of its directors. The Company does not have transactions with speculative derivative financial instruments or any other type of speculative transactions.

19. Financial risk management--Continued

a) Risk factors that could affect the business

a.1) *Credit risk*

The Group is exposed to credit risk in its operational activities arising from accounts receivable from clients and counterparties in financial investments, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The following are the risk management practices: *(i) Accounts receivable from clients*: Management aims to minimize any problems arising from default by its clients, through analysis of credit in the client portfolio, establishment of sales limits and sales well spread out between multiple clients. No single client represented more than 5% of the total of the Company's accounts receivable on December 31, 2019, nor on December 31, 2018; and *(ii) Financial instruments, cash and cash equivalents, and other financial assets:* The Company's financial resources are allocated in a diversified manner in financial assets that may be securities issued by financial institutions that are considered by the market to be first-tier (the country's 10 largest banks by assets), or public securities or private securities such as, for example, debentures, real estate receivable certificates, farming receivables certificates, real estate financing transactions, credits receivable, or others, that seek remuneration tied to a basket of indicators, such as: the CDI rate, and securities with fixed rates or indexed to inflation indices.

Investment opportunities of greater risk (those made in private securities) are evaluated by the investment committee created for this purpose, which, under the Company's policy, may allocate up to R$300 million for this type of investment.

a.2) *Liquidity risk*

The Company monitors the policy on cash generated by its activities, to avoid mismatch between accounts receivable and accounts payable, thus ensuring liquidity for compliance with its obligations. The principal source of funds used by the company is the volume of proceeds from the sale of its products. One characteristic of the strong cash flow generation is low default. The Company, additionally, holds balances in cash investments that may be redeemed at any moment, and has solid financial and equity conditions, for complying with its short and medium term obligations.

19. Financial risk management--Continued

a) Risk factors that could affect the business--Continued

a.2) *Liquidity risk*--Continued

This table shows the requirements for contractual payments arising from the Company's financial liabilities:

	Parent company / Consolidated					
	2019			2018		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**10,352**	**10,341**	**20,693**	10,727	20,681	31,408
Working capital and ACE	**66,702**	**-**	**66,702**	115,586	-	115,586
Financing – Proapi and Provin	**56**	**7,741**	**7,797**	-	5,933	5,933
	77,110	**18,082**	**95,192**	126,313	26,614	152,927
Projection including future interest						
PP&E financing	**11,008**	**10,570**	**21,578**	11,811	21,566	33,377
Working capital and ACE	**67,389**	**-**	**67,389**	117,368	-	117,368
Financing – Proapi and Provin	**59**	**9,018**	**9,077**	-	7,170	7,170
	78,456	**19,588**	**98,044**	129,179	28,736	157,915

a.3) *Market risks*

These market risks principally involve the possibility of variation in interest rates, foreign exchange rates and prices of commodities.

a. Interest rate risk

This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates that lead to an increase in its finance costs related to borrowings, or a decrease in its earnings on financial investments. The Company continuously monitors the volatility of market interest rates.

The Company's policy is to keep its funds invested in instruments indexed to the CDI rate, at fixed rates or rates adjusted by inflation – since this ensures reduction of the impacts arising from variations in market interest rates.

b. Exchange rate risk

The Company's risk in this case arises from transactions in accounts receivable originating from exports, or from financial or other investments outside Brazil – which form a natural hedge against exchange rate variations. Management values its assets and liabilities that are subject to foreign exchange risk, and if necessary contracts additional derivative financial instruments.

19. Financial risk management--Continued

a) Risk factors that could affect the business--Continued

a.3) *Market risks--Continued*

b. *Exchange rate risk*--Continued

The Company maintains coverage for its exposure to fluctuations in exchange rates for conversion to Reais at maturity of its export contracts. On December 31, 2019, these totaled USD16,551 million (vs. total USD 29,835 million in 2018). There are no financings or loans contracted in or indexed to any foreign currency.

c. *Commodity price risk*

This risk refers to the possibility of fluctuations in the price of raw materials and other inputs used in the production process, As the Company uses commodities as raw materials, its cost of sales can be affected by fluctuations in the international prices of these materials. In order to minimize this risk, the Company maintains ongoing monitoring of price fluctuations in the domestic and foreign markets and, if necessary, maintains strategic inventories to support its commercial activities.

b) Interest rate fluctuation sensitivity analysis

In order to verify the sensitivity of indices of financial investments and loans to which the Company was exposed on December 31, 2019, three different scenarios were defined and a sensitivity analysis of the fluctuation of the indices of these instruments was prepared, Based on the projection of the index of each contract for 2019 (probable scenario), decreases of 25% and 50% for financial investments and increases of 25% and 50% for loans were calculated. The scenarios do not consider the probable cash flow related to loan repayments and investment redemptions.

Earnings from financial investments as well as financial costs related to the Company's borrowings are affected by fluctuations in interest rates, such as TJLP, Amplified Consumer Price Index (IPCA), IGPM and CDI.

19. Financial risk management--Continued

b) Interest rate fluctuation sensitivity analysis--Continued

The table below shows the outstanding positions at December 31, 2019, with the notional values and interest of each contracted instrument:

	Reduction of finance income			Increase in finance costs	
	Reference for finance income		Interest on financial investments	Reference financial liabilities	Cost of Proapi and Provin financings
	CDI rate	*IPCA index*		*TJLP rate*	
Probable scenario – Book value	**4.59%**	**3.27%**	**81,964**	**5.75%**	**446**
Possible scenario – 25%	**3.44%**	**2.46%**	**65,693**	**7.19%**	**557**
Remote scenario – 50%	**2.30%**	**1.64%**	**49,406**	**8.63%**	**669**

c) Sensitivity analysis of contracted derivative financial instruments

c.1) *Foreign exchange rate hedge*

The Company has projected the effect of the transactions designed for Exchange rate protection in three scenarios, considering the transactions would be settled, on the basic of the position becoming due on January 31, 2020, as follows:

	Notional value			
	Short position in US$	FX rate – R$	Amount – R$	Impact – R$
Probable scenario – Book value	**50,000**	**4.0224**	**201,122**	**1,371**
Possible scenario – 25%	**50,000**	**5.0281**	**251,405**	**(50,283)**
Remote scenario – 50%	**50,000**	**6.0337**	**301,685**	**(100,563)**

d) Capital management

Management has the objective of ensuring continuity of the Company's business, protecting its capital from economic changes and conditions, so as to support reduction of costs of capital and maximize return to stockholders. To maintain or adjust the capital structure, the Company may, among other possible actions, make adjustments to its dividend payment policy, or contract loans, or issue securities in the financial markets.

18. Financial risk management--Continued

d) Capital management--Continued

The Company's policy of a low level of leverage is monitored through the financial leverage index, as shown below.

	Parent company		Consolidated	
	2019	2018	2019	2018
Current and non-current borrowings	**95,192**	152,927	**95,192**	152,927
(-) Cash and cash equivalents	**(5,984)**	(3,081)	**(18,072)**	(16,562)
Net debt	**89,208**	149,846	**77,120**	136,365
Equity	**3,682,436**	3,465,042	**3,862,436**	3,465,042
Gearing ratio	**2.4%**	4.3%	**2.0%**	3.9%

On December 31, 2019 the leverage index reduce compared at December 31, 2018, mainly due to the lower borrowings related to exports.

20. Related parties

Transactions with related parties arise from transactions between the Company and its (direct and indirect) subsidiaries, affiliated company and other companies controlled by stockholders of the Company, key professionals of the administration and other related parties.

20. Related parties--Continued

a) Amounts of balances and transactions with subsidiaries (direct and indirect), affiliated company and other companies controlled by a stockholder or the Company

			Parent company / Consolidated					
			2019			2018		
	Nature of transaction	Maturity	Assets	Liabilities	P&L	Assets	Liabilities	P&L
Direct subsidiaries								
MHL Calçados Ltda.	Accounts receivable from clients	–	**50**	-	-	1	-	-
	Suppliers	–	-	-	-	-	44	-
	Sale of input materials	29 days	-	-	**321**	-	-	795
	Sales of PP&E	29 days	-	-	**11**	-	-	-
	Purchase of inputs	36 days	-	-	**(58)**	-	-	(726)
Grendene USA, Inc.	Accounts receivable from clients	–	**7,326**	-	-	11,483	-	-
	Commissions payable	–	-	**231**	-	-	687	-
	Sales of footwear	187 days	-	-	**11,945**	-	-	15,791
	Fees for services	8 days	-	-	**(566)**	-	-	(1,338)
	Financial revenues	–	-	-	**1,955**	-	-	3,679
	Financial expenses	–	-	-	**(1,666)**	-	-	(1,433)
Grendene UK Limited.	Accounts receivable from clients	–	**483**	-	-	1,488	-	-
	Advance against future capital increase in subsidiary	–	**5,860**	-	-	-	-	-
	Sales of footwear	212 days	-	-	**832**	-	-	1,740
	Financial revenues	–	-	-	**1,427**	-	-	1,687
	Financial expenses	–	-	-	**(1,327)**	-	-	(1,587)
Indirect subsidiary								
Grendene Italy SRL.	Accounts receivable from clients	–	**1,318**	-	-	3,609	-	-
	Suppliers	–	-	-	-	-	248	-
	Sales of footwear	266 days	-	-	**1,605**	-	-	3,947
	Advisory services	8 days	-	-	**(2,988)**	-	-	(2,971)
	Financial revenues	–	-	-	**656**	-	-	863
	Financial expenses	–	-	-	**(40)**	-	-	(364)
Affiliated company								
SCP Pensilvânia	Investment in real estate project	–	**8,000**	-	-	-	-	-
SCP Neto de Araujo	Investment in real estate project	–	**7,000**	-	-	-	-	-
SCP Jesuíno Maciel	Investment in real estate project	–	**541**	-	-	-	-	-
Companies controlled by stockholders of Grendene S.A.								
Vulcabrás|azaléia – CE, Calçados e Artigos Esportivos S.A.	Sales of input materials and molds	40 days	-	-	**2**	-	-	4
	Sales of PP&E	21 days	-	-	-	-	-	500
	Rentals of machinery	40 days	-	-	-	-	-	16
	Purchase of inputs	30 days	-	-	**(9)**	-	-	-
Vulcabrás|azaléia – BA, Calçados e Artigos Esportivos S.A.	Accounts receivable from clients	–	-	-	-	85	-	-
	Sale of molds	43 days	-	-	**423**	-	-	127

b) Remuneration of key personnel

This table gives the total remuneration of the key personnel of management:

	Parent company			
	2019		2018	
	Fees	Variable (*)	Fees	Variable (*)
Board of Directors	**1,188**	**-**	1,146	-
Audit Board	**446**	**-**	437	-
Executive Board	**4,201**	**1,432**	4,264	2,139
	5,835	**1,432**	5,847	2,139

(*) Refers to expenses on the stock options plan, as described in Note 21, in the period.

20. Related parties--Continued

c) Other related parties

The Company uses travel agency and consultancy services provided by companies that are the property of a related party, as follows:

	Parent company	
	2019	2018
Dall'Onder Viagens & Turismo Ltda.	**247**	293
Mailson da Nóbrega Consultoria S/C Ltda.	**72**	72
Ochman, Real Amadeo Advogados Associados	**187**	138
	506	503

The transactions with related parties are carried out on a commutative basis and in accordance with the criteria for evaluation and selection of suppliers. The amounts spent on these services total approximately 0.03% of the Company's general expenses. There were no outstanding balances at December 31, 2019.

In the exercise 2019, there were transactions with related parties, as follows:

Company	Date of the transaction	Transaction.	Related parties
Casa de Pedra Securitizadora de Créditos S.A.	8/19/2019	Service provider ('Servicer') for the non-convertible debenture transaction (Alphaville Urbanismo S.A.)	The stockholder Alexandre Grendene Bartelle
SCP Pensilvânia	9/23/2019	Surety guarantor of the transaction: Even Construtora e Incorporadora S.A., which is an investee of Valdespimo Empreendimentos Imobiliários Ltda.	Nova Milano Investimentos (Melpar), with equity interest of 46.88%, a fund in which Alexandre Grendene Bartelle holds a percentage interest of 31.63%.
SCP Neto de Araujo	11/19/2019	Surety guarantor of the transaction: Even Construtora e Incorporadora S.A., which is an investee of Remigio Empreendimentos Imobiliários Ltda.	Nova Milano Investimentos (Melpar), with equity interest of 46.88%, a fund in which Alexandre Grendene Bartelle holds a percentage interest of 31.63%. Stockholder Andre Carvalho Bartelle, investor in the SCP (silent partnership), with 5.761%
SCP Jesuíno Maciel	12/18/2019	Surety guarantor of the transaction: Even Construtora e Incorporadora S.A., which is an investee of Even-SP 56/11 Empreendimentos Imobiliários Ltda.	Nova Milano Investimentos (Melpar), with equity interest of 46.88%, a fund in which Alexandre Grendene Bartelle holds am interest of 31.63%.

There are no other transactions between the Company and its related parties, other than dividends and Interest on Equity paid.

21. Stock option or subscription plan

The stock options or subscription plan, approved the stockholders or the Company in a Extraordinary General Meeting of April 14, 2008, grants stock options, on the terms described in the plan, to directors and managers, other than the controlling stockholders.

The share options may be exercised in up to six years from the date of grant, with a vesting period of three years, under which 33% is released as from expiry of the first year, 66% on completion of the second year and 100% on completion of the third year.

For compliance with exercises of stock options, a total of 370,000 shares were acquired in 2019, at an average cost of R$10.62, totalling an amount of R$3,928. In first quarter 2019, options for a total of 1,905,000 shares were exercised, at an average price of R$3.50, totaling R$6,660.

The difference between the average exercise price of the options and the average cost of the shares acquired for compliance with the exercise of stock options resulted in recognition of R$2,147. This was posted in Stockholders' equity, since settlement of the stock option plans takes place with equity instruments.

a) Bases for recognition of expenses on share-based remuneration

Shares are valued at fair value on the date of the grant, and expenses recognized in the Profit and loss account as Personnel expenses, over the period in which the right to the exercise of the option is acquired, with counterpart in Stockholders' equity.

The fair value of the options granted was estimated using the Black & Scholes options pricing model. The economic parameters used were: *(i)* expected dividends, obtained on the basis of the average of dividend payments per share, in relation to the market value of the shares in the last 12 months; *(ii)* volatility, based on the historic average variation of the share price in the 18 months prior to the date of the grant; and *(iii)* the risk-free interest rate, assumed to be the projected average of the Selic rate, published by the Central Bank. This table gives this information in detail:

	8th Plan	9th Plan	10th Plan	11th Plan	12th Plan
Grant date	2/12/2015	2/25/2016	2/16/2017	2/22/2018	2/14/2019
Total purchase options granted	1,939,662	2,675,538	2,181,456	1,524,825	695,892
Exercise price	2.81	2.96	3.27	5.16	4.68
Estimated volatility	26.51%	29.89%	20.16%	15.58%	17.11%
Expected dividends	5%	6%	6%	4%	4%
Weighted average risk-free interest rate	12.75%	14.25%	9.50%	6.75%	6.50%
Maximum maturity	6 years	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	2.02	2.58	3.16	4.43	4.12

The Company has no commitment to re-purchase such shares as are acquired by the beneficiaries.

21. Stock option or subscription plan--Continued

b) Movement stock options plan

This table shows the changes arising from the transactions of purchase or subscription of shares:

	8th Plan	9th Plan	10th Plan	11th Plan	12th Plan	Final Balance
Total at 12/31/2017	575,985	1,671,750	2,091,384	-	-	4,339,119
Granted	-	-	-	1,524,825	-	1,524,825
Exercised	(562,107)	(812,784)	(679,767)	-	-	(2,054,658)
Canceled	(13,878)	(59,016)	(74,241)	(23,688)	-	(170,823)
Total at 12/31/2018	-	799,950	1,337,376	1,501,137	-	3,638,463
Granted	**-**	-	**-**	**-**	**695,892**	**695,892**
Exercised	**-**	**(799,950)**	**(653,667)**	**(451,383)**	**-**	**(1,905,000)**
Canceled	**-**	**-**	**(72,582)**	**(104,568)**	**(67,707)**	**(244,857)**
Total at 12/31/2019	**-**	**-**	**611,127**	**945,186**	**628,185**	**2,184,498**
Options exercisable in 2019	**-**	**-**	**15,021**	**48,996**	**-**	**64,017**
Options exercisable in 2020	**-**	**-**	**596,106**	**448,095**	**209,395**	**1,253,596**
Options exercisable in 2021	**-**	**-**	**-**	**448,095**	**209,395**	**657,490**
Options exercisable in 2022	**-**	**-**	**-**	**-**	**209,395**	**209,395**
	-	**-**	**611,127**	**945,186**	**628,185**	**2,184,498**
Result of options granted, recognized on 12/31/2018	(1,207)	(2,236)	(2,371)	(26)	-	(5,840)
Result of options granted, recognized on 12/31/2019	**-**	**(2,088)**	**(2,257)**	**(2,318)**	**(95)**	**(6,758)**
Expense on personnel at 12/31/2018	(34)	(800)	(1,964)	(3,766)	-	(6,564)
Expense on personnel at 12/31/2019	**-**	**(58)**	**(745)**	**(1,953)**	**(1,551)**	**(4,307)**

22. Net sales and services revenue

Net sales and services revenue is comprised as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Gross sales and services revenue	**2,477,511**	2,792,353	**2,513,301**	2,824,995
Domestic market	***2,015,012***	*2,210,508*	***2,015,355***	*2,211,515*
Adjustment to Present Value (AVP)	***(35,840)***	*(43,516)*	***(35,840)***	*(43,516)*
Foreign market	***503,642***	*628,443*	***539,089***	*660,078*
Adjustment to Present Value (AVP)	***(5,804)***	*(7,648)*	***(5,804)***	*(7,648)*
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	***501***	*4,566*	***501***	*4,566*
Sales returns	**(56,937)**	(48,153)	**(59,016)**	(49,736)
Financial discounts	**(94,548)**	(103,909)	**(97,092)**	(106,261)
Taxes on sales and services	**(394,669)**	(456,194)	**(395,631)**	(457,352)
ICMS tax incentives – Provin/ Development Promotion Program of the State of Bahia (Probahia)	**141,953**	158,411	**141,973**	158,484
INSS	**(28,774)**	(31,717)	**(28,784)**	(31,745)
State Fiscal Balance Fund (FEEF)	**(3,715)**	(4,925)	**(3,717)**	(4,933)
	2,040,821	2,305,866	**2,071,034**	2,333,452

23. Segment reporting

The Group operates in the following market segment production and sale of synthetic footwear for the domestic and external markets.

Sales volume in the footwear market may show variation over the period: a higher volume is expected in the second half of each year. In Management's judgment, the Company's operations have no significant impact that calls for additional disclosures.

Although the Company's footwear products are designed to serve the various publics and socio-economic groups, management does not monitor and manage them as independent market segments: the Company's results are accompanied, monitored and evaluated as an integrated whole.

This table shows consolidated sales in the domestic and export markets, and non-current assets:

	Parent company				Consolidated	
	2019		2018		2019	2018
	Gross sales	Non-current assets	Gross sales	Non-current assets	Gross sales	Gross sales
Footwear						
Domestic market	**1,979,172**	**13,016**	2,166,992	14,088	**1,979,515**	2,167,999
Foreign market	**498,339**	**28,947**	625,361	33,753	**533,786**	656,996
	2,477,511	**41,963**	2,792,353	47,841	**2,513,301**	2,824,995

Non-current assets outside Brazil refers to the investments in the Company's direct and indirect subsidiaries, and represents approximately 2% of the total of the Company's non-current assets. The summarized financial information of these subsidiaries is presented in Note 10.

The information on gross sales of products in the export market by geographical segment has been itemized by country of origin of the revenue, as follows:

	Consolidated	
	2019	2018
Brazil	**483,958**	603,693
USA	**36,129**	39,344
Italy	**8,652**	9,454
United Kingdom	**5,047**	4,505
	533,786	656,996

No customer individually represented more than 4% of sales in the domestic or foreign market.

24. Costs and expenses by nature

The Company presents the Profit and loss account itemized by function. The classification of operational costs and expenses by type is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Cost of goods sold				
Raw materials	**(472,834)**	(535,646)	**(475,164)**	(536,226)
Personnel expenses	**(427,718)**	(456,833)	**(430,779)**	(458,489)
Depreciation and amortization	**(54,140)**	(51,629)	**(54,181)**	(51,691)
Outsourced services	**(25,208)**	(26,569)	**(25,241)**	(26,606)
Travel and accommodation	**(2,189)**	(3,270)	**(2,191)**	(3,286)
Electricity	**(23,730)**	(25,022)	**(23,940)**	(25,254)
Other costs	**(113,909)**	(125,331)	**(115,015)**	(125,776)
	(1,119,728)	(1,224,300)	**(1,126,511)**	(1,227,328)
Selling expenses				
Commissions	**(104,549)**	(118,151)	**(105,796)**	(119,639)
Freight	**(107,118)**	(113,144)	**(110,293)**	(115,971)
Copyrights	**(47,606)**	(51,777)	**(47,606)**	(51,777)
Advertising and publicity	**(111,080)**	(124,283)	**(123,229)**	(141,281)
Personnel expenses	**(39,798)**	(38,359)	**(51,488)**	(49,106)
Depreciation and amortization	**(2,193)**	(2,540)	**(15,619)**	(5,198)
Outsourced services	**(9,747)**	(9,787)	**(12,342)**	(11,971)
Travel and accommodation	**(5,755)**	(6,559)	**(6,097)**	(7,019)
Congresses	**(5,878)**	(6,726)	**(5,948)**	(6,726)
Rentals	**(2,889)**	(3,047)	**(10,859)**	(19,071)
Other expenses	**(33,967)**	(26,405)	**(41,548)**	(32,990)
	(470,580)	(500,778)	**(530,825)**	(560,749)
General and administrative expenses				
Personnel expenses	**(60,399)**	(63,488)	**(62,383)**	(65,425)
Depreciation and amortization	**(5,528)**	(7,114)	**(5,597)**	(7,194)
Outsourced services	**(9,002)**	(8,173)	**(10,194)**	(9,417)
Travel and accommodation	**(908)**	(1,078)	**(946)**	(1,094)
Tax expenses	**(4,142)**	(4,936)	**(4,205)**	(4,978)
Other expenses	**(3,562)**	(3,994)	**(4,306)**	(4,515)
	(83,541)	(88,783)	**(87,631)**	(92,623)

25. Other operational revenues and expenses

In 2018 the Company accounted the amount of R$15,247, comprising: *(i)* R$9,960 recognized upon final judgment (against which there is no further appeal) in a tax case on the calculation of credit under compulsory loans; *(ii)* R$2,009 in indemnity for social security and prior notice payments; and *(iii)* R$3,278 for employer's Social Security contribution related to payment under Provisional Measure 744/2017.

25. Other operational revenues and expenses--Continued

In the 2019 business year the Company recorded the amount of R$48,138, net of fees of counsel, for recognition of the effects arising from the process of exclusion of ICMS tax from the basis of calculation of the PIS and COFINS taxes, as set out in Note 9 and Sub-clause c of Note 14.

26. Finance result

	Parent company		Consolidated	
	2019	2018	2019	2018
Financial income				
Interest received from customers	**2,128**	2,109	**2,128**	2,110
Gains on foreign exchange hedge – BM&F	**53,975**	62,052	**53,975**	62,052
Income from financial investments	**144,267**	134,852	**144,839**	135,499
Foreign exchange gains	**54,099**	75,041	**54,209**	75,213
Adjustment to Present Value (AVP)	**42,470**	53,808	**42,470**	53,808
Other financial income	**3,152**	7,512	**3,165**	7,523
	300,091	335,374	**300,786**	336,205
Financial expenses				
Losses on foreign exchange hedge – BM&F	**(47,598)**	(81,856)	**(47,598)**	(81,856)
Financing expenses	**(9,007)**	(10,445)	**(9,007)**	(10,445)
Foreign exchange losses	**(54,906)**	(73,621)	**(55,417)**	(74,008)
PIS and COFINS tax on financial revenues	**(7,148)**	(6,918)	**(7,176)**	(6,949)
Other finance expenses	**(2,871)**	(3,417)	**(3,516)**	(4,069)
	(121,530)	(176,257)	**(122,714)**	(177,327)
	178,561	159,117	**178,072**	158,878

27. Insurance

For protection against operational risks, the Company's Management contracts insurance cover in sufficient amounts to cover possible losses, taking into account the nature of its activities and the risk involved, in accordance with the orientation of its insurance consultants. The principal coverages contracted have the follow Maximum Limits of Indemnity, under their respective policies:

Type	Coverage	Coverage amount
Balance sheet	Fixed assets and inventories are insured against fire, gales, flooding, electrical damage and damage in movement of merchandise and stationary equipment and furniture.	R$404,380
Loss of profits	Coverage of fixed expenses arising from payroll.	R$38,700
Civil liability	Industrial operations, employer, products and damages for pain and suffering.	R$5,250
Aviation	Fuselage, third party liability, medical expenses, rescue/emergency, substitute aircraft and personal damages.	U$3,500
Vehicles	Fuselage, third party liability for property and corporate damage and pain and suffering.	100% of Fipe valuation plus R$100 MD R$200 third party property damages and R$1,000 third party personal injury
Transportation	Export and import.	U$2,500 per shipment and/or consolidation

Members of Boards, Executive Board and Controller
December 31, 2019 and 2018

Board of Directors

CEO
Alexandre Grendene Bartelle

Deputy CEO
Pedro Grendene Bartelle

Board member
Maílson Ferreira da Nóbrega
Oswaldo de Assis Filho
Renato Ochman
Walter Janssen Neto

Audit Board

CEO
João Carlos Sfreddo

Board member
Eduardo Cozza Magrisso
Herculano Aníbal Alves

Executive Board

Chief Executive Officer, Finance and Administration
Rudimar Dall"Onder

Deputy Chief Executive Officer
Gelson Luis Rostirolla

Chief Officer for Investor Relations
Luis Antonio Moroni

Controller's Departament

Controller
Luiz Carlos Schneider
Accountant: CRC 70.520/O-5 "S" CE