



# Press Release 4Q19

PortobelloGrupo

**PBG S.A.**

## **PRESS RELEASE 4Q19**

**December 31, 2019**

Stock Price (12/31/2019)

PTBL3 – R\$ 5,37 | share

Market Value (12/31/2019)

R\$ 851 Millions

U\$\$ 211 Millions

Quantity of shares (12/31/2019)

Common: 158,488,517

Free Float = 47%

### **Investor Relations**

**Edson Luiz Mees Stringari**

Vice president of investors relations

**Gladimir Brezezinski**

Controller and Investor Relations Manager

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## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Company information / Breakdown of Capital

Quantity of shares (Thousand)	Last fiscal year 12/31/2019
<b>Paid-in capital</b>	
Common	158,489
Preferred	0
<b>Total</b>	<b>158,489</b>
<b>Treasury</b>	
Common	0
Preferred	0
<b>Total</b>	<b>0</b>

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Balance sheet – Assets

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
1	Total Assets	1.828.301	1.673.176
1.01	Current Assets	812.427	544.985
1.01.01	Cash and Cash Equivalents	249.448	67.580
1.01.03	Accounts Receivable	222.856	222.065
1.01.03.01	Trade Receivables	222.856	222.065
1.01.04	Inventory	228.170	206.822
1.01.06	Recoverable Taxes	50.528	8.393
1.01.06.01	Current Taxes Recoverable	50.528	8.393
1.01.06.01.01	Income and Social Contribution Tax	427	-
1.01.06.01.02	Other Current Taxes Recoverable	50.101	8.393
1.01.07	Prepaid Expenses	2.722	-
1.01.08	Others Current Assets	58.703	40.125
1.01.08.03	Others	58.703	40.125
1.01.08.03.01	Dividends Receivable	37.237	28.377
1.01.08.03.03	Advance to Suppliers	9.594	4.112
1.01.08.03.04	Others	11.872	7.636
1.02	Non-Current Assets	1.015.874	1.128.191
1.02.01	Long-Term Assets	502.715	658.921
1.02.01.07	Deferred Taxes	21.839	-
1.02.01.07.01	Deferred Income and Social Contribution Taxes	21.839	-
1.02.01.09	Related Party Credits	196.357	182.730
1.02.01.09.02	Subsidiaries Credits	95.422	84.789
1.02.01.09.04	Other Related Party Credits	100.935	97.941
1.02.01.10	Other Non-Current Assets	284.519	476.191
1.02.01.10.03	Judicial Deposits	152.477	116.949
1.02.01.10.04	Receivables - Eletrobras	12.821	12.821
1.02.01.10.05	Recoverable Taxes	56.664	5.015
1.02.01.10.06	Tax Asset	37.865	317.506
1.02.01.10.07	Actuarial Asset	6.338	9.675
1.02.01.10.08	Interest Earning Bank Deposits	7.552	7.251
1.02.01.10.10	Other	10.802	6.974
1.02.02	Investments	21.294	20.235
1.02.02.01	Ownership Interest	21.294	20.235
1.02.02.01.02	Interest in Subsidiaries	20.949	19.937
1.02.02.01.04	Other Ownership Interest	345	298
1.02.03	Property, Plant and Equipment	482.996	440.384
1.02.03.01	Operating Property, Plant and Equipment	470.080	-
1.02.03.02	Right-of-use Asset	12.916	-
1.02.04	Intangible Assets	8.869	8.651

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements/ Balance sheet – Liabilities

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
2	Total Liabilities	1.828.301	1.673.176
2.01	Current Liabilities	574.501	382.598
2.01.01	Social and labor obligations	36.142	31.720
2.01.02	Suppliers	134.501	112.000
2.01.03	Tax Obligations	20.558	22.750
2.01.03.01	Federal tax obligations	20.558	22.750
2.01.03.01.01	Income and social contribution tax payable	-	8.423
2.01.03.01.02	Installment payment of tax obligations	11.455	10.718
2.01.03.01.03	Taxes, rates and contributions	9.103	3.609
2.01.04	Loans and Financing	236.980	101.721
2.01.04.01	Loans and Financing	133.376	99.760
2.01.04.02	Debentures	99.050	1.961
2.01.04.03	Financiamento por Arrendamento	4.554	-
2.01.05	Other Obligations	146.320	113.143
2.01.05.01	Liabilities with Related Parties	22.803	-
2.01.05.01.01	Débitos com Coligadas	22.803	-
2.01.05.01.04	Debts with Other Related Parties	-	-
2.01.05.02	Other	123.517	113.143
2.01.05.02.04	Credit granting from suppliers	58.710	45.956
2.01.05.02.05	Advance from clients	23.211	17.329
2.01.05.02.06	Dividends Payable	950	23.428
2.01.05.02.07	Accounts payables from investments	20.127	10.676
2.01.05.02.08	Other	20.519	15.754
2.01.06	Provisions	-	1.264
2.01.06.02	Other Provisions	-	1.264
2.02	Non-current Liabilities	886.180	928.470
2.02.01	Loans and Financing	529.878	492.624
2.02.01.01	Loans and Financing	324.915	198.966
2.02.01.02	Debentures	197.692	293.658
2.02.01.03	Financiamento por Arrendamento	7.271	-
2.02.02	Other Obligations	168.272	216.488
2.02.02.02	Other	168.272	216.488
2.02.02.02.03	Suppliers	124.754	101.268
2.02.02.02.04	Related Party Payable	-	62.008
2.02.02.02.06	Installment payment of tax obligations	43.518	53.212
2.02.03	Deferred Taxes	-	1.965
2.02.03.01	Deferred Income and Social Contribution Taxes	-	1.965
2.02.04	Provisions	188.030	217.393
2.02.04.02	Other Provisions	188.030	217.393
2.02.04.02.04	Provision for loss on investments	61.357	74.534
2.02.04.02.05	Provisions for Contingencies	120.200	139.575
2.02.04.02.06	Provision for Long-term Incentive	-	162
2.02.04.02.07	Other Non Current	6.473	3.122
2.03	Shareholders' Equity	367.620	362.108
2.03.01	Realized Capital	200.000	140.000
2.03.04	Profit Reserves	189.844	235.960
2.03.04.01	Legal Reserves	25.796	25.141
2.03.04.05	Profit retention reserve	81.585	114.922
2.03.04.08	Dividendo Adicional Proposto	5.808	-
2.03.04.10	Profit reserve to be allocated	76.655	95.897
2.03.05	Accumulated profit and loss	-	-
2.03.06	Equity valuation adjustments	-22.224	-13.852

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of income

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
3.01	Income from sales of goods and/or services	986.059	954.071
3.02	Cost of goods and/or services sold	-739.751	-645.055
3.03	Gross income	246.308	309.016
3.04	Operating expenses/income	-185.276	-71.491
3.04.01	Sales expenses	-219.832	-231.055
3.04.02	General and administrative expenses	-39.308	-38.673
3.04.04	Other operating income	65.485	210.946
3.04.04.01	Other operating income	65.485	210.946
3.04.05	Other operating expenses	-6.861	-39.683
3.04.05.01	Other operating expenses	-6.861	-39.683
3.04.06	Equity income	15.240	26.974
3.05	Income (loss) before financial income and taxes	61.032	237.525
3.06	Financial income (loss)	-72.395	-47.117
3.06.01	Financial income	16.067	19.817
3.06.01.01	Financial income	14.969	10.593
3.06.01.02	Net Exchange Variance	1.098	9.224
3.06.02	Financial expenses	-88.462	-66.934
3.06.02.01	Financial expenses	-88.462	-66.934
3.07	Income (loss) before income tax	-11.363	190.408
3.08	Income and social contribution taxes	24.491	-56.126
3.08.01	Current	0	-10.710
3.08.02	Deferred assets	24.491	-45.416
3.09	Net income (loss) of continued operations	13.128	134.282
3.11	Consolidated Net Income/loss for the period	13.128	134.282
3.99	Earnings per share - (Reais / Shares)	-	-
3.99.01	Diluted Earnings per Share	-	-
3.99.01.01	Common	-	-
3.99.02.01	ON	0,82	0,84

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of comprehensive income

<b>Account Code</b>	<b>Account Description</b>	<b>Current Year 12/31/2019</b>	<b>Previous Year 12/31/2018</b>
4.01	Net Income for the Period	13.128	134.282
4.02	Other Comprehensive Income	-7.188	-8.354
4.02.02	Actuarial loss	-5.778	-
4.02.03	Actuarial gain	-	2.585
4.02.04	Exchange Variation of Subsidiary Located Abroad	-1.410	-10.939
4.03	Attributed to Partners of the Parent Company	5.940	125.928



## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of cash flows - Indirect method

Account		Current Year	Previous Year
Code	Account Description	12/31/2019	12/31/2018
6.01	Net cash from operational activities	142.506	-25.183
6.01.01	Cash generated in operations	317.773	84.877
6.01.01.01	Profit or loss for the year before taxes	-11.363	190.408
6.01.01.02	Depreciation and amortization	43.007	38.908
6.01.01.03	Equity income or loss	-15.240	-26.974
6.01.01.04	Unrealized Exchange Variation	-8.988	-15.574
6.01.01.05	Provision for inventory at market value	5.275	2.770
6.01.01.06	Provision Allowance for doubtful accounts	4.557	-713
6.01.01.07	Provision for contingencies	-19.375	61.671
6.01.01.08	Provision for labor obligations	-3.190	-2.742
6.01.01.09	Provision for profit sharing	-1.426	-4.798
6.01.01.10	Other Provisions	423	1.199
6.01.01.11	Leasing amortization	-	-
6.01.01.12	Adjustments Tax Asset	279.641	-209.529
6.01.01.13	Adjustments Other Related Party Credits	-2.994	-3.290
6.01.01.14	Finance charges on tax installments	-	5.879
6.01.01.15	Finance charges on Loans	39.785	46.388
6.01.01.16	Finance charges on credit with other related parties	-	-
6.01.01.17	Actuarial gain (loss)	5.778	-2.445
6.01.01.19	Others	-705	-
6.01.02	Changes in assets and liabilities	-122.995	-65.805
6.01.02.01	(Increase)/Decrease in accounts receivable	-26.958	-17.649
6.01.02.02	Increase /(Decrease) in Advances from clients	5.882	6.370
6.01.02.04	(Increase)/Decrease in inventories	-26.623	-30.426
6.01.02.05	(Increase)/Decrease in Judicial Deposits	-35.528	-23.479
6.01.02.07	(Increase)/Decrease in recoverable taxes	-93.357	3.461
6.01.02.08	(Increase)/Decrease in Interest Earning Bank Deposits	-301	-313
6.01.02.09	(Increase)/Decrease in Other assets	-10.786	-5.183
6.01.02.10	Increase /(Decrease) in Accounts Payable	58.741	33.188
6.01.02.11	(Increase)/Decrease in Advance to Suppliers	-5.482	482
6.01.02.12	(Increase)/Decrease in Provisions for Contingencies	-19.375	-4.085
6.01.02.13	(Increase)/Decrease in installments	-8.957	-18.208
6.01.02.14	Increase /(Decrease) in Tax and Labor Liabilities	425	-6.726
6.01.02.15	Increase /(Decrease) in Other Payable	-31.259	5.136
6.01.02.16	Increase / (decrease) in investment payables	70.583	-8.373
6.01.03	Other	-52.272	-44.255
6.01.03.01	Interest paid	-52.272	-44.659
6.01.03.02	Income and social contribution taxes paid	-	404
6.02	Net cash used in investment activities	-80.179	-34.507
6.02.01	Acquisition of property, plant and equipment	-66.846	-46.844
6.02.02	Acquisition of intangible assets	-3.737	-3.462
6.02.03	Dividends received	29.904	32.532
6.02.04	Integralization of Capital in Subsidiaries	-40.017	-16.332
6.02.05	Sale of property, plant and equipment	-	-
6.02.06	(Grant) / Receipt of Related Party Credits	-	-
6.02.07	Related Party Credits	517	-401
6.03	Net Cash from Financing Activities	119.541	48.514
6.03.01	Obtainment of loans and financings	272.651	412.268
6.03.02	Payment of loans and financings	-120.983	-334.053
6.03.03	Paid Dividends	-28.551	-29.701
6.05	Increase (Decrease) in Cash and Cash Equivalents	181.868	-11.176
6.05.01	Opening Balance of Cash and Cash Equivalents	67.580	78.756
6.05.02	Closing Balance of Cash and Cash Equivalents	249.448	67.580



## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2019–12/31/2019

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity
5.01	Opening Balances	140.000	-	235.960	-	-13.852	362.108
5.03	Adjusted Opening Balances	140.000	-	235.960	-	-13.852	362.108
5.04	Transações de Capital com os Sócios	60.000	-	-54.192	-6.236	-	-428
5.04.01	Allocation after AGM 2019 - Capital increase	60.000	-	-60.000	-	-	-
5.04.06	Allocation after AGM 2019 - Additional dividends approved	-	-	5.808	-6.236	-	-428
5.05	Total Comprehensive Income	-	-	-	13.128	-7.188	5.940
5.05.01	Net Income for the Period	-	-	-	13.128	-	13.128
5.05.02	Other Comprehensive Income	-	-	-	-	-7.188	-7.188
5.05.02.07	Exchange Variation of Subsidiary Located Abroad	-	-	-	-	-1.410	-1.410
5.05.02.08	Actuarial gain (loss)	-	-	-	-	-5.778	-5.778
5.06	Internal changes in shareholders' equity	-	-	8.076	-6.892	-1.184	-
5.06.01	Recognition of distributable profits reserve	-	-	8.076	-8.076	-	-
5.06.02	Realization of the Revaluation Reserve	-	-	-	1.184	-1.184	-
5.07	Closing Balances	200.000	-	189.844	-	-22.224	367.620

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–12/31/2018

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity
5.01	Opening Balances	130.000	-	159.220	-	-4.172	285.048
5.03	Adjusted Opening Balances	130.000	-	159.220	-	-4.172	285.048
5.04	Shareholders operation	-	-	-640	-15.570	-	-16.210
5.04.06	Dividends	-	-	-	-6.714	-	-6.714
5.04.07	Interest upon Own Capital	-	-	-640	-8.856	-	-9.496
5.05	Total Comprehensive Income	-	-	-	137.271	-9.680	127.591
5.05.01	Net Income for the Period	-	-	-	136.085	-	136.085
5.05.02	Other Comprehensive Income	-	-	-	1.186	-9.680	-8.494
5.05.02.06	Realization of the Revaluation Reserve	-	-	-	1.186	-1.186	-
5.05.02.07	Exchange Variation of Subsidiary Located Abroad	-	-	-	-	-10.939	-10.939
5.05.02.08	Actuarial gain (loss)	-	-	-	-	2.445	2.445
5.06	Internal changes in shareholders' equity	10.000	-	77.380	-121.701	-	-34.321
5.06.02	Realization of the Revaluation Reserve	-	-	-	-	-	-
5.06.04	Increased Capital	10.000	-	-10.000	-	-	-
5.06.05	Allocation after AGM 2018 - Recognition of reserve	-	-	6.714	-	-	6.714
5.06.06	Allocation after AGM 2018 - Additional dividends approved	-	-	-15.232	-25.511	-	-40.743
5.06.07	Constituição de Reserva de Lucros a Destinar	-	-	95.898	-96.190	-	-292
5.07	Closing Balances	140.000	-	235.960	-	-13.852	362.108

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Individual financial statements / Statement of added value

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
7.01	Revenue	1.277.412	1.383.641
7.01.01	Sales of Goods, Products and Services	1.215.561	1.170.180
7.01.02	Other Revenue	66.408	212.749
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	-4.557	712
7.02	Consumables acquired from third parties	-665.808	-645.537
7.02.01	Cost of goods and services sold	-503.142	-422.684
7.02.02	Material, Energy, Outsourced Services and Other	-166.314	-223.172
7.02.03	Loss/Recovery of Assets	3.648	319
7.03	Gross Added Value	611.604	738.104
7.04	Retentions	-43.769	-38.908
7.04.01	Depreciation, Amortization and Depletion	-43.769	-38.908
7.05	Net Added Value Produced	567.835	699.196
7.06	Transferred Added Value	53.343	87.216
7.06.01	Equity income	15.240	26.974
7.06.02	Financial Revenue	38.103	60.242
7.07	Total Added Value to be Distributed	621.178	786.412
7.08	Distribution of Added Value	621.178	786.412
7.08.01	Personnel	234.559	217.406
7.08.01.01	Direct Remuneration	194.491	182.086
7.08.01.02	Benefits	23.883	22.275
7.08.01.03	F.G.T.S.	16.185	13.045
7.08.02	Taxes, Duties and Contributions	250.333	314.922
7.08.02.01	Federal	92.035	164.215
7.08.02.02	State	157.609	149.937
7.08.02.03	Municipal	689	770
7.08.03	Interest Expenses	123.158	119.802
7.08.03.01	Interest	110.498	107.360
7.08.03.02	Rent	12.660	12.442
7.08.04	Interest earnings	13.128	134.282
7.08.04.01	Interests on equity	-	7.273
7.08.04.02	Dividends	-	12.837
7.08.04.03	Retained Earnings/Loss for the Period	13.128	114.172

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Balance sheet – Assets

Account Code	Account Description	Current Year 12/31/2018	Previous Year 12/31/2017	Previous Year 12/31/2016
1	Total Assets	1,622,155	1,252,008	1,237,360
1.01	Current Assets	563,867	522,623	535,369
1.01.01	Cash and Cash Equivalents	82,624	94,379	105,745
1.01.03	Accounts Receivable	239,463	218,412	215,379
1.01.03.01	Trade receivables	239,463	218,412	215,379
1.01.04	Inventory	213,791	179,323	185,880
1.01.06	Recoverable Taxes	10,201	15,922	19,079
1.01.06.01	Current Taxes Recoverable	10,201	15,922	19,079
1.01.06.01.01	Income taxes and contributions recoverable	627	4,050	5,017
1.01.06.01.02	Other Current Taxes Recoverable	9,574	11,872	14,062
1.01.07	Prepaid expenses	1,598	0,000	0,000
1.01.08	Others current assets	16,190	14,587	9,286
1.01.08.03	Others	16,190	14,587	9,286
1.01.08.03.01	Advances to Suppliers	7,385	5,136	2,637
1.01.08.03.02	Other	8,805	9,451	6,649
1.02	Non-current Assets	1,058,288	729,385	701,991
1.02.01	Long-Term Assets	579,070	268,926	247,847
1.02.01.09	Related party Credits	97,941	94,651	89,423
1.02.01.09.02	Subsidiaries credits	0	0,000	0,000
1.02.01.09.04	Other related party Credits	97,941	94,651	89,423
1.02.01.10	Other Non-current Assets	481,129	174,275	158,424
1.02.01.10.03	Judicial Deposits	116,980	93,501	81,742
1.02.01.10.04	Receivables - Eletrobrás	12,821	12,821	32,208
1.02.01.10.05	Recoverable Taxes	5,287	6,407	6,124
1.02.01.10.06	Tax Asset	317,506	45,969	26,735
1.02.01.10.07	Actuarial Asset	9,675	5,758	4,369
1.02.01.10.08	Interest earning bank deposits	7,251	6,938	6,451
1.02.01.10.10	Other	11,609	2,881	795
1.02.02	Investments	298	298	243
1.02.02.01	Ownership Interest	298	298	243
1.02.02.01.02	Interest in Subsidiaries	0	0	0
1.02.02.01.04	Other ownership interest	298	298	243
1.02.03	Property, plant and equipment	458,331	440,595	433,348
1.02.04	Intangible assets	20,589	19,566	20,553

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Balance sheet – Liabilities

Account Code	Account Description	Current Year 12/31/2018	Previous Year 12/31/2017	Previous Year 12/31/2016
2	Total Liabilities	1,622,155	1,252,008	1,237,360
2.01	Current Liabilities	404,068	414,310	409,155
2.01.01	Social and labor obligations	36,734	31,330	27,155
2.01.02	Suppliers	124,874	114,569	102,929
2.01.03	Tax Obligations	25,846	31,157	25,188
2.01.03.01	Federal tax obligations	25,846	31,157	25,188
2.01.03.01.01	Income and social contribution tax payable	10,315	1,758	311
2.01.03.01.02	Installment payment of tax obligations	10,793	14,126	9,857
2.01.03.01.03	Taxes, rates and contributions	4,738	15,273	15,020
2.01.04	Loans and Financing	101,721	146,402	197,004
2.01.04.01	Loans and Financing	99,760	98,678	171,249
2.01.04.02	Debentures	1,961	47,724	25,755
2.01.05	Other Obligations	113,629	86,563	56,879
2.01.05.02	Other	113,629	86,563	56,879
2.01.05.02.04	Credit granting from suppliers	45,956	35,127	21,522
2.01.05.02.05	Advance from clients	16,346	12,615	17,977
2.01.05.02.06	Dividends Payable	23,457	6,035	915
2.01.05.02.08	Other	27,759	32,786	16,465
2.01.06	Provisions	1,264	4,289	0,000
2.01.06.02	Other Provisions	1,264	4,289	0,000
2.01.06.02.06	Profit share provision	1,264	4,289	0,000
2.02	Non-current Liabilities	855,967	552,638	589,746
2.02.01	Loans and Financing	493,916	367,159	389,657
2.02.01.01	Loans and Financing	200,258	239,180	215,613
2.02.01.02	Debentures	293,658	127,979	174,044
2.02.02	Other Obligations	230,319	141,144	138,332
2.02.02.02	Other	220,319	141,144	138,332
2.02.02.02.03	Suppliers	101,268	78,496	68,990
2.02.02.02.04	Related Party Payable	62,003	0,000	0,000
2.02.02.02.06	Installment payment of tax obligations	53,574	62,648	69,342
2.02.02.02.08	Other	3,474	0,000	0,000
2.02.03	Deferred Taxes	1,965	14,186	3,250
2.02.03.01	Deferred Income and Social Contribution Taxes	1,965	14,186	3,250
2.02.04	Provisions	139,767	30,149	58,507
2.02.04.02	Other Provisions	139,767	30,149	58,507
2.02.04.02.05	Provisions for Contingencies	0,000	0,000	51,195
2.02.04.02.06	Provision for Long-term Incentive	0,000	30,149	7,312
2.03	Shareholders' Equity	362,120	285,060	238,459
2.03.01	Realized Capital	140,000	130,000	119,565
2.03.03	Revaluation Reserve	34,690	0,000	0,000
2.03.04	Profit Reserves	140,063	143,988	121,129
2.03.04.01	Legal Reserves	25,141	18,426	15,219
2.03.04.05	Profit sharing reserve	114,922	95,400	103,197
2.03.04.10	Profit reserve to be allocated	0,000	30,162	2,713
2.03.05	Retained Earnings/Losses	95,897	15,232	0,000
2.03.06	Equity valuation adjustments	-48,542	-4,172	0,000
2.03.08	Other comprehensive income	0,000	0,000	-2,246
2.03.09	Non-controlling interest	12	12	11

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of income

Account Code	Account Description	Accumulated of the Current Year	Accumulated of the Current Year	Accumulated of the Current Year
		01/01/2018 to 12/31/201	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
3,01	Income from sales of goods and/or services	1,054,190	1,023,937	1,016,400
3,02	Cost of goods and/or services sold	-648,590	-606,917	-653,198
3,03	Gross income	405,600	417,020	363,202
3,04	Operating expenses/income	-161,196	-268,014	-287,394
3,04.01	Sales expenses	-285,619	-246,510	-250,744
3,04.02	General and administrative expenses	-45,458	-35,877	-37,155
3,04.04	Other operating income	211,196	41,956	17,390
3,04.04.01	Other operating income	211,196	41,956	17,390
3,04.05	Other operating expenses	-41,315	-27,583	-16,885
3,04.05.01	Other operating expenses	-41,315	-27,583	-16,885
3,05	Income (loss) before financial income and taxes	244,404	149,006	75,808
3,06	Financial income (loss)	-48,091	-68,014	-81,695
3,06.01	Financial income	20,443	24,882	35,173
3,06.01.01	Financial income	11,218	24,892	31,093
3,06.01.02	Net Exchange Variance	9,225	-10	4,080
3,06.02	Financial expenses	-68,534	-92,896	-116,868
3,06.02.01	Financial expenses	-68,534	-92,896	-116,868
3,06.02.02	Net Exchange Variance	0,000	0,000	0,000
3,07	Income (loss) before income tax	196,313	80,992	-5,887
3,08	Income and social contribution taxes	-62,001	-16,822	8,029
3,08.01	Current	-20,418	-10,239	-9,236
3,08.02	Deferred assets	-41,583	-6,583	17,265
3,09	Net income (loss) of continued operations	134,312	64,170	2,142
3,11	Consolidated Net Income/loss for the period	134,312	64,170	2,142
3,11.01	Attributed to Partners of the Parent Company	134,282	64,136	2,125
3,11.02	Attributed to Minority Partners	30	34	17
3,99	Earnings per share - (Reais / Shares)	0.8473	0.40467	0.01341
3,99.01	Basic earnings per share	0.8473	0.40467	0.01341
3,99.01.01	Common	0.8473	0.40467	0.01341
3,99.02	Diluted Earnings per Share	0.8473	0.40467	0.01341
3,99.02.01	Common	0	0	0

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of comprehensive income

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Current Year	Current Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
4,01	Net Income for the Period	134,312	64,170	2,142
4,02	Other Comprehensive Income	-8,354	-742	5,864
4.02.01	Realization of the Revaluation Reserve	0,000	0,000	0,000
4.02.02	Actuarial liability	0,000	0,000	-7,327
4.02.03	Actuarial Gain	2,585	261	0,000
4.02.04	Exchange variance of Overseas Subsidiary	-10,939	-1,003	13,191
4,03	Comprehensive Income for the Period	125,958	63,428	8,006
4.03.01	Attributed to Partners of the Parent Company	125,928	63,394	7,989
4.03.02	Attributed to Minority Partners	30	34	17



## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of cash flows - Indirect method

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
6,01	Net cash from operational activities	5,392	102,736	138,942
6.01.01	Cash generated in operations	128,275	145,122	105,164
6.01.01.01	Profit or loss for the year before taxes	196,314	80,992	-5,887
6.01.01.02	Depreciation and amortization	43,602	40,011	39,504
6.01.01.03	Equity	0,000	0,000	0,000
6.01.01.04	Unrealized Exchange Variation	-9,986	7,670	-9,120
6.01.01.05	Provision for inventory at market value	2,770	-2,453	3,327
6.01.01.06	Provision Allowance for doubtful accounts	-446	-464	1,768
6.01.01.07	Provision for contingencies	61,671	-18,769	12,309
6.01.01.08	Provision for labor obligations	-3,225	-2,233	744
6.01.01.09	Provision for profit sharing	-4,798	-1,088	-6,552
6.01.01.10	Other provisions	1,199	-4,356	-7,099
6.01.01.11	Restatement of Eletrobrás compulsory loans	0,000	19,387	16,413
6.01.01.12	Adjustments to tax assets	-209,529	-19,234	-4,017
6.01.01.13	Adjustments Other Related Party Credits	-3,290	-5,228	-4,822
6.01.01.14	Finance charges on tax installments	5,914	4,546	6,448
6.01.01.16	Provision for Financial Interest	46,502	51,588	61,653
6.01.01.18	Actuarial assets	-2,445	0,000	-2,019
6.01.01.20	Others	4,024	-5,247	2,514
6.01.02	Changes in assets and liabilities	-82,507	17,313	105,031
6.01.02.01	(Increase)/Decrease in accounts receivable	-20,605	-2,569	-8,522
6.01.02.02	Increase /(Decrease) in Advances from clients	3,842	-5,362	2,676
6.01.02.03	(Increase)/Decrease in Financial Applications Restricted	-313	-487	99,853
6.01.02.04	(Increase)/Decrease in inventories	-37,238	9,010	16,084
6.01.02.05	(Increase)/Decrease in Recoverable Taxes	3,418	1,907	7,046
6.01.02.06	(Increase)/Decrease in Judicial Deposits	-23	-11,759	-21,818
6.01.02.07	(Increase)/Decrease in Interest earning bank deposit	0,000	-422	-422
6.01.02.08	(Increase)/Decrease in other assets	-6,169	-4,366	6,346
6.01.02.09	Increase /(Decrease) in Accounts Payable	43,906	34,751	2,840
6.01.02.10	(Increase)/Decrease in advance to suppliers	-2,249	-2,499	-584
6.01.02.11	(Increase)/Decrease in provisions for contingencies	-4,085	-4,212	-2,304
6.01.02.12	(Increase)/Decrease in installments	-14,751	-6,971	-9,744
6.01.02.13	Increase /(Decrease) in financing of taxes	-18,458	6,874	-1,530
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	0,000	32,903	32,903
6.01.02.15	Increase /(Decrease) in Other payable	4,759	2,996	14,688
6.01.02.16	Increase / (decrease) in investment payables	-7,516	0,000	0,000
6.01.03	Other	-40,376	-59,699	-71,253
6.01.03.01	Interest paid	-44,659	-51,661	-64,807
6.01.03.02	Income and social contribution taxes paid	4,283	-8,038	-6,446
6,02	Net cash used in investment activities	-65,661	-27,534	-25,142
6.02.01	Acquisition of property, plant and equipment	-59,266	-25,511	-23,276
6.02.02	Acquisition of intangible assets	-6,395	-1,968	-1,821
6.02.05	Receipt from the sale of permanent assets	0,000	-55	-45
6.02.03	Receivable Dividends	0,000	0,000	0,000
6.02.04	Integralization of Capital	0,000	-48	0,000
6.02.06	Related Party Credits	0,000	0,000	0,000
6.02.07	Other Investments	0,000	0,000	0,000
6,03	Net Cash from Financing Activities	48,514	-86,568	-95,719
6.03.01	Obtainment of loans and financings	412,268	117,804	109,469
6.03.02	Payment of loans and financings	-334,053	-194,260	-197,034
6.03.03	Dividends paid	-29,701	-10,112	-8,154
6,05	Increase (Decrease) in Cash and Cash Equivalents	-11,755	-11,366	18,081
6.05.01	Opening Balance of Cash and Cash Equivalents	94,379	105,745	87,664
6.05.02	Closing Balance of Cash and Cash Equivalents	82,624	94,379	105,745

**PBG S.A and subsidiaries**

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

**Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–12/31/2018**

			Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
Account Code	Account Description	Paid-in share capital						
5,01	Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12
5,03	Adjusted Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12
5,04	Shareholds transactions	0,000	0,000	-640	-17,653	0,000	-16,210	0,000
5.04.06	Dividends	0,000	0,000	0,000	-6,714	0,000	-6,714	0,000
5.04.07	Interest of own capital	0,000	0,000	-640	-10,939	0,000	-9,496	0,000
5,05	Total Comprehensive Income	0,000	0,000	0,000	134,282	-9,680	124,602	29
5.05.01	Net Income for the Period	0,000	0,000	0,000	134,282	0,000	134,282	29
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	-1,186	-1,186	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	0,000	-10,939	-10,939	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	2,445	2,445	0,000
5,06	Internal changes in shareholders' equity	10,000	0,000	77,380	-121,701	0,000	-34,321	-29
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,000	0,000	-10,000	0,000	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	6,714	0,000	0,000	6,714	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	-15,232	-25,511	0,000	-40,743	-29
5.06.07	Formation of profit reserves to be allocated		0,000	95,898	-96,190	0,000	-292	0,000
5,07	Closing Balances	140,000	0,000	235,960	0,000	-13,852	362,108	12

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–12/31/2017

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves	Retained Earnings Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
5,01	Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459
5,03	Adjusted Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459
5,04	Shareholds transactions	0,000	0,000	-75	-16,719	0,000	-16,794	-33	-16,827
5.04.06	Dividends	0,000	0,000	0,000	-5,618	0,000	-5,618	-33	-5,651
5.04.07	Interest of own capital	0,000	0,000	-75	-11,101	0,000	-11,176	0,000	-11,176
5,05	Total Comprehensive Income	0,000	0,000	0,000	65,320	-1,926	63,394	34	63,428
5.05.01	Net Income for the Period	0,000	0,000	0,000	64,136	0,000	64,136	34	64,170
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,184	-1,926	-742	0,000	-742
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000		0,000	0,000	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,184	-1,184	0,000	0,000	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	-1,003	-1,003	0,000	-1,003
5.05.02.08	Actuarial (Gain) loss		0,000	0,000	0,000	261	261	0,000	261
5,06	Internal changes in shareholders' equity	10,435	0,000	38,166	-48,601	0,000	0,000	0,000	0,000
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,435	0,000	-10,435	0,000	0,000	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves		0,000	0,000	0,000	0,000	0,000	0,000	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	15,232	-15,232	0,000	0,000	0,000	0,000
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	3,207	-3,207	0,000	0,000	0,000	0,000
5.06.08	Constitution of Profit Sharing to be Approved	0,000	0,000	30,162	-30,162	0,000	0,000	0,000	0,000
5,07	Closing Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12	285,060

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–12/31/2016

			Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity	
Account Code	Account Description	Paid-in share capital							
5,01	Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846	10	231,856
5,03	Adjusted Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846	10	231,856
5,04	Shareholds transactions	0,000	0,000	-883	-504	0,000	-1,387	-15	-1,402
5.04.01	Capital Increase	0,000	0,000	0,000	-504	0,000	0,000	0	0
5.04.06	Dividends	0,000	0,000	0,000	0,000	0,000	-504	-15	-519
5.04.07	Interest of own capital	0,000	0,000	-883	0,000	0,000	-883	0	-883
5,05	Total Comprehensive Income	0,000	0,000	0,000	3,323	4,666	7,989	16	8,005
5.05.01	Net Income for the Period	0,000	0,000	0,000	2,125	0,000	2,125	16	2,141
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,198	4,666	5,864	0	5,864
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,198	-1,198	0,000	0	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	13,191	13,191	0	13,191
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	-7,327	-7,327	0	-7,327
5.06	Internal changes in shareholders' equity	20,000	0,000	-17,181	-2,819	0,000	0,000	0	0,000
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	20,000	0,000	-20,000	0,000	0,000	0,000	0	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	106	-106	0,000	0,000	0	0,000
5.06.08	Constitution of Profit Sharing to be Approved	0,000	0,000	2,713	-2,713	0,000	0,000	0	0,000
5,07	Closing Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of added value

Account Code	Account Description	Accrued Value of the	Accrued Value of the	Accrued Value of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2018 to 12/31/2017	01/01/2016 to 12/31/2016
7,01	Revenue	1,493,418	1,294,470	1,283,902
7.01.01	Sales of Goods, Products and Services	1,290,114	1,258,421	1,272,537
7.01.02	Other Revenue	202,858	33,666	11,875
7.01.03	Income from construction of own assets	0,000	1,919	1,258
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	446	464	-1,768
7,02	Consumables acquired from third parties	-665,623	-597,446	-643,179
7.02.01	Cost of goods and services sold	-422,729	-403,318	-454,126
7.02.02	Material, Energy, Outsourced Services and Other	-242,871	-194,563	-191,582
7.02.03	Loss/Recovery of Assets	-23	435	3
7,03	Gross Added Value	827,795	697,024	640,723
7,04	Retentions	-43,608	-40,011	-39,504
7.04.01	Depreciation, Amortization and Depletion	-43,608	-40,011	-39,504
7,05	Net Added Value Produced	784,187	657,013	601,219
7,06	Transferred Added Value	60,877	51,449	88,478
7.06.02	Financial Revenue	60,877	51,449	88,478
7,07	Total Added Value to be Distributed	845,064	708,462	689,697
7,08	Distribution of Added Value	845,064	708,462	689,697
7.08.01	Personnel	247,336	223,762	216,343
7.08.01.01	Direct Remuneration	207,993	189,505	179,619
7.08.01.02	Benefits	24,384	21,288	22,293
7.08.01.03	F.G.T.S.	14,959	12,969	14,431
7.08.02	Taxes, Duties and Contributions	336,574	286,304	286,525
7.08.02.01	Federal	184,990	137,638	133,542
7.08.02.02	State	150,693	147,925	152,263
7.08.02.03	Municipal	891	741	720
7.08.03	Interest Expenses	126,842	134,226	184,687
7.08.03.01	Interest	108,992	119,485	170,194
7.08.03.02	Rent	17,850	14,741	14,493
7.08.04	Interest earnings	134,312	64,170	2,142
7.08.04.01	Interest on own capital	7,273	11,101	0,000
7.08.04.02	Dividends	12,837	20,850	504
7.08.04.03	Retained Earnings/Loss for the Period	114,172	32,185	1,621
7.08.04.04	Minority interests in retained earnings	30	34	17

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Balance sheet – Assets

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
1	Total Assets	1.836.292	1.622.155
1.01	Current Assets	854.556	563.867
1.01.01	Cash and Cash Equivalents	275.378	82.624
1.01.03	Accounts Receivable	251.773	239.463
1.01.03.01	Trade receivables	251.773	239.463
1.01.04	Inventory	243.413	213.791
1.01.06	Recoverable Taxes	52.172	10.201
1.01.06.01	Current Taxes Recoverable	52.172	10.201
1.01.06.01.01	Income taxes and contributions r	1.006	627
1.01.06.01.02	Other Current Taxes Recoverable	51.166	9.574
1.01.07	Prepaid expenses	3.487	1.598
1.01.08	Others current assets	28.333	16.190
1.01.08.03	Others	28.333	16.190
1.01.08.03.01	Advances to Suppliers	13.332	7.385
1.01.08.03.02	Other	15.001	8.805
1.02	Non-current Assets	981.736	1.058.288
1.02.01	Long-Term Assets	412.190	579.070
1.02.01.07	Deferred Taxes	-	-
1.02.01.07.01	Deferred Income and Social Con	-	-
1.02.01.09	Related party Credits	100.936	97.941
1.02.01.09.04	Other related party Credits	100.936	97.941
1.02.01.10	Other Non-current Assets	311.254	481.129
1.02.01.10.03	Judicial Deposits	152.492	116.980
1.02.01.10.04	Receivables - Eletrobrás	12.821	12.821
1.02.01.10.05	Recoverable Taxes	56.902	5.287
1.02.01.10.06	Tax Asset	37.865	317.506
1.02.01.10.07	Actuarial Asset	6.338	9.675
1.02.01.10.08	Interest earning bank deposits	7.552	7.251
1.02.01.10.09	Other	37.284	11.609
1.02.02	Investments	345	298
1.02.02.01	Ownership Interest	345	298
1.02.02.01.04	Other ownership interest	345	298
1.02.03	Property, plant and equipment	546.809	458.331
1.02.03.01	Operating Property, Plant and Eq	487.966	-
1.02.03.02	Right-of-use Asset	58.843	-
1.02.04	Intangible assets	22.392	20.589
1.02.04.01	Intangible assets	-	-

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Balance sheet – Liabilities

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
	2 Total Liabilities	1.836.292	1.622.711
2.01	Current Liabilities	613.724	404.000
2.01.01	Social and labor obligations	41.882	36.700
2.01.02	Suppliers	146.685	124.800
2.01.03	Tax Obligations	24.428	25.800
2.01.03.01	Federal tax obligations	24.428	25.800
2.01.03.01.01	Income and social contribution tax payable	2.083	10.500
2.01.03.01.02	Installment payment of tax obligations	11.765	10.700
2.01.03.01.03	Taxes, rates and contributions	10.580	4.700
2.01.04	Loans and Financing	248.234	101.700
2.01.04.01	Loans and Financing	134.719	99.700
2.01.04.02	Debentures	99.050	1.900
2.01.04.03	Leases Obligations	14.465	
2.01.05	Other Obligations	152.495	113.600
2.01.05.01	Liabilities with Related Parties	22.803	
2.01.05.01.01	Liabilities with Related Parties	22.803	
2.01.05.01.04	Debts with Other Related Parties	-	
2.01.05.02	Other	129.692	113.600
2.01.05.02.04	Credit granting from suppliers	58.710	45.900
2.01.05.02.05	Advance from clients	23.854	16.400
2.01.05.02.06	Dividends Payable	982	23.400
2.01.05.02.08	Other	46.146	27.700
2.01.06	Provisions	-	1.200
2.01.06.02	Other Provisions	-	1.200
2.01.06.02.06	Profit share provision	-	1.200
2.02	Non-current Liabilities	854.932	855.900
2.02.01	Loans and Financing	547.673	493.900
2.02.01.01	Loans and Financing	324.915	200.200
2.02.01.02	Debentures	197.692	293.600
2.02.01.03	Leases Obligations	25.066	
2.02.02	Other Obligations	187.027	220.000
2.02.02.02	Other	187.027	220.000
2.02.02.02.03	Suppliers	124.754	101.200
2.02.02.02.04	Related Party Payable	-	62.000
2.02.02.02.06	Installment payment of tax obligations	43.815	53.900
2.02.02.02.08	Other	18.458	3.400
2.02.03	Deferred Taxes	-	1.900
2.02.03.01	Deferred Income and Social Contribution Tax	-	1.900
2.02.04	Provisions	120.232	139.700
2.02.04.02	Other Provisions	120.232	139.700
2.02.04.02.05	Provisions for Contingencies	-	
2.02.04.02.06	Provision for Long-term Incentive	120.232	139.700
2.03	Shareholders' Equity	367.636	362.700
2.03.01	Realized Capital	200.000	140.000
2.03.03	Revaluation Reserve	33.506	34.600
2.03.04	Profit Reserves	182.425	140.000
2.03.04.01	Legal Reserves	25.797	25.100
2.03.04.04	Unallocated profits reserve	-	
2.03.04.05	Profit sharing reserve	150.820	114.900
2.03.04.08	Additional dividends proposed	5.808	
2.03.04.10	Profit reserve to be allocated	-	
2.03.05	Accumulated profit and loss	7.420	95.800
2.03.06	Equity valuation adjustments	-55.731	-48.000
2.03.09	Non-controlling interest	16	



## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of income

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
3.01	Income from sales of goods and/or services	1114269	1054190
3.02	Cost of goods and/or services sold	-751650	-648590
3.03	Gross income	362619	405600
3.04	Operating expenses/income	-287548	-161196
3.04.01	Sales expenses	-306437	-285619
3.04.02	General and administrative expenses	-40873	-45458
3.04.04	Other operating income	73295	211196
3.04.04.01	Other operating income	73295	211196
3.04.05	Other operating expenses	-13533	-41315
3.04.05.01	Other operating expenses	-13533	-41315
3.05	Income (loss) before financial income and taxes	75071	244404
3.06	Financial income (loss)	-75112	-48091
3.06.01	Financial income	16459	20443
3.06.01.01	Financial income	15375	11218
3.06.01.02	Net Exchange Variance	1084	9225
3.06.02	Financial expenses	-91571	-68534
3.06.02.01	Financial expenses	-91571	-68534
3.07	Income (loss) before income tax	-41	196313
3.08	Income and social contribution taxes	13204	-62001
3.08.01	Current	-11286	-20418
3.08.02	Deferred assets	24490	-41583
3.09	Net income (loss) of continued operations	13163	134312
3.11	Consolidated Net Income/loss for the period	13163	134312
3.11.01	Attributed to Partners of the Parent Company	13128	134282
3.11.02	Attributed to Minority Partners	35	30
3.99	Earnings per share - (Reais / Shares)	-	-
3.99.01	Basic earnings per share	-	-
3.99.01.01	Common	1	1
3.99.02	Diluted Earnings per Share	-	-
3.99.02.01	ON	-	-

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of comprehensive income

Account Code	Account Description		Current Year 12/31/2019		Previous Year 12/31/2018
4.01	Net Income for the Period		13.163		134.312
4.02	Other Comprehensive Income	-	7.188	-	8.354
4.02.02	Exchange variance of Overseas Subsidiary		-		-
4.02.03	Actuarial Gain	-	5.778		2.585
4.02.04	Exchange variance of Overseas Subsidiary	-	1.410	-	10.939
4.03	Comprehensive Income for the Period		5.975		125.958
4.03.01	Attributed to Partners of the Parent Company		5.940		125.928
4.03.02	Attributed to Minority Partners		35		30

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**PBG S.A and subsidiaries**

Interim Financial Information for the quarter ended december 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

**Consolidated financial statements / Statement of cash flows - Indirect method**

Account Code	Account Description	Current Year	Previous Year
		12/31/2019	12/31/2018
6.01	Net cash from operational activities	170827	5392
6.01.01	Cash generated in operations	337065	128275
6.01.01.01	Profit or loss for the year before taxes	-41	196313
6.01.01.02	Depreciation and amortization	54785	43602
6.01.01.04	Unrealized Exchange Variation	-11126	-9986
6.01.01.05	Provision for inventory at market value	5275	2770
6.01.01.06	Provision Allowance for doubtful accounts	4333	-446
6.01.01.07	Provision for contingencies	-19345	61671
6.01.01.08	Provision for labor obligations	-3239	-3225
6.01.01.09	Provision for profit sharing	-1426	-4798
6.01.01.10	Other provisions	423	1199
6.01.01.11	Leasing amortization	0	0
6.01.01.12	Adjustments Tax Asset	279641	-209529
6.01.01.13	Adjustments Tax Asset	-2995	-3290
6.01.01.14	Adjustments Other Related Party Credits	0	5913
6.01.01.16	Leasing Assets	39836	46502
6.01.01.17	Leasing Obligations	0	0
6.01.01.18	Finance charges on Loans	5778	-2445
6.01.01.19	Present value adjustment and interest in leasing	-1233	0
6.01.01.20	Others	-13601	4024
6.01.02	Changes in assets and liabilities	-99432	-82507
6.01.02.01	(Increase)/Decrease in accounts receivable	-16643	-20605
6.01.02.02	Increase /(Decrease) in Advances from clients	7397	3842
6.01.02.03	(Increase)/Decrease in Interest earning bank deposit	-301	-313
6.01.02.04	(Increase)/Decrease in inventories	-34897	-37238
6.01.02.05	(Increase)/Decrease in Judicial Deposits	-35512	-23479
6.01.02.07	(Increase)/Decrease in recoverable taxes	-93207	3418
6.01.02.08	(Increase)/Decrease in Interest earning bank deposit	-19375	-4085
6.01.02.09	(Increase)/Decrease in other assets	-11922	-6169
6.01.02.10	Increase /(Decrease) in Accounts Payable	58051	43906
6.01.02.11	(Increase)/Decrease in advance to suppliers	-5947	-2249
6.01.02.12	(Increase)/Decrease in provisions for contingencies	-8787	-18320
6.01.02.13	(Increase)/Decrease in installments	-1816	-18458
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	-15118	4759
6.01.02.15	Increase /(Decrease) in Other payable	78645	-7516
6.01.02.16	Increase / (decrease) in investment payables	0	0
6.01.03	Other	-66806	-40376
6.01.03.01	Interest paid	-52909	-44659
6.01.03.02	Income and social contribution taxes paid	-13897	4283
6.02	Net cash used in investment activities	-94835	-65661
6.02.01	Acquisition of property, plant and equipment	-88092	-59266
6.02.02	Acquisition of intangible assets	-6743	-6395
6.03	Net Cash from Financing Activities	116762	48514
6.03.01	Obtainment of loans and financings	275081	412268
6.03.02	Payment of loans and financings	-121942	-334053
6.03.03	Paid Dividends	-28551	-29701
6.05	Increase (Decrease) in Cash and Cash Equivalents	192754	-11755
6.05.01	Opening Balance of Cash and Cash Equivalents	82624	94379
6.05.02	Closing Balance of Cash and Cash Equivalents	275378	82624

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2019–03/31/2019

Account Code	Account Description	Paid-in share capital	Capital Reserve	Profit Reserves	Retained Earnings or Accumulated	Other Comprehensive Inc	Shareholders' Equity
5.01	Opening Balances	140000	0	235960	0	-13852	362108
5.03	Adjusted Opening Balances	140000	0	235960	0	-13852	362108
5.04	Shareholders operation	60000	0	-52580	0	0	0
5.04.01	Capital increase	60000	0	-60000	0	0	0
5.04.07	Juros sobre Capital Próprio	0	0	7420	0	0	0
5.05	Total Comprehensive Income	0	0	0	12700	-7188	5512
5.05.01	Net Income for the Period	0	0	0	13128	0	13128
5.05.02	Other Comprehensive Income	0	0	0	-428	-7188	-7616
5.05.02.07	Exchange Variance of Overseas Subsidiary	0	0	0	0	-1410	-1410
5.05.02.08	Actuarial gain (loss)	0	0	0	0	-5778	-5778
5.05.02.09	Mandatory minimum dividends (net of prepayment)	0	0	0	-428	0	-428
5.06	Internal changes in shareholders' equity	0	0	6464	-12700	-1184	0
5.06.02	Realization of the Revaluation Reserve	0	0	0	1184	-1184	0
5.06.05	Recognition of legal reserve (5%)	0	0	656	-656	0	0
5.06.07	Recognition of distributable profits reserve	0	0	0	-7420	0	0
5.06.08	Proposal of allocation of additional dividends	0	0	5808	-5808	0	0
5.07	Closing Balances	200000	0	189844	0	-22224	367620

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019  
In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–03/31/2018

Account Description	Paid-in share capital	Capital Reserves, (Profit Reserves	Retained Earnings or Ac	Other Comprehensive In	Shareholders' Equity	Minority interests	Consolidated Sharehold	
Opening Balances	130000	0	159220	0	-4172	285048	12	285060
Adjusted Opening Balan	130000	0	159220	0	-4172	285048	12	285060
Shareholders operation	0	0	-640	-15570	0	-16210	0	-16210
Dividends	0	0	0	-6714	0	-6714	0	-6714
Interest upon Own Capit	0	0	-640	-8856	0	-9496	0	-9496
Total Comprehensive In	0	0	0	137271	-9680	127591	29	127620
Net Income for the Perio	0	0	0	136085	0	136085	29	136114
Other Comprehensive In	0	0	0	1186	-9680	-8494	0	-8494
Realization of revaluator	0	0	0	1186	-1186	0	0	0
Exchange Variance of O	0	0	0	0	-10939	-10939	0	-10939
Actuarial gain (loss)	0	0	0	0	2445	2445	0	2445
Internal changes in shar	10000	0	77380	-121701	0	-34321	-29	-34350
Realization of the Revalu	0	0	0	0	0	0	0	0
Increased Capita	10000	0	-10000	0	0	0	0	0
Allocation after AGM 201	0	0	6714	0	0	6714	0	6714
Allocation after AGM 201	0	0	-15232	-25511	0	-40743	-29	-40772
Allocation after AGM 201	0	0	95898	-96190	0	-292	0	-292
Closing Balances	140000	0	235960	0	-13852	362108	12	362120

## PBG S.A and subsidiaries

Interim Financial Information for the quarter ended december 31, 2019

In thousands of Brazilian reais - R\$, unless otherwise stated.

### Consolidated financial statements / Statement of added value

Account Code	Account Description	Current Year 12/31/2019	Previous Year 12/31/2018
7.01	Revenue	1423565	1493418
7.01.01	Sales of Goods, Products and Services	1370282	1290114
7.01.02	Other Revenue	57834	202858
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	-4551	446
7.02	Consumables acquired from third parties	-699883	-665623
7.02.01	Cost of goods and services sold	-508591	-422729
7.02.02	Material, Energy, Outsourced Services and Other	-194885	-242871
7.02.03	Loss/Recovery of Assets	3593	-23
7.03	Gross Added Value	723682	827795
7.04	Retentions	-53774	-43608
7.04.01	Depreciation, Amortization and Depletion	-53774	-43608
7.05	Net Added Value Produced	669908	784187
7.06	Transferred Added Value	38938	60877
7.06.02	Financial Revenue	38938	60877
7.07	Total Added Value to be Distributed	708846	845064
7.08	Distribution of Added Value	708846	845064
7.08.01	Personnel	280120	247336
7.08.01.01	Direct Remuneration	234822	207993
7.08.01.02	Benefits	26955	24384
7.08.01.03	F.G.T.S.	18343	14959
7.08.02	Taxes, Duties and Contributions	284607	336574
7.08.02.01	Federal	122443	184990
7.08.02.02	State	161373	150693
7.08.02.03	Municipal	791	891
7.08.03	Interest Expenses	130956	126842
7.08.03.01	Interest	113862	108992
7.08.03.02	Rent	17094	17850
7.08.04	Interest earnings	13163	134312
7.08.04.01	Interests on equity	0	7273
7.08.04.02	Dividends	0	12837
7.08.04.03	Retained Earnings/Loss for the Period	13128	114172
7.08.04.04	Minority interests in retained earnings	35	30

## Portobello Grupo



Tijucas, March 19, 2020. PBG S.A. (B3 S.A. - BRASIL, BOLSA, BALCÃO: PTBL3), Brazil's largest ceramic tile company, is submitting its earnings release for the year ended December 31, 2019.

The financial information reported herein is derived from PBG S.A.'s consolidated financial statements prepared in accordance with the standards issued by the Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRS).

## HIGHLIGHTS

	R\$ million	2018	2019	▲ %
PERFORMANCE	Gross revenue	1.321	1.416	7,1%
	<b>Net revenue (i)</b>	<b>1.043</b>	<b>1.114</b>	6,8%
	Gross margin (i)	37,8%	32,5%	-5,3 p.p.
	<b>EBITDA</b>	<b>288</b>	<b>130</b>	-55%
	<b>Net Profit (Loss)</b>	<b>134</b>	<b>13</b>	-90%
	<b>ROCE</b>	<b>20,3%</b>	<b>6,6%</b>	-13,7 p.p.
Debt	<b>Net debt</b>	<b>472</b>	<b>427</b>	-9,5%
	Net deb-to-EBITDA	1,64	3,32	102%
PTBL3	<b>Quotation</b>	<b>5,19</b>	<b>5,37</b>	3%

• **Gross Revenue of R\$ 1,416 million**, an increase of 7%;

• **Gross Margin** pressed by energy costs;

• **Reduction in Indebtedness** in the amount of **45 million**, down 9.5% compared to 2018;

• Net income of **R\$ 13 million** and EBITDA of **R\$ 129 million**

• **PTBL3** share price at year end of **R\$ 5.37** with **28%** in average financial volume of trading from the past 12 months.



## PortobelloGrupo

## TELECONFERÊNCIA

**Thursday, March 26 at 2:30 p.m.**

Data for connection:

Phone: +55 11 3137-8043

Senha: PORTOBELLO

## WEBCAST

The teleconference audio will be broadcast over the internet, accompanied by a slideshow, both will be available 30 minutes in advance at:

[www.ri.portobello.com.br/](http://www.ri.portobello.com.br/)



We ended the year 2019 with a macroeconomic scenario posing large challenges: the economic crises (as that in Argentina), the global uncertainties arising from the international trade war and the national political scenario that, despite the difficulties, presented progress in the pension and social security reform, and the tax reform, which is still on the agenda.

Despite the noticeable resistance to the advances in the economy and the heavy pressure on costs – affected by the prices of energy inputs - the Company ended the year showing growth, expansion and consolidation of new businesses.

The Company showed improvements in its performance, with consolidated net revenue of R\$ 301 million, up 13.6% compared to 4Q18 and up 6.8% compared to the prior year. According to the Brazilian Association of Construction Materials Industries (ABRAMAT), sales of finishing building materials decreased by 0.9% between 2018 and 2019, which points to a gain in the Company's market share in the sector. The Company's commercial strategy in the domestic market has been maintaining consistent and progressive results, focused on a more profitable product mix and with a business model focused on time-to-market and the fast fashion concept, with 4 launches in the year. Regarding sales to the foreign market, there was a significant increase of 29% in 4Q19 when compared to 4Q18 and, despite the good result in the last quarter, it was not sufficient to offset losses due to the economic crisis prevailing in Argentina.

Industrial costs were affected by higher energy costs, a fact that led to gross margin decrease in the year 2019 to 32.5 %, a level that has remained stable. The Company has been focusing on efforts to reduce production costs with improvements in processes that lead to productivity gains, and on the expansion of new business volumes. The qualification of the product mix with gains of scale in sales of large tile formats is one of the main strategies against the increase in energy costs. Accordingly, in 2019, the Company increased its production capacity with the implementation of a new furnace for the production of these products.

Cash generation, as measured by EBITDA, totaled R\$ 30 million in 4Q19, and R\$ 129 million in the year. During the year, there was the recognition of judicial gains of R\$ 41 million and the sale of the court-ordered debt ("plaintiff") relating to IPI premium credit tax asset, in the amount of R\$ 170 million, which had an important additional contribution to cash flow and reduction of financial leverage.

## Portobello Grupo

The great achievements of the year at Portobello Shop were the launches of products that became bimonthly, reinforcing the fast fashion concept of always offering customers novelties and innovations. The store chain aggregates 129 units, of which 15 are own stores. There was an increase in sales this year, compared to the same period in 2018, as a result of the expansion of the exhibition area and the repositioning of stores.

In view of the particularities presented by the “Officina ” business, such as customized products, complexity in production and low scale distribution, the focus in 2019 was on improving the operational points mentioned. This solution is adding a leading edge to the Portobello Shop brand and business, offering the market a differentiated product mix, with an innovative line and with differentiated solutions for end customers.

In the Pointer brand, there was a promising growth in sales in 2019, reaching break-even point. This results from the product mix qualification with porcelain tiles and advances in the nationalization strategy of the brand, allowing the Alagoas plant to use 100% of its production capacity, especially with the start of production and sales in the South and Southeast regions of Brazil.

The advances in the US market, with the USA business, mitigated the losses with the economic crisis prevailing in Argentina, which has been strengthening its operations with the objective of expanding business in the foreign market with increasing volumes, expanding the portfolio and narrowing partnering with large customers.

At the end of 2019, changes were made to the organizational structure: the business model that used to consist of operating as an integrated retail company, now involves operating in four independent business units; namely: Portobello, Pointer, Portobello Shop and Portobello America.

The Company is aware of the challenges and prepared for the market requirements, remaining confident in the expansion of its businesses through its strategies to increase operational efficiency and profitability of its assets. In sales, it maintains its commitment to constantly bring innovation, with focus on retail growth, the strengthening and internationalization of the brand, the consolidation of new businesses and also on the optimization of the product mix, concurrently committed to its strategy.

## ECONOMIC-FINANCIAL PERFORMANCE

	R\$ thousand	4Q17	4Q18	4Q19	▲%	2017	2018	2019	▲%
PERFORMANCE	<b>Gross revenue</b>	<b>316.868</b>	<b>342.976</b>	<b>382.257</b>	11,5%	<b>1.277.945</b>	<b>1.321.346</b>	<b>1.415.598</b>	7,1%
	Net revenue (i)	249.524	265.021	301.118	13,6%	1.008.461	1.043.378	1.114.269	6,8%
	<b>Gross profit (i)</b>	<b>95.334</b>	<b>90.167</b>	<b>98.576</b>	9,3%	<b>401.544</b>	<b>394.788</b>	<b>362.619</b>	-8,1%
	Gross margin (i)	38,2%	34,0%	32,7%	-1.3 p.p.	39,8%	37,8%	32,5%	-5.3 p.p.
	<b>EBIT</b>	<b>29.872</b>	<b>62.272</b>	<b>16.037</b>	-74%	<b>149.006</b>	<b>244.404</b>	<b>75.071</b>	-69%
	<b>Profit (loss)</b>	<b>4.829</b>	<b>28.746</b>	<b>9.127</b>	-68%	<b>64.170</b>	<b>134.311</b>	<b>13.164</b>	-90%
	<b>EBITDA</b>	<b>41.795</b>	<b>68.560</b>	<b>30.228</b>	-56%	<b>189.017</b>	<b>288.013</b>	<b>128.845</b>	-55%
	EBITDA margin	16,7%	25,9%	10,0%	-15,8 p.p.	18,7%	27,6%	11,6%	-16 p.p.
RATIOS	Current liquidity					1,26	1,40	1,40	0,00
	Net debt					394.367	472.188	427.141	-9,5%
	Net debt-to-EBITDA					2,09	1,64	3,32	214%
	Net debt-to-equity					1,38	1,30	1,16	(0,14)
PTBL3	Closing quotation					5,49	5,19	5,37	3%
	Market value					870.102	822.555	851.084	
	Monthly trading volume (R\$). Average from the past 12 months					46.017	38.600	53.287	38%

(i) Net Revenue for 4Q18, 2017 and 2018 considers reclassification of rebates, previously recognized as expenses, in the amounts of R\$ 4.6, R\$ 15.5 and R\$ 10.8 million, respectively, adjusted for purposes of comparison.

## Net Revenue

	4Q17	4Q18	4Q19	▲%	2017	2018	2019	▲%
<b>Net revenue</b>	<b>249.524</b>	<b>265.021</b>	<b>301.118</b>	<b>14%</b>	<b>1.008.461</b>	<b>1.043.378</b>	<b>1.114.269</b>	<b>7%</b>
Domestic Market	208.103	228.334	253.818	11%	839.673	857.866	939.218	9%
Foreign Market	41.421	36.687	47.299	29%	168.788	185.512	175.051	-6%

Net revenue was up 14% in 4Q19 compared to 4Q18, reaching R\$ 30 million, showing clear signs of recovery. Net revenue for 2019 totaled R\$ 1,114 million, up 6.8 % compared to prior year, the highest growth in the last five years.

Domestic market sales in 2019 represented 84% of total sales, an increase of 9% when compared to 2018. This growth is the result of:

- ✓ Increase in the share of own stores, with emphasis on focusing on the time-to-market business model and the fast fashion concept strategies.
- ✓ Significant advances in the Pointer brand nationalization plan, with the start of production and sales in the South and Southeast regions of Brazil, and in the qualification of the product mix with porcelain tiles production.
- ✓ Investments in points of sale.

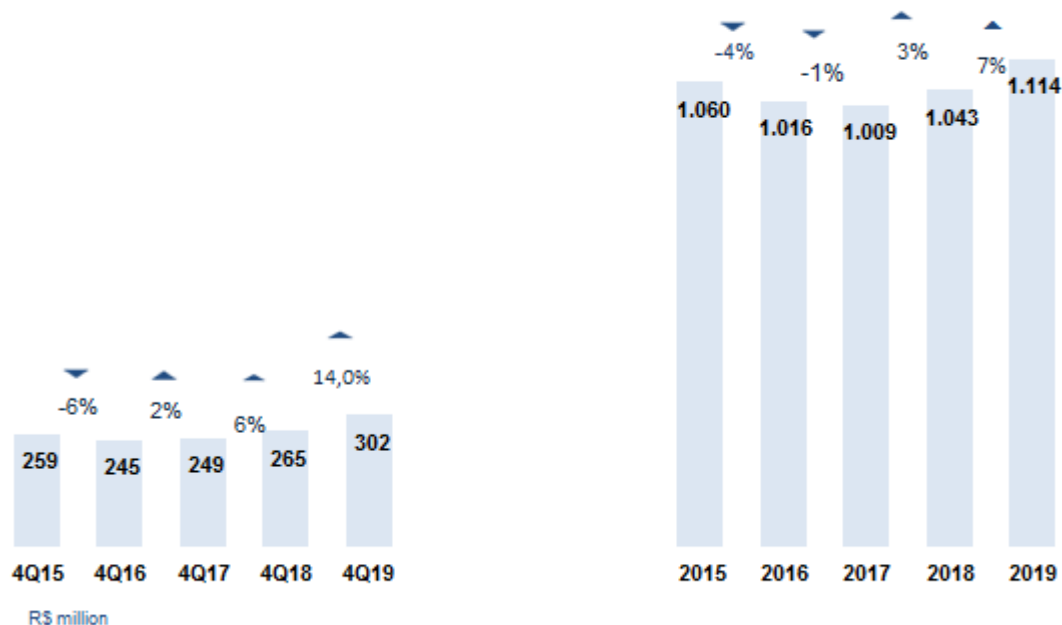
## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

## Portobello Grupo

In the foreign market, we had a significant increase in sales in 4Q19, by 29% compared to 4Q18, as a result of the advance in internationalization in the USA, with the implementation of the two distribution centers in Florida and Tennessee and the expansion of the customer portfolio.

## Net Revenue

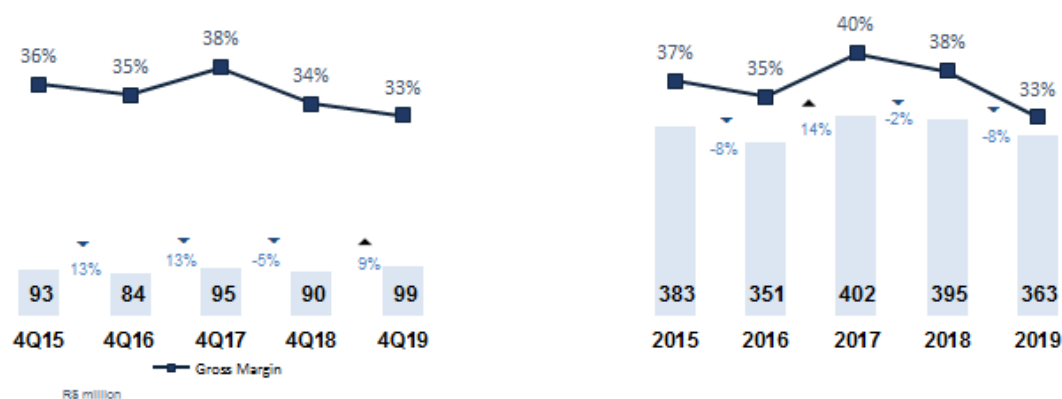


## Gross Profit

Gross profit for 4Q19 totaled R\$ 99 million, up 9% compared to 4Q18 representing gross margin of 33%. Gross margin was affected by readjustments in energy input prices.

The Company has been taking measures to mitigate these effects through productivity gains, search for energetic alternatives and improvement of the products mix, with launching of collections with higher value added.

## Gross Profit



## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

## Portobello Grupo

## Operating Income (Expenses)

	4Q17	4Q18	%RL	4Q19	%NR	▲%	2017	2018	%NR	2019	%NR	▲%
<b>Operating expenses</b>	<b>(63.922)</b>	<b>(32.510)</b>	<b>12%</b>	<b>(82.539)</b>	<b>27%</b>	<b>154%</b>	<b>(252.538)</b>	<b>(150.384)</b>	<b>14%</b>	<b>(287.548)</b>	<b>26%</b>	<b>91%</b>
Selling expenses (i)	(58.384)	(72.038)	27%	(83.365)	28%	16%	(231.034)	(274.807)	26%	(306.437)	28%	12%
General and administrative	(11.023)	(14.799)	6%	(10.832)	4%	-27%	(35.877)	(45.458)	4%	(40.873)	4%	-10%
Other income (expenses)	5.485	54.327	-20%	11.658	-4%		14.373	169.881	-16%	59.762	-5%	-65%

(i). Expenses for 4Q17, 2017 and 2018 were adjusted due to the reclassification of rebates for deduction from revenues, in the amount of R\$ 4.7, R\$ 15.5 and R\$ 10.8 million, respectively.

Selling expenses reflect the company's efforts to expand new business and increase sales. They focused on the implementation of own stores, operations in the USA, the nationalization of the Pointer brand and the updating of points of sale. The effects of these investments have boosted fourth quarter sales and will continue to have an impact on sales in the coming periods. They amounted to R\$ 83 million in 4Q19, an increase of 16% compared to 4Q18 and maintaining the relation with net revenues at the same levels as 4Q18.

Translated with [www.DeepL.com/Translator](http://www.DeepL.com/Translator) (free version)

Administrative expenses totaled 10.8 million in 4Q19 and R\$ 41 million in 2019. In relation to net revenue, they reached the percentage of 4%, unaltered when compared to the same period of the prior year.

Other operating income totaled R\$12 million in 4Q19. In 2019, other operating income totaled R\$ 60 million resulting from (i) judicial gains related to Curtailment of ICMS from the PIS and COFINS tax base of R\$41 million in 2Q19 and (ii) realization of the recoverable tax in the amount of R\$ 8 million in 4Q19.

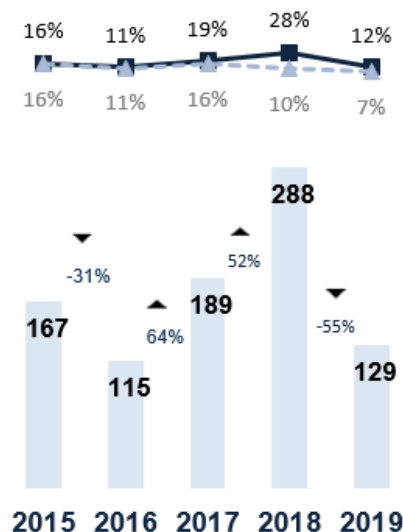
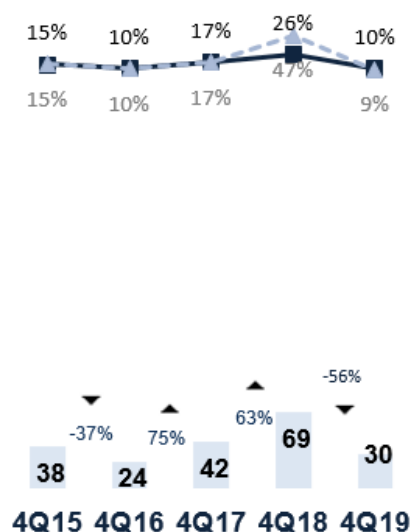
## EBITDA

	4Q17	4Q18	4Q19	%NR	▲%	2017	2018	2019	%NR	▲%
Profit	4.829	28.746	9.127	3%	-68%	64.170	134.311	13.164	1%	-90%
(+) Finance income (costs)	26.563	16.946	19.248	6,4%	14%	68.014	48.091	75.112	6,7%	56%
(+) Depreciation and amortization	10.383	10.903	14.192	4,7%	30%	40.011	43.609	54.720	4,9%	25%
(+) Income taxes	20	11.965	(12.339)	-4%	-203%	16.822	62.002	(13.205)	-1%	-121%
<b>EBITDA</b>	<b>41.795</b>	<b>68.560</b>	<b>30.228</b>	<b>10%</b>	<b>-56%</b>	<b>189.017</b>	<b>288.013</b>	<b>129.791</b>	<b>12%</b>	<b>-55%</b>
(-) Extraordinary gains	-	(47.369)	(2.020)			(30.042)	(173.089)	(52.864)		
<b>Adjusted EBITDA</b>	<b>41.795</b>	<b>21.191</b>	<b>28.208</b>	<b>9%</b>	<b>33%</b>	<b>158.975</b>	<b>114.924</b>	<b>76.927</b>	<b>7%</b>	<b>-33%</b>

## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

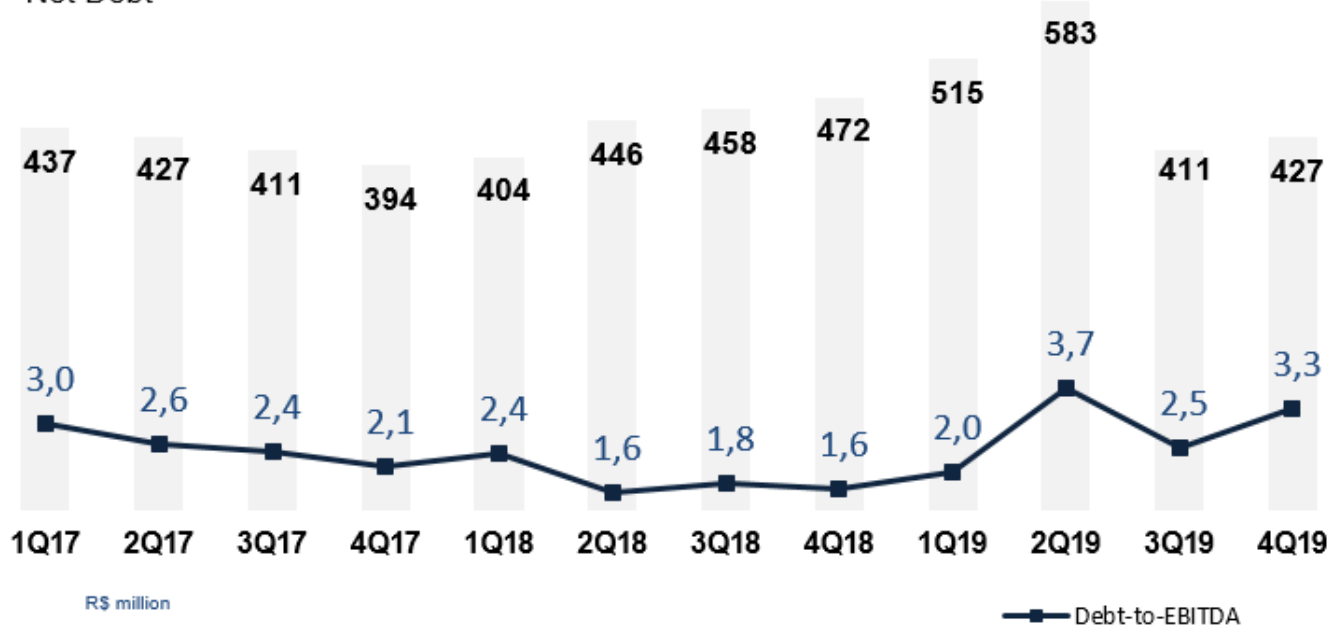
## PortobelloGrupo



The Company ends the fourth quarter of 2019 with EBITDA of R\$ 30 million, down 56% compared to 4Q18 and EBITDA margin of 10%. EBITDA for 2019 totaled R\$ 129 million with EBITDA margin of 12%, not considering the effects of the extraordinary gains. In the comparison with the same period of the prior year, EBITDA was down 3% due to the cost of energy inputs and the decrease in sales in the foreign market.

## INDEBTEDNESS / CAPITAL STRUCTURE

## Net Debt





## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

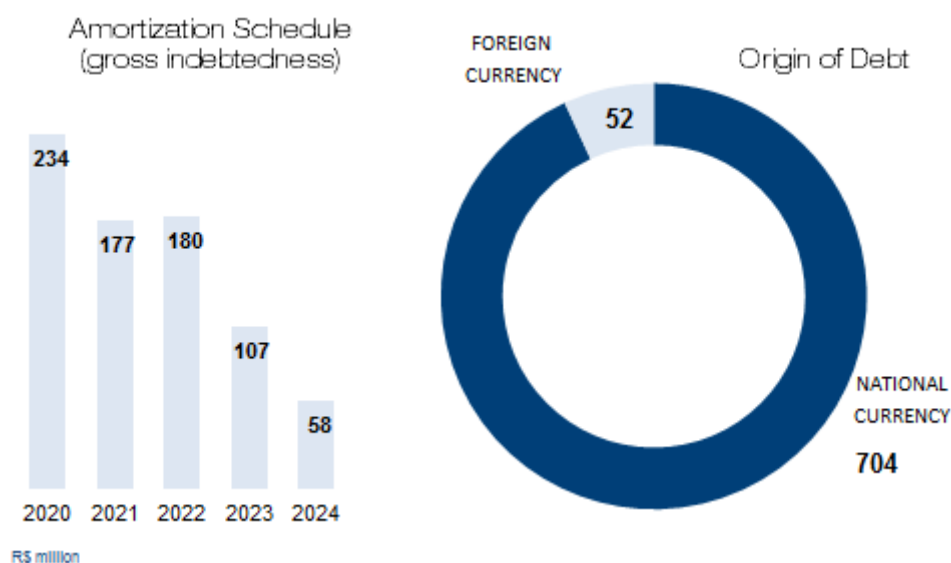
## PortobelloGrupo

The Company's net debt reached R\$ 427 million at the end of 2019. When compared to the same period of the prior year, there was a 9.5% decrease in debt, due to higher cash generation in the period and sale of the court-ordered debt - Plaintiff.

Net debt is equivalent to 3.3x EBITDA for the year, remaining stable in the last three years.

	2017	2018	2019	▲ R\$
Bank indebtedness	513.561	595.637	756.376	160.739
Tax indebtedness	76.774	64.367	55.578	(8.789)
<b>(=) Gross indebtedness</b>	<b>590.335</b>	<b>660.004</b>	<b>811.954</b>	<b>151.950</b>
(+) Cash and cash equivalents	(101.317)	(89.875)	(283.877)	(194.002)
(+) Due from related parties	(94.651)	(97.941)	(100.936)	(2.995)
<b>(=) Net indebtedness</b>	<b>394.367</b>	<b>472.188</b>	<b>427.141</b>	<b>(45.047)</b>
EBITDA (last 12 months)	189.017	288.013	128.810	(159.203)
<i>Net debt-to-EBITDA ratio</i>	<i>2,09</i>	<i>1,64</i>	<i>3,32</i>	
<i>Net debt-to-equity ratio</i>	<i>1,38</i>	<i>1,30</i>	<i>1,20</i>	

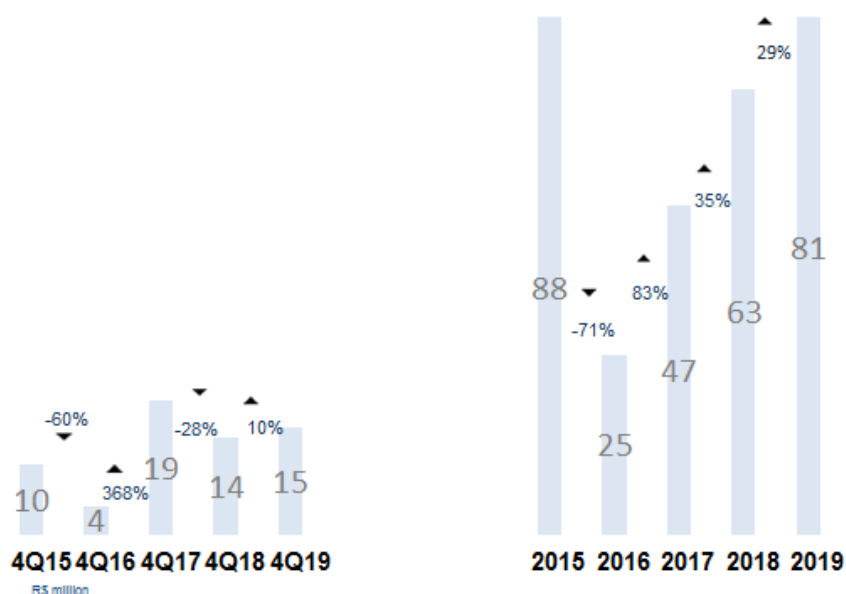
The gross debt balance is divided into 31% short term and 69% long term. The Company continues to work on extending its debt profile.





## Portobello Grupo

## INVESTMENTS



Investments in 4Q19 totaled R\$ 15 million, mostly for expanding production capacity of the Tijucas plant and opening of a new store at the beginning of 2020.

In 2019, the Company made investments of R\$ 81 million, highlighting the increase in its production capacity with the implementation of a new production line of enameled porcelain tiles, which is part of the *Lastras* (enameled porcelain tiles with large formats) Project. This project is an important step in the Company's evolution and is part of the strategy that aims to offer complete solutions to customers, including replacing the use of natural marble with enameled porcelain tiles with large formats. It includes three stages, the first of which comprises the delivery of the furnace developed for the production of large porcelain tiles of up to 1.80m x 3.60m. The second and third stages include investments in the processing and polishing line.

In 2019, the Company made investments of R\$ 81 million, with emphasis on increasing production capacity in the implementation of the first stage for *Lastras* production (enameled porcelain tiles with large formats). This project is an important step in the evolution of the Company and is part of the strategy that aims to offer complete solutions with large pieces in glazed porcelain. There are three stages, where the first stage comprises a furnace and enameling line with capacity for the production of *lastras*, with an investment of R\$ 55 million. In the second stage the press will be installed in the amount of R\$ 54 million and the third stage where the processing and polishing capacity will be expanded, with an investment of R\$ 42 million.

## PortobelloGrupo

## New Standards – IFRS 16

On January 1, 2019, the new IFRS 16/CPC 06 (R2) became effective and the Company has presented since then accounting results containing the effects of this standard. EBITDA adjusted by the impact of application of IFRS 16/CPC 06 (R2), resulting in the increase in lease expenses converted into depreciation and interest, amounts to R\$ 4.0 million in 2019.

## IMPACTS OF IFRS 16/CPC 06 (R2)

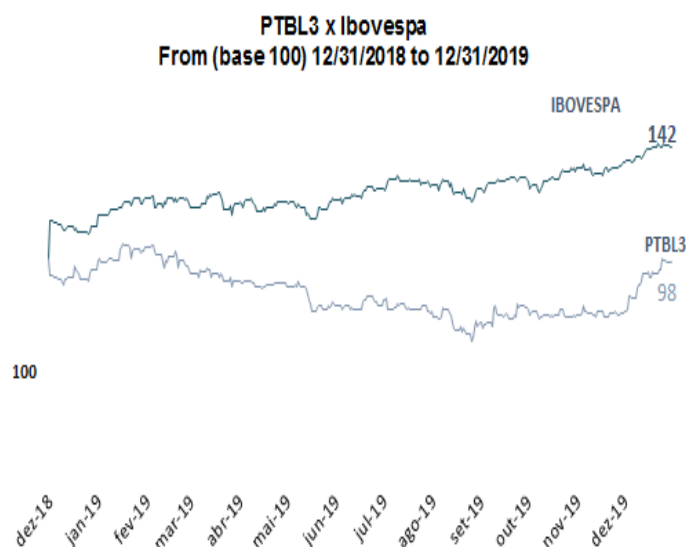
## Statement of income - 2019 - R\$ thousand

Lease expense	(4.802)
Lease depreciation	4.011
Lease finance costs	791
<b>Impact on Ebitda</b>	<b>4.802</b>

## SHAREHOLDER REMUNERATION AND RESOLUTIONS OF THE MEETING

Management will propose a dividend distribution of R\$ 6.236 thousand, the payment date of which will be decided after the Annual General Meeting. The total remuneration to be distributed to shareholders for fiscal year 2019 will represent a yield (dividend per share divided by the final share price) of 0.73%.

## PERFORMANCE OF PTBL3 SHARES



The shares traded under ticker symbol PTBL3 ended the last trading session held in December 2019 quoted at R\$ 5.37.

In the past 12 months, the average financial trading volume was R\$ 53 million, up 38% compared to R\$ 39 million in the prior year. At the end of 2019, PBG S.A.'s market value was equivalent to R\$ 851 million (R\$ 822 million in 4Q19).

## PROSPECTS

- Management is confident with the signs of recovery in the Brazilian economy already perceived at the end of the quarter, such as with the reduction of the Selic interest rate and the stimulus from government with the release of the Severance Pay Fund (FGTS). We have begun to see reflexes in consumption of construction materials and increase in civil construction activity.
- Internally, the Company will continue to focus on the profitability of its assets, industrial optimization, the commitment to bring novelties and innovations to its products portfolio, agility of processes and the importance of the shopping experience of PORTOBELLO and POINTER customers.
- In the foreign market, the efforts will be for the recovery of the markets hit by the crises of 2019 and in the internationalization of the Company with the expansion in the USA and narrowing of relationships with customers pursuant to the Europe project.
- The Alagoas plant and the Pointer brand, in addition to the plan to improve the brand's positioning, will be focused on their mission to nationalize and offer a more complete product mix to be produced and distributed in the South and Southeast regions of Brazil. The main objective will be the quest for profitability.
- Management will continue to focus on lengthening and improving the debt profile, as well as monitoring and maintaining the debt-to-EBITDA ratio.
- The Company continues confident about its strategy and leading edges to reach the expected results.

## CORPORATE GOVERNANCE

Electronic address to communicate corporate governance related issues to senior management [dri@portobello.com.br](mailto:dri@portobello.com.br)

- Shares listed on the Novo Mercado of B3;
- Only outstanding common shares, that is, each share entitles their holders to one vote in General Shareholders' Meetings;
- Tag-Along to 100% of the shares;
- Four independent members on the Board of Directors;
- Policy on minimum mandatory dividend of 25% of adjusted net profit;
- Policies in force on the disclosure of significant acts and facts and on the trading of securities;
- The Company has taken out insurance coverage from Itaú Unibanco.

## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

## Portobello Grupo

## INDEPENDENT AUDIT

In engaging independent auditors to perform non-audit services, PBG S.A. adopts a policy based on principles that preserve the professional independence. These principles draw on the assumption that the auditors should not audit their own work, should not perform management functions in the client and should not act as client's advocate. During 2019, the Company did not engage independent auditors to perform non-audit services.

## MANAGEMENT

## Executive Board

Name	Title
Mauro do Valle Pereira	Chief Executive Officer
Cláudio Ávila da Silva	Deputy Chief Institutional Relations Officer
Edson Luiz Mees Stringari	Deputy Chief Investor Relations Officer
Cesar Gomes Junior	Deputy Chief Business Officer

## Board of Directors

Name
Cláudio Ávila da Silva
Cesar Gomes Júnior
Nilton Torres de Bastos Filho
Glauco José Côte
Geraldo Luciano Mattos Junior
Walter Roberto de Oliveira Longo
Marcos Gouvêa de Souza

## TELECONFERENCE AND WEBCAST

On Thursday, March 26, 2020, at 2:30 p.m. a teleconference will be held in Portuguese language to report the earnings for the year ended December 31, 2019.

Data for connection:

Telephone: +55 11 3137-8043

Password: PORTOBELLO

For those who cannot attend the live teleconferences, the full audio will be made available and can be directly accessed at the Company's website ([www.ri.portobello.com.br/](http://www.ri.portobello.com.br/)).

## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

## PortobelloGrupo

## Balance Sheet

Assets	12/31/2019	12/31/2018	Liabilities and equity	12/31/2019	12/31/2018
<b>Current assets</b>	<b>854.556</b>	<b>563.867</b>	<b>Current liabilities</b>	<b>613.724</b>	<b>404.068</b>
Cash and cash equivalents	275.378	82.624	Borrowings and debentures	233.769	101.721
Trade receivables	251.773	239.463	Trade payables and credit assignment	205.395	170.830
Inventories	243.413	213.791	Taxes and social contributions	24.428	25.846
Recoverable taxes	52.172	10.201	Payroll and related taxes	41.882	36.734
Prepaid expenses	3.487	1.598	Advances from customers	23.854	16.457
Other current assets	28.333	16.190	Dividends payable	982	23.457
			Other current liabilities	83.414	29.023
<b>Noncurrent assets</b>	<b>981.736</b>	<b>1.058.288</b>	<b>Noncurrent liabilities</b>	<b>854.932</b>	<b>855.967</b>
<b>Long-term assets</b>	<b>412.190</b>	<b>579.070</b>	Borrowings and debentures	522.607	493.916
Escrow deposits	152.492	116.980	Trade payables	124.754	101.268
Recoverable taxes	56.902	5.287	Deferred income tax and social	-	1.965
Legal assets	37.865	317.506	Taxes payable in installments	43.815	53.574
Due from related parties	100.936	97.941	Related parties	-	62.008
Due from Eletrobrás	12.821	12.821	Provisions	120.232	139.605
Other noncurrent assets	51.174	28.535	Other	43.524	3.631
			<b>Equity</b>	<b>367.636</b>	<b>362.120</b>
<b>Investments</b>	<b>345</b>	<b>298</b>	Capital	200.000	140.000
<b>Property, plant and equipment</b>	<b>487.966</b>	<b>458.331</b>	Earnings reserves	184.036	235.960
<b>Intangible assets</b>	<b>22.392</b>	<b>20.589</b>	Other comprehensive income	(22.224)	(13.852)
<b>Right of use of leased assets</b>	<b>58.843</b>	<b>-</b>	Additional proposed dividends	5.808	-
			Retained earnings	-	-
			Non-controlling interests	16	12
<b>Total assets</b>	<b>1.836.292</b>	<b>1.622.155</b>	<b>Total liabilities and equity</b>	<b>1.836.292</b>	<b>1.622.155</b>

## Statement of Income

R\$ thousand	2019	2018
Net sales revenue	1.114.269	1.054.190
Cost of sales	(751.650)	(648.590)
Gross profit	362.619	405.600
Operating income (expenses), net		
Sales	(306.437)	(285.619)
General and administrative	(40.873)	(45.458)
Other operating income (expenses), net	59.762	169.881
Share of profit (loss) of subsidiaries	-	-
	(287.548)	(161.196)
Operating profit (loss) before finance income (costs)	75.071	244.404
Finance income (costs)		
Finance income	15.375	11.218
Finance costs	(91.571)	(68.534)
Net exchange variations	1.084	9.225
	(75.112)	(48.091)
Profit or loss before income tax and social contribution	(41)	196.313
Income tax and social contribution		
Current	(11.286)	(20.418)
Deferred	24.490	(41.584)
	13.204	(62.002)
<b>Net profit (loss) for the period</b>	<b>13.163</b>	<b>134.312</b>
Net profit (loss) attributable to:		
The owners of the Company	13.128	134.282
Non-controlling interests	35	30

## Earnings Release

In thousands of Brazilian reais – R\$, unless otherwise stated

PortobelloGrupo

## Cash Flow

R\$ thousand	2.018	2.019	Var. %
<b>Net Cash Provided by Operating Activities</b>	<b>142.167</b>	<b>5.392</b>	<b>2.537</b>
Cash provided by operations	208.256	45.768	355
Other	(66.089)	(40.376)	64
Interest paid	(52.192)	(44.659)	17
Income tax and social contribution paid	(13.897)	4.283	(424)
<b>Net Cash Used in Investing Activities</b>	<b>(94.835)</b>	<b>(65.661)</b>	<b>44</b>
Acquisition of property, plant and equipment	(88.092)	(59.266)	49
Acquisition of intangible assets	(6.743)	(6.395)	5
Proceeds from disposal of permanent assets	-	-	-
<b>Net Cash Provided by Financing Activities</b>	<b>145.422</b>	<b>48.514</b>	<b>200</b>
Borrowings and financing	275.081	412.268	(33)
Payment of borrowings and financing	(106.753)	(334.053)	(68)
Dividends paid	(22.906)	(29.701)	(23)
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>192.754</b>	<b>(11.755)</b>	<b>(1.740)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>82.624</b>	<b>94.379</b>	<b>(12)</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>275.378</b>	<b>82.624</b>	<b>(77)</b>

Visit the Investor Relations website:

[www.portobello.com.br/ri](http://www.portobello.com.br/ri)



## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

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### **1 General information**

PBG S.A., hereinafter referred to as “Company” or “Parent Company”, is a publicly-held company and its shares are traded on the *Novo Mercado* segment of B3 S.A. - Brasil, Bolsa, Balcão (B3), under ticker symbol PTBL3. The Company is controlled by a group of shareholders, formalized in the agreement entered into on April 15, 2011, and amended on February 18, 2019, which hold 54% of the Company’s shares at December 31, 2019. The remaining 46% of the shares are held by several shareholders.

The Company, with registered head office in the city of Tijucas, State of Santa Catarina, and its direct and indirect subsidiaries, individually or in the aggregate, are primarily engaged in the manufacture and sale of ceramic and porcelain products in general, such as floor tiles, enameled and non-enameled porcelain tiles, decorated and special pieces, mosaics, products intended for inner wall and external facade coatings, as well as in the provision of supplementary services involving the application of its products in the construction material industry in Brazil and overseas.

The Company also holds equity interest in the following subsidiaries: (i) Portobello Shop, which manages the Portobello Shop and Empório Portobello franchising networks, with a network of franchised stores specializing in porcelain tiles and ceramic coatings; (ii) PBTech, which manages the Portobello Shop own stores and currently manages 15 stores; (iii) Mineração Portobello, which supplies part of the raw materials used in the manufacture of ceramic coatings; (iv) Companhia Brasileira de Cerâmica, which as of the second quarter of 2018 operates the special cuts factory in the Southeast; and (v) Portobello América, which was established to sell Portobello products in the U.S. market and gradually returned to operations as of the second six-month period of 2018, with a subsidiary Portobello America Manufacturing, LLC.

### **2 Presentation of interim financial information**

#### **a) Statement of compliance**

The individual and consolidated interim financial information, presented herein as Parent Company and Consolidated, respectively, has been prepared in accordance with Interim Financial Reporting Standards CPC21 / IAS34, issued by the International Accounting Standards Board (“IASB”) and accounting practices adopted in Brazil (BR GAAP).

The accounting practices adopted in Brazil comprise the policies set out in Brazilian Corporate Law and the technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Federal Accounting Council (CFC) and the Brazilian Securities and Exchange Commission (CVM).

The presentation of the individual and consolidated Statements of Value Added (DVA) is required by the Brazilian corporate law and accounting practices adopted in Brazil applicable to publicly-held companies. The IFRS do not require the presentation of such statement.

The financial statements have been prepared to update users on relevant events and transactions occurring in the period and should be analyzed in conjunction with the financial statements for the year ended December 31, 2018. Accounting policies, accounting estimates and judgments, management of the risk and measurement methods are the same as those adopted in the preparation of the latest annual financial statements, except for the new accounting policy related to the adoption of IFRS 16 Leases, adopted by the Company since January 1, 2019, described in note 2 (b).



## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

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The individual and consolidated interim financial information was authorized for issuance by the Board of Directors on March 19, 2020.

All the relevant information disclosed in the Interim Financial Information, and only this information, is being disclosed and corresponds to the information used by Management to manage the Company.

### **b) New standards, amendments or interpretations of the IFRSs issued by the IASB**

#### ***IFRS 16 / CPC 06 (R2) Leases***

The Company applied IFRS 16/CPC 06 (R2) for the first time as from January 1, 2019, and as a result of this adoption, recognized new assets and liabilities for its operating leases of stores and distribution center.

The new applicable accounting policy introduced a new accounting model for leases in the balance sheet for lessees, whereby at the beginning of the agreement the Company assesses if the agreement is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control an identified asset for a period of time in exchange for consideration, for which it is necessary to assess if:

- (i) The contract involves the use of an identified asset, which may be explicit or implicit, and may be physically distinct or substantially represent all the capability of a physically distinct asset. If the supplier has a substantial right to substitute the asset, then the asset is not identified;
- (ii) The Company has the right to obtain substantially all of the economic benefits from the use of the asset during the contractual period;
- (iii) The Company has the right to direct the use of the asset. This means that the Company has the right to make decisions to direct how, and for what purpose, the asset is used. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. The right-of-use asset is initially measured at cost and includes the initial amount of the lease liability adjusted by any payment made at, or before, the date of inception of the contract, plus any direct initial cost incurred and estimated cost of disassembly, removal, restoration of the asset at the location it is located, less any incentive received. The right-of-use asset is subsequently depreciated using the straight-line method as from the initial date up to the end of the useful life of the right-of-use or the end of the lease term. The lease liability is initially measured at the present value of pending payments, less the implicit interest rate of the lease or, if the interest rate cannot be readily determined, by the incremental loan rate.

After initial measurement, the lease liability is measured at amortized cost, using the effective interest rate method. It is only measured when any change is identified:

- (i) In the future payments arising from any change in indexes or rates;
- (ii) At the amount expected to be paid on the guaranteed residual value; or
- (iii) Changes in valuation if the Company will exercise the option to buy, extend or terminate.

When the lease liability is remeasured, the amount of the corresponding adjustment is recorded at the carrying amount of the right-of-use asset or in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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Notes to the Financial Information for the year ended December 31, 2019.  
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The impacts of the adoption of IFRS 16 /CPC 06 (R2) are stated below:

Impact on the Consolidated Balance Sheet:

	Parent Company				Consolidated			
	31/12/2018	IFRS 16/CPC 06 (R2)	Ref.	01/01/2019	31/12/2018	IFRS 16/CPC 06 (R2)	Ref.	01/01/2019
<b>Assets</b>								
Current	544.985			544.985	563.867			563.867
Non-current	1.128.191	10.376	(a)	1.138.567	1.058.288	23.718	(a)	1.082.006
<b>Total assets</b>	<b>1.673.176</b>	<b>10.376</b>		<b>1.683.552</b>	<b>1.622.155</b>	<b>23.718</b>		<b>1.645.873</b>
<b>Liabilities</b>								
Current	382.598	2.927	(b)	385.525	404.068	7.350	(b)	411.418
Non-current	928.470	7.449	(b)	935.919	855.967	16.368	(b)	872.335
Equity	362.108			362.108	362.120			362.120
<b>Total Liabilities</b>	<b>1.673.176</b>	<b>10.376</b>		<b>1.683.552</b>	<b>1.622.155</b>	<b>23.718</b>		<b>1.645.873</b>

(a). Refers to the recognition of the right of use of lease agreements defined as a lease in accordance with IFRS 16 / CPC 06 (R2). Note 20.

(b). Refers to the recognition of the liability of lease agreements defined as a lease in accordance with IFRS 16 / CPC 06 (R2). Note 30.

### ICPC 22 / IFRIC 23: Uncertainty over Income Tax Treatments

Interpretation ICPC 22/IFRIC 23 approved on 12/17/2018, effective as of January 1st, 2019. The interpretation describes the application of the recognition and measurement requirements of CPC 32 about uncertain income tax positions. It requires the disclosure of:

- (i) Judgments in determining taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates;
- (ii) Information on assumptions made when determining taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates.

According to Company's assessment, the adoption of the interpretation did not have a significant impact on the financial statements, considering that the calculation and collection of income taxes are in accordance with the legislation and precedents of administrative and judicial courts.

### 3 Significant accounting policies

The significant accounting policies applied in the preparation of this individual and consolidated interim financial information are as follows. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 3.1 Consolidation

##### 3.1.1 Consolidated financial statements

###### a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of possible voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The percentage of Company's ownership interest in subsidiaries at December 31, 2019 is as follows: Portobello América, Inc. 100%, PBTech Com. Serv. Revest. Cer. Ltda 99.94%, Portobello Shop S.A. 99.90%; Mineração Portobello Ltda. 99.76% and Companhia Brasileira de Cerâmica 99.91%.

Transactions between the Company and its subsidiaries, as well as unrealized balances, gains and losses, have been eliminated on consolidation.

The accounting policies of subsidiaries are altered, where necessary, to ensure consistency with the policies adopted by the Company.

### **b) Transactions with non-controlling interests**

The Company and its subsidiaries treat transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the proportion of the carrying amount of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interest are also recognized in equity.

### **3.1.2 Individual financial statements**

In the individual financial statements, subsidiaries are accounted for under the equity method. In accordance with this method, an investment is initially recognized at cost and subsequently adjusted to recognize the interest of the Company in changes in the investee's net assets. Adjustments to the investment's carrying amount are also necessary to recognize the Company's proportionate interest in changes in the investee's carrying value adjustments, recorded directly in equity. These changes are also recognized directly in the parent company's equity as carrying value adjustments.

Under the equity method of accounting, the Company's share of dividends declared by subsidiaries is recognized as dividends receivable, in current assets. Accordingly, the investment is stated net of dividends proposed by the subsidiary. Accordingly there is no recognition of income from dividends.

### **3.2 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, is the Executive Board that makes the strategic decisions of the Company and its subsidiaries.

### **3.3 Foreign currency translation**

#### **a) Transactions and balances**

Foreign currency transactions are translated into Brazilian reais using the exchange rates prevailing at the dates of the transactions, or the dates of valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in profit or loss as finance income (costs), as described in note 34.

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### **b) Subsidiaries**

The assets and liabilities in foreign currency (US dollars) recorded for the subsidiary located abroad were translated into Brazilian reais at the foreign exchange rate in effect at the balance sheet date and the operations' profit or loss were translated at the monthly average foreign exchange rates. The exchange variation on the foreign investment was recorded as a cumulative translation adjustment in equity under "Carrying value adjustments".

### **3.4 Financial assets**

#### **a) Initial recognition and measurement**

Financial assets are measured at fair value upon initial recognition.

Sales and purchases of financial assets that require the delivery of assets within a schedule set by means of a market regulation or convention (regular-way purchases) are recognized on the transaction date, i.e., the date in which the Company undertakes to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, short-term investments, trade receivables and other receivables.

#### **b) Subsequent measurement**

For purposes of subsequent measurement, the Company's financial assets are classified according to the Company's business model for financial asset management and the characteristics of contractual cash flows of financial assets, as follows:

##### **(i) Financial assets measured at amortized cost**

Represent assets acquired for purposes of realization in the short term, held according to the business model, which purpose is to receive contractual cash flows, and in situations where the contractual terms of the financial asset originates, on specific dates, cash flows that exclusively constitute payments of principal and interest on the outstanding principal. After initial recognition, they are measured at amortized cost by using the effective interest method. Interest income, inflation adjustment and exchange rate changes, less any impairment losses, as applicable, are recorded in the statement of income for the year as finance income or finance costs, when incurred.

##### **(ii) Financial assets measured at fair value through other comprehensive income**

Represent financial assets held according to a business model, which purpose is achieved when collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial asset originates, on specific dates, cash flows that exclusively constitute payments of principal and interest on the outstanding principal.

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

Represent the other financial assets that are not measured at amortized cost or at fair value through other comprehensive income. The interest rates, inflation adjustment and exchange rate changes, as

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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well as changes derived from measurement at fair value, are recognized in the statement profit and loss for the year as finance income or finance costs, when earned or incurred.

### **(iv) Derecognition of financial assets**

A financial asset (or, as the case may be, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows expire;
- The Company and its subsidiaries transfer their rights to receive asset cash flows or assume the obligation to fully pay cash flows received to a third party, pursuant to a transfer agreement; and (a) the Company has substantially transferred all the risks and rewards incidental to the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards incidental to the asset, but has transferred the related control.

When the Company and its subsidiaries assign their rights to receive an asset cash flows or enter into a transfer agreement, without having substantially transferred or retained all risks and rewards incidental to the asset or transferred control over the asset, they maintain the asset and recognize a related liability. Transferred assets and related liabilities are measured to reflect the receivables and payables retained by the Company and its subsidiaries.

### **(v) Impairment of financial assets**

The Company adopted the expected loss method and measurement based on the lifetime of financial assets. A simplified approach is used for the groups of financial assets, which considers the analysis of the credit, the history of movements and losses. External indicators were not considered as they are captured in the historical loss assessment period.

The loss amount is measured based on the expectation of non-collection of the portfolio, which is obtained through the historical loss amount per maturity range since the initial recognition of the receivable. The historical loss average of six months is applied based on the recent historical behavior, and thus a credit risk percentage is assigned. The credit risk percentage is applied to each maturity range on the total contract amount. The product arising from the expected loss percentages and the maturity range amounts result in the expected loss amount that is recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the allowance recognition (such as an improvement in a debtor's credit rating), the reversal of the previously recognized impairment loss is recorded in the statement of income. If a write-off is subsequently recovered, the recovery is also recognized in the statement of income.

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### **3.5 Financial liabilities**

#### **(i) Initial recognition and measurement**

Upon initial recognition, financial liabilities are classified either as financial liabilities at fair value through profit or loss or at amortized cost.

Financial liabilities are initially stated at fair value and, in the case of borrowings and financings and trade payables, are increased by the directly related transaction costs for the issuance of securities and debt. These costs are allocated to profit or loss for the financing period, as an increase in borrowing costs, thus adjusting the effective interest rate applicable to the transaction.

The Company's financial liabilities include trade payables, trade payables agreement, payables for investments acquisition and borrowings and financing.

#### **(ii) Subsequent measurement**

After initial recognition, borrowings and financing subject to interest are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when liabilities are derecognized, as well as during the amortization process using the effective interest method.

#### **(iii) Derecognition of financial liabilities**

A financial liability is derecognized when the obligation is revoked, discharged or expires.

When an existing financial liability is replaced for another one from the same lender with terms and conditions substantially different, or the terms of an existing liability are significantly modified, such replacement or modification is recognized as derecognition of the original liability and recognition of a new liability, and the difference in the carrying amounts is recorded in the statement of income.

#### **(iv) Financial instruments – net presentation**

Financial assets and financial liabilities are stated at their net amounts in the balance sheet if, and only if, the Company has a legally enforceable right to set off the amounts recognized and if there is an intent to simultaneously realize the asset and settle the liability.

#### **(v) Derivative financial instruments**

The Company is exposed to market risks arising from its transactions and uses derivatives, such as interest rate swap derivative agreements to hedge against foreign exchange and interest rate risks. Derivatives are measured at fair value (market value) at every balance sheet date. Any gains or losses on changes in the fair value of derivatives, earned or incurred during the year, are directly recognized in the statement of income. Derivatives are classified as short and long term or segregated into short and long-term portion based on an assessment of the contractual cash flows, and according to the characteristics inherent to such contract, the Company presents such derivative contract together with the original transaction on a net basis.

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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### **3.6 Inventories**

Inventories are presented at the lower between the cost and net realizable value. Cost is calculated under the moving weighted average cost method. The cost of finished products and work in process comprises raw materials, direct labor, other direct costs and related general production expenses (based on normal operating capacity), except for the costs of loans obtained. The net realizable value is the sales price estimated in the normal course of business, less the performance costs and selling expenses.

### **3.7 Judicial deposits**

The balances of judicial deposits are monetarily restated at the savings rate and presented as non-current assets.

### **3.8 Receivables from Eletrobrás**

The recognition of the receivables from Eletrobrás is based on the opinion of the Company's legal counsel and is supported by the fact that the lawsuit is final and unappealable and is in the stage of payment. The amounts have been computed by the Federal Justice accounting department, taking into account the rules of the court decision and the limitations established by the judge.

### **3.9 Investments**

The investments in subsidiaries are stated under the equity method of accounting, and recognized in profit or loss for the year as operating income or expense. In the case of exchange rate change in investment in the subsidiary Portobello America Inc., changes in the value of investment derived exclusively from exchange rate change are recorded under "Carrying value adjustments", in the Company's equity, and are recorded in the statement of income for the year only when the investment is sold or written off to loss.

The provision for losses on investments are recorded when there are losses on investments in subsidiaries and these losses the limit of the book value of investment. The Company classifies the provision in non-current liabilities, under the line item "Provision for losses on investments" with a corresponding entry recorded in profit or loss, under the line item "Equity in earnings of subsidiaries". Other investments are recognized at historical cost and adjusted by the provision for impairment, in case there is indication of loss (note 17).

### **3.10 Property, plant and equipment**

Property, plant and equipment are recorded at cost, less accumulated depreciation. The corresponding entries to these revaluations are recorded in a specific account in equity and in deferred taxes under non-current liabilities. In 2010, upon the initial adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the property, plant and equipment revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition.

Subsequently incurred costs are added to the asset's carrying amount or recognized as a separate asset, as applicable, and only when it is likely that associated future economic benefits will flow and that the item's cost can be reliably measured. The carrying amount of the replaced items or parts is written off. All other maintenance and repair costs are recorded as production cost, when incurred.

## **PBG S.A. and Subsidiaries**

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Depreciation is calculated using the straight-line method, with the costs of other assets being allocated to their residual values over the estimated useful life, as depreciation rate.

Residual values and the useful lives of material assets are reviewed and adjusted, if adequate, at the end of each year.

An asset's carrying amount is immediately written down to its recoverable amount when it is greater than its estimated recoverable amount.

Gains and losses from disposals are determined by the comparison of results with the book value and are recognized in "Other net operating income (expenses)" in the statement of income.

### **3.11 Intangible assets**

Intangible assets refer to the registry of rights whose object are intangible assets, such as brands and patents, expenses with implementation of the management system and software programs and rights of exploitation of ore mines, goodwill. Stated at cost incurred on acquisition or formation and subsequently deducted from accumulated amortization or depletion and impairment losses, when applicable. Accordingly, they are stated at acquisition cost, combined with the annual amortization or depletion rates mentioned in note 19, calculated under the straight-line method taking into consideration the defined useful life for the asset.

The Company and its subsidiaries determined the useful life of the brands and patents and goodwill as indefinite. Based on analysis of all the significant factors, we noted that these assets did not present predictable limits in relation to the period during which they are expected to generate net cash inflows to the entities.

### **3.12 Impairment of non-financial assets (except for inventories, deferred income and social contribution taxes)**

Assets subject to depreciation, amortization and depletion are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The latter is the higher of the asset's fair value less its sale costs and value in use. For impairment valuation purposes, assets are grouped at the lowest levels for which exist separately identifiable cash flows (Cash Generating Units - CGU). Non-financial assets are subsequently reviewed for possible reversal of the impairment at each reporting date.

### **3.13 Trade payables**

Trade payables are obligations due for goods or services acquired from suppliers in the normal course of business, and are classified as current liabilities if payment is due within one year. Otherwise, trade payables are presented as non-current liabilities.

Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the related invoice.



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### **3.14 Borrowings and debentures**

They are initially recognized at fair value when funds are received net of transaction costs. Subsequently, borrowings are stated at amortized cost, i.e., plus charges and interest proportional to the period elapsed (*pro rata temporis*).

They are classified as current liabilities unless the Parent Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the end of the year

### **3.15 Provisions for tax, labor and civil risks**

Provisions for tax, labor and civil risks are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and are assessed individually by the Company's legal counselors, who classify them according to the expectation of favorable outcome. The increase in the obligation due to the time elapsed as a result of inflation adjustment is recognized as interest expense.

Tax risks classified as possible losses are not recorded, and are only disclosed in the Financial Statements, and those classified as remote losses are neither accrued nor disclosed.

Tax assets are not recognized in accounting books, except when the Company considers that the gain is practically certain or when there are real guarantees or favorable court decisions against which appeals may not be filed.

### **3.16 Current and deferred income tax and social contribution**

Current income tax and social contribution are calculated based on the rates of income tax (25%) and of social contribution (9%) on adjusted net income under the terms of the current legislation. The offset of income tax and social contribution losses is limited to 30% of taxable income.

Deferred tax assets relate to accumulated income tax and social contribution losses and temporary differences, and deferred tax liabilities relate to revaluations of property, plant and equipment and also to temporary differences. The recognition of tax assets takes into consideration the expectation of future taxable income and they are calculated based on the rates established by current tax legislation and recorded up to the amount considered as realizable based on estimates prepared by the Company.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets and liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

### **3.17 Employee benefits**

#### **a) Private pension plan**

The Company sponsors a defined contribution benefit plan, however, it offers a minimum retirement benefit for length of service or age (components of defined benefit). A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company does not have legal or constructive obligations to make contributions if the fund does not have sufficient

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assets to pay to all the employees the benefits related to employee's service in the current and prior period. A defined benefit plan is different from a defined contribution plan. Defined benefit plans, usually establish a benefit amount that the employee will receive upon retirement, depending on one or more factors, such as age, time in company and salary.

The defined benefit liability is annually calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting estimated future cash outlays, using interest rate yields prevailing in the market for the currency in which benefits will be paid, and having maturity periods similar to those in the related pension plan obligation. The liability recognized in the balance sheet is the present value of the defined- benefit obligations on the balance sheet date, less the fair value of plan assets, with the adjustments of unrecognized past services. When the calculation results in a benefit for the Company, the asset to be recognized is limited to the total of any unrecognized prior service costs and present the value of the economic benefits available as future plan refunds or reduction in the future payments.

Actuarial gains and losses, resulting from adjustments based on experience and on changes in actuarial assumptions, are recorded as other comprehensive income in equity, under "Carrying value adjustments".

Past service costs are immediately recognized in profit or loss, unless any changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

Regarding the defined contribution plans, the Company has no additional obligation to make payments after the contribution is made. The contributions are recognized as employee benefit expenses, when due and the contributions made in advance are recognized as asset as a refund in cash or a reduction of payments of current or future services is made available.

### **b) Profit sharing plan**

This interest is recognized monthly in current liabilities, under the line item "Other" and in the income statement under the line item "Other operating income (expenses)". It is calculated based on a formula that considers the attainment of 80% of estimated profit before interest and taxes and is limited to up to 20% of profit before profit sharing expense.

### **c) Long-term incentive**

The Company operates a long-term incentive plan according to which the Company receives services from employees and offers cash payments as compensation. Fair value of employee services received in exchange for cash is recognized as expenses. The total amount to be recognized as obligation is determined every year considering the principal aspects: the EBITDA growth and a ratio of EBITDA with the Company's net debt (note 28). Total expenses are recognized during the period in which the right is acquired; period during which the specific conditions of acquisition of rights should be met. On the balance sheet date, the Company reviews its estimates based on the conditions of acquisition of rights and recognizes the impact of the review of the initial estimates, if any, in the statement of income, with a corresponding adjustment in the liabilities.

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### **3.18 Capital**

The Company's capital is represented solely by common shares and is classified in equity, as disclosed in note 31.

### **3.19 Distribution of dividends and interest on capital**

Distribution of dividends to the Company's stockholders is recognized as a liability in the financial statements at year-end based on the Company's bylaws. Any amount above the mandatory minimum is provisioned only on the date of its approval by the Shareholders' Meeting.

The tax benefit of interest on own capital is recorded in profit or loss.

### **3.20 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the activities of the Company and its subsidiaries, and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales between the Company and its subsidiaries.

Sales revenue is recognized when control is transferred, i.e., at the time of physical delivery of the goods or services and transfer of ownership. After delivery, customers assume the significant risks and rewards arising from ownership of the goods (they have the power to decide on the method of distribution and the selling price, responsibility for resale and bears the risks of obsolescence and loss with respect to the goods). At that moment, a receivable is recognized since at that time the right to consideration becomes unconditional.

#### **a) Sales of goods - wholesale**

The Company produces and sells a variety of tiles coatings in the wholesale market. Sales of products are recognized whenever the Company delivers the products to the wholesale dealer, which then has total liberty over the channel and the price of resale of products, and there is no obligation not satisfied that could affect the acceptance of the products by the wholesale dealer. The delivery does not occur until: (i) the products have been shipped to the specified location; (ii) the risks of obsolescence and loss have been transferred to the wholesale dealer; (iii) the wholesale dealer has accepted the products according to the sales agreement; and (iv) the acceptance provisions have been agreed upon, or the Company has objective evidences that all the acceptance criteria have been met.

Ceramic tiles are eventually sold at discounts per volume. Customers have the right to return products with defects in the wholesale market. Sales are recorded based on the price specified in the sales agreements. Sales are recorded based on the price specified in the sales agreements. Sales are made with different payment terms according to the type of customer (Home Centers, Construction Companies, Franchised Stores), without nature of financing, and are consistent with the market practice; thus, these sales are not discounted to present value..

#### **b) Income from royalties**

Income from franchisees' royalties is recognized on accrual basis in conformity with the essence of the relevant agreements.

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### **c) Finance income**

Finance income is recognized on the accrual basis, using the effective interest method, to the extent that it is expected to be realized.

#### **3.21 Finance costs**

Finance costs comprise interest expenses on borrowings, monetary restatement of trade payables, exchange rate changes on borrowings, update of taxes payable in installments and discounts granted to customers. Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized in profit or loss using the effective interest rate method

#### **3.22 New standards, amendments or interpretations of the IFRSs issued by the IASB**

In 2019, the Company adopted the amendments and new interpretations to IFRSs and CPCs issued by the IASB and CPC, respectively, which are effective for annual periods beginning on or after January 1, 2019. The main amendments adopted by the Company are as follows:

*(i) IFRS 16 Leases:*

IFRS 16 introduces a single accounting model for leases in the balance sheet of lessees. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Optional exemptions are available for short-term and low-value leases. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 R2 / CPC 06 (R2) replaces the existing lease standards, including CPC 06 (IAS 17) Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary Aspects of Lease Transactions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Of the agreements included in the scope of the standard, the Company's Management considered as lease component of vehicles, distribution centers and stores.

*(ii) ICPC 22/IFRIC 23: Uncertainty over Income Tax Treatments*

Interpretation ICPC 22/IFRIC 23 approved on 12/07/2018, effective for annual periods beginning on or after January 1, 2019, describes the application of the recognition and measurement requirements of CPC 32 when there is uncertainty over income tax treatments. The interpretation requires an entity to disclose:

- (a) judgments made in determining taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates.
- (b) information on assumptions made when determining taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates.

The Company reviewed the treatments given to income taxes in order to determine the impact on the parent company and consolidated financial statements, as determined by IFRIC 23 / ICPC 22 - Uncertainty over Income Tax Treatments.

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The Company recognizes deferred income tax and social contribution balances at December 31, 2019, as a result of the recognition of the "Plaintiff" lawsuit that judicially discusses the non-taxation of this revenue. The amounts in 2019 are R\$ 53,118 in the parent company, as liability temporary differences, and R\$ 4,193 as asset temporary differences. This classification was made in line with the clarification of the IFRS Interpretation Committee, which clarifies that uncertain positions regarding income taxes are part of the measurement of current or deferred income taxes.

There are no other standards, amendments to standards and interpretations for which the Company identified impacts on its financial statements.

### a) Standards effective beginning January 1, 2020

A number of new standards or amendments to standards and interpretations are effective for annual periods beginning January 1, 2020. The Group did not adopt these amendments in the preparation of these financial statements and does not plan to early adopt these standards. They are as follows:

<u>Standard</u>	<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to CPC 26/IAS 1 and CPC 23/IAS 8 Definition of materiality	The amendments to CPC 26 / IAS 1 and CPC 23 / IAS 8 clarify the definition of materiality and align the definition used in the conceptual framework and in other accounting standards. These amendments will be effective on January 1, 2020. Management believes that they will not have significant impacts on the Company's financial statements since it applies the technical guidance OCPC 7, disclosing only relevant information.	01/01/2020
IFRS 17 Insurance contracts. CPC 50.	This standard will be effective on January 1, 2021 and will replace CPC 11 - Insurance Contracts that maintain requirements of the current local rules. CPC 50 will provide a global and comprehensive model for accounting for insurance contracts in line with the international standardization of accounting standards. Management believes that the adoption of this standard will not have a significant impact on the Company's financial statements.	01/01/2021

## 4 Critical accounting estimates and judgments

### 4.1 Estimates

Based on assumptions, the Company and its subsidiaries make estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

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and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are addressed below.

### **a) Review of useful life and impairment of assets**

The recoverability of assets used in the Company's activities is evaluated whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets might not be recovered through future cash flows. If the carrying amount of these assets exceeds their recoverable amount, the net amount is adjusted and the useful life is changed to new levels.

### **b) Provisions for labor, civil and tax risks**

The Company is party to labor, civil and tax lawsuits at several stages. The provisions for contingencies to cover expected losses arising from lawsuits in progress are established and updated according to management's evaluation, which is based on the opinion of legal counsel, and require a high level of judgment on the matters involved.

### **c) Provisions for inventory losses**

The provision for inventory losses is established when, based on Management's estimates, the items are defined as discontinued or slow moving and when the inventory items have a cost exceeding the net realizable value.

### **d) Deferred income tax and social contribution tax**

Deferred tax assets are based on tax loss carryforwards and temporary differences between the carrying amounts in the financial statements and the tax basis. If the Company and its subsidiaries start operating at a loss or become unable to generate future taxable income in a sufficient level, or if there is a significant change in the current tax rates or in the period of time over which underlying temporary differences become taxable or deductible, it may be necessary to make a reversal of a significant portion of deferred tax assets, possibly resulting in an increase in the effective tax rate.

### **e) Private pension plan**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The appropriate discount rate is determined at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, Management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 28.

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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### **4.2 Critical judgments in applying the accounting policies**

#### **a) Receivables from Eletrobrás**

The recognition of receivables from Eletrobrás is based on the opinion of the Company's legal counsel and is supported by the final and unappealable decision on the lawsuit, which is currently in the stage of settlement. The amounts have already been computed by the Federal Court accounting department, taking into account the requirements of the court decision and the limitations established by the judge.

#### **b) Credits from related parties with guarantees**

Receivables from Refinadora Catarinense are recognized based on the contract signed with the counterparty and the amount of guarantees given. The credits pledged as collateral have already been converted into court-ordered debt. The related payments are already included in the federal government's budget, as mentioned in note 11.

#### **c) Taxes payable in installments MP 470**

The amount of the installments for Provisional Measure No. 470 is based on the assumption that the Company will obtain approval for its claim according to the opinion of its legal counsel (note 24).

The Company has already requested a court ruling to obtain judicial approval for the installment plan referred to in Provisional Measure No. 470. Said legal action – a writ of mandamus – is expected to be considered as valid by the court, in the opinions of the Company's legal area, and of two highly specialized law firms (Demarest Almeida and Souza Cescon). As clarification, writ of mandamus filed to claim court homologation for payment in installments was rejected in the lower court. TRF of the 4<sup>th</sup> region partially approved the appeal. The Company maintains the proceeding of reversing remaining court dispute in the Higher Court of Justice.

#### **d) ICMS tax benefits**

The Company has an ICMS (state VAT) tax incentive called Santa Catarina State Corporation Development Program (PRODEC), granted by the Santa Catarina state government as described in note 22. The Federal Supreme Court issued decisions for direct actions for unconstitutionality, which declared the unconstitutionality of several state laws that granted ICMS tax benefits without the prior agreement between the states. Although it does not have ICMS tax incentives judged by the Federal Supreme Court, the Company has been monitoring, together with its legal counsel, the progress of this matter in the courts to determine any impacts on its operations and consequent effects on Financial Statements.

In Alagoas State, the Company has a tax benefit denominated PRODESIN – Integrated Development Program. PRODESIN tax benefits are comprised of deferral of ICMS levied on assets acquired in Brazil and abroad and intended to be incorporated to fixed assets; deferral of ICMS levied on raw materials acquired in Brazil or abroad; deemed credit of 50% of ICMS related to products of the branch located in the State; deferral for 360 days of ICMS to be paid; financing of part of ICMS owed to the State in up to 84 monthly installments, with grace period of 24 months to pay first installment.

#### **e) Tax assessment notice**

In the years, 2014 and 2016, the Company was notified of Tax Assessment Notices that established IRPJ and CSLL credits (as well as money penalties and interest) for calendar years from 2009 to 2013.

## PBG S.A. and Subsidiaries

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The Company presented its defense and is awaiting a decision on said impugnation, as detailed in note **Erro! Fonte de referência não encontrada..**

### f) Tax assets

The accounting estimates and assumptions on the Company's tax assets are material to the Company and the information on judgments made in applying the accounting policies that have significant effects on the amounts recognized in the individual and consolidated financial statements are included in the following notes:

- Note 15 – Tax asset
- Note 16 – Contingent asset

## 5 Financial risk management

### 5.1 Financial risk factors

The activities of the Company and its subsidiaries expose them to several financial risks: market risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of the financial markets and aims to minimize any adverse impacts on the consolidated financial performance.

Risks are managed by the Treasury Area and Finance Department in accordance with the policies approved by the Board of Directors. The Treasury Area and Finance Department identify, assess and hedge the Company and its subsidiaries against possible financial risks in cooperation with the operational units. The Board of Directors sets the overall risk management principles and the criteria for specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and the investment of cash surpluses.

The following table summarises the nature and extent of risks arising from financial instruments and how the Company manages its exposure:

Risk	Exhibition	Methodology used to measure impact	Management
Market risk - foreign exchange	Future business operations	Cash Flow Forecast	Forward contracts
	Financial assets and liabilities in foreign currency	Sensitivity analysis	
Market risk - interest rate	Long-term loans at variable rates	Sensitivity analysis	Interest rate swaps
Market risk - stock price volatility	Investments in securities	Sensitivity analysis	Portfolio diversification
Credit Risk	Cash and cash equivalents, trade accounts receivable, derivative financial instruments, investments in debt instruments and contract assets	Due date analysis Credit assessment	Diversification of financial institutions
			Monitoring credit/rating limits
			Guidelines for investment in debt instruments
Liquidity risk	Loans and other liabilities	Cash Flow	Available lines of credit



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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### a) Market risk

#### i) Foreign exchange risk

The Company operates globally and is exposed to the foreign exchange risk arising from exposures of some currencies, basically in relation to the U.S. dollar and Euro. The foreign exchange risk arises from future business transactions, assets and liabilities recognized and net investments in foreign transactions.

The balances of assets and liabilities exposed to exchange rate changes are broken down as follows:

	(In Reais)			
	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Trade receivables	55.350	51.214	62.464	51.214
Checking account	241	5.470	241	5.470
Credit with subsidiaries	90.338	84.255	-	-
Assets exposed	145.929	140.939	62.705	56.684
Provision for loss in investments	(57.643)	(74.534)	-	-
Suppliers, commissions, net of advances	(18.539)	(6.896)	(18.539)	(6.896)
Payables for investments	(16.976)	(8.793)	(16.976)	(8.793)
Borrowings and financing	(51.813)	(59.134)	(51.813)	(59.134)
(-) Swap	16.433	23.706	16.433	23.706
Liabilities exposed	(128.538)	(125.651)	(70.895)	(51.117)
Net exposure	17.391	15.288	(8.190)	5.567

	In Euro				In Dollar			
	Parent Company		Consolidated		Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Trade receivables	283	338	283	338	13.373	12.811	15.138	12.811
Checking account	-	-	-	-	60	1.412	60	1.412
Credit with subsidiaries	-	-	-	-	22.413	21.744	-	-
Provision for loss in investments	-	-	-	-	(14.301)	(18.770)	-	-
Suppliers, commissions, net of advances	(3.024)	(1.592)	(3.024)	(1.592)	(1.209)	(2.268)	(1.209)	(2.268)
Investments suppliers	(3.475)	(1.140)	(3.475)	(1.140)	(305)	-	(305)	-
Borrowings and financing	-	-	-	-	(8.778)	(9.148)	(8.778)	(9.148)
	(6.216)	(2.394)	(6.216)	(2.394)	11.253	5.781	4.906	2.807

The Company adopts the strategy of maintaining the foreign exchange liability exposure at an amount equivalent to up to one year of exports.

#### ii) Cash flow or fair value risk associated with interest rate

The interest rate risk arises from long-term borrowings and financing and it is associated with borrowing obtained at floating rates that expose the Company and its subsidiaries to the interest rate and cash flow risks. Borrowings that bear fixed interest expose the entities to the fair value risk associated with interest rate.

The Company and its subsidiaries continuously monitor market interest rates to assess whether new transactions should be entered into to hedge against interest rate fluctuations.

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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Short-term investments are primarily made in investment funds, as stated in Note 6.

### b) Credit risk

The Company and its subsidiaries hold strict controls over the granting of credits to their customers and adjust those credit limits whenever material changes in the perceived risk level are identified.

### c) Liquidity risk

Refers to the risk that the Company and its subsidiaries may not have sufficient funds available to honor their financial commitments as a result of mismatching of terms or volumes between expected amounts collectible and payable.

To manage cash liquidity both in domestic and foreign currencies, future disbursement and cash inflow assumptions are established and daily monitored by the Treasury Area and Finance Department.

The table below analyzes the non-derivative financial liabilities (Parent Company and Consolidated), by maturity ranges, corresponding to the remaining period in the balance sheet through the contractual maturity date. The amounts disclosed in the table refer to the contracted undiscounted cash flows.

	Parent Company								
	December 31, 2019					December 31, 2018			
	*Borrowings and debentures	Lease Liabilities	Trade payables and credit assignment	Tax installment payment	Total	*Borrowings and debentures	Trade payables and credit assignment	Tax installment payment	Total
Less than 1 year	231.984	4.554	193.211	11.455	441.204	101.721	157.956	10.718	270.395
From 1 to 2 years	357.412	3.226	124.754	22.584	507.976	306.842	101.268	21.918	430.028
From 2 to 5 years	159.998	4.045	-	20.933	184.976	182.125	-	31.294	213.419
Over 5 years	5.639	-	-	-	5.639	3.657	-	-	3.657
	<u>755.033</u>	<u>11.825</u>	<u>317.965</u>	<u>54.972</u>	<u>1.139.795</u>	<u>594.345</u>	<u>259.224</u>	<u>63.930</u>	<u>917.499</u>

\*The difference between total borrowings and debentures reported in this table and the balance sheet arises from the APV of Prodec.

	Consolidated								
	December 31, 2019					December 31, 2018			
	*Borrowings and debentures	Lease Liabilities	Trade payables and credit assignment	Tax installment payment	Total	*Borrowings and debentures	Trade payables and credit assignment	Tax installment payment	Total
Less than 1 year	231.984	14.465	205.395	11.765	463.609	101.721	170.830	10.793	283.344
From 1 to 2 years	357.412	7.328	124.754	22.880	512.374	308.134	101.268	22.068	431.470
From 2 to 5 years	159.998	3.273	-	20.933	184.204	182.125	-	31.506	213.631
Over 5 years	6.982	-	-	-	6.982	3.657	-	-	3.657
	<u>756.376</u>	<u>25.066</u>	<u>330.149</u>	<u>55.578</u>	<u>1.167.169</u>	<u>595.637</u>	<u>272.098</u>	<u>64.367</u>	<u>932.102</u>

\* The difference between total borrowings and debentures reported in this table and the balance sheet arises from the APV of Prodec.

### d) Sensitivity analysis

#### i) Sensitivity analysis of interest rate variations

Finance costs derived from borrowings and debentures are affected by changes in interest rates such as the CDI and Selic rates.

## PBG S.A. and Subsidiaries

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As at December 31, 2019, Management considered as the probable scenario the increase in the CDI rate of 5.95% and Selic rate of 4.90%. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

The scenarios below were estimated for a one-year period:

Consolidated in Reais								
	December 31, 2019	Risk	Probable		Possible (25%)*		Remote (50%)*	
			%	R\$	%	R\$	%	R\$
Borrowings - Working Capital	(1.343)	CDI increase	5,95%	(80)	7,44%	(100)	8,93%	(120)
Borrowings - Export credit note	(249.142)	CDI increase	5,95%	(14.824)	7,44%	(18.536)	8,93%	(22.248)
Debentures	(296.743)	CDI increase	5,95%	(17.656)	7,44%	22.078	8,93%	(26.499)
	<u>(547.228)</u>			<u>(32.560)</u>		<u>3.442</u>		<u>(48.867)</u>
Tax installment payment	55.580	Selic increase	4,90%	2.723	6,13%	3.407	7,35%	4.085

### ii) Sensitivity analysis of changes in exchange rates

The Company has assets and liabilities pegged to a foreign currency in the balance sheet as at December 31, 2019, and for sensitivity analysis purposes, it has adopted as probable scenario the future market rate effective in the period of preparation period of this interim financial information. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

Accordingly, the table below simulates the effects of foreign exchange differences on future profit or loss:

Consolidated in Reais											
	December 31, 2019	Probable		Possible (25%)*		Remote (50%)*		Possible (-25%)*		Remote (-50%)*	
		Rate US\$	Gain (Loss)	Rate US\$	Gain (Loss)	Rate US\$	Gain (Loss)	Rate US\$	Gain (Loss)	Rate US\$	Gain (Loss)
Trade receivables	58.803	4,040	(1.757)	5,050	12.505	6,060	26.767	3,030	(15.053)	2,020	(28.455)
Checking account	241	4,040	(7)	5,050	51	6,060	110	3,030	(66)	2,020	(124)
Trade payable, net of advances	(18.539)	4,040	554	5,050	(3.942)	6,060	(8.439)	3,030	5.050	2,020	9.546
Payables for investments	(16.504)	4,040	493	5,050	(3.510)	6,060	(7.512)	3,030	4.496	2,020	8.499
Borrowings and financing	(51.813)	4,040	1.548	5,050	(11.019)	6,060	(23.585)	3,030	14.114	2,020	26.680
(-) Swap contract	16.433	4,040	(491)	5,050	3.495	6,060	7.480	3,030	(4.476)	2,020	(8.462)
Net exposure	(11.379)		340		(2.420)		(5.179)		4.065		7.684

\*Possible and remote scenarios calculated based on the probable rate, according to the Focus Report from BACEN dated February 10, 2020.

## 5.2 Capital management

Management's objectives when managing capital are to safeguard its ability and that of its subsidiaries to continue as going concerns in order to provide returns for stockholders and benefits for other stakeholders and to obtain lower borrowing costs when combining own and third-party capital.

Capital is monitored based on the net debt-equity ratio. Net debt is calculated as total borrowings and tax installment payment, less cash and cash equivalents, receivables from other related parties and securities.

At December 31, 2019, the gearing ratios are summarized as follows:

## PBG S.A. and Subsidiaries

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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Borrowings and financing	755.033	594.345	756.376	595.637
Tax installment payment	54.972	63.930	55.578	64.367
Less: Cash and cash equivalents	(250.395)	(67.580)	(276.325)	(82.624)
Receivables from other related parties	(100.936)	(97.941)	(100.936)	(97.941)
Financial investments	(7.552)	(7.251)	(7.552)	(7.251)
Net debt	451.122	485.503	427.141	472.188
Total Equity	356.069	362.108	356.085	362.120
Net debt / PL (%)	1,27	1,34	1,20	1,30

### 5.3 Financial instruments by category

The table below shows the classification of financial instruments by category in each of the reporting periods:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Assets stated at fair value through profit or loss				
Derivatives	9.041	3.375	9.041	3.375
Amortized cost				
Cash and cash equivalents	250.395	67.580	276.325	82.624
Financial investments	7.552	7.251	7.552	7.251
Receivables from other related parties	100.936	97.941	100.936	97.941
Trade receivables	221.909	222.065	250.826	239.463
	589.833	398.212	644.680	430.654
Amortized cost				
Trade payables and assignment	317.965	157.956	330.149	170.830
Borrowings, financing and debentures	755.033	594.345	756.376	595.637
Tax installment payment	54.972	63.930	55.578	64.367
Lease Liability	11.825	-	39.561	-
Debts with related parties	22.803	-	22.803	-
	1.162.598	816.231	1.204.467	830.834

Investments correspond to a long-term investment fund and are subject to a reciprocity clause in the loan agreement entered into with Banco do Nordeste.

## 6 Cash and cash equivalents

Short-term investments designated as cash equivalents correspond to investments in investment funds, which average return in December 2019 was equivalent to 94.9% of the Interbank Deposit Certificate (CDI) rate and which can be redeemed at any time, without penalties.

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Checking account	15.467	12.290	27.222	22.886
Financial investments	234.928	55.290	249.103	59.738
	<u>250.395</u>	<u>67.580</u>	<u>276.325</u>	<u>82.624</u>

### 7 Financial instruments

Derivatives for trading are classified as current and non-current assets or liabilities. The total fair value of a hedge derivative is classified as non-current assets or non-current liabilities if the remaining period for the maturity of the hedged item is over 12 months, and for current assets or current liabilities if the remaining period for the maturity of the hedged item is below 12 months.

In June 2018, the Company entered into an export credit (NCE) agreement together with swap transactions intended to hedge future payments of these borrowings and financing against fluctuations in the US Dollar and interest rate. This transaction is classified as current and non-current liabilities.

The Export Credit (NCE) transaction was for US\$ 6,100, corresponding to R\$ 23,999, bearing interest of 2.10% p.a. + LIBOR-03 + exchange rate change per year, with swap for 100% CDI + 1.40% per year and payment date within 36 months with 12-month grace period. Repayments are made on a quarterly basis.

At December 31, 2019, an unrealized gain of R\$ 388, was posted, see note 34.

The Company does not carry out financial transactions using derivatives or any other risk instruments for speculative purposes.

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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### 8 Trade receivables

	Parent Company		Consolidated	
	December 31,	December	December	December
Receivables from third parties:				
Domestic market	172.415	171.741	200.706	188.641
Foreign market	55.350	51.214	55.350	51.214
	<u>227.765</u>	<u>222.955</u>	<u>256.056</u>	<u>239.855</u>
Receivables from related parties:				
Entities related to management	372	781	1.041	1.546
	<u>372</u>	<u>781</u>	<u>1.041</u>	<u>1.546</u>
Impairment of trade receivables:				
Provision for impairment of trade receivables	(6.228)	(1.671)	(6.271)	(1.938)
	<u>(6.228)</u>	<u>(1.671)</u>	<u>(6.271)</u>	<u>(1.938)</u>
	<u>221.909</u>	<u>222.065</u>	<u>250.826</u>	<u>239.463</u>

Management believes that the provision for impairment of trade receivables is sufficient to cover probable losses on collection of receivables considering the situation of each customer and respective collaterals offered. Its amount corresponds to the estimated risk of non-collection of past-due receivables based on the analysis of the responsible manager.

The recognition and write-off of the provision for impairment of trade receivables are recognized in profit or loss as selling expenses.

#### a. Aging list of trade receivables

	Parent Company					
	December 31, 2019	Estimated losses	Coverage %	December 31, 2018	Estimated losses	Coverage %
Falling due	216.687	(1.615)	0,7%	212.671	(509)	0,2%
Past due until 30 days	4.138	(15)	0%	7.353	(273)	4%
Past due from 31 to 90 days	2.001	(81)	4%	1.971	(118)	6%
Past due from 91 to 180 days	2.058	(1.684)	82%	755	(155)	21%
Past due from 181 to 360 days	2.903	(2.483)	86%	584	(214)	37%
Past due over 360 days	349	(350)	100%	402	(402)	100%
	<u>228.136</u>	<u>(6.228)</u>		<u>223.736</u>	<u>(1.671)</u>	

## PBG S.A. and Subsidiaries

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	Consolidated					
	December 31, 2019	Estimated losses	Coverage %	December 31, 2018	Estimated losses	Coverage %
Falling due	243.803	(1.619)	0,7%	228.664	(509)	0,2%
Past due until 30 days	5.305	(15)	0%	8.099	(328)	4%
Past due from 31 to 90 days	2.201	(82)	4%	2.363	(151)	6%
Past due from 91 to 180 days	2.142	(1.696)	79%	980	(181)	18%
Past due from 181 to 360 days	3.246	(2.510)	77%	804	(278)	35%
Past due over 360 days	400	(349)	87%	491	(491)	100%
	257.097	(6.271)		241.401	(1.938)	

### b. Changes in provision for impairment of trade receivables

	Parent Company	Consolidated
At 01/01/2018	(2.384)	(2.384)
Provision write-off for the year	4.087	4.429
Provision recognition for the year	(21.937)	(23.599)
Provision reversal for the year	18.563	19.616
At 12/31/2018	(1.671)	(1.938)
Provision write-off for the year	1.119	1.174
Provision recognition for the year	(53.556)	(59.788)
Provision reversal for the year	47.880	54.281
At 12/31/2019	(6.228)	(6.271)

The Company's receivables are pledged as collateral for some of the loans and borrowings, as described in note 22.

The Company's policy with regard to the estimated loss is based on the portfolio realization schedule, taking into consideration the credit analysis, the recovery performance of receivables up to 360 days after maturity and market information. Such methodology has been supporting the estimated losses on this portfolio with a high level of reliability, in accordance with IFRS 9/CPC 48.

At December 31, 2019, trade receivables pledged as collateral amounts to R\$ 99,596 (R\$ 76,502 at December 31, 2018).



## PBG S.A. and Subsidiaries

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### 9 Inventories

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Finished products	195.829	179.476	211.047	186.188
Work in progress	9.110	7.311	9.110	7.446
Raw material and consumables	33.243	29.848	33.268	29.970
Provision for valuation of inventories at realizable value	(15.088)	(9.813)	(15.088)	(9.813)
Imports in progress	5.076	-	5.076	-
	<u>228.170</u>	<u>206.822</u>	<u>243.413</u>	<u>213.791</u>

The Company recognizes an allowance for inventory losses taking into consideration the lower of net cost value and the recoverable amount. The expense on the recognition of the allowance for inventory losses was recognized in line item 'Cost of sales' in the statement of income for the year. When no recovery is expected, the amounts credited to this line item are realized against the definitive write-off of the inventories.

### 10 Taxes recoverable

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Current				
ICMS	24.165	4.809	24.616	5.275
IPI (a)	2.504	2.655	2.508	2.767
IRRF/CSRF	833	512	855	549
IRPJ/CSLL	427	-	1.006	627
PIS/COFINS receivables	37	-	467	422
Special Tax Reintegration Regime for Exporting Companies	184	93	184	93
Curtailment of ICMS from the PIS and COFINS tax	22.036	-	22.036	-
Other	342	324	500	468
	<u>50.528</u>	<u>8.393</u>	<u>52.172</u>	<u>10.201</u>
Non-current*				
ICMS *	3.884	3.203	4.122	3.475
PIS/COFINS *	2.438	1.812	2.438	1.812
Curtailment of ICMS from the PIS and COFINS tax	50.342	-	50.342	-
	<u>56.664</u>	<u>5.015</u>	<u>56.902</u>	<u>5.287</u>

\* Tax credit on property, plant and equipment.



## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

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### **a. Decrease of IPI rates**

The decrease of IPI rates levied on the products manufactured and sold by the Company is set forth in Decree 8,950, of December 29, 2016, which defines a zero rate for the IPI in the sector for an indefinite period. This measure generates tax credits that are used for offset against federal taxes on a quarterly basis.

### **b. Special Tax Reintegration Regime for Exporting Companies (REINTEGRA)**

The Special Tax Reintegration Regime for Exporting Companies (Reintegra) consists of returning part of the exported amount in the form of tax credit to reduce federal taxes.

At December 31, 2019, the Reintegra-related tax credits amounted to R\$ 184 (R\$ 93 at December 31, 2018).

### **c. Exclusion of ICMS on PIS and COFINS**

The Company filed a writ of mandamus seeking to amend the PIS and COFINS tax basis upon curtailment of ICMS. The Federal Court of Santa Catarina ruled in favor of ruling out the exclusion of ICMS from the tax base. This decision was confirmed by the Federal Regional Court of the 4th Region. The Federal Union, through the attorney's office of the National Treasury appealed the decision to the Superior Courts (STF and STJ).

On March 15, 2017, in a favorable decision issued by the STF in general repercussion, in the case file 5032720-26.2014.404.7200, the Company reversed the amount provisioned at that time.

On July 2, 2018, according to a certificate drawn up by the Registry of the Federal Regional Court of the 4th Region, the aforementioned proceeding became final, thus exhausting the possibilities of appeal against the judicial decision. Thus, it is no longer possible to revise the court's ruling or to bring new appeals.

On August 14, 2018, the Company filed with the Brazilian Federal Revenue a request for credit facility release resulting from the final and unappealable Judicial Decision so that it may use credits between November 2009 and October 2014 according to the legal decision.

On December 13, 2018, an administrative decision was granted granting the request for credit clearance resulting from a final court decision, in the amount of R\$ 59,381, recording this amount in the same period. The Company has been offsetting these credits against federal taxes. Upon approval by the Brazilian Federal Revenue, this asset was reclassified from tax asset to taxes recoverable.

As of December 31, 2018, the amount of R\$ 59,381, recorded in tax assets, was reclassified under equity.

In addition to the recognized lawsuit above, the Company had another lawsuit recognized in the second quarter as a tax asset, the Curtailment of ICMS from the PIS and COFINS tax base for the period 2003-2009 in the amount of R\$ 45,072. As approved by the Brazilian Federal Revenue in the third quarter of 2019, the asset was transferred to the taxes recoverable taxes line item, in non-current assets

At December 31, 2019, the recoverable tax credits related to the Curtailment of ICMS from the PIS and COFINS tax base were R\$ 22,036 in current assets and R\$ 50,342 in non-current assets, as projected by the company for offset of taxes.

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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### **d. ICMS**

This caption includes the amounts of R\$ 8,667 related to recovery of ICMS taxes, R\$ 12,232 of ICMS border, the other credits are normal credit balances of the operation.

## **11 Receivables from other related parties**

The Company acquired, between 2001 and 2003, from the related party, Refinadora Catarinense S.A ("Refinadora") tax credits against the National Treasury arising from a writ of mandamus claiming the right to the reimbursement of the IPI premium credit. The Company has used such credits to settle federal taxes. As set forth in the agreement entered into among the parties, in case these credits are not validated by the National Treasury, "Refinadora" should reimburse the Company.

The Federal Supreme Court handed down a decision in mid-2009 defining the date of extinguishment of this incentive on October 4, 1990, thus extinguishing this credit utilization claim. As a result, the Company joined the installment payment program set forth in Law 11,941/09, then including the debt arising from the utilization of the credit acquired from "Refinadora".

It should be stressed that "Refinadora" had already entered into an agreement with the Company guaranteeing the reimbursement of the amounts utilized. Such guarantee was provided using credits also arising on the 'IPI premium credit' tax benefit, calculated prior to October 4, 1990, in progress at the Federal Court of Justice of the Federal District, which handed down a final and unappealable court decision favorable to Refinadora.

Upon adhering to the installment payment program under Law 11,941/09, the Company and "Refinadora" have entered into an instrument confirming these credits as guarantee capable of satisfying all tax debts payable in installments. At December 31, 2019, these credits also originating from lawsuit No. 87.00.00967-9 amount to R\$ 100,936 (R\$ 97,941 at December 31, 2018) and are adjusted based on the SELIC rate, as set forth in the agreement.

It should be noted that the claims on guarantees have already been converted into court-ordered debts. In fact, the Company has received four installments of a total of ten annual installments, as set forth in the agreement. The amounts were received in August 2011, March 2013, April 2014 and December 2015, amounting to R\$ 8,505, R\$ 9,824, R\$ 9,995 and R\$ 10,000, respectively. Additionally, in September 2016 the amount of R\$ 2,167 was received to supplement installment 04. Installments 05, 06, 07 and 08 are already deposited on behalf of Refinadora, but the transfer of the amount depends on a release order, which is in progress.

Refinadora Catarinense S.A. was the parent of PBG S.A. in the past and currently has common shareholders; it continues to be financially liable for the performance of the obligation.

## **12 Judicial deposits**

The Company and its subsidiaries are parties to tax, civil, labor and social security lawsuits (see note 26) and are discussing these matters at administrative and judicial level, which are supported by judicial deposits, when applicable. These are recorded at the original amount adjusted by the rates relating to the benchmark interest rates applicable to savings accounts.

Judicial deposits are broken down according to the nature of the lawsuits:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Civil (a)	124.875	101.316	124.859	101.316
Labor	4.159	8.848	4.159	8.848
Tax	23.443	6.785	23.474	6.816
	152.477	116.949	152.492	116.980

a) The Company, as a result of the untimely and unilateral decision by supplier SC Gás, concerning the suspension of the discount on the monthly amount of the gas acquired, a benefit called the loyalty plan, filed a lawsuit claiming the maintenance of such benefit with respect to which an injunction was granted determining the deposit of the discount-related amounts in escrow.

### 13 Receivables from Eletrobrás

The Company filed a lawsuit against Centrais Elétricas Brasileira S.A. - Eletrobrás aiming at the reimbursement of the compulsory loan paid through electric energy bills between 1977 and 1993, as set forth in Law 4,156/62.

In 2005 this lawsuit was upheld and in February 2006 the Company filed an execution action and recognized the amount determined by the legal expert monthly adjusted by the INPC plus 12% per year. After such period, the calculation was subject to reviews conducted by the accounting office of the Federal Court.

In 2014, Eletrobrás was sentenced to pay R\$35,395, amount determined by the expert review as at August 2013. The Company challenged that decision claiming the rectification of such calculation and the establishment of the criteria adopted in the determination of the award amount, as a result of conflicts among the parties. Based on these new circumstances, in July 2014 the Company decided to suspend the asset restatement, until a new decision on the amount and criteria used in this procedure is handed down, maintaining the adjusted balance at the amount of R\$ 48,621.

In 2016, after the final and unappealable decision on the award calculation lawsuit, the Company hired an accounting expert to determine the credit to be executed, adjusting (reducing) the quantity due to the STJ's subsequent decision.

In 2017, the Company filed a court decision enforcement action, at the total amount of R\$ 12,821.

Centrais Elétricas Brasileira S.A. – Eletrobrás filed an Interlocutory Appeal upon Decision Enforcement and obtained an injunction to suspend the decision that determined the payment on behalf of the Company, as well as the resumption of the court decision settlement procedure. The judgment became final in July 2018. In February 2019, the Company requested continuation of the proceedings with the approval of the tax credit calculation, which identified the amount of R\$ 12,821. The Company reaffirms its certainty in relation to the amount and its realization in the medium term.

### 14 Income tax and social contribution

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

### a) Income tax and social contribution on income

Income tax and social contribution recoverable and payable are broken down as follows:

	Current assets				Current liabilities			
	Parent Company		Consolidated		Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Income tax	314	-	779	495	-	(6.152)	(1.527)	(7.527)
Social contribution	113	-	227	132	-	(2.271)	(556)	(2.788)
	427	-	1.006	627	-	(8.423)	(2.083)	(10.315)

Taxes are stated at their net amount, in assets or liabilities, if there is a legally enforceable right to offset current tax assets and liabilities.

### b) Deferred income tax and social contribution tax

Deferred income tax and social contribution amounts for the Parent Company and consolidated are as follows:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Tax losses	38.562	10.607	38.562	10.607
Temporary differences - assets	35.456	38.727	39.809	43.081
Cash basis exchange rate variations	801	648	801	648
Provision for adjustment to market value	2.536	1.899	2.536	1.899
Provisions for civil, labor, pension and tax	14.207	15.577	14.207	15.577
Provision for Pis/Cofins contingencies - Plaintiff	4.913	6.927	4.913	6.927
Provision for profit sharing and long-term incentive	-	485	-	485
Tax losses in subsidiaries	-	-	4.353	4.354
Other temporary differences - assets	12.998	13.191	12.998	13.191
Temporary differences - liabilities	(52.179)	(51.298)	(52.179)	(51.298)
Portobello Pension Plan	(2.155)	(3.289)	(2.155)	(3.289)
Realization of revaluation reserve	(17.261)	(17.871)	(17.261)	(17.871)
Receivables from Eletrobrás	(4.359)	(4.359)	(4.359)	(4.359)
Active contingency - IPI credit premium IPI - Phase I	(2.647)	-	(2.647)	-
Active contingency - IPI credit premium IPI - Phase II	(7.621)	-	(7.621)	-
Active contingency - PIS Semi-annually	-	(2.607)	-	(2.607)
Active contingency - Adjustment to rural credit notes	(2.607)	(10.267)	(2.607)	(10.267)
Adjustment to present value	(163)	(1.043)	(163)	(1.043)
Depreciation adjustment (useful lives of goods)	(15.367)	(11.862)	(15.367)	(11.862)
Deferred income tax and social contribution tax - Net	21.839	(1.965)	26.192	2.388
Non-current assets	21.839	-	26.192	4.353
Non-current liabilities	-	(1.965)	-	(1.965)

At December 31, 2019, net variations in deferred income tax and social contribution are as follows:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company	Consolidated
December 31, 2018	(1.965)	2.389
Tax losses	27.957	27.957
Temporary differences - assets	(3.272)	(3.272)
Temporary differences - liabilities	(1.491)	(1.491)
Reevaluation reserve	610	610
December 31, 2019	21.839	26.193

The variations in deferred income tax and social contribution assets and liabilities for the period, without considering the offset of the balances for the Parent Company and Consolidated are as follows:

	Parent Company	Consolidated
	December 31, 2019	December 31, 2019
Deferred tax assets charged (credited) to income		
Tax losses	(27.957)	(27.957)
Cash basis exchange rate variations	(153)	(153)
Provision for adjustment to market value	(474)	(474)
Provision for contingencies	1.370	1.370
Long-term incentive	-	-
Provision for PIS/COFINS contingencies - Plaintiff	2.014	2.014
Accrued profit sharing and long-term incentive	485	485
Other temporary differences - assets	30	30
	(24.685)	(24.685)
Portobello Pension Plan	(1.135)	(1.135)
Realization of revaluation reserve	(610)	(610)
IPI premium credit - Plaintiff	-	-
Adjustment to present value	(880)	(880)
Curtailment of ICMS from the PIS and COFINS tax base	3.506	3.506
	881	881
	(23.804)	(23.804)

### c) Income tax and social contribution - P&L

Income tax and social contribution expenses are broken down as follows:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Profit before taxes	(11.363)	190.408	(41)	196.313
Tax calculated at nominal rate - 34%	3.863	(65.352)	14	(66.747)
Equity in the earnings of subsidiaries	5.181	9.785	-	-
Non-deductible expenses for tax purposes	3.467	3.059	3.467	3.059
Depreciation of revalued assets	(610)	(610)	(610)	(610)
Others	(11.902)	(3.008)	(1.645)	2.295
Current tax on profit for the year	-	(10.710)	(11.286)	(20.418)
Income tax and social contribution expense recognized in income (current and deferred)	12.512	(56.125)	1.226	(62.002)
Effective tax rate	110,1%	29,5%	2990,2%	31,6%

Based on studies and projections of results for the following periods, a recoverability test was conducted for deferred tax assets arising from income tax and social contribution tax losses recorded at December 31, 2018, which were submitted for the approval of the Supervisory Board on March 17, 2020. We estimate the following schedule for the recovery of these assets:

Period	Consolidated
2020	36
2021	964
2022	1.125
2023	1.238
2024 to 2025	991
<b>Total - Deferred assets</b>	<b>4.354</b>

## 15 Tax asset

	Parent Company and Consolidated	
	December 31, 2019	December 31, 2018
IPI premium credit (a)		
Lawsuit No. 1987.0000.645-9	22.414	22.414
Lawsuit No. 1984.00.020114-0	7.784	7.784
Adjustment to rural credit notes (b)	7.667	7.667
Curtailment of ICMS from the PIS and COFINS tax base (note 1)	-	59.381
IPI premium credit – Plaintiff (c)	-	220.260
	<b>37.865</b>	<b>317.506</b>

### a) IPI premium credit

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

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The Company is a party to a lawsuit claiming the recognition of tax benefits called 'IPI premium credit', in different calculation periods. Lawsuit No. 1987.0000.645-9, relating to the period between April 1, 1981 and April 30, 1985, which was decided favorably to the Company, is in the award calculation phase with the amounts already calculated by the accounting office of the Federal Court; the amount recognized in November 2009, adjusted up to December 31, 2019 is R\$ 22,414.

Regarding Lawsuit No. 1984.00.020114-0, for the period between December 7, 1979 and March 31, 1981, after a final and unappealable decision handed down more than 10 years ago, the award calculation and decision enforcement phase has started, followed by an expert report prepared by a legal expert. The parties were notified about the amount determined to manifest their agreement or objection to the report. The Company agreed with the calculations made. The Federal Government, represented by the General Attorneys' Office of the National Treasury has not issued an opinion, which implies tacit agreement, resulting in preclusion. Therefore, the lawsuit is concluded and there is no further possibility of objection. The Company recognized in 2015 the amount calculated by the legal expert of R\$ 4,983, and since the Company understands that a favorable decision on the lawsuit is virtually certain, it recorded the tax asset in June 2015, in the amount adjusted up to December 31, 2019 of R\$ 7,784 (R\$ 7,784 at December 31, 2018).

### **b) Adjustment to rural credit notes**

In March 2017, the Company, based on a court decision handed down in relation to the Civil Class Action filed by the General Attorneys' Office against the Federal Government, filed an individual Court Decision Enforcement action for collection of the amount corresponding to the difference between the inflation adjustments rates applied on transactions involving rural credit notes carried out in March 1990. Banco do Brasil in the case of a complaint filed at the Superior Court of Justice, obtained an injunction to determine the suspension of the individual enforcement process in the amount of R\$ 7,667 at December 31, 2019 (R\$ 7,667 at December 31, 2018).

### **c) IPI premium credit – Plaintiff**

The proceeding, filed in 1984, was distributed to the Federal Supreme Court (STF) and returned to the 6<sup>th</sup> Federal Court of the Judiciary Section of the Federal District (original court), for enforcement of the sentence. The Company is already enforcing the sentence.

The proceeding that addresses the recognition of tax benefits named 'IPI premium credit' (1998.34.00.029022-4) classified in March 2018 as a contingent asset started to be recognized in the second quarter of 2018 as a legal asset.

The receipt of economic benefits was considered virtually certain due to the Federal Government-National Treasury's decision on the proceeding which, in summary, acknowledged as uncontested the amount of R\$ 187,091 (August/15) but did not agree with the amount of R\$ 66,056.

Appeals are no longer applicable in respect of the uncontested portion, as the debtor acknowledged the debt – Federal Government.

Concurrently with the recognition of the asset, an obligation of R\$ 62,008 was recorded in liabilities with Refinadora Catarinense S.A., initially the plaintiff of the lawsuit. In 2002, the plaintiff of the lawsuit was changed and the Company opted to use these tax credits to offset taxes. That transaction was provided

## **PBG S.A. and Subsidiaries**

Notes to the Financial Information for the year ended December 31, 2019.  
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for in the agreement entered into between the parties, which generated the amount due to the aforementioned related party.

Accordingly, the value of the Company's net asset is R\$ 158,252.

On September 30, 2019, the amount of the asset due on behalf of the Company is R\$ 220,260 which was approved by the 6<sup>th</sup> Federal Court in the enforcement process.

On April 16, 2019 the Payment Request (Court-Ordered Debt) of the uncontested amount was issued, quantified at R\$ 187,091 as at August 2015.

The Board of Directors' Meeting No. 11, held on September 30, 2019, approved the negotiation of this tax asset, under Payment Request (court-ordered debts) distributed under No. 0154107-24.2019.4.01.9198, issued on April 16, 2019, with the original amount of R\$ 180,708 as of August 2015. The amount of this tax asset, after being submitted to the legal monetary restatement indexes by the Federal Regional Court of the 1<sup>st</sup> Region, is currently R\$ 200,549 as of June 2019.

Accordingly, the Company sold the tax asset at the final price of R\$ 170,000, with settlement on September 30, the conditions of which are set forth in the Public Deed of Credit Assignment, drawn up with the 9<sup>th</sup> Notary Office of the City of São Paulo.

In the sale of the court-ordered debt, there was a financial discount on the operation and thus the obligation for Refinadora Catarinense S.A. became R\$ 33,790, which will be paid in accordance with the Term of Understanding of the lawsuit in 3 equal installments, the 1<sup>st</sup> was paid in December 2019, the 2<sup>nd</sup> will be paid in April 2020 and the 3<sup>rd</sup> and last 'in July 2020. Therefore, as the settlement will take place in the 12-month period, this obligation was reclassified to current.

## **16 Contingent assets**

### **a) IPI premium credit - Contested installment**

The contingent asset related to lawsuit No. 1998.34.00.029022-4, mentioned in note 15 c, is recorded as a contingent asset given that the Federal Government did not agree with the amount calculated.

The Federal Government alleges a difference between the calculation base provided by the Company and that of the Brazilian Federal Revenue Service of R\$ 66,056 (base date August 2015), of that value, the Company's net portion is R\$ 9,908 (base date August 2015) and at September 30, 2019 the amount is approximately R\$ 11,665, and the difference is allocated to Refinadora Catarinense success fees.

In relation to this portion management believes that its realization is probable. Accordingly, it maintains disclosure in the accompanying notes. We await legal developments to recognize the contingency portion of the asset.

### **b) IPI premium credit – Difference in indexes of Tax Assets "Plaintiff"**

The Company, in view of the divergence of criteria for updating the Payment Request (court-ordered debts) distributed under No. 0154107-24.2019.4.01.9198, issued on April 16, 2019, adopted by the Federal Regional Court of the 1<sup>st</sup> Region, which quantified the tax asset at R\$ 200,549, as of June 2019,



## PBG S.A. and Subsidiaries

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will initiate a judicial proceeding with a view to adjusting the criteria used to update said court-ordered debt.

Management maintains the understanding that the Tax Asset, described in item 15 (c) above, amounts to R\$ 220,260, as of June 2018 and, therefore, will require the issuance of a Complementary Payment Request (court-ordered debts).

## 17 Investments

### a) Interest in subsidiaries

The Company is the parent company of five companies and investments are recorded in non-current assets in line item "Interests in subsidiaries" and in liabilities in line item "Allowance for investment losses".

	Country of incorporation	Direct ownership	Indirect ownership %	Assets	Liabilities	Revenue*	Profit or loss*
At December 31, 2018							
Portobello América Inc.	United States	100,00%	0,00%	18.088	90.818	3.047	(5.156)
PBTech Ltda.	Brazil	99,94%	0,00%	26.912	16.644	76.841	4.334
Portobello Shop S.A.	Brazil	99,90%	0,00%	36.089	35.609	65.049	28.377
Mineração Portobello Ltda.	Brazil	99,76%	0,00%	3.312	2.479	10.110	249
Companhia Brasileira de Cerâmica S.A.	Brazil	98,00%	0,00%	9.461	1.118	1.420	974
At December 31, 2019							
Portobello América Inc.	United States	100,00%	0,00%	42.595	97.112	18.112	(18.860)
Portobello America Manufacturing	United States	0,00%	100,00%	13.087	13.087	-	-
PBTech Ltda.	Brazil	99,94%	0,00%	62.373	52.817	103.559	6.220
Portobello Shop S.A.	Brazil	99,90%	0,00%	45.667	45.187	69.311	31.832
Mineração Portobello Ltda.	Brazil	99,76%	0,00%	4.632	2.213	10.402	1.587
Companhia Brasileira de Cerâmica S.A.	Brazil	98,00%	0,00%	12.957	4.552	5.059	(5.539)

Subsidiaries are closely-held companies, for which variations are as follows:

	Patrimônio Equity	Profit or loss of period	Percentage of Ownership	December 31, 2018	Exchange variations	Capital contribution	Profit on Inventories of investees	Profit or loss on earnings	Proposed dividends	December 31, 2019
Investments										
Portobello América Inc.	(54.517)	(12.345)	100%	(74.534)	1.410	36.251	(3.714)	(20.770)	-	(61.357)
PBTech Ltda.	9.562	5.035	99,94%	10.268	-	-	-	6.220	(6.933)	9.555
Portobello Shop S.A.	480	21.474	99,90%	480	-	-	-	31.831	(31.831)	480
Mineração Portobello Ltda.	2.425	1.592	99,76%	833	-	-	-	1.587	-	2.420
Companhia Brasileira de Cerâmica S.A.	8.577	2.831	98,00%	8.346	-	3.766	-	(3.628)	-	8.484
Other	10	-	100%	10	-	-	-	-	-	10
Total net investment in subsidiaries				(54.597)	1.410	40.017	(3.714)	15.240	(38.764)	(40.408)
Interest in subsidiaries				19.937						20.949
Provision for loss in investments				(74.534)						(61.357)

## PBG S.A. and Subsidiaries

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### 18 Property, plant and equipment

#### a) Breakdown

	Annual average depreciation rate	Parent Company				Consolidated			
		December 31, 2019			December 31, 2018	December 31, 2019			December 31, 2018
		Cost	Accumulated depreciation	Net value	Net value	Cost	Accumulated depreciation	Net value	Net value
Lands	-	12.603	-	12.603	12.603	13.485	-	13.485	13.524
Buildings, constructions and improvements	3%	211.394	(56.302)	155.092	154.636	235.188	(68.161)	167.027	163.822
Machinery and equipment	15%	642.746	(356.795)	285.951	254.594	646.350	(357.235)	289.115	257.917
Furniture and fixtures	10%	9.643	(8.760)	883	888	11.454	(9.128)	2.326	1.568
Computers	20%	29.004	(20.995)	8.009	7.505	29.734	(21.263)	8.471	8.086
Other property, plant and equipment	20%	2.604	(734)	1.870	2.001	2.604	(734)	1.870	2.452
Construction in progress	-	5.672	-	5.672	8.157	5.672	-	5.672	10.962
		913.666	(443.586)	470.080	440.384	944.487	(456.521)	487.966	458.331

In 2010, upon the first-time adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company elected to adopt the revaluation of the property, plant and equipment carried out in 2006 as deemed cost, as it understands that it significantly represented the fair value on transition date (note 30.2).

Pursuant to Technical Interpretation ICPC 10 of the Accounting Pronouncements Committee, approved by CVM Resolution 619/09, effective beginning January 1, 2009, the Company revised and changed the useful life of its property, plant and equipment items in 2008, based on the Technical Report issued by the Company's engineers, and since then, it regularly conducts an annual review; there was no significant impact on the useful life of property, plant and equipment items in the 4<sup>th</sup> quarter of 2019.

#### b) Changes in PP&E

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

Parent Company						
	December 31, 2018	Additions	Transfers	Depreciated on	Write-offs	December 31, 2019
Lands	12.603	-	-	-	-	12.603
Buildings and improvements	154.636	252	7.327	(7.123)	-	155.092
Machinery and equipment	254.594	11.967	46.023	(26.633)	-	285.951
Furniture and fixtures	888	10	176	(191)	-	883
Computers	7.505	402	2.788	(2.686)	-	8.009
Other property, plant and equipment	2.001	132	254	(517)	-	1.870
Construction in progress	8.157	54.083	(56.568)	-	-	5.672
	440.384	66.846	-	(37.150)	-	470.080

Consolidated						
	December 31, 2018	Additions	Transfers	Depreciated on	Write-offs	December 31, 2019
Lands	13.524	13.545	-	-	(13.584)	13.485
Buildings and improvements	163.822	2.960	13.234	(10.780)	(2.209)	167.027
Machinery and equipment	257.917	12.510	46.023	(27.280)	(55)	289.115
Furniture and fixtures	1.568	53	1.058	(353)	-	2.326
Computers	8.086	470	2.788	(2.872)	-	8.471
Other property, plant and equipment	2.452	145	254	(981)	-	1.870
Construction in progress	10.962	58.408	(63.357)	-	(341)	5.672
	458.331	88.091	-	(42.266)	(16.189)	487.966

In 2019, investments totaled R\$ 59 million, of which 74% were for the Tijucas plant and 26% for the Marechal Deodoro Plant. At the Tijucas plant, 87% are for the preparation and updating of the industrial park for the manufacturing of products with greater added value and larger formats, and 7% for own stores, improvement of the logistics network and commercial projects. At the Marechal Deodoro plant, most of the investments were for the implementation of a new production line of enameled porcelain tiles.

The depreciation amounts were recorded as cost of sales, selling expenses and administrative expenses as follows:

	Parent Company		Consolidated	
	Accumulated			
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cost of sales	32.011	31.088	32.704	31.200
Selling expenses	3.412	2.450	7.808	5.961
Administrative expenses	1.727	1.388	1.754	1.395
	37.150	34.926	42.266	38.556

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

### 19 Intangible assets

#### a) Breakdown

	Annual average amortization rate	Parent Company				Consolidated			
		December 31, 2019			December 31, 2018	December 31, 2019			December 31, 2018
		Cost	Accumulated amortization	Net value	Net value	Cost	Accumulated amortization	Net value	Net value
Trademarks and patents	-	150	-	150	150	150	-	150	150
Software	20%	29.147	(20.907)	8.240	7.207	30.394	(21.268)	9.126	8.066
Right to explore mineral resources	20%	1.000	(1.000)	-	-	4.074	(3.235)	839	1.231
Goodwill	7%	-	-	-	-	12.320	(1.469)	10.851	9.845
Software under development	-	479	-	479	1.294	1.426	-	1.426	1.297
Management system (a)	21%	18.887	(18.887)	-	-	18.887	(18.887)	-	-
		49.663	(40.794)	8.869	8.651	67.251	(44.859)	22.392	20.589

(a) Expenses on acquisition and implementation of enterprise resource planning systems, mainly represented by Oracle systems and applications to increase interaction with customers at Portobello stores.

#### b) Changes in intangible assets

	Parent Company					
	December 31, 2018	Additions	Transfers	Amortizations	Write-offs	December 31, 2019
Trademarks and patents	150	-	-	-	-	150
Software	7.207	375	4.177	(3.519)	-	8.240
Right to explore mineral resources	-	-	-	-	-	-
Software under development	1.294	3.362	(4.177)	-	-	479
	8.651	3.737	-	(3.519)	-	8.869
	Consolidated					
	December 31, 2018	Additions	Transfers	Amortizations	Write-offs	December 31, 2019
Trademarks and patents	150	-	-	-	-	150
Software	8.066	541	4.266	(3.747)	-	9.126
Right to explore mineral resource	1.231	-	-	(392)	-	839
Goodwill	9.845	1.807	-	(801)	-	10.851
Software under development	1.297	4.395	(4.266)	-	-	1.426
	20.589	6.743	-	(4.940)	-	22.392

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

The amortization amounts were recorded as cost of sales, selling expenses and administrative expenses as follows:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cost of sales	1.170	809	1.569	1.195
Selling expenses	1.202	1.933	2.157	2.617
Administrative expenses	1.147	1.240	1.214	1.240
	3.519	3.982	4.940	5.052

### c) Projected amortization of consolidated intangible assets:

	2020	2021	2022	2023	2024 to 2038	Total
Software	2.752	2.149	1.768	1.294	1.163	9.126
Right to explore mineral resources	392	392	55	-	-	839
Goodwill	822	822	822	822	7.563	10.851
	3.966	3.363	2.645	2.116	8.726	20.816

Trademarks and patents and software under development were not subject to amortization due to their indefinite useful lives. However, they are subject to impairment, as described in the significant accounting policies disclosed in this interim financial information.

## 20 Right-of-use assets and Lease liabilities

The agreements characterized as leases, in accordance with IFRS 16 / CPC 06 (R2), are now recorded as Right-of-Use Assets against Lease Liabilities in current and non-current liabilities. The new standard replaced the existing lease standards, including CPC 06 / IAS 17 Leases, ICPC 03 / IFRIC 4, SIC 15 and SIC 27 Determining whether an Arrangement contains a Lease.

At December 31, 2019, the Company had 41 lease agreements for its commercial units. This asset is comprised of own store rentals and distribution centers.

The agreements are adjusted annually, according to the variation of the main inflation indexes, most of them have terms of five years with the option of renewal after that date.

In this quarter, the Company carried out a new revaluation of the leases regarding the term and the rate. In addition, on December 18, 2019, the Brazilian Securities and Exchange Commission - CVM issued Circular Letter 02/19 providing guidance on relevant aspects of the adoption of the discount rate and treatment of lease liabilities gross of PIS and COFINS.

The lease contracts are adjusted annually according to the variation of the main inflation indexes.

On the initial adoption of IFRS 16/ CPC 06 (R2), the weighted average discount rate used was 5.4% p.a..

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

The remaining agreements were recorded according to the expense period.

### a) Breakdown of right-of-use asset

	Parent Company	Consolidated
First-time adoption 01/01/2019 - IFRS 16 / CPC 06 (R2)	10.376	23.718
Additions	4.878	29.617
(-) Accumulated depreciation	(2.338)	(7.579)
Balance sheet at December 31, 2019	12.916	45.756

### b) Breakdown of lease liabilities

	Parent Company	Consolidated
remeasurement		
First-time adoption 01/01/2019 - IFRS 16 / CPC 06 (R2)	10.144	22.456
Remeasurement	6.928	29.766
Payments	(3.266)	(9.736)
Embedded interest	(1.981)	(2.955)
Balance at December 31, 2019	11.825	39.531

### c) Schedule of maturity of lease liabilities

	Parent Company			Consolidated		
	Lease liabilities	Interest	Present value of lease liabilities	Lease liabilities	Interest	Present value of lease liabilities
2020	5.254	(700)	4.554	17.361	(2.896)	14.465
2021	3.745	(519)	3.226	15.181	(2.250)	12.931
2022 and thereafter	4.502	(457)	4.045	12.607	(472)	12.135
Total	13.501	(1.676)	11.825	45.149	(5.618)	39.531

### d) Inflation effects

Right-of-use asset			Lease liabilities		
Real flow	Parent Company	Consolidated	Real flow	Parent Company	Consolidated
	31/12/2019	31/12/2019		31/12/2019	31/12/2019
Right-of-use asset	12.916	45.756	Right-of-use asset	11.825	39.531
Accumulated depreciation	(2.338)	(7.579)	Embedded interest	(1.981)	(2.955)
Parent Company			Right-of-use asset		
Inflation flow	31/12/2019	31/12/2019	Inflation flow	Parent Company	Consolidated
Right-of-use asset	14.222	51.262	Right-of-use asset	13.131	45.037
Depreciation	(2.555)	(8.328)	Depreciation	(2.364)	(4.138)

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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### 21 Trade payables and credit assignment of trade payables

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Domestic market	193.211	104.038	205.395	116.912
Credit assignment (a)	58.710	45.956	58.710	45.956
Other	134.501	58.082	146.685	70.956
Foreign market	6.127	7.962	6.127	7.962
Current	199.338	112.000	211.522	124.874
Domestic market (i)	124.754	101.268	124.754	101.268
Non-current	124.754	101.268	124.754	101.268
	324.092	213.268	336.276	226.142

(i) Provision for payment to gas supplier arising from the matter mentioned in note 12

#### a) Supplier credit assignment

The Company conducted supplier credit assignment transactions with top tier financial institutions in the amount of R\$ 58,710 at December 31, 2019 (R\$ 45,956 at December 31, 2018), to offer to its partner suppliers more attractive credit facilities aiming at maintaining the business relationship. In this transaction, suppliers transfer the right to receive the amounts of the notes to the bank, which in turn becomes creditor of the transaction.

There was no change in the payment conditions and prices negotiated with suppliers in such transactions.

#### b) Payables for investments

The Company recognizes a balance of R\$ 20,127 in the parent company and R\$ 21,745 in the consolidated in current liabilities (R\$ 10,676 in the parent company and R\$ 11,533 in the consolidated at December 31, 2018), which refer to modernization of plants, investment in own stores and systems.



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

## 22 Borrowings and debentures

	Currency	Maturity	Charges	Parent Company		Consolidated	
				December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Current							
Working capital	R\$			-	-	1.343	-
Banco do Nordeste S.A. (a)	R\$	jun-25	3,43% p.a. <sup>1</sup> +IPCA	36.419	9.796	36.419	9.796
NCE (b)	R\$	mar-24	6,58% p.a. <sup>1</sup>	40.320	42.002	40.320	42.002
NCE (b)	US\$	jun-21	4,04% p.a. <sup>1</sup> +FX	10.969	7.947	10.969	7.947
PRODEC (c)	R\$	nov-22	3,97% p.a. <sup>1</sup> +PVA	8.710	14.145	8.710	14.145
FINEP (d)	R\$	mai/21	6,66% p.a. <sup>1</sup>	13.250	13.270	13.250	13.270
DEG (e)	US\$	out-21	6,72% p.a. <sup>1</sup> +FX	12.443	12.179	12.443	12.179
FINAME (f)	R\$	ago-23	3,00% p.a. <sup>1</sup>	420	421	420	421
DEBENTURES 1 <sup>st</sup> series (g)	R\$	jun-21	6,67% p.a. <sup>1</sup>	99.050	976	99.050	976
DEBENTURES 2 <sup>nd</sup> series (g)	R\$	jun-23	7,24% p.a. <sup>1</sup>	-	985	-	985
ACC (i)	US\$	jun-20	4,55% p.a. <sup>1</sup> +FX	10.845	-	10.845	-
Total current			6,17% p.a. <sup>1</sup>	232.426	101.721	233.769	101.721
Total domestic currency	R\$			198.169	81.595	199.512	81.595
Total foreign currency	US\$			34.257	20.126	34.257	20.126
Non-current							
Working capital	R\$			-	-	-	1.292
Banco do Nordeste S.A. (a)	R\$	jun-25	3,43% p.a. <sup>1</sup> +IPCA	71.689	53.792	71.689	53.792
NCE (b)	R\$	mar-24	6,58% p.a. <sup>1</sup>	192.389	67.944	192.389	67.944
NCE (b)	US\$	jun-21	4,04% p.a. <sup>1</sup> +FX	5.464	15.759	5.464	15.759
PRODEC (c)	R\$	nov-22	3,97% p.a. <sup>1</sup> +PVA	11.817	18.240	11.817	18.240
FINEP (d)	R\$	mai/21	6,66% p.a. <sup>1</sup>	30.489	18.590	30.489	18.590
DEG (e)	US\$	out-21	6,72% p.a. <sup>1</sup> +FX	12.092	23.249	12.092	23.249
FINAME (f)	R\$	ago-23	3,00% p.a. <sup>1</sup>	974	1.392	974	1.392
DEBENTURES 1 <sup>st</sup> series (g)	R\$	jun-21	6,67% p.a. <sup>1</sup>	49.482	146.829	49.482	146.829
DEBENTURES 2 <sup>nd</sup> series (g)	R\$	jun-23	7,24% p.a. <sup>1</sup>	148.211	146.829	148.211	146.829
Total non-current			6,90% p.a. <sup>1</sup>	522.607	492.624	522.607	493.916
Total domestic currency	R\$			505.051	453.616	505.051	454.908
Total foreign currency	US\$			17.556	39.008	17.556	39.008
Total			6,90% p.a. <sup>1</sup>	755.033	594.345	756.376	595.637
Total local currency	R\$			703.220	535.211	704.563	536.503
Total foreign currency	US\$			51.813	59.134	51.813	59.134

<sup>1</sup> Weighted average rate

FX - Foreign exchange variation



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

### a. Information on agreements

Note	Contract	Date		Borrowings (R\$ thousand)	Term (months)	Repayment	Grace period (months)	Guarantees	
		Disbursement	Maturity						
(a)	Banco do Nordeste	ago-14	jun-25	R\$ 105.646	133	Monthly	24	Mortgage of real estate and machinery and equipment	
	Agreement entered into in June 2013 of R\$ 147,700. The 1 <sup>st</sup> installment of the loan was released by the Bank in Aug/2014 in the amount of R\$ 29,221, the 2 <sup>nd</sup> installment released in Jan/2015 in the amount of R\$ 45,765, the 3 <sup>rd</sup> installment released in Sep/2009 in the amount of R\$ 14,700, 4 <sup>th</sup> installment released on Mar/2016 in the amount of R\$ 4,713 the 5 <sup>th</sup> installment released on Dec/2016 in the amount of R\$ 2,418 the 6 <sup>th</sup> installment released on Feb/2019 in the amount of R\$ 8,827.								
	Banco do Nordeste	jul-19	jun-27	R\$ 31.147	95	Monthly	24	Mortgage for real estate and machinery and equipment in 2nd degree	
	Agreement entered into in July/2019, in the amount of R\$ 31,147. The first installment of the financing was released by the Bank in July 2019 in the amount of R\$ 7,246.								
	Banco do Nordeste	set-19	set-20	R\$ 16.500	12	Bullet	Bullet	PBTech and CBC guarantee	
(b)	Agreement entered into in Sep/2019, in the amount of R\$ 16,500. The amount of the financing was released fully by the Bank in Sep/2019 in the amount of R\$ 16,500.								
	Banco do Nordeste	set-19	ago-22	R\$ 23.500	12	35	2	PBTech and CBC guarantee	
	Agreement entered into in Sep/2019, in the amount of R\$ 23,500. The amount of the financing was released fully by the Bank in Sep/2019 in the amount of R\$ 23,500.								
	(b)	Export Credit (NCE)	nov-17	nov-21	R\$ 50.000	48	Monthly	12	PBG S/A receivables amounting to 30% of the outstanding balance of the
			This contract has minimum covenant clauses that have been met.						
nov-17			nov-20	R\$ 30.000	36	Quarter	20	PBG S/A receivables amounting to 30% of the outstanding balance of the	
jun-18			jun-21	R\$ 24.000	36	Quarter	12	Clean	
jun-18			mai-21	R\$ 24.000	36	Quarter	12	PBG S/A receivables amounting to 25% of the outstanding balance of the	
mar-19			fev-24	R\$ 54.000	60	Annual	24	PBG S/A receivables amounting to 20% of the outstanding balance of the	
mar-19			mar-24	R\$ 50.000	60	Quarter	24	PBG S/A receivables amounting to 20% of the outstanding balance of the	
mar-19			mar-24	R\$ 10.000	60	Quarter	24	PBG S/A receivables amounting to 20% of the outstanding balance of the	
jul-19			jul-23	R\$ 20.000	48	Monthly	12	PBG S/A receivables amounting to 30% of the outstanding balance of the	
jul-19			jul-13	R\$ 20.000	48	Monthly	12	Receivables from Portobello SA in the amount of 30% of the outstanding	
set-19	set-22		R\$ 30.000	36	Quarter	12	Receivables from Portobello SA in the amount of 20% of the outstanding		
These contracts have minimum covenant clauses that have been met.									
PRODEC (c)				48	Bullet	Bullet	-		
(c)	(Program of Development for Companies of the Santa Catarina State) - Special Regime of the State of Santa Catarina obtained in July 2009. The balance is subject to adjustment to present value and the rate used for calculation purposes is the average working capital (8.15% per year). The deferred amount is 60% of the tax balance generated in the month that exceeds R\$ 2,251 (average tax paid in 2007 and 2008), with a grace period of 48 months, a term of 120 months and a monetary restatement of 4% per year. UFIR variation.								
(d)	Finep	jul-14	mai-21	R\$ 57.318	84	Monthly	24	Bank Guarantee	
Agreement entered into in Jul/2014, in the amount of R\$ 57,300 and the first installment of the financing, in the amount of R\$ 12,627, was released by the Bank in the same month. The 2 <sup>nd</sup> installment released in Jan/2016 in the amount of R\$ 12,479. The 3 <sup>rd</sup> installment released on Jun/2017 in the amount of R\$ 32,064.									
(e)	DEG	mai-14	out-21	US\$ 18.000	90	Semiannual	23	Machinery and equipment and promissory notes	
On 11/05/2019 bank DEG granted a Waiver relating to the non-achievement of the indicator (Equity/Total assets > 20%) for the 3Q2019.									
(f)	Finame	mai-13	mai-23	R\$ 39	120	Monthly	25	Machinery and equipment	
		mai-13	abr-23	R\$ 601	120	Monthly	24		
		jul-13	jul-23	R\$ 107	120	Monthly	25		
		jul-13	ago-23	R\$ 1.890	120	Monthly	26		
(g)	Debentures 3 <sup>rd</sup> Issuance 1 <sup>st</sup> se	jan-14	jun-23	R\$ 577	114	Monthly	18		
(h)	Debentures 3 <sup>rd</sup> Issuance 2 <sup>nd</sup> s	jun-18	jun-23	R\$ 150.000	60	Semiannual	48	Real guarantee and additional fiduciary guarantee	
On June 15, 2018, the Board of Directors of PBG S.A. approved the 3 <sup>rd</sup> Issuance of simple, non-convertible debentures of the type with collateral and additional collateral, in two series, for public distribution with restricted efforts. The proceeds were allocated to the redemption of all 2 <sup>nd</sup> Issuance debentures of the Issuer and renegotiation of the Issuer's other liabilities. This contract has minimum covenant clauses that have been met.									
(i)	ACC	jun-19	jun-20	US\$ 2.628	12	Bullet	Bullet	Clean Operation	

Restricted investments, real estate mortgages, equipment, Parent Company's (note 8) and subsidiary's receivables (note 40) and Parent Company's and subsidiary's sureties were pledged as collateral for other borrowings.

In this year, the Company carried out the raising of funds in the amount of R\$ 106,753.

In 4Q19, the Company did not reach the covenant related to the operation with bank DEG (PL/Total Assets greater than 20%). On December 30, 2019, DEG granted Waiver regarding the non-achievement of the indicator. For next quarters the company envisions the achievement of the covenant. However, the Company reclassified the long-term balance of this bank to short-term

Long-term borrowings mature as follows:

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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
2019	-	101.721	-	101.721
2020	232.426	197.939	233.769	199.231
2021	177.531	106.997	177.531	106.997
2022 to 2025	345.518	187.688	345.076	187.688
	755.475	594.345	756.376	595.637

The carrying amounts and fair values of borrowings are stated in Brazilian Reais, broken down by currency:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
2019	-	101.721	-	101.721
2020	232.426	197.939	233.769	199.231
2021	177.531	106.997	177.531	106.997
2022 to 2025	345.076	187.688	345.076	187.688
	755.033	594.345	756.376	595.637

The fair value of current borrowings approximates their carrying amount, as the carrying amounts are stated at amortized cost and restated on a *pro rata* basis.

Changes in borrowings are as follows:

	Total da dívida	
	Controladora	Consolidado
Net debt as of January 1, 2018	594.345	595.637
<b>Movements affecting cash flow</b>		
Obtaining loans	272.651	275.841
Payment of loans	- 120.983	- 121.841
Payment of interest	- 52.272	- 52.909
<b>Movements that did not affect cash flow</b>	2.909	3.189
Currency Variations	51.105	54.014
Appropriate interest	2.128	2.546
Marking to market	-	-
Settlement adebêntures	5.150	-
Other	755.033	756.376

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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### b. Debentures

On June 15, 2018, the Board of Directors of Portobello S.A. approved the 3rd issuance of simple, non-convertible debentures, with real guarantee and additional fiduciary guarantee, in two series, for public distribution with restricted placement efforts.

Issue Characteristics	
Issue	3 <sup>rd</sup>
Fiduciary Agent	PLANNER TRUSTEE DTVM LTDA.
Settling bank	Banco Bradesco S.A.
Lead Coordinator	Banco Itaú BBA S.A.
Issue Rating	No
Trading	B3
Serial Number	2
Issue Volume R\$	300.000.000,00
Total Debentures	300.000
Par Value R\$	1.000,00

Series operation breakdown			
Series	1 <sup>st</sup>		2 <sup>nd</sup>
Registration with CVM No.	476/09		
Asset Code	PTBL13		PTBL23
Issue date	27/06/2018		
Maturity date	27/06/2021		27/06/2023
Volume R\$	150.000.000,00		150.000.000,00
Total Debentures	150.000		150.000
Par Value R\$	1.000,00		1.000,00
Form	Book-entry		
Cash	Real guarantee and additional fiduciary guarantee		
Convertibility	Not convertible into shares issued by the Issuer		
Monetary Correction	There will be no monetary correction of the Par Value		
Remuneration	DI Rate + 2.20% p.a. (year based 252 days)		DI Rate + 2.75% p.a. (year based 252 days)
Payment Remuneration	Semiannual, with first interest date on 12/27/2018		
Amortization	Initial nominal value		Initial nominal value
Corporate acts:	EGM at 06/15/2018		
Covenants	Net Debt / EBITDA < 3.00 times by two periods		

The proceeds from the 3<sup>rd</sup> issuance were allocated to the redemption of all 2<sup>nd</sup> issuance debentures of the issuer and renegotiation of the issuer's other liabilities

The 3<sup>rd</sup> issuance of Debentures is subject to covenants that were met at December 31, 2019.

### 23 Installment payment of tax obligations

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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Tax obligations	Request for installment payment		Parent Company		Consolidated	
	Date	Installment due	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Law 11.941/09 (a)	nov-09	58	54.972	63.930	55.578	64.367
Total			54.972	63.930	55.578	64.367

Tax installments will be paid as follows:

Maturity January 1	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
2019	11.455	10.718	11.765	10.793
2020 to 2023 (*)	43.517	52.270	43.815	52.570
2024		942		1.004
	54.972	63.930	55.580	64.367
Current	11.455	10.718	11.765	10.793
Non-current	43.517	53.212	43.813	53.574

(\*) Sum of annual installments of R\$ 11,455 at December 31, 2019 and R\$ 10,718 at December 31, 2018 for the Parent Company and R\$ 11,765 and R\$ 10,793 for the Consolidated, respectively.

### a) Law 11,941/09 (Tax Recovery Program - REFIS)

In May and September 2011, the Company completed the installment payment consolidation process established by Law 11,941/09, initiated upon enrollment with the Tax Recovery Program in November 2009.

Between the enrollment and consolidation, the Company paid the minimum amount of R\$ 395 as established in legislation. During such period and more specifically upon consolidation, the Company made decisions that resulted in a positive financial adjustment of R\$ 3,013, of which R\$ 3,613 impacts other operating income and R\$ 600 impacts finance costs. The main effect occurred due to a failure to confirm the transfer of non-approved debts in the installment program under MP 470 to the installment payment program under Law 11,941/09 (note 24).

Upon completion of the consolidation, the Company undertakes to pay monthly installments of R\$ 818, restated at the SELIC rate, and withdrew from the lawsuits and waived any allegation of right on which such lawsuits are based, under penalty of immediate rescission of the installment payment and, consequently, loss of the benefits established by Law 11,941/09. This withdrawal of lawsuits filed against tax assessments does not impair the continuance of the lawsuits in progress before the courts, as mentioned in note 15.

## 24 Tax debts – Law 12,249/10 (MP 470 and MP 472)

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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In November 2009 the Company joined the installment payment program established by MP 470 (improper utilization of IPI premium credit) for the SRF and PGFN. Upon adoption, in addition to the installment payment, the charges were reduced and the Company was able to utilize tax credits arising from tax losses up to 2008 for debt payment.

Upon enactment of this Provisional Act (Law 12,249/10) in June 2010 the utilization of tax credits arising from tax losses existing at December 31, 2009 was authorized. The Company utilized this benefit and recorded in the second quarter of 2010 the amount of R\$ 3,252 considering the settled installment payments.

PGFN partially rejected the request in June 2010 by alleging the need of withdrawal of the lawsuits challenging the credit and concluded that the requirement of “inappropriate utilization” was not met. The Company issued an opinion in the sense of claiming the withdrawal/waiver of the lawsuits that challenged the notification received from the SRF. However, the Regional General Attorneys’ Office of the National Treasury of Santa Catarina understood that the withdrawal/waiver would also comprise the declaratory actions intended to recognize the IPI Credit Premium, mentioned in note 15. The Company’s Legal Department is adopting the necessary measures against the PGFN’s decision so as to rule out the requirement of withdrawal/waiver of such declaratory actions and also the confirmation of the “inappropriate utilization”, evidently recognized by the Brazilian Federal Revenue Service upon notification. This procedure adopted by Management is in accordance with an opinion from law firm, Demarest Almeida, which argues that, for the debts included in the installment payment program under Law 12,249/10, the withdrawal of the abovementioned declaratory actions is not required, as distinct from the provisions set forth in Law 11,941/09. Accordingly, it asserts that the reversal of this situation is virtually certain by resorting to various judicial levels to rule out the grounds for the rejection in the merit of the case. As clarification, a writ of mandamus filed to claim court approval for payment in installments was rejected in the lower court. In the appeal the TRF of the 4th region partially approved the appeal. The Company was granted a partial appeal and its special appeal was accepted and maintains the pronouncement of reverting the remaining court dispute to the Superior Court of Justice.

## 25 Taxes, fees and contributions

At December 31, 2019, taxes, fees and contributions recorded in current liabilities were classified as follows:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
IRRF	2.953	2.177	3.521	2.688
ICMS	6.014	1.161	6.253	1.224
PIS/COFINS	-	62	532	492
Other	136	209	274	334
	9.103	3.609	10.580	4.738

## 26 Provisions for civil, labor, social security and tax risks

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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The Company and its subsidiaries are parties to civil, labor and social security lawsuits and tax administrative proceedings. Based on the opinion of its tax and legal advisors, Management believes that the balance of provisions is sufficient to cover the necessary expenses to settle obligations.

The balance of provisions is broken down as follows:

Provisions are measured based on the estimated expenses necessary to settle the obligation. Civil and labor lawsuits are individually assessed by the Company's legal advisors who classify them according to the likelihood of favorable outcome in the lawsuits.

Statement of variations in provisions:

Amount accrued	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Civil	17.126	19.581	17.126	19.581
Labor	11.891	18.397	11.891	18.397
Social security	6.615	6.836	6.615	6.836
Tax	84.568	94.761	84.600	94.791
	120.200	139.575	120.232	139.605

	Parent Company				Total
	Civil	Labor	Social security	Tax	
At December 31, 2018	19.581	18.397	6.836	94.761	139.575
Charged (credited) to statement of income:	(2.363)	(355)	(221)	513	(2.426)
Additional provisions	(3.075)	677	(221)	456	(2.160)
Reversal - not used	(174)	(2.711)	-	54	(2.831)
Monetary adjustment (Reversal)	886	1.679	-	-	2.565
Reversal due to realization	(92)	(6.151)	-	(10.706)	(16.949)
At December 31, 2019	17.126	11.891	6.615	84.568	120.200
	Consolidated				Total
	Civil	Labor	Social security	Tax	
At December 31, 2018	19.581	18.397	6.836	94.791	139.605
Charged (credited) to statement of income:	(2.363)	(355)	(221)	515	(2.424)
Additional provisions	(3.075)	677	(221)	459	(2.160)
Reversal - not used	(174)	(2.711)	-	56	(2.829)
Monetary adjustment (Reversal)	886	1.679	-	-	2.565
Reversal due to realization	(92)	(6.151)	-	(10.706)	(16.949)
At December 31, 2019	17.126	11.891	6.615	84.600	120.232

Comments on civil, labor, tax and social security lawsuits:

### Civil

The Company and its subsidiaries are defendants in 509 civil lawsuits (436 lawsuits at December 31, 2018), before the Common Courts and Special Civil Courts. The majority of lawsuits is filed by

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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customers and claim indemnity for alleged pain and suffering and damage to property. When applicable, escrow deposits were made (note 12).

### Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 279 labor claims (324 claims at December 31, 2018), filed by former employees and third parties. The other lawsuits refer to payment of severance amounts, additional amounts, overtime, equal pay and indemnity for pain and suffering and damage to property arising from work accident/ occupational illness. Provisions are revised by Management according to its legal advisors. Some lawsuits are supported by escrow deposits (note 12).

### Social security

Based on the low expectation of success in administrative and judicial actions involving corporate awards, the Company recognized in the first quarter of 2018 the provision for these debts, in the total amount of R\$ 6,836, which still depend on a court decision, in the Fiscal Execution phase, or in some cases, an administrative decision with the Brazilian Federal Revenue Service.

### Change in the labor debt adjustment criterion

The Superior Labor Court (TST), in a decision published on August 07, 2015, changed the labor debt adjustment rate, so as to substitute the Benchmark Rate (TR) for the National Special Extended Consumer Price Index (IPCA-E), with effects retroactive to September 30, 2009. The matter was sent to the Federal Supreme Court (STF), in Claim 22012, which considered the claim groundless, thus maintaining the labor debt adjustment based on the IPCA-E. The Company will not immediately increase its labor provisions as it is awaiting a new decision from the TST on the matter. The change in the criterion will impact the balance of labor provisions by approximately R\$ 6,235.

### Tax

#### Tax on legal asset Plaintiff

In the second quarter of 2018, the Company recognized under "tax contingencies" the amount of R\$ 74,180 relating to PIS, COFINS, IRPJ and CSLL on legal asset - plaintiff, as mentioned in note **Erro! Fonte de referência não encontrada.**c. In this quarter, the amount was recalculated and the amount of provisions totaled R\$ 62,738 referring to PIS, COFINS, IRPJ and CSLL.

## 27 Lawsuits assessed as possible losses

### a. Lawsuits assessed as possible losses

In addition to the provisions recorded in its financial statements, assessed as probable losses, there are other civil and labor lawsuits, which were assessed as possible losses based on the risk assessments arising from the abovementioned lawsuits, and the Company, based on the opinion of its legal advisors, estimates the amounts of contingent liabilities as follows:



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Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Civil	3.786	3.844	3.786	3.844
Labor	9.606	6.763	9.711	6.763
Social security	10.985	552	10.985	552
	<u>24.377</u>	<u>11.159</u>	<u>24.482</u>	<u>11.159</u>

## 28 Employee benefits

### 28.1 Pension plan

Since 1997, the Company and its subsidiaries sponsor a pension plan called Portobello Prev, managed by BB Previdência - Fundo de Pensão Banco do Brasil, which has 3,075 active participants and 21 retirees and pensioners. The plan is a defined contribution plan in the fund contribution stage. During the benefit granting stage, the plan shows defined benefit features, ensuring life retirement and pension benefits to its members. Moreover, it offers a minimum retirement benefit based on the length of service or age, which is exclusively financed by the sponsors.

Parent Company and Consolidated			Parent Company and Consolidated		
Fair value of the plan assets			Defined benefit liability		
At December 31, 2018	72.279	67.600	Em December 31, 2018	62.604	61.842
Benefits paid in the year	(1.419)	(1.662)	Gross cost of current service (with interest)	1.365	1.140
Participant contributions in the year	1.059	1.257	Interest on actuarial obligation	6.082	5.962
Sponsor contributions in the year	1.387	799	Benefits paid in the year	(1.419)	(1.662)
Expected return on assets in the year	7.022	6.518	Liabilities - (gain) loss	6.349	(4.678)
Assets - gain (loss)	992	(2.233)			
At December 31, 2019	<u>81.320</u>	<u>72.279</u>	Em December 31, 2019	<u>74.981</u>	<u>62.604</u>

Changes to fair values of the benefit plan assets and defined benefit obligation during the year were as follows:

	December 31, 2019	December 31, 2018		December 31, 2019	December 31, 2018
Fair value of the plan assets	81.320	72.279	Gain (loss) in the actuarial obligations	6.780	(4.678)
Present value of the obligations financed	(74.982)	(62.604)	Gain (loss) in the plan assets	(992)	2.233
Net actuarial assets (liabilities)	<u>6.338</u>	<u>9.675</u>	Actuarial gain (loss)	<u>5.788</u>	<u>(2.445)</u>

The amounts recognized in profit or loss, as "Other operating income (expenses)", related to the result from the management of assets are as follows:

	Parent Company and Consolidated	
	December 31, 2019	December 31, 2018
Current service cost (with interest)	(1.365)	(1.140)
Interest on actuarial obligations	(6.082)	(5.962)
Expected return on plan assets	7.022	6.518
Participant contributions in the year	1.257	1.257
Actuarial gain (loss)	<u>832</u>	<u>673</u>



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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As at December 31, 2018 the Company also recognized an income of R\$ 673 (R\$ 480 at December 31, 2017) referring to payments made by the sponsor during the year, with asset effect for employee benefit plan (see note 33).

Economical and financial	Parent Company and Consolidated	
	December 31, 2019	December 31, 2018
Annual interest rate	6.60% p.a. nominal (inflation+4.99% p.a. real)	9.71% p.a. nominal (inflation+4.99% p.a. real)
Long-term return on assets	6.60% p.a. nominal (inflation+4.99% p.a. real)	9.64% p.a. nominal (inflation+4.99% p.a. real)
Long-term inflation		
Projected salary increases	3.50% p.a. (inflation+0.62% p.a. real)	4.50% p.a. (inflation+0.62% p.a. real)
Projected growth of the plan benefits	0.00% p.a.	0.00% p.a.
Factor for determining real value over time (salaries)	0,98	0,98
Factor for determining real value over time (benefits)	0,98	0,98
Biometric and demographic		
Hypothesis about turnover	13,20%	13,22%
General mortality table	AT-2000	AT-2000
Mortality table of individuals with permanent disability	EXP. IAPC	EXP. IAPC
Table of new disability benefit vested	TASA 1927	TASA 1927
Retirement	100% on the first chargeability	100% on the first chargeability
Family composition before retirement	Not applicable	Not applicable
Family composition after retirement	Real family	Real family

## 29 Long-term incentive

In 2012, the Company implemented the long-term incentive (ILP) program. The program aims at attracting, retaining and recognizing the performance of key professionals.

Officers, superintendents and managers are eligible to the ILP, and under an adhesion agreement, become program participants. Each participant holds a number of shares that are figuratively called "reference shares". These shares are not traded on the over-the-counter market and their "appreciation" is annually calculated based on the EBITDA performance and the EBITDA-to-net debt ratio.

Payment is scheduled to be made in three annual installments with two-year deferral at the beginning of the period. Settlement will be made through monetary sums in an amount proportional to the gains calculated based on the plan metrics.

The first group of participants joined the program in 2012. As the plan is no longer expected to be realized, the Company wrote off this amount to profit or loss, with the present value of the obligation at December 31, 2019 being zero in the parent company and consolidated (R\$ 162 in the parent company and consolidated at December 31, 2018).

## PBG S.A. and Subsidiaries

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### 30.1 Capital

At December 31, 2019, the Company recognizes subscribed and paid-up capital in the total amount of R\$ 200,000 (R\$ 140,000 at December 31, 2018), divided into 158,488,517 common, registered and book-entry shares, without par value.

At December 31, 2019, there were 74,131,291 outstanding shares, corresponding to 46% of the total shares issued (73,786,991 at December 31, 2018, corresponding to 46% of the total). The balance of outstanding shares comprises all securities available for trading in the market, other than those held by controlling shareholders, members of the Board of Directors and Executive Board.

### 30.2 Earnings reserve

The earnings reserve is comprised of three reserves: the legal reserve, earnings retention reserve and unallocated earnings reserve, as follows:

The legal reserve is set up annually by allocating 5% of the profit for the year, which cannot exceed 20% of the capital. The purpose of the legal reserve is to ensure the integrity of capital and can only be used to offset accumulated losses or increase capital. At December 31, 2019, the balance of the legal reserve totals R\$ 25,140 (R\$ 25,140 at December 31, 2018), as provided by Article 193 of the Brazilian Corporate Law.

The amount of R\$ 150,820 refers to the earnings retention reserve based on the business growth project, established in the Company's investment plan approved at the Annual General Meeting held on April 2, 2019, according to the capital budget, in conformity with article 196 of the Brazilian Corporate Law.

The objective of the unallocated earnings reserve is to show the portion of profits whose allocation will be decided at the Annual General Meeting on **April 2, 2020**.

In this quarter, the Company reclassified the amount of R\$ 58,706 to the Tax Incentive Reserve line item, which refers to government grants for ICMS tax incentives related to Prodesin (Alagoas State Integrated Development Program) and the Differentiated Tax Treatment of Santa Catarina (TTD), these amounts were excluded from the calculation bases of Income Tax and Social Contribution.

### 30.3 Carrying value adjustments

	Carrying value adjustments			
	Deemed cost	Cumulative translation adjustment	Other comprehensive income	Total
Parent Company and Consolidated				
Balance at December 31, 2018	34.690	(40.462)	(8.080)	(13.852)
Realization of revaluation reserve	(1.184)	-	-	(1.184)
Actuarial gain (loss)	-	-	(5.778)	(5.778)
Exchange variation of subsidiary located abroad	-	(1.410)	-	(1.410)
At December 31, 2019	33.506	(41.872)	(13.858)	(22.224)

#### a) Deemed cost

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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In 2010, upon the initial adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the property, plant and equipment revaluation made in 2006 as deemed cost, understanding that it substantially represented fair value at the date of transition. The deemed cost was calculated as a result of the revaluations of land, constructions and improvements, supported by a revaluation report prepared by an independent appraiser. It is being realized based on the depreciation of revalued constructions and improvements recorded against retained earnings. The same effect of the realization of the carrying value adjustments is reflected in profit or loss for the year, based on the depreciation of revalued assets.

### b) Cumulative translation adjustment

The changes in assets and liabilities in foreign currency (US dollar) arising from currency fluctuation, as well as the variations between the daily rates and the closing rate of the changes in profit or loss of the foreign subsidiary are recognized in this line item of cumulative translation adjustments. In December 31, 2019, the amount was R\$ 1,409 (note 17a).

## 31 Revenue

The reconciliation of gross revenue and net revenue, shown in the statement of income for the year ended December 31, 2019, is as follows:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Gross sales revenue	1.265.482	1.208.414	1.415.598	1.321.346
Deductions from gross revenue	(279.423)	(254.343)	(301.329)	(267.156)
Taxes on sales	(229.501)	(216.108)	(247.702)	(228.921)
Returns	(49.922)	(38.235)	(53.627)	(38.235)
Net sales revenue	986.059	954.071	1.114.269	1.054.190
Internal market	797.651	776.709	939.218	868.678
External market	188.408	177.362	175.051	185.512

The operating revenue of the Company, net revenue is shown in the following structure:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net sales revenue	986.058	954.071	1.114.269	1.054.190
Sales	961.424	919.660	997.333	939.165
Resales	24.634	34.411	50.679	52.421
Royalties	-	-	66.257	62.604

## 32 Expenses by nature

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

Cost of sales, selling and administrative expenses for the year ended December 31, 2019, are broken down as follows:

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<b>Cost and expenses</b>				
Cost of goods and/or services sold	(739.751)	(645.055)	(751.650)	(648.590)
Selling	(219.832)	(231.055)	(306.437)	(285.619)
General and administrative	(39.308)	(38.673)	(40.873)	(45.458)
	(998.891)	(914.783)	(1.098.960)	(979.667)
<b>Breakdown of expense by nature</b>				
Direct production cost (raw materials and inputs)	453.478	378.733	444.038	368.963
Salaries, charges and employee benefits	245.959	230.150	285.242	259.168
Third-party labor and services	56.125	70.157	59.796	72.292
General production expenses (including maintenance)	48.580	46.361	49.207	46.591
Cost of goods resold	31.335	38.145	46.392	48.257
Amortization and depreciation	43.769	38.908	53.775	43.609
Other selling expenses	21.066	29.188	45.659	42.955
Sales commissions	31.696	29.139	34.844	32.293
Marketing and publicity	29.430	31.664	38.086	37.434
Transportation of goods sold	16.844	17.243	16.844	17.243
Lease expenses	13.347	12.441	17.269	17.831
Other administrative expenses	6.496	7.114	7.042	7.491
Changes in inventories of finished products and work in progress (a)	766	(14.460)	766	(14.460)
Total	998.891	914.783	1.098.960	979.667

(a) the change in inventories of finished products and work in progress is the difference between the cost of the product produced and the cost of the product sold, and may be negatively affected by the CPV write-offs related to products that were produced in previous periods that included the inventory account..

## 33 Other operating income and expenses, net

Other individual and consolidated operating income and expenses for the year ended December 31, 2019 are as follows:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Other operating income				
Revenue from services	779	494	779	516
Sale of property, plant and equipment	21	175	21	175
Extemporaneous tax credits	12.805	867	12.805	867
Actuarial restatement (Note 27.1)	2.020	1.472	2.020	1.472
Judicial asset - Plaintiff (a)	-	207.938	-	207.938
Curtailment of ICMS from the PIS and COFINS tax base (2003-2009)	50.227	-	50.227	-
Reversal of provision for PIS and COFINS contingency (b)	5.922	-	5.922	-
Reversal of legal fees (c)	1.155	-	1.155	-
Other revenue	366	-	366	228
<b>Total</b>	<b>73.295</b>	<b>210.946</b>	<b>73.295</b>	<b>211.196</b>
Other operating expenses				
Provisions for civil, labor, pension and tax	(3.085)	(38.822)	(3.085)	(38.825)
Provision for long-term incentive	-	1.773	-	1.773
Provision for profit sharing (d)	(636)	(487)	(636)	(750)
Law 13.496 (PERT)	-	3.193	-	3.193
Idleness cost	(336)	(2.141)	(336)	(2.141)
Tax on other revenues	(233)	(257)	(233)	(263)
Other expenses	(10.381)	(2.942)	(9.243)	(4.302)
<b>Total</b>	<b>(14.671)</b>	<b>(39.683)</b>	<b>(13.533)</b>	<b>(41.315)</b>
<b>Total net</b>	<b>58.624</b>	<b>171.263</b>	<b>59.762</b>	<b>169.881</b>
(a) Recognition of Judicial asset - Plaintiff				
(b) Reversal of provision for PIS/COFINS related to IPI premium credit - Plaintiff lawsuit				
(c) Reversal of legal fees related to IPI premium credit - Plaintiff lawsuit				
(d) Recognition of the provision for profit sharing to be paid after the end of the year.				
(e) Recognition of curtailment of ICMS from the PIS and COFINS tax base (2003-2009)				

## 34 Finance income (costs)

Individual and consolidated finance income (costs) for the year ended December 31, 2019, are as follows:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Financial income				
Interest	7.030	4.580	7.533	5.052
Asset adjustment	7.322	4.171	7.322	4.171
Gain (loss) for Swap operation (a)	388	1.836	388	1.836
Other	29	6	132	159
Total	14.769	10.593	15.375	11.218
Financial costs				
Interest	(28.273)	(22.533)	(30.126)	(22.723)
Financial charges with taxes	-	(5.879)	-	(5.913)
Adjustment of provisions for contingencies	(5.588)	(3.692)	(5.588)	(3.692)
Commissions and service fees	(7.709)	(4.039)	(8.817)	(4.865)
Bank expenses / Discount (b)	(15.527)	(458)	(15.532)	(463)
Gain (loss) for Swap operation (a)	-	(2.600)	-	(2.600)
Interest on debentures	(26.525)	(25.544)	(26.525)	(25.544)
Other	(4.640)	(2.190)	(4.983)	(2.734)
Total	(88.262)	(66.935)	(91.571)	(68.534)
Foreign exchange variations, net				
Trade receivables and trade payables	3.415	14.620	3.401	14.620
Borrowings and financing	(2.317)	(5.395)	(2.317)	(5.395)
Total	1.098	9.225	1.084	9.225
Total net	(72.395)	(47.117)	(75.112)	(48.091)

(a) Note 7

(b) Discount related to sale of the tax asset - Plaintiff

## 35 Earnings (loss) per share

### a) Basic

Pursuant to CPC 41 (Earnings per Share), basic earnings (loss) per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of common shares issued during the period, less common shares bought by the Company and held as treasury shares.

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
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	Parent Company and Consolidated	
	December 31, 2019	December 31, 2018
Profit (loss) attributable to the owners of the Company	13.128	134.282
Weighted average number of common shares	158.489	158.489
Basic earnings (loss) per share	0,08283	0,84726

Consolidated earnings (loss) attributable to shareholders do not consider noncontrolling interests in subsidiaries.

### b) Diluted

Diluted earnings (loss) per share correspond to basic earnings (loss) as the Company's common shares are not subject to dilutive factors.

## 36 Dividends

The minimum mandatory dividends for 2019, which represent 25% of the Company's profit less the Legal Reserve and the Tax Incentive Reserve established this year, amount to R\$ 428 thousand. After the Ordinary General Meeting, the date of payment will be deliberated

	December 31, 2019
*	
*	
<b>Dividends 2019</b>	
Net income for the year	13.128
Constitution of the legal reserve (5%)	(656)
Constitution of the Tax Incentive Reserve	(10.761)
Net income adjusted for dividends	1.711
Mandatory minimum dividend (25% of net profit)	428
Additional Dividends 2019	5.808
Total annual dividend	6.235

## 37 Segment reporting

Management defined the operating segments based on the reports used for strategic decision-making, reviewed by the Executive Board.

The Executive Board conducts its business analysis, by segmenting the business under the standpoint of the market in which it operates: Domestic (Internal Market - Brazil) and Export (External Market – Other Countries).

The revenue provided by operating segments reported exclusively derives from the manufacturing and sale of ceramic tiles used in the civil construction industry.



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

The Executive Board assesses the performance of the operating segments based on the measurement of the operating income or loss (Earnings Before Interest and Taxes – EBIT) and does not take into consideration the assets for segment performance analysis, as the Company's assets are not segregated.

The segment reporting, reviewed by the Executive Board, is as follows:

	Em December 31, 2019			Em December 31, 2018		
	Brazil	Other countries	Total	Brazil	Other countries	Total
Continuing operations						
Revenue	939.218	175.051	1.114.269	868.678	185.512	1.054.190
Cost of sales	(623.981)	(127.669)	(751.650)	(527.894)	(120.696)	(648.590)
Gross profit	315.237	47.382	362.619	340.784	64.816	405.600
Operating income (expenses), net	(232.991)	(54.557)	(287.548)	(123.022)	(38.174)	(161.196)
Selling, general and administrative	(292.753)	(54.557)	(347.310)	(292.903)	(38.174)	(331.077)
Other operating income (expenses), net	59.762	-	59.762	169.881	-	169.881
Operating income before finance income	82.246	(7.175)	75.071	217.762	26.642	244.404
% on ROL	9%	-4%	7%	25%	14%	23%

The Company has no customers that individually account for more than 10% of the net sales revenue. The Company exported to 78 countries in 2019.

## 38 Commitments

### a) Commitments for acquisition of assets

Expenses recorded at the balance sheet date but not yet incurred relating to property, plant and equipment at December 31, 2019 total R\$ 35,062, corresponding to the modernization of manufacturing equipment, according to the Company's investment plan.

## 39 Insurance coverage

The insurance coverage at December 31, 2019 is considered sufficient to cover any claims and is summarized as follows:



## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

Insurance Company	Insurance Policy	Maximum Indemnity Limit	Maturity
Mitsui Seguros	Property Insurance	348.800	06/13/2020
General Brasil Seguros S.A.	Directors and Officers Liability Insurance (D&O)	10.000	08/27/2020
Travelers	Civil Liability	6.520	04/01/2020
Allianz Seguros S.A.	International transport - Portobello imports	1.000	12/31/2020
Argo	International transport - Pointer imports	1.000	09/11/2020
Prudential do Brasil Vida em Grupo S.A.	Group life insurance and funeral assistance	380.754	03/01/2020
Tokio Marine Seguros	Vehicle fleet	79 (vehicles)	11/15/2020
Junto Seguros	ENGIE guarantee	5.483	12/31/2020
AXA Seguros	Property Insurance - Own PBTech stores	35.537	04/25/2020
Seguradora Berkley Internacional do Brasil Seguros S.A.	Legal Protection Insurance	1.407	04/24/2023
		850	03/13/2021
		3.899	04/26/2024
Chubb Seguros S.A.	Legal Protection Insurance	44.493	08/22/2021
Pottencial	Demand for Rent Guarantee PBG S.A.	1.941	12/04/2023
Fairfax	15 <sup>th</sup> Labor Court of Salvador - BA	28.000	08/18/2020
Junto Seguros S.A.	Legal Protection Insurance	314	05/10/2022
		1.534	05/13/2024
		10.603	05/10/2022

## 40 Related entities and parties

The purchase and sale of products, raw materials and services, as well as borrowings and funding transactions between the Parent Company and subsidiaries were carried out as follows.

		Parent Company	
Nature - Assets and liabilities balance	Company	December 31, 2019	December 31, 2018
<b>Subsidiaries</b>			
Dividends receivable	Portobello Shop S.A.	37.237	28.377
Receivables	Portobello Shop S.A.	592	3
Trade receivables	Portobello América, Inc.	95.422	84.255
Trade payable, net of advances	PBTech Com. Sern. Cer. Ltda.	9.534	481
Trade receivables, net of advances	Cia Brasileira de Cerâmica	194	752
Net assets of liabilities with subsidiaries		142.979	113.868
<b>Related entities and parties</b>			
Receivables from related parties	Refinadora Catarinense S.A.	100.936	97.941
Payable to related parties	Refinadora Catarinense S.A.	(22.803)	(62.008)
Trade receivables, net of advances	Solução Cerâmica Com. Ltda.	232	-
Trade receivables, net of advances	Flooring Renest. Cer. Ltda.	6	-
Trade payable	Multilog Sul Armazéns S.A.	(1.597)	(958)
Trade payables	Flooring Revest. Cer. Ltda.	(3.416)	(307)
Trade payable	Neoway	2	(122)
Net assets of liabilities with other related parties		73.360	34.546

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

		Cumulative	
Nature - profit or loss	Company	December 31, 2019	December 31, 2018
<b>Revenue</b>			
<b>Subsidiaries</b>			
Sale of products	PBTech Com. Sern. Cer. Ltda.	44.126	34.144
Sale of products	Cia Brasileira de Cerâmica	592	6.522
<b>Related entities and parties</b>			
Sale of products	Solução Cerâmica Com. Ltda.	36.235	30.448
Sale of products	Flooring Revest. Cer. Ltda.	13.192	11.152
<b>Expenses</b>			
<b>Subsidiaries</b>			
Acquisition of inputs	Mineração Portobello Ltda.	(986)	(2.447)
<b>Related entities and parties</b>			
Rental	Gomes Part Societárias Ltda.	-	(469)
Freight service	Multilog Sul Armazéns S.A.	(1.944)	(6.042)
Cutting service	Flooring Revest. Cer. Ltda.	(11.454)	(9.119)
Software service	Neoway Tecnologia	(189)	(239)
		79.572	63.950

Subsidiary Portobello Shop is the Company's guarantor in some financing transactions (see note 22).

### Related-party transactions

Portobello Shop recognized receivables and service revenue relating to royalties of two related parties. One Company's subsidiary and two related entities comprise the franchise network. The transactions are as follows:

Transactions with subsidiaries and related parties	Nature	Cumulative		Nature	December 31, 2019	December 31, 2018
		December 31, 2019	December 31, 2018			
	Equity			Profit or loss		
Solução Cerâmica Com. Ltda.	Trade receivables, net of advances	690	938	Royalties	7.561	6.282
Flooring Revest. Cer. Ltda.	Trade receivables, net of advances	351	393	Royalties	3.216	2.830
		<b>1.041</b>	<b>1.331</b>		<b>10.777</b>	<b>9.112</b>

### Key management personnel compensation

Expenses on compensation paid to key management personnel, which comprise the members of the Executive Board, Board of Directors, Supervisory Board and Management, recorded in the year ended December 31, 2019, are as follows:

## PBG S.A. and Subsidiaries

Notes to the Financial Information for the year ended December 31, 2019.  
In thousands of reais, unless otherwise stated.

	Parent Company		Consolidated	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Fixed compensation				
Salaries	11.826	13.961	13.665	15.875
Fees	5.989	4.794	5.989	4.859
Variable compensation	1.591	1.652	1.853	1.891
Short-term direct and fringe benefits	-	-	-	6
Pension Plan	894	930	964	996
Severance benefits	279	2.009	2.272	2.173
Other	2.036	-	279	-
	22.615	23.346	25.022	25.800

### 41 Events after the reporting period

The recent breakthrough news from the Corona virus ("COVID-19") is affecting the global economy. In Brazil, some impacts are already being felt, such as the devaluation of the exchange rate and in the short term it will cause a slowdown in PIB.

To mitigate the impacts on its business, the Company is preparing a contingency plan and monitoring its distribution channels and supply chain, to guarantee the supply of production, and consequently the continuity of its operations.

At this time, there is no forecast of significant impacts on operations that could affect revenues for the first quarter of 2020. As of the date of these financial statements, it is not possible to measure other risks that may arise and consequently result in possible losses in the business of the Company and its subsidiaries.

However, management will act with caution in its actions until future impacts on the sector and its various businesses can be measured and will use its best efforts to provide information that reflects the economic reality.

(A free translation of the original in Portuguese)

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## ***PBG S.A.***

***Parent company and consolidated  
financial statements  
at December 31, 2019  
and independent auditor's report***





## ***Independent auditor's report***

To the Board of Directors and Stockholders  
PBG S.A.

### **Opinion**

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We have audited the accompanying parent company financial statements of PBG S.A. (the "Company"), which comprise the balance sheet as at December 31, 2019 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of PBG S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated statements of income, comprehensive income, 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, the financial statements referred to above present fairly, in all material respects, the financial position of PBG S.A. and of PBG S.A. and its subsidiaries as at December 31, 2019, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

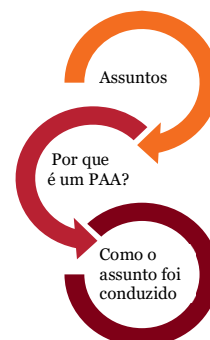
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We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, 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 audit opinion.

**PBG S.A.**

## 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 parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



### Why it is a Key Audit Matter

### How the matter was addressed in the audit

#### Final and unappealable claim – exclusion of ICMS in the basis of calculation of PIS and COFINS

As described in the note 10 to the financial statements, the Company recognized, in the year ended December 31, 2019, the amount of R\$ 45 million referring to final lawsuits in 2019, related to the right to exclude tax on operations related to the circulation of goods and services ("ICMS") of the tax calculation base of the social integration program ("PIS") and the contribution to the financing of social security ("COFINS").

We consider the subject to be an audit focus, since the calculation of credits, as well as the assessment of their realization, required significant judgments from management.

Our audit procedures included, among others:

Understanding and evaluation of the accounting policies adopted by the Company and the relevant internal controls for the recognition and measurement of the asset.

With the support of our tax specialists, we read the decisions, as well as a discussion with management and their legal advisors to evaluate the models and critical assumptions adopted by management for credit recognition.

We confirmed, on a test basis, the existence and origin of the PIS and COFINS balances to be recovered based on supporting documentation.

We tested, by sampling, the calculations prepared by the Company to measure the amounts of taxes recoverable for the period covered by the lawsuit, identifying and reporting adjustments considered not relevant by management.

We also performed an understanding and evaluation of the estimate adopted by the Company's management for the segregation of the balance between current and long term, considering the expected realization period.



**PBG S.A.**

Based on sales projections prepared by management, we made an assessment as to the ability to realize such tax credits.

We read the disclosures presented in the explanatory notes.

We believe that the assumptions and criteria adopted by Management are consistent with the disclosures in the explanatory notes and the information obtained in our work.

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#### **Tax asset selling (IPI Credit Premium )**

As described in note 15 to the financial statements, the Company sold to third parties, via credit assignment, the rights related to the IPI Credit Premium, constituted through a court order issued in favor of the Company in April 2019. In this transaction, the Company recorded a loss of R\$ 50 million.

We consider the subject of audit focus, as it is a significant transaction that occurred during the year, which required management's analysis and judgments about the application of the criteria for derecognition of the asset.

Our audit procedures included, among others, reading and analyzing the documentation related to the initial constitution of the IPI Credit Premium and subsequent sale through credit assignment.

We also understood and discussed the contractual terms agreed on the credit assignment and the management's assessment of the fulfillment of the accounting standard criteria for the derecognition of the asset.

We tested the calculations made by management regarding the loss incurred in the transaction and its tax consequences.

We inspected the documentation approving the sale by the Company's governance bodies.

We consider that the judgments made by management for derecognition of the asset are reasonable and the disclosures are consistent with data and information obtained.

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**PBG S.A.**

## **Other Matters**

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### **Statements of Value Added**

The parent company and consolidated Statements of Value Added for the year ended December 31, 2019, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

### **Audit of prior-year information**

The original financial statements of the Company for the year ended December 31, 2019, prepared before the consideration of the adjustments described in note 30, were audited by another firm of auditors whose report, dated February 18, 2019, expressed an unmodified opinion on those statements.

As part of our audit of the financial statements for 2019, we also have audited the adjustments described in note 30 that were made to restate the financial statements for 2018, presented for comparison purposes. In our opinion, these adjustments are appropriate and were correctly recorded. We were not engaged to audit, review or apply any other procedures to the Company's financial statements for 2018 and, therefore, we do not express any opinion or any form of assurance on the financial statements for 2018 taken as a whole.





**PBG S.A.**

### **Other information accompanying the parent company and consolidated financial statements and the auditor's report**

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The Company's management is responsible for the other information that comprises the Management Report.

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

In connection with the audit of the parent company 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 in the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the parent company and consolidated financial statements**

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Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as 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 from material misstatement, whether due to fraud or error.

In preparing the parent company 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 or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the parent company and consolidated financial statements**

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Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing 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:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our



#### **PBG S.A.**

opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal 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 internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company 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 parent company 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the parent company 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 planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



**PBG S.A.**

From the matters communicated with those charged with governance, we determine 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.

Florianópolis, 20 de março de 2020

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Leandro Sidney Camilo da Costa  
Contador CRC 1SP 236051/O-7

## OPINION OF THE FISCAL COUNCIL

The Fiscal Council of PBG SA, in compliance with legal and statutory provisions, examined the Financial Statements for the fiscal year ended December 31, 2019, comprising: balance sheet, statements of income for the year, statements of changes in equity, statements comprehensive income, cash flow statements, value added statements, explanatory notes, as well as the Management Report and the Independent Auditors' Opinion. The consolidated statements were also examined. After the Management's examinations and clarifications, the Fiscal Council, also taking into account the opinion of the auditors Pricewaterhousecoopers Auditores Independentes, issued in March 2020 without reservations, and of the opinion that, in its main aspects, the referred financial statements adequately reflect the PBG SA's equity and financial situation and the results of its operations, being in conditions to be submitted to the appreciation and deliberation of the Shareholders. In addition, the management's proposals regarding the modification of share capital, capital budgets, retention of profits and the distribution of dividends were analyzed, which are also in a position to be submitted to the appreciation and deliberation of the Shareholders meeting at the General Meeting.

Tijucas, March 20, 2020.

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Jorge Muller

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Maro Marcos Hadlich Filho

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Peter Edward Mr Wilson

**Directors' Statement on Financial Statements and Review Report**  
**Special of Independent Auditors**

Pursuant to CVM Instruction 480/09, item I of article 28, in compliance with the provisions of items V and VI of article 25 of said instruction, the board of directors of PBG S.A., declares that:

(i) reviewed, discussed and agreed with the Company's Quarterly Information for the quarter ended December 31, 2019; and

(ii) reviewed, discussed and agreed with the opinions expressed in the special review report of PRICEWATERHOUSECOOPERS AUDITORES INDEPENDENTES Independent Auditors, regarding the Company's Quarterly Information for the quarter ended on December 31, 2019.

Tijucas, March 20, 2020.

**Board Composition**

Mauro do Valle Pereira - Chief Executive Officer

Cláudio Ávila da Silva - Institutional Vice-President

Edson Luiz Mees Stringari - Vice President of Investor Relations

Cesar Gomes Junior– Vice President of Business