Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Madero Indústria e Comércio S.A.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Madero Indústria e Comércio S.A. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for each of the three years in the period ended December 31, 2019 in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Change in Accounting Principle

As discussed in Note 2.2.1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers
PricewaterhouseCoopers Auditores Independentes
Curitiba, Brazil
May 19, 2020

We have served as the Company's auditor since 2017.

Madero Indústria e Comércio S.A.

Consolidated Balance Sheets
as of December 31
(All amounts in thousands of reais)

	Note	2019	2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	96,718	48,772
Financial investments		-	2,500
Trade receivables	4	58,458	30,127
Inventories	6	41,883	36,003
Other assets	7	13,104	13,669
Total current assets		210,163	131,071
NON-CURRENT ASSETS			
Deferred taxes	25	84,484	-
Right-of-use assets	8	499,293	-
Property, plant and equipment, net	9	824,407	463,845
Intangible assets	10	63,982	42,632
Other assets	7	1,227	992
Total non-current assets		1,473,393	507,469
TOTAL ASSETS		1,683,556	638,540

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

Madero Indústria e Comércio S.A.

Consolidated Balance Sheets
as of December 31
(All amounts in thousands of reais)

	Note	2019	2018
LIABILITIES AND NET SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables	12	79,930	61,505
Borrowings	13	93,058	24,644
Social security charges	14	55,921	42,265
Tax obligations	15	35,136	19,714
Deferred revenue	16	8,302	6,618
Lease liabilities	8	58,593	-
Other obligations	18	29,989	26,300
Total current liabilities		360,929	181,046
NON-CURRENT LIABILITIES			
Borrowings	13	258,206	501,001
Social security charges	14	17,619	22,648
Tax obligations	15	41,886	51,802
Deferred revenue	16	18,675	21,736
Provision for contingencies	17	8,041	8,609
Lease liabilities	8	456,899	-
Other obligations	18	19,629	28,378
Total non-current liabilities		820,955	634,174
SHAREHOLDERS' EQUITY			
Share capital	19	722,964	22,964
Capital reserve		36,436	24,861
Accumulated deficit		(257,730)	(231,150)
Equity (deficit) attributable to shareholders of the Company		501,670	(183,325)
Non-controlling interest		2	6,645
Total shareholders' equity (deficit)		501,672	(176,680)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,683,556	638,540

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

Madero Indústria e Comércio S.A.

Consolidated Statements of Income
Years ended December 31
(All amounts in thousands of reais, except share and per share amounts)

	Note	2019	2018	2017
Revenue from sales of goods and rendering of services	21	888,936	729,844	463,264
TOTAL REVENUE		**888,936**	**729,844**	**463,264**
Operating costs and expenses (excluding depreciation and amortization):				
Food costs	22	(221,481)	(187,085)	(111,987)
Labor and related expenses	22	(278,533)	(207,910)	(144,414)
Occupancy and related expenses	22	(77,561)	(89,549)	(55,578)
Other operating expenses	22	(28,959)	(26,393)	(15,607)
General and administrative (excluding labor and occupancy)	22	(45,781)	(42,100)	(24,320)
Depreciation and amortization expense	22	(106,988)	(46,028)	(23,504)
Pre-opening costs	22	(27,048)	(27,282)	(11,182)
(Loss) gain on disposal of property and equipment		(9,102)	(1,912)	235
Other income (expense), net	23	5,516	2,992	2,495
Dividends to related parties	5	(78,629)	(54,477)	(13,084)
(Loss) gain on investments		(240)	(6,861)	5,738
OPERATING INCOME		20,129	43,239	72,058
Financial expenses, net	24	(121,655)	(130,456)	(49,668)
(LOSS) INCOME BEFORE INCOME TAXES		**(101,526)**	**(87,217)**	**22,390**
Income tax and social contribution current	25	(9,537)	(21,970)	(15,258)
Income tax and social contribution deferred	25	84,484	-	-
NET (LOSS) INCOME (1)		**(26,580)**	**(109,187)**	**7,133**
Attributable to:				
Less: net income attributable to non-controlling interests		3,763	4,724	3,460
Net income (loss) attributable to owners of the company		(30,343)	(113,911)	3,673
(Loss) earnings per share of common stock:				
Basic	19	$(1.05)	$(4.96)	$ 0.17
Diluted	19	$(1.05)	$(4.96)	$ 0.17
Weighted average number of share (in thousands of shares):				
Basic	19	28,824	22,964	21,413
Diluted	19	28,824	22,964	21,413

(1) There were no other comprehensive loss (income) for the periods presented

Madero Indústria e Comércio S.A.

Consolidated Statements of Changes in Equity
Years ended December 31
(All amounts in thousands of reais)

	Note	Share capital	Share capital reserve	Accumulated deficit	Attributable to the owners of the parent	Attributable to non-controlling interests	Total
At December 31, 2016		20,875	-	(121,296)	(100,421)	1,147	(99,274)
Capital increase	19	2,089	-	-	2,089	-	2,089
Increase of non-controlling interest		-	-	-	-	1,229	1,229
Share-based compensation	20	-	11,199	-	11,199	-	11,199
Net income for the year		-	-	3,672	3,672	3,460	7,132
Profit distribution		-	-	-	-	(798)	(798)
					-		
At December 31, 2017		22,964	11,199	(117,624)	(83,461)	5,038	(78,423)
Acquisition of non-controlling interest		-	-	384	384	(506)	(122)
Share-based compensation	20	-	13,662	-	13,662	-	13,662
Net loss for the year		-	-	(113,912)	(113,912)	4,724	(109,188)
Profit distribution		-	-	-	-	(4,152)	(4,152)
Increase of non-controlling interest		-	-	-	-	1,541	1,541
At December 31, 2018		22,964	24,861	(231,150)	(183,325)	6,645	(176,680)
					-		
Capital increase		700,000	(834)	-	699,166	-	699,166
Share-based compensation	20	-	12,409	-	12,409	-	12,409
Profit distribution		-	-	-	-	(5,587)	(5,587)
Net loss for the year		-	-	(30,343)	(30,343)	3,764	(26,579)

Madero Indústria e Comércio S.A.

Consolidated Statements of Changes in Equity
Years ended December 31
(All amounts in thousands of reais)

Acquisition of non-controlling interest	-	-	3,764	3,764	(4,819)	(1,055)
			-			
At December 31, 2019	722,964	36,436	(257,730)	501,670	2	501,672

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

Madero Indústria e Comércio S.A.

Consolidated Statements of Cash Flow
Years ended December 31
(All amounts in thousands of reais unless otherwise stated)

	Note	2019	2018	2017
Cash flows from operating activities				
Profit (loss) for the year before income tax and social contribution		(101,526)	(87,217)	22,390
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	9	65,175	46,028	23,504
Depreciation right-of-use	8	41,813	-	-
Provision for contingencies	17	(568)	424	89
Share-based compensation		12,409	13,662	11,199
Financial income shareholder investment	19	(834)	-	-
Gain in sale of investees	5	(1,596)	-	-
(Loss) gain on disposal of property and equipment		9,102	1,912	(235)
Write-off of intangible assets	10	14	5,823	300
Interest on borrowings and taxes payable in installments	13	91,853	93,550	39,505
Interest on taxes payable in installments		3,090	12,411	16,519
Lease financing charges	8	23,248	-	-
		142,180	86,592	113,271
(Increase) decrease in operating assets:				
Financial investments		2,500	(2,500)	-
Trade receivables	4	(28,331)	(16,072)	(1,345)
Inventories	6	(5,880)	(9,255)	(15,033)
Other assets	7	327	(8,439)	2,928
Increase (decrease) in operating liabilities:				
Trade payables	12	(5,447)	(2,970)	8,970
Tax obligations	15	7,495	(9,643)	(6,688)
Social security charges	14	8,627	13,840	13,013
Deferred revenue	16	(1,377)	6,726	14,200
Other obligations	18	(7,031)	(11,908)	1,213
Cash from operations		113,063	46,371	130,528
Income tax and social contribution paid		(14,616)	(12,439)	(7,617)
Interest paid		(172,992)	(19,591)	(31,095)
		(187,608)	(32,030)	(38,713)
Net cash (used in) provided by operating activities		(74,545)	14,341	91,815
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	9	(385,506)	(164,796)	(163,638)
Proceeds from sale of property, plant and equipment	9	18,043	9,703	7,613
Addition to intangible assets	10	(14,263)	(17,150)	(5,541)
Acquisition of subsidiary, net of cash acquired	11	(14,415)	-	-

(All amounts in thousands of reais unless otherwise stated)

Net cash used in investing activities		(396,141)	(172,243)	(161,566)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of debentures	13	-	379,000	50,000
Proceeds from borrowings	13	327,605	95,503	35,306
Repayment of debentures	13	(379,000)	(191,535)	-
Repayment of borrowings	13	(80,507)	(80,635)	(13,109)
Payment of dividend distribution		(5,587)	(4,152)	(798)
Repayment of right of use liabilities	8	(40,416)	-	-
Capital increase	19	700,000	-	2,089
Transactions with non-controlling interest, net		(3,464)	1,419	1,259
Net cash provided by financing activities		518,632	199,600	74,747
NET INCREASE IN CASH AND CASH EQUIVALENTS		47,946	41,698	4,997
Cash and cash equivalents at the beginning of the year	3	48,772	7,074	2,077
Cash and cash equivalents at the end of the year	3	96,718	48,772	7,074

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

1. GENERAL INFORMATION

Madero Indústria e Comércio S.A. (Company) is a privately held company based in Ponta Grossa city, Paraná state, mainly engaged in the sale of food products through its own restaurant chain, which currently comprises 189 restaurants (which includes four independent franchised restaurants and 17 restaurants franchised owned or controlled by the controlling shareholder), spread over 16 Brazilian states and the Federal District.

The issue of these financial statements was authorized by the Company's management on May 18, 2020.

On January 24, 2019, the Company signed an investment agreement with Madrid Fundo de Investimento em Participações Multiestratégia ("Investor" or "Madrid"), a fund controlled by the Carlyle Group pursuant to which Madrid on March 1, 2019 acquired 6,989,133 shares of the Company (as detailed in the Note 19).

2. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of financial statements

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.
These consolidated financial statements are presented in Brazilian reais (R$), the functional currency of the Company, as described in *Note 2.1.2*.

The consolidated financial statements have been prepared under the historical cost convention, which is modified for certain financial assets and liabilities measured at fair value.

IFRS 16 Leases was first adopted for the year beginning January 1, 2019. The related changes to significant accounting policies are described in *Note 2.2*.

Details of the Company's accounting policies are included in *Note 2.3*.

2.1.1. Basis of consolidation

The Company consolidates all entities which it controls, that is, when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to direct the significant activities of the investee.

2.1.1.1. Subsidiaries

Subsidiaries are all entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases.

Identifiable assets acquired and liabilities and contingent liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree at the proportionate non-controlling interest's share in the fair value of the acquiree's net assets. The measurement of the non-controlling interests to be recognized is determined on each acquisition. Acquisition-related costs are expensed as incurred.

Transactions, balances and unrealized gains on intercompany transactions are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

2.1.1.2. Transactions with non-controlling interests

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases of non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity.

2.1.1.3. Loss of control of subsidiaries

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value and the change in the carrying amount is recognized in profit or loss. The amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.1.2. Foreign currency translation

The functional currency of the Company is generally the currency of the main economic environment in which the Company operates, and that most influences the sale price of goods and services. The Company's operations are conducted through the manufacture and sale of food through restaurants, which includes purchases of inputs, materials and services and investments that are fully carried out in Brazil, including settlement in Brazilian reais (R$).

Considering the primary economic environment of its operations in Brazil, the Company has determined that the Brazilian reais (R$) is its functional currency.

(All amounts in thousands of reais unless otherwise stated)

2.2 Changes in Accounting Policies

(i) Effective for periods beginning on or after January 1, 2019

The Company initially applied IFRS 16 Leases from January 1, 2019. There are no other new standards or interpretations that had a material impact on the Company's financial statements.

2.2.1 IFRS 16: Leases

The Company's management opted for the simplified retrospective transition approach. This approach does not impact retained earnings (equity) at the date of initial adoption, since the amount of the right-of-use asset is recognized at an amount equal to the lease liability payable brought at present value and enables the use of practical expedients.

	January 1, 2019
Operating lease commitments on December 31, 2018	469,000
Present value discount	(121,953)
Discounted through the lessee's incremental loan rate on the initial application date	347,047
(+) Finance lease liabilities recognized on December 31, 2018	3,242
Lease liabilities recognized on January 1, 2019	350,289
Short term lease liabilities	39,464
Long term lease liabilities	307,583
Short Term Borrowings	1,589
Long Term Borrowings	1,653
	350,289

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application: The Company applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

As a lessee, the Company leases many assets including property and production equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

2.2.1.1. Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019.

2.2.1.2. Leases classified as finance leases under IAS 17

The Company leases items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

2.2.1.3. Impact on financial statements

As a result of the initial application of IFRS 16, in relation to leases that were previously classified as operating, the Company recognized on January 1, 2019 lease liabilities in the amount of R$ 347,047 in the consolidated balance sheet and right-of-use assets at the same amounts, as disclosed in *Note 8*.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 8.5% considers the average financing cost curves obtained from financial institutions and the Company's credit risk assessments, adjusted to the terms and values of the lease agreements.

The remaining lease agreements continue to be recorded as an expense for the period according to their nature.

2.2.2. IFRIC 23: Uncertainty over Income Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements of “IAS 12 - Income Taxes when there is uncertainty about the treatment of income tax”. In these circumstances, the entity must recognize and measure its current or deferred tax asset or liability applying the requirements of IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined based on this interpretation. The IFRIC 23 interpretation was also adopted for the first time as of January 1, 2019 however it had no effects on the Company's financial information.

(i) Standard issued but not yet effective

There are no standards or interpretations not yet effective that could have a material impact on the Company’s consolidated financial statements.

2.3. Significant accounting polices

The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in the years presented, unless otherwise stated.

2.3.1. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

2.3.1.1. Judgements

Information about judgements made in applying accounting policies that have the most significant
effects on the amounts recognized in the financial statements is included in the following notes:

- *Note 2.3.13.* – lease term: whether the Company is reasonably certain to exercise extension options;
- *Note 21* – revenue recognition: at a point in time.

2.3.1.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at December 31, 2019 that have a
significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- *Note 17* – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- *Note 20* – shared-based payments plan: key assumptions about the recognition and measurement of provision (and compensation expense) based on the contractual obligation for the estimated termination of payments to shareholders.
- *Note 25* – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;

2.3.1.3. Measurement of fair values

Some of the Company´s accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.
The Company regularly reviews significant unobservable inputs and valuation adjustments.
If third party information, such as broker quotes or pricing services, is used to measure fair values,
then the Company assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the standards, including the level in the
fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data to the extent possible. Fair values are categorized into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level
of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- *Note 20* – Share-based compensation;
- *Note 26* – Risk management and financial instruments;

2.3.2. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, and other short-term highly liquid investments with original maturities of three months or less, and with immaterial risk of change in value.

2.3.3. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of the Company's business. The Company's trade receivables have the purpose of collecting contractual cash flows and, as such, these amounts are initially recognized at fair value, and are subsequently measured at amortized cost using the effective interest rate method, net of provisions for losses. If collection is expected in one year or less, trade receivables are classified as current assets. If not, they are presented as non-current assets.

2.3.4. Related-party transactions

Related parties are the controlling shareholder (Luiz Renato Durski Junior), any non-controlling shareholder that owned more than 5% of Company's shares, the affiliated companies, any executive officer of the Company and the immediate family members of any related parties identified.
Related party transactions refer to the purchase of products, contracting of services, payment of wages and royalties established with individuals or legal entities. These transactions are carried out under normal market conditions and do not involve any unusual risk of receipt.

2.3.5. Inventories

Inventories consist of raw materials and products for production or resale of items sold in restaurants. Inventories are stated at the lower of cost and net realizable value. The cost method used for inventories is the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2.3.6. Financial Instruments

2.3.6.1. Recognition and initial measurement

Trade receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.
A financial asset (except for trade receivables) or financial liability is initially measured at fair value plus transaction costs (for an item not at fair value through profit or loss) that are directly attributable to its acquisition or issue.

2.3.6.2. Classification, and measurement

i. Financial assets

The Company classifies and measure its financial assets, upon initial recognition, in the following categories: (i) at fair value through profit or loss, (ii) at fair value through other comprehensive income, and (iii) at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Company determines the classification of its financial assets at initial recognition, when it becomes a party to the contractual provisions of the financial instrument.

Financial assets are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition in the case of investments that are not measured at fair value through profit or loss.

ii. Financial liabilities

All financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss. After initial recognition, the entity cannot reclassify any financial liability between categories. On December 31, 2019, the Company has no derivatives contracts.

iii. Recognition and derecognition

IFRS 9 determines that the Company must recognize a financial asset or a financial liability in its balance sheet only when an entity becomes part of the contractual activities of the instrument.

The purchase or sale of financial assets must be recognized and / or derecognized, if applicable, on the trade date or the settlement date.

The entity shall derecognize the financial asset when and only when:

- The contractual rights to the cash flows of the financial asset expire; or
- Transfer the financial asset if the entity has not retained its control.

The entity shall deactivate the financial liability when and only when:

- It is extinguished, that is, when the obligation specified in the contract is settled, canceled or expires.

iv. Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and at fair value through other comprehensive income. The impairment methodology adopted depends on whether there has been a significant increase in credit risk.
For trade receivables, the Company adopted the simplified approach, as permitted by IFRS 9 and, therefore, recognized expected losses over the useful life from the initial recognition of the receivables.

v. Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis, or realize the asset and settle the liability simultaneously. The legal right should not be contingent on future events and should apply in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

vi. Subsequent to initial recognition financial assets amortized cost

Subsequent to initial recognition, these financial assets are accounted for at amortized cost, using the effective interest rate method (effective interest rate), less impairment losses. The amortized cost is calculated by taking into consideration any discount on acquisition and fees or costs incurred.

The effective interest rate amortization is included in finance income in the statement of operations. Impairment losses are recognized as "Finance costs" in the consolidated statement of income.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

vii. Subsequent financial assets fair value option

For assets measured at fair value, the change in fair value must be recognized in the income or other comprehensive income, as appropriate. The trading date should be considered the initial recognition date for the purposes of applying the impairment requirements.

(All amounts in thousands of reais unless otherwise stated)

2.3.7. Property, plant and equipment

Property, plant and equipment items are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the group, and these costs can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repair and maintenance costs are expensed as incurred.

Depreciation is recognized on a straight-line basis over the estimated useful life of each asset, to fully write-off the cost less residual value of each asset over its expected useful life, is follows:

Depreciation	Annual Rate	Useful Life (Years)
Buildings	1.76%	57
Machinery, equipment and tools	10.00%	10
Data processing	24.75%	4
Furniture and fittings	10.00%	10
Vehicles	9.11% - 27.86%	4 - 11
Leasehold improvements	10.00%	10

The estimated useful lives, residual values and depreciation methods are reviewed at the balance sheet date, and the effects of any changes in estimates are accounted prospectively. The property, plant and equipment items are derecognized after disposal or when no future economic benefits are expected to result from the continued use of the asset. Any gains or losses on the disposal are determined as the difference between the proceeds from the sale and the asset's carrying amount and are recognized in the consolidated statement of income.

2.3.8. Intangible assets

2.3.8.1. Goodwill

Goodwill arises on acquisition of subsidiaries, and represents the excess of (i) the consideration transferred; (ii) the amount of any non-controlling interest in the acquiree; and (iii) the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the amount of the total consideration transferred, the non-controlling interest recognized, and the previous equity interest in the acquiree measured at fair value is less than the fair value of the net assets acquired, in the case of a bargain purchase, the difference is recognized directly in the statement of operations.

2.3.8.2. Software

Software licenses are capitalized on the basis of the costs incurred to acquire the software and bring it to use. These costs are amortized over the estimated useful life of the software (five years).

Costs associated with maintaining computer software programs are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of applicable overheads. Costs also include finance costs related to the development of the software product.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recorded as an expense are not recognized as an asset in the subsequent period.

Computer software development costs recognized as assets are amortized over the software estimated useful life, which does not exceed five years.

2.3.8.3. Intangible in progress

The Company is in process of a new system implementation expected to occur in during 2020.

2.3.8.4. Non-compete agreement

Non-compete agreements are recognized at fair value at the acquisition date. The non-compete agreements have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the contract.

2.3.9. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Impairment of goodwill is reviewed annually, or whenever events or changes in circumstances indicate that the goodwill may not be recoverable.

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGU's)). For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (or group of CGUs) that is expected to benefit from the synergies of the combination, which are identified at the operating segment level.

2.3.10. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are classified as current liabilities if payment is due in one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.3.11. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of operations over the period of the borrowing, using the effective interest rate method.

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

2.3.12. Provision for contingencies

A provision is recognized when: (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

The Company recognizes provision based in its best estimate for tax, civil and labor lawsuits. The assessment of the likelihood of loss includes the evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of outside legal advisors. The provisions are reviewed and adjusted to reflect changes in the circumstances, such as the applicable statute of limitations, outcomes of tax inspections, or additional exposures identified based on new matters or court decisions.

2.3.13. Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an

identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.
This policy is applied to contracts entered, on or after January 1, 2019.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.
Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

The Company presents financing leases assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in loans and borrowings' in the statement of financial position.

2.3.13.1. Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

For contracts entered before January 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:
– fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
– the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output.
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Company classified leases that transferred substantially all the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

An asset is recognized in the balance sheet when it is probable that it will generate future economic benefits to the Company, and its cost or value can be reliably measured. Liabilities related to the lease assets were recognized in the balance sheet. Other leases were classified as operating leases and were not recognized in the Company's balance sheet. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(All amounts in thousands of reais unless otherwise stated)

The Company previously classified real estate leases as operating leases in accordance with IAS 17. These leases include restaurants, factories, administrative offices and employee accommodation. The Company establishes a period of 120 months (10 years) as the average term of intention to lease assets and only for units called “Parada Madero” that the calculation considers the period of 300 months (25 years).

Some leases are adjusted for inflation rates, general market or consumer price index (IGP-M or IPCA).

Transition approach

In the transition, for leases classified as operating leases in accordance with IAS 17, lease liabilities were measured at the present value of the remaining payments, net of social tax credit discounted at the Company's incremental loan rate on January 1, 2019. Right-of-use assets are measured at an amount equivalent to the lease liability, adjusted by the amount of any prepayment or accumulated lease payment. The Company applied this approach to all other leases.

The weighted average discount rate was defined based on the following assumptions:
- discount rate that considers the average financing cost curves obtained from financial institutions and the Company's credit risk assessments, adjusted to the terms and values of the lease agreements.
- use of nominal discount rate:

	Rate (%)
IPCA	4.50%
Discount rate – annual	8.50%
Discount rate – monthly	0.68%

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after January 1, 2019.

The Company used several practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:
– did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.
– did not recognize right-of-use assets and liabilities for leases of low value assets;
– excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
– used hindsight when determining the lease term.

2.3.14. Other current and non-current assets and liabilities

An asset is recognized in the balance sheet when it is probable that it will generate future economic benefits to the Company, and its cost or value can be reliably measured. Liabilities are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and their settlement will probably require an outflow of economic resources. Assets and liabilities are recorded including related charges and exchange and monetary variations, where applicable. The provisions are recorded based on the best estimates of the involved risk.
Assets and liabilities are classified as current when it is probable that their realization or settlement will occur within the next twelve-month period. Otherwise, they are reported as non-current.

2.3.15. Income tax and social contribution

The Company and its subsidiaries previously calculated and recognized income tax and social contribution on different tax regimes. Some subsidiaries applied the deemed taxable income regime (*lucro presumido*), recognizing taxes based on revenue, while others computed the income tax and social contribution based on the income regime (*lucro real*), recognizing taxes based taxable income. Both taxation methods were determined in accordance with the Brazilian tax legislation. As of December 31, 2019, most of the Company's subsidiaries were merged and are currently subjected to the Company's tax regime (income taxes based on taxable income).

The provision for income tax and social contribution is based on income regime for the period. Deferred income and social contribution taxes are recognized on temporary differences at the end of each period between the balances of assets and liabilities recognized in the interim financial statements and the corresponding tax bases used to calculate taxable income, including the balance of tax losses, when applicable.

The recovery of the balance of deferred tax assets is reviewed at each reporting period and, when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the asset. Management's assessment is supported by technical feasibility studies, which show projections of future taxable profits, allowing an estimate of credit recovery in a period not exceeding 10 years. In addition, the estimated realization of deferred income tax and social contribution involves the uncertainties of the other estimates.

Current and deferred taxes are recognized in income, except when they correspond to items recorded in "other comprehensive income" in equity.

2.3.16. Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.3.17. Revenue Recognition

The IFRS 15 - Revenue from Contracts with Customers maintains a structure that aims to help financial users understand the nature, amount and timing, using a five-step model. This standard is based on the principle that revenue should be recognized when (or in accordance with) an entity transfers control of goods or services to customers, for the amount that the entity expects to be entitled to receive.
The first stage of the standard establishes that the company must identify its contracts with clients and account for them when it meets the criteria below:

- When the parties approve the contract;
- When the Company can identify the rights of each party;
- When the Company identifies the payment terms;
- When the contract contains a commercial substance; and
- When it is probable that the entity will receive the consideration to which it will be entitled in exchange for the goods or services.

The second stage establishes that the Company must identify the performance obligations presented in the contract with the client. Therefore, the Company understands the items mentioned below as a performance obligation:

2.3.17.1. Sale of goods to franchisees

The Company identified product delivery as the only performance obligation.

2.3.17.2. Provision of services to franchisees

The Company identified as performance obligations:

- Concession of the right to use the trademark.
- Conducting advertising for franchisees.
- Administrative processes for franchisees.

2.3.17.3. Contract for the sale of products to the final consumer

The Company identified the delivery of the product to the final customer as the only performance obligation.

The third step is the determination of transaction price, where the Company must analyze the transfer process of the good or service, considering some market criteria and its claim for consideration. Therefore, the Company establishes the values of the products independently (for both end consumers and franchisees) and grants a differentiated value only to its employees. Regarding service revenue, the values are established according to the franchisees' billing volume.

(All amounts in thousands of reais unless otherwise stated)

Then, the transaction price must be allocated to each performance obligation. However, the Company presents its values independently, through menus in restaurants or percentage as established in a contract with franchisees.

The revenue is recognized when the performance obligation is met, that is, at the time of acceptance of the contract or transfer of assets.

Management assessed the impacts of adopting the new IFRS 15 (adopted retrospectively in January 1, 2017) standard and concluded that there are no significant impacts on the Company's current accounting practices.

2.3.18. Share-based compensation

The Company grants its main executives and managers share-based compensation plans. The Company measures the cost of transactions settled with shares to its employees based on the fair value of equity instruments on the grant date.

Estimating the fair value of share-based compensation requires determining the most appropriate valuation model for the granting of equity instruments, which depends on the terms and conditions of the grant. This also requires determining the most appropriate data for the valuation model, including the option's expected life, future events, volatility and dividend yield and corresponding assumptions. The assumptions and models used to estimate the fair value of share-based compensation are disclosed in Note 20. Expenses from these transactions are recognized in income (Labor and related expenses). The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied against the reserve for share-based compensation, in shareholders' equity.

3. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in banks	96,718	21,159
Cash equivalents	-	27,613
	96,718	48,772

4. TRADE RECEIVABLES

	2019	2018
Trade receivables	58,458	30,127
	58,458	30,127

Trade receivables relate substantially to the sale of goods and products, royalties and advertising and the balance of receivables from debit and credit card operations of restaurant sales, whose average receipt term is also 30 days.

(All amounts in thousands of reais unless otherwise stated)

In determining a provision for impairment of trade receivables, management assesses, on a prospective basis, the expected credit losses. The impairment methodology adopted depends on whether there has been a significant increase in credit risk. At December 31, 2019, management concluded that there was no need for setting up of provision, based on the nature of the Company's business. The trade receivables at December 31, 2019 and 2018 are due in 30 days.

5. RELATED PARTIES

The transactions between the Company and its related parties are as follows:

(i) Balances and transactions with related parties:

	2019	2018	2017
Related party assets			
Receivables (a)	4,060	61	-
Total	4,060	61	0
Related party liabilities			
Payables (b)	79	154	103
Other obligations (c)	9,889	-	-
Total	9,968	154	103
Stataments of income			
Sales and resales (d)	21,583	208	4
Royalties and advertisement (e)	3,595	-	-
Gain on sale of investees (f)	1,596	-	-
Dividends to related parties (g)	(78,629)	(54,477)	(13,084)
Share-based compensation (h)	(9,149)	(8,801)	(9,531)
Salary and compensation payments (i)	(5,402)	(802)	(447)
Others	(1,606)	(2,447)	(678)
Total	(68,012)	(66,319)	(23,736)

(a) Refers to all amounts that the Company has the right to receive from the controlling shareholder related to royalties and sale of products to franchise restaurants;
(b) Refers to the financial obligations that the Company has assumed with the controlling shareholder's immediate family member;
(c) Refers to the financial obligations assumed in the acquisition of five franchises, the seller of these franchises became the Chief Marketing Officer after the sale;
(d) Sale of products and merchandise to franchise restaurants owned by the controlling shareholder;
(e) Refers to royalties, advertising and administrative fees received by the franchisees owned by the controlling shareholder, as established in the contract;
(f) 15 restaurants were sold to the controlling shareholder resulting in a gain of R$ 1,596 thousand;
(g) Madero subsidiaries' dividends which were distributed to the Non-Controlling Shareholders as a key management benefit, all non-controlling interests are hold by related parties.
(h) The Company grants its main executives and managers share-based compensation plans, as described in note 20.
(i) Refers to the salaries and benefits payments of directors and employees classified as related parties.

(All amounts in thousands of reais unless otherwise stated)

There was also a Non-Compete Agreement with a former managing director, treated as a related party up to February 2, 2018, which is effective for five years (from February 2, 2018 to February 27, 2023), as further disclosed in Note 18. Additionally, our controlling shareholder has acted and continues to act as our guarantor in certain contracts. Specifically, as of December 31, 2019 and 2018, the controlling shareholder was guarantor of certain rental contracts, certain vehicle and machinery leases, and the Non-Compete agreement noted above. As of December 31, 2018, he was also guarantor of certain financing arrangements (mainly related to the debentures which were paid in 2019, see note 13). As of December 31, 2017, he was guarantor of certain rental contracts, certain vehicle and machinery leases and certain financing agreements. The total guaranteed amount by our controlling shareholder amounted to R$ 15,937 as of December 31, 2019 (R$ 533,112 and R$ 211,216 as of December 31, 2018 and 2017, respectively).

(ii) Key management compensation:

Key management includes directors and members of the Board of Directors. The compensation paid to key management for their services in 2019 amounted to R$ 93,180 (R$ 64,080 and R$ 23,062 in 2018 and 2017, respectively).

The Company does not grant loans or any other transaction to its related party.

6. INVENTORIES

	2019	2018
Finished products	22,889	19,788
Products for resale	8,250	7,669
Raw materials	7,994	4,831
Products in progress	2,750	3,715
	41,883	36,003

7. OTHER ASSETS

	2019	2018
Advances to employees and suppliers	5,073	9,140
Taxes recoverable	4,305	1,891
Prepaid insurance premium	2,127	1,670
Other	2,826	1,960
	14,331	14,661

(All amounts in thousands of reais unless otherwise stated)

8. RIGHT-OF-USE ASSETS

The Company leases some assets, mainly properties (offices, restaurants and employee accommodation) for a period of 120 months (10 years), except for the "Parada Madero" which is for period of 300 months (25 years).

The movement of balances for the ended December 31, 2019 is shown below:

Assets	
At 12/31/2018	
(+) Initial adoption - IFRS 16	347,047
At 1/1/2019	347,047
(+) Remeasurement	3,744
(+) Additions	182,389
(+) Acquisition of subsidiaries (note 11)	7,926
(-) Depreciation	(41,813)
At 12/31/2019	499,293

8.1 Liabilities of leases

Liabilities	
At 12/31/2018	
(+) Initial adoption - IFRS 16	347,047
At 1/1/2019	347,047
(+) Financial charges	23,248
(+) Remeasurement	3,744
(+) Additions	182,443
(+) Acquisition of subsidiaries (note 11)	7,872
(-) Lease payments	(48,862)
At 12/31/2019	515,492
Current liabilities	58,593
Non-current liabilities	456,899
	515,492

(All amounts in thousands of reais unless otherwise stated)

8.2 Impact in the net profit for the period

Expenses	
Depreciation right of use	(41,813)
Lease financing charges	(23,248)
At 12/31/2019	**(65,061)**

8.3 Impact in the cash flow

Cash flow	
Flow of operating activities	
Depreciation right of use	41,813
Lease financing charges	23,248
Interest paid	(8,446)
Flow of financing activities	
Repayment of right of use liabilities	(40,416)

The non-cash effect is presented in note 27.

(All amounts in thousands of reais unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT, NET

(a) Property, plant and equipment are composed as follows:

-			2019	2018	2017
Item	Cost	Accumulated depreciation	Net	Net	Net
Properties	23,612	-	23,612	23,612	16,077
Buildings	108,997	(5,528)	103,469	51,449	40,424
Machinery, equipment and tools	179,122	(28,172)	150,950	70,190	54,021
Data processing	30,047	(8,491)	21,556	17,286	13,958
Furniture and fittings	30,518	(5,262)	25,256	19,903	17,466
Vehicles (a)	56,649	(15,473)	41,176	25,779	13,503
Leasehold improvements (b)	458,784	(75,856)	382,928	243,864	151,643
Construction in progress (c)	75,460	0	75,460	11,762	18,258
Total	963,189	(138,782)	824,407	463,845	325,350

(a) Refers to light vehicles fleet and trucks;

(b) Refers mainly to the facilities necessary for the opening of the new restaurants;

(c) Refers mainly to purchases of machinery and equipment for the manufacturing plant and construction in progress for new restaurants.

The financial charges incurred during the construction of property, plant and equipment were capitalized, using de rate of 7.49% per year.

(All amounts in thousands of reais unless otherwise stated)

(b) The movement of property, plant and equipment in the year ended December 31, 2019, 2018 and 2017, is shown below:

	31/12/2018 (net of depreciation)	Purchases	Reductions	Depreciation	Transfers	Business combination	31/12/2019 (net of depreciation)
Land	23,612	-	-	-	-	-	23,612
Buildings	51,449	1,871	(132)	(1,984)	52,265	-	103,469
Machinery, equipment and tools	70,190	80,380	(6,544)	(13,311)	18,206	2,029	150,950
Data processing	17,286	8,923	(1,309)	(3,949)	37	569	21,557
Furniture and fittings	19,903	7,298	(1,329)	(1,330)	82	632	25,256
Vehicles	25,779	28,113	(5,057)	(8,116)	457	-	41,176
Leasehold improvements	243,864	161,191	(12,774)	(27,199)	10,545	7,300	382,928
Construction in progress	11,762	145,291	-	-	(81,593)	-	75,460
Total	463,845	433,067	(27,146)	(55,889)	-	10,530	824,407

	31/12/2017 (net of depreciation)	Purchases	Reductions	Depreciation	Transfers	31/12/2018 (net of depreciation)
Land	16,077	7,535	-	-	-	23,612
Buildings	40,424	7,108	(2,702)	(2,107)	8,726	51,449
Machinery, equipment and tools	54,021	21,148	(941)	(7,254)	3,216	70,190
Data processing	13,958	7,928	(777)	(3,626)	(197)	17,286
Furniture and fittings	17,466	5,088	(384)	(2,522)	255	19,903
Vehicles	13,503	13,085	(1,768)	(4,542)	5,501	25,779

(All amounts in thousands of reais unless otherwise stated)

Leasehold improvements	151,643	91,948	(4,878)	(20,364)	25,515	243,864
Construction in progress	18,258	36,520	-	-	(43,016)	11,762
Total	325,350	190,360	(11,450)	(40,415)	-	463,845

	31/12/2016 (net of depreciation)	Purchases	Reductions	Depreciation	Transfers	31/12/2017 (net of depreciation)
Land	1,504	14,573	-	-	-	16,077
Buildings	30,274	3,378	(1,481)	(1,325)	9,578	40,424
Machinery, equipment and tools	44,026	8,664	(1,736)	(5,646)	8,713	54,021
Data processing	6,727	5,798	(1,613)	(2,125)	5,171	13,958
Furniture and fittings	10,639	2,810	(551)	(1,603)	6,171	17,466
Vehicles	7,363	5,855	(889)	(2,638)	3,812	13,503
Leasehold improvements	68,659	41,582	(1,107)	(8,360)	50,869	151,643
Construction in progress	666	101,905	-	-	(84,313)	18,258
Total	169,858	184,565	(7,377)	(21,697)	-	325,350

(All amounts in thousands of reais unless otherwise stated)

10. INTANGIBLE ASSETS

The movement of intangibles in the years ended December 31, 2019, 2018 and 2017, is shown below:

	Amortization rate (%)	12/31/2018	Purchases	Reductions	Amortization	12/31/2019
Contract rights (a)	10	4,258	1,275	-	(1,946)	3,587
Software and systems (b)	20	2,675	5,569	(14)	(1,440)	6,790
Developing software (c)		4,131	2,206	-	-	6,337
Non-compete agreement (d)	20	26,059	-	-	(5,900)	20,159
Reacquired rights (e)	20	-	9,961	-	-	9,961
Goodwill (f)		5,509	11,638	-	-	17,147
Total		42,632	30,650	(14)	(9,286)	63,982

	Amortization rate (%)	12/31/2017	Purchases	Reductions	Amortization	12/31/2018
Contract rights (a)	10	3,160	2,820	-	(1,722)	4,258
Software and systems (b)	20	758	2,413	(46)	(450)	2,675
Developing software (c)		-	4,131	-	-	4,131
Non-compete agreement (d)	20	-	29,500	-	(3,441)	26,059
Right to use assignment	20	1,860	-	(1,860)	-	-
Brands and patents	20	135	-	(135)	-	-
Goodwill		9,291	-	(3,782)	-	5,509
Total		15,204 -	38,865 -	(5,823) -	(5,614) -	42,632

(All amounts in thousands of reais unless otherwise stated)

	Amortization rate (%)	12/31/2016	Purchases	Reductions	Amortization	12/31/2017
Contract rights (a)	10	3,222	1,202	-	(1,264)	3,160
Software and systems (b)	20	596	471	(12)	(297)	758
Right to use assignment	20	2,035	71	-	(246)	1,860
Brands and patents	20	120	15	-	-	135
Goodwill		5,797	3,782	(288)	-	9,291
Total		11,770	5,541	(300)	(1,807)	15,204

(a) Regarding the right to use the commercial location of restaurants;

(b) Values referring to the right to use software licenses;

(c) Refers to the costs of implementing the ERP, a project that is still in progress, with implementation expected in the first half of 2020. At December 31, 2019, the Company recorded Software and Systems amounting to R$ 6,337 (R$ 6,116 in 2018 and R$ 757 in 2017);

(d) Non-Compete Agreement in the total amount of R$ 29,500 and effective for five years (from February 2, 2018 to February 27, 2023) with former Managing Director (treated as a related party up to February 2, 2018, see note 5); and

(e) Refers to reacquired rights related to acquisitions of franchised restaurants during the current year, see note 11; and

(f) Refers to the recognition of goodwill on the acquisition of five franchises acquired in 2019, see note 11.

Impairment tests of intangible assets with indefinite useful life

As of December 31, 2019 and 2018, the Company performed its annual impairment test of the Cash Generating Units (CGUs) to which goodwill is allocated. Goodwill is allocated to the CGUs, which are identified at the operating segment level.
The Goodwill was fully allocated to Madero segment, totaling R$ 17,147, resulted from an acquisition of the Piracicaba Franchise, which occurred on October 1, 2015 and the acquisition of franchises describe in note 11.

As a result of the business combinations, the Company recognized the fair value of identifiable assets and liabilities. The excess amount paid was recorded as goodwill, comprising the value of expected synergies arising in the business combinations.
The process of estimating the value in use involves assumptions, judgments and estimates for future cash flows which represent the Management's best estimate.

(j) Key assumptions of impairment test

Management determined the gross margin based on its expectations of market development, forecast and conditions for each CGU. The weighted average growth rates used are consistent with the forecasts included in industry reports and in the Company's strategic business plan approved by the Board of Directors.

Estimated future cash flows were discounted using the weighted average capital cost rate (WACC), which is reconciled to an estimated discount pre-tax rate of 14.92% and 20.28%, for 2019 and 2018, which reflects the return expected by the investors.

The test performed by Management did not result in the need for recognition of impairment. There are no other CGUs at risk of impairment losses on December 31, 2019 and 2018.

(All amounts in thousands of reais unless otherwise stated)

11. BUSINESS COMBINATION

On November 1, 2019, Madero acquired 100% of the share capital of five family-controlled franchises, under franchise contracts (originally, five-year contracts): Restaurante Madero Blumenau Ltda- ME, Restaurante Madero BC LTDA- ME, R. Fernandes & Cia Ltda- EPP, Restaurante Madero Itapema LTDA and Restaurante Madero BC Shopping LTDA- ME. The total consideration transferred was R$30,804.

The goodwill of R$ 21,600 generated from the acquisition is attributable to the sales growth potential of the markets acquired, the workforce-in-place, and the expected value (synergies) from combining the operations of the Madero and the franchises.

The purchase price allocations were based on fair value estimates determined using unobservable inputs (Level 3). The goodwill recorded is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for all the five acquired franchises and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

At November 1, 2019	
Cash	14,419
Deferred consideration payable	16,385
Consideration transferred	**30,804**

Recognized amounts of identifiable assets acquired, and liabilities assumed	
Cash and cash equivalents	3
Inventories	747
Trade receivables and other assets	1,749
Property, plant and equipment	10,530
Right-of-use assets	7,926
Reacquired Rights	9,961
Trade payables	(2,950)
Borrowings	(929)
Lease liabilities	(7,872)
Total identifiable net assets	**19,165**
Goodwill	11,638
	30,804

The payment was made part in cash and part will be paid monthly from November 30, 2019 to May 5, 2022, which will be updated by SELIC rate (the key lending rate of the Central Bank). The undiscounted amount is presented in note 26.

(All amounts in thousands of reais unless otherwise stated)

The revenue included in the consolidated statement of income since November 1, 2019 contributed by the franchises was R$ 6,338. The acquired franchises also contributed profit of R$ 1,748 over the same period.

If the franchises had been consolidated from January 1, 2019, the consolidated statement of income would have shown net pro-forma revenue of R$ 37,520 and pro-forma profit of R$ 5,658.

12. TRADE PAYABLES

	2019	2018
Trade payables	79,930	61,505
Current liabilities	79,930	61,505

Trade payables refers to acquisition of materials for the manufacture of products, acquisition of goods for resale, purchase of fixed assets for new restaurants and payables to service providers related to advertising and publicity for the restaurant chain.

(All amounts in thousands of reais unless otherwise stated)

13. BORROWINGS

	average annual charges - %	12/31/2018	Proceeds from new borrowings	(-) Amortization of transaction costs	(-) Repayment of the principal amount	(-) Amortization of interest	Interest allocation	12/31/2019
Working capital, Direct Consumer Credit (CDC), Agribusiness Credit Rights Certificate (CDCA) and 4131	5.81	58,659	327,605	(567)	(58,563)	(9,526)	9,526	327,134
Finame/Proger/BNDES	7.34	11,790	11,255	-	(16,495)	(2,214)	2,214	6,550
Debentures	27.00	451,694	-	-	(379,000)	(152,230)	79,536	-
Others	7.06	3,502	18,960	-	(4,882)	(577)	577	17,580
		525,645	357,820	(567)	(458,940)	(164,547)	91,853	351,264

	average annual charges - %	12/31/2017	Proceeds from new borrowings	(-) Amortization of transaction costs	(-) Repayment of the principal amount	(-) Amortization of interest	Interest allocation	12/31/2018
Working capital and Direct Consumer Credit (CDC)	11.50	34,143	98,266	(595)	(73,155)	(5,368)	5,368	58,659
Finame/Proger/BNDES	11.50	10,552	5,343	-	(4,105)	(1,532)	1,532	11,790
Debentures	27.00	191,535	379,000	-	(191,535)	(12,295)	84,989	451,694
Others	10.56	2,421	2,597	-	(2,780)	(397)	1,661	3,502
		238,651	485,206	(595)	(271,575)	(19,592)	93,550	525,645

(All amounts in thousands of reais unless otherwise stated)

	average annual charges - %	12/31/2016	Proceeds from new borrowings	(-) Amortization of transaction costs	(-) Repayment of the principal amount	(-) Amortization of interest	Interest allocation	12/31/2017
Working capital and Direct Consumer Credit (CDC)	12.52	7,422	35,436	-	(8,540)	(1,705)	1,530	34,143
Finame/Proger/BNDES	9.63	8,068	5,940	-	(3,456)	(1,551)	1,551	10,552
Debentures	30.00	132,949	50,000	-	-	(27,394)	35,980	191,535
Others	9.81	3,322	212	-	(1,113)	(444)	444	2,421
		151,761	91,588	-	(13,109)	(31,094)	39,505	238,651

The Company's financing is mainly intended for investment in the strategic expansion of restaurants, modernization of machinery, vehicles and implements, and for debt renegotiations or improve cash flows. Amortizations mainly monthly, determined by the contracts with financial institutions.

a) Working capital, Direct Consumer Credit (CDC), Agribusiness Credit Rights Certificate (CDCA) and Loan agreement (under Law No. 4131):

Relate to borrowings taken from commercial banks and used as working capital and for investments purposes.

b) Finame, Proger and BNDES Card:

Obtained through credit facilities operated by commercial banks, and used in the acquisition of machinery, appliances, equipment and vehicles.

c) Debentures:

On March 26, 2015, the Company signed the deed of the first issuance of debentures convertible into shares, on private placement basis, with issue on April 2, 2015.

The funds obtained through the issuance of 86 debentures, totaling R$ 86,500, were earmarked for early settlement of borrowings, and investment in new restaurants.

On June 7, 2017, the Company signed the deed of the second issuance of debentures convertible into shares, on private placement basis, with issue on June 28, 2017. The funds obtained through the issuance of 166 debentures, totaling R$ 50,000, were earmarked for investment in new restaurants, containers and plant expansion.

With this new issuance the Company's consolidated debentures issued totaled 252. These debentures were monetarily adjusted based on fixed annual interest, and final maturity on June 2, 2021.

On March 22, 2018, the Company signed the deed of the 3rd issuance of debentures convertible into shares, on private placement basis, with issue on April 5, 2018. The funds obtained through the issuance of 1,520 new convertible debentures, all nominative and book-entry, in the total amount of R$ 379,000 were used to, among other purposes, expand the Company's restaurant chain, and to redeem the debentures of the 1st and 2nd series.

As a result of these issuances, a guarantee was created upon 51% of the Company shares in favor of GDC Partners trust services DTMVM Ltda, (the debenture holders' representative).

In connection with the execution of the investment agreement signed on January 24, 2019 (see note 19), the debentures were settled on September 4, 2019 for aggregate consideration of R$ 531,230, resulting in a prepayment penalty of R$ 9,712 which was recognized as a financial expense (Note 24).

(All amounts in thousands of reais unless otherwise stated)

13.1 Guarantees

At December 31, 2019, the Company guaranteed the amount R$28,514 (R$402,364 in 2018 and R$211,571 in 2017) with property, plant and equipment and R$32,000 with receivables (R$5,218 in 2018 and R$6,868 in 2017) to finance the purchase of goods, to open new restaurants and other strategic expansion decisions. Receivables are pledged by card issuers related to credit card transactions and the assets are subject to the chattel mortgage until the end of the contract or advance payments.

13.2 Covenants

The Company has restrictive clauses on loans and financing operations, which restrict the ability to make decisions and may require early maturity or refinancing of debts if the Company does not comply with these restrictive clauses.

The indices required by these covenants are the ratio between net debt and adjusted EBITDA must be less than 2.5 during the term of the agreement.

The Company and its subsidiaries complied with the contractual commitments of their loans and financing operations on December 31, 2019.

14. SOCIAL SECURITY CHARGES

	2019	2018
Salaries and social charges	26,285	19,406
Provision for payroll	27,331	20,246
Social security installments (a)	19,572	24,959
Others	352	302
	73,540	64,913

(a) The Company opted to join the Special Tax Regularization Program (PERT) to settle the social security debt, in the total amount of R$ 26,816, to be paid in 145 monthly installments due to December 2030, with a remaining balance of R$ 24,959 in 2018 and R$ 19,572 in 2019, with the interest rate based on SELIC (the key basic rate of the Brazilian Central Bank).

(All amounts in thousands of reais unless otherwise stated)

15. TAX OBLIGATIONS

	2019	2018
Federal taxes payable (a)	25,070	11,014
State taxes payable (b)	31,583	21,566
Municipal taxes payable	424	98
Taxes payable in installments (c)	19,945	38,838
	77,022	71,516

(a) Refers mainly to Social Integration Program (PIS) and Social Contribution on Revenues (COFINS).

(b) Refers to the Value-added Tax on Sales and Services (ICMS), which is segregated in short and long term due to the tax benefit conceded by the Government (Paraná Competitivo Program) which extends the payment period.

(c) The Company opted to join the PERT to settle the taxes, Federal Contributions and Municipal Taxes debts, in the total amount of R$ 34,783, to be paid in 145 monthly installments due to December 2030, with a remaining balance of R$ 34,783 in 2018 and R$ 19,945 in 2019, with the interest rate based on SELIC (the key basic rate of the Brazilian Central Bank).

16. DEFERRED REVENUE

	2019	2018
Allowance revenue (a)	1,669	2,766
Up-front fee (b)	6,064	5,361
Government grants (c)	19,239	20,186
Others	5	41
	26,977	28,354
Current liabilities	8,302	6,618
Non-current liabilities	18,675	21,736
	26,977	28,354

a) Allowance revenue is a bonus received by the Company for opening a new unit at certain location, such as shopping malls, where the counterparty thinks that having a Madero Restaurant will attract more clients. This income is deferred and recognized over the time of the contract, usually 5 years the term of the contract.

(All amounts in thousands of reais unless otherwise stated)

b) Exclusivity fee that some companies paid to Madero in order to sell only their products in the restaurants. This income is deferred and recognized over the term of the contract, usually 4 years.

c) Refers to government grants for the acquisition of land which the milestones determined by the granting entity were already met (expansion of the manufacturing plant). These are recorded as expenses over the useful life of the constructed asset (manufacturing plant) which is settle in 56 years.

17. PROVISION FOR CONTINGENCIES

Based on probable risks and tax and labor lawsuits, the Company recognized a provision in of R$ 8,041 at December 31, 2019 (R$ 8,609 at December 31, 2018), as follows:

	2019	2018
Tax (a)	7,899	8,018
Labor	142	591
Total	8,041	8,609

(a) The tax claims representing probable losses refer to discussions related to federal taxes, substantially related to Financial Operations Tax (IOF) in transactions between group companies.

Lawsuits with possible contingencies

Management, based on information from its legal advisors, calculates contingencies with risk of loss classified as possible as follows:

	2019	2018
Tax and Social Security (a)	62,533	51,386
Labor (b)	3,533	4,259
Civil (c)	4,544	-
	70,610	55,645

(a) Refers mainly to taxes and contributions on its operations from prior periods, regarding the way in which its corporate model was structured. The management carried out the operations in accordance with the legislation, however it can cause a possibility of diverging interpretation regarding the tax and social security treatment, so the contingency was assessed as possible;

(All amounts in thousands of reais unless otherwise stated)

(b) The Company and its subsidiaries are parties to labor lawsuits and based on information from the legal advisors, estimates the total amount of R$ 3,533 as a possible contingency;

(c) Refers mainly to the Operation Weak Flesh (Operação Carne Fraca), the Brazilian authorities are investigating certain participants in Brazil's meat processing industry as part of Operation Weak Flesh. This investigation involves a number of companies in the Brazilian meat processing industry in connection with bribery of official sanitation inspectors who were assigned to review conditions at facilities operated by many of Brazil's beef and poultry companies. Madero reported and cooperated with the investigation by the federal police who support Madero's position that it was the subject of extortion by government inspectors. On May 29, 2018, the Brazilian Federal Comptroller General's Office (Controladoria-Geral da União, or the "CGU") initiated an investigation against Madero as part of Operation Weak Flesh. Therefore, it was recommended the enforcement of a fine estimated in the amount of R$ 4,427, since the Company supposedly gave a public agent an undue advantage. The application of the fine is being evaluated by the Minister of Transparency and General Controllership of the Union and may be increased, reduced or even removed. The Company's external legal advisors believe that there is a possible risk that the Company may be ordered to pay the fine within the scope of the administrative proceeding promoted by the CGU. The Company estimates that any eventual unfortunate outcome would not have a material adverse effect on the Company, or on its future results and cash flows.

18. OTHER OBLIGATIONS

	2019	2018
Reimbursement of expenses	-	2,745
Acquisition of new units (a)	24,762	8,161
Asset acquisition	1,743	12,098
Provisions	5,912	3,716
Non-compete agreement (b)	14,931	21,714
Others	2,270	6,243
	49,618	54,678
Current liabilities	29,989	26,300
Non-current liabilities	19,629	28,378
	49,618	54,678

(All amounts in thousands of reais unless otherwise stated)

(a) These amounts relate to deferred consideration payable from the acquisition of franchises in 2019 (see detailed in note 11) and for acquisitions prior 2017 to be paid by June 1, 2020.

(b) Non-Compete Agreement in the total amount of R$ 29,500 and effective for five years (from February 2, 2018 to February 27, 2023) with former Managing Director (treated as a related party up to February 2, 2018, see note 5).

19. EQUITY

Share capital and capital reserve

The authorized capital is divided into 45,000,000 common shares. The Company's subscribed and paid in capital as of December 31, 2019 was R$722,964 and was comprised of 29,953 thousand of common shares.

	Number of shares (thousands)	Capital	Total
At January 1, 2017	20,875	20,875	20,875
Share-based compensation	2,089	2,089	2,089
At December 31, 2017	22,964	22,964	22,964
At December 31, 2018	22,964	22,964	22,964
Capital increase	6,989	700,000	700,000
At December 31, 2019	29,953	722,964	722,964

All issued shares are fully paid on December 31, 2019. The Company has only one class of common share.

On September 29, 2017, the Company issued 1,951 thousand of shares (equivalent to 8.5% participation) for aggregate cash consideration of R$1,952 to certain of the Company's executives and issued 137 thousand of shares (equivalent to 0.6% participation) for R$138 to JOA Investimentos S.A. ("JOA"), as detailed in note 20.

During 2019, Madrid acquired 6,989 thousand of shares of the Company representing a minimum participation of 23.3% in exchange for aggregate cash consideration of R$700,000, which was payable in three installments as follows: R$180,000 in March 2019, R$470,000 in August 2019 and R$50,000 in November 2019. The agreement entitled Investor to additional shares contingent upon the Company's actual operating results for the year ended December 31, 2019.

The Company's obligation to issue a variable number of shares to Madrid based on actual operating results for the year ended December 31, 2019 is a liability in accordance with IAS 32 and, accordingly, the aggregate proceeds R$700,000 were allocated to the liability component of the compound instrument (approximately R$111,787) based on its estimated fair value and the residual (approximately R$588,213) was allocated to the equity component of the compound instrument. Subsequent changes in fair value of the liability component to the final settlement date (approximately a gain of R$834 for the year ended December 31, 2019) were recognized within financial income in the statements of income.

The movement of the fair value of the liability was as follows:

	Amounts in thousands of reais
Total initial fair value (see above)	111,787
Change in fair value recorded as financial income	(834)
Financial liability transferred to equity (a)	110,953

(a) The capital increase in the consolidated statements of changes in equity is composed by the amount of R$588,213 and the amount of 110,953 transferred to equity.

Based on the Company's actual operating results for the year ended December 31, 2019, the final participation of Madrid is 27.61% and on December 31, 2019 the Company reclassified the liability previously recognized for the liability component to shareholders' equity (capital reserve) as of that date.

The investment made by Madrid includes certain warranties in the case of non-compliance with the Shareholders' Agreement or a conflict, related to an ongoing investigation initiated in 2016 by the Brazilian Federal Police in Curitiba, of our controlling shareholder, such as the right to a subscription bonus of up to 10% of Madero's issued and outstanding shares to be transferred to Madrid from the shares held by the controlling shareholder in the event of any such non-compliance or conflict.

We believe that the likelihood of criminal liability to our controlling shareholder is remote.

19.1 Earnings per share

a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to shareholders of Madero by the weighted average number of common shares issued and outstanding during the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Numerator			
Net (loss) income attributable to the shareholders of the Company	(30,343)	(113,911)	3,673
Denominator			
Weighted average number of common shares outstanding (in thousands of shares)	28,824	22,964	21,413
Basic (loss) earnings per share (in Reais)	(1.05)	(4.96)	0.17

b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume the conversion of all potential common shares with dilutive effects. The shares based on the stock options (see note 20.2), the shares to be issued to Madrid and the Debentures convertible to shares as explained above are the Company's only categories of potential common shares with dilutive effects.

	2019	2018	2017
Numerator			
Net (loss) income attributable to the shareholders of the Company	(30,343)	(113,911)	3,673
Denominator			
Weighted average number of common shares outstanding (in thousands of shares)	28,824	22,964	21,413
Dilution effect	-	-	-
Number of common shares outstanding adjusted according to dilution effect (in thousands of shares)	28,824	22,964	21,413
Diluted (loss) earnings per share (in Reais)	(1.05)	(4.96)	0.17

The following table presents the weighted average potential shares and the respective financial expenses related to it that are excluded from the computation of diluted net (loss) income per common share for the periods presented because including them would have had an anti-dilutive effect:

	2019	2018	2017
Numerator			
Interest expense on convertible debt (net of tax)	(79,536)	(84,989)	(35,980)
Denominator (in thousands of shares)			
Assumed conversion of convertible debt	8,282	17,525	20,453
Madrid agreement (see note 19)	1,485	-	-
Stock options	116	-	-
Weighted average number of common shares for diluted earnings per share (thousands)	9,883	17,525	20,453

20. SHARE-BASED COMPENSATION

20.1 Restricted Shares

(a) 2017 Executive Award

On September 29, 2017, the Company issued 1,951,965 shares (equivalent to 8.5% participation) for aggregate cash consideration of R$1,952(R$1.00 per share) to certain of the Company's executives (the "2017 Executive Award"). In connection with the 2017 Executive Award, each of the executives entered into an agreement with the Company's controlling shareholder, which principally (i) provides for the restricted shares to partially vest (50%) immediately upon the consummation of an initial public offering ("IPO") of the Company's shares and to continue to vest in tranches (10%) on each anniversary of the IPO thereafter and (ii) provides for certain put and call rights by and between the Company's controlling shareholder and the executives based on the estimated value of the shares utilizing a multiple of EBITDA, which vests in equal tranches annually over a period of 10 years.

The estimated fair value of the 2017 Executive Award at the date of grant was approximately R$36.7 million. Prior to the consummation of an IPO being deemed probable, expense is being recognized on a graded vesting basis over the 10-year vesting schedule. Once consummation of an IPO is deemed probable, compensation expense will be recognized on a graded vesting basis over the IPO-dependent vesting schedule, including a one-time adjustment at the date that the IPO is determined to be probable. For each of the years ended December 31, 2017, 2018 and 2019, compensation expense was approximately R$9.5 million, R$8.8 million and R$5.9 million, respectively.

(All amounts in thousands of reais unless otherwise stated)

(b) JOA Investimentos S.A.

On September 29, 2017, the Company issued 137,786 shares (equivalent to 0.6% participation) for R$137,786 (R$1.00 per share) to JOA (the "2017 JOA Award"). On January 2, 2019, JOA acquired an additional 91,857 shares (equivalent to 0.4% participation) directly from the Company's controlling shareholder for R$91,857 (R$1.00 per share) (the "2019 JOA Award") (collectively, the "JOA Awards"). In connection with the JOA Awards, JOA entered into an agreement with the Company's controlling shareholder, which entitles JOA to put the restricted shares to the Company's controlling shareholder in exchange for a fixed amount on the one year anniversary of the date of grant and at that fixed amount plus interest thereafter. Upon the passage of time (three years) or consummation of an IPO, JOA is entitled to sell their restricted shares (after the initial vesting period) in lieu of exercising its put option.

The estimated fair value of the 2017 JOA Award, which was recognized ratably over its initial vesting period (from September 29, 2017 to September 29, 2018), was approximately R$6.7 million and the estimated fair value of the 2019 JOA Award, which was recognized over its initial vesting period (from January 2, 2019 through January 2, 2020) was approximately R$6.7 million. For each of the years ended December 31, 2017, 2018 and 2019, compensation expense was approximately R$1.7 million, R$4.8 million and R$6.5 million, respectively.

20.2 Stock Options

On October 17, 2019, the Company granted share options to select employees with the objective of retaining and attracting qualified personnel who will make an effective contribution to the Company's performance. The grant consisted of three types of share-based compensation, with the estimated fair value of each (determined using a Black Scholes model) and the key inputs summarized below:

	Plan 1	Plan 2	Plan 3
Exercise price	R$1.00	R$1.00	R$98.42
Estimated fair value of share	R$ 81.63	R$ 81.63	R$ 98.42
Initial exercise date	06/30/2021	06/30/2021	06/30/2021
Vesting provisions	25% upon consummation of IPO (*) and in 25% tranches on each of the first three anniversaries of the IPO	25% upon consummation of IPO (*) and in 25% tranches on each of the first three anniversaries of the IPO	20% upon later of (i) consummation of IPO (*) or (ii) one year anniversary of date of grant and in 20% tranches on

(All amounts in thousands of reais unless otherwise stated)

	thereafter	thereafter	each of the first four anniversaries of the IPO thereafter
Cash settlement feature	Recipients are entitled to termination indemnities if they leave the Company prior to consummation of IPO (**)	Not applicable	Not applicable
Estimated fair value of option	R$ 80.87	R$ 80.87	R$ 41.13
Options granted	374,420	131,799	59,907
Estimated fair value of grant	R$30,278	R$ 10,658	R$ 2,464

(*) Shares purchased can only be sold six months after the IPO
(**) Termination indemnities are calculated based on a multiple of EBITDA and vest in tranches on the first nine anniversaries of the date of grant. The cash settlement feature lapses upon consummation of an IPO.
Once consummation of an IPO is deemed probable, compensation expense for all plans will be recognized on a graded vesting basis over the IPO-dependent vesting schedule, including a one-time adjustment at the date that the IPO is determined to be probable. For each of the years ended December 31, 2017, 2018 and 2019, there is no compensation expense related to Plan 2 or Plan 3 reflected in the Company's financial statements because consummation of an IPO was not deemed probable as of December 31, 2019. For Plan 1, the Company has recorded a provision (and compensation expense) based on the contractual obligation for the estimated termination payments as of the balance sheet date, which is approximately R$ 2,745 as of December 31, 2019.

(All amounts in thousands of reais unless otherwise stated)

21. NET OPERATING REVENUE

Below is the reconciliation between gross revenue and the Company's net revenue.

	2019	2018	2017
Revenue from sales	1,013,370	834,424	524,684
Revenue from services	9,274	6,480	9,757
Gross operating revenue	1,022,644	840,904	534,441
Taxes and contributions	(115,725)	(96,773)	(61,518)
Returns and rebates	(17,983)	(14,286)	(9,658)
	888,936	729,844	463,264

21.1 Revenue from sales

Refers to the transfer of goods to franchisees, branches and final consumers, where these sales are recognized to the extent that the Company satisfies the performance obligation.

21.2 Revenue from services

Refers to the receipt of royalties, administrative fee, and advertising from franchises, being paid according to the percentage under the billing volume, as established in the contract.

a) Royalties: 6% on billing;
b) Advertising: 4% on billing;
c) Administrative fee: 5% on billing;

21.3 Taxes and contributions / Returns and discounts

Refers to tax deductions that are levied on sales and services provided, as well as all returns and discounts incurred in the period.

(All amounts in thousands of reais unless otherwise stated)

22. COSTS AND EXPENSES

	2019	2018	2017
Food costs	(221,481)	(187,085)	(111,987)
Labor and related expenses	(278,533)	(207,910)	(144,414)
Factory	(22,030)	(23,712)	(19,222)
Restaurant	(160,591)	(121,060)	(79,358)
Administrative	(95,912)	(63,137)	(45,834)
Occupancy and related expenses	(77,561)	(89,549)	(55,578)
Other operating expenses	(28,959)	(26,393)	(15,607)
General and administrative (excluding labor and occupancy)	(45,781)	(42,100)	(24,320)
Depreciation and amortization expense	(106,988)	(46,028)	(23,504)
Pre-opening costs (a)	(27,048)	(27,282)	(11,182)
	(786,352)	(626,348)	(386,591)

(a) Pre-opening costs consist of the expenses incurred prior to an opening, primarily: (i) Employee expenses; (ii) Training expenses; (iii) Expenses related to the opening training team and other support team members; (iv) travel and lodging costs for our opening training team and other support team member and (v) permits and licensing. All such costs incurred prior to the opening of restaurant and are expensed in the period in which the expense is incurred.

23. OTHER INCOME (EXPENSE), NET

	2019	2018	2017
Other expenses			
Tax assessment notice (a)	-	(4,050)	-
Others	(766)	(706)	(650)
Total	(766)	(4,756)	(650)
Other income			
Allocation of up-front revenue	2,256	3,429	1,298
Others	4,027	4,319	1,847
Total	6,282	7,748	3,145
Other operating income (expenses), net	5,516	2,992	2,495

(All amounts in thousands of reais unless otherwise stated)

(a) Tax assessment notice issued in 2013 in relation to withholding income taxes (IRRF), which was previously treated as a possible contingency, the amount was recognized and paid in 2018.
(b) Recognition of up-front fee revenue as described in note 16.

24. FINANCIAL EXPENSES, NET

	2019	2018	2017
Financial expenses			
Interest on financing	(86,402)	(91,944)	(37,877)
Interest - taxes	(3,090)	(6,206)	(6,578)
Debentures prepayment penalties	(9,712)	(17,840)	-
Card fee to early receive	(1,418)	(1,342)	(2,243)
Lease liability charges	(23,248)	-	-
Other expenses	(2,736)	(14,397)	(3,741)
	(126,607)	(131,729)	(50,439)
Financial income			
Discounts and bonuses earned	309	458	229
Financial investment income	4,643	815	542
	4,952	1,273	771
Financial expenses, net	(121,655)	(130,456)	(49,668)

(All amounts in thousands of reais unless otherwise stated)

25. INCOME TAX AND SOCIAL CONTRIBUTION

25.1 Deferred

The Company's Management, based on its projections of results, understands that the balances of tax losses and negative bases of Income Tax and Social Contribution on accumulated net income on December 31, 2019 will be compensated through future taxable profits. In this scenario, the deferred tax assets were recognized in the consolidated financial statements in December 31, 2019.

	2019
Assets	
Tax loss and negative CSLL basis	213,342
Provision for inventory losses	4,437
Provision for tax contingencies	7,899
Provision for indemnity - Group 1 SOP	2,745
Provision for leasing assets and liabilities	16,199
Other provisions	3,858
Total net tax credits	248,481
Deferred tax assets	84,484

Changes in the net deferred income tax and social contribution balances for the year ended December 31, 2019 are shown below:

	2019
Balances on December 31, 2018	-
Income effects from 2019 and prior periods	84,484
Balance on December 31, 2019	84,484

25.2 Current

Current income and social contribution in subsidiaries are calculated based on the deemed profit regime, as shown below:

(All amounts in thousands of reais unless otherwise stated)

25.3 RECONCILIATION OF INCOME TAX EXPENSE

	2019	2018	2017
(Loss) Income Before Income Taxes	(101,526)	(87,217)	22,390
Income tax and social contribution expense at the nominal Brazilian enacted tax rate - 34%	34,519	29,654	(7,613)
Dividends to related parties	(26,734)	(18,522)	(4,449)
Expenses not deductible for tax purposes	(4,084)	(1,436)	(3,081)
Tax loss carryforwards (unrecognized tax losses) (a)	62,482	(28,909)	(976)
Tax regime difference (b)	8,764	(2,756)	860
	40,428	(51,624)	(7,646)
Income tax and social contribution income (expense) benefit as reported	74,947	(21,970)	(15,258)
Effective tax rate	(73.8%)	25.2%	(68.1%)
Current income tax and social contribution (expense) benefit as reported	(9,537)	(21,970)	(15,258)
Deferred income tax and social contribution income (expense) benefit as reported	84,484	-	-

(a) The Company had tax loss carryforwards for which no deferred tax assets had been recognized for the periods prior 2019 based on the future estimates of pre-tax book income at the time.

During the period ended December 31, 2019 the company repaid certain borrowings which resulted in a permanent reduction in the amount of interest expense, and consequently, an increase in the amount of pre-tax book income for future periods. As a result, the company reassessed the recoverability of tax loss carryforwards generated in prior periods and determined all of the deferred tax assets are realizable based on the current estimates of future income and reduced the valuation allowance accordingly.

(b) Effect of the different tax regime called presumed profit method applied for some subsidiaries, in this regime income taxes were calculated based on the total revenue instead of the taxable income considering specific rates defined by the nature of the revenue, as described in the Note 2.3.15.

(All amounts in thousands of reais unless otherwise stated)

26. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments by category

	2019	2018
	Amortized Cost	Amortized Cost
Assets		
Cash and cash equivalents	96,718	48,772
Financial Investments	-	2,500
Trade Receivables	58,458	30,127
	155,176	81,399
Liabilities		
Trade Payables	79,930	61,505
Borrowings	351,264	525,645
Social Security Obligations (a)	19,572	24,959
Tax Obligations (a)	19,945	38,838
Lease Liabilities	456,899	-
Other Obligations (b)	35,190	41,973
	962,800	692,920

(a) Comprises amount of taxes payable in installments.
(b) Comprises amount of Acquisition of assets, acquisition of new units and the Non-Competition Agreement.

Madero believes that the financial instruments recognized in these consolidated financial statements at amortized cost are substantially similar to their fair value. However, since they do not have an active market, variations could occur in the event Madero were to decide to settle or realize them in advance.

26.1 Risk management

For the purpose of meeting its operating needs, as well as to reduce its exposure to financial risks, which arises from the nature of its business and operating structure, the Company carries out transactions involving financial instruments, all of which are recorded in balance sheet accounts.

The risks involved are managed through the definition of strategies that are prepared and approved by management, in connection with control systems and determined position limits. The Company does not enter financial instruments for speculative purposes.
The risks to which the Company is exposed are described below:

(i) Market risk

This risk results from the possibility of fluctuation in the market prices of inputs used in the production process, mainly meat. These price fluctuations may increase substantially the operating costs, being not possible for the Company to ensure the partial or total inclusion of such increase in the selling price of its products. In order to mitigate these risks, the Company manages inventories by building up regulatory stocks of these raw materials.

(ii) Operational risk

Operational risk is the risk of direct or indirect losses resulting from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and external factors, such as market and liquidity risks, like those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all the Company's operations.

The Company's objective is to manage the operational risk to avoid the occurrence of financial losses and damages to its reputation, while seeking cost efficiency and avoiding control procedures that restrict initiative and creativity.

Senior Management is primarily responsible for developing and implementing controls that address operational risks. This responsibility is supported by the development of the Company's general standards for operational risk management.

(iii) Liquidity risk

Management has overall responsibility for managing liquidity risk, by taking into account the need for short, medium and long-term funding. The Company manages its liquidity risk by maintaining proper reserves and contracting bank credit lines and credit facilities that are considered appropriate based on the continuously monitoring of forecast and actual cash flows, and by matching the maturity profiles of its financial assets and liabilities.

On December 31, 2019 and 2018, the Company recorded negative working capital in the amount of R$ 150,767 and R$ 49,975, respectively. This fact is mainly related to the characteristics of the Company's operation, as well as the higher level of investment made in new restaurants. The generation of operating cash, estimated in the budget for the coming months, of the restaurants in operation demonstrates enough capacity to meet the commitments assumed and assured the operational recovery of the Company.

(All amounts in thousands of reais unless otherwise stated)

26.2. Liquidity risk tables

The following tables detail the remaining contractual maturity terms of the Company's liabilities, as well as the contractual amortization periods. The tables were prepared in accordance with undiscounted cash flows of financial liabilities, based on the closest date on which the Company is expected to settle the respective obligations, and include the cash flows of interest and principal.

At December 31, 2019	Less than one year	One to two years	Two to three years	Three to four years	More than five years	Total
Trade Payables	79,930	-	-	-	-	79,930
Borrowings (1)	112,501	26,332	94,609	89,486	84,362	407,290
Social Security Obligations	2,016	2,141	2,268	2,415	18,475	27,315
Tax Obligations	2,050	2,183	2,325	2,476	18,733	27,767
Lease Liabilities	67,272	67,487	67,713	66,769	398,979	668,220
Other Obligations	19,338	17,827	2,667	-	-	39,832
	283,107	115,970	169,582	161,146	520,549	1,250,354

At December 31, 2018	Less than one year	One to two years	Two to three years	Three to four years	More than five years	Total
Trade Payables	61,505	-	-	-	-	61,505
Borrowings (1)	150,490	224,914	314,278	247,869	72,017	1,009,568
Social Security Obligations	1,904	2,016	2,141	2,268	20,889	29,218
Tax Obligations	1,943	2,050	2,183	2,325	21,210	29,711
Other Obligations	21,754	12,157	10,173	-	-	44,084
	237,596	241,137	328,775	252,462	114,116	1,174,086

1 – The undiscounted amount was calculated based on the forward yield curve of benchmark rates to which the loans are indexed, weighted through the maturity date for each installment.

(i) <u>Interest rate risk</u>

This is the risk that changes in market prices, such as interest rates, will affect revenue, or the value of the Company's financial instruments. The Company's policy is to minimize its exposure to market risk, by seeking to diversify the investment of resources in terms of floating rates.

The Company's borrowings are primarily represented by Finame, Proger and BNDES card operations and working capital, which are subject to financial charges like those usually practiced in the market.

(All amounts in thousands of reais unless otherwise stated)

(ii) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amounts of financial assets and contract assets represent the maximum credit exposure. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There is no significant concentration of credit risk, whether through exposure to individual costumers, specific industry sectors and/or regions.

(iii) Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, in addition to providing the best cash management so as to obtain the lowest funding costs in the combination of own or third-party capital.
The Company monitors capital based on the gearing ratio. This ratio corresponds to the net debt divided by shareholders' equity (deficit). Net debt is calculated as total borrowings less cash and cash equivalents.

The ratios at December 31, 2019 and 2018 were as follows:

	2019	2018
Borrowings	351,264	525,645
Less: cash and cash equivalents	(96,718)	(48,772)
Net debt	254,546	476,873
Shareholders' Equity (deficit)	501,672	(176,680)
Net debt/Shareholders' Equity ratio	0.51	(2.70)

(All amounts in thousands of reais unless otherwise stated)

27. NON-CASH

Non-cash financing and investing transactions	2019	2018	2017
Business combination (note 11)	16,385	-	-
Acquisition of property, plant and equipment through trade payables (note 9)	23,872	15,024	14,646
Acquisition of property, plant and equipment through borrowings (note 9)	30,215	10,703	6,281
Non-compete (note 10)	-	21,714	-
IFRS 16 Initial and subsequent recognition (note 8)	500,690	-	-
	571,162	47,442	20,928

28. 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, which is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors, which also makes the Group's strategic decisions.

The chief operating decision-maker analyzed the business by Madero, Jeronimo, Others and the Central Kitchen, as described above:

i) Madero: full table service in a large space with a menu featuring steaks, burgers and a variety of classic Brazilian dishes in a relaxed environment suitable for business and families;
ii) Jeronimo: a fast-casual dining concept in a leaner space, offering a menu focused on our flattop-cooked burgers. Jeronimo is a technology-centric, fast-casual concept designed focused on the millennial demographic. It offers a modestly priced menu focused on smashed burgers and fries served in a vibrant and convenient atmosphere.
iii) Others: Primarily relates to operations of our *"A Sanduicheria do Junior Durski"* restaurant.
iv) Central Kitchen: automated production facility that produces essentially all of the food consumed in our restaurants.

The corporate information comprises the items that cannot be attributed to the other segments, notably those related to corporate financial management.

(All amounts in thousands of reais unless otherwise stated)

Accounting policy

Segment performance is measured based on EBITDA, since financial expenses, net and income taxes are managed within the corporate level and are not allocated to operating segments. EBITDA for segment is defined as (Loss) income before income taxes for the year adjusted by depreciation and amortization.

The presentation of segment results and reconciliation to net (loss) income before income tax in the consolidated income statement is as follow:

2019	**Madero**	**Jeronimo**	**Others**	**Central Kitchen**	**Segment Total**
Segment revenue	744,554	88,325	16,372	39,685	888,936
Segment depreciation and amortization	(76,762)	(9,665)	(1,893)	(1,640)	(89,959)
Segment EBITDA	**307,829**	**29,521**	**5,415**	**7,780**	**350,546**
Corporate and unallocated (excluding depreciation and amortization)					(223,429)
Depreciation and amortization					(106,988)
Operating income					20,129

2018	**Madero**	**Jeronimo**	**Others**	**Central Kitchen**	**Segment Total**
Segment revenue	673,622	23,627	9,234	23,361	729,844
Segment depreciation and amortization	(24,037)	(654)	(503)	(1,015)	(26,209)
Segment EBITDA	**218,418**	**4,303**	**(2,589)**	**4,580**	**224,713**
Corporate and unallocated (excluding depreciation and amortization)					(135,447)
Depreciation and amortization					(46,028)
Operating income					43,238

2017	**Madero**	**Jeronimo**	**Others**	**Central Kitchen**	**Segment Total**

Segment revenue	431,701	4,350	5,874	21,339	463,264
Segment depreciation and amortization	(15,375)	(154)	(301)	(822)	(16,652)
Segment EBITDA	**132,549**	**562**	**(46)**	**4,183**	**137,248**
Corporate and unallocated (excluding depreciation and amortization)					(41,686)
Depreciation and amortization					(23,504)
Operating income					72,058

29. SUBSEQUENTS EVENTS

Borrowings

On February 21, 2020, the Company entered into a working capital borrowing in the aggregate amount of R$160,000. This agreement accrues interest at "CDI" (*certificado de depósito interbancário,* which is an average of interbank overnight rates in Brazil) plus 1.65% rate per annum with maturity dates in November 2020 and February 2021. As of the date hereof, no amounts have been disbursed thereunder.

Coronavirus

During March 2020, a global pandemic was declared by the World Health Organization related to the outbreak of a novel strain of coronavirus ("COVID-19"). The pandemic has significantly impacted the economic conditions in Brazil, with accelerated adverse effects in March and April 2020, as federal, state and local governments reacted to the public health crisis, creating significant uncertainties in the Brazilian economy. In the interest of public health and safety, state and local governments in jurisdictions where our restaurants are located required mandatory restaurant closures or capacity limitations or other restrictions for those that continued to operate. As of April 2020, most of our currently-operating restaurants have temporarily shifted to a takeout or delivery-only operating model, suspended sit-down dining, modified hours and reduced on-site staff. As a result of these developments, we currently expect a material adverse effect on our revenues, results of operations and cash flows beginning in the second quarter of 2020. The restrictions placed on the restaurant industry are rapidly changing and additional adverse impacts to our business may arise that we are not aware of currently. We cannot predict with certainty whether, when or the manner in which the conditions surrounding COVID-19 will change, including the timing of lifting any restrictions or closure requirements, when our restaurants will fully reopen and staffing levels for reopened restaurants and customer re-engagement with our brands will return to levels registered prior to the global pandemic. In response to the developments, we:

- accelerated implementation of food delivery options in most of our restaurants;

- accelerated implementation of a proprietary delivery app and platform;

- reduced expenses broadly, including through the dismissal of employees in functions relating to expansion and new restaurant openings, as well as through compulsory vacation and temporary pay and benefits reductions for our remaining employees;

- significantly reduced capital spending;

- temporarily suspended construction of almost all new restaurants; and

- have begun discussions with our landlords, vendors, and other business partners to reduce our lease and contract payments and obtain other concessions

In addition, even though we currently have a robust cash position, we are in discussions with our lenders for new credit facilities to strengthen our cash position.

The full extent of the COVID-19 pandemic impact on our results will ultimately depend on future developments that are highly uncertain and cannot be predicted, such as any new information which may emerge concerning the severity of the coronavirus, the potential spread to other regions and the actions to contain the coronavirus or treat its impact, among others.

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