



Financial Statements

BK Brasil Operação e Assessoria a Restaurantes S.A.

December 31, 2019
with Independent Auditor's Report
(Free translation from Portuguese into English version)

MANAGEMENT REPORT HIGHLIGHTS

2019x2018 Performance:

- **Net operating revenue** of R\$2,868 million in 2019, up 22.1% from 2018;
- **Total of 121 restaurants opened during 2019**, of which 88 are BURGER KING® restaurants and 33 are POPEYES® restaurants;
- **Total of 871 restaurants of the BURGER KING® brand** at the end of 2019;
- **Total of 41 restaurants of the POPEYES® brand** at the end of 2019;
- **Growth of comparable sales in same restaurants¹** of 4.9% in 2019;
- **Adjusted EBITDA²** of R\$ 465 million in 2019. Excluding the effects of the new accounting standard (IFRS 16), Adjusted EBITDA would have been R\$328 million in 2019;
- **Adjusted EBITDA Margin** of 16.2%. Excluding the effects of the accounting standard (IFRS 16), the margin would have been 11.4% in 2019;
- **Net income** of R\$ 49 million in 2019. Excluding the effects of IFRS 16, net income would have totaled R\$ 70 million in 2019;

FINANCIAL HIGHLIGHTS - R\$ MILLION (CONSOLIDATED)	2019	2018	VAR.
NET OPERATING REVENUE	2,868.0	2,348.3	22.1%
ADJUSTED EBITDA ⁽²⁾	465.4	288.0	61.6%
% OF NET OPERATING REVENUE	16.2%	12.3%	390bps
ADJUSTED EBITDA⁽²⁾ EX-IFRS16 EFFECTS	328.3	288.0	14.0%
% OF NET OPERATING REVENUE	11.4%	12.3%	-90bps
NET INCOME (LOSS)	48.5	128.0	-62.1%
NET INCOME (LOSS) EX-IFRS16 EFFECTS	69.8	128.0	-45.5%
GROSS DEBT [†]	519.9	279.1	86.3%
NET DEBT (NET CASH) ⁶	(85.6)	(323.8)	-73.6%
SHAREHOLDERS' EQUITY	1,786.6	1,717.0	4.1%

OPERATIONAL HIGHLIGHTS	2019	2018	VAR. ⁽³⁾
# OF RESTAURANTS	912	801	111
OWNED RESTAURANTS			
# OWNED RESTAURANTS BEGINNING OF PERIOD	639	526	113
BURGER KING® RESTAURANT OPENINGS	61	65	(4)
BURGER KING® RESTAURANT CLOSINGS	(8)	(5)	(3)
ACQUISITION / SALE ⁽⁴⁾ OF BURGER KING® RESTAURANT BUSINESSES	(11)	45	(56)
POPEYES® RESTAURANT OPENINGS	33	8	25
# OWNED RESTAURANTS END OF PERIOD	714	639	75
FRANCHISEES RESTAURANTS			
# FRANCHISEES RESTAURANTS BEGINNING OF PERIOD	162	171	(9)
BURGER KING® RESTAURANT OPENINGS	27	37	(10)
BURGER KING® RESTAURANT CLOSINGS	(2)	(1)	(1)
ACQUISITION / SALE ⁽⁴⁾ OF BURGER KING® RESTAURANT BUSINESSES	11	(45)	56
# FRANCHISEES RESTAURANTS END OF PERIOD	198	162	36
COMPARABLE SALES GROWTH IN SAME RESTAURANTS (SSS)⁽¹⁾	4.9%	7.2%	-230bps

¹ Growth of comparable sales in same restaurants: Considers the sales of Burger King restaurants operated by BK Brasil that have been open for more than 13 months compared to the same period in the previous year.

² "Adjusted EBITDA" is a non-accounting measure adopted by the Company, which corresponds to EBITDA adjusted by pre-operating expenses, expenses with mergers and acquisitions, and other expenses, which the Company's Management believes are not part of the normal course of business and/or distort any analysis of the Company's operating performance, including: (i) write-off of property and equipment (damages, obsolescence, gain (loss) from asset divestment and impairment); and (ii) costs with stock plan.

³ Net variation.

⁴ Sale of company-owned restaurants to franchisees.

⁵ Gross debt corresponds to the sum of current and non-current loans and financing balances.

⁶ Net debt (net cash) corresponds to gross debt cash and cash equivalents, marketable securities and related securities.

MESSAGE FROM MANAGEMENT

2019 was a challenging year for BK Brasil, mainly due to the country's slow economic recovery and more competitive environment. Despite this, the Company presented a solid pace of restaurant increase during the year, with the opening of 121 units, of which 88 are BURGER KING® and 33 are POPEYES®, ending the year with 912 units. We continued with our strategy to increase focus on free standing restaurants and this year we accelerated the number of openings of this format to 44 restaurants, breaking our historical record of openings for this model.

During this year, we surpassed the important mark of R\$3 billion in revenue, bringing the Company's net operating revenue to R\$2,868 million, an increase of 22.1%, reflecting the 4.9% growth in comparable sales in same restaurants, supported by the increase of digital sales channels and our marketing calendar.

Within our digital initiatives, it is important to highlight that our application reached the milestone of 19 million downloads and 3.6 million active users, moreover, we ended the year with more than 110 restaurants with self-order kiosk and more than 250 restaurants offering the Delivery service. Sales generated by digital channels, made through Delivery, self-order kiosk and BK Express increased 210% compared to 4Q18 and continue to increase their relevance within the Company. It is also important to highlight that we were recognized as the most digitally mature fast food brand according to the Brazil Digital Maturity Index developed by Isobar Brasil.

This year, the BURGER KING® brand was considered the most creative brand globally at the International Cannes Film Festival, with the campaign "Burn That Ad™", which was the most awarded Brazilian campaign at the festival, receiving a total of 9 Lions, in addition to being the second most awarded campaign by the Burger King brand globally. We were also recognized as a favorite fast food brand by the people from Rio de Janeiro, according to a survey by the newspaper O Globo in partnership with Troiano Branding.

The POPEYES® brand has also shown a solid evolution, ending 2019 with 41 restaurants in operation in shopping malls in São Paulo. Due to the rapid expansion and brand recognition growth, we have already achieved positive financial results in this operation.

In 2019, we also made relevant moves in relation to our ESG practices. In line with the best Corporate Governance practices, we increased the number of independent members of our Board of Directors, who now already represent the majority of the members, and also improved diversity with more than 20% of the board of directors being represented by women. With regard to Sustainability, we announced the removal of the boxes from Combo King Jr. and with that we hope to reduce the use of approximately 119 tons of cardboard per year. We have implemented oil recycling programs in our restaurants and water reuse in our new restaurants. We have also concluded a commercial partnership for the construction of photovoltaic plants for the generation of clean and renewable energy, contributing to the annual reduction of 270 thousand tons in the volume of carbon dioxide emissions. On the Social front, we highlight our partnership with the Arredondar Movement, which raised over R\$1 million during the year. This amount will be directed to organizations that work to transform the world into a better place, through projects with social impact.

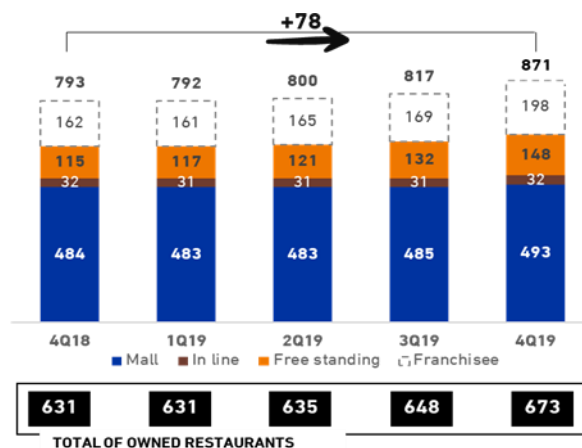
We are confident that we will continue to find good investment opportunities for the opening of new restaurants, which shall support the strong pace of growth for both brands. Accordingly, we hope to achieve even more significant results, supported by our technological initiatives, which will certainly give us traction for growth over the next years as will the strength of our authentic products and our brand, offering indulgent innovations that are at the forefront of consumer trends. Finally, we will continue to seek to offer an excellent level of service to our customers, through the efforts of our more than 15 thousand dedicated employees who serve the diverse service channels we offer across Brazil.

OPERATING AND FINANCIAL PERFORMANCE

BURGER KING® restaurant⁷ expansion

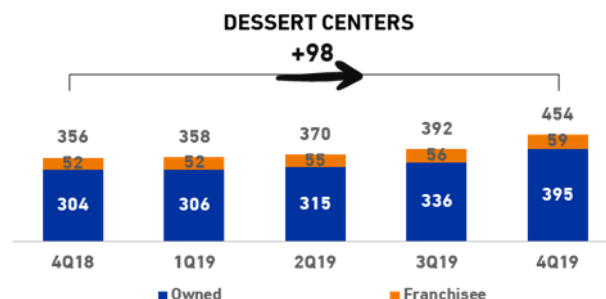
During 2019, BURGER KING® system opened 88 new restaurants, of which 61 were company-owned and 27 were franchisees. Considering only restaurants operated by BK Brasil, net of sale of restaurant businesses⁸ (12 units) and acquisitions (1 unit), the Company ended the year with 673 company-owned restaurants, reflecting an increase of 42 restaurants in comparison with 2018.

As for franchised restaurants, BURGER KING® system ended the year with 198 restaurants. As such, the BURGER KING® system ended 2019 with a total of 871 units operating across the country, a net increase of 78 restaurants.



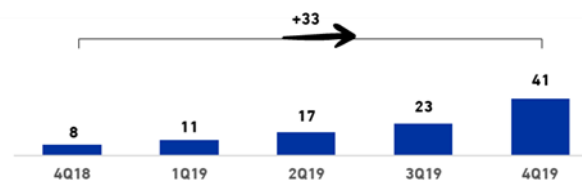
BURGER KING® desert centers expansion

In addition to the 871 restaurants, the BURGER KING® system ended 2019 with 454 dessert centers, an increase of 98 units when compared to 2018.



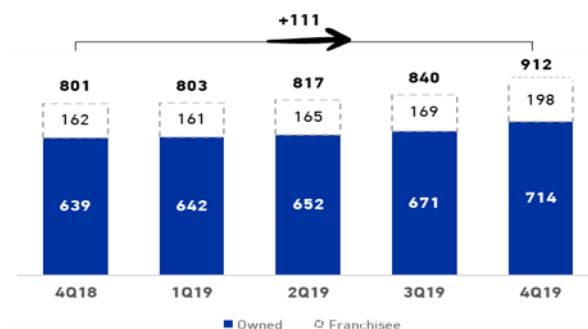
POPEYES® restaurant expansion

Throughout 2019, the POPEYES® system opened 33 new restaurants and closed the quarter with 41 restaurants, all of them BK Brasil owned restaurants, located in the state of São Paulo.



Total restaurant expansion

Therefore, we ended 2019 with a total of 912 restaurants managed by the Company, of which 714 are company-owned BURGER KING® and POPEYES® and 198 are BURGER KING® franchised.



⁷ Mall: Shopping centers, hypermarkets and aero terminals | road; In Line: Stores with direct access to public roads, which have internal lounges with tables and seats; Free Standings: Street stores with a drive-thru track.

⁸ Transfer: sale of own restaurant for franchisee

Effects of the IFRS 16 adoption

On January 1, 2019, the Company adopted the accounting standard IFRS 16 – Leases. According to the new accounting standard, the Company, as the lessee, recognizes a right-of-use asset related to the leased asset and a lease liability representing its obligation to make future lease payments. As the Company's main lease agreement refers to rent of company-operated restaurants, the fixed portion of lease expenses is now recognized as amortization and financial expense, while the variable portion of lease expenses continues recognized as occupancy expense. For better understanding, throughout this report, information on the effects from adoption of the new accounting standard on the main accounts impacted in 2019 was included, both in tables and graphs.

Consolidated Income Statement (R\$ million)	2019 Reported	IFRS16 Effects	2019 Ex-IFRS16	2018 Reported	Var. %
NET OPERATING REVENUE	2,868.0	-	2,868.0	2,348.3	22.1%
COST OF GOOD SOLD	(1,082.9)	-	(1,082.9)	(891.3)	21.5%
GROSS PROFIT	1,785.1	-	1,785.1	1,457.0	22.5%
TOTAL SELLING EXPENSES	(1,518.3)	(30.1)	(1,548.4)	(1,219.7)	26.9%
PERSONNEL EXPENSES	(498.9)	-	(498.9)	(404.5)	23.3%
ROYALTIES AND MARKETING FUND	(262.7)	-	(262.7)	(215.8)	21.7%
EXPENSES ON OCCUPANCY AND UTILITIES	(223.9)	(136.2)	(360.1)	(280.2)	28.5%
PRE-OPERATING EXPENSES	(18.1)	-	(18.1)	(9.7)	87.0%
DEPRECIATION AND AMORTIZATION	(282.4)	106.1	(176.3)	(125.1)	40.9%
OTHER SELLING EXPENSES	(232.3)	-	(232.3)	(184.4)	26.0%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	(142.4)	0.2	(142.2)	(110.5)	28.7%
GENERAL AND ADMINISTRATIVE EXPENSES	(102.0)	(1.0)	(103.0)	(84.2)	22.4%
DEPRECIATION AND AMORTIZATION	(20.8)	1.2	(19.6)	(8.0)	144.1%
EXPENSES WITH MERGER AND ACQUISITIONS	(3.1)	-	(3.1)	(6.7)	-53.8%
GAIN (LOSS) FROM WRITE-OFF OF PROPERTY, EQUIPMENT AND IMPAIRMENT	(12.2)	-	(12.2)	(7.1)	71.4%
COST OF STOCK OPTION PLAN	(4.3)	-	(4.3)	(4.5)	-4.1%
PROFIT (LOSS) BEFORE FINANCIAL INCOME	124.4	(29.9)	94.5	126.8	-25.5%
FINANCIAL RESULTS	(70.7)	62.1	(8.6)	10.9	-
PROFIT (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	53.7	32.2	85.9	137.7	-37.6%
INCOME TAX AND SOCIAL CONTRIBUTION	(5.2)	(10.9)	(16.1)	(9.7)	66.8%
NET INCOME (LOSS) FOR THE PERIOD	48.5	21.3	69.8	128.0	-45.5%

Net operating revenue

In 2019, net operating revenue grew 22.1% when compared to 2018, boosted by the growth in sales in same restaurants and the performance of the stores opened during the year.

Cost of goods sold and selling expenses

In 2019, total restaurant expenses were R\$ 2,631 million, representing 91.7% of net operating revenue. Cost of goods sold represented 37.8%, an improvement of 20 bps compared to 2018, reflecting the recognition of tax credit benefits from prior periods in the amount of approximately R\$ 10 million in 2Q19. Lastly, selling expenses at restaurants (excluding depreciation and amortization) represented 47.8% in 2019, an increase of 120 bps in comparison to 2018, reflecting higher third-party service expenses due to new sales channels, and greater utilities, personal and pre-operating.

Total general and administrative expenses

In 2019, corporate general and administrative expenses represented 3.6% of net operating revenue, remaining stable compared to 2018.

Adjusted EBITDA

In 2019, adjusted EBITDA, excluding the effects of IFRS 16, reached R\$328 million, an increase of 14.0% compared to the same period last year. As a result, the adjusted EBITDA margin was 11.4% in 2019.

EBITDA - R\$ MILLION	2019	2018	VAR %
NET INCOME (LOSS) FOR THE PERIOD	48.5	128.0	-62.1%
(+) FINANCIAL INCOME (LOSS)	70.7	(10.9)	-
(+) DEPRECIATION AND AMORTIZATION	303.2	133.1	127.7%
(+/-) INCOME TAX AND SOCIAL CONTRIBUTION	5.2	9.7	-46.2%
EBITDA	427.6	260.0	64.5%
<i>EBITDA MARGIN</i>	<i>14.9%</i>	<i>11.1%</i>	<i>380bps</i>
(+) OTHERS EXPENSES*	12.3	7.1	72.4%
(+) COST OF STOCK OPTION PLAN	4.3	4.5	-3.8%
(+) MERGE AND ACQUISITION EXPENSES	3.1	6.7	-53.2%
(+) PRE-OPERATING EXPENSES	18.1	9.7	86.9%
ADJUSTED EBITDA ⁽¹⁾	465.4	288.0	61.6%
<i>ADJUSTED EBITDA MARGIN</i>	<i>16.2%</i>	<i>12.3%</i>	<i>390bps</i>
IFRS16 EFFECTS	(137.2)	-	-
ADJUSTED EBITDA EX-IFRS16 EFFECTS	328.3	288.0	14.0%
<i>ADJUSTED EBITDA MARGIN EX-IFRS16 effects</i>	<i>11.4%</i>	<i>12.3%</i>	<i>-90bps</i>

**Includes write-off of property and equipment (damages, obsolescence, gain (loss) from asset divestment and impairment).*

Net income

In 2019, net income, excluding the effects of IFRS 16, was R\$ 70 million, compared to net income of R\$128 million in 2018, reflecting the non-recurring effect of the recognition of deferred income tax assets in the amount of R\$ 30 million in 2018.



RELATIONSHIP WITH INDEPENDENT AUDITORS

In compliance with CVM Instruction No. 381/2003 and Circular Letter SNC/SEP No. 01/2007, the Company informs that during 2019, the independent auditors (ERNST & YOUNG Auditores Independentes S.S. (EY)), in addition to the external audit services, also provided additional services related to the secondary public offering of shares (Follow on) held on March, 2019 and provided tax services, which totaled R\$1.5 million net of taxes or approximately 140% of the total amount contracted for external audit services.

The Company and its joint ventures adopt as a formal procedure to consult the independent auditors, to ensure that the performance of other services will not affect the independence and objectivity required to perform independent audit services. The Company's policy in the hiring of independent auditors' services ensures that there is no conflict of interests, loss of independence or objectivity.

In the hiring of such services, the policies adopted by the Company are based on principles that preserve the auditor's independence. These principles, according to internationally accepted standards, are: (a) the auditor cannot audit his own work; (b) the auditor cannot function as a part of management in his client, and (c) the auditor cannot serve in an advocacy role for his clients.

EY stated that the provision of services was performed in strict compliance with the accounting standards that deal with the independent auditors' independence in audit work and did not represent a situation that could affect the independence and objectivity in the performance of their external audit services.

Barueri, February 19, 2020.

Board of Executive Officers



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A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS)

Independent auditor's report on individual and consolidated financial statements

To the
Shareholders, Board of Directors and Management of
BK Brasil Operação e Assessoria a Restaurantes S.A.
Barueri - SP

Opinion

We have audited the individual and consolidated financial statements of BK Brasil Operação e Assessoria a Restaurantes S.A. ("Company"), identified as "Parent company" and "Consolidated", respectively, which comprise the statement of financial position as of December 31, 2019, and the statements of income, of comprehensive income, of changes in equity and cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of BK Brasil Operação e Assessoria a Restaurantes S.A. as of December 31, 2019, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

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

- **Goodwill impairment test**

On December 31, 2019, as explained in Note 12, goodwill, generated in business combinations that occurred until then, totaled R\$572,199 thousand, in the Parent Company and in the Consolidated, representing 16.2% of total assets, on that date. At least once a year, the Company performs the impairment test based on estimates of future profitability based on the business plans and annual budget, adopted by Management. The methodology and modeling used to determine the recoverable value of this asset, which were based on the Company's discounted cash flow, an estimate for which subjective assumptions were used by Management that involve a reasonable degree of judgment, information and expected market and economic conditions, mainly in terms of sales and costs growth, discount rates and country risk.

The monitoring of this matter was considered significant for our audit due to the relevance of the amounts involved in relation to the total assets and the potential risks to the Company's profit and loss for the year in the event of identification of impairment of this asset, in addition to the uncertainties inherent to the determination of the estimate of expected recovery values, given the use of market information and a high degree of judgment exercised by Management, in determining the assumptions of its calculation. A change in any of these assumptions may have a significant impact on the Company's individual and consolidated financial statements.

How our audit conducted this matter:

Our auditing procedures included, but were not limited to, the involvement of valuation specialists to assist in the analysis and review of the methodologies and models used by Management, in evaluating the assumptions that supported the projections that determined the business plan, budget, technical studies and analyzes of the recoverable amount of the Company's asset. Our procedures also included evaluating the reasonableness and consistency of the data and assumptions used in the preparation of such documents, including growth rates, discount rates, country risk and cash flows projections, among others, as provided by the Company's Management, and we also analyze the accuracy of arithmetic and mathematical calculations. We compared the assertiveness of projections made in previous periods in relation to the performance achieved by the Company. We analyzed information that could contradict the most significant assumptions and methodologies selected, as well as analyze data from comparable companies.

Additionally, we compared the recoverable amount determined by the Company's Management, based on the discounted cash flow, with the book value of the goodwill and assets of the cash generating unit, and evaluated the adequacy of the disclosures in Note 12 to the financial statements as of December 31, 2019.

Based on the results of the auditing procedures performed on the goodwill impairment test, which is consistent with management's assessment, we consider that the criteria and assumptions of goodwill used by management, as well as the respective disclosures in Note 12, are acceptable in the context of the financial statements taken as a whole.

- **Property and equipment impairment test**

According to Note 11, as of December 31, 2019, the balance of property and equipment, net, totaled R\$1,163,578 thousand, in the Parent Company and in the Consolidated, representing 33.0% of total assets. The Company, periodically, evaluates the recoverable value of the property and equipment allocated to the restaurants, based on estimates of the future cash generation of each restaurant, for decision on whether to recognize a provision or not, and, consequently, to decide whether or not to continue restaurants operations that are not performing as expected and estimated. The methodology and modeling used to calculate the recoverable value of these assets were based on the discounted cash flow of each restaurant, an estimate for which subjective assumptions were used by Management, which involve a reasonable degree of judgment, information and expected market and economic conditions, mainly in terms of sales and cost growth, restaurant performance evaluations and discount rates.

The monitoring of this matter was considered significant for our audit due to the relevance of the amounts involved in relation to the total assets and the potential risks to the Company's profit and loss for the year in the event of identification of impairment of these assets, in addition to the uncertainties inherent to the determination of the estimate of expected recovery values, given the use of market information and a high degree of judgment exercised by Management, in determining the assumptions of its calculation. A change in any of these assumptions may have a significant impact on the Company's individual and consolidated financial statements.

How our audit conducted this matter:

Our auditing procedures included, but were not limited to, the analysis and review of the methodologies and models used by Management, the evaluation of the assumptions that supported the projections that determined the business plan, budget, technical studies and analyzes of the Company's property and equipment. Our procedures also included evaluating the reasonableness and consistency of the data and assumptions used in the preparation of these documents, including growth rates, discount rates, controls and procedures performed by Management to evaluate each restaurant's individual performance and cash flow projections, among others, as provided by the Company's Management, and we also analyzed the accuracy of arithmetic and mathematical calculations. We compare the assertiveness of projections made in previous periods in relation to the performance achieved by the Company. We analyzed information that could contradict the most significant assumptions and methodologies selected, as well as analyze data from comparable companies.

Additionally, we compared the recoverable amount determined by the Company's Management, based on the discounted cash flow of each restaurant, with the book value of property and equipment and evaluated the adequacy of the disclosures in Note 11 to the financial statements as of December 31, 2019.

Based on the results of the audit procedures performed on the impairment test of property and equipment, which is consistent with management's assessment, we consider that the criteria and assumptions used, as well as the respective disclosures in Note 11, are acceptable in the context of the financial statements taken as a whole.

- **Deferred tax assets impairment test**

As described in Note 30, the Company has R\$95,551 thousand, in the Parent Company and in the Consolidated, corresponding to deferred tax credits arising from tax losses carryforward and temporary differences, whose recognition and recoverability are based on a study prepared internally by the Management, about the generation of future taxable income. The preparation of such a study requires significant judgment in determining the projection of future taxable income.

The monitoring of this matter was considered significant for our audit due to the relevance of the amounts involved, as well as to the effects on the Company's profit and loss for the year, and the degree of judgment used in the projections of future taxable income, its estimates and assumptions, and the potential impact that any changes in these assumptions and estimates could bring about the amount of tax credits recorded in the Company's individual and consolidated financial statements.

How our audit conducted this matter:

Our auditing procedures included, but were not limited to, the use of specialized tax professionals to analyze the tax bases according to current tax legislation. Additionally, we performed analysis and evaluation of the assumptions and methodology used by Management in the projections of future taxable income, such as changes in sales and costs, taxable income, tax rates, arithmetic and mathematical calculations, as well as comparing certain projection data, when available, with other external sources and alignment of these premises with the business plans approved by the Company's competent bodies. We compare the assertiveness of projections made in previous periods in relation to the performance achieved by the Company. Additionally, we have analyzed the adequacy of the disclosures made in Note 30 to the individual and consolidated financial statements.

Based on the results of the audit procedures performed on the recognition, measurement and recoverability of deferred tax assets through the availability of future taxable income, which is consistent with management's assessment, we consider that the criteria and assumptions of recoverable value of deferred tax assets adopted by the Company Management, as well as the respective disclosures in Note 30, are acceptable, in the context of the individual and consolidated financial statements taken as a whole.

- **Adoption of accounting pronouncement CPC 06 (R2) / NBC TG 06 (R3) / IFRS 16 – Leases**

As described in Note 2.22, the Company and its subsidiaries adopted the new accounting pronouncement CPC 06 (R2) / NBC TG 06 (R3) / IFRS 16 as of January 1, 2019, using the retrospective modified approach as its transition method. This pronouncement establishes changes in accounting practices for the recognition, measurement, presentation, and disclosure of leases, substantially represented by rental of administrative and operational properties (restaurants), and requires that lessees account for all leases using a single model in its financial statements. On the lease commencement date, the lessee recognizes a lease liability, referring to future minimum payments, and an asset representing the right-of-use asset, during the lease term, and separately recognizes expenses with financial charges on the lease liability, and the amortization expense of the right-of-use asset.

At December 31, 2019, as mentioned in Notes 2.22, 12 and 15, balances referring to the right-of-use asset and lease liability totaled R\$660,986 thousand and R\$693,209 thousand, respectively, accounting for 18,7% of total assets and 39,8% of total current and non-current liabilities, respectively. In addition, for the year then ended, right-of-use asset amortization amounts and the financial costs amounted to R\$107,301 thousand and R\$62,091 thousand, respectively, and the lease liability paid amounted to R\$137,169 thousand.

This matter was considered significant for our audit: i) due to the relevance of amounts involved; ii) because the assessment involves significant judgments in determining the assumptions and estimates used to determine the right-of-use asset and lease liabilities; and, iii) given the potential impacts on the indicators used to analyze compliance with covenants on loans and financing.

How our audit has addressed this matter:

Our audit procedures included, among others: (i) assessment of the adequacy of accounting policies for recognizing the Company's right-of-use asset and lease liabilities; (ii) inspection and reviewing lease contracts, on a sample basis, for the adequacy to said standard; (iii) testing, on a sample basis, the measured values of the right-of-use asset and lease liabilities, both recorded at the present value of the minimum lease payments; (iv) testing, on a sample basis, the amortization values of the right-of-use asset; and (v) involving our specialist professionals in the analysis of the incremental interest rate calculated by the Company.

Based on the result of the audit procedures carried out, we consider that the Company's lease recognition policies, as well as the respective disclosures in Notes 2.22, 12 and 15, are acceptable, in the context of the overall individual and consolidated financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2016, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.



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

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

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

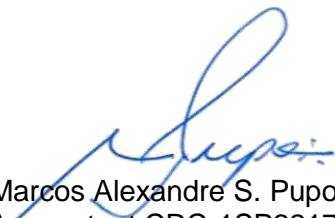
We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

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

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

São Paulo, February 19, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6



Marcos Alexandre S. Pupo
Accountant CRC-1SP221749/O-0

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

Statements of financial position

	Notes	Parent company		Consolidated	
		2019	2018	2019	2018
Assets					
Current Assets					
Cash and cash equivalents	4	325,276	166,962	325,277	174,963
Marketable securities	5	265,622	399,790	265,683	413,136
Restricted marketable securities	5	13,133	2,486	13,133	2,486
Trade receivables, net	6	60,361	59,528	60,361	59,603
Derivative financial instruments	32	-	90	-	90
Inventories	7	99,041	81,276	99,041	81,276
Taxes recoverable	8	27,558	35,546	27,558	40,393
Advances expenses	9	46,115	26,618	46,115	26,622
Related parties	21	-	3,753	-	-
Other receivables		25,211	20,609	25,210	21,146
Total current assets		862,317	796,658	862,378	819,715
Non-current assets					
Restricted marketable securities	5	1,366	12,361	1,366	12,361
Taxes recoverable	8	73,120	15,551	73,120	15,551
Judicial deposits	20	33,434	30,382	33,434	30,903
Other receivables		4,464	4,561	4,464	4,561
Investments	10	-	462,653	-	-
Property and equipment, net	11	1,163,578	884,836	1,163,578	928,225
Intangible assets, net	12	1,389,720	293,792	1,389,720	714,316
Total non-current assets		2,665,682	1,704,136	2,665,682	1,705,917
Total assets		3,527,999	2,500,794	3,528,060	2,525,632
Liabilities					
Current liabilities					
Loans and financings	13	116,556	161,581	116,556	161,581
Trade payables	14	286,432	239,470	286,432	241,243
Lease liabilities	15	99,156	-	99,156	-
Payroll and social charges		96,637	94,620	96,637	95,163
Corporate payables	16	23,760	17,950	23,760	17,961
Taxes payable	17	25,150	30,327	25,150	33,781
Deferred revenue, net	18	9,139	9,091	9,139	9,091
Related parties	21	-	5,664	-	-
Dividends and interest on capital	22	10,054	26,726	10,054	26,726
Other payables	19	4,622	13,045	4,683	14,129
Total current liabilities		671,506	598,474	671,567	599,675
Non-current liabilities					
Loans and financings	13	403,314	117,532	403,314	117,532
Provision for legal claims	20	16,275	9,539	16,275	10,730
Taxes payable	17	12,605	-	12,605	21,753
Deferred revenue, net	18	17,928	26,396	17,928	26,396
Lease liabilities	15	594,053	-	594,053	-
Deferred taxes	30	8,452	17,713	8,452	12,492
Other payables	19	17,237	14,180	17,237	20,094
Total non-current liabilities		1,069,864	185,360	1,069,864	208,997
Equity					
Capital	22	950,768	898,233	950,768	898,233
Capital reserve and stock options plan		725,417	721,102	725,417	721,102
Treasury shares		(24,214)	-	(24,214)	-
Other comprehensive income		17	(2)	17	(2)
Earnings reserve		134,641	97,627	134,641	97,627
Total equity		1,786,629	1,716,960	1,786,629	1,716,960
Total Liabilities and Equity		3,527,999	2,500,794	3,528,060	2,525,632

See accompanying notes.

BK Brasil Operação e Assessoria a Restaurantes S.A.



Years ended December 31, 2019 and 2018

(Amounts in thousands of Reais, except earnings per share in Reais)

Statements of income

	Notes	Parent company		Consolidated	
		2019	2018	2019	2018
Net operating revenue	24	2,867,990	2,186,244	2,867,990	2,348,333
Cost of goods and products sold	25	(1,082,140)	(832,031)	(1,082,869)	(891,292)
Gross profit		1,785,850	1,354,213	1,785,121	1,457,041
Operating expenses					
Expenses with stores	26	(1,513,742)	(1,145,177)	(1,518,274)	(1,219,711)
General and administrative expenses	27	(141,965)	(101,715)	(142,417)	(110,510)
Equity pickup	10	(6,835)	15,492	-	-
Profit before financial income (expenses) and taxes		123,308	122,813	124,430	126,820
Financial expenses	28	(92,293)	(42,146)	(93,281)	(44,608)
Financial income	29	22,222	51,035	22,617	55,505
Financial income (expenses), net		(70,071)	8,889	(70,664)	10,897
Profit before income tax and social contribution		53,237	131,702	53,766	137,717
Income tax and social contribution	30	(4,694)	(3,666)	(5,223)	(9,681)
Profit for the year		48,543	128,036	48,543	128,036
Basic earnings per share (R\$)	23	0.2142	0.5758	0.2142	0.5758
Weighted average number of shares - in thousand	23	226,624	222,363	226,624	222,363
Diluted earnings per share (R\$)	23	0.2139	0.5662	0.2139	0.5662
Weighted average number of shares - in thousand	23	226,913	226,144	226,914	226,144

See accompanying notes.



Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

Statements of comprehensive income

	Parent company and Consolidated	
	2019	2018
Profit for the year	48,543	128,036
Other comprehensive income	19	(2)
Total comprehensive income, net of taxes	48,562	128,034

See accompanying notes.

BK Brasil Operação e Assessoria a Restaurantes S.A.



Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

Statements of changes in equity

Description	Notes	Capital reserves							Retained profit (loss)	Total equity
		Capital	Capital reserve (share premium)	Share issue cost	Stock option plan	Repurchase of shares	Profit reserve	Other comprehensive income		
As at December 31, 2017		895,836	980,823	(70,923)	5,822	-	-	-	(194,364)	1,617,194
Absorption of loss with legal reserve	22	-	(194,364)	-	-	-	-	-	194,364	-
Share issue cost	22	-	-	(4,742)	-	-	-	-	-	(4,742)
Stock option plan	34	-	-	-	4,486	-	-	-	-	4,486
Capital contribution on 8/28/2018	22	2,397	-	-	-	-	-	-	-	2,397
Profit for the year		-	-	-	-	-	-	-	128,036	128,036
Legal reserve	22	-	-	-	-	-	6,401	-	(6,401)	-
Dividends and interest on capital	22	-	-	-	-	-	-	-	(30,409)	(30,409)
Retained earnings to be allocated at the general meeting	22	-	-	-	-	-	91,226	-	(91,226)	-
Derivative financial instruments	31	-	-	-	-	-	-	(2)	-	(2)
As at December 31, 2018		898,233	786,459	(75,665)	10,308	-	97,627	(2)	-	1,716,960
Stock option plan	34	-	-	-	4,315	-	-	-	-	4,315
Capital contribution in 2019	22	52,535	-	-	-	-	-	-	-	52,535
Purchase of treasury shares	22	-	-	-	-	(24,214)	-	-	-	(24,214)
Profit for the year	22	-	-	-	-	-	-	-	48,543	48,543
Legal reserve	22	-	-	-	-	-	2,427	-	(2,427)	-
Retained earnings to be allocated at the general meeting	22	-	-	-	-	-	34,587	-	(34,587)	-
Dividends and interest on capital	22	-	-	-	-	-	-	-	(11,529)	(11,529)
Derivative financial instruments	31	-	-	-	-	-	-	19	-	19
As at December 31, 2019		950,768	786,459	(75,665)	14,623	(24,214)	134,641	17	-	1,786,629

See accompanying notes.

BK Brasil Operação e Assessoria a Restaurantes S.A.



Years ended December 31, 2019 and 2018

(Amounts in thousands of Reais)

Statements of cash flows

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit before income tax and social contribution	53,237	131,702	53,766	137,717
Depreciation and amortization of property and equipment and intangible assets (Notes 11, 12, 27 and 28)	191,487	125,480	195,880	133,144
Amortization for leases (Note 2.22)	107,301	-	107,301	-
Provision for bonuses	25,175	27,014	25,175	27,014
Equity pickup (Note 10)	6,835	(15,492)	-	-
Interest, charges, exchange variation, monetary variation and APV on leases liabilities	69,700	(7,585)	69,700	(7,585)
Provision for legal claims (Note 20)	15,038	9,820	15,038	11,286
Disposal of PP&E, intangible assets and sale of stores (Notes 11, 12, and 27)	21,496	10,512	22,368	11,503
Stock options cost (Notes 27 and 34)	4,315	4,486	4,315	4,486
Provision for Impairment (Notes 11 and 27)	2,807	4,205	2,807	4,205
	497,391	290,141	496,350	321,769
Changes in assets and liabilities				
Trade receivables, net	(832)	1,430	(758)	8,534
Inventories	(17,765)	(41,533)	(17,765)	(39,360)
Taxes recoverable	(44,726)	(11,367)	(44,734)	(12,039)
Advances paid	(19,497)	(1,856)	(19,493)	(1,520)
Derivative financial instruments	90	35	90	35
Receivables from related parties	3,753	(1,591)	-	-
Other receivables	(4,933)	(15,831)	(5,512)	(15,638)
Trade Payables	45,676	100,517	45,189	96,623
Payroll and social charges	(23,158)	(2,224)	(23,701)	(10,081)
Corporate payables	5,799	3,984	5,799	3,052
Taxes payable	(22,736)	(423)	(23,016)	(10,053)
Income tax and social contribution paid	(5,237)	(19,983)	(5,237)	(24,923)
Deferred revenue, net	(8,420)	35,487	(8,420)	35,487
Payables to related parties	48	5,590	-	-
Derivative financial instruments	19	-	19	-
Legal claims (Note 20)	(9,378)	(6,502)	(9,493)	(7,342)
Other payables	(10,277)	(6,892)	(10,522)	(9,064)
Payment of interest on borrowings	(8,084)	(28,834)	(8,084)	(30,809)
Net cash generated by (used in) operating activities	377,733	300,148	370,712	304,671
Cash flows from investing activities				
Consideration paid on acquisition of investments	-	(389,707)	-	(360,884)
Advance for future capital increase in subsidiaries (Note 10)	(457)	(18,572)	-	-
Purchases of property and equipment (Note 11)	(425,867)	(312,811)	(425,967)	(321,443)
Purchases of intangible assets (Note 12)	(47,600)	(16,844)	(47,600)	(17,512)
Cash from merger	28	-	-	-
Investment in marketable securities	(568,512)	(709,526)	(569,778)	(722,872)
Redemption of marketable securities	730,285	1,428,723	730,243	1,428,723
Net cash generated by (used in) investing activities	(312,123)	(18,737)	(313,102)	6,012
Cash flows from financing activities				
Paid-in capital	52,535	2,397	52,535	2,397
Interest on capital and dividends paid	(26,726)	-	(26,726)	-
Share issue costs	-	(4,742)	-	(4,742)
Purchase of treasury shares (Note 22)	(24,214)	-	(24,214)	-
Loans and financings raised (Note 13)	400,000	-	400,000	-
Borrowing costs	(2,248)	-	(2,248)	-
Payment of loans and financings (principal)	(169,474)	(214,339)	(169,474)	(235,720)
Payment of lease liabilities	(137,169)	-	(137,169)	-
Net cash generated by (used in) financing activities	92,704	(216,684)	92,704	(238,065)
Net increase in cash and cash equivalents	158,314	64,727	150,314	72,618
Cash and cash equivalents:				
Cash and cash equivalents at the end of the year (Note 4)	325,276	166,962	325,277	174,963
Cash and cash equivalents at the beginning of the year (Note 4)	166,962	102,235	174,963	102,345
Net increase in cash and cash equivalents	158,314	64,727	150,314	72,618

See accompanying notes.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

Statements of value added

	Parent company		Consolidated	
	2019	2018	2019	2018
Revenues	3,142,866	2,421,388	3,142,886	2,597,856
Gross sales of goods and services (Note 24)	3,099,265	2,380,497	3,099,265	2,556,121
Discounts and cancellations	(735)	(48)	(735)	(48)
Other revenues	44,336	40,939	44,336	41,783
Inputs purchased from third parties	(1,813,828)	(1,383,347)	(1,815,097)	(1,486,859)
Cost of sales and services	(1,082,140)	(832,031)	(1,082,869)	(891,292)
Materials, electric power, outside services and other expenses	(707,019)	(536,927)	(706,896)	(579,636)
Impairment of assets (Note 27)	(24,303)	(14,717)	(25,175)	(15,708)
Other costs	(366)	328	(157)	(223)
Gross value added	1,329,038	1,038,041	1,327,769	1,110,997
Retentions	(298,788)	(125,480)	(303,181)	(133,144)
Depreciation and amortization (Notes 2.22, 11, 12, 26 and 27)	(298,788)	(125,480)	(303,181)	(133,144)
Wealth created by the Company	1,030,250	912,561	1,024,588	977,853
Wealth received in transfer	16,472	68,998	23,709	58,050
Equity pickup (Note 10)	(6,835)	15,492	-	-
Financial income, net (Note 29)	23,307	53,506	23,709	58,050
Total wealth for distribution	1,046,722	981,559	1,048,297	1,035,903
Wealth distributed	1,046,722	981,559	1,048,297	1,035,903
Personnel expenses	507,752	386,405	507,752	412,096
Salaries and wages and benefits	478,319	365,128	478,319	389,495
FGTS (Severance Pay Fund)	29,433	21,277	29,433	22,601
Taxes, fees and contributions	331,929	273,417	332,483	293,095
Federal	237,915	208,624	238,469	219,392
State	77,918	55,686	77,918	64,596
Municipal	16,096	9,107	16,096	9,107
Lenders and Lessors	158,498	193,701	159,519	202,676
Finance Costs, net (Note 28)	91,639	41,536	92,612	43,948
Rentals	66,859	152,165	66,907	158,728
Interest on capital	48,543	128,036	48,543	128,036
Dividends and interest on capital	11,529	30,409	11,529	30,409
Retained earnings	37,014	97,627	37,014	97,627

See accompanying notes.



Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

1. Operations

BK Brasil Operação e Assessoria a Restaurantes S.A. (“BKB ” or “Company”) is a publicly-held corporation established in Brazil, with its head office at Alameda Tocantins, 350 - Alphaville - Barueri - SP, engaged in: (i) development and operation of “Burger King” and “Popeyes” restaurants in Brazil; (ii) provision of advisory and support services to “Burger King” restaurants in Brazil; (iii) sale, import and export of products related to the aforementioned activities; and (iv) holding of equity interests in other companies that develop the activities above in Brazil, as partner or shareholder.

a) Burger King Operation

The right to operate the “Burger King” restaurants was obtained through a Master Franchise agreement entered into with Burger King Corporation (“BKC”) on July 9, 2011. The restaurant operation rights have a term of twenty years, renewable for additional twenty years, if the parties intend to (Note 21).

The Company obtains from Burger King Corporation, owner of the Burger King brand, a franchise for 20 years counted from each store’s opening date. In the opening of each store, the following are paid:

Franchise fee:

- Free Standing/Food Court/in Line at US\$45 thousand;
- Express at US\$30 thousand;
- Kiosk at US\$5 thousand;
- Royalties: 5% of monthly net revenue;
- Marketing fund of 5% of monthly net revenue.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

1. Operations--Continued

a) Burger King Operation--Continued

As of December 31, 2019 and 2018, the Company had 673 and 631 company-owned stores, respectively, of which:

	2019	2018
State of Alagoas	4	4
State of Bahia	12	11
State of Ceará	15	15
Federal District	10	16
State of Espírito Santo	11	12
State of Goiás	23	20
State of Maranhão	5	5
State of Mato Grosso	5	5
State of Mato Grosso do Sul	3	1
State of Minas Gerais	51	49
State of Pará	7	6
State of Paraíba	5	5
State of Pernambuco	15	14
State of Piauí	2	2
State of Paraná	40	36
State of Rio de Janeiro	97	89
State of Rio Grande do Norte	3	3
State of Rio Grande do Sul	38	36
State of Santa Catarina	3	0
State of Sergipe	6	5
State of São Paulo	318	297
Total Stores	673	631

b) Popeyes Operation

In line with its expansion plan, on March 20, 2018, the Company and Popeyes Louisiana Kitchen, Inc. announced Master Franchise agreements.

By signing these agreements, BKB acquired the exclusive right of developing and operating restaurants in Brazil through its own operation or franchisees under the POPEYES® brand for a twenty-year period.

The agreements establish annual targets aimed at a gradual acceleration of growth of company-owned restaurants and/or franchisees, among them the opening of more than 300 restaurants in an initial period of ten years.

The agreements also stipulate that the Company shall be the exclusive service provider under the POPEYES® brand in Brazil, providing marketing, training, monitoring, procurement, audit and other services to the same franchised restaurants in Brazil, and may charge service fee from its franchisees for this purpose.

In addition, royalties and contribution to the marketing fund were established at levels similar to those applicable to the BURGER KING® brand in Brazil.

As at December 31, 2019, the Company had opened forty-one (41) stores in the state of São Paulo (8 at December 31, 2018).

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

2. Accounting policies

The Company's financial statements were approved by the Board of Directors on February 19, 2020.

The Company's individual and consolidated financial statements ("Financial Statements") have been prepared in accordance with the accounting practices adopted in Brazil ("BR GAAP") and also the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), used in the preparation of these financial statements as of December 31, 2019 and applicable to the comparative information as of December 31, 2018, except for the matter addressed in CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16 - Leases, which according to the standard, does not require comparative information for the adoption under the modified retrospective approach, although requires additional information, which is addressed in Note 2.22.

In conformity with OCPC 07 and CTG 07 - Disclosure of General Purpose Financial Statements, all material information on the financial statements, and only such information, is being evidenced and corresponds to the information used by Management in managing the Company.

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

The Company has adopted all standards, revisions of standards and interpretations issued by IASB and CPC, that were effective at December 31, 2019.

The financial statements were prepared in the normal course of business. Management reviews periodically the Company's ability to continue as a going concern during the preparation of the financial statements.

The financial statements have been prepared on a historical cost basis, except for certain assets and liabilities as those arising from financial instruments, which are measured at fair value.

CPC 22/NBC TG 22 (R2)/IFRS 8 - Operating Segments requires operating segments to be identified based on internal reports, regularly reviewed by key decision makers for the purpose of allocating resources to segments and assess their performance. The Company develops its activities and bases its business decisions considering one operating segment, related to the sale of food and beverages in restaurants operated by the Company.

2. Accounting policies--Continued

Estimates

The Company's financial statements have been prepared in accordance with several measurement bases used in the accounting estimates. The accounting estimates involved in the preparation of the financial statements were based on objective and subjective factors, taking into consideration Management's judgment to determine the appropriate amount to be recognized in the financial statements.

Significant items subject to these estimates and assumptions include the selection of the useful lives of property and equipment items and their recoverability in operations, the assessment of recoverability of intangible assets, the measurement of financial assets at fair value and under the present value adjustment method, the analysis of credit risk to determine the provision for impairment of receivables, as well as the analysis of other risks to determine other provisions, including for legal claims.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions periodically, at least annually.

2.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of BKB and its subsidiaries (Note 10), merged in 2019 (Note 3) and the private equity fund XPA-BK (Note 5).

The subsidiaries are fully consolidated from their acquisition dates, as mentioned in Note 1. The financial statements of subsidiaries have been prepared for the same period of the Company, using consistent accounting policies. All intragroup balances, revenues and expenses as well as unrealized gains and losses arising from intragroup transactions are fully eliminated.

2.2. Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

2. Accounting policies--Continued

2.2. Business combination--Continued

When the Company acquires a business, it determines the fair value of the assets acquired and liabilities assumed in order to allocate them according to the contractual terms, economic circumstances and applicable conditions on the acquisition date, which includes the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition-date fair value, and any resulting gain or loss is recognized in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of CPC 48/NBC TG 48/IFRS 9 - Financial Instruments is measured at fair value, with changes in fair value recognized either in the statement of income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the consideration transferred in relation to the net identifiable assets acquired). If the consideration is lower than the fair value of the net assets acquired, the difference is recognized as a gain in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree being assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation shall be included in the transaction cost when calculating the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed of operation and the portion of the cash-generating unit retained.

2.3. Functional and presentation currency

The Company's functional and presentation currency is the Real.

2. Accounting policies--Continued

2.4. Transactions in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (Real) at the spot rates of exchange rate at each reporting date. Gains and losses resulting from exchange differences arising on the translation of these assets and liabilities at the end of the reporting period are recognized as financial income or expenses in the statement of income.

2.5. Revenue recognition

Revenue is recognized to the extent it is probable that economic benefits will be transferred to the Company and when it can be reliably measured. Revenue is measured at the fair value of the consideration received, less any discounts, rebates and taxes or charges on sales.

The Company assesses revenue transactions in accordance with specific criteria to determine whether it is operating as agent or principal, and, in the end, concluded that it is operating as principal in all its revenue arrangements. The specific criteria below shall also be satisfied before the revenue recognition:

Sale of products

The revenue from sale of products is recognized when the significant risks and rewards of ownership of the products are transferred to the buyer, which generally occurs at the product's delivery.

Rendering of services

The revenue from management and advisory services rendered to franchisees is only recognized when the services are rendered and when the rewards are transferred to the franchisees, by applying percentages on the monthly revenues.

Investment income

Investment income and cash equivalents are calculated based on the effective interest rate applied to the principal amount of the investment. Interest income is included in line item "Financial income", in the statement of income.

2. Accounting policies--Continued

2.6. Taxes

Income tax and social contribution - current

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recoverable from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred taxes

Deferred taxes are provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (i) Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss); and

Deferred tax assets are recognized for all deductible temporary differences, including the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- (ii) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (iii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

2. Accounting policies--Continued

2.6. Taxes--Continued_

Deferred taxes--Continued

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period (as of December 31, 2019 and 2018 the rate used was 34%).

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Indirect taxes (PIS, COFINS, ICMS)

Revenues, expenses and assets are recognized net of sales taxes, except:

- (i) When sales taxes incurred on purchase of goods and services are not recoverable from taxation authorities, in which case the sale tax is recognized as part of the acquisition cost of the asset or expense item, as appropriate;
- (ii) When the amounts receivable and payable are presented together with the amount of the sales tax; and
- (iii) When the net amount of the sales taxes, recoverable or payable, is included as a component of the amounts receivable or payable in the balance sheet.

2.7. Financial instruments - Initial recognition and subsequent measurement

The Company adopted the CPC 48/NBC TG 48/IFRS 9 Financial Instruments in replacement of CPC38 (IAS 39) Financial Instruments: Recognition and measurement as of January 1, 2018, in accordance with CVM resolution 763/16. The changes made to the Company's accounting policies are described below, as well as their impacts on the financial information.

2. Accounting policies--Continued

2.7. Financial instruments - Initial recognition and subsequent measurement--Continued

Classification of financial assets

The CPC 48/NBC TG 48/IFRS 9 have a new classification and measurement approach for financial assets that contains three main classification categories: measured at amortized cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). The standard eliminates existing CPC38 (IAS 39) categories, held to maturity, held for trading, loans and receivables, and available for sale.

This change did not generate any retrospective impact on the Company’s financial assets measurement. Prospectively for the equity instruments measured by FVOCI, when they are settled or transferred, the accumulated profit or loss in the other comprehensive income no longer affect the result, being immediately reclassified to the accumulated profit or loss, in shareholder’s equity.

Hedge Accounting

The Company opted to apply the new requirements of CPC 48/NBC TG 48/IFRS 9 in relation to hedge accounting. These requirements demand that hedge accounting relationships are aligned with the Company’s risk management, objectives and strategies, make the effectiveness assessment more qualitative and prospective, and prohibit voluntary discontinuation of the hedge accounting.

The Company has instruments designated for cash flow hedge, and recognizes the changes in fair value related to the hedge (mark to market), in other comprehensive income. When the instrument is liquidated, these hedge costs are reclassified to income.

Impairment of Financial Assets

The CPC 48/NBC TG 48/IFRS 9 replaces the “losses incurred” model of CPC 38 (IAS 39) with a prospective “expected credit loss” model. This new model applies to financial assets measured at amortized cost or FVOCI, with the exception of investments in equity instruments and contractual assets.

For cash investments, cash and cash equivalents, the Company did not have significant effects in credit losses, due to the high ratings of its counterparties.

For the accounts receivable, Company’ considers the impact of estimated future credit losses due to its commercial activity and card operators with whom it has a relationship to be immaterial.

2. Accounting policies--Continued

2.8. Derivative financial instruments

As of December 31, 2019 and 2018, the Company used derivative financial instruments, such as interest rate swaps and Non-Deliverable Forward (NDF), to hedge against the risk of fluctuations in exchange rates.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses resulting from changes in the fair value of derivatives during the year are recognized directly in the statement of income, in line item financial income or expenses.

2.9. Investments (Company)

The equity interests directly held by the Company in subsidiaries (Note 10) were accounted for under the equity method of accounting.

Under the equity method of accounting, the investment in subsidiary is recorded in the balance sheet at cost, plus the variations after the acquisition of interests in subsidiaries.

The financial information of subsidiaries has been prepared for the same period of the Company. The fiscal years of the subsidiaries and their accounting policies are the same of the Company. When necessary, adjustments were made to bring the accounting policies in line with those of the Company.

2.10. Property and equipment

Items of property and equipment are stated at cost of acquisition or construction, less accumulated depreciation and/or accumulated impairment losses, when applicable. When significant parts of a property and equipment item are replaced, the Company recognizes these parts as individual assets with specific useful lives and depreciation. All other maintenance and repairs costs are expensed as incurred. The Company capitalizes borrowing costs directly related to the construction of assets eligible for use.

In addition, the Company capitalizes the internal costs related to professionals fully dedicated to restaurant construction projects, which are allocated to each new restaurant opened. These costs are capitalized from the moment the restaurant construction project is probable, considering the identification of the location and its feasibility.

2. Accounting policies--Continued

2.10. Property and equipment--Continued

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

The asset's residual values, useful lives and depreciation methods are reviewed at each reporting period and adjusted prospectively, if appropriate. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets, as mentioned in Note 11.

2.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

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

Brands, real property rights and licenses

Use of the brand Burger King (Franchise fee)

Brands comprise the rights to use the brands paid to Burger King Corporation for the opening of each store. The amortization period is twenty years from the restaurant opening date.

Use of the brand Popeyes (Franchise fee)

Brands comprise the rights to use the brands paid to Popeyes Louisiana Kitchen, Inc. for the opening of each store. The amortization period is twenty years from the restaurant opening date.

2. Accounting policies--Continued

2.11. Intangible assets--Continued

Brands, real property rights and licenses--Continued

Real property rights (Commercial rights)

Real property rights refer to the locations where the point of sales or stores are established and upfront payments are paid to the lessors of such spaces. Amortization is calculated using the straight-line method in accordance with the term of the lease agreement signed between the lessee, the Company, and the lessor, owner of the property.

Software licenses (Software use rights)

Software refer to the licenses acquired by the Company for the use of the software. Amortization is calculated on a straight-line basis over an average period of five years and maintenance costs are recognized directly in profit or loss.

Goodwill

Goodwill arising on business combination transactions. Goodwill is annually tested for impairment, as mentioned in Notes 2.13 and 12.

2.12. Inventories

Inventories are stated at the lower of cost or net realizable value.

2.13. Impairment of non-financial assets

The recoverable amount of an asset or a certain cash-generating unit is the higher of an asset's fair value less costs to sell or its value in use.

In estimating the value in use of the asset, estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. The net disposal proceeds are determined, whenever possible, based on a firm sale agreement in an arm's length transaction, adjusted by expenses attributable to the sale of the asset or, when there is no firm sale contract, based on the market price of an active market, or in the price of the most recent transaction with similar assets.

The following criteria are also applied to assess the impairment of specific assets:

Goodwill

The impairment testing of goodwill is performed annually (at December 31) or whenever circumstances indicate an impairment may exist (see details on the annual analysis in Note 12).

2. Accounting policies--Continued

2.13. Impairment of non-financial assets--Continued

Intangible assets

The amortization period and method for an intangible asset with finite useful life are reviewed at the end of each reporting period, whenever there is indication of impairment, changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are recognized through changes in the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets (Note 12). Intangible assets with indefinite useful lives are not subject to amortization, but are tested annually for impairment, individually or at the level of the cash-generating unit.

The assessment of indefinite useful life is reviewed annually to determine if such assessment continues to be justifiable. Otherwise, the change in useful life from indefinite to finite is made on a prospective basis. As of December 31, 2019 and 2018, there were no indications of impairment and there was no change in the useful life from indefinite to finite.

2.14. Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments and not for investment or other purposes. The Company considers as cash equivalents a financial investment that can be immediately converted into a known amount of cash and subject to an insignificant risk of change in value.

Therefore, an investment usually qualifies as a cash equivalent only when it has a short maturity of, for example, three months or less from the date of contracting and/or has a repurchase commitment.

2.15. Marketable securities and Restricted marketable securities

Marketable securities are measured based on their yield and are recognized in the statement of income when incurred, not presenting material differences in relation to their fair values. Therefore, there was no fair value adjustment in equity account as of December 31, 2019 and 2018.

The Company's share in the exclusive investment fund was consolidated based on the segregation of investments comprising the fund's equity (Notes 2.1 and 5).

2.16. Deferred revenue, net

The Company has transactions with suppliers, which pay for the exclusive sales of products, brand exposure in stores and volume of purchases, which are recorded as deferred revenue, in current and non-current liabilities, and are recognized in the statement of income in line item "Other Operating Income (Expenses)" over the period of the agreement with the supplier.

2. Accounting policies--Continued

2.17. Agreement with suppliers

The Company has financial liabilities with suppliers, through financial institutions, whose maturities were extended, or suppliers received in advance during the year ended December 31, 2019. Due to the characteristic of commercial negotiation of terms between suppliers and the Company, these financial liabilities were included in the amount advance programs using the Company's credit lines with institutions (Note 14).

2.18. Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement.

Provision for tax, civil and labor risks

The Company is a party to lawsuits and administrative proceedings. Provisions are recognized for all contingencies related to lawsuits for which it is probable that an outflow of resources will be made to settle the contingency/obligation and a reasonable estimate can be made. The assessment of the likelihood of loss includes the assessment of available evidence, hierarchy of laws, available case laws, recent court decisions and their relevance in the legal system, as well as the assessment made by outside attorneys. Provisions are reviewed and adjusted to take into account changes in circumstances, such as applicable statute of limitations, completion of tax audits or additional exposures identified based on new matters or court decisions. The others estimatives and provisions can be seen in the Notes 2.7; 2.10; 2.13; e 2.21.

2.19. Statements of cash flows and value added

The statements of cash flows were prepared under the indirect method and are presented in accordance with CPC 03 (R2)/NBC TG 03 (R3)/IAS 7 - Statement of Cash Flows. The statement of value added was prepared in accordance with CPC 09/NBC TG 09 - Statement of Value Added and is presented as supplementary information for IFRS purposes.

2. Accounting policies--Continued

2.20. Earnings per share

The Company calculates earnings (loss) per share using the weighted average number of total shares during the period corresponding to the result for the period, as set forth in technical pronouncement CPC 41/NBC TG 41 (R2)/IAS 33 - Earnings per Share.

The comparative figures of basic and diluted earnings/loss per share are based on the weighted average number of shares outstanding in the year, and all shares with potential dilutive effect outstanding for each presented year, respectively.

Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share, except for the potential shares outstanding that are added, in order to include the number of additional shares that would be outstanding if the potential dilutive shares attributed to stock options and redeemable shares held by noncontrolling interests had been issued during the respective periods, using the weighted average share price.

2.21. Significant accounting estimates and assumptions

The main assumptions related to sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the end of the reporting period, involving a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next fiscal year, are discussed below:

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available information on sales of similar sales or market prices less incremental costs to dispose of the asset. The value in use calculation is based on the discounted cash flow model. Cash flows derive from the budget for the next five years and do not include reorganization activities to which the Company has not yet committed or significant future investments that will improve the asset base of the cash-generating unit subject to testing. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as to expected future cash receipts and the growth rate used for extrapolation purposes. See details in Note 12.

Taxes

Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be utilized. Significant judgment by Management is required to determine the amount of the deferred tax asset that may be recognized, based on the probable period and level of future taxable profits, together with future tax planning strategies.

2. Accounting policies--Continued

2.21. Significant accounting estimates and assumptions--Continued

Taxes--Continued

The utilization of accumulated tax losses is restricted to the limit of 30% of the taxable profit generated in a certain fiscal year, however the unused tax losses do not expire.

Fair value of financial instruments

When the fair value of financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. Data for these methods are based on market data, when possible; however, when this is not feasible, a certain level of judgment is required to establish the fair value.

Judgment includes considerations on the data used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of the financial instruments.

Provision for tax, civil and labor risks

The Company recognizes a provision for tax, civil and labor claims. The assessment of the likelihood of loss includes the assessment of available evidence, hierarchy of laws, available case laws, recent court decisions and their relevance in the legal system, as well as the assessment made by outside attorneys. Provisions are reviewed and adjusted to take into account changes in circumstances, such as applicable statute of limitations, completion of tax audits or additional exposures identified based on new matters or court decisions.

2.22. Leased assets - Effects of the adoption of CPC 06 (R2)/NBC TG 06 (R2)/IFRS 16

In January 2016, IFRS 16 – Leases was issued and in December 2017 CPC 06 (R2)/NBC TG 06 (R2) – Lease Operations was issued, effective from January 1st, 2019. The Company will adopt CPC 06 (R2)/NBC TG 06 (R2)/IFRS 16 – Leases as from January 1st, 2019 since early adoption is not permitted in Brazil.

IFRS 16/CPC 06 (R2)/NBC TG 06 (R2) introduces a single model to account for leases in the balance sheet of lessee. The lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Exemptions are available for short-term leases and leases of low-value assets.

IFRS 16/CPC 06 (R2)/NBC TG 06 (R2) replaces the existing lease standards, including CPC 06/IAS 17 Lease Operations and ICPC 03/IFRIC 4, SIC 15 and SIC 27 Complementary Aspects of Lease Transactions.

2. Accounting policies--Continued

2.22. Leased assets - Effects of the adoption of CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16-- Continued

Leases in which Company is a lessee

The Company recognized an asset ("right-of-use asset") (Note 12) for its lease agreements related to lease of administrative and operational properties (stores). What was previously treated as rental expense is now recorded as amortization of "rights of use" and interest on rental obligations, disclosed as "Lease Liabilities". Consequently, EBITDA and operating income were affected.

Transition

The Company applied CPC 06 (R2)/NBC TG 06 (R2)/IFRS 16, using the modified retrospective approach, which does not require the presentation of information from prior comparative periods.

On transition, lease liabilities were measured at the present value of the remaining payments, discounted at the incremental borrowing rate of the lessee (nominal rate).

The lease agreements have an average term of 10 years and the Company made use of late perception, such as when determining the lease term, whether the contract contains options to extend or terminate, among others. The Company has a policy of delaying the perception at least one year before the expiration of the lease.

Actual flow (excluding inflation estimated in 2020 - 4.1%, 2021 - 3.8%, 2022 - 3.5%, above 2023 at 4% for the next 7 years) were estimated gross taxes and the right-of-use assets were measured at the value equal to the lease liability at present value. In accordance with CPC 06 (R2) / NBC TG 06 (R3) / IFRS 16, in measuring and remeasuring its lease liabilities and the right to use, it used the discounted cash flow technique without considering projected future inflation in the flows to be discounted.

The Company applied the practical expedient regarding the definition of a lease agreement in the transition. This means that it applied CPC 06 (R2)/NBC TG 06 (R2)/IFRS 16 to all contracts entered into prior to January 1, 2019 that were identified as leases in accordance with CPC 06 (R1) / IAS 17 and ICPC 03 / IFRIC 4.

The incremental borrowing rate (discount) used to measure the present value of the data was calculated on the projected CDI + spread (nominal rate).

The Company recognized the assets and liabilities for its lease agreements related to the lease of administrative and operational properties, according to the interpretation disclosed by the Brazilian Securities and Exchange Commission (CVM) in Circular Letter CVM/SNC/SEP 02/2019 on CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16, which impacted mainly the tax matter, due to the gross recognition of taxes. As a result, the balance of Leases payable does consider the amount equivalent to approximately 9.25% PIS / COFINS.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

2. Accounting policies--Continued

2.22. Leased assets - Effects of the adoption of CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16-- Continued

Based on the information, we present below the movement of the Company's right-of-use assets and lease liabilities:

Right-of-use assets	Amount
At December 31, 2018	-
Leases recognized in the transition to CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16	612,223
Additions and updates of leases recognized in the year (i)	167,001
Amortization of right of use (lease) (Notes 26 and 27)	(118,238)
At December 31, 2019 (Note 12)	660,986
Lease liabilities	Amount
At December 31, 2018	-
Leases recognized in the transition to CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16	859,815
Additions and updates of leases recognized in the year (i)	255,658
Payment of lease liabilities (Note 30)	(151,150)
Adjustment to present value recognized in the transition to CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16	(247,592)
Additions of adjustment to present value (APV) recognized in the year	(88,657)
Write-off of accrued interest APV (Note 28)	65,135
At December 31, 2019 (Note 15)	693,209
Current (Note 15)	99,156
Non-current (Note 15)	594,053
Income from lease	Amount
At December 31, 2018	-
Expenses on stores - variable rental	(19,066)
Amortization of right of use (lease) (Notes 5, 26, 27 and 30)	(107,301)
Finance costs – Accrued interest (APV) (Notes 5, 28 and 30)	(62,091)
At December 31, 2019	(188,458)

(i) The adjustments of financial indexes for Lease Liabilities are recorded according to each agreement, causing impacts in line items APV, Lease liabilities and Right-of-use assets. These adjustments, when recorded, do not impact the profit or loss for the year, only the balance sheet figures.

2.23. Employee benefits

The Company grants benefits to its employees, such as meal vouchers for Management employees, meals for restaurant employees, medical and dental care, transportation voucher and variable compensation.

Profit sharing

The profit sharing program is approved annually and is based on individual targets and Company targets as a whole. In 2019, the targets were achieved by the Company and the employees, therefore the profit sharing program was accrued for 2019 and will be paid the following year. The amount related to the provision for profit sharing is recorded in line item Payroll and Social Charges, in the balance sheet.

2. Accounting policies--Continued

2.24. Distribution of dividends and interest on capital

Pursuant to the Bylaws, shareholders are entitled to minimum mandatory dividends corresponding to 25% of the Company's annual profit, after the setting up of the legal reserve of 5% of the profit for the year, until such reserve reaches 20% of the capital, as set forth in article 202 of the Brazilian Corporation Law.

In accordance with the Brazilian legislation, Law 9,249/1995, companies may elect to distribute interest on capital, calculated based on the long-term interest rate ("TJLP"), which is deductible for income tax purposes, pursuant to the relevant legislation, and when distributed, may be considered as part of the minimum mandatory dividends.

The distribution of dividends and interest on capital to the Company's shareholders is recognized as a liability in the financial statements at the end of the reporting period, based on the Company's Bylaws (Note 22). Any amount above the minimum mandatory dividend is only accrued on the date in which it is approved by the shareholders at the Board of Directors' Meeting.

The tax benefit of interest on capital is recognized in the statement of income (Note 30).

2.25. Uncertainty over Income Tax Treatments - ICPC 22/ITG 22/IFRIC 23

The interpretation on Uncertainty over Income Tax Treatments - ICPC 22/ITG 22/IFRIC 23, addresses the accounting of taxes on income in cases in which the tax treatments involve an uncertainty that affects the application of IAS 12 (CPC 32/NBC TG 32 (R4) - Income Taxes) and is not applicable to taxes outside the scope of IAS 12, nor specifically includes requirements regarding interest and fines associated to uncertain tax treatments.

The Company assessed the uncertain tax treatments separately and the assumptions regarding the review of tax treatments by tax authorities on the determination of taxable income (tax loss), tax bases, unused tax losses, untimely tax credits and tax rates.

The Company determined, based on its tax compliance study, that it is probable that its tax treatments (including those applicable to subsidiaries) will be accepted by tax authorities. This interpretation did not generate impact on the Company's individual and consolidated financial statements.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

3. Business combination

Acquisitions

On October 17, 2017, the Company entered into a Share Purchase and Sale Agreement for the acquisition King Food Comércio de Alimentos S.A., Good Food Comércio de Alimentos S.A. and Fast Burger Comércio de Alimentos S.A., which in the aggregate have 51 restaurants and 20 desert kiosks of the BURGER KING® brand.

The aggregate transaction price was R\$404 million (Note 10), contingent to the compliance with various suspensive conditions, among them the approval of the transaction by the Brazilian Antitrust Agency ("CADE") which occurred on 01/31/2018 in a satisfactory manner for BKB published in the Federal Official Gazette ("DOU"), the conducting of the initial public offering of Company shares occurred on December 18, 2017, and the satisfactory conclusion of the legal, accounting, financial and operational due diligence of the companies.

On April 2, 2018, the Company completed the acquisition of control of the following legal entities (jointly referred to as "Centro Sul") in order to increase the number of restaurants and maximize its results through the synergy of operations, in addition to centralizing its management and its capital management.

<u>Company</u>	<u>Date of acquisition</u>	<u>% acquired</u>
King Food Comércio de Alimentos S.A.	4/2/2018	100%
Good Food Comércio de Alimentos S.A.	4/2/2018	100%
Fast Burger Comércio de Alimentos S.A.	4/2/2018	100%

In this transaction, 51 restaurants and 20 dessert kiosks were acquired.

The composition of the consideration, preliminary allocation of the purchase price, identification of the market value of the calculated net assets and allocation of the goodwill are shown below:

Years ended December 31, 2019 and 2018
(Amounts in thousands of reais)

3. Business combination--Continued

Acquisitions--Continued

	King Food	Good Food	Fast Burger (i)	Total
Consideration paid on acquisition	95,174	155,672	138,861	389,707
Consideration payable (Note 19)	3,710	4,887	5,583	14,181
Subtotal consideration (Note 10)	98,884	160,559	144,444	403,887
Adjustment to present value (Notes 10 and 12)	(717)	(945)	(1,080)	(2,742)
Total consideration	98,167	159,614	143,364	401,145

	Carrying amount				Fair value adjustment (PPA)				Fair value			
	King Food	Good Food	Fast Burger	Total	King Food	Good Food	Fast Burger	Total	King Food	Good Food	Fast Burger	Total
Current assets, net of cash acquired	6,821	22,877	14,572	44,270	-	-	-	-	6,821	22,877	14,572	44,270
Other non-current assets	2,401	1,604	3,609	7,614	-	-	-	-	2,401	1,604	3,609	7,614
Property and equipment (Note 11)	13,564	10,847	14,052	38,463	-	-	-	-	13,564	10,847	14,052	38,463
Intangible assets (Note 12)												
Goodwill	-	-	-	-	88,469	137,713	143,934	370,116	88,469	137,713	143,934	370,116
Franchise fee - brand	522	598	1,508	2,628	1,226	1,265	802	3,293	1,748	1,864	2,311	5,922
Commercial rights	434	346	1,071	1,851	3,927	5,905	7,242	17,074	4,361	6,251	8,314	18,925
Software	221	205	89	515	-	-	-	-	221	205	89	515
	23,963	36,477	34,901	95,341	93,622	144,884	151,978	390,483	117,585	181,361	186,879	485,825
Current liabilities	13,088	13,372	28,295	54,755	-	-	-	-	13,088	13,372	28,295	54,755
Non-current liabilities (ii)	6,330	8,374	15,220	29,924	-	-	-	-	6,330	8,374	15,220	29,923
Net assets acquired at fair value	4,545	14,731	(8,614)	10,662	93,622	144,884	151,978	390,483	98,167	159,614	143,364	401,145

(i) The consideration amount may change since one of the acquired stores of this subsidiary did not have 12 operating months at the acquisition date, so after the closing of 2018, the calculation of the store was reformed. The Company is aware that the amount of its consideration may change.

(ii) As from 2015, there were no longer differences between the accounting and tax books related to Business combinations, and deferred taxes were no longer computed.

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3. Business combination--Continued

Mergers

On June 28, 2019, King Food Comércio de Alimentos S.A., Good Food Comércio de Alimentos S.A. and Fast Burger Comércio de Alimentos S.A. were merged into the Company. On October 7, 2019, BGMAXX BA Comércio de Produtos Alimentícios Ltda and BGMAXX Comércio de Produtos Alimentícios Ltda were merged into the Company.

The mergers were carried out based on technical reports from experts, considering their accounting net assets, eliminating intragroup balances on the respective merger dates, summarized below, thus not causing impacts on the Company's profit for the period and equity:

	King Food	Good Food	Fast Burger	BGMAXX BA	BGMAXX AL	Fair value adjustment	Total
Assets							
Total current assets	2,641	16,106	6,414	1,698	25	-	26,884
Other non-current assets	1,621	926	3,520	179	84	-	6,331
Property and equipment, net (Note 11)	13,313	9,959	14,375	1,929	59	-	39,636
Intangible assets (Note 12)	1,027	1,073	2,159	936	10	411,166	416,371
Total assets	18,603	28,064	26,469	4,742	178	411,166	489,221
Liabilities							
Total current liabilities	375	1,066	2,904	1,719	1,730	-	7,794
Total non-current liabilities	5,492	10,948	9,720	1,396	339	-	27,895
Total merged net assets (Note 10)	12,735	16,051	13,845	1,627	(1,891)	411,166	453,533

4. Cash and cash equivalents

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash	28,221	28,663	28,221	28,663
Banks	3,333	1,487	3,334	1,567
Financial investments	293,722	136,812	293,722	144,733
Total cash and cash equivalents	325,276	166,962	325,277	174,963

Type of Investment	Annual yield	Parent company		Consolidated	
		2019	2018	2019	2018
CDB	100.1% to 101.2% of CDI	100,515	34,092	100,515	34,117
Repurchase agreement	50% to 80% of CDI	166,762	-	166,762	-
Automatic investment	10% to 60% of CDI	26,445	102,720	26,445	110,616
Total financial investments		293,722	136,812	293,722	144,733

These investments are highly liquid and the Company may redeem them at any time without significant change in value. These investments are in compliance with the Company's internal policy, observing the limits among financial institutions, ratings and liquidity criteria

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5. Marketable securities

Type of Investment	Annual yield	Parent company		Consolidated	
		2019	2018	2019	2018
Exclusive investment fund - XPA BK (i)	100% to 126% of CDI or IPCA	211,852	227,492	-	-
Federal Treasury Bills (LFT)	100% to 126% of CDI or IPCA	-	-	114,643	113,352
Investment Funds	IPCA	-	-	29,621	15,299
Lease bills (LAM)	102% to 102.1% of CDI	-	58,955	-	58,955
CDB	100% to 109% of CDI	53,770	113,502	59,750	133,010
Investments and debentures	100% to 112% of CDI	-	-	18,209	34,152
Financial bills (LF)	100% to 111.2% of CDI or IPCA	-	-	42,631	58,527
National Treasury Bills (NTN-B)	IPCA	-	-	829	-
Investment Fund and CDB (ii)	99% of CDI	1,366	2,327	1,366	2,327
Repurchase agreement (iii)	100% of CDI	13,133	12,361	13,133	12,361
Total marketable securities		280,121	414,637	280,182	427,983
Current		278,755	402,276	278,816	415,622
Marketable securities		265,622	399,790	265,683	413,136
Restricted marketable securities		13,133	2,486	13,133	2,486
Non-current		1,366	12,361	1,366	12,361

- (i) XPA BK FUNDO DE INVESTIMENTO MULTIMERCADO INVESTIMENTO NO EXTERIOR – Exclusive investment fund, 100% held by the Company, created on 12/29/2017. The portfolio of this fund, by type of investment, is shown in the consolidated balances, and is comprised of financial treasury bills and investment funds.
- (ii) Financial investments pledged as collateral of loans and financing mentioned in Note 13 and their redemption is linked to the maturity of those loans.
- (iii) Repurchase agreements (restricted account) pledged as collateral of the 6th issue of debentures mentioned in Note 13.2.

6. Trade receivables, net

	Parent company		Consolidated	
	2019	2018	2019	2018
Sales transactions	47,229	49,506	47,229	49,581
Service rendered with franchisees	3,883	3,032	3,883	3,032
Services rendered with related parties (Note 21)	438	655	438	655
Other receivables	8,811	6,335	8,811	6,335
Total trade receivables	60,361	59,528	60,361	59,603

As mentioned in Note 13, part of the inflows of receivables with credit cards and meal vouchers is pledged as collateral of loans and financings (debentures).

7. Inventories

	Parent company and Consolidated	
	2019	2018
Goods for resale (stores)	61,444	46,179
Distribution center - BKB	28,099	26,006
Gifts	9,498	9,091
Total inventories	99,041	81,276

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8. Taxes recoverable

	Parent company		Consolidated	
	2019	2018	2019	2018
IRPJ (Income Tax)	1,973	2,368	1,973	3,468
CSLL (Social Contribution on Profit)	839	1,116	839	1,493
IRRF (Withholding Income Tax)	2,366	1,976	2,366	1,976
ICSM (State VAT)	23,206	9,676	23,206	10,037
Non-cumulative PIS	15,904	5,007	15,904	5,528
Non-cumulative COFINS	52,486	22,809	52,486	25,297
INSS (Social Security Contribution)	3,551	7,787	3,551	7,787
Other	353	358	353	358
Total taxes recoverable (i)	100,678	51,097	100,678	55,944
Current	27,558	35,546	27,558	40,393
Non-current	73,120	15,551	73,120	15,551

(i) The increase in taxes recoverable include the recognition of untimely tax credits. The Company expects to realize the tax credits until 2022.

9. Advances expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
Advances to suppliers of services and materials	10,130	12,755	10,130	12,759
Expenses to be reimbursed - Marketing Fund	35,985	13,863	35,985	13,863
Total advances paid	46,115	26,618	46,115	26,622

10. Investments

Movements in investments as of December 31, 2019 and 2018 were as follows:

	Parent company	
	2019	2018
Opening balance	462,653	17,965
Equity interest (Note 3)	-	403,887
Advance for future capital increase - in cash	457	18,572
Advance for future capital increase - PERT (i)	-	6,737
APV accounts payable for the acquisition of investment (Note 3)	(2,742)	-
Merger of subsidiaries (Note 3)	(453,533)	-
Equity pickup	(6,835)	15,492
Closing balance	-	462,653

(i) In 2018, the subsidiaries enrolled in the tax debt refinancing program (PERT). On that occasion, the Company's tax loss was used to settle part of the Subsidiary's debt and a contribution on this transaction was recognized.

Investees BGMAXX BA, BGMAXX AL, KING FOOD, FAST BURGER and GOOD FOOD as of December 31, 2019, had equity pickup balances of R\$1,819, R\$237, R\$1,441, R\$1,636 and R\$1,702, respectively.

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10. Investments--Continued

As of December 31, 2018, the balances are as follows:

	2018					Total
	BGMXX BA	BGMXX AL	KING FOOD	FAST BURGER	GOOD FOOD	
Assets						
Current assets	1,662	29	5,041	9,422	17,595	33,749
Non-current assets	3,158	98	16,518	21,606	13,497	54,877
Total assets	4,820	127	21,559	31,028	31,092	88,626
Liabilities						
Current liabilities	2,702	1,524	907	5,228	1,532	11,893
Non-current liabilities	-	257	6,475	10,319	11,807	28,858
Total liabilities	2,702	1,781	7,382	15,547	13,339	40,751
Equity	2,118	(1,654)	14,177	15,481	17,753	47,875
Total liabilities and equity	4,820	127	21,559	31,028	31,092	88,626
% interest in subsidiary	100%	100%	100%	100%	100%	
Net operating revenue	-	-	41,216	71,591	54,922	167,729
Equity pickup (i)	34	292	4,103	9,171	1,892	15,492

(i) The subsidiaries' operating revenues are being partially recognized at the Parent company.

The Company held a 100% interest in these subsidiaries and for consolidation purposes the net asset is eliminated against the investment balance, remaining the surplus value balance, which was reclassified to intangible assets (Note 12).

11. Property and equipment, net

	Annual depreciation Rate range	Parent company		Consolidated	
		2019	2018	2019	2018
Facilities, improvement and projects	(i)	524,503	405,632	524,503	427,375
Machinery and equipment	5% to 25%	235,785	156,394	235,785	170,758
Furniture and fixtures	6% to 20%	57,550	38,776	57,550	43,457
Computers and hardware	2% to 5%	67,716	41,438	67,716	43,897
Other assets	-	288,364	250,129	288,364	250,271
(-) Provision for impairment	-	(10,340)	(7,533)	(10,340)	(7,533)
Total property and equipment		1,163,578	884,836	1,163,578	928,225

(i) According to the rental agreement terms, 10 years on average.

In 2019, financial charges in the amount of R\$986 were capitalized.

Years ended December 31, 2019 and 2018
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11. Property and equipment, net--Continued

The movements in property and equipment in the years ended December 31, 2019 and 2018 were as follows:

	Parent company					(-) Provision for impairment	Total
	Facilities, improvement and projects	Machinery and equipment	Furniture and fixtures	Computers and hardware	Other assets (ii)		
Cost							
Balance in 2017	570,640	183,765	50,774	90,659	129,167	(3,328)	1,021,677
Additions (ii)	41,098	-	-	5	271,708	-	312,811
Transfers	61,528	55,887	13,112	16,028	(146,555)	-	-
Write-offs	(5,490)	(1,557)	(1,390)	(2,822)	(3,162)	-	(14,421)
Sale of stores	(3,951)	(1,474)	(328)	(703)	(1,029)	-	(7,485)
Impairment (Note 27)	-	-	-	-	-	(4,205)	(4,205)
Balance in 2018	663,825	236,621	62,168	103,167	250,129	(7,533)	1,308,377
Additions	38,660	58	-	-	387,149	-	425,867
Merger (Note 3)	20,265	12,891	3,992	2,488	-	-	39,636
Transfers	175,100	101,818	23,938	47,730	(348,586)	-	-
Write-offs	(11,998)	(2,503)	(540)	(3,498)	2,838	-	(15,701)
Sale of stores (i)	(11,175)	(4,254)	(1,031)	(1,660)	(3,166)	-	(21,286)
Impairment (Note 27)	-	-	-	-	-	(2,807)	(2,807)
Balance in 2019	874,677	344,631	88,527	148,227	288,364	(10,340)	1,734,086
Depreciation							
Balance in 2017	(199,604)	(59,971)	(18,315)	(48,140)	-	-	(326,030)
Additions	(64,951)	(22,061)	(6,001)	(16,716)	-	-	(109,729)
Write-offs	4,320	1,140	762	2,555	-	-	8,777
Sale of stores	2,042	665	162	572	-	-	3,441
Balance in 2018	(258,193)	(80,227)	(23,392)	(61,729)	-	-	(423,541)
Additions	(103,695)	(30,644)	(8,039)	(22,673)	-	-	(165,051)
Write-offs	5,340	406	58	2,677	-	-	8,481
Sale of stores (i)	6,374	1,619	396	1,214	-	-	9,603
Balance in 2019	(350,174)	(108,846)	(30,976)	(80,511)	-	-	(570,508)
Total property and equipment in 2018	405,632	156,394	38,776	41,438	250,129	(7,533)	884,836
Total property and equipment in 2019	524,503	235,785	57,550	67,716	288,364	(10,340)	1,163,578

- (i) Disposal of 12 stores, in line with Management's strategy to focus on increase in profitability and return on invested capital, generating a net capital loss of R\$196 in 2019 (R\$4,270 in 2018) (Note 27, line items "Income from stores sold" and "Write-off of assets of stores sold").
- (ii) Stores built and / or remodeled substantially that will be reallocated to the fixed assets groups according to the Company's policy R\$149,888 (R\$147,901 in 2018), works referring to stores under construction R\$25,683 (R\$14,344 in 2018), new equipment in stock R\$65,197 (R\$46,824 in 2018), maintenance equipment R\$2,448 (R\$1,585 in 2018), and other assets in progress R\$45,148 (R\$39,475 in 2018).

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

11. Property and equipment, net--Continued

	Consolidated						Total
	Facilities, improvement and projects	Machinery and equipment	Furniture and fixtures	Computers and hardware	Other assets (ii)	(-) Provision for impairment	
Cost							
Balance in 2017	576,965	190,546	55,829	91,646	129,286	(3,328)	1,040,944
Additions	43,019	1,415	121	268	276,620	-	321,443
Acquisition (Note 3)	19,525	12,736	4,413	1,738	50	-	38,463
Transfers	63,625	57,182	13,417	17,243	(151,467)	-	-
Write-offs	(5,511)	(1,793)	(1,802)	(2,983)	(3,162)	-	(15,251)
Sale of stores	(4,092)	(1,666)	(345)	(703)	(1,029)	-	(7,835)
Impairment (Note 27)	-	-	-	-	-	(4,205)	(4,205)
Balance in 2018	693,531	258,420	71,633	107,209	250,298	(7,533)	1,373,558
Additions	38,660	58	100	-	387,149	-	425,967
Transfers	175,595	101,688	23,551	47,894	(348,728)	-	-
Write-offs	(11,998)	(2,503)	(540)	(3,498)	2,838	-	(15,701)
Sale of stores (i)	(11,175)	(4,254)	(1,031)	(1,660)	(3,166)	-	(21,286)
Impairment (Note 27)	-	-	-	-	-	(2,807)	(2,807)
Balance in 2019	884,613	353,409	93,713	149,945	288,391	(10,340)	1,759,731
Depreciation							
Balance in 2017	(204,492)	(65,223)	(22,434)	(49,153)	-	-	(341,302)
Additions	(68,026)	(24,244)	(6,690)	(17,447)	(27)	-	(116,434)
Write-offs	4,320	1,140	786	2,716	-	-	8,962
Sale of stores	2,042	665	162	572	-	-	3,441
Balance in 2018	(266,156)	(87,662)	(28,176)	(63,312)	(27)	-	(445,333)
Additions	(105,668)	(31,987)	(8,441)	(22,808)	-	-	(168,904)
Write-offs	5,340	406	58	2,677	-	-	8,481
Sale of stores (i)	6,374	1,619	396	1,214	-	-	9,603
Balance in 2019	(360,110)	(117,624)	(36,163)	(82,229)	(27)	-	(596,153)
Total property and equipment in 2018	427,375	170,758	43,457	43,897	250,271	(7,533)	928,225
Total property and equipment in 2019	524,503	235,785	57,550	67,716	288,364	(10,340)	1,163,578

- (i) Disposal of 12 stores, in line with Management's strategy to focus on increase in profitability and return on invested capital, generating a net capital loss of R\$196 in 2019 (R\$3,920 in 2018) (Note 27, line items "Income from stores sold" and "Write-off of assets of stores sold").
- (ii) Stores built and/or remodeled substantially that will be reallocated to the fixed assets groups according to the Company's policy R\$149,888 (R\$147,901 in 2018), works referring to stores under construction R\$25,683 (R\$14,344 in 2018), new equipment in stock R\$65,197 (R\$46,824 in 2018), maintenance equipment R\$2,448 (R\$1,585 in 2018), and other assets in progress R\$45,148 (R\$39,617 in 2018).

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

11. Property and equipment, net--Continued

Impairment test

The Company considers each restaurant as its smallest cash generating unit (CGUs), and tested them for impairment taking into consideration the maturity period (beginning in 24 months, considering 548 restaurants of a total of 673 in 2019 and 453 of a total of 631 in 2018) and their future cash flows discounted to present value, at the rate of 9.55% (WACC), five (5) years and limited to the contractual period of that store.

Once the restaurants with indication of impairment were identified, the Company's Management assessed the perspectives of resumption of cash generation or their discontinuance.

In the cases of discontinuance, the Company accrued the carrying amount of its impaired assets of stores, comprising: facilities, improvements, projects and assignment of right. In 2019, the provision balance was R\$10,340 (R\$7,533 in 2018).

In the year ended December 31, 2018, a provision was set up for the impairment of 12 stores, of which 4 were closed, 1 was transferred, 2 were maintained in the provision and 5 had their provision reversed. In the year ended December 31, 2019, a provision was set up for the impairment of additional 20 stores, totaling 22 stores. The result of the movement in the provisions and reversals for impairment was R\$2,807 in 2019 (reversals of provisions of R\$4,205 in 2018) (Note 27).

For the opening of restaurants and acquisitions, the Company analyzes, among other factors, the feasibility, cash generation and return.

12. Intangible assets, net

	Annual average amortization rate	Parent company		Consolidated	
		2019	2018	2019	2018
Commercial rights	(i)	68,645	46,423	68,645	68,204
Franchise fee	5%	76,626	55,657	76,626	63,414
Software licenses	20%	11,264	6,795	11,264	7,757
Right-of-use asset (Note 2.22)	(ii)	660,986	-	660,986	-
Goodwill	(iii)	572,199	184,917	572,199	574,941
Total intangible assets		1,389,720	293,792	1,389,720	714,316

(i) According to the rental agreement terms, 10 years on average.

(ii) According to the rental agreement term.

(iii) Annual analysis of impairment.

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12. Intangible assets, net--Continued

The movements in intangible assets in the years ended December 31, 2019 and 2018 were as follows:

	Parent company					Total
	Commercial rights	Franchise fee (Note 20)	Software licenses	Goodwill	Right-of-use asset (Note 2.22)	
Cost						
Balance in 2017	96,780	60,812	18,450	184,917	-	360,959
Additions	6,068	10,010	766	-	-	16,844
Write-offs	(1,031)	(401)	(37)	-	-	(1,469)
Sale of stores (i)	(60)	(260)	(47)	-	-	(367)
Balance in 2018	101,757	70,161	19,132	184,917	-	375,967
Additions	19,810	20,708	7,082	-	779,224	826,824
Mergers (Note 3)	21,466	6,718	905	387,282	-	416,371
Write-offs	(1,270)	(531)	(154)	-	-	(1,955)
Sale of stores (i)	(647)	(1,462)	(98)	-	-	(2,207)
Balance in 2019	141,116	95,594	26,867	572,199	779,224	1,615,000
Amortization						
Balance in 2017	(46,803)	(11,042)	(9,591)	-	-	(67,436)
Additions	(9,298)	(3,679)	(2,774)	-	-	(15,751)
Write-offs	740	164	18	-	-	922
Sale of stores (i)	27	53	10	-	-	90
Balance in 2018	(55,334)	(14,504)	(12,337)	-	-	(82,175)
Additions	(18,241)	(4,813)	(3,382)	-	(118,238)	(144,674)
Write-offs	751	4	68	-	-	823
Sale of stores (i)	353	345	48	-	-	746
Balance in 2019	(72,471)	(18,968)	(15,603)	-	(118,238)	(225,280)
Total intangible assets in 2018	46,423	55,657	6,795	184,917	-	293,792
Total intangible assets in 2019	68,645	76,626	11,264	572,199	660,986	1,389,720

(i) Disposal of 12 stores, in line with Management's strategy to focus on increase in profitability and return on invested capital, generating a net capital loss of R\$196 in 2019 (R\$4,270 in 2018) (Note 27, line items "Income from stores sold" and "Write-off of assets of stores sold").

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12. Intangible assets, net--Continued

	Consolidated					Total
	Commercial rights	Franchise fee	Software licenses	Goodwill	Right-of-use asset (Note 2.22)	
Cost						
Balance in 2017	101,947	63,014	18,623	202,083	-	385,667
Additions	6,067	10,062	1,383	-	-	17,512
Acquisition (Note 3)	18,925	5,922	515	372,858	-	398,220
Write-offs	(1,031)	(401)	(37)	-	-	(1,469)
Sale of stores (i)	(60)	(260)	(47)	-	-	(367)
Balance in 2018	125,848	78,337	20,437	574,941	-	799,563
Additions	19,810	20,708	7,082	-	779,224	826,824
Acquisition (Note 3)	735	(731)	(3)	(2,742)	-	(2,741)
Write-offs	(2,142)	(531)	(154)	-	-	(2,827)
Sale of stores (i)	(647)	(1,462)	(98)	-	-	(2,207)
Balance in 2019	143,604	96,321	27,264	572,199	779,224	1,618,612
Amortization						
Balance in 2017	(48,697)	(11,090)	(9,766)	-	-	(69,553)
Additions	(9,714)	(4,050)	(2,946)	-	-	(16,710)
Write-offs	740	164	22	-	-	926
Sale of stores (i)	27	53	10	-	-	90
Balance in 2018	(57,644)	(14,923)	(12,680)	-	-	(85,247)
Additions	(18,419)	(5,121)	(3,436)	-	(118,238)	(145,214)
Write-offs	751	4	68	-	-	823
Sale of stores (i)	353	345	48	-	-	746
Balance in 2019	(74,959)	(19,695)	(16,000)	-	(118,238)	(228,892)
Total intangible assets in 2018	68,204	63,414	7,757	574,941	-	714,316
Total intangible assets in 2019	68,645	76,626	11,264	572,199	660,986	1,389,720

(i) Disposal of 12 stores, in line with Management's strategy to focus on increase in profitability and return on invested capital, generating a net capital loss of R\$196 in 2019 (R\$3,920 in 2018) (Note 27, line items "Income from stores sold" and "Write-off of assets of stores sold").

Goodwill

The goodwill arising from acquisitions is supported by future profitability deriving from the synergy of businesses, dilution of fixed costs, expected growth of brand, improvement in commercial conditions of existing contracts in stores acquired due to the higher purchasing power and capital management.

Impairment test

Intangible assets were tested for impairment and in the years ended December 31, 2019 and 2018, no intangible assets with carrying amounts higher than their recoverable amounts were identified.

The projections are in line with the Business Plan prepared by the Company's Management for the next five years and the cash flows that exceed the five-year period are increased according to the growth expected for the economic group to consider perpetuity aspects. The projected growth of sales, costs and economic indicators is expected to be in line with the curve observed in prior years and with the economic growth of the country in which the Company has operations.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

12. Intangible assets, net--Continued

Impairment test--Continued

The process of determining an asset's value in use involved the utilization of assumptions, judgments and estimates on cash flows, such as the growth rate of revenues, costs and expenses, estimates of future investments and working capital, perpetuity and discount rate. Such understanding is in line with paragraph 35 of CPC 01 (R1)/NBC TG 01 (R4)/IAS 36 - Impairment of Assets. All assumptions used are described below:

- The projections were made in reais and discounted at the weighted average cost of capital ("WACC"), considering the sensitivities in this metric. The post-tax discount rate applied to cash flow projections is 9.55% p.a. in 2019 (11.07% p.a. in 2018).
- The nominal growth rate used to extrapolate the cash flows of all the economic group for a period of five years was 5.00% for all years, which reflects a conservative perspective of the Company's growth in relation to future annual inflation. The average growth rates of the sales revenues projected for the five-year period were adjusted considering the future projection of the Extended National Consumer Price Index (IPCA) of 3.5%, GDP (Gross Domestic Product), and the opening of new stores.

Based on the tests performed, the Company did not identify impairment losses on the goodwill recorded.

13. Loans and financings

	Parent company and Consolidated	
	2019	2018
Loans and financings (Note 13.1)	8,094	9,674
Debentures and CRA (Agribusiness Receivables Certificate) (Nota 13.2)	511,776	269,439
Total loans and financings	519,870	279,113
Current	116,556	161,581
Non-current	403,314	117,532

13.1. Loans and financings

	Interest rates (p.m.)	Maturity	Parent company and Consolidated	
			2019	2018
Fixed rate borrowing	0.89%	January 2026	8,094	9,668
Others	0.86% to 100% of CDI + 0.80%	September 2019	-	6
Total loans and financings (Note 13)			8,094	9,674
Current			1,941	1,654
Non-current			6,153	8,020

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

13. Loans and financings--Continued

13.2. Debentures and Agribusiness Receivables Certificate (CRA)

	Interest rates (p.m.)	Maturity	Parent company and Consolidated	
			2019	2018
Debentures 2nd issue	100% of CDI + 0.20%	March 2019	-	6,689
Debentures 3rd issue	100% of CDI + 0.20%	December 2019	-	26,666
Debentures (CRA) - 4th and 5th issues	100% of CDI + 0.09%	February 2019	-	105,145
Debentures 6th issue	100% of CDI + 0.24%	May 2020	12,373	37,164
Debentures 7th issue (CRA)	100% of CDI + 0.07%	October 2020	102,371	102,638
Debentures 8th issue	100% of CDI + 0.11%	October 2024	403,423	-
Financial charges to be incurred (i)			(6,391)	(8,863)
Total debentures (Note 13)			511,776	269,439
			<hr/>	
Current			114,615	159,927
Non-current			397,161	109,512

(*) Costs of issue of debentures and CRA

The amounts of non-current debentures and CRAs, not deducting financial charges to be incurred, have the following original maturities as of December 31, 2019 and 2018:

Year	Parent company and Consolidated	
	2019	2018
2020	-	113,558
2021	2,032	-
2022	2,081	-
2023	920	-
2024 onwards	401,074	-
	406,107	113,558

Covenants

The Company has covenants in loans, financings and debentures, which restrict its ability to take certain actions, and may require the accelerated maturity or the refinancing of debts if the Company does not comply with these covenants.

The ratios and minimum and maximum amounts required by these covenants as December 31, 2019 and 2018 are presented below:

Loans and financings:

Debentures 6th issue

- (i) The Company's net debt/adjusted EBITDA (covenants) ratio must be less than or equal to 2.5;

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

13. Loans and financings--Continued

13.2. Debentures and Agribusiness Receivables Certificate (CRA)--Continued

Loans and financings--Continued

Debentures 7th issue (CRA)

- (i) The Company's net debt/adjusted EBITDA (covenants) ratio must be less than or equal to 3.25 in 2017, and less than 3.0 in 2018 and subsequent years;
- (ii) The payment of dividends cannot exceed 25% of the Company's profit for the year.

Debentures 8th issue

- (i) Company's simple, nonconvertible, unsecured, single series Debentures ("Debentures"), for public distribution with restricted placement efforts, under the terms of CVM Instruction 476 of January 16, 2009, as amended, and Law 6,404 of December 15, 1976, as amended, in the total amount of R\$400,000 amounting to 400 thousand debentures, with a 5-year maturity (bullet), at the rate of 100% of the CDI plus 1.35% spread and semi-annual interest.
- (ii) The Company's net debt/adjusted EBITDA (covenants) ratio must be less than or equal to 3.0.

The calculation of covenants according to the criteria and requirements in the agreements is shown below:

	Consolidated		
	2019 IFRS (ii)	2019 (iii)	2018
Net sales revenue (Note 24)	2,867,990	2,867,990	2,348,333
Cost of sales and expenses on stores (Notes 25 and 26) (i)	(2,300,699)	(2,437,868)	(1,976,212)
Operating EBIDA	567,291	430,122	372,121
Operating EBITDA margin	19.8%	15.0%	15.8%
General and administrative expenses (Note 27) (i)	(106,186)	(106,186)	(88,655)
Adjusted EBITDA (covenants)	461,105	323,936	283,466
Loans and financings (Debt) (Note 13)	519,870	519,870	279,113
Cash and cash equivalents and marketable securities (Notes 4 and 5)	(605,459)	(605,459)	(602,946)
Lease liabilities (Note 15)	(693,209)	-	-
Net debt	607,620	(85,589)	(323,833)
Net debt/ Adjusted EBITDA (covenants) ratio	1.3	(0.3)	(1.1)

- (i) To calculate the adjusted EBITDA for covenants, the depreciation and amortization expenses, gain (loss) on disposals of property and equipment, gain (loss) on claims, preoperating expenses, expenses on acquisitions and mergers, provision (reversal) for impairment and capital gain from sale of stores, are not considered, according to the criteria determined by the Company and its subsidiaries.
- (ii) For comparability purposes and given the non-validity of CPC06 (R2)/NBC TG 06 (R3)/IFRS 16 in the issuance of the Company's 6th Debenture, we present the calculation of the restrictive clauses considering their impacts. If the effects of the adoption of CPC06 (R2)/NBC TG 06 (R3)/IFRS 16 were considered, the index presented would be 1.3, not exceeding the limit according to the criteria and determinations established in the contract.
- (iii) The calculation does not consider the effects of CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16 for the purpose of 8th debentures, according to the criteria and determinations established in the contract.

Collaterals

As of December 31, 2019, the Company has a letter of guarantee with banks amounting to R\$5,144 (R\$7,980 in 2018) as collateral for the rental of stores.

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(Amounts in thousands of Reais)

13. Loans and financings--Continued

13.2. Debentures and Agribusiness Receivables Certificate (CRA)--Continued

Collaterals --Continued

The loans and financings in local currency are represented by financing for the purchase of assets for new stores opened and for use in the Company.

The 6th issue debentures are collateralized by the financial flow from transactions meal voucher with Ticket, Sodexo and Alelo cards, with a minimum 20% of the outstanding balance with over 10% of Restricted account (Cash Collateral) (Note 5). If the guarantee is not sufficient, the Company must guarantee the outstanding balance with financial investments.

14. Trade payables

	Parent company		Consolidated	
	2019	2018	2019	2018
Suppliers of materials and services	218,616	186,372	218,616	188,145
Agreement suppliers (i)	58,116	43,619	58,116	43,619
Others	9,700	9,479	9,700	9,479
Total trade payables	286,432	239,470	286,432	241,243

- (i) The Company has financial liabilities with suppliers, through financial institutions, whose suppliers received in advance in the year ended December 31, 2019 (Note 2.17). The prepayments made have an average of 41 days in advance and the rate of 1.12% a.m.. We have evaluated the potential financial value embedded in the operations, in conjunction with the term and do not consider them significant for greater details.

15. Lease liabilities

	Parent company and Consolidated
	2019
Lease payables	964,323
Adjustment to present value - APV	(271,114)
Total lease liabilities (Note 2.22)	693,209
Current (Note 2.22)	99,156
Non-current (Note 2.22)	594,053

The non-current lease liabilities have original maturities on December 31, 2019.

	Parent company and Consolidated		
	2019		
Aging list (i)	Lease liabilities	(-) Lease payables	Total
Over one year and less than three years	304,794	(100,296)	204,498
Over three years and less than five years	230,878	(62,729)	168,149
Over five years	264,437	(43,031)	221,406
Total	800,109	(206,056)	594,053

- (i) Balance presented related to the fixed installments payable on the rental agreements.

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16. Corporate payables

As of December 31, 2019, the Company had the balance of R\$23,760 related to royalties and franchise fee due to BKC (R\$17,950 in 2018), as detailed in note 21.1 and the consolidated amount of R\$23,760 as of December 31, 2019 (R\$17,961 as of December 31, 2018).

17. Taxes payable

	Parent company		Consolidated	
	2019	2018	2019	2018
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	825	2,176	825	2,176
Corporate Income Tax (IRPJ)	4,243	8,085	4,243	8,823
Social Contribution on Profit (CSLL)	1,536	2,930	1,536	3,064
Social Integration Program (PIS)	26	282	26	282
Withholding Income Tax (IRRF)	1,999	4,109	1,999	4,111
State VAT (ICMS)	4,644	5,738	4,644	5,802
Contribution For Intervention in the Economic Domain (CIDE)	2,022	1,739	2,022	1,740
Taxes in installments (i)	12,129	-	12,129	12,144
Service Tax (ISS) withheld	5,895	4,665	5,895	4,665
Social Security Contribution (INSS) payable (ii)	2,432	-	2,432	11,855
Other	2,004	603	2,004	872
Total taxes payable	37,755	30,327	37,755	55,534
Current	25,150	30,327	25,150	33,781
Non-current	12,605	-	12,605	21,753

(i) Refers to the installment payment of taxes and enrollment in the PERT made by the investees, merged during 2019.

(ii) Refers to the spontaneous installment of INSS of funds made by the investees, merged during the period ended June 30, 2019.

18. Deferred revenue, net

	Parent company and Consolidated	
	2019	2018
Deferred revenue, net (i) – franchise fee	2,579	1,727
Deferred revenue, net (ii)	24,488	33,760
Total deferred revenue, net	27,067	35,487
Current	9,139	9,091
Noncurrent	17,928	26,396

(i) Recognition of franchise fee of sub-franchisee due to the adoption of CPC 47/NBC TG 47/IFRS15 - Revenue from Contracts with Customers (Note 2.5).

(ii) Amounts received in advance for the marketing campaign agreement entered into with specific suppliers for the exclusive sale of products of these suppliers in Burger King restaurants, exposure of suppliers' brands and investment in marketing campaigns to increase the sales of Burger King products and consequently increase in sales of the suppliers' products.

Years ended December 31, 2019 and 2018
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19. Other payables

	Parent company		Consolidated	
	2019	2018	2019	2018
Provision for sundry expenses	6,981	10,200	6,981	16,114
Investments payable – BGMAXX	-	500	-	500
Investments payable – (Note 3)	15,242	14,181	15,242	14,181
(-) APV of investments payable	(2,043)	-	(2,043)	-
Advances from customers	1,523	1,960	1,523	1,960
Others	156	382	217	1,468
Total other payables	21,859	27,225	21,920	34,223
Current	4,622	13,045	4,683	14,129
Non-current	17,237	14,180	17,237	20,094

20. Provision for legal claims

The Company is exposed to certain risks, represented by tax, civil and labor claims, which are provided for in the financial statements, since they are considered as having a probable likelihood of loss or because of their significance to the Company's financial position.

The provision for legal claims was considered adequate by Management based on various factors, including (but not limited to) the opinion of the Company's legal counsel, the nature of lawsuits and historical experience. The amounts provided for related to legal claims under judicial and administrative proceedings are shown in the table below.

In addition, the Company is aware, as of December 31, 2019, of other tax, civil and labor lawsuits, and based on the history of probable losses and analysis of main lawsuits, the measurement of lawsuits with a possible likelihood of loss was R\$39,371 (R\$40,734 in 2018) in Parent company, and R\$39,371 (R\$41,383 in 2018), in the Consolidated, as follows:

	Parent company			
	2019		2018	
	Probable	Possible (i)	Probable	Possible (i)
Labor lawsuits	15,626	19,780	8,834	23,223
Civil lawsuits	625	10,316	699	5,928
Tax lawsuits	24	9,275	6	11,583
Total provision for legal claims	16,275	39,371	9,539	40,734
	Consolidated			
	2019		2018	
	Probable	Possible (i)	Probable	Possible (i)
Labor lawsuits	15,626	19,780	9,951	23,870
Civil lawsuits	625	10,316	781	5,930
Tax lawsuits	24	9,275	(2)	11,583
Total provision for legal claims	16,275	39,371	10,730	41,383

- (i) For lawsuits with a possible likelihood of loss, there is no provision to cover possible losses on these lawsuits because the accounting practices adopted in Brazil and the IFRS do not require their recognition, only their disclosure.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

20. Provision for legal claims--Continued

Probable labor claims

The Company and its investees are parties to labor lawsuits, mainly regarding employee terminations in the normal course of business. As of December 31, 2019, the Company had a provision of R\$15,626 (R\$8,834 in 2018) in the Parent company and R\$15,626 (R\$9,951 in 2018) in the Consolidated, for the contingencies related to lawsuits.

These contingencies are evaluated based on the average historical loss of the last eighteen months compared with the total lawsuits outstanding at the end of the year, excluding lawsuits considered as specific and non-routine, for which specific provisions are set up adopting criteria similar to those applied for tax and civil assessments.

Possible labor claims

In 2017, the Labor Prosecutor's Office filed 2 class actions, aimed at (i) irregularities identified in inspections and complaints regarding non-compliance with legal limits of workdays and payment of contractual amounts, and (ii) pain and suffering. The Company and its legal counsel consider the likelihood of losses in the amount of approximately R\$4,000 as possible.

Also, during 2018, the Company received three lawsuits from the Labor Prosecutor's Office, of which (i) one Class Action for alleged irregularities regarding Ease, Meals, Occupational Safety and Medicine; and (ii) two lawsuits involving TAC (Conduct Adjustment Agreement) for alleged non-compliance with obligations related to workplace. The Company and its legal counsel consider the likelihood of losses in the amount of approximately R\$4,567 as possible.

Possible civil lawsuits

During 2019, the Company did not become aware of new significant lawsuits, with a possible likelihood of loss.

Possible tax lawsuits

During 2019, there was an increase in the amount related to Company's lawsuits involving possible risk due to assessment notices from the State of Minas Gerais, aiming at collecting ICMS-ST amounts on purchase of goods in the last five years, arising from suppliers located in other States. The Company informs that such cases are being challenged in court, aiming at the full cancelation of debits.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

20. Provision for legal claims--Continued

The movements in the provision for legal claims were as follows:

	Parent company				2019
	2018	Additions	Effects of merger	Payments	
Labor lawsuits	8,834	15,016	994	(9,218)	15,626
Civil lawsuits	699	-	82	(156)	625
Tax lawsuits	6	22	-	(4)	24
Total	9,539	15,038	1,076	(9,378)	16,275

	2018	Additions	Payments	2019
Labor lawsuits	9,951	15,016	(9,341)	15,626
Civil lawsuits	781	-	(156)	625
Tax lawsuits	(2)	22	4	24
Total	10,730	15,038	(9,493)	16,275

Judicial deposits

	Parent company		Consolidated	
	2019	2018	2019	2018
Labor lawsuits	24,289	24,053	24,289	24,574
Civil lawsuits	659	834	659	834
Tax lawsuits	8,486	5,495	8,486	5,495
Total judicial deposits	33,434	30,382	33,434	30,903

21. Related parties

Burger King Corporation (BKC) is a related party because BKC is a shareholder in the Company. As discussed in Note 1, the Company has entered into a Master Franchisee agreement, and which the Company has obligations to pay a franchise fee and royalties to BKC.

21.1 Franchise Fees and Royalties

These transactions are carried out under exclusive conditions provided in the agreements with BKC and PLK, since BKB is the representative of the brand in Brazil, and there are no comparable conditions in the market.

In addition, under the Master Franchise agreement existing between BKB and BKC, the Company is entitled to receive a monthly service fee derived from the activities of management of franchisees existing in the country developed until 2011. For this service, the Company is entitled to a monthly revenue equivalent to 0.5% of the net revenue of the restaurants developed by these franchisees. These transactions are also carried out under specific conditions, as per the agreement.

In view of the agreements described above, the Company has recorded in its payables and receivables in 2019 and 2018 the following amounts:

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

21. Related parties--Continued

21.1 Franchise Fees and Royalties--Continued

	Burger King Corporation (BKC)		BG MAXX BA			
	2019	2018	2019	2018		
Assets						
Trade receivables (Note 6)	438	655	-	-		
Additions of Franchise Fee (Note 12)	20,708	10,010	-	-		
Other receivables (i)	-	-	-	2,162		
Liabilities						
Corporate payables (Note 16)	(23,760)	(17,950)	-	-		
Other payables	-	-	-	-		
Results						
Royalties expenses	(138,577)	(106,576)	-	-		
	King Food		Fast Burger		Good Food	
	2019	2018	2019	2018	2019	2018
Assets						
Additions of Franchise Fee (Note 12)	-	-	-	-	-	52
Other receivables (BKB) (ii)	-	530	-	740	-	321
Liabilities						
Other payables (BKB) (iii)	-	(949)	-	(2,939)	-	(1,776)
Results						
Royalties expenses (BKC)	-	(1,928)	-	(3,310)	-	(2,631)

- (i) Refund of marketing fund and services provided;
(ii) Sale of equipment;
(iii) Purchase of inputs.

21.2 Management compensation

	12/31/2019		12/31/2018
	Officers	Directors	Officers
Management fees	5,267	-	4,874
Direct and indirect benefits	872	-	973
Variable compensation	9,056	-	10,522
Fees	-	553	-
Others (INSS)	-	1,585	-
	<u>15,195</u>	<u>2,138</u>	<u>16,369</u>

On April 29, 2019, an Annual General Meeting was held, which approved the Company's global management compensation for 2019, in the amount of up to R\$22,769, of which R\$22,049 refer to the compensation provided for the Company's Statutory Officers and R\$720 to the compensation provided for the Board of Directors, as detailed in the Management Proposal. The calculated amounts are recorded in general and administrative expenses.

The Company's officers are also included in the Stock Option Plan, which is described in Note 34.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

22. Equity

Capital

As of December 31, 2019, the Company's capital is R\$950,768 and is represented by 228,105,447 registered common shares (R\$898,233 and represented by 222,525,821 shares as of December 31, 2018), book-entry and without par value.

The Company's authorized capital is 237,673,167 common shares, so that the capital can be increased within such limit, irrespective of any amendments to bylaws, upon the approval of the Board of Directors.

On March 12, 2019, there was a secondary public offering of 33,373,621 common shares, registered, book-entry and with no par value, all free and clear of any liens or encumbrances, issued by the Company and owned by Vinci Capital Partners II B Fundo de Investimento em Participações Multiestratégico ("VCP II B FIP") of Sommerville Investments B.V. ("Sommerville Investments"), of Montjuic Fundo de Investimento em Participações Multiestratégia ("Montjuic") and of certain individual selling shareholders ("Selling Shareholders") and, together with VCP II B FIP, Sommerville Investments and Montjuic ("Sellers"), pursuant to CVM Instruction 476 ("Offering"), with the price per Share of R\$21.41, resulting in a total amount of R\$714,529. Because it is a public offer of secondary distribution, as mentioned, it did not affect the Company's capital stock.

Increase of the capital stock

On August 28, 2018, a capital increase to R\$898,233 was approved through the issue of 194,350 new common shares for the issue price of R\$9.56 each due to the option for purchase of shares granted under the First Stock Option Plan, plus the issue of 5,251 new common shares for the issue price of R\$6.99 per share due to the option for purchase of shares granted under the Second Stock Option Plan, plus the issue of 48,051 new common shares for the issue price of R\$10.44 per share due to the option for purchase of shares granted under the Third Stock Option Plan, totaling R\$2,397.

At a meeting held on January 8, 2019, the Company's Board of Directors approved an increase in the Company's capital, within the limit of the authorized capital and without amendment to the Company's Bylaws. The amount of the approved increase was R\$17,180 as a result of the exercise of stock options, with the Company's capital increasing from R\$898,233 to R\$915,412. As a result of the increase in the Company's capital, 1,751,459 new registered common shares with no par value of the Company were issued, of which: (i) under the First Stock Options Plan, 1,720,815 new common shares at the issue price of R\$9.80 per share; (ii) under the Second Stock Options Plan, 1,607 new common shares at the issue price of R\$7.01 per share; and (iii) under the Third Stock Options Plan, 29,037 new common shares at the issue price of R\$10.49 per share.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

22. Equity--Continued

Increase of the capital stock--Continued

At a meeting held on March 11, 2019, the Company's Board of Directors approved an increase in the Company's capital, within the limit of the authorized capital and without amendment to the Company's Bylaws, as a result of the exercise of stock options. The amount of the approved increase was R\$24,884, bringing the Company's capital from R\$915,412 to R\$940,297. As a result of the increase in the Company's capital, 2,797,690 new registered common shares with no par value of the Company were issued, of which: (i) under the First Stock Options Plan, 401,635 new common shares at the issue price of R\$9.84 per share; (ii) under the Second Stock Options Plan, 1,173,260 new common shares at the issue price of R\$6.95 per share; and (iii) under the Third Stock Options Plan, 1,222,795 new common shares at the issue price of R\$10.45 per share.

At a meeting held on April 16, 2019, the Company's Board of Directors approved an increase in the Company's capital, within the limit of the authorized capital and without amendment to the Company's Bylaws, as a result of the exercise of stock options. The amount of the approved increase was R\$3,049, bringing the Company's capital from R\$940,297 to R\$943,346. As a result of the increase in the Company's capital, 306,100 new registered common shares with no par value of the Company were issued, at the issue price of R\$ 9.96 per share.

At a meeting held on July 1, 2019, the Company's Board of Directors approved an increase in the Company's capital, within the limit of the authorized capital and without amendment to the Company's Bylaws, as a result of the exercise of the Company's Second and Third Stock Option Plans. The amount of the capital increase approved was R\$7,423, bringing the Company's capital from R\$943,346 to R\$950,768. As a result of the increase in the Company's capital, (i) 81,982 new registered common shares with no par value of the Company were issued, at the issue price of R\$ 7.09 per share; (ii) 642,395 new registered common shares with no par value of the Company were issued, at the issue price of R\$10.65 per share.

Capital reserves

On April 27, 2018, the Annual and Extraordinary Meeting approved the following: (i) allocation of the profit for the year ended December 31, 2017 in the amount of R\$3,819 for reduction of the portion of accumulated losses; and (ii) the absorption of the total accumulated losses, after item (i) in the total amount of R\$194,364 in the capital reserve, which had a balance of R\$915,722 in the year ended December 31, 2017.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

22. Equity--Continued

Capital reserves--Continued

On April 29, 2019, the Annual General Meeting approved the following: (i) management report, management accounts, the Company's financial statements and the independent auditor's report for the year ended December 31, 2018; (ii) the Company's capital budget, pursuant to article 196 of the Brazilian Corporation Law; (iii) allocation of the profit for the year ended December 31, 2018; (iv) definition of the number of seats for the Company's Board of Directors; (v) election of the members of the Company's Board of Directors; (vi) global compensation of the Company's officers for 2019; and (vii) change of the mass-circulation newspaper for the Company's legal publications, as approved at the Extraordinary General Meeting held on November 22, 2018.

Allocation of profits

The Company's Bylaws provide for the following allocations of profit:

- (i) Minimum mandatory dividend of 25% of the profit for the year.
- (ii) The remaining balance of the profit will be allocated as decided by the General Meeting.

The proposal for the allocation of the Company's profits for 2019, in the amount of R\$48,543, is as follows: (i) legal reserve in the amount of R\$2,427; (ii) minimum mandatory dividends (in the form of interest on capital) in the amount of R\$11,529; and (iii) retention of a portion of the profit for the year ended December 31, 2019, in the amount of R\$34,587, according to the capital budget to be approved at the Annual General Meeting to be held on April 28, 2020.

Interest on capital

As provided for in Law n^o. 9.249/45, the Company calculated interest on capital based on the long-term interest rate (TJLP) prevailing in the year, in the amount of R\$11,529 (net of IFFR in the amount of R\$10,054), corresponding to the year 2019 (R\$30,409 corresponding to the year 2018, paid in 2019), approved at the Board of Directors' meeting of February 19, 2020.

Base for calculation of dividends and interest on capital	2019	2018
Profit for the year	48,543	128,036
(-) Legal Reserve (5%)	2,427	6,401
Base for calculation of dividends	46,116	121,635
Minimum mandatory dividends (25%)	11,529	30,409
Interest on capital	11,529	30,409
Withholding income tax	(1,475)	(3,683)
Net remuneration of interest on capital	10,054	26,726

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

22. Equity--Continued

Share repurchase program

On August 23, 2019, the Company's Share Repurchase Program was concluded, approved by the Company's Board of Directors on August 12, 2019 and subject to Material Fact on the same date.

The Company's shares acquired under the Share Repurchase Program will be held in treasury for the purpose of generating shareholder value.

The Company repurchased all the shares subject to the Share Repurchase Program by the amount of R\$24,214, which comprises 1,222,719 common shares, representing approximately 0.54% of the shares issued by the Company, which will remain in treasury, will be canceled and/or subsequently sold, especially within the scope of the Long Term Incentive Plans approved by the Company. The average price of the acquired shares was R\$19.79.

23. Earnings per share

Based on CPC 41/NBC TG 41 (R2)/IAS 33 - Earnings per Share, the Company must disclose the basic and diluted earnings per share. The comparative figures of basic and diluted earnings/loss per share are based on the weighted average number of shares outstanding in the year, and all shares with potential dilutive effect outstanding for each presented year, respectively.

Diluted earnings per share is computed similarly to basic earnings per share, except for the potential shares outstanding that are added, in order to include the number of additional shares that would be outstanding if the potential dilutive shares attributed to stock options and redeemable shares held by non controlling interests had been issued during the respective periods, using the weighted average share price.

The following table presents the calculation of the basic and diluted earnings per share.

	Parent company and Consolidated	
	2019	2018
<u>Basic numerator</u>		
Profit for the year	48,543	128,036
<u>Basic denominator</u>		
Basic weighted average number of shares - in thousand	226,624	222,363
<u>Basic earnings per share</u>	0.2142	0.5758
<u>Diluted numerator</u>		
Profit for the year	48,543	128,036
<u>Diluted denominator</u>		
Weighted average number of shares - in thousand	226,624	222,363
Stock options (Note 34) - in thousand	289	3,781
Diluted weighted average number of shares	226,913	226,144
<u>Diluted earnings per share</u>	0.2139	0.5662

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

24. Net operating revenue

	Parent company		Consolidated	
	2019	2018	2019	2018
Gross sales revenue	3,069,758	2,366,170	3,069,758	2,541,794
Sales revenue deductions	(228,100)	(192,571)	(228,100)	(206,106)
Net sales revenue	2,841,658	2,173,599	2,841,658	2,335,688
Gross revenue from services rendered	29,507	14,327	29,507	14,327
Service revenue deductions	(3,175)	(1,682)	(3,175)	(1,682)
Net service revenue	26,332	12,645	26,332	12,645
Total net operating revenue	2,867,990	2,186,244	2,867,990	2,348,333

25. Cost of goods and products sold

	Parent company		Consolidated	
	2019	2018	2019	2018
Costs of food, beverages and packaging	(962,279)	(739,651)	(963,008)	(797,728)
Cost of services rendered and others	(119,861)	(92,380)	(119,861)	(93,564)
Total cost of sales and services	(1,082,140)	(832,031)	(1,082,869)	(891,292)

26. Expenses with stores

	Parent company		Consolidated	
	2019	2018	2019	2018
Personnel expenses	(498,939)	(378,881)	(498,939)	(404,463)
Royalties and marketing fund	(262,658)	(200,168)	(262,658)	(215,794)
Occupancy and utilities expenses (i)	(223,847)	(262,682)	(223,896)	(280,234)
Depreciation and amortization (Notes 11 and 12)	(171,900)	(117,643)	(176,293)	(125,113)
Amortization of right of use (lease) (Note 2.22) (ii)	(106,067)	-	(106,067)	-
Preoperating expenses (iii)	(18,084)	(9,678)	(18,084)	(9,678)
Sundry services	(85,947)	(53,841)	(85,947)	(54,494)
Repairs and maintenances	(58,668)	(45,767)	(58,723)	(48,001)
Others	(87,632)	(76,517)	(87,667)	(81,934)
Total expenses on stores	(1,513,742)	(1,145,177)	(1,518,274)	(1,219,711)

- (i) Balance of expenses with variable leases for the period of 2019 according to CPC 06 (R2)/NBC TG 06 (R3)/IFRS 16 - Leasing operations, and lease expenses for the period of 2018 classified as operating leases in accordance with IAS17.
- (ii) In compliance with CVM Circular Letter 02/2019, the balance shown in the equity account for Amortization of the right to use (Note 12) is gross of taxes (Pis and Cofins) and totals R\$118,238, while the balances presented in the Amortization result accounts of use rights (Notes 26 and 27) are net of taxes (Pis and Cofins) totaling R\$107,301.
- (iii) Preoperating costs of restaurants are mainly represented by costs of salaries and charges of the store professionals, services rendered by third parties and other expenses generated before the opening of stores.

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(Amounts in thousands of Reais)

27. General and administrative expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
Administrative personnel expenses	(115,001)	(99,664)	(115,001)	(99,774)
Occupancy and utilities expenses (i)	(660)	(2,194)	(673)	(2,299)
Depreciation and amortization (Notes 11 and 12)	(19,587)	(7,837)	(19,587)	(8,031)
Amortization of right of use (lease) (Note 2.22) (ii)	(1,234)	-	(1,234)	-
Expenses on acquisitions and mergers (iii)	(3,144)	(5,467)	(3,144)	(6,711)
Disposal of property and equipment (Notes 11 and 12)	(8,352)	(6,191)	(9,224)	(6,832)
Income from stores sold	12,948	8,591	12,948	8,591
Write-off of assets of stores sold (Notes 11 and 12)	(13,144)	(4,321)	(13,144)	(4,671)
Gains on claims	(39)	4	(39)	4
Provision for impairment (Note 11)	(2,807)	(4,205)	(2,807)	(4,205)
Stock options cost (Note 34)	(4,315)	(4,486)	(4,315)	(4,486)
Other operating income (expenses), net (iv)	13,370	24,055	13,803	17,904
Total general and administrative expenses	(141,965)	(101,715)	(142,417)	(110,510)

- (i) Balance of expenses with variable leases for the period of 2019 according to CPC 06 (R2)/NBC TG 06 (R3)/IFRS16 - Leasing operations, and lease expenses for the period of 2018 classified as operating leases in accordance with IAS17.
- (ii) In compliance with CVM Circular Letter 02/2019, the balance shown in the equity account for Amortization of the right to use (Note 12) is gross of taxes (Pis and Cofins) and totals R\$118,238, while the balances presented in the Amortization result accounts of use rights (Notes 26 and 27) are net of taxes (Pis and Cofins) totaling R\$107,301.
- (iii) Mainly comprised of expenses on third parties related to the acquisitions and mergers carried out during the year.
- (iv) Refer to the income from the premium on the initial supply agreement and reversal of costs on the construction of stores, expenses with provision for legal claims, services taken and travel expenses and services rendered in the subsidiaries.

28. Financial expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
Interest on loans and financings	(14,941)	(31,942)	(14,941)	(31,971)
Banking expenses and sundry interest	(5,688)	(4,092)	(5,737)	(6,153)
Foreign exchange losses	(2,107)	(1,771)	(2,107)	(2,004)
Lease APV expense payable (2.22)	(62,091)	-	(62,091)	-
Investment APV expense payable – BKCS	(698)	-	(698)	-
Inflation adjustment	(1,463)	-	(2,369)	-
Other	(5,305)	(4,341)	(5,338)	(4,480)
Financial expenses	(92,293)	(42,146)	(93,281)	(44,608)

29. Financial income

	Parent company		Consolidated	
	2019	2018	2019	2018
Short-term investments interest and yield	18,330	48,621	18,732	53,142
Foreign exchange gains	2,128	1,170	2,128	1,176
Taxes on finance income	(1,085)	(2,471)	(1,092)	(2,545)
Other finance income	2,849	3,715	2,849	3,732
Financial income	22,222	51,035	22,617	55,505

Years ended December 31, 2019 and 2018
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30. Income tax and social contribution

Breakdown of expenses

The breakdown of income tax and social contribution expenses for the years ended December 31, 2019 and 2018 is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Current	(9,262)	(30,999)	(9,262)	(35,451)
Deferred	4,568	27,333	4,039	25,770
	(4,694)	(3,666)	(5,223)	(9,681)

Reconciliation to effective rate

The reconciliation of income tax and social contribution expenses calculated at the statutory rates with amounts recorded in the statement of income for the years ended December 31, 2019 and 2018 is shown below:

	Parent company		Consolidated	
	2019	2018	2019	2018
Profit (loss) before income tax and social contribution	53,237	131,702	53,766	137,717
Income tax and social contribution expense at the combined statutory rate of 34%	(18,101)	(44,779)	(18,280)	(46,824)
Adjustments to reconcile the effective rate:				
Equity pickup	(2,324)	5,267	-	-
Deferred taxes on temporary differences and losses	14,314	36,629	14,314	36,629
Payment of non-deductible bonus	(3,079)	(3,577)	(3,079)	(3,577)
Cash shortage	(207)	(397)	(207)	(397)
Tax and labor fines and infractions	(663)	(167)	(663)	(167)
Stock options costs	(1,467)	(1,526)	(1,467)	(1,526)
Share issue costs	-	1,884	-	1,884
Interest on capital (IOC)	6,753	3,586	6,753	3,586
Other permanent differences	80	(587)	(2,594)	710
Income tax and social contribution	(4,694)	(3,666)	(5,223)	(9,681)
Effective rate	8.8%	2.8%	9.7%	7.0%

Deferred

The Company has tax credits arising from tax loss carryforwards and temporary differences. As the tax credits can be carried forward indefinitely, there is no limit date for the utilization of these tax credits. The offsetting of tax losses, limited by law to 30% of the taxable profit for the year, entails a considerable increase in the recovery period of tax credits

The deferred tax credits presented in the consolidated balances were set up and adjusted under the assumption of their future realization, in accordance with technical pronouncement CPC 32/NBC TG 32 (R4)/IAS 12 - Income Taxes, which prescribes the essential conditions for the recognition and maintenance of deferred assets arising from temporary differences.

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30. Income tax and social contribution— Continued

Deferred--Continued

The breakdown of deferred income tax and social contribution, net, is shown below:

	Parent company		Consolidated	
	2019	2018	2019	2018
Deferred income tax and social contribution - assets	95,551	23,459	95,551	28,680
Deferred income tax and social contribution - liabilities	(104,003)	(41,172)	(104,003)	(41,172)
	(8,452)	(17,713)	(8,452)	(12,492)

The main components of deferred income tax and social contribution are shown below:

	Parent company		Consolidated	
	2019	2018	2019	2018
Tax loss carryforwards	119,056	130,765	119,056	130,765
Temporary differences				
Provision for legal claims (Note 20)	16,275	9,539	16,275	10,730
Provision for bonuses (PLR)	25,175	27,014	25,175	27,014
Provision for purchases	-	7,180	-	7,180
Provision for impairment (Note 11)	10,340	7,533	10,340	7,533
Pre-operating	31,137	20,559	31,137	20,559
Accrued expenses	8,990	14,967	8,990	29,135
Amortization of leases and APV on lease liabilities (Note 2.22)	169,392	-	169,392	-
Others	9,147	2,020	9,147	2,017
Tax base	389,512	219,577	389,512	234,934
Statutory rate	34%	34%	34%	34%
	132,434	74,656	132,434	79,877
(-) Unrecognized deferred taxes	(36,883)	(51,197)	(36,883)	(51,197)
Deferred income tax and social contribution - assets	95,551	23,459	95,551	28,680
Transitional Tax System (RTT)	(1,506)	(1,583)	(1,506)	(1,583)
Financial charges to be incurred	(6,391)	(8,863)	(6,391)	(8,863)
Tax amortization of goodwill	(160,826)	(110,559)	(160,826)	(110,559)
Gain (loss) on derivative transactions	-	(90)	-	(90)
Payment of lease liabilities (Note 2.22)	(137,169)	-	(137,169)	-
Tax base	(305,892)	(121,095)	(305,892)	(121,095)
Combined rate	34%	34%	34%	34%
Deferred income tax and social contribution – liabilities	(104,003)	(41,172)	(104,003)	(41,172)
Deferred income tax and social contribution, net	(8,452)	(17,713)	(8,452)	(12,492)

In view of the expectations of future taxable profit the Company elected to provide for the balance of deferred income and social contribution assets, up to the expected limit of utilization for 2020. On the total balance of tax loss of R\$119,056, there was recognition of deferred income tax and social contribution in the amount of R\$3,596 in 2019. According to a study accomplished and approved by the Audit Committee. The Company does not consider the balance of tax losses of its subsidiaries, since there is no historical taxable income.

31. Financial risk management objectives and policies

The Company's principal financial liabilities comprise loans and financings, debentures, trade payables and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has loans, trade and other receivables, and cash and short-term deposits that arise directly from its operations.

Management reviews and agrees policies for managing each of these risks that are summarized below:

Market risk

Market risks is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise three types of risks: interest rate risk, foreign exchange rate risk and price risk, which can be of commodities, stocks, or others. Financial instruments affected by market risk include loans and financings, deposits, financial instruments available-for-sale and measured at fair value through profit or loss and derivative financial instruments.

The following assumptions have been made in calculating the sensitivity analysis:

For the sensitivity analysis of fluctuations in risks analyzed, Management adopted for the probable scenario the projected interest rates for 2019. Scenarios II and III were estimated based on an additional appreciation of 50% and 25%, respectively, while scenarios IV and V estimate an additional depreciation of 25% and 50%, respectively, of the rates in the probable scenario.

The sensitivity analyses in the following sections relate to the position as of December 31, 2019.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt.

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31. Financial risk management objectives and policies--Continued

Interest rate risk--Continued

Interest rate sensitivity

At the end of the reporting period, the profile of interest-bearing financial instruments was:

Variable rate instruments	Parent company		Consolidated	
	2019	2018	2019	2018
Financial assets				
Short-term investments (Note 4)	293,722	136,812	293,722	144,733
Marketable securities (Note 5)	280,121	414,637	280,182	427,983
Financial liabilities				
Loans and financings (Note 13)	(519,870)	(279,113)	(519,870)	(279,113)

The following table demonstrates the possible impacts on profit or loss in the event of the respective scenarios presented, and for the probable scenario we used the average CDI of 5.96%.

Consolidated asset exposure	Exposure	Risk	Consolidated				
			I	II	III	IV	V
			Probable	50%	25%	(25%)	(50%)
Short-term investments (Notes 4 and 5)	573,904	DI variation	18,732	9,366	4,683	(4,683)	(9,366)
Loans and financings (Note 13) (i)	(511,777)	DI variation	(14,941)	(7,471)	(3,735)	3,735	7,471

(i) Comprise only the loans and financings subject to variable rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk is subject to significant fluctuations due to the volatility of the exchange rate on liabilities denominated in foreign currencies, mainly the U.S. dollar. The Company's exposure is basically related to the purchase of machinery and equipment and raw materials, payment of royalties and franchise fee in foreign currency. In order to mitigate the foreign currency risk, the Company entered into hedge transactions through NDF contracts.

Foreign currency sensitivity

The following table demonstrates the possible impacts on profit or loss in the event of the respective scenarios presented:

Asset exposure	Exposure	Risk	Exchange rate as of 12/31/2019	Parent company and Consolidated				
				I	II	III	IV	V
				Probable	50%	25%	(25%)	(50%)
Royalties/Franchise Fee (Note 16)	23,760	US dollar variation	4.1644	23,760	(11,880)	(5,940)	5,940	11,880

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

31. Financial risk management objectives and policies--Continued

Foreign currency risk--Continued

Since the average payment period of Royalties and Franchise Fee is lower than 30 days, the Company assesses the risk of currency volatility as low. Therefore, the Company used as probable scenario the rate in effect as of December 31, 2019.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract. Since it refers to a retail activity and due to the type of sale (with credit, debit and meal cards), this is not a significant risk to the Company.

The Company has an internal policy that restricts the exposure to credit risks associated to cash and cash equivalents and market securities, with limits among financial institutions, ratings and liquidity criteria.

The following table demonstrates the rating of the amounts invested (Notes 4 and 5) according to the rating agency Fitch.

Rating	Parent company		Consolidated	
	2019	2018	2019	2018
AAA+	1,228		1,228	
AAA	570,665	436,160	553,684	319,984
AA+	-	1,370	9,999	77,689
AA	1,633	-	1,633	31,231
AA-	-	113,919	7,043	143,812
A+	317		317	
	573,843	551,449	573,904	572,716

Liquidity risk

Liquidity risk represents the possibility of a mismatch between maturities of assets and liabilities, which could result in an inability to meet obligations by the established due dates. It is the Company's general policy to maintain adequate liquidity levels to ensure that present and future obligations are met, and taking advantage of commercial opportunities as they arise. Management believes that the Company is not exposed to significant liquidity risk considering its cash generation capacity.

In addition, mechanisms and tools to raise funds are periodically analyzed in order to reverse positions that could affect the Company's liquidity.

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31. Financial risk management objectives and policies--Continued

Credit risk--Continued

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31, 2019:

	Carrying amount	Financial flow	Consolidated			Total
			Less than 3 months	from 3 months to 1 year	from 1 to 5 years	
Assets						
Cash and cash equivalents (Note 4)	325,277	325,277	325,277	-	-	325,277
Marketable securities (Note 5)	280,182	280,182	-	278,816	1,366	280,182
Trade receivables (Note 6)	60,361	60,361	60,361	-	-	60,361
Liabilities						
Loans and financings (Note 13)	519,870	678,110	6,982	136,811	534,317	678,110
Trade payables (Note 14)	286,432	286,432	286,432	-	-	286,432
Lease payables (Note 15)	693,209	964,323	41,112	123,102	800,109	964,323
Corporate payables (Note 16)	23,760	23,760	23,760	-	-	23,760
Taxes payable (Note 17)	37,755	37,755	23,196	1,954	12,605	37,755

The cash flows included in the Company's maturity analyses are not expected to occur significantly sooner or in amounts significantly different.

Capital management

Assets can be financed by cost of equity or cost of debt. If the option for cost of equity is chosen, it can use resources from capital contributions made by the shareholders.

The use of financing resources will always be an option to be considered, mainly when the Company believes that this cost will be lower than the return generated by the asset acquired. It is important to assure the maintenance of an efficient capital structure, which enables financial soundness and at the same time makes the business plan feasible.

The capital is managed through leverage ratios, which are defined as net debt divided by Adjusted EBITDA for the last 12 months, and net debt divided by the sum of the net debt and total equity. Management seeks to maintain this ratio at levels equal to or lower than industry levels. Management includes in net debt the loans and financings (including debentures), swaps, cash and cash equivalents, current and non-current financial investments, and current and non-current restricted marketable securities.

The capital structure is comprised of net debt, defined as total loans and financings (including debentures), net of cash and cash equivalents, marketable securities and other short-term financial assets and capital, defined as total equity and net debt, all based on the considered data.

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31. Financial risk management objectives and policies--Continued

Capital management--Continued

The Company is not subject to any external requirement on capital. Total capital is defined as total equity plus net debt, as follows:

	Consolidated	
	2019	2018
Equity	1,786,629	1,716,960
Cash and cash equivalents (Note 4)	(325,277)	(174,963)
Marketable securities (Note 5) (i)	(280,182)	(427,983)
Loans and financings (Note 13) (i)	519,870	279,113
Net debt	(85,589)	(323,833)
Lease payables (Note 15)	693,209	-
Total capital	2.394.249	1,393,127

(i) Includes current and non-current, net of costs

Hedge accounting

The Company applies the hedge accounting rules to derivative and non-derivative instruments that qualify for cash flow hedge relationship, according to the determinations of its Risk Policies.

The Company makes the formal designation of its hedge accounting relationship, as provided for in CVM Resolution 763/16 IFRS 9 and with its Risk Policy. The relationships used by the Company, as of December 31, 2019, are described below:

i. Cash flow hedge

The Company purchase fries, component of the cost of sales, and this cost is linked to the Euro, so that, when the Company knows its expectation of highly probable future purchases, a foreign exchange risk arises. Thus, the Company adopts the policy of managing this risk by entering into derivatives (NDF - non-deliverable forwards). When derivative contracts are entered into, they are intrinsically related to future purchases of inputs and therefore qualify for the adoption of hedge accounting. The Company opted for the adoption of the cash flow hedge accounting and the strategy is to set the actual cash flow from future potato purchases (hedged item) and to set the Euro rate through a derivative (hedging instrument).

ii. Gains and losses on hedge accounting instruments

Financial instruments designated as cash flow hedge, while not realized, are recognized in other comprehensive income while effective and according to the strategy defined in the policy.

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(Amounts in thousands of Reais)

31. Financial risk management objectives and policies--Continued

Hedge accounting— Continued

iii. Sensitivity analysis

In accordance with CVM Instruction 475/08, the Company shows the possible impacts of the financial instruments in profit or loss and equity considering the scenarios: probable, pessimistic (25% deviation) and adverse (50% deviation).

Parity - R\$ x EUR						
Operation/Instrument	Risk	Current Scenario	Scenario I 25% Appreciation	Scenario II 50% Appreciation	Scenario III 25% Depreciation	Scenario IV 50% Depreciation
Designated as hedge accounting						
NDF	R\$ depreciation	17	4	8	(4)	(8)
Import (item)	R\$ appreciation	(17)	(4)	(8)	4	8
Net effect		-	-	-	-	-

32. Derivative financial instruments

NDF - Non deliverable Forward
Total NDF

Parent company and Consolidated	
2019	2018
-	90
-	90

The values of derivative financial instruments, represented by NDF contracts, are summarized below:

Instruments	Maturity	Assets (hedged item)	Parent company and Consolidated			
			2019		2018	
			Notional	Fair value	Notional	Fair value
<i>(Not designated as cash flow hedge)</i>						
NDF	1/15/2019	USD	-	-	483	15
NDF	1/15/2019	USD	-	-	1,932	75
NDF	1/30/2019	Euro	-	-	432	-
NDF	1/9/2019	Euro	-	-	433	-
NDF	1/16/2019	Euro	-	-	432	-
NDF	1/23/2019	Euro	-	-	432	-
			-	-	4,144	90

Losses and gains on derivative transactions, not designated as cash flow hedge, are recognized monthly in the result for the year, considering the fair value of these instruments.

Instruments	Maturity	Assets (hedged item)	Parent company and Consolidated			
			2019		2018	
			Notional	Fair value	Notional	Fair value
<i>(Designated as cash flow hedge)</i>						
NDF	01/2019	Euro	-	-	392	(2)
NDF	10/2019	Euro	-	-	-	-
NDF	11/2019	Euro	-	-	-	-
NDF	01/2020	Euro	319	17	-	-
			319	17	392	(2)

32. Derivative financial instruments--Continued

Losses and gains on derivative transactions, designated as cash flow hedge, are recognized at fair value related to hedge market marking, in other comprehensive income. When the instrument is liquidated, these hedge costs are classified in the income statement.

33. Fair value

Methodology for calculation of fair value of financial instruments

Fair value is defined as the amount by which an asset could be exchanged or a liability settled between knowledgeable, willing parties, in an arm's length transaction.

Hierarchy in 3 levels for the fair value measurement, and the fair value measurement is based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect the Company's market assumptions.

These two types of inputs create the fair value hierarchy presented below:

Level 1 - Quoted prices in active markets for identical instruments;

Level 2 - Quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in inactive markets and valuation models for which the inputs are observable; and

Level 3 - Instruments for which significant inputs are not observable.

The breakdown below shows the Company's financial assets classified into the valuation hierarchy.

As of December 31, 2019, the fair value of the derivative financial instruments equals the carrying amounts in accordance with the criteria set in the fair value hierarchy Level 2.

The NDF contracts are measured at present value, at the market rate at the end of the reporting period, based on the future cash flow calculated by applying the contractual rates through maturity, considering the US dollar projections in futures contracts registered with B3 S.A.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

33. Fair value--Continued

Methodology for calculation of fair value of financial instruments--Continued

The fair value of financial assets and liabilities is included in the amount by which the instrument could be exchanged between willing parties in an arm's length transaction, rather than in a forced sale or liquidation. The fair values of the main financial assets and liabilities approximate their carrying amounts, as shown below:

	<u>Consolidated</u>		Fair value hierarchy level
	<u>Carrying amount</u>	<u>Fair value</u>	
Assets			
Cash and cash equivalents (Note 4)	325,277	325,277	2
Marketable securities (Note 5)	280,182	280,182	2
Trade receivables, net (Note 6)	60,361	60,361	2
Liabilities			
Loans and financings (Note 13)	519,870	550,140	2
Trade payables (Note 14)	286,432	286,432	2
Lease payable (Note 15)	693,209	693,209	2
Corporate payables (Note 16)	23,760	23,760	2

(i) All derivatives are classified as at fair value through profit or loss, however, those designated as hedge accounting have their effects also in Equity or in Inventories.

34. Share-based compensation plan

As a result of the increase in the Company's capital, (i) 81,982 new registered common shares with no par value of the Company were issued, under the Company's Second Stock Option Plan, at the issue price of R\$7.09 per share; and (ii) 642,395 new registered common shares with no par value of the Company were issued, under the Company's Third Stock Option Plan, at the issue price of R\$10.65 per share.

Third Plan

On June 22, 2017, the Extraordinary General Meeting approved the Company's Third Stock Option Plan. The Third Plan establishes general conditions for the Company's acquisition and grant of stock options to members of Management.

The participants obtained the right the exercise the first tranche of their options beginning on July 14, 2017 ("Initial Tranche" or "Initial Vesting", as appropriate), and the remaining tranches are exercisable on July 14, 2018, July 14, 2019, July 14, 2020 and July 14, 2021, and for purposes of this participation the "Vesting Period" of each tranche will be the respective whole periods. Notwithstanding, the Management Committee may, at its discretion and at any time, accelerate the vesting period of part or the entirety of the tranches of the participant's options.

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

34. Share-based compensation plan--Continued

Third Plan--Continued

In addition to this plan, on October 30, 2019, 564,950 options were granted considering the same assumptions, in five (5) tranche, as shown in the table below, with an estimated fair value equivalent to the price of BKBR3 on the grant date.

The information on the stock option plan and assumptions used in the valuation are as follows:

	Third Plan							Total
	First tranche	Second tranche	Third tranche	Fourth tranche	Fifth tranche	Sixth tranche	Seventh Tranche	
Grant date	06/22/2017	06/22/2017	10/30/2019	10/30/2019	10/30/2019	10/30/2019	10/30/2019	N/A
Vesting date	07/14/2020	07/14/2021	10/30/2019	07/14/2020	07/14/2021	07/14/2022	07/14/2023	N/A
Strike price	10.82	10.82	10.82	11.37	12.14	12.95	13.82	10.82
Strike price (estimated) at the reporting period	17.78	17.78	17.78	17.78	17.78	17.78	17.78	17.78
Risk-free interest rate%	9.20%	9.87%	5.40%	4.42%	4.70%	5.19%	5.64%	N/A
Contractual period by tranche	1 year	2 years	n/a	1 year	2 years	3 years	4 years	N/A
Expected return of dividend	0%	0%	0.40%	0.40%	0.40%	0.40%	0.40%	N/A
Volatility of shares in the market %	14.91%	14.91%	23.47%	23.47%	23.47%	23.47%	23.47%	N/A
Total number of options outstanding	1,467,064	1,532,800	112,990	112,990	112,990	112,990	112,990	3,564,814
Number of options vested	176,758	-	112,990	-	-	-	-	289,748
Number of options exercised (2018 and 2019)	1,942,278	-	-	-	-	-	-	1,942,278
Number of options to be exercised	1,643,822	1,532,800	112,990	112,990	112,990	112,990	112,990	3,741,572
Estimated fair value (R\$/share)	1.0764	1.5304	7.9300	7.6700	7.5000	7.5400	7.6800	N/A

Below we present the movements of the options of the first, second and third plans:

	First Plan	Second Plan	Third Plan	Total
Outstanding as of December 31, 2017	2,662,000	1,262,100	4,943,400	8,867,500
Granted	-	-	175,500	175,500
Canceled	(39,100)	-	-	(39,100)
Exercised	(194,350)	(5,251)	(48,051)	(247,652)
Outstanding as of December 31, 2018	<u>2,428,550</u>	<u>1,256,849</u>	<u>5,070,849</u>	<u>8,756,248</u>
Granted	-	-	564,950	564,950
Canceled	-	-	-	-
Exercised	(2,428,550)	(1,256,849)	(1,894,227)	(5,579,626)
Outstanding as of December 31, 2019	<u>-</u>	<u>-</u>	<u>3,741,572</u>	<u>3,741,572</u>
Exercisable as of December 31, 2019 (vested) (Note 23)	<u>-</u>	<u>-</u>	<u>289,748</u>	<u>289,748</u>

In the year ended December 31, 2019, the Company recognized the amount of R\$4,315 (R\$4,486 in 2018) of expenses arising from the stock options plans, recorded in line item General and administrative expenses (Note 27).

Years ended December 31, 2019 and 2018
(Amounts in thousands of Reais)

34. Share-based compensation plan--Continued

Fourth Plan

On March 22, 2019, the Special General Meeting approved the Company’s Stock Option Plan. The Fourth Plan aims to grant participants the opportunity to receive common shares issued by the Company in order to: (a) encourage the expansion, success and achievement of the Company's corporate objectives, corporate goals and the interests of its shareholders, encouraging the integration of the Participants into the Company; (b) increase the medium and long-term alignment of participants’ interests with shareholders’ interests, enhancing participants’ sense of “ownership” and commitment through the concept of investment and risk; (c) strengthen the incentives for long-term permanence and stability of the Company's participants; and (d) attract new talents to the Company.

The maximum number of Virtual Restricted Shares that may be granted to participants under this Plan is limited to 1,839,905 Virtual Restricted Shares (the “Quantitative Limit”). Any change in the Quantitative Limit will depend on the approval of the General Meeting.

The Fourth Plan was divided into two programs:

First Program

- (i) The grace period will end on January 1, 2022 in respect of 50% of the Virtual Restricted Shares to be granted under said Program; and
- (ii) The grace period will end on January 1, 2023 for the remaining 50% of the Virtual Restricted Shares to be granted under the same Program.

Second Program

- (i) The grace period will end on January 1, 2023 in respect of 50% of the Virtual Restricted Shares to be granted under said Program; and
- (ii) The grace period will end on January 1, 2024 for the remaining 50% of the Virtual Restricted Shares to be granted under the same Program.

35. Insurance

As at December 31, 2019, the Company had the following insurance policies in effect:

<u>Insured location</u>	<u>Maximum indemnity limit</u>
Civil Liability of Directors and Officers (D&O)	50,000
General Civil Liability	40,000
Property (RO) - Average	10,200
Professional Civil Liability (E&O)	15,000
Public Offering Insurance (POSI)	70,000

Officer's Statement on the Financial Statements

STATEMENT OF COMPLIANCE WITH ARTICLE 25, PARAGRAPH 1, ITEM VI, OF CVM INSTRUCTION 480/09

We state hereby, as executive officers of BK Brasil Operação e Assessoria a Restaurantes S.A., a publicly-held corporation headquartered in the City of Alphaville – Barueri, State of São Paulo, at Alameda Tocantins, 350, 11o floor, registered under the Corporate Taxpayer's ID (CNPJ) No. 13.574.594/0001-96 ("Company") that, in compliance with the provisions of item VI, paragraph 1, of article 25 of CVM Instruction 480 of December 7, 2009, we have reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2019.

Barueri, February 19, 2020

Iuri de Araújo Miranda
Chief Executive Officer

Clayton de Souza Malheiros
Chief Financial Officer

Officers' Statement on the Independent Auditor's Report

STATEMENT OF COMPLIANCE WITH ARTICLE 25, PARAGRAPH 1, ITEM V, OF CVM INSTRUCTION 480/09

We state hereby, as executive officers of BK Brasil Operação e Assessoria a Restaurantes S.A., a publicly-held corporation headquartered in the city of Alphaville – Barueri, State of São Paulo, at Alameda Tocantins, n° 350, 11° floor, registered under the Corporate Taxpayer's ID (CNPJ) n°, 13,574,594/0001-96 ("Company"), that, in compliance with the provisions of item V, paragraph 1, of article 25 of CVM Instruction 480 of December 7, 2009, we have reviewed, discussed and agreed with the opinion in the independent auditor's report of Ernst & Young Auditores Independentes S.S., related to the Company's Financial Statements for the year ended December 31, 2019.

Barueri, February 19, 2020

Iuri de Araújo Miranda
Chief Executive Officer

Clayton de Souza Malheiros
Chief Financial Officer

SUMMARY OF THE AUDIT COMMITTEE REPORT 2019

The Audit Committee of BK Brasil Operação e Assessoria a Restaurantes S.A. (BKB) is a permanent advisory body to the Board of Directors. Its functioning, composition and attributions are governed by the Internal Rules of the Audit Committee (<http://burgerking.riweb.com.br/>), which is reviewed annually and approved by the Board of Directors.

The Audit Committee of BKB is made up of three members, the majority of whom are independent members. The Committee is coordinated by an independent member, meeting, in this respect, the requirement of the Brazilian Corporate Governance Code - Publicly Traded Companies. Mr. Guy Almeida Andrade is the financial specialist.

The Committee meets monthly on an ordinary and extraordinary basis, whenever necessary and when called by its Coordinator, at the request of the Board of Directors or any Committee member.

As a member of the Board of Directors, the Committee Coordinator reports the Committee's activities to the Board on a quarterly basis. Material or extraordinary facts are brought to the Board whenever the Committee's collegiate body deems it necessary.

During 2019, the committee held five meetings to fulfill its role and its activities during that period are described below.

Monitoring of Internal Audit activities: BKB's (IA) internal audit had been working on two fronts: (a) corporate audit; and (b) restaurant audit. Both activities were under the supervision of the Audit Committee. As of 2020, IA began to act solely with corporate auditing.

During 2019, as part of its work, the Internal Audit held meetings with the Management in order to align the audit points and its action plans, focusing on the most critical risks.

During the year ended, training was provided for the entire team, with an emphasis on specific issues in the audit career.

During the year, the Committee made several recommendations to the audit plan, intended to improve the scope and objective of the work.

The Committee carried out the formal assessment of the internal audit, observing a noticeable improvement in the period examined, compared to the previous year. Improvement recommendations were made from the evaluation, which were discussed with the person in charge of the area.

Monitoring of External Audit activities: Ernst & Young Auditores Independentes (EY) is the company responsible for auditing the financial statements for the year 2019, for planning and executing its work, according to the rules of the profession, as well as responsible for the limited reviews of quarterly financial information (ITRs) sent to the Brazilian Securities and Exchange Commission - CVM.

SUMMARY OF THE AUDIT COMMITTEE REPORT 2019--Continued

The Committee held regular meetings with the independent auditors to discuss the results of the audit and relevant accounting issues, their concerns, recommendations and relationship with management, which allowed its members to assess the quality and objectivity of the work performed.

BKB maintains a policy for hiring independent auditors to perform other services. This policy was approved by the Board of Directors at a meeting held on November 14, 2017. The contracting of any other services is approved by the Committee. In 2019, the Committee approved the hiring of EY to confirm tax credits arising from Social Security Contributions (INSS) on variable compensation, in the amount equivalent to 3% of the audit fees of the financial statements.

The Committee carried out a formal assessment of the independent auditors and concluded that they maintained their independence and objectivity throughout 2019. The Committee recommended to the Board of Directors the maintenance of EY as BKB's external auditors.

Monitoring of annual financial statements: On a quarterly basis, the Controlling area presents BKB's financial statements to the Audit Committee, discussing its performance and variations. Also on a quarterly basis, the Committee meets with the independent auditors, who present their conclusions on the financial statements for each quarter, making the observations they deem relevant. On these occasions, the Committee also meets alone with the auditors, and asks the questions it deems necessary.

Monitoring of the Company's business and the internal control environment: Throughout 2019, the Audit Committee met with the BKB directors of the areas with action plans for improvements in internal control. On these opportunities, it became aware of the main ongoing projects, organizational changes, the status of the implementation of action plans for the most critical audit points and the actions taken to improve the internal control environment.

Monitoring of communications received by the Whistleblower Channel: BKB's Whistleblowing Channel is outsourced to a specialized company. The complaints received were sent to the Internal Audit, which investigated them. In 2019, the Conduct Committee was created, which examines any complaints that involve Officers or Vice-Presidents. The whistleblower's identity is preserved by taking measures to guarantee this confidentiality. As of 2020, complaints will be received and dealt with by Compliance.

Conclusion

Based on the information and discussions mentioned above, the Audit Committee recommends that the Board of Directors approves the audited financial statements for the fiscal year ended December 31, 2019.

São Paulo, February 19, 2020.

Henrique Luz
Coordinator

Thiago Temer Santelmo

Guy Almeida Andrade