

(A free translation of the original in Portuguese)

Montesanto Tavares
Group Participações S.A.
Financial statements at
December 31, 2019
and independent auditor's report



(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Montesanto Tavares Group Participações S.A.

Opinion

We have audited the accompanying parent company financial statements of Montesanto Tavares Group Participações S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2019 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Montesanto Tavares Group Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montesanto Tavares Group Participações S.A. and of Montesanto Tavares Group Participações S.A. and its subsidiaries as at December 31, 2019, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

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 Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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



Montesanto Tavares Group Participações S.A.

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

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

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

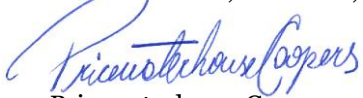



Montesanto Tavares Group Participações S.A.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the parent company and consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Belo Horizonte, March 10, 2020


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5


Guilherme Campos e Silva
Contador CRC 1SP218254/O-1

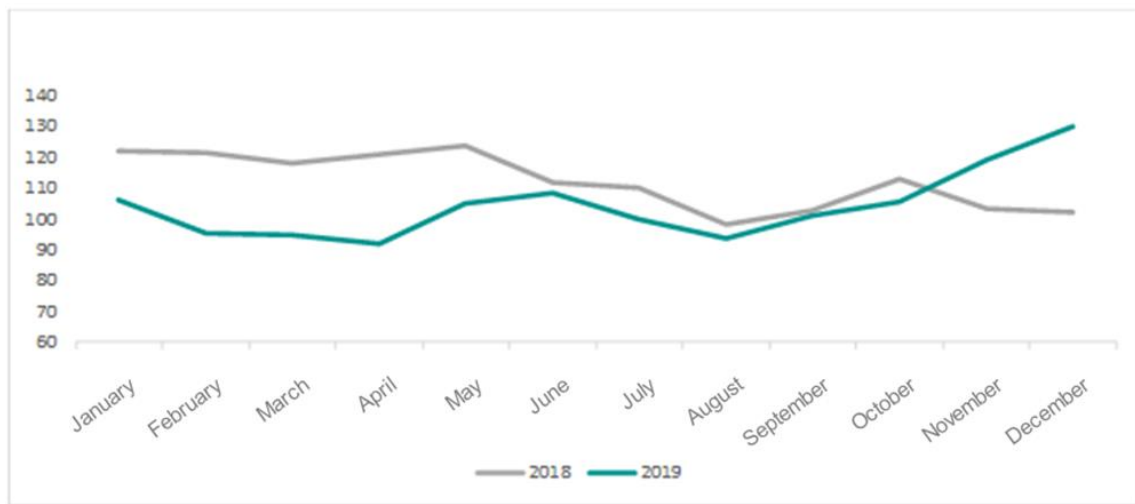
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MANAGEMENT REPORT

We had many reasons to celebrate in 2019. In addition to reaching important qualitative goals, Atlântica and Cafebras repeated the exceptional results obtained in 2018. Ally, though, suffered a loss due to the realization of short positions at lower price differentials than the current ones.

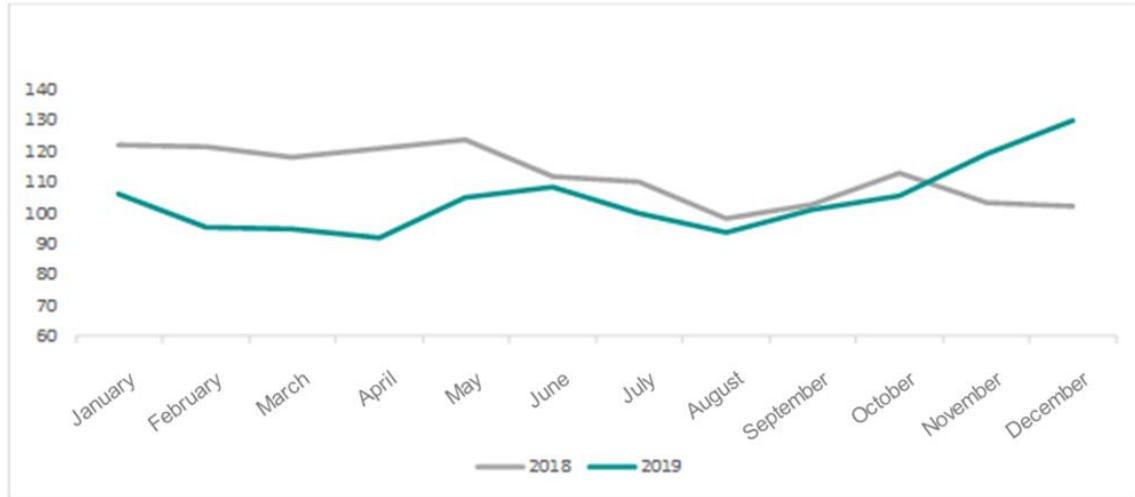
The continuous depreciation of the Brazilian Real, from 2018, worsened throughout 2019,

Fluctuation in Coffee prices – NYSE - 2018 vs. 2019



this, coupled with the reversal of the downward trend in the NYSE prices,

Fluctuation in Coffee prices – NYSE - 2018 vs. 2019



resulted in higher prices in Reais for the producer, allowing Atlântica and Cafebras to purchases at lower price points for future delivery compared to 2018. As a result, we set new records for bags traded in that format.

Meanwhile, the price differentials for FOB sales of Brazilian coffees remained narrow, reflecting lower supply on the international market of Colombian and Central American coffees, which, after Brazil, are the main producers and suppliers of Arabica coffees globally. This scenario, combined with the spreads on the NYSE, of up to 15% p.a. at times, improved our margins significantly, allowing us to double EBITDA and Profit for the year.

On the other hand, due to sales made at lower price points, Ally recorded losses during 2019, in fulfilling its commitments.

On the operational side, structural actions and operating improvements have contributed and will to bring both economic and qualitative positive impacts.

- 1- Percentage of contract performance.
Through corrective actions such as, for example, the maintenance of qualitative stock covering a minimum of three months of commitments, as well as minor preventive actions, we managed to deliver 98% of the contracts, within the contractual deadlines, compared to 53% in the previous year. Even when we consider that our performance in 2018 was severely impacted by the third party truckers strike, a percentage of 98% had never been achieved before, and represents a new qualitative milestone

- 2- Change of the physical structure from Belo Horizonte to a new office in Varginha (Atlântica Exportação).
To promote greater synergy between the areas and workforce streamlining, we decided to transfer our entire physical structure from Belo Horizonte to a new office in Varginha. In addition to the expected operational gains, we will reduce overheads by approximately 15%, as well as various administrative expenses which, in the aggregate, represent a decrease of approximately R\$ 1.6 million per year. The process is scheduled to be completed in April 2020.

- 3- Expansion of the Caparaó storage unit.
The expansion of the Caparaó warehouse will triple its static storage capacity from 70,000 to 210,000 bags, in addition to increasing by 50% the coffee processing capacity, and reducing significantly the unit cost per bag processed. The work is expected to be completed in mid-2020.

- 4- Approval obtained to hire a senior professional to lead the legal department of GMT Farms and Tradings.

This will allow us not only to work on drafting and implementation more robust Corporate Governance policies, and the creation of an Audit Committee, but also to streamline the process of hiring outsourced services. These are important steps towards the highest level of compliance and best practices in Corporate Governance.

- 5- Creation of the Sustainability Committee
Being a sustainable company, built on the economic, social and environmental values, is an increasingly important condition for businesses that intend to keep expanding, particularly into the international market. The creation of our Sustainability Committee, led by Irene Vieira, has the purpose of developing a comprehensive project to plan actions and

respective implementation schedules. Our goal is to have the project to be submitted to the Company's Board of Directors by mid-2020

- 6- Completion of corporate restructuring process stages of the Montesanto Tavares Group. The most important steps of the planned corporate restructuring were completed when welcoming the new partner, PSP. This achievement bears a special symbolism, since all the founding partners now form a single holding company, which holds 70% of the shares of GMT Group - Trading. The new corporate structure promotes greater shareholder engagement in the common interests of all companies in the Trading segment, given that the economic results of each company are equally distributed providing for extra motivation to search for common benefits.

We continue pursuing our strategy, strongly leveraged on our commitment to be ever closer to our partner producers, by expanding this supply chain and empowering and encouraging them to become increasingly involved in certification processes, always seeking to support a more and more sustainable coffee growing process.

Rogério Azevedo Schiavo- CEO

Montesanto Tavares Group Participações S.A.

Balance sheet at December 31

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

Assets	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Current assets					
Cash and cash equivalents	5	4	10	183,543	84,233
Marketable securities	6	15,761	8,238	145,643	104,587
Trade receivables	7	-	-	183,532	229,473
Inventories	8	-	-	636,938	342,259
Advances	9	-	4	7,195	83,562
Dividends receivable	12	25,445	14,125	-	-
Taxes recoverable	10	251	198	39,504	29,460
Financial instruments	4.3	-	-	379,699	314,695
Other receivables		963	302	16,880	9,866
Total current assets		42,424	22,877	1,592,934	1,198,135
Non-current assets					
Long-term receivables					
Related parties	12	7,951	104,097	-	39,442
Other receivables		-	-	88	135
		7,951	104,097	88	39,577
Investments	13	278,218	159,313	-	3
Property, plant and equipment	14	-	-	16,244	14,591
Intangible assets		-	-	1,052	2,017
Total non-current assets		286,169	263,410	17,384	56,188
Total assets		328,593	286,287	1,610,318	1,254,323

Montesanto Tavares Group Participações S.A.

Balance sheet at December 31

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Liabilities					
Current liabilities					
Trade payables	15	6	86	52,488	56,521
Borrowings	16	-	-	1,076,729	749,458
Taxes payable		1	2	1,216	2,396
Income tax and social contribution		-	-	1,717	2,273
Dividends payable	17	20,790	8,874	32,739	16,045
Other payables		612	88	8,990	11,908
Lease payments		-	-	263	-
Total current liabilities		21,409	9,050	1,174,142	838,601
Non-current liabilities					
Borrowings	16	-	-	24,403	25,462
Deferred income tax and social contribution	11	-	-	110,409	87,809
Provision for net capital deficiency in subsidiaries	13	13,349	-	-	-
Lease payments		-	-	784	-
Other payables		-	-	453	750
Total non-current liabilities		13,349	-	136,049	114,021
Equity	17				
Share capital		246,596	230,067	246,596	230,067
Capital reserve		6,137	1,137	6,137	1,137
Carrying value adjustments		6,549	4,444	6,549	4,444
Revenue reserve		34,553	41,589	34,553	41,589
		293,835	277,237	293,835	277,237
Non-controlling interests		-	-	6,292	24,464
Total equity		293,835	277,237	300,127	301,701
Total liabilities and equity		328,593	286,287	1,610,318	1,254,323

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

Montesanto Tavares Group Participações S.A.

Statement of income Years ended December 31

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Net revenue	18	-	-	1,394,023	950,450
Cost of sales	19	-	-	(1,233,253)	(837,462)
Net result of changes in agricultural commodity prices and foreign exchange gains/losses	20	-	-	70,174	90,354
Gross profit		-	-	230,944	203,342
Selling expenses	21	-	-	(53,851)	(27,176)
General and administrative expenses	22	(690)	(504)	(37,409)	(40,788)
Other operating income, net	23	-	8	1,660	(1,779)
Operating profit		(690)	(496)	141,344	133,599
Finance costs	24	(5)	(1,256)	(46,473)	(44,270)
Interest income	24	556	1,115	7,031	5,168
Finance result		551	(141)	(39,442)	(39,102)
Equity in results of subsidiaries and associates	13	65,071	58,805	-	-
Profit before income tax and social contribution		64,932	58,168	101,902	94,496
Current income tax and social contribution	25	-	-	(5,413)	(4,449)
Deferred income tax and social contribution	25	-	-	(22,866)	(23,746)
Profit for the year		64,932	58,168	73,623	66,302
Attributable to:					
Owners of the parent				64,932	58,168
Non-controlling interests				8,691	8,134
				73,623	66,302

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

Montesanto Tavares Group Participações S.A.

Statement of comprehensive income Years ended December 31

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit for the year	<u>64,932</u>	<u>58,168</u>	<u>73,623</u>	<u>66,301</u>
Other components of comprehensive income				
Items to be subsequently reclassified to profit or loss				
Foreign exchange gains/losses of subsidiary abroad	<u>2,105</u>	<u>4,444</u>	<u>2,105</u>	<u>4,444</u>
Total comprehensive income for the year	<u>67,037</u>	<u>62,612</u>	<u>75,728</u>	<u>70,745</u>
Attributable to:				
Owners of the parent	-	-	67,037	62,611
Non-controlling interests	<u>-</u>	<u>-</u>	<u>8,691</u>	<u>8,134</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>75,728</u>	<u>70,745</u>

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

Montesanto Tavares Group Participações S.A.

Statements of changes in equity

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

	Attributable to owners of the parent								
	Share capital	Capital reserves	Legal reserve	Profit retention reserve	Carrying value adjustments	Retained earnings	Total	Non-controlling interests	Total equity
At December 31, 2017	10	-	-	-	-	-	10	-	10
Profit for the year	-	-	-	-	-	58,168	58,168	8,134	66,302
Foreign exchange gains/losses of subsidiary abroad	-	-	-	-	4,444	-	4,444	-	4,444
Total comprehensive income for the year	-	-	-	-	4,444	58,168	62,612	8,134	70,746
Capital increase	298,045	1,137	-	-	-	-	299,182	-	299,182
Merger of subsidiaries	51,429	-	-	-	-	-	51,429	16,330	67,759
Partial spin-off	(119,417)	-	-	-	-	-	(119,417)	-	(119,417)
Allocation of legal reserve	-	-	2,908	-	-	(2,908)	-	-	-
Dividends	-	-	-	-	-	(16,579)	(16,579)	-	(16,579)
Profit retention	-	-	-	38,681	-	(38,681)	-	-	-
At December 31, 2018	230,067	1,137	2,908	38,681	4,444	-	277,237	24,464	301,701
Profit for the year	-	-	-	-	-	64,932	64,932	8,691	73,623
Foreign exchange gains/losses of subsidiary abroad	-	-	-	-	2,105	-	2,105	-	2,105
Total comprehensive income for the year	-	-	-	-	2,105	64,932	67,037	8,691	75,728
Capital increase through ownership interest in subsidiaries	14,138	5,000	-	982	-	-	20,120	(20,120)	-
Capital increase in cash	5,293	-	-	-	-	-	5,293	-	5,293
Capital increase from merger of related company	-	-	-	(12,646)	-	-	(12,646)	-	(12,646)
Capital spin-off	(2,902)	-	-	-	-	-	(2,902)	-	(2,902)
Allocation of legal reserve	-	-	3,248	-	-	(3,248)	-	-	-
Dividends	-	-	-	(27,618)	-	(20,790)	(48,408)	(6,743)	(55,151)
Dividends from preferred shares of subsidiaries	-	-	-	-	-	(11,896)	(11,896)	-	(11,896)
Profit retention reserve	-	-	-	28,998	-	(28,998)	-	-	-
At December 31, 2019	246,596	6,137	6,156	28,397	6,549	-	293,835	6,292	300,127

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

Montesanto Tavares Group Participações S.A.

Statement of cash flows Years ended December 31

All amounts in thousands of Reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit for the year	64,932	58,167	73,623	66,301
Adjustments for:				
Depreciation, amortization, and depletion of non-current assets	-	-	2,751	14,777
Disposals of property, plant and equipment	-	-	-	-
Result of subsidiaries recognized under the equity method	(65,071)	(58,805)	-	-
Interest/ indexation accruals and foreign exchange gains/losses	-	-	4,923	135,454
Deferred income tax and social contribution	-	-	22,600	38,456
Provisions	-	-	-	1,751
Foreign exchange gains/losses on subsidiaries abroad	-	-	2,105	4,444
Losses (gains) on fair value of derivative financial instruments	-	-	(44,629)	(192,417)
Provision for net capital deficiency in subsidiaries	-	-	-	-
Changes in operating assets and liabilities				
Trade receivables	-	-	100,415	(36,167)
Inventories	-	-	(214,162)	(230,172)
Advances	4	(4)	75,211	(53,219)
Taxes recoverable	(53)	(198)	(10,044)	(9,652)
Other receivables	(661)	(302)	(6,819)	28,724
Trade payables	(80)	86	(13,490)	9,130
Tax liabilities	(1)	2	1,734	3,717
Payroll charges and salaries	-	-	-	(2,569)
Other payables	524	88	(2,812)	7,958
Cash provided by (used in) operations	(406)	(966)	(12,062)	(213,484)
Interest paid	-	-	(39,218)	(30,641)
Net cash provided by (used in) operating activities	(406)	(966)	(51,280)	(244,125)
Cash flows from investing activities				
Financial investments and stock exchange transactions	(7,523)	(8,238)	(39,002)	32,743
Purchases of property, plant and equipment, intangible assets and biological assets	-	-	(5,917)	(9,056)
Capital contributions in subsidiaries	-	(184,142)	-	-
Dividends received from subsidiaries	32,220	1,521	-	-
Related-party transactions	6,902	(99,653)	39,442	12,001
Net cash provided by (used in) investing activities	31,599	(290,512)	(5,477)	35,688
Cash flows from financing activities				
Proceeds from borrowings	-	-	1,270,626	906,560
Repayments of borrowings	-	-	(1,065,014)	(848,806)
Capital increase	-	299,182	-	299,182
Dividends paid	(31,199)	(7,704)	(50,353)	(64,276)
Acquisition of subsidiaries	-	-	-	-
Net cash provided by (used in) financing activities	(31,199)	291,478	155,259	292,860
Effects of exchange rate changes cash and cash equivalents				
Increase (decrease) in cash and cash equivalents	(6)	-	98,502	84,223
Cash and cash equivalents at the beginning of the year	10	10	84,233	10
			808	
Cash and cash equivalents at the end of the year	4	10	183,543	84,233
Increase (decrease) in cash and cash equivalents	(6)	-	99,310	84,223

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

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Montesanto Tavares Group Participações S.A.

Notes to the financial statements

at December 31, 2019

All amounts in thousands of Reais, unless otherwise stated

1 General information

1.1 Company

Montesanto Tavares Group Participações S.A (“Company” or “Parent Company”) and its subsidiaries (together, the “Group”) are mainly engaged in processing and trading coffee, and investing in other companies.

The Company is a corporation headquartered in the city of Belo Horizonte, State of Minas Gerais, established on September 1, 2017, for the purpose of consolidating the coffee trading operations carried out by the Montesanto Tavares Group, dormant until April 1, 2018 when it began operating.

At the Extraordinary General Meeting held on April 30, 2018, the shareholders at the time, Montesanto Tavares Participações e Empreendimentos S.A. and MSchiavo Participações e Empreendimentos Ltda., approved a capital increase, by contribution their investments in companies Atlântica Exportação e Importação S.A. and Atlântica Participações e Empreendimentos S.A. The transaction was re-ratified at a Shareholders’ Extraordinary General Meeting and filed with the Board of Trade of the State of Minas Gerais (JUCEMG) on August 9, 2018. The total subscription of R\$ 51,429 corresponded to the net assets of the companies at March 31, 2018.

On May 4, 2018, Montesanto Tavares Group Participações S.A., (“GMT HoldCo”) and the Canadian investment fund PSP Investments, through its subsidiary CANADA INC. (PSP) entered into a share subscription agreement, which, among other provisions, set up the terms and conditions for the issue of new shares of GMT HoldCo.

The Shareholders’ Extraordinary General Meeting held on June 27, 2018 authorized a capital increase in of R\$ 298,045, paid up by the shareholders through bank transfer on June 28, 2018.

The Group's corporate restructuring process continued when the Trading (coffee sales) and Farms (coffee production) activities were partially spun-off on October 31, 2018 from the Company’s investment in Newco Farms Participações Ltda., transferring these to GMT Holding Farm S.A. The spun-off net assets totaled R\$ 119,417, with a corresponding entry reducing the Company's capital.

The corporate restructuring of the trading operations was completed in October 2019. At that time, two non-controlling interest shareholders in Cafebras Comércio de Cafés do Brasil S.A. (“Cafebras”) contributed to the Company their interest (24%) in Cafebras in the amount of R\$ 19,431. Consequently, the Company became the owner of 90% of Cafebras.

In addition, the related party Ally Coffee Trading was merged into the Company, thereby completing the Group's current organization chart (Note 1.2).

The issue of these parent company and consolidated financial statements was authorized by the Executive Board on March 10, 2020.

Montesanto Tavares Group Participações S.A.

Notes to the financial statements

at December 31, 2019

All amounts in thousands of Reais, unless otherwise stated

1.2 Subsidiaries (direct and indirect)

Atlântica Exportação e Importação S.A. (“Atlântica Coffee”) – direct subsidiary – Headquartered in the town of Manhuaçu, State of Minas Gerais, with branches in the States of Minas Gerais, São Paulo, Espírito Santo, and Bahia, this subsidiary is responsible for trading, processing, and exporting coffee.

Mountain Coffee Corporation (“MCC” or “Ally Coffee”) – indirect subsidiary – This company, based Plantation, Florida, United States, is engaged in the trade of green coffee beans.

Atlântica International Overseas Ltda. (“Atlântica Overseas”) – indirect subsidiary – This company provides auxiliary support to the Group's activities by making purchases and sales in the foreign market. It is based in the British Virgin Islands.

Cafebras Comércio de Cafés do Brasil S.A. (“Cafebras”) – direct subsidiary – Headquartered in Patrocínio, State of Minas Gerais, this company is engaged in growing, processing/reprocessing, manufacturing, and trading green coffee beans, both on the domestic and foreign markets.

MT Group International Holding Ltd.- (MT Group) – direct subsidiary– The purpose of this company is to hold ownership interest in other companies (Ally/Coffee Trading).

Ally Coffee Trading S.A. (Ally) – indirect subsidiary – This company operates as a green coffee dealer, with an additional focus on special coffees, in Lausanne, Switzerland, purchasing and selling coffee from/to suppliers and customers mainly located in Latin America, USA, and Europe.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The main accounting policies applied in the preparation of the parent company and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements were prepared under the historical cost convention as modified to reflect the deemed cost of property, plant and equipment items at the date of transition to CPCs, financial assets and liabilities (including derivative instruments) and biological assets at fair value.

Montesanto Tavares Group Participações S.A.

Notes to the financial statements

at December 31, 2019

All amounts in thousands of Reais, unless otherwise stated

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

(a) Parent company financial statements

The parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil, issued by the Brazilian Accounting Pronouncements Committee (CPC), and are disclosed together with the consolidated financial statements.

In the parent company financial statements, the subsidiaries and associated companies are accounted for under the equity method. The same adjustments are made to the parent company and consolidated financial statements to reach the same profit or loss and equity attributable to the owners of the parent company.

(b) Consolidated financial statements

The consolidated financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the CPC.

(c) Changes in accounting policies and disclosures

Changes adopted by the Group

(i) CPC 06/IFRS 16 – Leases

The new standard requires lessees to recognize the liability for the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of the lessors are substantially maintained.

2.2 Consolidation

The accounting policies listed below are applied in the preparation of the consolidated financial statements, which include the financial statements of the parent company and of the following subsidiaries:

	<u>2019</u>	<u>2018</u>
Atlântica Exportação e Importação S.A.	100%	100%
Mountain Coffee Corporation	100%	100%
Atlântica International Overseas	100%	100%
Atlântica Participações e Empreendimentos	0%	100%
Cafebras Comércio de Cafés do Brasil	90%	66%
MT Group International (holding with interest in Ally Coffee)	100%	0%
Ally Coffee Trading – Switzerland	100%	0%

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The parent company's ownership interest in the subsidiaries' equity (or net capital deficiency, where applicable), as well as the balances of assets and liabilities, revenues, costs and expenses resulting from transactions carried out among the companies, were eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. They are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases. The identifiable assets acquired, and contingent liabilities assumed on the acquisition of subsidiaries in a business combination are measured initially at their fair values on the acquisition date. The Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition. Acquisition-related costs are recorded in the statement of income as incurred.

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

(b) Transactions with non-controlling interests

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

2.3 Segment reporting

The Group does not prepare separate reports by segment, a practice which is consistent with the internal reporting provided to the chief operating decision makers. The Executive Board is the chief operating decision maker, responsible for allocating resources and assessing the performance of the operating segments, and also for making the Group's strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The parent company and consolidated financial statements are presented in Real/Reais (R\$), which is the Company's functional currency, and also the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation, on which items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

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Foreign exchange gains and losses are presented in the statement of income.

(c) Group companies with a different functional currency

The results of operations and the financial position of the subsidiaries Mountain Coffee Corporation, Atlântica Overseas, and Ally Coffee Trading, whose functional currency differs from the presentation currency, are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate on the balance sheet date.
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all the resulting exchange gains/losses are recognized as a separate component of equity, in the "Carrying value adjustments" account.

On consolidation, foreign exchange differences arising from the translation of net investments in foreign entities are recognized in equity. When a foreign operation is partially disposed of or sold, foreign exchange gains/losses that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

The following Group subsidiaries have a functional currency that differs from that of the Parent company:

<u>Company</u>	<u>Country</u>	<u>Functional currency</u>
Mountain Coffee Corporation	USA	US dollar
Atlântica Overseas	British Virgin Islands	US dollar
Ally Coffee Trading	Switzerland	US dollar

2.5 Cash and cash equivalents

These include cash at banks, and cash balances available abroad, relating to receipts in transit arising from transactions carried out in the foreign market.

2.6 Marketable securities

These include balances in margin accounts with brokerage firms, to be used for derivative transactions and investments in local currency. Short-term investments are stated at cost, plus income earned through the balance sheet date, which does not exceed the market value.

2.7 Financial assets

2.7.1 Classification

The Group classifies its financial assets in the following measurement categories:

- Measured at fair value (either through other comprehensive income or through profit or loss).

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- Measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at fair value through other comprehensive income include:

- Equity securities that are not classified as held for trading on initial recognition and which the Group irrevocably decided to recognize in this category. These are strategic investments and the Group considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest, and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

The Group classifies the following financial assets at fair value through profit or loss:

- Equity investments held for trading; and equity investments for which the entity has not opted to recognize gains and losses through other comprehensive income.

For financial assets measured at fair value, gains and losses will be recorded in the statement of income, or in other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, the classification will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

2.7.2 Recognition and measurement

(a) Recognition and derecognition

Normal purchases and sales of financial assets are recognized on the trade-date, i.e., the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in the statement of income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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(c) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset, and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- At amortized cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recorded directly in profit or loss and presented in finance income (costs), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of income.
- At fair value through other comprehensive income (loss) - assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured fair value through other comprehensive income (loss). Changes in the carrying amount are recorded as other comprehensive income, except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains/losses, which are recognized in the statement of income. When a financial asset is derecognized, any cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss, and recognized in finance income (costs). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains (losses), net" and impairment expenses are presented as a separate line item in the statement of income.
- At fair value through profit or loss - assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. Gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in the statement of income and presented within finance income (costs), in the period in which it arises.

(d) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized as finance income (costs) in the statement of income, where applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in the fair value.

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2.7.3 Offsetting of financial instruments

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

2.7 Impairment of financial assets

From January 1, 2018, expected credit losses associated with debt instruments recorded at amortized cost and at fair value through other comprehensive income (loss) started to be measured on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by CPC 48, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.8 Derivative financial instruments and hedging activities

Derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the statement of income, within "Cost of sales" in the case of contracts for future purchase and sale of coffee, and within "Finance costs" in the case of results of US dollar futures contracts.

In 2019, the Company carried out the following derivative transactions:

- . Contracts for future purchase and sale of coffee with physical delivery;
- . Coffee and US dollar futures contracts (NDF – Non-Deliverable Forward) traded on the New York stock exchange;
- . Contracts with brokers/banks for future purchase and sale of coffee, and US dollar futures contracts;
- . US dollar x CDI swap contracts;
- . US dollar futures contracts on the São Paulo Securities, Commodities and Futures Exchange (BM&F).

(a) Derivatives measured at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are immediately recognized in the statement of income.

2.9 Trade receivables

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

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2.10 Inventories

Inventories are stated at the lower of acquisition cost and net realizable value. The method used to appraise inventories is the moving weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less completion costs and selling expenses.

The fair value of commodities ("agricultural products") is determined by the valuation of the physical quantity of agricultural products owned by the Company, based on the characteristics of the product ("quality"), net of selling expenses.

2.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. This cost was adjusted to reflect the cost attributed on the date of transition to CPCs (Note 14).

Historical cost includes expenditure that is directly attributable to the acquisition of the items, and the borrowing costs related to the acquisition of qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amounts of replaced items or parts are derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	25
Machinery	4-6
Vehicles	5-10
Furniture, fixtures and equipment	3-6

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

2.12 Intangible assets

(a) Software

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

Costs associated with maintaining computer software programs are expensed as incurred.

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2.13 Impairment of non-financial assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognized at the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating Units - CGUs). Non-financial assets other than goodwill that have been adjusted due to impairment are subsequently reviewed for possible reversal of the impairment at the reporting date.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due in one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, the fair value of trade payables does not differ from the amounts of the invoices, considering the collection terms of the purchases.

2.15 Borrowings

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

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that requires a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of that asset when it is probable that future economic benefits associated with the item will flow to the entity, and such costs can be measured reliably. Other borrowing costs are expensed in the period in which they are incurred.

2.16 Provisions

Provisions are recognized when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated. Provisions do not include future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the time elapsed is recognized as interest expense.

2.17 Current and deferred income tax and social contribution

Income tax and social contribution expenses for the year comprise current and deferred taxes. Taxes on profit are recognized in the statement of income, except to the extent that they relate to items recognized in comprehensive income or directly in equity. In such cases, the taxes are also recognized in comprehensive income or directly in equity.

Current and deferred income tax and social contribution are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group entities operate and generate taxable income. Management periodically evaluates positions taken by the Group in income tax returns with respect to situations in which the applicable tax regulation is subject to interpretation, and establishes provisions where appropriate, based on the amounts expected to be paid to the tax authorities.

The current income tax and social contribution are presented net, separated by taxpaying entity, in liabilities when there are amounts payable, or in assets when the amounts prepaid exceed the total amount due on the reporting date.

Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Deferred taxes are recognized on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are presented net in the balance sheet when there is a legally enforceable right and the intention to offset them upon the calculation of current taxes, generally when related to the same legal entity and the same tax authority. Accordingly, deferred tax assets and liabilities in different entities or in different countries are generally presented separately, and not on a net basis.

2.18 Capital

Shares are classified in equity.

2.19 Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of the capital. The purpose of the legal reserve is to ensure the integrity of capital, and it can be used only to offset losses and increase capital.

2.20 Distribution of dividends

The distribution of dividends to the Company's shareholders is recognized as a liability in the Group's financial statements at year-end, based on the Company's bylaws. Any amount in excess of the minimum mandatory dividend is provided only on the date it is approved by the Board of Directors.

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2.21 Revenue recognition

Revenues and expenses are recorded on the accrual basis.

(a) Sales of goods

Revenue is measured at the fair value of the consideration received or receivable, less any expected returns, trade discounts and/or bonuses granted to the buyer, and other similar deductions.

Sales revenue is recognized when all the following conditions are met:

- The significant risks and rewards of ownership of the products have been transferred to the buyer. The seller retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the products sold.
- The amount of revenue can be reliably measured.
- It is probable that economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

(b) Interest income

Interest income is recognized on the accrual basis, using the effective interest rate method.

3 Critical accounting estimates and judgments

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Income tax, social contribution and other taxes

The Group is subject to income taxes in Brazil, and significant judgment is required in determining the provision for these taxes. In many transactions, the final determination of the tax is uncertain. The Group recognizes provisions as a result of situations in which it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

(b) Fair value of derivatives and other financial instruments

The fair value of commodities ("agricultural products") is determined through the valuation of the physical quantity of agricultural products owned by the Company, based on the characteristics of the product ("quality"), net of selling expenses. The Company exercises judgment to determine these

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assumptions (product quality, quality-based pricing, cost of preparation and transportation, port dues etc.), which are mainly based on the market conditions at the balance sheet date.

(c) Useful lives of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, and are periodically reviewed for continued appropriateness. Changes to the estimates used may result in significant variations in the carrying value, and the new amounts are charged to the statement of income in accordance with the new estimates.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, interest rate risk, credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management objectives and strategies

The Group's risk management is carried out by management, which is responsible for making decisions on related matters, in accordance with a corporate risk management policy.

The Group's overall risk management program seeks to minimize potential adverse effects on its financial performance, arising from the volatility of the markets. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the Risk Management department, in accordance with policies and approval limit matrices approved by the management. This team, together with the financial department, the traders, and the operating units, among other areas, assesses, monitors and seeks to protect the Group from potential market risks. Management establishes standards and policies for managing overall risks, including foreign exchange risk, interest rate risk and credit risk, through the use of derivative and non-derivative financial instruments, and the investment of surplus liquidity.

The table below summarizes the nature and extent of risks arising from financial instruments and how the Group manages its exposure.

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<u>Risk</u>	<u>Exposure</u>	<u>Methodology used to measure the impact</u>	<u>Management</u>
Risk of fluctuations in the price of coffee	Fluctuations in the price of coffee	This risk is hedged through purchases and sales under futures contracts with physical delivery/receipt of goods.	Futures and forward contracts
Market risk - foreign exchange	Futures trading transactions Financial assets and liabilities denominated in foreign currency	Cash flow forecasts Sensitivity analysis	Futures/forward contracts
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments	Ageing analysis Credit assessment	Diversification of financial institutions Monitoring of credit limits/ratings
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Credit facilities available

(a) Market risk

The Group is exposed to a number of market risks arising from its operations. These risks are mainly associated with the fact that potential fluctuations in the price of coffee, exchange rates, or interest rates may adversely impact the value of the Group's financial assets and liabilities, or future cash flows and profit.

(i) Risk of fluctuations in the price of coffee

Risk management

In its operations (purchases and sales), the Group is exposed to the coffee price cycle, and, therefore, hedges against this risk through purchases and sales of futures contracts with physical delivery, and receipt of inventories.

Decisions related to this matter are periodically reviewed by the Executive Board. In the event a hedge is recommended, in scenarios with a high probability of adverse events, the hedging strategy must be carried out for the purpose of hedging the Group's solvency and liquidity, considering an integrated analysis of all the Group's risk exposures.

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Based on the assumption of considering only the consolidated net exposure of the coffee price risk, futures contracts are generally limited to hedging the result of transactions carried out in the international futures market, i.e., they are hedge transactions in which positive or negative variations are totally or partially offset by the opposite result in the underlying physical position.

Main transactions and future commitments hedged by derivatives

The purpose of the Group's main transactions and future commitments is to hedge the expected results of the transactions carried out abroad.

Accordingly, transactions with derivative instruments are usually carried out on a short-term basis and accompany the terms of the commercial operations. The instruments used are futures, forward and options contracts. The transactions are carried out on the New York (ICE) and London Commodity Exchanges, as well as on the São Paulo Securities, Commodities and Futures Exchange (BM&F).

The hedge transactions settled from January to December 2017 corresponded to approximately the total cargoes traded abroad.

The maximum exposure level allowed by the Group's risk management policy for its net position in a commodity exchange is 20,000 coffee bags per day.

The table below summarizes the information on the currently effective derivative contracts for coffee:

Derivative financial instruments - coffee bags

	<u>2019</u>	<u>2018</u>
Physical inventory	922,157	689,945
Future purchase contracts	2,808,894	1,718,731
Purchases on a floating price basis	(20,989)	(119,980)
Future sales contracts	(2,651,404)	(1,710,585)
Long (short) position - NDF	(217,728)	(120,204)
Short position on the commodity exchange	(816,015)	(420,638)
Net coffee exposure – long (short) position	<u>24,915</u>	<u>37,269</u>

At December 31, 2019, the Company had contracted the sale of 653,338 thousand coffee bags at the differential interest rate, without fixed price, which does not impact the fixed position of the hedged coffee.

Parameters used for risk management

The main parameters used in risk management for variations in the price of coffee are Cash-Flow-at-Risk (CFAR) for medium-term assessments, and Value-at-Risk (VAR) and Stop Loss for short-term assessments. Corporate limits are set for the VAR and Stop Loss parameters.

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk, which is a financial risk that arises from changes in the levels or volatility of exchange rate.

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Foreign exchange risk management

As regards the management of foreign exchange risks, the Group seeks to identify these risks and treat them in an integrated manner, with a view to ensuring the efficient allocation of the resources intended for hedging purposes.

Taking advantage of its integrated operations, the Group firstly seeks to identify or create natural hedges, i.e., to benefit from the ratios between its revenues and expenses (indebtedness).

Risk management is carried out for the net exposure. Periodic analyses of foreign exchange risk are performed, providing support for the decisions of the Executive Board. The foreign exchange risk management strategy may involve the use of derivatives to minimize the foreign exchange exposure of certain obligations.

The table below summarizes the Group's foreign exchange exposure:

Consolidated	2019		2018	
	Foreign currency US (ooo)	Reais	Foreign currency US (ooo)	Reais
Assets				
Cash and cash equivalents	45,425	183,094	21,003	81,381
Trade receivables	39,937	156,945	52,669	204,083
Liabilities				
Borrowings	(260,635)	(1,050,547)	(182,217)	(706,056)
	(176,273)	(710,508)	(108,545)	(420,592)
Derivative financial instruments				
Future sales contracts	380,199	1,532,469	163,030	631,709
Position on the commodity exchange	12,172	49,062	14,491	56,150
ICE sale	-	-	(104,517)	(404,982)
US dollar long position - BMF	19,898	80,203	25,500	98,807
Settlement of Advances against Exchange				
Contracts – related parties	-	-	1,314	5,091
NDF - US dollar purchase	(171,800)	(692,474)	(12,500)	(48,435)
Short position on the commodity exchange	(107,721)	(434,190)	-	-
Borrowings - related parties	-	14,107	-	-
	132,748	549,177	87,318	338,340
Net foreign exchange exposure	(43,525)	(161,331)	(21,227)	(82,252)

For the consolidated balances, the amounts arising from cash, trade receivables, and indebtedness of Ally Coffee Trading were disregarded in the net foreign exchange exposure, since this subsidiary operates abroad, and uses the US dollar as its functional currency. The Group's exposure relates to the net capital deficiency of this subsidiary, amounting to R\$ 13,349 (US\$ 3,312 thousand).

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(b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2019, the Group's borrowings at variable rates were denominated in Reais and US dollars.

(c) Credit risk

Credit risk, which is managed on a Group basis, arises from cash and cash equivalents, derivative financial instruments, deposits and investments with banks, as well as credit exposures to customers, including in relation to outstanding trade receivables. The Group's sales policy is subject to the credit rules established by its management, which attempt to minimize problems arising from customer defaults. This objective is achieved through a careful selection of customers according to their ability to pay, indebtedness ratio and balance sheet, and through the diversification of accounts receivable (risk spread). The Group also constitutes a provision for impairment of trade receivables. As regards financial and other investments, the Group's policy is to enter into transactions exclusively with prime institutions.

(d) Liquidity risk

Cash flow forecasting is performed by the Finance Department, which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

4.2 Other risk factors

(a) Regulatory and environmental risks

The Group is subject to the laws and regulations applicable to the activities it carries out. It has established environmental policies and procedures to mitigate the related risk. Management performs periodic analyses to identify environmental risks and ensure that the existing systems are sufficient to manage these risks.

(b) Climate risks

The Group's operating activities are exposed to the risk of damages caused by weather changes, crop diseases, forest fires and other forces of nature. The Group has processes in place to mitigate these risks, including regular inspections in the planting area. Investments in production are scattered among various areas, thus spreading the risk of water shortage.

4.3 Fair value of financial instruments

The carrying values of trade receivables and trade payables are assumed to approximate their fair values. The fair values of financial liabilities are estimated by discounting the future contractual cash flows at the current market interest rate and approximate the carrying amounts.

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The Group adopts CPC 40 for financial instruments that are measured in the balance sheet at fair value. This standard requires the disclosure of fair value measurements according to the following hierarchy:

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

Fair value is the exchange price that would be received by an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The regulated futures contracts included in the accounts of brokerage firms and banks are valued based on unadjusted quoted prices in active markets, and are classified as Level 1, representing the current bid price.

The Company uses the market-based valuation method to measure most of its assets and liabilities recorded at fair value (forward purchase contracts, sales, and inventories), which is based on quoted prices from commodity exchanges, adjusted for observable quotes for local basis adjustments, and classifies them as Level 2.

Based on its experience with suppliers and customers, and on its knowledge of the current market conditions, the Company does not see any counterparty risks for fair value, and fair value variations are charged directly to profit or loss.

The table below presents the assets and liabilities measured at fair value at December 31, 2019 and 2018:

	Consolidated					
	2019			2018		
Commodity derivative	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets	-	507,874	507,874	4,262	329,995	334,257
Liabilities	(39,318)	(88,857)	(128,175)	(19,562)	-	(19,562)
	(39,318)	419,017	379,699	(15,300)	329,995	314,695

4.4 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for quotaholders and benefits for other stakeholders, as well as to maintain an optimal capital structure to reduce the cost of capital.

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4.5 Financial instruments by category

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Assets				
At amortized cost				
Cash and cash equivalents	4	10	183,543	84,233
Trade receivables	-	-	183,532	229,473
Other available funds	15,761	8,238	145,643	104,587
At fair value through profit or loss				
Financial instruments	-	-	379,699	314,695
Other financial liabilities				
Trade payables	6	86	52,488	56,521
Borrowings	-	-	1,101,132	774,920

5 Cash and cash equivalents

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash	-	-	26	13
Banks - local currency	-	10	423	2,839
Banks - foreign currency	4	-	183,094	81,381
	<u>4</u>	<u>10</u>	<u>183,543</u>	<u>84,233</u>

6 Marketable securities

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Financial investments	15,761	8,238	150,890	84,592
Margin accounts	-	-	(5,247)	19,995
	<u>15,761</u>	<u>8,238</u>	<u>145,643</u>	<u>104,587</u>

Financial investments refer substantially to Bank Deposit Certificates (CDBs), which accrue interest ranging from 70% to 95% of the Interbank Deposit Certificate (CDI) rate, in local currency.

Margin account balances refer to cash in foreign currency maintained in accounts with brokerage firms abroad, to cover transactions with currency derivatives carried out on the São Paulo Securities, Commodities and Futures Exchange (BM&F).

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7 Trade receivables

	Consolidated	
	2019	2018
Domestic market	28,220	27,141
Foreign market	156,945	204,083
(-) Provision for impairment of trade receivables	(1,633)	(1,751)
	<u>183,532</u>	<u>229,473</u>
	Consolidated	
	2019	2018
Falling due in up to 60 days	157,782	131,541
Less than 30 days overdue	20,912	70,818
Less than 60 days overdue	3,220	17,863
Less than 90 days overdue	771	9,229
Less than 180 days overdue	847	22
Overdue for more than 180 days	1,633	1,751
	<u>185,165</u>	<u>231,224</u>

At December 31, 2019, trade receivables of R\$ 27,383 in the consolidated were past due, but not impaired. These receivables relate to amounts renegotiated and customers in the foreign market with no recent history of default.

8 Inventories

	Consolidated	
	2019	2018
Raw coffee inventory	631,484	339,233
Warehouse materials and others	5,454	3,026
	<u>636,938</u>	<u>342,259</u>

The Company has entered into derivative financial instruments to hedge inventories (Note 4.1).

9 Advances

	Parent company		Consolidated	
	2019	2018	2019	2018
Advances to employees	-	-	129	65
Advances to coffee suppliers (a)	-	2	3,886	20,644
Advances to related parties (Note 12)	-	2	2,663	62,853
Sundry advances	-	-	517	-
	<u>-</u>	<u>4</u>	<u>7,195</u>	<u>83,562</u>

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(a) Advances to coffee suppliers

The balance recorded under "Advances" refers to purchases at a defined price to comprise the Group's hedging transactions. The amount is advanced to rural producers during the planting and harvesting phases.

10 Taxes recoverable

	Parent company		Consolidated	
	2019	2018	2019	2018
Social Integration Program (PIS)	-	-	5,093	4,489
Social Contribution on Revenues (COFINS)	-	-	13,753	11,343
Value-added Tax on Sales and Services (ICMS)	-	-	4,437	1,896
Withholding Income Tax (IRRF)	251	198	4,497	3,628
Corporate Income Tax (IRPJ)	-	-	5,791	5,455
Social Contribution on Net Income (CSLL)	-	-	3,296	2,637
Other taxes recoverable	-	-	2,637	12
	<u>251</u>	<u>198</u>	<u>39,504</u>	<u>29,460</u>

11 Deferred income tax and social contribution

	Consolidated	
	2019	2018
Assets		
Fair value of coffee inventories	(1,034)	10,112
Income tax and social contribution losses	<u>12,326</u>	<u>9,375</u>
	<u>11,292</u>	<u>19,487</u>
Liabilities		
Futures position - Derivatives - MtM	<u>(121,701)</u>	<u>(107,296)</u>
	<u>(121,701)</u>	<u>(107,296)</u>
	<u>(110,409)</u>	<u>(87,809)</u>

Deferred taxes are calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The currently defined tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

Montesanto Tavares Group Participações S.A.

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12 Related-party transactions

(a) Sale of products

	Consolidated	
	2019	2018
InterBrasil Coffee Ltda.	-	12,295
Ally Coffee Trading	68,082	127,400
	<u>68,082</u>	<u>139,695</u>

These relate to coffee sales carried out under normal market conditions for the respective types of transactions.

(b) Purchases of goods and services

	Consolidated	
	2019	2018
Purchase of services		
Armazéns Gerais Leste de Minas Ltda.	11,944	13,248
InterBrasil Coffee Ltda.	-	98
Primavera Agronegócios Ltda.	11,002	5,224
Atlântica Agropecuária Ltda.	-	4,606
	<u>22,946</u>	<u>23,176</u>

Goods and services are purchased from associates and an entity controlled by the ultimate parent company.

The services provided by Armazéns Gerais Leste de Minas Ltda. ("Armazéns Gerais Leste de Minas") relate to storage and reprocessing of grains.

(c) Key management compensation

Key management personnel include the Group's Executive Board. The compensation paid or payable to key management for their services is shown below:

	Parent company		Consolidated	
	2019	2018	2019	2018
Salaries and other short-term employee benefits	1,565	438	3,630	1,689
Profit distribution	-	-	-	3,245
	<u>1,565</u>	<u>438</u>	<u>3,630</u>	<u>4,934</u>

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(d) Year-end balances

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Assets				
Trade receivables				
Primavera Agronegócios Ltda.	-	-	11	-
InterBrasil Coffee Ltda.	-	-	10,995	13,515
Ally Coffee Trading	-	-	-	22,865
	-	-	11,006	36,380
Advances and other accounts				
Atlântica Participações e Empreendimentos S.A.	-	-	2,663	-
Primavera Agronegócios Ltda.	-	-	-	62,853
	-	-	2,663	62,853
Related parties				
Ally Coffee Trading - Loan agreement	7,951	7,668	-	39,442
Atlântica Participações e Empreendimentos - Advance for Future Capital Increase	-	39,831	-	-
Atlântica Exportação e Importação - Advance for Future Capital Increase	-	56,598	-	-
	7,951	104,097	-	39,442

These intercompany loans bear interest ranging from 14% to 17% p.a., and have no maturity date.

Dividends receivable

	<u>Parent company</u>	<u>Consolidated</u>
	<u>2019</u>	<u>2018</u>
Cafebras Comércio de Cafés do Brasil	11,643	-
Atlântica Exportação e Importação S.A.	13,802	6,042
Atlântica Participações e Empreendimentos S.A.	-	8,083
	25,445	14,125

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13 Investments

(a) Breakdown

	Parent company		Consolidated	
	2019	2018	2019	2018
Atlântica Exportação e Importação S.A.	221,584	142,183	-	-
Cafebras Comercio de Cafés Especiais S.A.	56,634	-	-	-
Ally Coffee Trading S.A.	(13,349)	-	-	-
Atlântica Participações e Empreendimentos S.A.		17,128	-	-
In subsidiaries	264,869	159,311	-	1
Reclassification to non-current liabilities	13,349	-	-	-
In associates without significant influence	-	2	-	2
	278,218	159,313	-	3

(b) Information on investments in subsidiaries

Name	Location	Ownership interest - %	2019	
			Equity	Earnings (loss)
Atlântica Exportação e Importação S.A.	Brazil	100%	221,584	48,449
Cafebras Comércio de Cafés do Brasil S.A. (ii)	Brazil	90%	62,923	26,914
Ally Coffee Trading S.A. (iii)	Switzerland	100%	(13,713)	(8,420)
Atlântica International Overseas Ltda. (i)	Virgin Islands	100%	6,042	(328)
Mountain Coffee Corporation (i)	USA	100%	24,437	(103)

(i) Indirect investment, held through the ownership interest in Atlântica Exportação e Importação S.A.

(ii) Direct investment, as from August 31, 2019.

(iii) Investment acquired on October 31, 2019 and reclassified to non-current liabilities, as net capital deficiency in subsidiaries.

(c) Changes

The changes in investments were as follows:

	Parent company	
	2019	2018
At January 1	159,313	-
Acquisition of ownership interest in subsidiaries	19,138	51,429
Capital increase in subsidiaries	90,314	184,142
Proposed/distributed dividends	(55,436)	(15,646)
Spin-off of subsidiaries	(2,902)	(119,417)
Foreign exchange gains/losses in subsidiaries	2,105	-
Share of profit of subsidiaries	65,071	58,805
Other	615	-
December 31	278,218	159,313

The corporate restructuring carried out in the Montesanto Tavares Group had the purpose of segregating the coffee production from coffee trading activities (Note 1).

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In 2018, the merger of ownership interest in subsidiaries arose from the investment in Atlântica Exportação e Importação S.A. and Atlântica Participações e Empreendimentos S.A., which are Trading companies, operating in the coffee trading segment. The spin-off of subsidiaries in that same year were for the investments held in the coffee producer farms Atlântica Agropecuária Ltda., Primavera Agronegócios Ltda., and its subsidiary Fazenda Sequoia Bahia Ltda. The capital increase in the subsidiary Atlântica Exportação e Importação S.A. was paid fully up on August 2, 2018.

In August 2019, the Company increased by R\$ 33,716 the capital of its subsidiary Atlântica Participações, using the balance of "Advance for future capital increase" held with that company. In that same month, capital reduced in that investee by means of a spin-off, through which the investment then held in Cafebras (66% of ownership interest) was reversed to the Parent company. Concurrently, the remaining ownership interest held in Atlântica Participações S.A, in the amount of R\$ 2,902, was spun-off to R3 Participações e Empreendimentos S.A. and GMT Farms S.A.

The corporate restructuring of Grupo Montesanto Tavares was completed on October 31, 2019 by means of a capital contribution made by non-controlling interests in Cafebras through the ownership interest they held in that company, which corresponded to 24% of capital, and amounted to R\$ 19,138 (Note 1).

The Company also increased by R\$ 56,596 the capital of its subsidiary Atlântica Exportação e Importação S.A. using the balance of "Advance for future capital increase" held with that company.

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14 Property, plant and equipment

	Consolidated										
	Construction in progress	Vehicles	Furniture and fixtures	Computers and peripherals	Machinery and equipment	Buildings	Land	Aircraft	Other	Right of use	Total
At December 31, 2017	-	-	-	-	-	-	-	-	-	-	-
Cost											
At January 1, 2018	-	-	-	-	-	-	-	-	-	-	-
Additions	144	349	71	292	283	948	1,322	27	226	-	3,662
Write-offs	(938)	(307)	-	(14)	(54)	(1,286)	-	-	(23)	-	(2,622)
Merger of subsidiaries	937	712	1,323	880	2,891	4,939	2,307	4,794	2,276	-	21,059
At December 31, 2018	143	754	1,394	1,158	3,120	4,601	3,629	4,821	2,479	-	22,099
Accumulated depreciation											
At January 1, 2018	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	(29)	(100)	(59)	(285)	(570)	-	(440)	(488)	-	(1,971)
Depreciation of assets written off	-	84	-	49	28	-	-	-	-	-	161
Depreciation of merged subsidiaries	-	(307)	(687)	(650)	(1,756)	(402)	-	(1,071)	(825)	-	(5,698)
At December 31, 2018	-	(252)	(787)	(660)	(2,013)	(972)	-	(1,511)	(1,313)	-	(7,508)
Carrying amount											
At January 1, 2018	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2018	143	502	607	498	1,107	3,629	3,629	3,310	1,166	-	14,591
Cost											
At January 1, 2019	143	754	1,394	1,158	3,120	4,601	3,629	4,821	2,479	-	22,099
Additions	3,534	231	24	36	677	114	238	-	283	1,656	6,793
Write-offs	-	-	-	(19)	(8)	-	-	-	-	-	(27)
Write-off due to spin-off	-	-	(108)	(84)	-	-	-	(4,821)	(144)	-	(5,158)
Merger of subsidiaries	-	-	123	8	147	-	-	-	7	-	285
At December 31, 2019	3,677	985	1,433	1,099	3,936	4,715	3,867	0	2,624	1,656	23,992
Accumulated depreciation											
At January 1, 2019	-	(252)	(787)	(660)	(2,013)	(972)	-	(1,511)	(1,313)	-	(7,508)
Depreciation	-	(144)	(179)	(264)	(410)	(268)	-	(362)	(186)	(459)	(2,272)
Write-off of depreciation due to spin-off	-	-	39	53	-	-	-	1,873	38	-	2,004
Depreciation of assets written off	-	-	-	-	28	-	-	-	-	-	27
At December 31, 2019	-	(396)	(927)	(871)	(2,395)	(1,240)	-	0	(1,460)	(459)	(7,748)
Carrying amount											
At January 1, 2019	143	502	607	498	1,107	3,629	3,629	3,310	1,166	-	14,591
At December 31, 2019	3,677	589	506	228	1,541	3,475	3,867	0	1,164	1,197	16,244

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15 Trade payables

	Parent company		Consolidated	
	2019	2018	2019	2018
Domestic suppliers	6	86	39,064	48,805
Foreign suppliers	-	-	13,424	7,716
	<u>6</u>	<u>86</u>	<u>52,488</u>	<u>56,521</u>

16 Borrowings

Bank borrowings mature through 2022 and bear average coupons of 4.71% p.a. (5.51% p.a. in 2018).

	Consolidated	
	2019	2018
In foreign currency (US\$)		
Export prepayment	51,002	57,091
Advance on foreign exchange contract	889,184	648,965
Other working capital financing	110,361	-
	<u>1,050,547</u>	<u>706,056</u>
In local currency:		
Working capital - Federal Government Loans (EGF)	40,458	62,219
Other working capital financing	10,127	6,645
	<u>50,585</u>	<u>68,864</u>
	<u>1,101,132</u>	<u>774,920</u>
Current	1,076,729	749,458
Non-current	<u>24,403</u>	<u>25,462</u>
	<u>1,101,132</u>	<u>774,920</u>

Borrowings fall due as follows:

The carrying amounts of the Group's borrowings are denominated in Reais.

	Consolidated	
	2019	2018
2019	-	749,458
2020	1,076,729	25,462
2021	11,982	-
As from 2022	12,421	-
	<u>1,101,132</u>	<u>774,920</u>

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(a) **Collateral**

Working capital borrowings are collateralized by partners' sureties and inventories.

17 **Equity**

(a) **Share capital**

At December 31, 2019, the Company's share capital totaled R\$ 246,596 (R\$ 230,067 in 2018).

Changes in share capital during 2019 were as follows:

On August 31, 2019, Atlântica Participações e Empreendimentos S.A. underwent a spin-off, and its net assets were transferred to GMT Holding Farm S.A. and R3 Participações e Empreendimentos S.A. The spun-off net assets, totaling R\$ 2,902, resulted in a capital decrease by the same amount, without cancellation of shares.

Net assets spun-off– Atlântica Participações S.A.

Assets	2019
Current assets	1,301
Property, plant and equipment	3,154
Intangible assets	5
	<hr/> 4,460
Liabilities	
Trade payables	<hr/> 1,558
Spun-off net assets	2,902

On October 31, 2019, the Company issued 100 new common Class A registered shares, with no par value, at the issuance price of R\$ 191,376,3329, with the additional amount of R\$ 5,000 being paid up by means of share premium reserve, increasing its capital by R\$ 14,138. The capital increase, generated a share premium, through the merger of 24% of the non-controlling interests in Cafebras, at book value, the equity of which at that date was as follows:

Equity breakdown at 10/31/2010

Cafebras	79,740
Increase of ownership interest in Cafebras – 24%	19,138

After posting the investee's equity at carrying value, the Company's management identified the need for an accounting adjustment of R\$ 4,092 to that company's balance sheet, which was recorded as follows: R\$ 2,700 was recorded as equity in the results of subsidiaries, and R\$ 982 was recorded as profit retention reserve, corresponding to the 66% interest already held by the Company, and the 24% now merged into its equity, respectively.

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In October 2019, the Company's share capital was increased by R\$ 5,293 through the utilization of the balance of dividends payable to shareholders.

On November 1, 2019, the net assets of the related company Ally Coffee Trading were merged into the Company, representing a capital increase of R\$ 1.00 (one Real), since the related company had a net capital deficiency of R\$ 12,646, which was recorded against the profit retention reserve. This capital payment was made through MT Group, a subsidiary located abroad, which holds the total share capital of Ally Coffee Trading.

Net assets on the date of merger

Current assets	159,423
Non-current assets	<u>326</u>
Total assets	159,749
Non-current liabilities	172,395
Equity	<u>(12,646)</u>
Total liabilities and equity	159,749

The Company's shareholding structure at December 31, 2019 was as follows:

<u>Class of shares</u>	<u>Total</u>
Class A common shares (i)	50,000,099
Class B common shares (ii)	2
Series 1 preferred shares (iii)	100
Series 2 preferred shares (iv)	<u>100</u>
Total	<u><u>50,000,301</u></u>

(i) Each Class A common share grants to its holder one vote on matters subject to shareholders' approval, including the election and removal of (a) all members of the Board of Directors, and (b) one (1) member of the Statutory Audit Board, excluding the other members of the Statutory Audit Board who are elected by the holders of other common shares ("Class A common shares").

(ii) each Class B common share grants to its holder the right to one (1) vote on matters subject to the shareholders' approval, except for the election of the Board of Directors' members, but including the election and appointment, in a separate vote, of all the Statutory Audit Board members, except for the member elected by the holders of Class A common shares ("Class B common shares" together with "Class A common shares", hereinafter referred to as "Common shares"). The holders of Class B common shares may convert their shares into Class A common shares on a one-to-one basis, at any time, upon written notice to the Company. The conversion rate of Class B common shares shall be automatically adjusted to reflect any split, reverse split, share dividend, or similar event which could disproportionately affect the rights and obligations of Class A common shares. At the sole discretion of the Company, and within 180 (one hundred and eighty) days from the date of subscription, Class B common shares may be redeemed at a price equivalent to the subscription price of each Class B common share.

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(iii) each Series 1 preferred share will be entitled to fixed and cumulative dividends of R\$ 14.4 per year, which will be paid every quarter on a *pro rata* basis, to the extent permitted by the Brazilian Corporate Law. The holders of Series 1 preferred shares will have priority over the holders of common shares and Series 2 preferred shares to receive dividends ("Series 1 Preferred Shares").

(iv) each Series 2 preferred share will be entitled to fixed and cumulative dividends corresponding to 0.02% of annual profit, limited to R\$ 9.6 per share, to be paid annually. The holders of Series 2 preferred shares will have priority over the holders of common shares to receive dividends ("Series 2 Preferred Shares", and together with "Series 1 Preferred Shares", hereinafter referred to as "Preferred Shares").

(b) Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of capital. The purpose of the legal reserve is to ensure the integrity of capital, and it can be used only to offset losses and increase capital.

(c) Carrying value adjustments

Carrying value adjustments result from changes in investments abroad that are held in U.S. dollar.

(d) Proposed dividends

The shareholders are entitled to receive mandatory minimum dividends of 30% of the profit for the year, calculated in accordance with the Brazilian Corporate Law.

The proposal of dividends recognized in the Company's financial statements and subject to approval of the shareholders at the General Meeting, is as follows:

	<u>2019</u>	<u>2018</u>
Profit for the year	64,932	58,167
Allocation to the legal reserve (5%)	<u>3,248</u>	<u>2,908</u>
Dividend calculation basis	<u>61,684</u>	<u>55,259</u>
Minimum mandatory dividend (30%)	18,505	16,578
Dividends on preferred shares	2,285	
Dividends paid during the year	<u>-</u>	<u>(7,704)</u>
Dividends payable	<u>20,790</u>	<u>8,874</u>

Montesanto Tavares Group Participações S.A.

Notes to the financial statements at December 31, 2019

All amounts in thousands of Reais, unless otherwise stated

18 Net revenue

The reconciliation between gross and net sales revenue is as follows:

	Consolidated	
	2019	2018
Domestic market	211,280	149,629
Foreign market	1,195,280	806,966
(-) Taxes on sales	(12,537)	(6,145)
	<u>1,394,023</u>	<u>950,450</u>

19 Cost of sales by nature

	Consolidated	
	2019	2018
Raw materials	(1,225,684)	(812,092)
Storage, transportation, and packaging	(7,120)	(25,192)
Discounts obtained	(449)	4
Discounts granted	-	(182)
	<u>(1,233,253)</u>	<u>(837,462)</u>

Discounts obtained and granted relate to adjustments to coffee purchases at floating prices.

20 Net result of changes in agricultural commodity prices and foreign exchange gains/losses

	Consolidated	
	2019	2018
Foreign exchange gains/losses	(17,191)	(54,691)
Indexation - commodities exchange	(18,958)	21,290
Derivative transactions settled	2,440	63,383
Futures transactions (MtM)	103,883	60,372
	<u>70,174</u>	<u>90,354</u>

21 Selling expenses

	Consolidated	
	2019	2018
Agent commissions	(7,120)	(3,835)
Port costs	(8,953)	(13,970)
Freight on sales	(37,778)	(9,371)
	<u>(53,851)</u>	<u>(27,176)</u>

Montesanto Tavares Group Participações S.A.

Notes to the financial statements

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All amounts in thousands of Reais, unless otherwise stated

22 General and administrative expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
Personnel	(187)	(187)	(19,803)	(10,791)
Profit sharing	-	-	(3,708)	(2,232)
Third-party services	(420)	(257)	(2,958)	(25,204)
Depreciation	-	-	(2,751)	(303)
Aviation	-	-	(179)	(187)
Other administrative expenses	(83)	(60)	(8,010)	(2,071)
	<u>(690)</u>	<u>(504)</u>	<u>(37,409)</u>	<u>(40,788)</u>

23 Other operating income (expenses)

	2019	2018	2019	2018
Rentals	-	-	-	367
Disposals of property, plant and equipment	-	-	562	185
Exceptional items	-	8	1,098	(2,331)
	<u>-</u>	<u>8</u>	<u>1,660</u>	<u>(1,779)</u>

24 Finance result

	Parent company		Consolidated	
	2019	2018	2019	2018
Finance costs				
Financial interest	-	(2)	(43,292)	(30,641)
Other finance costs	(5)	(1,254)	(3,181)	(13,630)
	<u>(5)</u>	<u>(1,256)</u>	<u>(46,473)</u>	<u>(44,271)</u>
Finance income				
Income from financial investments	275	592	4,962	4,218
Other income	-	-	422	146
Income from intercompany loan agreements	281	523	1,683	628
Financial interest	-	-	(36)	177
	<u>556</u>	<u>1,115</u>	<u>7,031</u>	<u>5,168</u>
	<u>551</u>	<u>(141)</u>	<u>(39,442)</u>	<u>(39,103)</u>

Montesanto Tavares Group Participações S.A.

Notes to the financial statements

at December 31, 2019

All amounts in thousands of Reais, unless otherwise stated

25 Income tax and social contribution expenses

Tax on profit differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Profit (loss) before income tax and social contribution	64,932	58,168	101,902	96,707
Combined standard rate for income tax and social contribution - %	34%	34%	34%	34%
Income tax and social contribution at statutory rates	22,077	19,777	34,647	33,632
Use of income tax and social contribution on prior years' tax losses in subsidiaries		-	(11,271)	(14,989)
Adjustments for the calculation of the effective rate		-	-	-
Addition (deduction) - Other				
Tax loss not accounted for by subsidiaries		-	-	2,636
Equity in the results of subsidiaries	(22,124)	(19,994)	(150)	-
Foreign exchange gains/losses			(6,564)	(813)
Tax losses recognized			(2,064)	
Other	47	217	553	7,729
Income tax and social contribution on the result for the year	(0)	(0)	28,279	28,195
Current taxes	-	-	(5,413)	(4,449)
Deferred taxes	-	-	(22,866)	(23,746)
	-	-	(28,279)	(28,195)

26 Contingencies

The Group companies do not have contingent liabilities or judicial claims for which an unfavorable outcome is classified as probable.

The Company is a party to lawsuits amounting to approximately R\$ 23,673 in the Consolidated, for which the risk of an unfavorable outcome was classified under advice of its legal counsel as possible. In accordance with management's judgment and the accounting practices adopted in Brazil, no provisions were recorded for these lawsuits.

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