COMPANHIA DE TECIDOS NORTE DE MINAS - COTEMINAS

CNPJ/MF Nº 22.677.520/0001-76

NIRE 3130003731-2

Publicly Traded Company

# MANAGEMENT REPORT

Montes Claros – August 14, 2019 – The Companhia de Tecidos Norte de Minas – COTEMINAS (the "Company") is a Brazilian publicly-held company, based in Montes Claros-MG, engaged in the production and marketing of yarns and fabrics in general, imports and exports, and may hold equity interest in other companies and acquire marketable securities in the capital market. The Company's shares are traded in B3 S.A., Brasil, Bolsa, Balcão (Brazilian Stocks, Commodities and Futures Exchange), under the codes "CTNM3" and "CTNM4".

The Company has investments in three subsidiaries and two affiliates as major investments and assets, as follows:

## Subsidiaries:

Springs Global Participações S.A. ("SGPSA"), which is the parent company of Coteminas S.A. and Springs Global US, Inc., companies that focus their manufacturing operations on bed and bath linens. In 2009, the subsidiary SGPSA started its bed, tabletop and bath retail operations under the brand MMartan, and in 2011, under the brand Artex. The retail operations, under these two flags, are operated by the indirect subsidiary AMMO Varejo Ltda. ("AMMO").

Companhia Tecidos Santanense is a publicly-traded company, which operates in the textile and related industries, manufacturing and marketing of clothing apparel, including professional uniforms, accessories and personal protective equipment for occupational safety.

Below we reproduced the individual comments of our subsidiaries Springs Global Participações and Companhia de Tecidos Santanense.

## Affiliates:

Cantagalo General Grains S.A., is a private company, based in the city of São Paulo - SP, incorporated on October 25, 2010 with the objective of growing soybeans, corn, cotton and other grains; engaged through its subsidiary CGG Trading S.A. in trading of agricultural products and has investments in logistics (port terminal) for grain exportation.

Companhia Fiação e Tecidos Cedro e Cachoeira, is based in Belo Horizonte – MG, established on August 12, 1872 and is a publicly-held company, which operates in the textile and related industries; manufacturing and marketing of clothing apparel, including professional uniforms; accessories and personal protective equipment for occupational safety.

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SPRINGS GLOBAL

SGPS3 NOVO MERCADO BM&FBOVESPA

# 2Q19 RESULTS

# Springs Global: Revenue grew 6.6% year-over-year

São Paulo, August 14th, 2019 - Springs Global Participações S.A. (Springs Global), a leading company in bedding, tabletop and bath products, reported in the second quarter of 2019 (2Q19), net revenue of R$ 328.2 million, with gross margin of 28.8%. E-commerce revenue presented growth of 48.7% year-over-year (yoy).

**About Springs Global**

Springs Global is a leading company in Americas in bedding, tabletop and bath products, with traditional and leading brands in the segments in which it operates, strategically positioned to target customers of different socioeconomic profiles. Springs Global operates vertically integrated plants, with high degree of automation and flexibility, located in Brazil, and Argentina, and has operations in the United States, through subsidiaries.

B3: SGPS3

As of 06/30/2019:

Closing share price: R$ 9.24

Market cap: R$ 462 million

**Conference call**

Date: 08/15/2019
Time: 11am São Paulo time / 10 am New York time / 3 pm London time

In Portuguese:
+55 11 3193-1070
/ +55 11 2820-4070

In English:
+1 800 492-3904 (*Toll free*)
+1 646 828-8246

Password: Springs Global

To access the webcast **click here** or access the website **http://www.springs.com/ri**.

**Investor Relations**


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The highlights of Springs Global´s performance in 2Q19 were:

- Net revenue of R$ 328.2 million, 6.6% higher yoy;
- Higher average price for all product categories yoy;
- Expectation of better revenue in the second half, due to launch of new product lines and seasonality;
- Gross profit of R$ 94.6 million, with gross margin of 28.8%, negatively impacted by the absorption of all costs from the consolidation of two industrial plants;
- Adjusted EBITDA[(a)] of R$ 38.6 million, with adjusted EBITDA margin of 11.8%;
- Adoption of IFRS 16 Standard, with negative effect of R$ 3.0 million in net result;
- Improvement of R$ 37.4 million in financial results yoy;
- Expansion of R$ 30.1 million in result before taxes yoy;
- Growth of 9.8% in revenue from Brazil – Wholesale business unit;
- Growth of 48.7% in e-commerce sales from the Brazil – Retail business unit; and
- In the third quarter of 2019 (3Q19) begins the compensation of tax credit - PIS/COFINS, totaling R$ 208.9 million.

| in R$ million | 2Q19 (A) | 2Q18 [1] (B) | (A)/(B) % | 1H19 (C) | 1H18[1] (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Net revenue | 328.2 | 307.8 | 6.6% | 668.9 | 644.0 | 3.9% |
| Gross profit | 94.6 | 107.8 | (12.3%) | 192.0 | 218.8 | (12.3%) |
| *Gross Margin %* | *28.8%* | *35.0%* | *(6.2 p.p.)* | *28.7%* | *34.0%* | *(5.3 p.p.)* |
| **Income from operations** | **10.5** | **17.8** | **(40.8%)** | **20.2** | **36.2** | **(44.2%)** |
| **Net result** | **(23.1)** | **(53.3)** | **n.a.** | **(57.7)** | **(75.5)** | **n.a.** |
| **EBITDA** | **39.9** | **54.7** | **-27.0%** | **356.8** | **108.4** | **229.3%** |
| **Adjusted EBITDA[2]** | **38.6** | **36.2** | **6.8%** | **74.2** | **72.2** | **2.8%** |
| *EBITDA Margin %* | *12.2%* | *17.8%* | *(5.6 p.p.)* | *53.3%* | *16.8%* | *36.5 p.p.* |
| *Adjusted EBITDA Margin [2] %* | *11.8%* | *11.8%* | *0.0 p.p.* | *11.1%* | *11.2%* | *(0.1 p.p.)* |

[1] Reclassified, excluding discontinued operations, for comparison purpose

[2] Considering only continuing operations, excluding discontinued

Table 1 – Key financial indicators

*The financial and operational information presented in this release, except when otherwise indicated, is in accordance with accounting policies adopted in Brazil, which are in accordance with international accounting standards (International Financial Reporting Standards – IFRS).*

## Combination of North American Operations

Springs Global entered into an agreement, in December 2018, with Keeco, an American home fashion company, to combine its North American operations, valued at US$ 126 million.

At closing, on March 15, 2019, Springs Global received part of its valuation in cash and part in common shares of the combined company, Keeco Holdings, LLC, representing 17.5% of its equity ownership.

The combined company has a product portfolio and leading brands in the curtain, utility bedding, and decorative bedding markets, as well as a diversified customer portfolio, including the major companies in the North American traditional retail and e-commerce retail market.

This business combination will strengthen Springs Global's participation in the North American market, through a significant equity ownership in a company with an extensive product portfolio, improved competitiveness, growth potential, and better profitability due to synergies. At the same time, it will enable Springs Global's management to focus on its South American business.

For comparison purpose, the 2018 results are presented excluding discontinued operations.

## Adoption of IFRS 16 Standard

As of January 2019, IFRS 16 standard was adopted, which led to some changes in the method of accounting for rental contracts and leases. According to this new standard, the future obligations of the rental contracts and leases are recognized as liabilities, and, as a counterpart, the right of usage is recognized as assets, all calculated as the present value, considering the Company´s cost of capital.

The value of the initial adoption, at January 1st, 2019, was R$ 265.0 million in the Company´s consolidated balance sheet.

In the income statement, the value of rental expenses is replaced by interest on the lease liability plus amortization of the right-of-use asset. In the 2Q19 results, interest on the lease liability was R$ 7.5 million and amortization of right-of-use asset totaled R$ 9.9 million. The rental payments, in the same period, totaled R$ 14.0 million.

Throughout the period of the contracts, there is no change in the Company´s net profit, since the total amount of the rent paid is identical to the sum of amortization of the right of use and the interest on the leases payable. However, there is a negative time effect, at the beginning of the contract, since the financial expenses in this period are higher and decrease as the contract term runs out.

## Revenue

The consolidated net revenue reached R$ 328.2 million in 2Q19, 6.6% higher yoy[1], with the positive effect from higher sales volume and better price and sale mix.

The Bedding, Tabletop and Bath line[(b)] was responsible for 63% of 2Q19 revenue, and intermediate products[(c)] for 19%. The Retail revenue contributed to 18% of total revenue in 2Q19.

Revenues from the Bedding, Tabletop and Bath line amounted to R$ 208.2 million in 2Q19, 8.5% higher yoy[1]. Revenues from intermediate products were R$ 61.6 million, 7.9% higher yoy[1]. Average price increased yoy for all product categories. Revenues from retail totaled R$ 58.4 million, in line yoy, with the positive effect from growth of e-commerce sales, compensating the substitution of sales with sell-out prices[(d)] by sales with sell-in prices[(e)] due to the conversions from owned to franchised stores. The gross sell-out revenue from retail presented growth of 3.3% yoy.

[1] Reclassified, excluding discontinued operations, for comparison purpose.

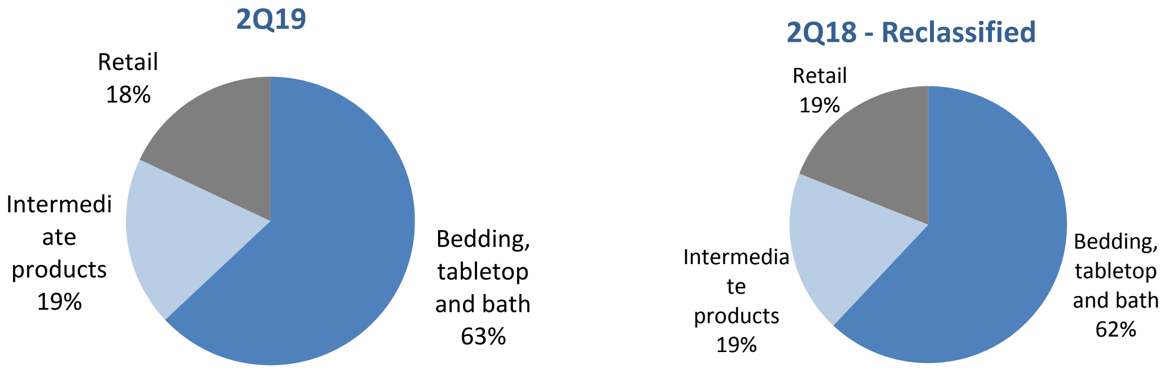


Chart 1 – Revenue per product line

According to IBOPE, the Brazilian home & decoration market is R$ 86 billion, of which R$ 12 billion is bed, bath and table top products. Aiming to increase our addressable market and enhance our brands, growing the frequency of purchase of our brands by consumers, we have started sales of new product categories and we will expand even further in this second half of 2019, with the introduction of mattress, modular sofas and table products, through partners and, therefore, with low risk and low working capital.

Regarding mattresses and modular sofas, we will produce the fabrics for these products, using current installed capacity of our plants, while partners with industry expertise in these products will manufacture, stock, and deliver the end products.

## Costs and Expenses

Cost of goods sold (COGS) was R$ 233.6 million in 2Q19, with a yoy[1] increase of 16.9%, representing 71.2% of net revenue.

The main raw materials are cotton and polyester that, together with chemicals, packaging and trims, are included in materials costs, which amounted to R$ 118.5 million in 2Q19, 26.3% superior yoy[1]. The recent raw material price weakening will positively impact the Company´s gross margin in the following quarters.

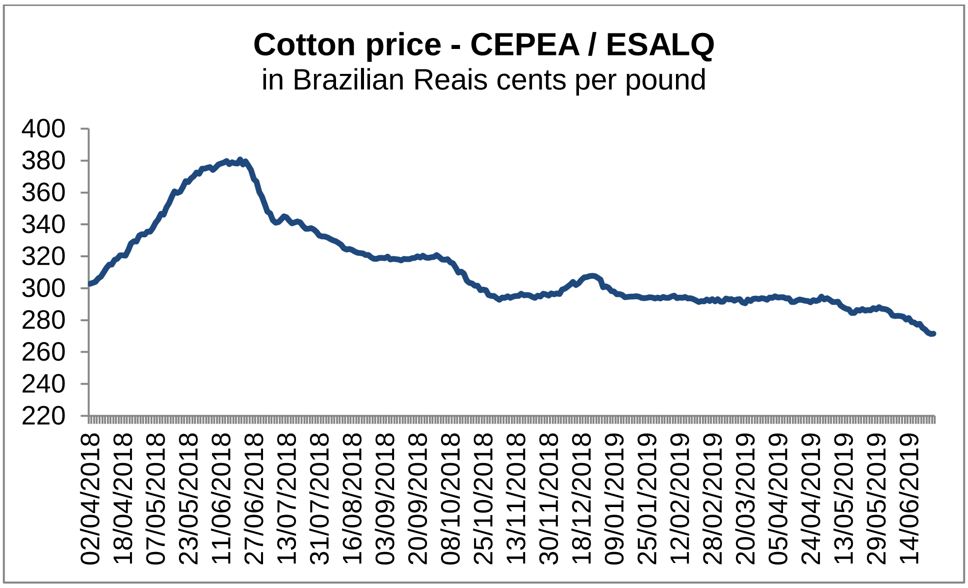


Chart 2 – Cotton price, source CEPEA

The conversion of raw materials into finished goods requires, mainly, labor, electricity and other utilities, designated as conversion costs and others, which reached R$ 99.5 million in 2Q19, with a 12.0% increase yoy[1].

In June 2019, we consolidated two industrial plants, with estimated cost reduction of approximately R$ 5.5 million per month.

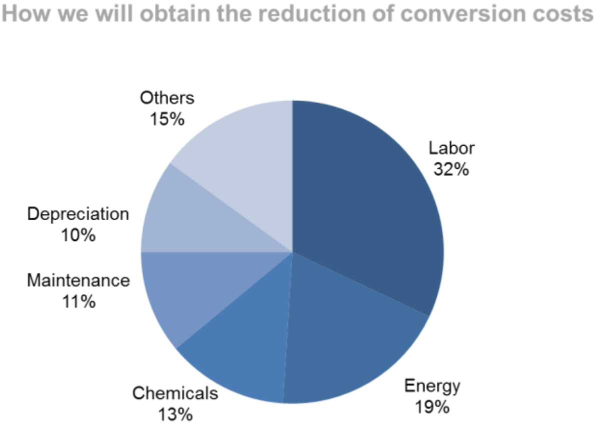


Chart 3 – Reduction in conversion costs with the consolidation of the industrial plants

Depreciation costs of production and distribution assets totaled R$ 15.6 million in 2Q19, with a 9.8% decrease yoy[1]. Following the IAS29 for Financial Reporting in Hyperinflationary Economies, we have to adjust the balance sheet data from our Argentinean subsidiary, including property, plant and equipment, with a negative effect in results due to the higher accounting depreciation of its assets.

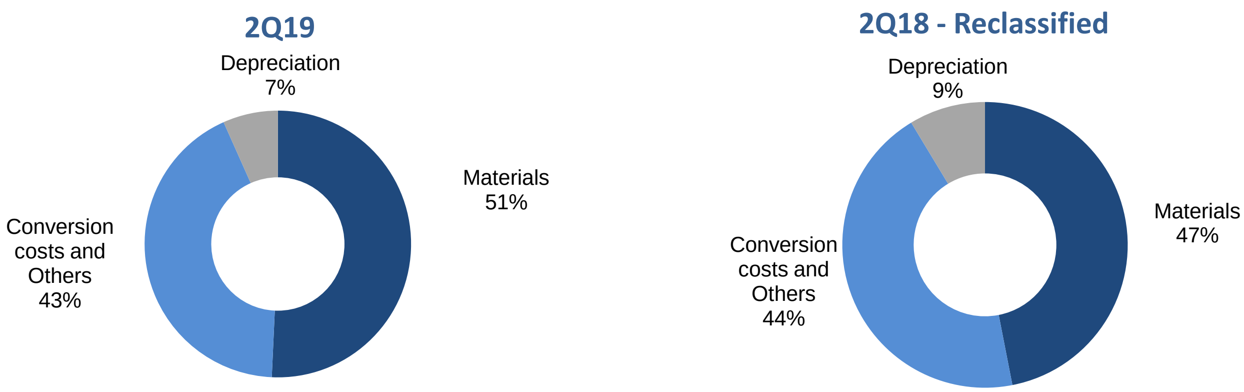


Chart 4 – COGS breakdown

Regarding operational expenses, selling expenses reached R$ 65.1 million, representing 19.8% of net revenue, versus 20.1% in 2Q18[1]. General and administrative expenses (G&A) amounted to R$ 29.4 million, equivalent to 9.0% of net revenue, versus 9.5% in the same period of the previous year[1].

With the adoption of the IFRS standard[2], as from January 2019, the value of rental expenses, which totaled R$ 14.0 million in 2Q19, was replaced by amortization of the right of usage of the rental assets, whose value was R$ 9.9 million in 2Q19, plus interest on the lease liability, being the last considered as financial expenses, and, therefore, reducing the Company´s G&A expenses, when compared to the previous criteria.

[2] For more detailed information, please see section Adoption of IFRS 16 Standard.

## Other Revenue

The rental income from the lease project located at São Gonçalo do Amarante, RN and the result from our subsidiary in North America were classified as "Other Income, net", totaling R$ 10.5 million in 2Q19, versus R$ 1.0 million in the same period last year[1].

## EBITDA

Cash generation from continuing operations, as measured by adjusted EBITDA, reached R$ 38.6 million in 2Q19, versus R$ 36.1 million in 2Q18. In the last twelve months ended on June 30, 2019, LTM adjusted EBITDA, considering only continuing operations, reached R$ 340.1 million.

## Profit

Gross profit totaled R$ 94.6 million in 2Q19, with gross margin of 28.8%, negatively impacted by the absorption of the costs from the consolidation of two industrial plants. The income from operations totaled R$ 10.5 million in 2Q19.

The financial result was an expense of R$ 33.6 million in 2Q19, versus an expense of R$ 71.0 million in 2Q18[1].

The financial expenses – interest expenses – totaled R$ 32.5 million, versus R$ 31.8 million in the same period in the previous year[1]. The balance of exchange rate variations was positive R$ 8.9 million in 2Q19, against negative R$ 35.4 million in 2Q18[1].

The financial income increased by R$ 5.2 million, while bank charges, taxes, discounts and others increased by R$ 3.9 million yoy.

Interest on the lease liability, which started to be recognized this year with the adoption of the IFRS 16 standard[2], totaled R$ 7.5 million in 2Q19.

We had a negative net result of R$ 25.8 million in 2Q19, with an improvement of R$ 30.1 million yoy in result before taxes.

## Capex

Capital expenditures (Capex) totaled R$ 12.6 million in 2Q19, mainly focused on asset modernization.

## Debt and Debt indicators

Our net debt[(f)] was R$ 757.9 million as of June 30, 2019, including the cash holdback amount in an escrow account[(g)], of US$ 6.3 million.

Our leverage, as measured by net debt/adjusted LTM EBITDA was equal to 2.2x by the end of 2Q19.

The credit related to the compensation of PIS and COFINS, totaling R$ 208.9 million, recorded in 2018, will be compensated during approximately six quarters, as from 3Q19 onwards, contributing for the net debt reduction.

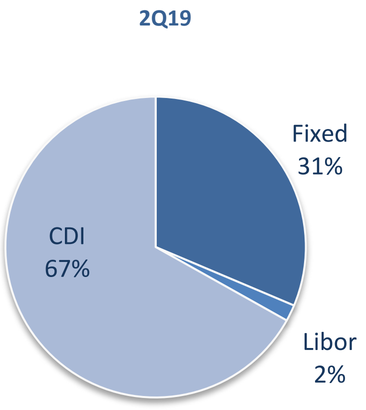


Chart 5 – Debt per index

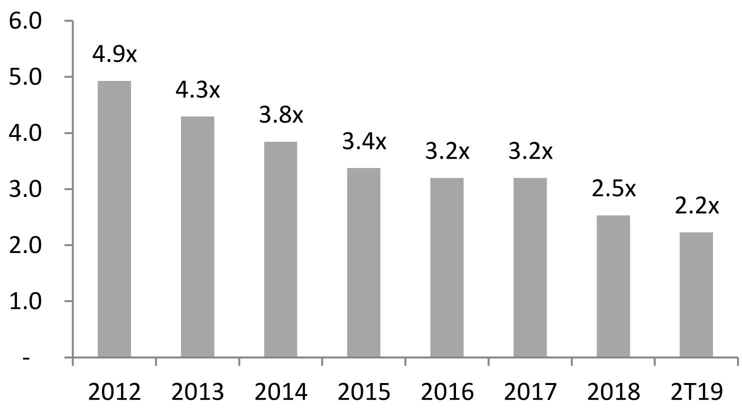


Chart 6 – Net debt/Adjusted EBITDA

## Performance of the business units

Springs Global presents its results segregated in the following business units: (a) Brazil - Wholesale, (b) Brazil - Retail, and (c) Argentina.

## Brazil - Wholesale

Net revenue from the Brazil – Wholesale business unit amounted to R$ 260.1 million in 2Q19, with a 9.8% yoy increase, positively impacted by better price and mix.

COGS totaled R$ 204.8 million in 2Q19, 22.3% higher yoy, with negative impact of the absorption of all costs from the consolidation of two industrial plants. The gross margin was 21.3% in 2Q19, with a reduction yoy. SG&A expenses amounted to R$ 51.3 million, representing 19.7% of revenue. EBITDA reached R$ 21.5 million.

## Brazil - Retail

The sell-out revenue from the Brazil – Retail business unit amounted to R$ 123.8 million in 2Q19, 3.3% higher yoy. Net revenue totaled R$ 58.4 million in 2Q19, 2.0% lower yoy.

We are increasing sell-out revenue much faster than net revenue as we are transferring sales to our franchisees, through the digital franchise model.

We started, in 2018, the operation of digital franchises, in which our e-commerce sales are fulfilled by our franchisers, with positive impact in the experience of online purchase, as there was a decrease in delivery time and cost. There was a 48.7% yoy growth in our e-commerce revenue in 2Q19.

Despite the fast expansion of the customer base, which usually leads to lower conversion rates, this indicator grew 33% in July, related to the 2Q19 average, with even more significant growth potential in the future.

At the end of 2Q19, we had 234 stores, of which 66 were owned and 168 franchises, compared to 232 at the end of 2Q18.

COGS totaled R$ 27.0 million, 2.5% lower yoy. The gross margin was 53.8% in 2Q19, versus 53.5% in 2Q18. SG&A expenses amounted to R$ 33.3 million, 0.9% lower yoy. EBITDA was R$ 9.9 million in 2Q19, against R$ 0.2 million in 2Q18.


Chart 7 – E-commerce indicators

## Argentina

Net revenue from the Argentina business unit reached R$ 36.5 million in 2Q19, 7.6% lower yoy, negatively impacted by lower sales volume and by the depreciation of the Argentinean Peso.

COGS amounted to R$ 28.5 million, 11.8% lower yoy, impacted by the depreciation of the Argentinean Peso. The gross margin increased to 21.9% in 2Q19, from 18.2% in 2Q18. EBITDA reached R$ 4.1 million, versus R$ 0.5 million in 2Q18.

## Projections

Springs Global maintains its strategy to consolidate its leading position in the bedding, tabletop and bath market, and to expand its multibrand channel and monobrand retail, prioritizing franchises and e-commerce.

In 2018, we launched (i) the digital franchise model, (ii) the Santista virtual store, and (iii) the store front-end system PIX, all aiming to improve our end consumer´s shopping experience, and, simultaneously, to increase sales and profitability of our franchisees and wholesale clients.

With the combination of assets in the North American market, we have strengthened our position in this market, where we will have a significant equity ownership in a company with an extensive product portfolio, improved competitiveness, growth potential, and better profitability due to synergies.

We will continue to improve the profitability of our business in South America, by higher capacity utilization of our factories in Brazil, resulting in higher absorption of fixed costs, mainly due to growth: (a) in e-commerce sales; (b) in sales of decorative textile products; and (c) in the number of franchises. Moreover, the recovery of the Brazilian and the Argentinean economies will leverage the growth in sales of discretionary consumer products, such as our products. These products suffer consumption declines during recession periods.

Due to the worsening of the Argentinean peso devaluation and of the recession of that country, and the lower growth of the Brazilian economy, compared to the budget forecast, we revised our targets for this year, as shown in the following table.

| in R$ million | 2019 Original Guidance | 2019 Revised Guidance | 1H19 Actual |
|---|---|---|---|
| **Net revenue** | | | |
| South America - Wholesale* | 1,300-1,400 | 1,250-1,350 | 604.1 |
| South America - Retail | 270-300 | 270-300 | 120.9 |
| **Total net revenue** | **1,500-1,700** | **1,450-1,650** | **668.9** |
| EBIT** | 140-170 | 125-145 | 20.2 |
| EBITDA** | 210-240 | 195-215 | 74.2 |
| CAPEX** | 50 - 70 | 50 - 70 | 40.3 |

* Brazil-Wholesale, including intercompany revenue, plus Argentina

**Excluding result from asset combination

Table 2 – Projections

## Share performance

Springs Global's shares, traded on the B3 under the ticker SGPS3, increased by 1.8% in 2Q19, underperforming the IBOVESPA and the Small Cap indexes in the same period. The daily average financial volume of our shares was R$ 829 thousand in 2Q19, versus R$ 542 thousand in 1Q19.

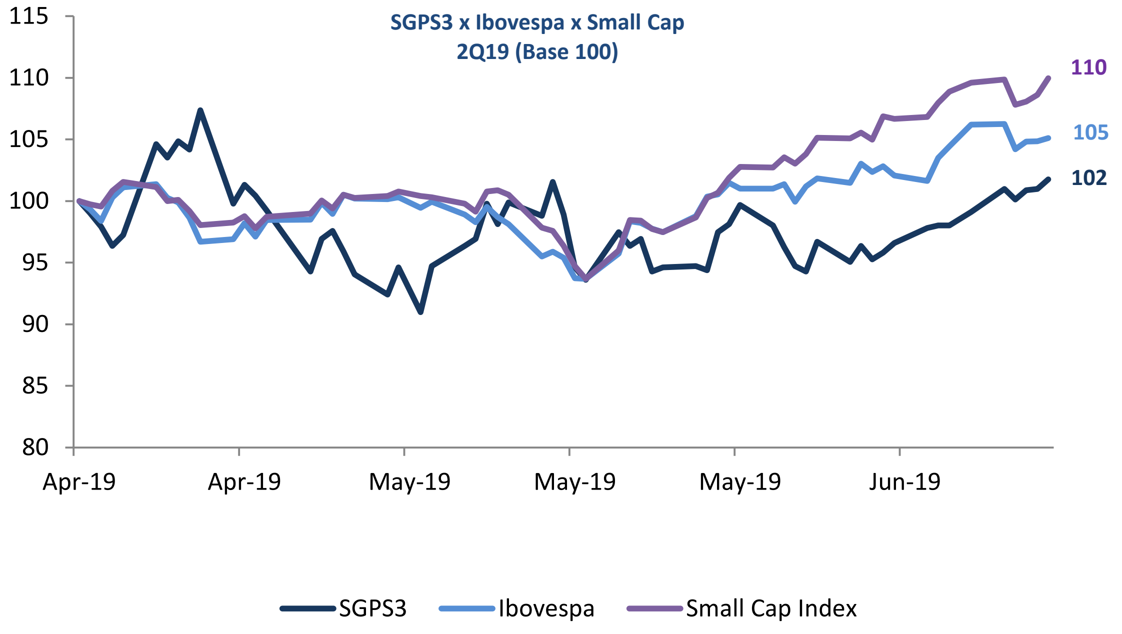


Chart 8 – Performance of SGPS3 share price

# Tables

Table 3 – Net revenue per business unit

| in R$ million | 2Q19 (A) | % | 2Q18 [1] (B) | % | (A)/(B) % | 1H19 (C) | % | 1H18 [1] (D) | % | (C)/(D) % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Brazil** | **291.7** | **89%** | **268.4** | **87%** | **8.7%** | **600.6** | **90%** | **563.0** | **87%** | **6.7%** |
| Wholesale* | 233.3 | 71% | 208.8 | 68% | 11.7% | 479.7 | 72% | 441.0 | 68% | 8.8% |
| Retail | 58.4 | 18% | 59.6 | 19% | (2.0%) | 120.9 | 18% | 122.0 | 19% | (0.9%) |
| Argentina | 36.5 | 11% | 39.5 | 13% | (7.6%) | 68.3 | 10% | 81.0 | 13% | (15.7%) |
| **Total net revenue** | **328.2** | **100%** | **307.8** | **100%** | **6.6%** | **668.9** | **100%** | **644.0** | **100%** | **3.9%** |
| Intercompany | 26.8 | | 28.0 | | | 56.1 | | 61.0 | | |

* Excluding intercompany revenues

[1] Reclassified, excluding discontinued operations, for comparison purpose

Table 4 – Net revenue per product line

| | Net Revenue (R$ million) | | | Volume (tons) | | | Average price (R$)/Kg | | |
|---|---|---|---|---|---|---|---|---|---|
| **Product Lines** | **2Q19 (A)** | **2Q18 [1] (B)** | **(A)/(B) %** | **2Q19 (C)** | **2Q18 [1] (D)** | **(C)/(D) %** | **2Q19 (E)** | **2Q18 [1] (F)** | **(E)/(F) %** |
| Bedding, tabletop and bath | 208.2 | 191.9 | 8.5% | 5,648 | 5,741 | (1.6%) | 36.9 | 33.4 | 10.3% |
| Intermediate products | 61.6 | 57.1 | 7.9% | 5,853 | 5,474 | 6.9% | 10.5 | 10.4 | 0.9% |
| Retail | 58.4 | 58.8 | (0.7%) | | | | | | |
| **Total** | **328.2** | **307.8** | **6.6%** | **11,501** | **11,215** | **2.6%** | **28.5** | **27.4** | **4.0%** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

| | Net Revenue (R$ million) | | | Volume (tons) | | | Average price (R$)/Kg | | |
|---|---|---|---|---|---|---|---|---|---|
| **Product Lines** | **1H19 (A)** | **1H18 [1] (B)** | **(A)/(B) %** | **1H19 (C)** | **1H18 [1] (D)** | **(C)/(D) %** | **1H19 (E)** | **1H18 [1] (F)** | **(E)/(F) %** |
| Bedding, tabletop and bath | 429.3 | 396.7 | 8.2% | 12,328 | 12,525 | (1.6%) | 34.8 | 31.7 | 9.9% |
| Intermediate products | 118.7 | 126.1 | (5.9%) | 11,034 | 12,039 | (8.3%) | 10.8 | 10.5 | 2.7% |
| Retail | 120.9 | 121.2 | (0.2%) | | | | | | |
| **Total** | **668.9** | **644.0** | **3.9%** | **23,362** | **24,564** | **(4.9%)** | **28.6** | **26.2** | **9.2%** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

Table 5 – Cost of goods sold (COGS) and Selling, General and Administrative expenses (SG&A)

| in R$ million | 2Q19 (A) | % | 2Q18 [1] (B) | % | (A)/(B) % | 1H19 (C) | % | 1H18 [1] (D) | % | (C)/(D) % |
|---|---|---|---|---|---|---|---|---|---|---|
| Materials | 118.5 | 50.7% | 93.8 | 46.9% | 26.3% | 239.3 | 50.2% | 203.5 | 47.9% | 17.6% |
| Conversion costs and others | 99.5 | 42.6% | 88.8 | 44.4% | 12.0% | 207.2 | 43.4% | 187.1 | 44.0% | 10.7% |
| Depreciation | 15.6 | 6.7% | 17.3 | 8.7% | (9.8%) | 30.4 | 6.4% | 34.5 | 8.1% | (11.9%) |
| **COGS** | **233.6** | **100.0%** | **199.9** | **100.0%** | **16.9%** | **476.9** | **100.0%** | **425.1** | **100.0%** | **12.2%** |
| **COGS, % Revenues** | **71.2%** | | **65.0%** | | *6.2 p.p.* | **71.3%** | | **66.0%** | | *5.3 p.p.* |
| Sales expenses | 65.1 | 68.9% | 61.9 | 67.9% | 5.2% | 132.9 | 69.6% | 124.5 | 68.1% | 6.8% |
| General and administrative expenses | 29.4 | 31.1% | 29.2 | 32.1% | 0.8% | 58.0 | 30.4% | 58.3 | 31.9% | (0.5%) |
| **SG&A** | **94.5** | **100.0%** | **91.0** | **100.0%** | **3.8%** | **190.9** | **100.0%** | **182.8** | **100.0%** | **4.5%** |
| **SG&A, % Revenues** | **28.8%** | | **29.6%** | | *(0.8 p.p.)* | **28.5%** | | **28.4%** | | *0.2 p.p.* |

[1] Reclassified, excluding discontinued operations, for comparison purpose

Table 6 – Reconciliation of EBITDA and adjusted EBITDA

| in R$ million | 2Q19 (A) | 2Q18 [1] (B) | (A)/(B) % | 1H19 (C) | 1H18 [1] (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Income (Loss) | (25.8) | 8.9 | n.a. | 133.5 | 2.0 | n.a. |
| (+) Income and social contribution taxes from continuing operations | 2.7 | (47.0) | n.a. | 3.2 | (47.0) | n.a. |
| (+) Income and social contribution taxes from discontinued operations | - | 0.9 | (100.0%) | 82.7 | 1.5 | n.a. |
| (+) Financial results from continuing operations | 33.6 | 71.0 | (52.6%) | 77.8 | 111.7 | (30.3%) |
| (+) Financial results from discontinued operations | - | 1.7 | (100.0%) | 3.8 | 2.8 | 31.9% |
| (+) Depreciation and amortization from continuing operations | 28.1 | 18.4 | 52.7% | 54.0 | 36.0 | 50.0% |
| (+) Depreciation and amortization from discontinued operations | 1.3 | 0.7 | 80.1% | 1.8 | 1.3 | 40.6% |
| **EBITDA** | **39.9** | **54.7** | **(27.0%)** | **356.8** | **108.4** | **229.3%** |
| **Continuing operations** | | | | | | |
| Income (Loss) | (25.8) | 8.9 | n.a. | 133.5 | 2.0 | n.a. |
| (-) Result from discontinued operations | - | (15.2) | n.a. | (194.4) | (30.6) | n.a. |
| (+) Income and social contribution taxes from continuing operations | 2.7 | (47.0) | n.a. | 3.2 | (47.0) | n.a. |
| (+) Financial results from continuing operations | 33.6 | 71.0 | (52.6%) | 77.8 | 111.7 | (30.3%) |
| (+) Depreciation and amortization from continuing operations | 28.1 | 18.4 | 52.7% | 54.0 | 36.0 | 50.0% |
| **Adjusted EBITDA from continuing operations** | **38.6** | **36.2** | **6.8%** | **74.2** | **72.2** | **2.8%** |
| **Discontinued operations** | | | | | | |
| Result from discontinued operations | - | 15.2 | (100.0%) | 194.4 | 30.6 | n.a. |
| (+) Income and social contribution taxes from discontinued operations | - | 0.9 | (100.0%) | 82.7 | 1.5 | n.a. |
| (+) Financial results from discontinued operations | - | 1.7 | (100.0%) | 3.8 | 2.8 | 31.9% |
| (+) Depreciation and amortization from discontinued operations | 1.3 | 0.7 | 80.1% | 1.8 | 1.3 | 40.6% |
| **Adjusted EBITDA from discontinued operations** | **1.3** | **18.5** | **(93.1%)** | **282.7** | **36.2** | **680.5%** |
| **EBITDA** | **39.9** | **54.7** | **(27.0%)** | **356.8** | **108.4** | **229.3%** |
| **Adjusted EBITDA[2]** | **38.6** | **36.2** | **6.8%** | **74.2** | **72.2** | **2.8%** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

[2] Considering only continuing operations, excluding discontinued operations

Table 7 – Adjusted EBITDA per business unit

| in R$ million | 2Q19 (A) | 2Q18 [1] (B) | (A)/(B) % | 1H19 (C) | 1H18 [1] (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| **Brazil** | **31.4** | **43.5** | **(27.8%)** | **59.4** | **84.6** | **(29.8%)** |
| Wholesale | 21.5 | 43.3 | (50.3%) | 45.5 | 85.9 | (47.0%) |
| Retail | 9.9 | 0.2 | 4850.0% | 13.9 | (1.3) | n.a. |
| **Argentina** | **4.1** | **0.5** | **720.0%** | **5.5** | **2.2** | **150.0%** |
| Non-allocated expenses | 3.2 | (7.7) | (141.6%) | 9.3 | (14.6) | (163.7%) |
| **Adjusted EBITDA from continuing operations (i)** | **38.6** | **36.2** | **6.8%** | **74.2** | **72.2** | **2.8%** |
| **Adjusted EBITDA from discontinued operations (ii)** | **1.3** | **18.5** | **(93.1%)** | **282.7** | **36.2** | **680.5%** |
| **EBITDA (i) + (ii)** | **39.9** | **54.7** | **(27.0%)** | **356.8** | **108.4** | **229.3%** |
| **Adjusted EBITDA[2] (i) + (iii)** | **38.6** | **36.2** | **6.8%** | **74.2** | **72.2** | **2.8%** |
| *EBITDA Margin %* | *12.2%* | *17.8%* | *(5.6 p.p.)* | *53.3%* | *16.8%* | *36.5 p.p.* |
| *Adjusted EBITDA Margin [2] %* | *11.8%* | *11.8%* | *0.0 p.p.* | *11.1%* | *11.2%* | *(0.1 p.p.)* |

[1] Reclassified, excluding discontinued operations, for comparison purpose

[2] Considering only continuing operations, excluding discontinued operations

Table 8 – Financial Results

| in R$ million | 2Q19 (A) | 2Q18 [1] (B) | (A)/(B) % | 1H19 (C) | 1H18 [1] (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Financial income | 12.1 | 6.9 | 75.1% | 20.2 | 11.8 | 70.7% |
| Financial expenses - interests | (32.5) | (31.8) | 2.2% | (62.9) | (61.9) | 1.5% |
| Interest on leasing | (7.5) | - | n.a. | (13.5) | - | n.a. |
| Financial expenses - bank charges and others | (14.7) | (10.7) | 36.6% | (26.4) | (23.8) | 10.6% |
| Exchange rate variations, net | 8.9 | (35.4) | (125.0%) | 4.7 | (37.8) | (112.5%) |
| **Financial results** | **(33.6)** | **(71.0)** | **(52.6%)** | **(77.8)** | **(111.7)** | **(30.3%)** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

Table 9 – Capex

| in R$ million | 2Q19 | 2Q18 | 1H19 | 1H18 |
|---|---|---|---|---|
| Manufacturing facilities | 9.1 | 13.6 | 34.1 | 27.0 |
| Retail | 3.5 | 2.2 | 6.1 | 2.7 |
| Acquisition of Keeco´s shares | - | - | 140.3 | - |
| **Total** | **12.6** | **15.8** | **180.6** | **29.7** |
| **Total ex-acquisition** | **12.6** | **15.8** | **40.3** | **29.7** |

Table 10 – Working Capital

| in R$ million | 2Q19 (A) | 1Q19 (B) | 2Q18 (C) | (A)/(B) % | (A)/(C) % |
|---|---|---|---|---|---|
| Accounts receivable | 441.1 | 468.3 | 473.1 | (5.8%) | (6.8%) |
| Inventories | 420.0 | 397.6 | 579.8 | 5.6% | (27.6%) |
| Advances to suppliers | 62.7 | 59.2 | 41.6 | 6.0% | 50.5% |
| Suppliers | (137.0) | (106.8) | (159.6) | 28.3% | (14.2%) |
| **Working capital** | **786.8** | **818.3** | **934.9** | **(3.9%)** | **(15.8%)** |

Table 11 – Indebtedness

| in R$ million | 2Q19 (A) | 1Q19 (B) | 2Q18 (C) | (A)/(B) % | (A)/(C) % |
|---|---|---|---|---|---|
| Loans and financing | 982.2 | 945.1 | 943.9 | 3.9% | 4.1% |
| - Domestic currency | 735.2 | 737.4 | 512.5 | (0.3%) | 43.4% |
| - Foreign currency | 247.0 | 207.7 | 431.4 | 18.9% | (42.7%) |
| Debentures | 111.3 | 136.6 | 185.3 | (18.5%) | (40.0%) |
| **Total Debt** | **1,093.5** | **1,081.7** | **1,129.2** | **1.1%** | **(3.2%)** |
| Cash and marketable securities | (311.5) | (377.4) | (284.2) | (17.5%) | 9.6% |
| **Net debt** | **782.0** | **704.3** | **845.0** | **11.0%** | **(7.5%)** |
| Cash holdback amount - escrow account | (24.1) | (24.5) | - | n.a. | n.a. |
| **Net debt after retained value** | **757.9** | **679.8** | **845.0** | **11.5%** | **(10.3%)** |

Table 12 – Main indicators - Brazil - Wholesale business unit

| in R$ million | 2Q19 (A) | 2Q18 (B) | (A)/(B) % | 1H19 (C) | 1H18 (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Net revenue | 260.1 | 236.8 | 9.8% | 535.8 | 502.0 | 6.7% |
| (-) COGS | (204.8) | (167.5) | 22.3% | (420.2) | (362.7) | 15.9% |
| Gross profit | 55.3 | 69.3 | (20.2%) | 115.6 | 139.3 | (17.0%) |
| ***Gross Margin %*** | ***21.3%*** | ***29.3%*** | ***(8.0 p.p.)*** | ***21.6%*** | ***27.7%*** | ***(6.2 p.p.)*** |
| (-) SG&A | (51.3) | (47.0) | 9.1% | (105.2) | (91.2) | 15.4% |
| (+/-) Others | 2.7 | 4.1 | (34.1%) | 5.6 | 4.9 | 14.3% |
| Operational result | 6.7 | 26.4 | (74.6%) | 16.0 | 53.0 | (69.8%) |
| (+) Depreciation and Amortization | 14.8 | 16.9 | (12.4%) | 29.5 | 32.9 | (10.3%) |
| EBITDA | 21.5 | 43.3 | (50.3%) | 45.5 | 85.9 | (47.0%) |
| ***EBITDA Margin %*** | ***8.3%*** | ***18.3%*** | ***(10.0 p.p.)*** | ***8.5%*** | ***17.1%*** | ***(8.6 p.p.)*** |
| Intercompany revenue | 26.8 | 28.0 | (4.3%) | 56.1 | 61.0 | (8.0%) |
| Revenue ex-intercompany | 233.3 | 208.8 | 11.7% | 479.7 | 441.0 | 8.8% |

Table 13 – Main indicators - Brazil - Retail business unit

| Em R$ milhões | 2Q19 (A) | 2Q18 (B) | (A)/(B) % | 1H19 (C) | 1H18 (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Net revenue | 58.4 | 59.6 | (2.0%) | 120.9 | 122.0 | (0.9%) |
| (-) COGS | (27.0) | (27.7) | (2.5%) | (57.0) | (58.1) | (1.9%) |
| Gross profit | 31.4 | 31.9 | (1.6%) | 63.9 | 63.9 | 0.0% |
| ***Gross Margin %*** | ***53.8%*** | ***53.5%*** | ***0.2 p.p.*** | ***52.9%*** | ***52.4%*** | ***0.5 p.p.*** |
| (-) SG&A | (33.3) | (33.6) | (0.9%) | (68.3) | (67.3) | 1.5% |
| (+/-) Others | 5.5 | 0.8 | 587.5% | 5.7 | 0.2 | 2750.0% |
| Operational result | 3.6 | (0.9) | n.a. | 1.3 | (3.2) | n.a. |
| (+) Depreciation and Amortization | 6.3 | 1.1 | 472.7% | 12.6 | 1.9 | 563.2% |
| EBITDA | 9.9 | 0.2 | 4850.0% | 13.9 | (1.3) | n.a. |
| ***EBITDA Margin %*** | ***17.0%*** | ***0.3%*** | ***16.6 p.p.*** | ***11.5%*** | ***(1.1%)*** | ***12.6 p.p.*** |
| Number of stores | 234 | 232 | 0.9% | 234 | 232 | 0.9% |
| Owned MMartan | 32 | 32 | | 32 | 32 | |
| Franchise MMartan | 122 | 127 | | 122 | 127 | |
| Owned Artex | 34 | 38 | | 34 | 38 | |
| Franchise Artex | 46 | 35 | | 46 | 35 | |
| Gross Revenue sell-out | 123.8 | 119.9 | 3.3% | 254.6 | 241.1 | 5.6% |

Table 14 – Main indicators - Argentina

| in R$ million | 2Q19 (A) | 2Q18 (B) | (A)/(B) % | 1H19 (C) | 1H18 (D) | (C)/(D) % |
|---|---|---|---|---|---|---|
| Net revenue | 36.5 | 39.5 | (7.6%) | 68.3 | 81.0 | (15.7%) |
| (-) COGS | (28.5) | (32.3) | (11.8%) | (55.3) | (64.9) | (14.8%) |
| Gross profit | 8.0 | 7.2 | 11.1% | 13.0 | 16.1 | (19.3%) |
| ***Gross Margin %*** | ***21.9%*** | ***18.2%*** | ***3.7 p.p.*** | ***19.0%*** | ***19.9%*** | ***(0.8 p.p.)*** |
| (-) SG&A | (5.5) | (7.1) | (22.5%) | (10.4) | (14.7) | (29.3%) |
| (+/-) Others | - | - | n.a. | - | - | n.a. |
| Operational result | 2.5 | 0.1 | 2400.0% | 2.6 | 1.4 | 85.7% |
| (+) Depreciation and Amortization | 1.6 | 0.4 | 300.0% | 2.9 | 0.8 | 262.5% |
| EBITDA | 4.1 | 0.5 | 720.0% | 5.5 | 2.2 | 150.0% |
| ***EBITDA Margin %*** | ***11.2%*** | ***1.3%*** | ***10.0 p.p.*** | ***8.1%*** | ***2.7%*** | ***5.3 p.p.*** |

# Glossary

(**a) EBITDA** – EBITDA is a non-accounting measurement which we prepare and which is reconciled with our financial statement in accordance with CVM Instruction n° 527, when applicable. We have calculated our EBITDA (usually defined as earnings before interest, tax, depreciation and amortization) as net earnings before financial results, the effect of depreciation of our plants, equipment and other permanent assets and the amortization of intangible assets. EBITDA is not a measure recognized under BR GAAP, IFRS or US GAAP. It is not significantly standardized and cannot be compared to measurements with similar names provided by other companies. We have reported EBITDA because we use it to measure our performance. EBITDA should not be considered in isolation or as a substitute for "net income" or "operating income" as indicators of operational performance or cash flow, or for the measurement of liquidity or debt repayment capacity.

**(b) Bedding, Tabletop and Bath ("CAMEBA") line** – includes bed sheets and pillow cases, sheet sets, tablecloths, towels, rugs and bath accessories.

**(c) Intermediate products** – yarns and fabrics, in their natural state or dyed and printed, sold to small and medium-sized clothing, knitting and weaving companies.

**(d) Sell-out prices** – Prices from sales channel to the end customers.

**(e) Sell-in prices** – Prices from sales from producer/franchisor to the sales channel.

**(f) Net debt** – Gross debt minus cash and marketable securities minus cash holdbackamount at the escrow account.

**(g) Escrow account** – funds held by a third party until predetermined contractual obligations are fulfilled.

## Balance sheet

| in R$ million | 2Q19 | 1Q19 | 2Q18 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | **1,266.6** | **1,285.2** | **1,377.7** |
| Cash and cash equivalents | 189.6 | 248.5 | 128.7 |
| Marketable securities | 46.5 | 49.6 | 62.7 |
| Derivatives and Financial instruments | 0.0 | 2.9 | 17.9 |
| Accounts receivable | 441.1 | 468.3 | 473.1 |
| Leases receivable | 5.9 | 5.8 | - |
| Inventories | 420.0 | 397.6 | 579.8 |
| Advances to suppliers | 62.7 | 59.2 | 41.6 |
| Recoverable taxes | 63.6 | 17.8 | 17.1 |
| Other receivables | 37.2 | 35.6 | 56.7 |
| **Noncurrent assets** | **2,117.1** | **2,084.9** | **1,451.0** |
| **Long-term assets** | **724.5** | **703.1** | **461.1** |
| Marketable securities | 75.4 | 76.4 | 74.9 |
| Cash holdback amount | 24.1 | 24.5 | - |
| Receivable - clients | 24.5 | 37.9 | 33.1 |
| Receivable - sale of property | - | - | 57.9 |
| Related parties | 76.3 | 22.1 | 43.9 |
| Advances to suppliers | 53.9 | 53.9 | 0.0 |
| Leases receivable | 90.5 | 94.8 | - |
| Recoverable taxes | 222.3 | 233.3 | 15.6 |
| Deferred income and social contribution taxes | 68.3 | 69.5 | 149.7 |
| Property, plant and equipment held for sale | 36.2 | 37.3 | 38.9 |
| Escrow deposits | 11.7 | 12.5 | 13.3 |
| Others | 41.3 | 41.0 | 33.8 |
| **Permanent** | **1,392.5** | **1,381.8** | **989.9** |
| Investments in affiliate | 138.0 | 140.3 | - |
| Investment properties | 360.2 | 350.5 | 223.9 |
| Property, plant and equipment | 657.2 | 655.5 | 647.1 |
| Right-of-use assets | 156.1 | 154.4 | - |
| Intangible assets | 81.1 | 81.1 | 118.9 |
| **Total assets** | **3,383.6** | **3,370.1** | **2,828.6** |

## Balance sheet - continued

| in R$ million | 2Q19 | 1Q19 | 2Q18 |
|---|---|---|---|
| **Liabilities and Equity** | | | |
| **Current liabilities** | **871.5** | **779.4** | **819.4** |
| Loans and financing | 473.2 | 392.4 | 421.2 |
| Debentures | 74.4 | 75.0 | 66.6 |
| Suppliers | 137.0 | 106.8 | 159.6 |
| Taxes | 15.0 | 16.8 | 11.2 |
| Income and social contribution taxes payable | 0.1 | 17.7 | 0.0 |
| Payroll and related charges | 66.0 | 60.3 | 70.8 |
| Government concessions | 20.9 | 21.3 | 20.2 |
| Leases payable | 34.2 | 33.0 | 8.4 |
| Other payables | 50.8 | 56.1 | 61.5 |
| **Noncurrent liabilities** | **1,060.0** | **1,108.8** | **844.3** |
| Loans and financing | 509.1 | 552.6 | 522.7 |
| Debentures | 36.9 | 61.6 | 118.7 |
| Leases payable | 247.7 | 248.6 | 15.4 |
| Related parties | - | 0.1 | - |
| Government concessions | 44.0 | 43.4 | 43.2 |
| Employee benefit plans | 99.3 | 102.6 | 107.5 |
| Miscellaneous accruals | 12.6 | 12.9 | 13.6 |
| Deferred taxes | 83.3 | 63.1 | 4.3 |
| Other obligations | 27.1 | 23.9 | 18.8 |
| **Equity** | **1,452.1** | **1,481.9** | **1,165.0** |
| Capital | 1,860.3 | 1,860.3 | 1,860.3 |
| Capital reserves | 79.4 | 79.4 | 79.4 |
| Assets and liabilities valuation adjustment | 114.0 | 114.1 | 82.4 |
| Cumulative translation adjustment | (248.3) | (244.3) | (260.7) |
| Earnings reserves | - | - | 25.2 |
| Accumulated deficit | (353.3) | (327.5) | (621.6) |
| **Total liabilities and equity** | **3,383.6** | **3,370.1** | **2,828.6** |

## Income Statement

| in R$ million | 2Q19 (A) | 1Q19 (B) | 2Q18 [1] (C) | (A)/(B) % | (A)/(C) % |
|---|---|---|---|---|---|
| Gross revenues | 432.4 | 447.7 | 404.0 | (3.4%) | 7.0% |
| **Net revenues** | **328.2** | **340.7** | **307.8** | **(3.7%)** | **6.6%** |
| **Cost of goods sold** | **(233.6)** | **(243.3)** | **(199.9)** | **(4.0%)** | **16.9%** |
| *% of net sales* | *71.2%* | *71.4%* | *65.0%* | *(0.2 p.p.)* | *6.2 p.p.* |
| Materials | (118.5) | (120.8) | (93.8) | (1.9%) | 26.3% |
| Conversion costs and others | (99.5) | (107.7) | (88.8) | (7.6%) | 12.0% |
| Depreciation | (15.6) | (14.8) | (17.3) | 5.4% | (9.8%) |
| **Gross profit** | **94.6** | **97.4** | **107.8** | **(2.9%)** | **(12.3%)** |
| *% Gross Margin* | *28.8%* | *28.6%* | *35.0%* | *0.2 p.p.* | *(6.2 p.p.)* |
| **SG&A** | **(94.5)** | **(96.4)** | **(91.0)** | **(2.0%)** | **3.8%** |
| *% of net sales* | *28.8%* | *28.3%* | *29.6%* | *0.5 p.p.* | *(0.8 p.p.)* |
| Selling expenses | (65.1) | (67.8) | (61.9) | (4.0%) | 5.2% |
| *% of net sales* | *19.8%* | *19.9%* | *20.1%* | *(0.1 p.p.)* | *(0.3 p.p.)* |
| General and administrative expenses | (29.4) | (28.6) | (29.2) | 2.8% | 0.8% |
| *% of net sales* | *9.0%* | *8.4%* | *9.5%* | *0.6 p.p.* | *(0.5 p.p.)* |
| **Others, net** | **10.5** | **8.6** | **1.0** | **20.9%** | **n.a.** |
| *% of net sales* | *3.2%* | *2.5%* | *0.3%* | *0.6 p.p.* | *2.9 p.p.* |
| **Income from operations** | **10.5** | **9.6** | **17.8** | **9.4%** | **(40.8%)** |
| *% of net sales* | *3.2%* | *2.8%* | *5.8%* | *0.4 p.p.* | *(2.6 p.p.)* |
| Financial result | (33.6) | (44.2) | (71.0) | (23.8%) | (52.6%) |
| **Profit (loss) before taxes** | **(23.1)** | **(34.6)** | **(53.3)** | **n.a.** | **n.a.** |
| Income and social contribution taxes | (2.7) | (0.4) | 47.0 | n.a. | n.a. |
| **Net result from continued operations** | **(25.8)** | **(35.0)** | **(6.3)** | **n.a.** | **n.a.** |
| **Net result from discontinued operations** | **-** | **194.4** | **15.2** | **n.a.** | **n.a.** |
| **Net income (loss)** | **(25.8)** | **159.4** | **8.9** | **n.a.** | **n.a.** |

[1] Reclassified, excluding discontinued operations, for comparison purpose

## Income Statement - continued

| in R$ million | 1H19 (A) | 1H18 (B) | (A)/(B) % |
|---|---|---|---|
| Gross revenues | 880.1 | 831.8 | 5.8% |
| **Net revenues** | **668.9** | **644.0** | **3.9%** |
| **Cost of goods sold** | **(476.9)** | **(425.1)** | **12.2%** |
| *% of net sales* | *71.3%* | *66.0%* | *5.3 p.p.* |
| Materials | (239.3) | (203.5) | 17.6% |
| Conversion costs and others | (207.2) | (187.1) | 10.7% |
| Depreciation | (30.4) | (34.5) | (11.9%) |
| **Gross profit** | **192.0** | **218.8** | **(12.3%)** |
| *% Gross Margin* | *28.7%* | *34.0%* | *(5.3 p.p.)* |
| **SG&A** | **(190.9)** | **(182.8)** | **4.5%** |
| *% of net sales* | *28.5%* | *28.4%* | *0.2 p.p.* |
| Selling expenses | (132.9) | (124.5) | 6.8% |
| *% of net sales* | *19.9%* | *19.3%* | *0.5 p.p.* |
| General and administrative expenses | (58.0) | (58.3) | (0.5%) |
| *% of net sales* | *17.7%* | *17.1%* | *0.6 p.p.* |
| **Others, net** | **19.1** | **0.1** | **n.a.** |
| *% of net sales* | *2.9%* | *0.0%* | *2.8 p.p.* |
| **Income from operations** | **20.2** | **36.2** | **(44.2%)** |
| *% of net sales* | *6.1%* | *10.6%* | *(4.5 p.p.)* |
| Financial result | (77.8) | (111.7) | (30.3%) |
| **Profit (loss) before taxes** | **(57.7)** | **(75.5)** | **n.a.** |
| Income and social contribution taxes | (3.2) | 47.0 | n.a. |
| **Net result from continued operations** | **(60.8)** | **(28.6)** | **n.a.** |
| **Net result from discontinued operations** | **194.4** | **30.6** | **n.a.** |
| **Net income (loss)** | **133.5** | **2.0** | **n.a.** |

[1] Reclassified, excluding discontinued operations,

## Cash Flow Statement

| in R$ million | 1H19 | 1H18 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) for the period | 133.5 | 2.0 |
| **Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities** | | |
| Depreciation and amortization | 55.9 | 37.3 |
| Result from the sale of discontinued operations | (275.1) | - |
| Income and social contribution taxes | 85.9 | (45.5) |
| Gain on disposal of property, plant and equipment | (0.6) | (3.8) |
| Exchange rate variations | (4.7) | 37.8 |
| Monetary variation | 1.4 | 3.3 |
| Bank charges, interests and commissions | 78.1 | 58.5 |
| | **74.4** | **89.7** |
| **Changes in assets and liabilities** | | |
| Marketable securities | (22.7) | (4.0) |
| Derivative financial instruments | - | (17.9) |
| Accounts receivable | 58.9 | 39.6 |
| Inventories | (31.1) | (34.6) |
| Advances to suppliers | (6.1) | (4.5) |
| Retained value | (24.1) | - |
| Suppliers | 19.5 | (20.4) |
| Others | (71.8) | 15.6 |
| **Net cash provided by (used in) operating activities** | **(3.1)** | **63.6** |
| Interest paid on loans | (52.0) | (50.2) |
| Income and social contribution taxes paid | (3.2) | (1.6) |
| **Net cash provided by (used in) operating activities after interest and taxes** | **(58.3)** | **11.8** |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of permanent investment | (1.4) | 0.0 |
| Investment properties | (4.8) | (10.9) |
| Acquisition of property, plant and equipment | (40.3) | (18.8) |
| Acquisition of intangible assets | - 0.1 | (2.1) |
| Disposal of property, plant and equipment | 0.6 | 4.4 |
| Disposal of discontinued assets | 329.4 | - |
| Loans between related parties | (39.2) | (28.6) |
| **Net cash provided by (used in) investing activities** | **244.2** | **(55.9)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from new loans, net of prepaid fees | 240.2 | 459.0 |
| Repayment of loans | (347.7) | (447.2) |
| Repayment of leases | (28.1) | 0.0 |
| **Net cash provided by (used in) financing activities** | **(135.6)** | **11.8** |
| | | |
| Effect of exchange rate changes on cash and cash equivalents of foreign subsidiaries | (0.1) | 5.5 |
| | | |
| **Increase (decrease) in cash and cash equivalents** | **50.1** | **(26.7)** |
| | | |
| **Cash and cash equivalents:** | | |
| At the beginning of the period | 139.5 | 155.4 |
| At the end of the period | 189.6 | 128.7 |

*This press release may include declarations about Springs Global's expectations regarding future events or results. All declarations based upon future expectations, rather than historical facts, are subject to various risks and uncertainties.*

*These risks and uncertainties include factors related to the following: the Company´s business strategy, the international and the Brazilian economies, technology, financial strategy, developments in the textile and retail sectors, market conditions, among others. To obtain further information on factors that may give rise to results different from those forecasted by Springs Global, please consult the reports filed with the Brazilian Comissão de Valores Mobiliários (CVM, equivalent to U.S. "SEC").*

**Companhia Tecidos Santanense**

**CNPJ/MF n° 21.255.567/0001-89**

**Publicly Traded Company**

Dear Shareholders,

We submit for your consideration the interim financial statements for the second quarter of 2019, accompanied by report on the review of the interim financial statements of the Independent Auditors.

Santanense´s gross revenue amounted to R$ 281.3 million in the first half of 2019. The following table presents the financial highlights in the first halves of 2019 and 2018.

| Consolidated Financial Highlights | R$ ´000 | | Variation % |
|---|---|---|---|
| | 1H19 | 1H18 | |
| Gross revenue | 281,318 | 248,112 | 13.4% |
| Net revenue | 233,960 | 205,675 | 13.8% |
| Cost of goods sold | (186,488) | (154,022) | 21.1% |
| Gross profit | 47,472 | 51,653 | (8.1%) |
| *(% of net revenue)* | *20.3%* | *25.1%* | |
| Selling, general and administrative expenses | (30,384) | (28,364) | 7.1% |
| EBITDA | 21,153 | 27,694 | (23.6%) |

**Net Revenue**

Net revenue totaled R$ 234.0 million in the first half of 2019. Santanense´s net revenue increased by 13.8% year-over-year (yoy), due to the higher sales volume.

**Cost of goods sold**

Santanense presented gross margin of 20.3% in the first half of 2019, compared to 25.1% in the same period in 2018. The cost in the first quarter of 2019 was negatively impacted by higher cotton and dye costs. Already with some improvement in the second quarter, lower cotton prices are expected for the next quarters, with positive impact in gross margin.

**Selling, general and administrative expenses**

Selling expenses presented an increase in line with variable sales expenses, while general and administrative expenses increased in line with inflation in the same period.

**Operating income**

Operating income was R$ 15.0 million in the first half of 2019, 31.9% lower than the first half of 2018, due to the previously explained reasons.

### Financial result, net

In the first half of 2019, the net financial result was an expense of R$ 12.1 million, compared to an expense of R$ 4.6 million in the same period last year.

| | R$ million | |
|---|---|---|
| **Financial result** | **1H19** | **1H18** |
| Financial expenses - interests | (14.3) | (11.0) |
| Bank charges, discounts | (3.2) | (2.3) |
| Financial income | 5.6 | 8.5 |
| Exchange variation, net | (0.2) | 0.2 |
| **Financial result, net** | **(12.1)** | **(4.6)** |

Montes Claros – MG, August 13, 2019.

Management

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS - COTEMINAS

# Individual and Consolidated Financial Statements for the quarter ended June 30, 2019 and Report on the Review of Interim Financial Information

BDO RCS Auditores Independentes

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Rua Major Quedinho 90
Consolação – São Paulo, SP - Brasil
01050-030

(Convenience Translation into English from the Original Previously Issued in Portuguese)

# REVIEW REPORT OF INDEPENDENT AUDITORS ON INTERIM FINANCIAL INFORMATION

To The
Board of Directors, Management and Shareholders of
Companhia de Tecidos Norte de Minas - COTEMINAS
Montes Claros - MG

## Introduction

We have reviewed the individual and consolidated interim financial statements of Companhia de Tecidos Norte de Minas - COTEMINAS ("Company"), included in the Quarterly Information (ITR) related to the quarter ended June 30, 2019, which consist of the balance sheet at June 30, 2019 and the related statements of income and comprehensive income for the three and six months then ended and the changes in equity and cash flows for the six month period then ended including a summary of significant accounting policies and other explanatory notes.

The Management is responsible for the preparation of the individual and consolidation interim financial information in accordance with CPC 21 (R1) - Interim Financial Reporting and IAS 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of information in accordance with the standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

Our review was conducted according to the Brazilian and international standards for reviewing interim financial statements (NBC TR 2410 and ISRE 2410 – Review of Interim Financial Information performed by the Independent Auditor of the Entity). An interim review consists principally of applying analytical and other review procedures, and making enquiries of and having discussions with persons responsible for financial and accounting matters.

It is substantially less in scope than an audit conducted in accordance with auditing standards. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Therefore, we do not express such an opinion.

## Conclusion on the individual and consolidated interim financial information

Based on our review, we are not aware of any facts that would lead us to believe that the individual and consolidated interim financial information included in the Quarterly Information - ITR referred to above were not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Quarterly Information - ITR and IAS 34 - Interim Financial Reporting presented and in accordance with the standards issued by the Brazilian Securities Commission (CVM).

## Other issues

Interim statements of value added

We have also reviewed the individual and consolidated interim statements of value added (DVA), individual and consolidated, prepared under the responsibility of the Company's management, for the Company for the six months ended June 30, 2019, for which presentation in the interim financial statements is required according to the standards issued by CVM applicable to the preparation of Quarterly Information (ITR), and considered as supplementary information by IFRS, which do not require the presentation of DVA. These statements were submitted to the same review procedures described before and, based on our review, we are not aware of any fact that leads us to believe that they have not been fairly stated, in all material respects, regarding the individual and consolidated interim financial statements taken as a whole.

São Paulo, August 15, 2019.

BDO RCS Auditores Independentes SS
CRC 2 MG 009485/F-0

Paulo Sérgio Tufani
Accountant CRC 1 SP 124504/O-9 - S - MG

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS - COTEMINAS

BALANCE SHEETS AS OF JUNE 30, 2019 AND DECEMBER 31, 2018

(In thousands of Brazilian Reais)

ASSETS

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| CURRENT: | | | | | |
| Cash and cash equivalents | 3 | 325 | 167 | 201,097 | 145,067 |
| Marketable securities | 4 | - | - | 51,998 | 51,359 |
| Derivative financial instruments | | - | - | - | 4,798 |
| Accounts receivable | 5 | - | - | 569,494 | 617,203 |
| Leases receivable | 12 | - | - | 5,911 | - |
| Inventories | 6 | - | - | 535,056 | 524,318 |
| Advances to suppliers | | - | 126 | 64,264 | 58,341 |
| Recoverable taxes | 21.c | 3,777 | 3,605 | 71,175 | 26,388 |
| Receivable – sale of investment | 8 | - | - | - | 32,907 |
| Other receivables | | 8,687 | 943 | 38,161 | 31,455 |
| Assets held for sale | 30 | - | - | - | 308,244 |
| Total current assets | | 12,789 | 4,841 | 1,537,156 | 1,800,080 |
| NONCURRENT: | | | | | |
| Long-term assets: | | | | | |
| Marketable securities | 4 | 1,496 | 1,452 | 76,871 | 77,181 |
| Cash holdback amount | 30 | - | - | 24,143 | - |
| Receivable – clients | 7 | - | - | 24,489 | 28,783 |
| Receivable – sale of investment | 8 | - | 51,502 | - | 130,221 |
| Advances to suppliers | | - | - | 96,344 | 96,344 |
| Leases receivable | 12 | - | - | 90,542 | - |
| Recoverable taxes | 21.c | 74,673 | 74,191 | 399,150 | 404,811 |
| Deferred taxes | 21.b | - | - | 68,261 | 150,043 |
| Related parties | 20 | 152,004 | 107,015 | 70,031 | 49,211 |
| Property, plant and equipment held for sale | 11.b | - | - | 36,205 | 37,444 |
| Escrow deposits | 22 | 12,413 | 12,403 | 31,410 | 33,206 |
| Other credits and receivables | | 6 | 365 | 29,187 | 27,527 |
| | | 240,592 | 246,928 | 946,633 | 1,034,771 |
| Investments in subsidiaries | 9.a | 1,044,689 | 916,376 | - | - |
| Investments in affiliated companies | 9.a | 59,177 | 57,816 | 197,136 | 57,816 |
| Investment properties | 10 | 102,132 | 102,132 | 649,470 | 462,354 |
| Other investments | | 3,088 | 3,089 | 16,954 | 5,598 |
| Property, plant and equipment | 11.a | 6,500 | 6,572 | 839,776 | 815,811 |
| Right-of-use assets | 12 | - | - | 145,973 | - |
| Intangible assets | 13 | 2 | 2 | 81,134 | 81,889 |
| Total noncurrent assets | | 1,456,180 | 1,332,915 | 2,877,076 | 2,458,239 |
| Total assets | | 1,468,969 | 1,337,756 | 4,414,232 | 4,258,319 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS - COTEMINAS

BALANCE SHEETS AS OF JUNE 30, 2019 AND DECEMBER 31, 2018

(In thousands of Brazilian Reais)

LIABILITIES AND EQUITY

| | | Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| LIABILITIES | | | | | |
| CURRENT: | | | | | |
| Loans and financing | 14 | 136,432 | 122,424 | 781,181 | 837,423 |
| Debentures | 15 | - | - | 74,368 | 74,653 |
| Suppliers | 16 | 246 | 268 | 170,844 | 130,244 |
| Payroll and related charges | | 1,090 | 925 | 81,044 | 75,536 |
| Taxes and fees | | 261 | 883 | 15,857 | 20,986 |
| Income and social contribution taxes payable | | - | - | 594 | 19,621 |
| Government concessions | 17 | - | - | 20,937 | 21,361 |
| Leases payable | 18 | - | - | 31,809 | 8,765 |
| Payable - purchase of investment property | | - | 4,780 | - | 4,780 |
| Other payables | | 6,924 | 9,653 | 81,475 | 64,796 |
| Liabilities related to assets held for sale | 30 | - | - | - | 240,086 |
| Total current liabilities | | 144,953 | 138,933 | 1,258,109 | 1,498,251 |
| NONCURRENT: | | | | | |
| Loans and financing | 14 | 28,812 | 31,978 | 629,090 | 562,622 |
| Debentures | 15 | - | - | 36,901 | 73,669 |
| Government concessions | 17 | - | - | 44,027 | 44,087 |
| Leases payable | 18 | - | - | 239,849 | 14,456 |
| Related parties | 20 | 182,616 | 76,048 | 330 | 58 |
| Deferred taxes | 21.b | 20,823 | 23,060 | 121,257 | 102,952 |
| Miscellaneous accruals | 22 | 13,955 | 13,945 | 29,780 | 31,012 |
| Employee benefit plans | 23 | - | - | 99,282 | 103,968 |
| Other obligations | | 13,016 | 25,670 | 63,039 | 26,065 |
| Total noncurrent liabilities | | 259,222 | 170,701 | 1,263,555 | 958,889 |
| EQUITY: | 19 | | | | |
| Capital | | 882,236 | 882,236 | 882,236 | 882,236 |
| Capital reserves | | 209,701 | 209,701 | 209,701 | 209,701 |
| Assets and liabilities valuation adjustments | | 97,265 | 97,511 | 97,265 | 97,511 |
| Cumulative translation adjustments | | (95,994) | (92,501) | (95,994) | (92,501) |
| Accumulated deficit | | (28,414) | (68,825) | (28,414) | (68,825) |
| Total equity attributable to the owners of the Company | | 1,064,794 | 1,028,122 | 1,064,794 | 1,028,122 |
| NON-CONTROLLING INTERESTS | 9.b | - | - | 827,774 | 773,057 |
| Total equity | | 1,064,794 | 1,028,122 | 1,892,568 | 1,801,179 |
| Total liabilities and equity | | 1,468,969 | 1,337,756 | 4,414,232 | 4,258,319 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais)

| | Note | Company 04.01.2019 to 06.30.2019 | 01.01.2019 to 06.30.2019 | 04.01.2018 to 06.30.2018 | 01.01.2018 to 06.30.2018 |
|---|---|---|---|---|---|
| OPERATING INCOME (EXPENSES): | | | | | |
| General and administrative expenses | | (3,206) | (5,630) | (2,687) | (5,860) |
| Management fees | | (597) | (1,237) | (535) | (957) |
| Equity in subsidiaries | 9.a | (11,690) | (35,703) | 1,414 | (2,319) |
| Others, net | | (31,191) | (30,020) | (7,875) | (7,875) |
| LOSS FROM OPERATIONS | | (46,684) | (72,590) | (9,683) | (17,011) |
| Financial expenses – interests | | (10,593) | (16,445) | (9,689) | (19,446) |
| Financial expenses – bank charges and others | | (1,367) | (2,801) | (1,847) | (3,700) |
| Financial income | | 3,869 | 7,579 | 6,635 | 11,817 |
| Exchange rate variations, net | | 279 | 1,033 | 6,813 | 7,037 |
| LOSS FROM OPERATIONS BEFORE TAXES | | (54,496) | (83,224) | (7,771) | (21,303) |
| Income and social contribution taxes: | | | | | |
| Deferred | 21.a | 2,525 | 2,236 | - | - |
| NET LOSS FOR THE PERIOD – CONTINUING OPERATIONS | | (51,971) | (80,988) | (7,771) | (21,303) |
| Equity in indirect subsidiary - discontinued operations | 30 | - | 102,856 | 8,063 | 16,170 |
| NET INCOME (LOSS) FOR THE PERIOD | | (51,971) | 21,868 | 292 | (5,133) |
| BASIC AND DILUTED EARNINGS (LOSS) PER SHARE - R$ | 29 | | | | |
| Continuing operations | | (1.6964) | (2.6435) | (0.2536) | (0.6953) |
| Discontinued operations | | - | 3.3573 | 0.2632 | 0.5278 |
| | | (1.6964) | 0.7138 | 0.0096 | (0.1675) |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018
(In thousands of Brazilian Reais)

| | | Consolidated | | | |
|---|---|---|---|---|---|
| | Note | 04.01.2019 to 06.30.2019 | 01.01.2019 to 06.30.2019 | 04.01.2018 to 06.30.2018 | 01.01.2018 to 06.30.2018 |
| NET REVENUES | 28 | 442,666 | 894,077 | 406,226 | 833,974 |
| COST OF GOODS SOLD | 27 | (321,323) | (654,641) | (273,213) | (563,508) |
| GROSS PROFIT | | 121,343 | 239,436 | 133,013 | 270,466 |
| OPERATING INCOME (EXPENSES): | | | | | |
| Selling expenses | 27 | (73,664) | (149,397) | (70,687) | (140,307) |
| General and administrative expenses | 27 | (36,072) | (69,588) | (35,133) | (70,208) |
| Management fees | 27 | (4,094) | (8,400) | (4,181) | (8,343) |
| Equity in subsidiaries | 9.a | 7,267 | 1,360 | 277 | 281 |
| Others, net | | (37,985) | (30,391) | (3,444) | (4,553) |
| INCOME FROM OPERATIONS | | (23,205) | (16,980) | 19,845 | 47,336 |
| Financial expenses – interests | | (42,254) | (83,376) | (40,482) | (79,017) |
| Interest on leases | | (7,242) | (13,046) | - | - |
| Financial expenses – bank charges and others | | (16,410) | (29,712) | (11,824) | (26,118) |
| Financial income | | 9,296 | 19,323 | 7,695 | 17,129 |
| Exchange rate variations, net | | 11,317 | 7,728 | (28,779) | (31,073) |
| LOSS FROM OPERATIONS BEFORE TAXES | | (68,498) | (116,063) | (53,545) | (71,743) |
| Income and social contribution taxes: | | | | | |
| Current | 21.a | 1,908 | 1,765 | (1,306) | (3,042) |
| Deferred | 21.a | 1,389 | 3,510 | 46,692 | 46,026 |
| NET LOSS FOR THE PERIOD – CONTINUING OPERATIONS | | (65,201) | (110,788) | (8,159) | (28,759) |
| Net income from indirect subsidiary – discontinued operations | 30 | - | 194,362 | 15,236 | 30,556 |
| NET INCOME (LOSS) FOR THE PERIOD | | (65,201) | 83,574 | 7,077 | 1,797 |
| ATTRIBUTED TO: | | | | | |
| Owners of the Company | | | | | |
| Continuing operations | | (51,971) | (80,988) | (7,771) | (21,303) |
| Discontinued operations | | - | 102,856 | 8,063 | 16,170 |
| | | (51,971) | 21,868 | 292 | (5,133) |
| Non-controlling interests | 9.b | | | | |
| Continuing operations | | (13,230) | (29,800) | (388) | (7,456) |
| Discontinued operations | | - | 91,506 | 7,173 | 14,386 |
| | | (13,230) | 61,706 | 6,785 | 6,930 |
| | | (65,201) | 83,574 | 7,077 | 1,797 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais)

| | Company | | | |
|---|---|---|---|---|
| | 04.01.2019 to 06.30.2019 | 01.01.2019 to 06.30.2019 | 04.01.2018 to 06.30.2018 | 01.01.2018 to 06.30.2018 |
| NET INCOME (LOSS) FOR THE PERIOD | (51,971) | 21,868 | 292 | (5,133) |
| Other comprehensive income (loss): | | | | |
| - Items that will impact the statements of operations: | | | | |
| Exchange rate variations on foreign investments | (2,216) | (3,493) | 10,553 | 9,080 |
| - Items that will not impact the statements of operations: | | | | |
| Actuarial gain (loss) on pension plans | (7) | 5 | (8) | - |
| COMPREHENSIVE INCOME FOR THE PERIOD | (54,194) | 18,380 | 10,837 | 3,947 |

| | Consolidated | | | |
|---|---|---|---|---|
| | 04.01.2019 to 06.30.2019 | 01.01.2019 to 06.30.2019 | 04.01.2018 to 06.30.2018 | 01.01.2018 to 06.30.2018 |
| NET INCOME (LOSS) FOR THE PERIOD | (65,201) | 83,574 | 7,077 | 1,797 |
| Other comprehensive income (loss): | | | | |
| - Items that will impact the statements of operations: | | | | |
| Exchange rate variations on foreign investments | (4,080) | (6,538) | 18,391 | 15,424 |
| - Items that will not impact the statements of operations: | | | | |
| Actuarial gain (loss) on pension plans | (12) | 10 | (15) | - |
| COMPREHENSIVE INCOME FOR THE PERIOD | (69,293) | 77,046 | 25,453 | 17,221 |
| ATTRIBUTABLE TO: | | | | |
| Owners of the Company | | | | |
| Continuing operations | (54,194) | (84,476) | 2,774 | (12,223) |
| Discontinued operations | - | 102,856 | 8,063 | 16,170 |
| Non-controlling interests | | | | |
| Continuing operations | (15,099) | (32,840) | 7,443 | (1,112) |
| Discontinued operations | - | 91,506 | 7,173 | 14,386 |
| | (69,293) | 77,046 | 25,453 | 17,221 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

(In thousands of Brazilian Reais)

| | Capital | Capital reserve<br>Tax incentives | Assets and liabilities valuation adjustments | Cumulative translation adjustment | Accumulated deficit | Total equity attributable to the owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| BALANCES AS OF DECEMBER 31, 2017 | 882,236 | 209,701 | 62,000 | (111,688) | (216,311) | 825,938 | 656,058 | 1,481,996 |
| Effects of the hyperinflationary adjustment of the indirect subsidiary in Argentina (note 2.4) | - | - | - | 10,528 | - | 10,528 | 9,367 | 19,895 |
| BALANCES AS OF JANUARY 1, 2018 | 882,236 | 209,701 | 62,000 | (101,160) | (216,311) | 836,466 | 665,425 | 1,501,891 |
| Deemed cost of affiliated company | - | - | (225) | - | 225 | - | - | - |
| Comprehensive income: | | | | | | | | |
| Net income (loss) for the period | - | - | - | - | (5,133) | (5,133) | 6,930 | 1,797 |
| Exchange rate variations on foreign investments (note 2.1) | - | - | - | 1,949 | - | 1,949 | - | 1,949 |
| Impact of subsidiaries - Exchange rate variations on foreign investments (note 2.1) | - | - | - | 7,131 | - | 7,131 | 6,344 | 13,475 |
| Total comprehensive income | - | - | - | 9,080 | (5,133) | 3,947 | 13,274 | 17,221 |
| Owners' distribution: | | | | | | | | |
| Dividend paid at subsidiaries | - | - | - | - | - | - | (10,448) | (10,448) |
| Total owners' distribution | - | - | - | - | - | - | (10,448) | (10,448) |
| BALANCES AS OF JUNE 30, 2018 | 882,236 | 209,701 | 61,775 | (92,080) | (221,219) | 840,413 | 668,251 | 1,508,664 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

(In thousands of Brazilian Reais)

| | Capital | Capital reserve - Tax incentives | Assets and liabilities valuation adjustments | Cumulative translation adjustment | Accumulated deficit | Total equity attributable to the owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| BALANCES AS OF DECEMBER 31, 2018 | 882,236 | 209,701 | 97,511 | (92,501) | (68,825) | 1,028,122 | 773,057 | 1,801,179 |
| Deemed cost of affiliated company | - | - | (251) | - | 251 | - | - | - |
| Comprehensive income: | | | | | | | | |
| Net income for the period | - | - | - | - | 21,868 | 21,868 | 61,706 | 83,574 |
| Exchange rate variations on foreign investments (note 2.1) | - | - | - | (71) | - | (71) | - | (71) |
| Impact of subsidiaries - | | | | | | | | |
| Exchange rate variations on foreign investments (note 2.1) | - | - | - | (3,422) | - | (3,422) | (3,045) | (6,467) |
| Actuarial gain on pension plans | - | - | 5 | - | - | 5 | 5 | 10 |
| Total comprehensive income | - | - | 5 | (3,493) | 21,868 | 18,380 | 58,666 | 77,046 |
| Owners' contribution (distribution): | | | | | | | | |
| Negative goodwill on acquisition of investments (Note 9.a.2) | - | - | - | - | 18,292 | 18,292 | - | 18,292 |
| Dividend paid at subsidiaries | - | - | - | - | - | - | (5,079) | (5,079) |
| Special dividend reserve | - | - | - | - | - | - | 1,130 | 1,130 |
| Total owners' contribution (distribution) | - | - | - | - | 18,292 | 18,292 | (3,949) | 14,343 |
| BALANCES AS OF JUNE 30, 2019 | 882,236 | 209,701 | 97,265 | (95,994) | (28,414) | 1,064,794 | 827,774 | 1,892,568 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 |
| Cash flows from operating activities | | | | |
| Net income (loss) for the period | 21,868 | (5,133) | 83,574 | 1,797 |
| Adjustments to reconcile net income (loss) for the period to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 32 | 32 | 61,915 | 43,019 |
| Equity in subsidiaries | 35,703 | 2,319 | (1,360) | (281) |
| Equity in subsidiaries – discontinued operations | (102,856) | (16,170) | - | - |
| Gain from the sale of discontinued operations | - | - | (275,092) | - |
| Income and social contribution taxes | (2,236) | - | 77,446 | (41,477) |
| Gain on disposal of property, plant and equipment and investments | 31,876 | 7,318 | 46,847 | 3,189 |
| Monetary variations | - | - | 1,429 | 3,247 |
| Exchange rate variations | (1,033) | (7,036) | (7,729) | 30,489 |
| Interests and bank charges, net | 11,676 | 7,518 | 102,522 | 66,696 |
| | (4,970) | (11,152) | 89,552 | 106,679 |
| Changes in assets and liabilities | | | | |
| Marketable securities | 52 | - | 9,649 | 13,820 |
| Derivative financial instruments | - | - | - | (17,914) |
| Accounts receivable | - | - | 44,280 | 38,313 |
| Inventories | - | - | (27,217) | (39,913) |
| Advances to suppliers | 126 | (67) | (5,997) | (5,062) |
| Cash holdback amount | - | - | (24,143) | - |
| Suppliers | (23) | 112 | 36,093 | (22,996) |
| Others | (8,599) | (19,149) | (74,615) | (5,004) |
| Net cash provided by (used in) operating activities | (13,414) | (30,256) | 47,602 | 67,923 |
| Interest paid | (6,669) | (5,471) | (72,388) | (65,243) |
| Income and social contribution taxes paid | - | - | (3,244) | (4,087) |
| Net cash used in operating activities after interest and income taxes | (20,083) | (35,727) | (28,030) | (1,407) |
| Cash flows from investing activities | | | | |
| Acquisition of permanent investments | - | - | (1,387) | - |
| Investment properties | - | - | (4,845) | (10,931) |
| Property, plant and equipment | - | - | (41,457) | (40,624) |
| Intangibles | - | - | (125) | (2,077) |
| Proceeds from sale of property, plant and equipment | 41 | - | 1,623 | - |
| Proceeds from sale of discontinued operations | - | - | 329,350 | - |
| Proceeds from dividends | - | - | 430 | 3,047 |
| Loans between related parties | 8,846 | 11,854 | (33,493) | (12,920) |
| Net cash provided by (used in) investing activities | 8,887 | 11,854 | 250,096 | (63,505) |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 |
| Cash flows from financing activities | | | | |
| Proceeds from new loans | 39,000 | 30,000 | 344,203 | 546,513 |
| Repayment of loans | (27,646) | - | (478,614) | (498,071) |
| Repayment of leases | - | - | (28,061) | - |
| Dividends paid | - | - | (3,449) | (6,772) |
| Net cash provided by (used in) financing activities | 11,354 | 30,000 | (165,921) | 41,670 |
| Effect of exchange rate variations on cash and cash equivalents of foreign subsidiaries | - | - | (115) | 5,527 |
| Increase (decrease) in cash and cash equivalents | 158 | 6,127 | 56,030 | (17,715) |
| Cash and cash equivalents: | | | | |
| At the beginning of the period | 167 | 405 | 145,067 | 172,016 |
| At the end of the period | 325 | 6,532 | 201,097 | 154,301 |
| Increase (decrease) in cash and cash equivalents | 158 | 6,127 | 56,030 | (17,715) |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

STATEMENTS OF VALUE ADDED

FOR THE SIX-MONTH PERIOD ENDEDS JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 | 01.01.2019 to 06.30.2019 | 01.01.2018 to 06.30.2018 |
| REVENUES | | | | |
| Sales of products, goods and services | - | - | 1,066,732 | 995,396 |
| Gain on disposal of property, plant and equipment | (31,457) | (7,318) | (45,884) | (3,189) |
| | (31,457) | (7,318) | 1,020,848 | 992,207 |
| MATERIALS ACQUIRED FROM THIRD PARTIES | | | | |
| Cost of goods and services sold | - | - | (457,940) | (379,784) |
| Materials, energy, third party services, and others | (3,023) | (5,394) | (243,099) | (223,330) |
| | (3,023) | (5,394) | (701,039) | (603,114) |
| GROSS VALUE ADDED | (34,480) | (12,712) | 319,809 | 389,093 |
| RETENTIONS | | | | |
| Depreciation and amortization | (31) | (32) | (58,722) | (41,710) |
| NET VALUE ADDED PRODUCED BY THE COMPANY | (34,511) | (12,744) | 261,087 | 347,383 |
| VALUE ADDED RECEIVED BY TRANSFER | | | | |
| Equity | (35,703) | (2,319) | 1,360 | 281 |
| Equity – discontinued operations | 102,856 | 16,170 | - | - |
| Financial income | 7,579 | 11,817 | 19,323 | 17,129 |
| Exchange rate variation | 8,260 | 14,480 | 24,989 | 43,329 |
| Royalties | - | - | 9,853 | 8,928 |
| Net income for the period – discontinued operations from indirect subsidiary | - | - | 194,362 | 30,556 |
| | 82,992 | 40,148 | 249,887 | 100,223 |
| TOTAL VALUE ADDED FOR DISTRIBUTION | 48,481 | 27,404 | 510,974 | 447,606 |
| DISTRIBUTION OF VALUE ADDED | | | | |
| Salary, wages and compensation | 2,045 | 1,997 | 205,586 | 196,835 |
| Taxes, duties and contributions | 896 | 3,651 | 97,498 | 67,595 |
| Payments to third parties | 23,672 | 26,889 | 124,316 | 181,379 |
| Net income (loss) for the period | 21,868 | (5,133) | 83,574 | 1,797 |
| VALUE ADDED DISTRIBUTED | 48,481 | 27,404 | 510,974 | 447,606 |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA DE TECIDOS NORTE DE MINAS – COTEMINAS

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

(Amounts in thousands of Brazilian Reais)

## 1. OPERATIONS

Companhia de Tecidos Norte de Minas – COTEMINAS (the “Company”) is a Brazilian publicly-held company, a subsidiary of Wembley S.A., headquartered at Avenida Lincoln Alves dos Santos, 955, in Montes Claros – MG, engaged in the production and marketing of yarns and fabrics in general, imports and exports, and may hold equity interest in other companies and acquire marketable securities in the capital market. The Company’s shares are traded on the B3 S.A. – Brazilian Stocks, Commodities and Futures Exchange (“B3”), under the codes “CTNM3” and “CTNM4”.

The Company is the parent company of Springs Global Participações S.A. (“SGPSA”), which is the parent company of Coteminas S.A. (“CSA”) and Springs Global US, Inc. (“SGUS”), companies that focus their manufacturing operations on bed and bath linens previously carried out by the Company and by Springs Industries, Inc. (“SI”), respectively. In April 2009, subsidiary SGPSA started its bed, tabletop and bath retail operations under the brand MMartan, and later, in October 2011, under the brand Artex. The retail operations, under these two brands, are operated by the indirect subsidiary AMMO Varejo Ltda. (“AMMO”).

As disclosed in note 30 to the interim financial statements, on March 15, 2019, the sale of the operating assets and liabilities of the North American indirect subsidiary SGUS was concluded. As of that date, the indirect subsidiary SGUS holds 17.5% of Keeco, LLC, which combined the operations of the two companies.

The Company is the parent company of Oxford Comércio e Participações S.A., which is the parent company of Companhia Tecidos Santanense (“CTS”), a publicly-held company, which operates in the textile and related industries, manufacturing and marketing of clothing apparel, including professional uniforms, accessories and personal protective equipment for occupational safety.

The Company is also the parent company of Tropical Agroparticipações S.A., which is headquartered in Baixa Grande do Ribeiro – PI (Brazil) and is a privately-held corporation. It was founded on December 21, 2016 and focuses on trade of agricultural products, and investment in other companies as shareholder, quotaholder or associate. Tropical started operations in 2017.

## 2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the Company’s Board of Directors on August 15, 2019.

The Company presents its individual (“Company”) and consolidated (“Consolidated”) interim financial statements prepared simultaneously in accordance with technical pronouncement CPC 21 (R1) – Interim Financial Statements and in accordance with international standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as the standards issued by CVM (Brazilian Securities and Exchange Commission), applicable to the preparation of the Interim Financial Information.

The Company adopted all standards, review of standards and interpretations issued by the IASB and the CPC which were effective on June 30, 2019. All relevant information relating to the interim financial statements is included herein and corresponds to those used by Company's management in its administration.

2.1 – Translation of balances in foreign currency

a) Functional and presentation currency

The interim financial statements of each subsidiary included in the consolidation of the Company and used as a basis for valuation of investments under the equity method are prepared using the functional currency of each entity. The functional currency of an entity is the currency of the primary economic environment in which it operates. To determine the functional currency of each of its subsidiaries, management considered which currency significantly influences the selling price of their products and services, and the currency in which most of the production cost inputs are paid or incurred. The consolidated interim financial statements are presented in Reais (R$), which is the functional and presentation currency of the Company.

b) Conversion of balances

The results and financial position of all subsidiaries included in the consolidation that have functional currencies different from the presentation currency are translated to the presentation currency as follows:

i) assets and liabilities are translated at the exchange rate prevailing on the date of the consolidated interim financial statements;

ii) income and expenses are translated at the monthly exchange rate; and

iii) all differences resulting from the translation are recognized in equity under the caption "Cumulative translation adjustments" and are presented as other comprehensive income in the statement of comprehensive income.

2.2 – Accounting policies

The significant accounting policies used in the preparation of the interim financial statements are as follows:

(a) Results of operations--Results of operations are calculated in accordance with the accrual basis of accounting. Revenue is not recognized if there is significant uncertainty regarding its realization. Interest income and expense are recognized using the effective interest rate as financial income and expenses in the statements of operations. The extraordinary gains and losses and the transactions and provisions involving property, plant and equipment are recorded in the statements of operations as "Others, net ".

(b) Financial instruments--The Company classifies financial assets and liabilities in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") and at amortized cost.

i) Non-derivative financial assets and liabilities - recognition and derecognition

The Company recognizes financial assets and liabilities when, and only when, it becomes part of the contractual provisions of the instruments. The Company derecognizes a financial asset when the contractual rights to the asset's cash flows benefits expire, or when the Company transfers the rights to the receipt of contractual cash flows on a financial asset in a transaction in which substantially all the risks and benefits of ownership of the financial asset are transferred. Any participation that is created or retained by the Company in such transferred financial assets is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligation is withdrawn, canceled or expired.

The financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to liquidate them on a net basis or to realize the asset and settle the liability simultaneously.

ii) Non-derivative financial assets - measurement

A financial asset is measured at amortized cost if it meets both of the following conditions:

- the asset is kept within a business model with the purpose of collecting contractual cash flows; and

- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income only if it satisfies both of the following conditions:

- the asset is kept within a business model which the purpose is achieved by collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at initial recognition, the Company may irrevocably designate a financial asset or liability as measured at fair value through profit or loss in order to eliminate or significantly reduce a possible accounting mismatch resulting from the result of the respective asset or liability.

iii) Non-derivative financial liabilities - measurement

Financial instruments classified as liabilities, after their initial recognition at fair value, are measured based on the amortized cost method based on the effective interest rate. Interest, monetary restatement and exchange variation are recognized in income, as financial income or expenses, when incurred.

iv) Derivatives measured at fair value through profit or loss

Contracted derivative instruments are not designated for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the statement of operations.

<u>(c) Impairment of financial instruments</u>--Financial assets not classified as financial assets at fair value through profit or loss, are valued at each balance sheet date to determine whether there is objective evidence of impairment loss. Objective evidence that financial assets had a loss of value includes:

- default or delays by the debtor;
- restructuring of a value due to the Company under conditions that would not be accepted under normal conditions;
- indications that the debtor or issuer will go into bankruptcy or judicial recovery;
- negative changes in the payment situation of debtors or issuers;
- the disappearance of an active market for the instrument due to financial difficulties; or
- observable data indicating that there was a decline in the measurement of the expected cash flows of a group of financial assets.

The Company considers evidence of impairment of assets measured at amortized cost both individually and collectively. All individually significant assets are evaluated for impairment. Those that have not individually suffered a loss of value are then evaluated collectively for any loss of value that may have occurred, but has not yet been identified, which includes the expected credit losses. Assets that are not individually significant are evaluated collectively as to the loss of value based on the grouping of assets with similar risk characteristics.

In evaluating the impairment loss on a collective basis, the Company uses historical trends of the recovery period and the amounts of loss incurred, adjusted to reflect management's judgment as to whether current economic and credit conditions are such that losses are likely to be higher or lower than those suggested by historical trends.

An impairment loss is calculated as the difference between the book value and the present value of the estimated future cash flows discounted at the original effective interest rate of the asset. Losses are recognized in the statement of operations and reflected in the impairment provision account. When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. When a subsequent event indicates a reduction of the impairment loss, the reduction of the impairment provision is reversed through the statement of operations.

An impairment loss relating to an investment accounted for under the equity method is measured by comparing the recoverable value of the investment with its carrying amount. An impairment loss is recognized in profit or loss and reversed if there was a favorable change in the estimates used to determine recoverable value.

<u>(d) Cash and cash equivalents</u>--Includes cash, deposits, cash in transit and short-term investments with immediate liquidity and original maturities of 90 days or less (or without fixed maturity), which are subject to an insignificant risk of change in its value. Cash and cash equivalents are classified as non-derivative financial assets, measured at amortized cost, and interest earned is recognized in the statements of operations of the period.

<u>(e) Marketable securities</u>--Represented by amounts of immediate liquidity with maturities of more than 90 days and are subject to an insignificant risk of change in their value. The marketable securities relating to investment funds in equity instruments are classified as non-derivative financial assets, and are measured fair value through the statement of operations. All other marketable securities are classified as non-derivative financial assets measured at amortized cost and interest earned is recognized in the statements of operations of the period.

<u>(f) Accounts receivable and allowance for expected losses on doubtful debt accounts</u>--Accounts receivable from customers are initially recognized at transaction value and subsequently measured at amortized cost using the effective interest rate method less the estimated loss with doubtful accounts.

The Company adopted the measurement of the estimated loss with doubtful accounts based on the entire life of the instruments, using the simplified approach, taking into account the history of movements and historical losses. As a general rule, accounts overdue at more than 180 days represent a relevant indicator of expected loss, and are evaluated individually.

(g) Inventories--Valued at average acquisition or production cost, which is lower than net realizable value and are stated net of provision for losses on discontinued and/or obsolete items. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion of manufacturing and directly related selling expenses.

(h) Property, plant and equipment held for sale--Includes out-of-use machinery and equipment measured at fair value less selling expenses, when this amount is lower than net book value.

(i) Investments--Investments in subsidiaries and affiliated companies are accounted for using the equity method based on the balance sheet of the respective subsidiaries and affiliated companies as of the same date as the Company's balance sheet. The value of the equity of foreign subsidiaries and affiliated companies are converted into Reais based on the current rate of its functional currency and the foreign exchange rate variation is recorded in "Cumulative translation adjustments" in equity and presented as other comprehensive income.

(j) Business combinations--The cost of the acquired entity is allocated to the acquired assets and liabilities, based on their estimated fair value at the acquisition date. Any difference between the entity's cost and the fair value of the acquired assets and liabilities is recognized as goodwill.

(k) Research and development expenses--Are recognized as expenses when incurred.

(l) Investment properties--Are held for income or capital appreciation. Investment properties are initially recorded at cost and include transaction costs. After initial recognition, investment properties are measured at fair value against comprehensive income (loss) net of taxes, and thereafter, are measured annually at fair value and the variations arising from this valuation and taxes are recognized in the statements of operations.

(m) Property, plant and equipment--Recorded at acquisition or construction cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. Expenses incurred that increase the value and extend the estimated useful lives of the assets are capitalized; maintenance and repairs are recorded as expenses when incurred.

The estimated useful life of property, plant and equipment is as follows:

| | Useful life |
|---|---|
| Buildings | 40 years |
| Installations | 15 years |
| Machinery and equipment | 15 years |
| Hydroelectric plants | 15 to 35 years |
| Furniture, fixtures and others | 5 to 10 years |

The residual value and useful life of the assets are assessed by management at least at the end of each period.

(n) Right-of-use assets--The measurement of the right-of-use asset corresponds to the beginning balance of the lease liability plus the initial direct costs incurred. Depreciation is calculated using the straight-line method according to the remaining term of the contracts.

(o) Intangible assets--Represented by trademarks acquired, store locations, intellectual property and goodwill on companies acquired. Intangible assets with finite useful lives are amortized using the straight line method, over their estimated useful lives. Intangible assets with indefinite useful lives are tested for impairment annually, or as deemed necessary, in order to determine the recoverability of their net book values.

(p) Impairment of non-financial assets--Assets included in property, plant and equipment, intangible assets, and other noncurrent assets are tested for impairment annually, or when circumstances indicate that the net book value may not be recoverable. When impairment is required, it is recognized in the statements of operations. Previous period impairment losses on fixed assets may be reversed whenever there is an assessment or reliable evidence that the value of the asset has recovered. The reversal is recognized in the statement of operations to the extent it does not exceed the previously recognized impairment losses.

(q) Income and social contribution taxes--The provision for income and social contribution taxes is calculated at the rate of approximately 34% on taxable income and is recognized net of the portion related to the income tax exemption. The accrual balance is net of prepayments made during the period, if applicable. For foreign subsidiaries, the tax rate ranges from 24% to 35%, according to the tax legislation of each country.

(r) Deferred income and social contribution taxes--Deferred income and social contribution taxes are recognized on net operating losses and temporary differences arising from provisions stated in the accounting records, which, according to the tax rules, will only be considered deductible or taxable when realized. A deferred tax asset is recognized only when there is an expectation of future taxable income.

(s) Leases payable--The measurement of lease liabilities, correspond to total future rent payments. These payment flows are adjusted to present value, considering the actual discount rate and when applicable, are adjusted by changes and updates provided for in the contracts. The offset entry is accounted for as a right-of-use asset and amortized over the period of the lease under the straight-line method. Financial charges are recognized as financial expense and are appropriated based on the actual discount rate, according to the remaining term of the contracts. The actual discount rate corresponds to market quotes (the Company’s cost of capital).

(t) Miscellaneous accruals--Recorded at an amount considered sufficient by management to cover probable losses. The escrow deposits related to the accruals are presented in noncurrent assets.

(u) Employee benefit plans--Pension plans and postretirement benefit costs are recognized on an accrual basis, based on actuarial calculations. Actuarial gains and losses are recognized in “Assets and liabilities valuation adjustment” when incurred.

(v) Basic and diluted earnings (loss) per share--Basic earnings (loss) per share is calculated by dividing the income or loss for the period attributable to the Company’s shareholders by the weighted average number of outstanding shares. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of outstanding shares assuming conversion of potential shares to be issued. The Company did not identify any potential issuance of new shares and, therefore, a potential dilution in earnings (loss) per share.

(w) Monetary and exchange rate variations--Assets and liabilities subject to monetary or exchange rate variations are restated on the balance sheet dates, in accordance with the Brazilian Central Bank (BACEN) published rates or other contractual indices. Exchange gains and losses and monetary variations are recognized in the statements of operations for the period, except for the exchange gains and losses on investments in foreign subsidiaries, which are recognized in “Cumulative translation adjustments” in equity.

(x) Revenue recognition--Revenue is measured at value of the consideration received or receivable, less any estimates of returns, cash discounts and/or trade discounts given to the buyer and other similar deductions. Revenue from operations is recognized when control is transferred, which is at the time of delivery to the customer.

(y) Statements of Value Added ("DVA")--The purpose of these statements is to highlight the wealth created by the Company and its distribution over a given period. They are presented by the Company as required by the Brazilian Corporate Law, as part of its individual financial statements and as supplemental information for the consolidated interim financial statements, since it is not a statement provided nor required by IFRS standards. The DVAs have been prepared based on information obtained from accounting records that are the basis for the preparation of the interim financial statements.

(z) Owners of the Company and non-controlling interests--In the financial statements, "owners of the Company" represents all the shareholders of the Company and “non-controlling interests" represents the minority interest of the Company’s subsidiaries.

2.3 – Accounting estimates

The preparation of interim financial statements makes use of estimates in order to record certain assets, liabilities and other transactions. To make these estimates, management used the best information available at the time of preparation of the interim financial statements, as well as the experience of past and/or current events, also considering estimates regarding future events. Therefore, the interim financial statements include estimates related mainly to the determination of useful lives of property, plant and equipment, estimated recoverable value of non-financial assets, fair value of investment properties, provisions necessary for tax, civil and labor liabilities, determination of provisions for income tax, determination of fair value of financial instruments (assets and liabilities) and other similar instruments, estimates related to the selection of interest rate, expected return on assets and the choice of mortality table and expected wage increases applied to the actuarial calculations. Actual results of transactions and information could differ from the estimates.2.4 – Consolidation criteria

The consolidated interim financial statements include the accounts of the Company and the following subsidiaries:

| | Direct and indirect interest in total capital - % | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Coteminas International Ltd. | 100.00 | 100.00 |
| Coteminas (Argentina Branch) | 100.00 | 100.00 |
| Tropical Agroparticipações S.A. | 84.26 | - |
| Springs Global Participações S.A. | 52.92 | 52.92 |
| Oxford Comércio e Participações S.A. | 63.37 | 63.37 |
| Companhia Tecidos Santanense | 56.51 | 56.51 |

The consolidation of the balance sheets and statement of operations accounts corresponds to the sum of assets, liabilities, revenues and expenses, according to their nature, after eliminating investments in subsidiaries, unrealized profits or losses and intercompany balances and transactions. The effect of the exchange rate variations on foreign investments is disclosed in a separate caption in the statement of changes in equity, “Cumulative translation adjustments”. The accounting practices of the foreign subsidiaries were adjusted to comply with the Company’s accounting practices. Non-controlling interests were presented separately in the statements of operations and equity.

The subsidiary SGPSA, parent company of CSA and SGUS, with ownership interest of 100%, was included in consolidation based on its consolidated interim financial statements.

The subsidiary Oxford Comércio e Participações S.A., parent company of CTS, with ownership interest of 85.9%, was included in consolidation based on its consolidated interim financial statements.

The interim financial statements of foreign subsidiaries have been translated into Brazilian Reais based on the US Dollar exchange rate as of June 30, 2019 and December 31, 2018, for balance sheet accounts and the average monthly exchange rate for statement of operations accounts, as follows:

| | 2019 | 2018 | Variance % |
|---|---|---|---|
| Exchange rate as of: | | | |
| December 31 | - | 3.8748 | - |
| June 30 | 3.8322 | 3.8558 | (0.6 %) |
| Average exchange rate: | | | |
| June 30 (3 months) | 3.9061 | 3.6913 | 5.8% |
| June 30 (6 months) | 3.8342 | 3.4675 | 10.6% |

In July 2018, considering that the accumulated inflation in the last three years in Argentina was over 100%, the application of the accounting and disclosure standard in highly inflationary economies (IAS 29 - Financial Reporting in Hyperinflationary Economies) is now required. In accordance with IAS 29, non-monetary assets and liabilities, shareholders' equity and statements of income of subsidiaries operating in highly inflationary economies are adjusted by the change in the general purchasing power of the currency, applying a general price index.

The indexes used by the Company in the analysis of impacts on the indirect subsidiary headquartered in Argentina were based on resolution 539/18 issued by the Argentinian Federation of Professional Councils in Economic Science and were as follows: i) until December 31, 2016 the IPIM (domestic wholesale price index); and ii) from January 1, 2017 onward the national CPI (national consumer price index).

The impact on the net assets of this indirect subsidiary as of December 31, 2017 is as follows:

| | Balances on 12.31.2017 | Hyperinflationary adjustment | Balances on 01.01.2018 |
|---|---|---|---|
| Assets: | | | |
| Inventories | 58,720 | 967 | 59,687 |
| Property, plant and equipment | 17,806 | 26,801 | 44,607 |
| Intangible | 9,157 | 2,271 | 11,428 |
| Other credits | 359 | 28 | 387 |
| | ----------- | ----------- | ----------- |
| | 86,042 | 30,067 | 116,109 |
| Liabilities: | | | |
| Deferred income taxes | - | 10,172 | 10,172 |
| | ----------- | ----------- | ----------- |
| | - | 10,172 | 10,172 |
| Equity | 45,162 | 19,895 | 65,057 |
| | ====== | ====== | ====== |

2.5 – New IFRS, revised IFRS and IFRIC interpretations (IASB International Financial Reporting Interpretations Committee).

a) The IASB accounting pronouncements listed below were published and/or revised and are applicable for the annual periods beginning on or after January 1, 2019.

CPC 06 R2 (IFRS 16) - Leasing operations

In January 2016, the IASB issued IFRS 16 - Leasing, with the main objective of redefining the recognition of operating leases. The corresponding Technical Pronouncement CPC 06 (R2) - Leasing Operations was issued on December 21, 2017.

The new pronouncement introduces a single model for accounting for leasing contracts, eliminating the distinction between operating and financial leases, resulting in the accounting of most lease agreements in the lessee’s balance sheets. The accounting of lessors remains substantially unchanged and the distinction between operating and financial lease contracts is maintained. IFRS 16 replaces IAS 17 and its interpretations.

<u>Transition approach:</u>

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

<u>Impacts on the balance sheet:</u>

The balance sheet has been amended by recognition of all future commitments arising from contracts within the scope of the lease. On the initial adoption date, the right-of-use asset is equal to the lease payable adjusted to the present value. Shareholders' equity was not impacted by the initial adoption because of the simplified retrospective approach.

See notes 12 and 18 to the interim financial statements.

CPC 32 (IFRIC 23) - Uncertainty over the treatment of taxes on profit

In June 2017, the IASB issued IFRIC 23 - Uncertainty Over Income Tax Treatments, with the purpose of clarifying the accounting when there are uncertainties of the taxes on profit regulated by IAS 12 - Income Taxes, being the corresponding technical pronouncement or CPC 32. This standard did not have significant impact in the interim financial statements.

## 3. CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Repurchase transactions (*) | 283 | 33 | 135,189 | 89,927 |
| Foreign exchange funds (US$) | - | - | 3,310 | 2,441 |
| Foreign deposits | - | - | 35,508 | 44,098 |
| Checking accounts deposits | 42 | 134 | 27,090 | 8,601 |
| | ---------- | ---------- | ---------- | ---------- |
| | 325 | 167 | 201,097 | 145,067 |
| | ====== | ====== | ====== | ====== |

(*) Income from financial investments ranges from 90% to 100% of the rates earned on Interbank Deposit Certificates – CDI.

## 4. MARKETABLE SECURITIES

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Fixed income – foreign | 14,859 | 6,142 |
| Investment fund – foreign | 36,048 | 44,502 |
| Restricted deposits (US$) (1) | 75,375 | 75,729 |
| Restricted cash | 2,587 | 2,167 |
| | --------- | --------- |
| | 128,869 | 128,540 |
| Current | (51,998) | (51,359) |
| | --------- | --------- |
| Noncurrent | 76,871 | 77,181 |
| | ======= | ======= |

(1) Refers to foreign deposits, linked to the loan obtained from Santander S.A. The yield is 1.3% per annum and the deadline for redemption coincides with the terms of the loan.

## 5. ACCOUNTS RECEIVABLE

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Domestic customers | 511,731 | 574,945 |
| Foreign customers | 79,284 | 68,712 |
| Credit card companies | 15,047 | 10,648 |
| Related parties | | |
| Domestic market | 2,537 | 2,300 |
| Foreign market | 3,035 | 2,814 |
| | ----------- | ----------- |
| | 611,634 | 659,419 |
| Allowance for expected losses on doubtful debts accounts | (42,140) | (42,216) |
| | ----------- | ----------- |
| | 569,494 | 617,203 |
| | ====== | ====== |

Accounts receivable from customers consist of receivables with an average collection period of approximately 99 days (107 days as of December 31, 2018).

The allowance for expected losses on doubtful debts accounts is considered by Management sufficient to cover expected losses from these receivables.

The aging list of the consolidated accounts receivable was presented in the annual financial statements for the year ended December 31, 2018. There was no significant change in the composition of the aging list during the six-month period ended June 30, 2019. Changes in the consolidated allowance for doubtful accounts are as follows:

| | 06.30.2019 | 12.31.2018 |
|---|---|---|
| Balance at the beginning of the period | (42,216) | (41,882) |
| Additions | - | (3,502) |
| Exchange rate variation | 76 | (233) |
| Discontinued operations (*) | - | 3,401 |
| Balance at the end of the period | (42,140) | (42,216) |

(*) Portion of the provision related to trade receivables classified in 2018 as "Assets held for sale" (see note 30).

## 6. INVENTORIES

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Raw materials and supplies | 89,754 | 111,894 |
| Work in process | 124,099 | 117,699 |
| Finished products | 254,489 | 229,306 |
| Repair parts | 66,714 | 65,419 |
| | 535,056 | 524,318 |

Inventories are presented net of the provision for losses, which, based on management's assessment, is considered sufficient to cover losses related to obsolete and/or discontinued inventories.

Changes in the consolidated provision are as follows:

| | 12.31.2018 | (Additions) Disposals | Exchange rate variations | 06.30.2019 |
|---|---|---|---|---|
| Raw materials and supplies | (2,446) | (379) | 704 | (2,121) |
| Work in process | (186) | (10) | 60 | (136) |
| Finished products | (5) | (2) | 2 | (5) |
| Repair parts | (1,892) | - | - | (1,892) |
| | (4,529) | (391) | 766 | (4,154) |

| | 12.31.2017 | (Additions) Disposals | Exchange rate variations | 06.30.2018 |
|---|---|---|---|---|
| Raw materials and supplies | (544) | - | - | (544) |
| Finished products | (3,837) | 755 | (893) | (3,975) |
| Repair parts | (2,614) | - | 216 | (2,398) |
| | ---------- | ---------- | ---------- | ---------- |
| | (6,995) | 755 | (677) | (6,917) |
| | ====== | ====== | ===== | ====== |

7. RECEIVABLE – CLIENTS

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Clients in out-of-court recovery plan (a) | 13,356 | 14,611 |
| Clients in court recovery plan (b) | 2,108 | 2,103 |
| Installment plan agreed with clients (c) | 1,331 | 719 |
| Clients in court recovery plan (d) | 1,499 | 1,499 |
| Sale of real estate (e) | 12,529 | 14,057 |
| Financing on stores transfer (f) | 5,084 | 6,362 |
| Others | 367 | 449 |
| | ------------ | ------------ |
| | 36,274 | 39,800 |
| Current (*) | (11,785) | (11,017) |
| | ------------ | ------------ |
| Noncurrent | 24,489 | 28,783 |
| | ======= | ======= |

(*) Included in “Other receivables” in current assets.

(a) Payments in 55 equal monthly installments with interest equivalent to 80% of the Interbank Deposit Certificates - CDI rate.

(b) Payment in 20 semiannual installments including a grace period of 42 months before the first payment in March 2020, with interest of 0.5% per year plus Reference Rate (TR).

(c) Payment in 42 equal monthly installments.

(d) Payment in 10 increasing annual installments, with interest between 2% to 3% per year.

(e) Payments in 41 equal monthly installments with interest of 0.5% per month.

(f) Financing on store transfers to franchisees, with payment in equal monthly installments, and adjusted based on the IGP-M (general market price index).

## 8. RECEIVABLE – SALE OF INVESTMENT

In September 2018, the Company and its subsidiary Oxford Comércio e Participações S.A. sold their total capital shares of Tropical Agroparticipações S.A.

In May 2019, the Company and the buyer, by mutual agreement, decided to undo the transaction at no cost to both parties. See note 9.a.2.

The consolidated receivable balances are as follows:

| | 12.31.2018 |
|---|---|
| Nominal receivable | 194,140 |
| Present value adjustment | (31,012) |
| | ------------ |
| Total | 163,128 |
| Current | (32,907) |
| | ------------ |
| Noncurrent | 130,221 |
| | ======= |

## 9. INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES

a. Investments attributable to the owners of the Company:

| | Equity | Ownership interest - % | Net income (loss) | Total investments 06.30.2019 | Total investments 12.31.2018 | Equity in subsidiaries and affiliated companies 06.30.2019 | Equity in subsidiaries and affiliated companies 06.30.2018 |
|---|---|---|---|---|---|---|---|
| Investments in subsidiaries: | | | | | | | |
| Springs Global Participações S.A. (1) | 1,452,108 | 52.92 | (60,830) | 768,389 | 701,152 | (32,197) | (15,110) |
| Oxford Comércio e Participações S.A. | 300,661 | 63.37 | (4,697) | 190,529 | 200,331 | (2,976) | 7,451 |
| Tropical Agroparticipações S.A. (2) | 127,392 | 57.02 | (348) | 72,639 | - | (198) | 3,316 |
| Coteminas International Ltd. | 7,329 | 100.00 | (1,758) | 7,329 | 9,188 | (1,784) | 1,459 |
| Companhia Tecidos Santanense | 282,221 | 2.07 | 4,599 | 5,842 | 5,747 | 95 | 287 |
| Coteminas (Argentina branch) | (39) | 100.00 | (3) | (39) | (42) | (3) | (3) |
| | | | | ------------ | ------------ | ------------ | ------------ |
| Total subsidiaries | | | | 1,044,689 | 916,376 | (37,063) | (2,600) |
| | | | | ======= | ======= | ------------ | ------------ |
| Investments in affiliated companies (direct): | | | | | | | |
| Cantagalo General Grains S.A. | (242,439) | 27.50 | 911 | - | - | - | - |
| Companhia de Fiação e Tecidos Cedro e Cachoeira | 194,661 | 30.40 | 4,474 | 59,177 | 57,816 | 1,360 | 281 |
| | | | | ------------ | ------------ | ------------- | ------------- |
| Total affiliated companies | | | | 59,177 | 57,816 | 1,360 | 281 |
| | | | | ------------- | ------------- | ------------- | ------------- |
| Total Company | | | | | | (35,703) | (2,319) |
| | | | | | | ======= | ======= |
| Investments in affiliated companies (indirect): | | | | | | | |
| Keeco, LLC (3) | 135,526 | 17.50 | - | 137,959 | - | - | - |
| | | | | ------------ | ------------ | ------------- | ------------- |
| Total affiliated companies - Consolidated | | | | 197,136 | 57,816 | 1,360 | 281 |
| | | | | ======= | ======= | ======= | ======= |

(1) The net income for the period does not include the discontinued portion of the equity in subsidiaries of R$102,856 (R$16,170 in the first six-months of 2018). See note 30.

(2) In 2018, the Company and its subsidiary Oxford sold their total capital shares of Tropical Agroparticipações S.A., recognizing a gain in the amount of R$30,644 (Company) and R$47,001 (consolidated), recorded under Other operating income, net. In May 2019, the Company and the buyer, by mutual agreement, decided to undo the transaction at no cost to both parties. The Company reestablished its investment from the subsidiary's shareholders' equity as of May 31, 2019 in the amount of R$127,741, and recorded negative goodwill in the amount of R$18,292, net of the reversal of the previously determined gain on sale, recorded in the caption “Other, net” in the amount of R$31,416 (Company) and R$46,387 (consolidated). Additionally, the provision for deferred taxes was reversed in the amount of R$6,464 (Company) and R$14,810 (consolidated). See note 21.b.

(3) As of March 15, 2019, the indirect subsidiary SGUS now holds 17.5% of Keeco Holdings, LLC, which combines the operations of Keeco and the operations sold by SGUS, and ceases to directly market its products. Keeco Holdings, LLC, is a company with a portfolio of leading products and brands in the curtain, utility bedding, and decorative bedding markets, as well as a diversified portfolio of customers, including the leading traditional and digital retail companies in the North American market.  The amount presented as investment includes goodwill based on future profitability.

b. Non-controlling interests of the Company’s subsidiaries:

| | | | | Non-controlling interest | | | |
|---|---|---|---|---|---|---|---|
| | | | | On subsidiaries’ equity | | On subsidiaries’ net income (loss) | |
| | Equity | Ownership interest - % | Net income | 06.30.2019 | 12.31.2018 | 06.30.2019 | 06.30.2018 |
| Springs Global Participações S.A. | 1,452,108 | 47.08 | (60,830) | 683,719 | 591,801 | (28,633) | (13,444) |
| Oxford Comércio e Participações S.A. | 300,661 | 36.63 | (4,697) | 110,132 | 115,798 | (1,720) | 4,307 |
| Companhia Tecidos Santanense | 282,221 | 12.02 | 4,599 | 33,923 | 33,369 | 553 | 1,681 |
| | | | | ----------- | ----------- | ------------ | ------------ |
| | | | | 827,774 | 740,968 | (29,800) | (7,456) |
| Total from discontinued operations (*) | | | | - | 32,089 | 91,506 | 14,386 |
| | | | | ----------- | ----------- | ------------ | ------------ |
| Total non-controlling interests | | | | 827,774 | 773,057 | 61,706 | 6,930 |
| | | | | ======= | ======= | ======= | ======= |

(*) See note 30.

c. Supplemental information on investments in affiliated companies:

| | Cantagalo General Grains S.A. (1) | | Companhia de Fiação e Tecidos Cedro e Cachoeira (2) | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Current assets | 144,735 | 227,640 | 354,163 | 318,104 |
| Noncurrent assets | 635,752 | 824,209 | 426,748 | 391,413 |
| Total assets | 780,487 | 1,051,849 | 780,911 | 709,517 |
| Current liabilities | 424,170 | 698,506 | 383,290 | 306,287 |
| Noncurrent liabilities | 761,245 | 759,600 | 179,359 | 194,529 |
| Total liabilities | 1,185,415 | 1,458,106 | 562,649 | 500.816 |
| Equity – Company | (242,439) | (249,519) | 194,661 | 190,187 |
| Net revenues (6 months) | 43,557 | 62,546 | 313,968 | 307,823 |
| Income (loss) for the period – Company | 911 | (150,396) | 4,474 | 926 |

(1) Cantagalo General Grains S.A. – Cantagalo General Grains S.A. is a private company, based in Avenida Magalhães de Castro, 4800, 11th floor, Suite 2, city of São Paulo - SP, incorporated on October 25, 2010 with the objective of growing soybeans, corn, cotton and other grains; production of seeds and certified seeds, seedling and other forms of certified plant propagation; earthworking, farming and harvesting; production of fertilizers; trading of agricultural products in domestic and foreign markets (import and export), especially vegetables grains and its by-products, fertilizers, its raw materials and other by-products, and pesticides among other similar activities. It has investments in subsidiaries and jointly-owned subsidiaries, in Tropical Empreendimentos e Participações Ltda., Siqueira Empreendimentos e Participações Ltda. and CGG Trading S.A.

(2) Companhia de Fiação e Tecidos Cedro e Cachoeira – is based in Belo Horizonte, Minas Gerais, established on August 12, 1872 and is a publicly-held company, which operates in the textile and related industries; manufacturing and marketing of clothing apparel, including professional uniforms; accessories and personal protective equipment for occupational safety; the export and import of products related to its operations and in the agricultural, livestock and forestry businesses, as well as the generation, distribution and transmission of electricity for its own consumption, however, it can sell the surplus power not used.

Considering the operating profitability and cash generation of its affiliates, the Company concluded that there is no evidence of deterioration or non-recovery of its investments in affiliates.

## 10. INVESTMENT PROPERTY

The consolidated investment property balances are as follows:

| | Income properties | | | | | | Investment property | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fazenda Tropical (1) | Commercial complex SGA (2) | Residential complex SGA (3) | Land subdivision (4) | Vinhedo building (5) (c) | Montes Claros building (6) | Montes Claros land (7) (c) | Total |
| Balance as of December 31, 2017 | 175,126 | 211,176 | - | - | - | - | 79,351 | 465,653 |
| Addition (disposal) | (175,126) | 16,022 | 93 | - | 25,075 | 55,276 | - | (78,660) |
| Transfer from PP&E | - | 2,744 | - | - | - | - | - | 2,744 |
| Transfer from AHFS | - | - | - | 1,276 | - | - | - | 1,276 |
| Initial surplus/added value (a) | - | - | 44,203 | 36,260 | - | - | - | 80,463 |
| Change in fair value (b) | - | 18,309 | - | - | - | - | (2,356) | 15,953 |
| Others | - | - | - | - | 62 | - | - | 62 |
| | - | 248,251 | 44,296 | 37,536 | 25,137 | 55,276 | 76,995 | 487,491 |
| Properties for subsidiary use (d) | - | - | - | - | (25,137) | - | - | (25,137) |
| Balance as of December 31, 2018 | - | 248,251 | 44,296 | 37,536 | - | 55,276 | 76,995 | 462,354 |
| Addition (disposal) | 157,284 | 4,845 | - | - | - | - | - | 162,129 |
| Change in fair value in 2018 (b) | 17,842 | - | - | - | - | - | - | 17,842 |
| Change in fair value (b) | (386) | - | - | - | - | 7,531 | - | 7,145 |
| Balance as of June 30, 2019 | 174,740 | 253,096 | 44,296 | 37,536 | - | 62,807 | 76,995 | 649,470 |

(a) Amounts recorded in assets and liabilities valuation adjustments in shareholders' equity, net of taxes.
(b) Amounts recognized in the statement of operations in the respective period/year.
(c) Balances held by the Company R$102,132.
(d) See note 11.

<u>1) Fazenda Tropical:</u> In 2018 the Company sold its subsidiary Tropical Agroparticipações S.A., owner of Fazenda Tropical. In 2019, the Company and the buyer, by mutual agreement, decided to undo the transaction at no cost to both parties (see notes 8 and 9).

In June 2019, a new evaluation was performed by the subsidiary Tropical Agroparticipações. The fair value was based on an appraisal report issued by Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information used were the comparable prices per m² of similar properties in the region and area of the real estate. In the change in fair value, a deferred tax liability of R$5,935 was calculated.

<u>2) Commercial complex SGA:</u> In the year ended December 31, 2017, the indirect subsidiary CSA consolidated and started the phased implementation of a lease project of its facility located in São Gonçalo do Amarante - RN (SGA), which had previously ceased operations. As a way of implementing the project, throughout that year, the subsidiary CSA prepared and vacated the area designated for leasing and has already entered into lease agreements with large retailers.

The complex is 247.3 thousand m² where 61.7 thousand m² have already been leased, and additional lease negotiations are in progress. In the first six-month period of 2019, rental income and services was R$3,537 (R$860 in the first six-month period of 2018).

Fair value was based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the year 2018. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of the real estate. The tax effects in the amount of R$63,159 were classified under deferred taxes. See note 21.b.1.

3) Residential complex SGA: In 2018, the subsidiary CSA made available a new area in the municipality of São Gonçalo do Amarante - RN (SGA) containing 520 thousand m² to start a housing development.

Fair value was based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the year 2018. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of real estate. The tax effects in the amount of R$15,029 were recorded under deferred income taxes. See note 21.b.1.

4) Land for subdivision: In 2018, the indirect subsidiary Santanense Empreendimentos Imobiliários Ltda. began the preparation of a joint project with a partner company for the subdivision of the lots in the land located in the region of Itaúna and Pitangui in Minas Gerais. The indirect subsidiary will cede its land to the installation of these subdivisions, in exchange for a 36.5% interest in the total sales value of this project, net of taxes and sales commissions. With the targeting of these properties for this new project, the land values were transferred to the caption "Investment properties", measured at fair value.

Fair value was based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the year 2018. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of real estate. The tax effects in the amount of R$2,441 were recorded under deferred income taxes.

5) Vinhedo Building: On September 11, 2018, the Company purchased a property in the city of Vinhedo - SP, with 51 thousand square meters, where the distribution center and administrative office of the indirect subsidiary AMMO Varejo are located. The cost amount is equivalent to the fair value as of December 31, 2018.

6) Investment properties Montes Claros: These properties are classified as investment properties for by the indirect subsidiary CSA and are comprised as follows:

| | 12.31.2018 | Change in fair value | 06.30.2019 |
|---|---|---|---|
| Land and installations (old MECA ) (44,623 m²) | 18,386 | 11,714 | 30,100 |
| Land of the ESURB behind CODEVASF (2,770 m²) | 2,781 | - | 2,781 |
| Land of the ESURB Santa Rita II neighborhood (11,700 m²) | 4,602 | - | 4,602 |
| Two lots at Reserva Real (11,287 m²) | 3,574 | - | 3,574 |
| Land in Ibituruna (11,842 m²) | 11,842 | (4,142) | 7,700 |
| Land new municipality region (72,491 m²) | 14,091 | (41) | 14,050 |
| | ---------- | ---------- | ---------- |
| | 55,276 | 7,531 | 62,807 |
| | ====== | ====== | ====== |

These properties were evaluated by experts hired by the indirect subsidiary CSA and the municipality of Montes Claros to determine their fair value and were received in payment of overdue loans held by the municipality of Montes Claros in 2018. Therefore, its cost is equivalent to the fair value as of December 31, 2018.

In 2019, a new evaluation was performed by indirect subsidiary CSA. The fair value was based on an appraisal report issued by Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of the real estate. In the fair value evaluation, a deferred tax liability of R$2,561 was calculated. See note 21.b.1.

7) Montes Claros land: In 2016 the Company invested in land in the city of Montes Claros - MG, with 214 thousand square meters from its indirect affiliate Encorpar Empreendimentos Imobiliários. This land completes a contiguous area already owned by the Company, totaling 549 thousand square meters. With the targeting of these properties for income, the land was recorded under the caption "Investment properties" on that date, at fair value.

Fair value was based on the valuation report from Mercato Assessoria e Avaliações Ltda., Independent appraisers, in accordance with the valuation standard of assets NBR 14,653 issued by ABNT - Brazilian Association of Technical Standards for the year 2018. For the measurement of fair value, the "market approach" (classification level 2) was applied, the main information being used were the comparable prices per m² of similar properties in the region and area of real estate. The tax effects in the amount of R$6,110 were recorded under deferred income taxes.

## 11. PROPERTY, PLANT AND EQUIPMENT AND PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

### a. Property, plant and equipment

Consolidated balances of property, plant and equipment are as follows:

| | | 06.30.2019 | | | 12.31.2018 |
|---|---|---|---|---|---|
| | Rate (*) % | Cost | Accumulated depreciation | Net book value | Net book value |
| Land and improvements | 0.7 | 50,064 | (16,865) | 33,199 | 33,430 |
| Buildings | 2.4 | 434,110 | (194,377) | 239,733 | 243,938 |
| Installations | 6.4 | 272,627 | (198,693) | 73,934 | 76,162 |
| Machinery and equipment | 7.0 | 1,391,452 | (1,050,148) | 341,304 | 351,669 |
| Hydroelectric plants | 3.9 | 57,067 | (29,123) | 27,944 | 28,744 |
| Furniture, fixtures and others | 10.9 | 119,383 | (95,091) | 24,292 | 26,024 |
| Construction in progress | - | 74,233 | - | 74,233 | 30,707 |
| | | 2,398,936 | (1,584,297) | 814,639 | 790,674 |
| Properties for indirect subsidiary use (**) | | 25,137 | - | 25,137 | 25,137 |
| | | 2,424,073 | (1,584,297) | 839,776 | 815,811 |

(*) Weighted average annual depreciation rate, excluding fully depreciated items.
(**) See note 10.5.

Considering the operating profitability and cash generation, the Company and its subsidiaries concluded that there is no evidence of deterioration or failure to recover the balances held as property, plant and equipment.

The changes in consolidated property, plant and equipment are as follows:

| | Land and improvements | Buildings | Installations | Machinery and equipment | Hydroelectric plants | Furniture, fixtures and others | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | 33,430 | 243,938 | 76,162 | 351,669 | 28,744 | 26,024 | 30,707 | 790,674 |
| Additions | 624 | 10 | 264 | 5,549 | 210 | 1,282 | 54,978 | 62,917 |
| Net disposals | (234) | - | (12) | (401) | (1) | (57) | (757) | (1,462) |
| Transfers | | | | | | | | |
| - PP&E | (53) | 277 | 2,449 | 8,200 | (1) | 84 | (10,956) | - |
| Exchange rate variations | 565 | 579 | 299 | 866 | - | 66 | 261 | 2,636 |
| Depreciation in the period | (952) | (5,071) | (5,134) | (24,578) | (1,008) | (2,883) | - | (39,626) |
| Impairment adjustment | (181) | - | (94) | (1) | - | (224) | - | (500) |
| Balance as of June 30, 2019 | 33,199 | 239,733 | 73,934 | 341,304 | 27,944 | 24,292 | 74,233 | 814,639 |
| Balance as of December 31, 2017 | 28,122 | 241,605 | 76,996 | 379,603 | 30,304 | 25,251 | 32,342 | 814,223 |
| Monetary restated – Argentina (a) | 5,713 | 9,136 | 3,968 | 7,457 | - | 236 | 291 | 26,801 |
| Balance as of January 1, 2018 | 33,835 | 250,741 | 80,964 | 387,060 | 30,304 | 25,487 | 32,633 | 841,024 |
| Additions | 161 | 1,047 | 444 | 3,648 | 13 | 1,485 | 33,826 | 40,624 |
| Net disposals | (50) | - | (53) | (261) | - | (325) | (302) | (991) |
| Transfers | | | | | | | | |
| - PP&E | 38 | 312 | 2,425 | 7,740 | - | 244 | (10,759) | - |
| - Investment properties | - | - | - | - | - | - | (2,743) | (2,743) |
| Exchange rate variations | (794) | 1,013 | (611) | (593) | - | 158 | (1,159) | (1,986) |
| Depreciation in the period | (628) | (4,948) | (4,924) | (26,681) | (1,003) | (2,983) | - | (41,167) |
| Balance as of June 30, 2018 | 32,562 | 248,165 | 78,245 | 370,913 | 29,314 | 24,066 | 51,496 | 834,761 |

(a) See note 2.4.

b. Property, plant and equipment held for sale

The Company’s subsidiaries identified assets that were removed from operations and considered held for sale. These assets include machinery and equipment removed as a result of the modernization of the Brazilian subsidiary manufacturing facilities and machinery and equipment from the American subsidiary manufacturing facilities that were shut down. Additionally, the equipment available for sale from the readjustment of productive capacities was also included in this category. These assets were measured at the lower of the net book value or market value, resulting in the recognition of probable impairment losses (reduction of recoverable value).

As a result of this analysis, the recoverable value of R$36,205 (R$37,444 as of December 31, 2018) was presented in noncurrent assets under “Property, plant and equipment held for sale”, and, consequently, its book value is eliminated from the table above.

Changes in property, plant and equipment held for sale are as follows:

| | 12.31.2018 | Additions | Disposals | Exchange rate variations | 06.30.2019 |
|---|---|---|---|---|---|
| Cost | 435,217 | - | (686) | (4,696) | 429,835 |
| Depreciation | (367,074) | (838) | 684 | 3,987 | (363,241) |
| Provision for losses | (30,699) | - | - | 310 | (30,389) |
| | ---------- | ---------- | ---------- | ---------- | ---------- |
| | 37,444 | (838) | (2) | (399) | 36,205 |
| | ====== | ====== | ====== | ====== | ====== |

| | 12.31.2017 | Additions | Disposals | Exchange rate variations | 06.30.2018 |
|---|---|---|---|---|---|
| Cost | 385,546 | - | (1,749) | 60,611 | 444,408 |
| Depreciation | (324,971) | (597) | 1,684 | (51,392) | (375,276) |
| Provision for losses | (26,844) | 614 | - | (3,989) | (30,219) |
| | ---------- | ---------- | ---------- | ---------- | ---------- |
| | 33,731 | 17 | (65) | 5,230 | 38,913 |
| | ====== | ====== | ====== | ====== | ====== |

## 12. RIGHT-OF-USE ASSETS AND LEASES RECEIVABLE

The composition of assets contracted as leases are as follows:

| | | Consolidated | | |
|---|---|---|---|---|
| | | 06.30.2019 | | |
| | Rate (2) % a.a. | Cost | Accumulated amortization | Net book value |
| Properties | 52.1 | 2,231 | (447) | 1,784 |
| Properties – SGUS (1) | 9.1 | 34,018 | (1,417) | 32,601 |
| Properties – stores | 33.1 | 54,881 | (8,470) | 46,411 |
| Vehicles | 24.7 | 1,158 | (579) | 579 |
| Investment properties (1) | | 67,449 | (2,851) | 64,598 |
| | | ------------ | ------------ | ------------ |
| Total right-of-use assets | | 159,737 | (13,764) | 145,973 |
| Leases receivable (1) | | 101,455 | (5,002) | 96,453 |
| | | ------------ | ------------ | ------------ |
| | | 261,192 | (18,766) | 242,426 |
| | | ======= | ======= | ======= |

(1) Properties leased and partially subleased by subsidiary SGUS.

(2) The average amortization rate corresponds to the average useful life of the leases of the respective right-of-use assets.

Changes in the right-of-use assets of the leases are as follows:

| | Properties | Properties – SGUS | Properties – stores | Vehicles | Investment properties | Leases receivables | Total |
|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | - | - | - | - | - | - | - |
| Initial adoption of IFRS16/CPC06 (R2) | 2,231 | 34,591 | 44,230 | 1,158 | 68,584 | 103,163 | 253,957 |
| Additions (*) | - | - | 10,651 | - | - | - | 10,651 |
| Amortization in the period | (447) | (1,443) | (8,470) | (579) | (2,902) | (5,093) | (18,934) |
| Exchange rate variations | - | (547) | - | - | (1,084) | (1,617) | (3,248) |
| | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance as of June 30, 2019 | 1,784 | 32,601 | 46,411 | 579 | 64,598 | 96,453 | 242,426 |
| | ====== | ====== | ======= | ====== | ======= | ======= | ======= |

(*) Includes new lease agreements, renewal of existing agreements and update of lease amounts.

The amounts receivable arising from the subleasing of the properties at their contracted amounts are as follows:

| Year | Lease receivable |
|---|---|
| 2019 | 7,802 |
| 2020 | 15,788 |
| 2021 | 16,040 |
| 2022 | 16,304 |
| 2023 | 14,948 |
| 2024 then after | 94,487 |
| | -------------- |
| | 165,369 |
| Present value adjustment | (68,916) |
| | -------------- |
| | 96,453 |
| Current | (5,911) |
| | -------------- |
| Noncurrent | 90,542 |
| | ======= |

## 13. INTANGIBLE ASSETS

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Goodwill on the acquisition of AMMO (parent company) (1) | 27,303 | 27,303 |
| Trademarks – owned (2) | 16,348 | 16,348 |
| Trademarks – use license (3) | 9,325 | 9,043 |
| Intellectual property (4) | 6,578 | 7,378 |
| Store locations (real estate intangible) (5) | 21,565 | 21,801 |
| Others | 15 | 16 |
| Total | 81,134 | 81,889 |

(1) Goodwill on the acquisition of AMMO: Goodwill originated from investment in AMMO Varejo.

The Company evaluates the recoverability of this goodwill annually, using accepted market practices, such as discounted cash flow for business units that have goodwill. Recoverability of goodwill is evaluated based on analysis and identification of facts and circumstances that could require the tests to be performed at an earlier date. If a fact or circumstance indicates that the recoverability of goodwill is affected, then the test is anticipated.

The projection period for the December 2018 cash flows was five years. The assumptions used to determine the fair value through the discounted cash flow method include: cash flow projections based on management estimates for future cash flows, discount rates and growth rates for determining the perpetuity. Additionally, the perpetuity has been calculated considering the stabilization of operating margins, working capital and investments levels.

The annual discount rate used was 13.3% per year and the perpetuity growth rate considered was 3% per year. The discount rates used were determined taking into consideration market information available on the test date.

(2) Trademarks – owned: Trademarks owned are recorded at the acquisition cost, have indefinite useful lives, and therefore are not amortized.

(3) Trademarks – use license: Represents the license to use the trademark "Santista" in Argentina and it is amortized over the term of the contract in 15 years.

(4) Intellectual Property: Refers to software developed to integrate retail sales channels (physical stores and E-commerce), and it is amortized over 5 years.

(5) Store locations (real estate intangible): The amounts related to the store locations (real estate intangible) are recorded at the acquisition cost of the respective store, net of impairment of R$11,786 (R$11,786 as of December 31, 2018), based on its market value determined by an independent broker with valuation expertise.

Items (2) to (5) above are tested annually for recoverability. The Company did not identify signs of deterioration or non-recovery of the balances held in these intangibles.

Changes in consolidated intangible assets for the period were as follows:

| | 12.31.2018 | Additions (disposals) | Amortiza-tion | Exchange rate variations | 06.30.2019 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Goodwill on the acquisition of AMMO | 27,303 | - | - | - | 27,303 |
| Trademarks – owned | 16,348 | - | - | - | 16,348 |
| Trademarks – use license | 9,043 | - | (365) | 647 | 9,325 |
| Intellectual property | 7,378 | - | (800) | - | 6,578 |
| Store locations (real estate intangible) | 21,801 | (236) | - | - | 21,565 |
| Others | 16 | (1) | - | - | 15 |
| Total | 81,889 | (237) | (1,165) | 647 | 81,134 |

| | 12.31.2017 | Additions (disposals) | Amortiza-tion | Exchange rate variations | Hyper-inflationary adjustment – Argentina (a) | 06.30.2018 |
|---|---|---|---|---|---|---|
| Goodwill on the acquisition of North American companies | 37,748 | - | - | 5,937 | - | 43,685 |
| Goodwill on the acquisition of AMMO | 27,303 | - | - | - | - | 27,303 |
| Trademarks – owned | 16,339 | 7 | - | - | - | 16,346 |
| Trademarks – use license | 9,157 | - | (300) | (2,213) | 2,271 | 8,915 |
| Intellectual property | 3,139 | - | (314) | - | - | 2,825 |
| Store locations (real estate intangible) | 21,102 | 978 | - | - | - | 22,080 |
| Others | 18 | (2) | - | - | - | 16 |
| Total | 114,806 | 983 | (614) | 3,724 | 2,271 | 121,170 |

(a) Includes hyperinflationary adjustment of subsidiary in Argentina. See note 2.4.

## 14. LOANS AND FINANCING

| | Currency | Annual interest rate - % | Maturity | Consolidated 06.30.2019 | Consolidated 12.31.2018 |
|---|---|---|---|---|---|
| Local currency: | | | | | |
| Banco do Brasil S.A. (NCI/NCE) (a) | R$ | 127.5 to 130.0 of CDI | 2023 | 471,209 | 515,382 |
| Bradesco S.A. | R$ | 4.4 + CDI | 2019 | 19,820 | 19,577 |
| Banco Votorantim S.A. (b) | R$ | 120.0 of CDI | 2019 | 81,727 | 81,689 |
| Banco BBM S.A. | R$ | 149.0 and 150.5 of CDI and 4.0 + CDI | 2021 | 57,583 | 70,344 |
| BDMG S.A. | R$ | 7.3 + CDI | 2019 | 4,905 | 9,032 |
| Banco ABC do Brasil S.A. | R$ | 4.2 + CDI | 2022 | 132,570 | 132,757 |
| Banco Fibra S.A. – CCE | R$ | 6.3 to 6.5 + CDI | 2020 | 20,475 | 35,197 |
| Banco Fibra S.A. – CCE | R$ | 15.8 | 2022 | 818 | 4,065 |
| Banco do Brasil S.A. – CDC | R$ | 9.3 | 2019 | 51,714 | 50,931 |
| BNDES (Finame) | R$ | 3.0 to 9.5 | 2023 | 2,636 | 3,717 |
| Banco Safra S.A. (b) | R$ | 4.4 to 5.3 + CDI | 2020 | 63,991 | 68,487 |
| Banco Itaú Unibanco S.A. (b) | R$ | 2.8 and 3.0 + CDI | 2019 | - | 46,070 |
| Caixa Econômica Federal (b) | R$ | 149.6 of CDI and 4.0 + CDI | 2022 | 39,501 | 22,567 |
| Banco Daycoval S.A. | R$ | 4.5 + CDI | 2020 | 25,878 | 30,375 |
| Banco Pine S.A. | R$ | 6.3 and 7.0 + CDI | 2020 | 23,285 | 15,063 |
| Banco Santander S.A. | R$ | 16.1 | 2019 | 34,803 | - |
| Banco Sofisa S.A. | R$ | 6.8 + CDI | 2019 | 10,011 | - |
| Others | R$ | - | 2019 | 54,846 | 12,765 |
| | | | | ------------ | ------------ |
| | | | | 1,095,772 | 1,118,018 |
| Foreign currency: | | | | | |
| Banco Patagonia | $ARG | 24.3 to 68.0 | 2019 | 8,271 | 11,740 |
| Banco Luso Brasileiro S.A. | US$ | 8.5 | 2019 | 9,609 | 9,712 |
| Banco do Brasil S.A. | US$ | 5.6 to 6.0 | 2019 | 40,492 | 43,672 |
| Banco Santander S.A. PPE (c) | US$ | 8.1 | 2021 | 117,690 | 125,004 |
| JP Morgan | US$ | Libor + 0.9 | 2019 | 31,054 | 31,393 |
| Banco Industrial do Brasil S.A. PPE/ACE (b) | US$ | 7.7 | 2021 | 27,617 | 27,827 |
| Banco Pine S.A. | US$ | 8.5 | 2020 | 7,495 | - |
| Banco Safra S.A. | US$ | 6.0 | 2019 | 20,218 | 19,858 |
| Banco Itaú Unibanco S.A. | US$ | 6.8 to 7.6 | 2019 | 32,795 | 12,821 |
| Banco Fibra S.A. | US$ | 5.4 | 2019 | 19,258 | - |
| | | | | ------------ | ------------ |
| | | | | 314,499 | 282,027 |
| | | | | ------------ | ------------ |
| Total | | | | 1,410,271 | 1,400,045 |
| Current | | | | (781,181) | (837,423) |
| | | | | ------------ | ------------ |
| Noncurrent | | | | 629,090 | 562,622 |
| | | | | ======= | ======= |

(a) Loan of indirect subsidiary CSA, with early maturity covenants, in which the Company, SGPSA, as guarantor, agreed to comply with the following financial ratios: Net Debt to EBITDA ratio, no greater than 4.0 during the year 2017; 3.5 during the year 2018; 3.0 as of the year 2019, in its annual consolidated financial statements.

(b) Loans held by the Company.

(c) Loan of indirect subsidiary CSA, guaranteed by linked marketable securities in the amount of US$18,900 thousand (see note 4). The loan contains covenants where the subsidiary SGPSA, as guarantor, agreed to comply with the following financial ratios in its annual consolidated financial statements: (i) Net Debt to EBITDA ratio, no greater than 3.5 during the year 2017; 3.25 during the year 2018; 3.0 during the year 2019; (ii) Net Debt to Shareholders' Equity ratio, no greater than 0.7; and (iii) EBITDA to net financial expenses ratio, no less than 2.0.

Loans are collateralized by: (i) registered security interest in real estate, machinery and equipment located in the city of Montes Claros, as well as a guarantee from the Company and its controlling shareholders; and (ii) by sureties and bank guarantees for the remaining financing.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Maturities are as follows:

| | 2019 | 2020 Current | 2020 Noncurrent | 2021 | 2022 and 2023 | Total |
|---|---|---|---|---|---|---|
| Local currency: | | | | | | |
| Banco do Brasil S.A. (NCI/NCE) | 37,931 | 35,488 | 35,580 | 144,747 | 217,463 | 471,209 |
| Bradesco S.A. | 19,820 | - | - | - | - | 19,820 |
| Banco Votorantim S.A. | 81,727 | - | - | - | - | 81,727 |
| Banco BBM S.A. | 12,786 | 12,744 | 12,745 | 19,308 | - | 57,583 |
| BDMG S.A. | 4,905 | - | - | - | - | 4,905 |
| Banco ABC do Brasil S.A. | 12,902 | 25,563 | 25,561 | 51,390 | 17,154 | 132,570 |
| Banco Fibra S.A. – CCE | 12,809 | 7,190 | 476 | - | - | 20,475 |
| Banco Fibra S.A. – CCE | 8 | - | - | - | 810 | 818 |
| Banco do Brasil S.A. – CDC | 51,714 | - | - | - | - | 51,714 |
| BNDES (Finame) | 950 | 503 | 294 | 425 | 464 | 2,636 |
| Banco Safra S.A. | 61,043 | 2,948 | - | - | - | 63,991 |
| Caixa Econômica Federal | 7,090 | 6,972 | 6,480 | 14,459 | 4,500 | 39,501 |
| Banco Daycoval S.A. | 10,217 | 10,063 | 5,598 | - | - | 25,878 |
| Banco Pine S.A. | 18,118 | 5,167 | - | - | - | 23,285 |
| Banco Santander S.A. | 34,803 | - | | - | - | 34,803 |
| Banco Sofisa S.A. | 10,011 | - | - | - | - | 10,011 |
| Others | 54,846 | - | - | - | - | 54,846 |
| | ------------ | ----------- | ----------- | ----------- | ----------- | ------------ |
| | 431,680 | 106,638 | 86,734 | 230,329 | 240,391 | 1,095,772 |
| Foreign currency: | | | | | | |
| Banco Patagônia | 8,271 | - | - | - | - | 8,271 |
| Banco Luso Brasileiro S.A. | 9,609 | - | - | - | - | 9,609 |
| Banco do Brasil S.A. | 40,492 | - | - | - | - | 40,492 |
| Banco Santander S.A. – PPE | 23,354 | 38,028 | 41,035 | 15,273 | - | 117,690 |
| JP Morgan | 31,054 | - | - | - | - | 31,054 |
| Banco Industrial do Brasil S.A. – PPE/ACE | 12,289 | - | 7,664 | 7,664 | - | 27,617 |
| Banco Pine S.A. | - | 7,495 | - | - | - | 7,495 |
| Banco Safra S.A. | 20,218 | - | - | - | - | 20,218 |
| Banco Itaú Unibanco S.A. | 32,795 | - | - | - | - | 32,795 |
| Banco Fibra S.A. | 19,258 | - | - | - | - | 19,258 |
| | ----------- | ----------- | ----------- | ----------- | ----------- | ------------ |
| | 197,340 | 45,523 | 48,699 | 22,937 | - | 314,499 |
| | ----------- | ----------- | ----------- | ----------- | ----------- | ------------ |
| Total | 629,020 | 152,161 | 135,433 | 253,266 | 240,391 | 1,410,271 |
| | ======= | ======= | ======= | ======= | ======= | ======= |

Changes in consolidated loans and debentures were as follows:

| | 06.30.2019 | | | 06.30.2018 |
|---|---|---|---|---|
| | Loans | Debentures | Total | Total |
| Begining balance | 1,400,045 | 148,322 | 1,548,367 | 1,413,897 |
| Debt proceeds or renewal | 305,749 | - | 305,749 | 546,513 |
| Accrued interest | 64,323 | 5,673 | 69,996 | 67,839 |
| Paid principal | (284,172) | (37,500) | (321,672) | (498,071) |
| Paid interest | (65,446) | (6,006) | (71,452) | (65,243) |
| Exchange rate variations | (4,863) | - | (4,863) | 53,454 |
| Prepaid charges, net | (5,365) | 780 | (4,585) | (1,488) |
| Ending balance | 1,410,271 | 111,269 | 1,521,540 | 1,516,901 |

15. DEBENTURES

a) On June 12, 2017, indirect subsidiary CSA issued the 3rd series of non-convertible debentures with the following terms, which, on the same date, were fully subscribed by Gaia Agro Assessoria Financeira Ltda. (“Subscriber”). Subsequently, the Subscriber sold the debentures to Gaia Securitizadora Agro S.A. ("Securitization"), with the objective of relating the resources of the debentures to the issuance of Agribusiness Receivables Certificates ("CRA").

| Debentures’ Terms | |
|---|---|
| Quantity of issued Debentures | 50,000 |
| Debentures unit price (amount in Brazilian Reais) | R$1,000 |
| Amortization: | |
| Maturity of 1st installment – 25.00% | 12/18/2018 |
| Maturity of 2nd installment – 25.00% | 06/18/2019 |
| Maturity of 3rd installment – 25.00% | 12/18/2019 |
| Maturity of 4th installment – 25.00% | 06/18/2020 |
| Return | 110% of CDI |
| Interest amortization | Semiannual |
| Guarantees | (1) |
| Covenants | (2) |

The funds were available to the subsidiary on the subscription date of the debentures. The issuance costs of the debentures and the subsequent issuance costs of the CRA, in the amount of approximately R$1,977, equivalent to 3.95% of the total issuance amount, will be amortized as transaction cost, along with the debentures charges, prorated to the outstanding debt balance.

(1) Guarantees:

Secured guarantee: Real estate of indirect subsidiary CSA which market valuation is greater than 200% of the CRA issuance value. At any time, one or more real estate may be disposed at the discretion of indirect subsidiary CSA and without consent of the CRA holders, provided that: (i) such sale shall not decrease the rate of 200% guarantee of the secured obligations to the CRA holders; and (ii) indirect subsidiary CSA uses the net proceeds of the disposed assets for repayment of bank loans.

Fidejussory guarantee: Surety given by SGPSA.

(2) Covenants:

In addition to the usual covenants, the SGPSA has agreed to comply with the following financial ratios: (i) Net Debt to Adjusted EBITDA ratio, equal to or less than 4.0 (four); (ii) Net Debt to Shareholders' Equity ratio, equal to or less than 0.7 (seven tenths), except for June 2018, equal to or less than 0.8 (eight tenths); and (iii) EBITDA to Interest ratio, equal to or greater than 2.0 (two). The above ratios are required for the entire contract period and are measured semiannually starting in December 2017. The terms used to describe the ratios have their particular definition set forth in the contract and may differ from the financial statement lines. On June 30, 2019, the ratios were met.

b) On February 19, 2018, indirect subsidiary CSA issued the 4th series of non-convertible debentures with the following terms, which, on February 19, 2018, was fully subscribed.

| 4th Series Debentures Terms | |
|---|---|
| Quantity of issued Debentures | 150,000 |
| Debentures unit price (amount in Brazilian Reais) | R$1,000 |
| Amortization | 12 equal quarterly installments |
| Maturity of 1st installment | 05/19/2018 |
| Maturity of 12th installment | 02/19/2021 |
| Return | 100% of CDI + 2.75% per annum |
| Interest amortization | 12 equal quarterly installments |
| Guarantees | (1) |
| Covenants | (2) |

(1) Guarantees:

Secured Guarantee: Property of that indirect subsidiary, see note 10.2, whose fair value must remain higher than 1.43 times the issue value of the debentures in the first year and in the following years 1.67 times. In addition, the lease contracts of the property are part of the guarantee, and the fiduciary agent may, in case of default, retain the rent receivables until the default is resolved.

Fidejussory guarantee: Surety given by SGPSA and by Josué Christiano Gomes da Silva.

(2) Covenants:

SGPSA has no commitment to maintain financial ratios.

Balances of the debentures on June 30, 2019 and December 31, 2018 were as follows:

| | Debentures from | | | |
|---|---|---|---|---|
| | 3rd series | 4th series | 06.30.2019 | 12.31.2018 |
| Original amount | 25,000 | 87,500 | 112,500 | 150,000 |
| Prepaid interest | (587) | (1,591) | (2,178) | (2,958) |
| Accrued interest | 54 | 893 | 947 | 1,280 |
| Debentures total | 24,467 | 86,802 | 111,269 | 148,322 |
| Current | (24,467) | (49,901) | (74,368) | (74,653) |
| Noncurrent | - | 36,901 | 36,901 | 73,669 |

16. SUPPLIERS

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Domestic market | 151,195 | 113,374 |
| Foreign market | 19,649 | 16,870 |
| | 170,844 | 130,244 |

Accounts payable to suppliers consist of amounts with an average maturity term of approximately 48 days (38 as of December 31, 2018).

17. GOVERNMENT CONCESSIONS

The indirect subsidiary CSA has equity interest in a consortium for an electric power generation concession with the companies CEMIG Geração e Transmissão S.A. and Vale (formerly known as Companhia Vale do Rio Doce), in equal percentages of 33.33%. No legally independent entity was established for the management of this consortium. Accounting records, equivalent to its interest, are maintained under Company's control.

As consideration for the concession granted, indirect subsidiary CSA, together with the other consortium members, will pay installments over the concession period to the Federal Government, as presented below:

| | |
|---|---|
| Beginning of concession period: | July 10, 1997 |
| Concession period: | 35 years |
| Total concession amount: | R$333,310 |
| Monetary adjustment: | IGP-M (general market price index) |

Total annual installments of the concession:

| | Years 5 to 15<br>2002 to 2012 | Years 16 to 25<br>2013 to 2022 | Years 26 to 35<br>2023 to 2032 |
|---|---|---|---|
| Historical amounts: | | | |
| Minimum installment | 120 | 120 | 120 |
| Additional installment | - | 12,510 | 20,449 |
| Annual installment | 120 | 12,630 | 20,569 |
| Total installments | 1,320 | 126,300 | 205,690 |
| Monetarily adjusted installments | 6,684 | 639,537 | 1,041,526 |

For accounting purposes, indirect subsidiary CSA recognizes expenses incurred on an accrual basis, as a contra entry to noncurrent liabilities, on a straight-line basis, based on its share in the total concession amount, 33.33%, at present value, considering a basic interest rate, monetarily adjusted based on the IGP-M. As of June 30, 2019, this amount represents R$64,964, of which, R$20,937 is classified in current liabilities and R$44,027 is classified as noncurrent liabilities (R$65,448 as of December 31, 2018, of which, R$21,361 is classified in current liabilities and R$44,087 is classified as noncurrent liabilities).

As of June 30, 2019, the net book value of the property, plant and equipment related to the current concession is R$18,925 (R$19,610 as of December 31, 2018) (see note 11), considering CSA's equity interest in the investments for the construction of the Porto Estrela Hydroelectric Plant, located on the Santo Antônio River, 270 km from Belo Horizonte, with installed capacity of 112 MW. The plant began generation activities at the end of 2001.

## 18. LEASES PAYABLE

The breakdown of leases payable is as follows:

| | Maturity | Consolidated<br>06.30.2019 |
|---|---|---|
| Properties | 2023 | 580 |
| Properties – SGUS (sublease) | 2030 | 220,969 |
| Properties – stores | 2024 | 48,268 |
| Vehicles | 2020 | 1,841 |
| | | 271,658 |
| Current | | (31,809) |
| Noncurrent | | 239,849 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Changes in the leases payable were as follows:

| | Consolidated |
|---|---|
| Balances on December 31, 2018 (1) | 23,221 |
| Exchange variation | 131 |
| Initial adoption IFRS 16/CPC 06 (2) | 253,957 |
| | ------------- |
| Balance on January 1, 2019 | 277,309 |
| Additions (3) | 10,651 |
| Charges | 14,141 |
| Payments | (26,824) |
| Exchange variation | (3,713) |
| Others | 94 |
| | ------------- |
| Balances on June 30, 2019 | 271,658 |
| | ======== |

(1) Balances held as nonrecoverable leases, net of subleases, prior to application of IFRS 16.

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

(3) Includes new lease agreements, renewal of existing agreements and update of lease amounts.

The Company's management considered as leasing component for stores only the fixed minimum rent value for purposes of assessing the liabilities. The measurement of the lease liability corresponds to the total of future payments of fixed rents, considering the terms of the contracts. These payment flows are adjusted to present value, considering the actual discount rate. Financial charges are recognized as financial expenses. The actual discount rate corresponds to market quotes (the Company's weighted average cost of capital that varies between 9% and 10% per year).

The effects on results as of June 30, 2019 are as follows:

| Continuing operations | Consolidated |
|---|---|
| Lease payments in the period | 24,997 |
| Amortization of right-of-use assets | (17,688) |
| Interest on leases in the period | (13,046) |
| Exchange variation | 334 |
| | ------------ |
| Total effects with the application of IFRS 16 | (5,403) |
| | ======= |

| Discontinued operations | Consolidated |
|---|---|
| Lease payments in the period | 1,827 |
| Amortization of right-of-use assets | (1,246) |
| Interest on leases in the period | (1,095) |
| | ------------ |
| Total effects with the application of IFRS 16 | (514) |
| | ======= |

## 19. EQUITY

### a. Capital

Capital, as of June 30, 2019 and December 31, 2018, is represented as follows:

| | Number of shares | |
|---|---|---|
| | 06.30.2019 | 12.31.2018 |
| Common | 13,912,800 | 13,912,800 |
| Preferred | 16,723,657 | 16,723,657 |
| | 30,636,457 | 30,636,457 |

There was no change in the number of shares subscribed and paid for the period between January 1, 2018 and June 30, 2019.

All shares are registered and without par value. Preferred shareholders do not have voting rights, but have the following advantages: (a) priority to capital redemption in the event of liquidation; and (b) right to be included in any public offering for the sale of the controlling interest, as legally determined, and to receive dividends at least equivalent to those paid to common shares.

### b. Dividends

Shareholders are entitled to dividends equivalent to 1/3 of annual net income, adjusted as per Company's bylaws and the Brazilian Corporate Law.

### c. Retained earnings reserve

The retained earnings reserve was determined in compliance with article 196 of Law 6,404/76 and it is intended to be used on future investments.

## 20. RELATED PARTY BALANCES AND TRANSACTIONS

| | Receivable | | Payable | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Consolidated: | | | | |
| Innotex International Ltd. | 10,819 | 10,744 | - | - |
| Holtex Inc. | 8,977 | 6,812 | - | - |
| Empr. Nac. Com. Rédito e Particip. S.A. – ENCORPAR | 48,072 | 30,813 | - | - |
| Seda, Inc. | 124 | 106 | - | 58 |
| Wembley S.A. | - | - | 2 | - |
| Encorpar Empr. Imob. Ltda. | - | - | 328 | - |
| Companhia Tropical de Alimentos e Participações | 2,039 | 736 | - | - |
| | ---------- | ---------- | ---------- | ---------- |
| | 70,031 | 49,211 | 330 | 58 |
| | ====== | ====== | ====== | ====== |

| | Finance charges (consolidated) | |
|---|---|---|
| | 06.30.2019 | 06.30.2018 |
| Wembley S.A. | 94 | 2,901 |
| Empr. Nac. Com. Rédito e Particip. S.A. – ENCORPAR | 1,822 | 3,359 |
| JAGS – José Alencar Gomes da Silva | 153 | 181 |
| Innotex International Ltd. | 194 | 197 |
| Seda S.A. | 58 | 34 |
| Encorpar Empr. Imob. Ltda. | (9) | (20) |
| | ---------- | ---------- |
| | 2,312 | 6,652 |
| | ====== | ====== |

The balances refer to loans contracted with the Company under fair conditions in accordance with market practices. The charges are calculated according to the average cost of the lending company's loans.

The Board of Directors meeting of subsidiary SGPSA, held on December 29, 2015, approved payment of 2% commission (two percent annually), limited to the cumulative amount of R$47,750, on sureties/guarantees provided by the Company on loans and financing contracted by SGPSA and its subsidiaries. As of June 30, 2019, the amount of R$16,174 was recorded with R$4,922 in the caption “Other accounts payable” in current liabilities (R$5,288 as of December 31, 2018) and R$11,252 in the caption “Other obligations” in noncurrent liabilities (R$13,669 as of December 31, 2018), related to guarantees on existing contracts and credit facilities. In the first six-months of 2019, the amount of R$2,784 was recorded as interest income (R$3,895 in the first six-months of 2018). These amounts are eliminated in the consolidated financial statements.

Encorpar Empreendimentos Imobiliários Ltda., affiliated company, and the subsidiary Santanense, entered into a lease agreement related to the building where the subsidiary’s office is located. In the first six-months of 2019, R$237 was accrued (R$228 in the first six-months of 2018). See notes 12 and 18.

The amounts paid to key management personnel are disclosed in the statements of operations, under caption “Management fees” and include existing long-term and post-employment benefits.

## 21. INCOME AND SOCIAL CONTRIBUTION TAXES AND OTHER TAXES

a. Income tax reconciliation (income and social contribution taxes)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 06.30.2018 | 06.30.2019 | 06.30.2018 |
| Income (loss) from operations before taxes | 19,632 | (5,133) | 161,020 | (39,680) |
| Permanent differences: | | | | |
| Equity in subsidiaries and affiliated companies (*) | (67,153) | (13,851) | (1,360) | (281) |
| Investment support | - | - | (26,328) | (28,203) |
| Permanent differences from foreign subsidiaries | - | - | (1,084) | (1,200) |
| Others, net | 328 | 27 | 963 | (193) |
| Income tax basis | (47,193) | (18,957) | 133,211 | (69,557) |
| 34% income tax and social contribution rate | 16,046 | 6,445 | (45,292) | 23,649 |
| Unrecognized tax credits | (13,815) | (6,448) | (29,137) | (29,615) |
| Tax credits of foreign subsidiaries | - | - | (2,852) | 47,051 |
| Other | 5 | 3 | (165) | 392 |
| Total income taxes | 2,236 | - | (77,446) | 41,477 |
| Continuing operations | | | | |
| Income taxes – current | - | - | 1,765 | (3,042) |
| Income taxes – deferred | 2,236 | - | 3,510 | 46,026 |
| | 2,236 | - | 5,275 | 42,984 |
| Discontinued operations | | | | |
| Income taxes – current | - | - | (2,535) | (1,507) |
| Income taxes – deferred | - | - | (80,186) | - |
| | - | - | (82,721) | (1,507) |

(*) Includes income from discontinued operations before taxes. See notes 30 and 31.

b. Deferred income and social contribution taxes

As a holding Company, the Company's operations consist of equity in subsidiaries and income from investment activities. Foreign subsidiaries' income is taxed as an addition to the taxable income and they receive tax credits for taxes paid in their respective countries, which is up to 25% of its income tax base. If there are tax losses, tax credits are not considered in Brazil, but they are offset with future income generated by the foreign subsidiary. Therefore, as a holding Company, tax credit recognition is allowed in specific situations.

Deferred income and social contribution taxes recorded in the consolidated interim financial statements arise from subsidiaries' temporarily nondeductible provisions, transferred tax credit, and subsidiaries' net operating losses.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Deferred income and social contribution taxes are composed as follows:

| | 12.31.2018 | Recognized in: Statement of operations | Recognized in: Equity | Exchange rate variations | Other | 06.30.2019 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Net operating losses (Company) (p) | 3,454 | - | - | - | - | 3,454 |
| Temporary differences (Company) (p) | 4,299 | (3,401) | - | - | - | 898 |
| Temporary differences (Company Argentina) (a) | 10 | - | - | - | (1) | 9 |
| Temporary differences (CSA – Argentina) (1) (a) | 646 | - | - | - | 230 | 876 |
| Temporary differences (CSA – Brasil) (1) (p) | 13,734 | 2,209 | - | - | - | 15,943 |
| Net operating losses (CSA – Brasil) (1) (p) | 3,049 | (2,209) | - | - | - | 840 |
| Tax credits from foreign subsidiary (CSA) (1) (p) | 7,167 | - | - | - | - | 7,167 |
| Net operating losses (SGUS – EUA) (2) (a) | 145,182 | (80,477) | - | (244) | (1,235) | 63,226 |
| Temporary differences (AMMO – Brasil) (1) (a) | 257 | - | - | - | (55) | 202 |
| Net operating losses (AMMO – Brasil) (1) (a) | 2,042 | - | - | - | - | 2,042 |
| Net operating losses (SGPSA – Brasil) (a) | 1,906 | - | - | - | - | 1,906 |
| Net operating losses (Santanense) (3) (a) (*) | 4,507 | (1,496) | - | - | - | 3,011 |
| Temporary differences (Santanense) (3) (a) (*) | 17,768 | 3,092 | - | - | - | 20,860 |
| Temporary differences (Oxford) (a) (*) | 5,686 | (5,686) | - | - | - | - |
| Reclassifications for balance sheet presentation (a) (*) | (27,961) | - | - | - | 4,090 | (23,871) |
| | ----------- | ---------- | ---------- | ---------- | ---------- | ----------- |
| | 181,746 | (87,968) | - | (244) | 3,029 | 96,563 |
| Liabilities: | | | | | | |
| Temporary differences (Company) (p) | (3,796) | (826) | - | - | - | (4,622) |
| Negative goodwill in subsidiary (Company) (p) | (426) | - | - | - | - | (426) |
| Investment properties (Company) (p) | (6,110) | - | - | - | - | (6,110) |
| Temporary differences (Company) (p) | (14,017) | - | - | - | - | (14,017) |
| Temporary differences (Company – Argentina) (p) | - | - | - | - | (13) | (13) |
| Investment sale with payment in installment (Company) (p) | (6,464) | 6,464 | - | - | - | - |
| Investment properties (CSA – Brazil) (p) | (78,188) | (2,561) | - | - | - | (80,749) |
| Hyperinflationary adjustment (CSA – Argentina) (1) (p) | (10,156) | - | - | - | 1,238 | (8,918) |
| Investment properties (Santanense) (3) (p) | (2,441) | - | - | - | - | (2,441) |
| Temporary differences (CSA – Brasil) (1) (p) (**) | - | - | - | - | (17,538) | (17,538) |
| Temporary differences (Santanense) (3) (p) | (27,960) | - | - | - | - | (27,960) |
| Term sale of investments (Oxford) (p) | (8,346) | 8,346 | - | - | - | - |
| Temporary differences (Oxford) (p) | (89) | - | - | - | 11 | (78) |
| Negative goodwill in subsidiary (Oxford) (p) | (4,623) | - | - | - | - | (4,623) |
| Investment Property (Tropical) (1) (p) | - | (131) | (5,804) | - | - | (5,935) |
| Reclassifications for balance sheet presentation (a) (*) | 27,961 | - | - | - | (4,090) | 23,871 |
| | ----------- | ---------- | ---------- | ---------- | ---------- | ----------- |
| | (134,655) | 11,292 | (5,804) | - | (20,392) | (149,559) |
| Total deferred taxes, net | 47,091 | (76,676) | (5,804) | (244) | (17,363) | (52,996) |
| | ====== | ====== | ===== | ===== | ===== | ====== |
| Noncurrent assets – deferred taxes (total of a) | 150,043 | (84,567) | - | (244) | 3,029 | 68,261 |
| Noncurrent liabilities – deferred taxes (total of p) | (102,952) | 7,891 | (5,804) | - | (20,392) | (121,257) |
| | ====== | ====== | ===== | ===== | ===== | ====== |

(*) Reclassifications performed for balance sheet presentation.
(**) Deferred income taxes on PIS and COFINS tax credits transferred from current liabilities. See note 24.

As of June 30, 2019, the Company had net operating losses of R$198,324 (R$187,566 as of December 31, 2018) and social contribution tax losses of R$212,403 (R$201,906 as of December 31, 2018), whose tax assets were not recognized in the interim financial statements.

(1) Deferred taxes of indirect subsidiary CSA:

Deferred tax assets:

The indirect subsidiary CSA, based on its business plan and future projections, maintained deferred tax assets derived, from accumulated tax losses. Future projections consider the Company's operating results for the next 10 years adjusted to present value and a reduction of interest rates during that period and the resulting cost of debt, among other actions. Based on these actions and the assumptions used in the preparation of the business plan, the management of that subsidiary has expectations to generate future taxable income that will allow the realization of the deferred tax credits shown as follows:

| | Consolidated | | |
|---|---|---|---|
| Year | Temporary differences | Operating losses (*) | CSA consolidated |
| 2020 | 3,081 | (2,209) | 872 |
| 2021 | - | 14 | 14 |
| 2022 | - | 3,237 | 3,237 |
| 2023 and thereafter | 13,940 | 9,007 | 22,947 |
| | ---------- | ---------- | ---------- |
| | 17,021 | 10,049 | 27,070 |
| | ====== | ====== | ====== |

(*) Includes compensation of taxes paid in Argentina.

Temporary differences are fully deductible from taxable income, while tax losses are limited to 30% of taxable income. Both have no deadline for expiration.

Additionally, as of June 30, 2019, CSA had net operating losses of R$749,341 (R$689,919 as of December 31, 2018) and social contribution tax losses of R$755,665 (R$696,197 as of December 31, 2018), whose tax assets were not recognized in the financial statements. As of June 30, 2019, the subsidiary AMMO had net operating losses of R$282,584 and social contribution tax losses of R$282,584.

Deferred tax liabilities:

Income and social contribution taxes resulting from added value in investment properties and hyperinflationary adjustment for Argentina's hyperinflation. See, respectively, notes 10 and 2.4 to the interim financial statements.

| | Investment properties São Gonçalo | | Investment properties Montes Claros | |
|---|---|---|---|---|
| | Business complex (note 10.2) | Residential complex (note 10.3) | (note 10.6) | Total |
| Fair value | 211,176 | 44,296 | 62,807 | 318,279 |
| Total residual cost | (43,722) | (93) | (62,807) | (106,622) |
| | ---------- | ---------- | ---------- | ---------- |
| Initial surplus/added value (equity) | 167,454 | 44,203 | - | 211,657 |
| Change in fair value (P&L) | 18,309 | - | 7,531 | 25,840 |
| | ---------- | ---------- | ---------- | ---------- |
| Surplus/added value | 185,763 | 44,203 | 7,531 | 237,497 |
| | ---------- | ---------- | ---------- | ---------- |
| Income and social contribution taxes liability on surplus/added value (34%) | 63,159 | 15,029 | 2,561 | 80,749 |
| | ====== | ====== | ====== | ---------- |
| Hyperinflationary adjustment (Argentina) | | | | 8,918 |
| Temporary differences (CSA – Brasil) (*) | | | | 17,538 |
| | | | | ---------- |
| Deferred tax liabilities | | | | 107,205 |
| | | | | ====== |

(*) Deferred income taxes on PIS and COFINS tax credits transferred from current liabilities. See note 24.

(2) Deferred taxes of indirect subsidiary SGUS:

The indirect subsidiary SGUS, based on its business plan and future projections, maintained deferred tax assets derived, primarily, from accumulated tax losses. Based on the projections of its operating results, the indirect subsidiary SGUS had a deferred tax assets balance, as of June 30, 2019, totaling R$63,226 (R$145,182 as of December 31, 2018). The change during period 2019 is due to realization of tax loss carryforwards on the sale of SGUS assets. The updated projections considered the impacts resulting from the transaction between the indirect subsidiary SGUS and Keeco, as disclosed in notes 30 and 31, comprising (i) the taxable income on the sale of the assets and liabilities of the discontinued operations and (ii) projections of continuing operations considering the revenues and expenses of the subsidiary SGUS after the sale of assets and liabilities for the next 10 years.

Based on the assumptions utilized in the preparation of business plan, SGUS management expects to generate future taxable income that will allow the realization of the deferred tax credits. The estimated realization for the deferred tax assets of indirect subsidiary SGUS, as of June 30, 2019, is shown below:

| Year | Subsidiary SGUS |
|---|---|
| 2020 | 2,423 |
| 2021 | 4,739 |
| 2022 | 5,849 |
| 2023 | 8,011 |
| 2024 and thereafter | 42,204 |
| | ---------- |
| | 63,226 |
| | ====== |

Temporary differences are fully deductible from taxable income and have no deadline for utilization. The net operating tax losses are also fully deductible, but the federal losses will expire between 2022 and 2034 and the state losses will expire between 2019 and 2034.

Additionally, on June 30, 2019, indirect subsidiary SGUS had R$468,812 in tax losses (R$472,625 at December 31, 2018) whose tax assets were not recognized in the interim financial statements.

(3) Deferred taxes of indirect subsidiary Santanense:

Santanense, based on its business plan and future projections, maintained deferred tax assets derived from accumulated tax losses. Future projections consider the Company's operating results for the next 10 years adjusted to present value and a reduction of interest rates during that period and the resulting cost of debt, among other actions.

Based on these actions and the assumptions used in the preparation of the business plan, the management of that subsidiary has expectations to generate future taxable income that will allow the realization of the deferred tax credits shown as follows:

| | Company and Consolidated | | |
|---|---|---|---|
| Year | Temporary differences | Operating losses | Total |
| 2019 | - | 9,185 | 9,185 |
| 2020 | - | 5,224 | 5,224 |
| 2021 | - | 3,359 | 3,359 |
| 2022 and thereafter | 3,011 | 3,092 | 6,103 |
| | ---------- | ---------- | ---------- |
| | 3,011 | 20,860 | 23,871 |
| | ====== | ====== | ====== |

Temporary differences are fully deductible from taxable income, while tax losses are limited to 30% of taxable income. Both have no deadline for expiration.

c. Recoverable taxes

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| ICMS (state VAT) | - | - | 24,114 | 21,722 |
| Prepaid income and social contribution taxes | 3,776 | 3,604 | 23,685 | 23,130 |
| Recoverable PIS and COFINS (*) | 69,333 | 68,851 | 408,399 | 375,823 |
| IVA – Gross proceeds (Argentina) | - | - | 1,607 | 2,174 |
| VAT – China and Mexico | - | - | 1,283 | 1,294 |
| Recoverable IPI | - | - | 1,173 | 487 |
| ILL (tax on net income) | 5,341 | 5,341 | 5,341 | 5,341 |
| INSS | - | - | 3,813 | - |
| Other recoverable taxes | - | - | 910 | 1,228 |
| | 78,450 | 77,796 | 470,325 | 431,199 |
| Current assets | (3,777) | (3,605) | (71,175) | (26,388) |
| Noncurrent assets | 74,673 | 74,191 | 399,150 | 404,811 |

(*) Includes credits from purchases and amounts related to credits resulting from the elimination of ICMS from the PIS and COFINS calculation basis. See note 24.

## 22. MISCELLANEOUS ACCRUALS

The Company and its subsidiaries are challenging in court the legality of certain taxes, civil and labor claims. The accrual was recognized based on the risk assessment made by management and its legal counsel for all lawsuits in which losses are considered probable.

The Company and its subsidiaries have tax, civil claims and labor, whose loss was estimated as possible in the amounts of R$100,330, R$175,997 and R$2,045, respectively (R$104,131, R$176,023 and R$4,165, respectively in 2018). The main tax claims relate to the use of ICMS credits in the purchase of electricity and raw material imported in the state of Paraíba in the amount of R$68,064. The main civil claims correspond to a writ of mandamus filed against the Electric Energy Trading Chamber (CCEE), in the amount of R$38,701, seeking to eliminate possible financial burdens arising from judicial decisions that determine the sharing of losses among power generators. Annulment Actions with an injunction request to cancel some "Dations in payment" of several properties, due to the debts generated by the non-delivery of cotton in an amount corresponding to R$110,635 and request for annulment of a public deed of purchase and sale in an amount corresponding to R$22,208. The main labor lawsuits are related to labor claims of former employees and third parties.

The claims for which losses are considered probable are summarized as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Tax litigation claims: | | | | |
| Social contribution | - | - | 46 | 791 |
| INSS | 2,457 | 2,457 | 3,189 | 3,284 |
| PIS and COFINS | 938 | 938 | 1,640 | 1,640 |
| IPI foreign flag | 3,728 | 3,728 | 3,728 | 3,728 |
| Others | 396 | 402 | 1,607 | 1,613 |
| Labor | 375 | 365 | 11,622 | 12,365 |
| Civil and others | 6,061 | 6,055 | 7,948 | 7,591 |
| | 13,955 | 13,945 | 29,780 | 31,012 |
| Escrow deposits | 12,413 | 12,403 | 31,410 | 33,206 |

Social contribution – The Company is a plaintiff in a lawsuit filed against the Federal Revenue Service to stop the levy of the social contribution tax on its plants located in SUDENE’s area. In 2013, after successive losses, the Company dismissed the main lawsuit, while other lower value claims of its subsidiaries are still pending.

INSS – Administrative litigation referring to tax entries in the Company and its indirect subsidiaries CSA and CTS. The indirect subsidiaries CSA and CTS are plaintiffs in a lawsuit against the Brazilian Treasury Department, disputing the levy of INSS on amounts considered to be employee termination costs and FAP (Accident Prevention Factor).

PIS and COFINS – The Company and its subsidiary Companhia de Tecidos Santanense are challenging in court the rejection of compensation for presumed IPI credits and inputs integrated into the production process.

IPI – Foreign Flag – The Company is a plaintiff in a lawsuit against the levy of IPI on the acquisition of an aircraft under a lease contract.

Labor – The Company and its subsidiaries are defendants in lawsuits from former employees and third parties.

Civil – The Company and its indirect subsidiary CSA are plaintiffs in lawsuits against the Federal Government disputing the legality of “COFURH - Compensação Financeira pela Utilização de Recursos Hídricos”.

Request for refund and indemnification (“PERDCOMP”) - The Company is a plaintiff in a claim for refund of overpayment that is challenging the retroactive application of IN323/2005, which establishes deadlines for the delivery of PERDCOMP.

Changes in the consolidated accrual are as follows:

| | 12.31.2018 | Additions | Reductions | 06.30.2019 |
|---|---|---|---|---|
| Tax litigation claims: | | | | |
| Social contribution | 791 | - | (745) | 46 |
| INSS | 3,284 | - | (95) | 3,189 |
| PIS and COFINS | 1,640 | - | - | 1,640 |
| IPI foreign flag | 3,728 | - | - | 3,728 |
| Others | 1,613 | - | (6) | 1,607 |
| Labor | 12,365 | 270 | (1,013) | 11,622 |
| Civil and others | 7,591 | 558 | (201) | 7,948 |
| | ---------- | --------- | --------- | ---------- |
| | 31,012 | 828 | (2,060) | 29,780 |
| | ===== | ===== | ===== | ===== |

## 23. EMPLOYEE BENEFIT PLANS

Substantially all of the employees of the indirect subsidiary SGUS are covered by defined-contribution plans. Some executives of indirect subsidiary SGUS are covered by a defined-benefit plan. Indirect subsidiary SGUS may make contributions to the defined-contribution plan at its discretion, and these contributions are considered by means of a percentage of each participant’s eligible compensation. In addition, should eligible participants contribute a percentage of their compensation to some defined-contribution plans, indirect subsidiary SGUS may, at its discretion, make a contribution in the proportion of the amounts contributed by the participants.

Indirect subsidiary SGUS sponsors a defined-benefit pension plan for some of its employees, whose expected pension costs are accrued based on actuarial studies. Contributions of retired employees and indirect subsidiary SGUS are adjusted periodically. Indirect subsidiary SGUS’ contributions to the defined-benefit plans are made pursuant to the “US Employee Retirement Income Security Act” and benefits are generally based on years of service and salary (compensation) levels.

The defined-benefit plan’s assets are invested in diversified equity securities and fixed-income funds (including US government debt). Indirect subsidiary SGUS also provides retirement benefits to eligible executives under nonqualified supplemental executive retirement plans.

The table below includes summarized information on the pension plans as of June 30, 2019 and 2018:

| | 06.30.2019 | 06.30.2018 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Service cost | 510 | 579 |
| Interest cost, net | 2,040 | 1,662 |
| Net periodic benefit cost | 2,550 | 2,241 |

SGUS' investment strategy is to invest in a diversified portfolio that will maximize returns, considering an acceptable risk level. Pension plan assets are invested in mutual funds which have a target allocation of 36% in equity securities and 64% in fixed income funds. The expected returns on plan assets were developed in conjunction with external advisors and take into account long-term expectations for future returns based on SGUS' current investment strategy.

The balances of employee benefit plans and deferred compensation are as follows:

| | 06.30.2019 | 12.31.2018 |
|---|---|---|
| Pension plan obligations | 105,880 | 109,149 |
| Other employee benefit obligations | 3,208 | 4,734 |
| Total employee benefit plans | 109,088 | 113,883 |
| Current (a) | (9,806) | (9,915) |
| Noncurrent | 99,282 | 103,968 |

(a) Presented on caption "Payroll and related charges".

## 24. TAX RECOVERY

The Company and its subsidiaries filed a lawsuit in 2006 requesting the right to exclude the ICMS from the PIS and Cofins calculation basis. The process over the years had several movements both by the Company and by the Federal Government, and in 2014, it was overturned in the second instance (Federal Regional Court of the 1st region - TRF1) awaiting judgment by the Federal Supreme Court on the matter.

In March 2017, the Federal Supreme Court ruled in the leading case RE nº 574,706/PR (Judgment published in October 2017) that the inclusion of ICMS in the calculation base of PIS and COFINS was unconstitutional, with general repercussion.

In May 2018, at the trial of the Company and its subsidiaries, a favorable judgment was delivered by the Federal Regional Court (TRF) of the 1st Region to the Company, which, in retraction judgment, granted the appeal filed by its subsidiaries, to determine the exclusion of ICMS from the PIS and COFINS calculation base. This judgment gives the subsidiaries the right to obtain a refund for the excess taxes paid since 5 years before the filing of the lawsuit. Subsequently, the Vice-Presidency of the Federal Regional Court of the 1st Region denied the extraordinary appeal filed by the Federal Government, and after the legal deadline, the decision became final and unappealable in 2019, without any change.

The Company and its subsidiaries, in view of the advanced procedural progress of the lawsuit, began studies to assess the need to recognize the amounts of these higher-paid taxes since 2001. For this reason, it obtained the position of its lawyers on the procedural momentum of its action and possible developments and additionally hired independent and specialized advisors who issued accounting and legal opinions on the case.

All conclusions were that the tax credits in question came to represent a valid and virtually certain asset under the Basic Conceptual Pronouncement (R1) for Financial Statement Preparation and Disclosures and the CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, ceasing to be a contingent asset in 2018.

Based on these conclusions, the Company's management decided to recognize the referring amounts to the credits in question, calculated as established in the judgment rendered by TRF1, in that period.

The Company and its subsidiaries are evaluating the best way to recover these credits.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## 25. FINANCIAL INSTRUMENTS

a) General--The Company and its subsidiaries maintain derivatives and non-derivatives financial instruments transactions, whose risks are managed through strategic financial positions and controls to limit exposure to such risks. All transactions are fully recorded in the Company's books and described in the table below.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| FINANCIAL ASSETS -- | | | | |
| Amortized cost: | | | | |
| Cash and cash equivalents | 325 | 167 | 201,097 | 145,067 |
| Marketable securities (current) | - | - | 35,620 | 36,438 |
| Accounts receivable | - | - | 569,494 | 617,203 |
| Receivable - sale of investment (current) | - | - | - | 32,907 |
| Other receivables | 8,687 | 943 | 38,161 | 31,455 |
| Marketable securities (noncurrent) | 1,496 | 1,452 | 76,871 | 77,181 |
| Receivable - clients | - | - | 24,489 | 28,783 |
| Receivable - sale of investment (noncurrent) | - | 51,502 | - | 130,221 |
| Related parties | 152,004 | 107,015 | 70,031 | 49,211 |
| Escrow deposits | 12,413 | 12,403 | 31,410 | 33,206 |
| Others credits and receivables | 6 | 365 | 29,187 | 27,527 |
| Fair value through profit or loss: | | | | |
| Derivative financial instruments | - | - | - | 4,798 |
| Marketable securities (current) | - | - | 16,378 | 14,921 |
| FINANCIAL LIABILITIES -- | | | | |
| Amortized cost: | | | | |
| Loans and financing (current) | 136,432 | 122,424 | 781,181 | 837,423 |
| Debentures (current) | - | - | 74,368 | 74,653 |
| Suppliers | 246 | 268 | 170,844 | 130,244 |
| Government concessions (current) | - | - | 20,937 | 21,361 |
| Payable - purchase of investment property (current) | - | 4,780 | - | 4,780 |
| Other accounts payable | 6,924 | 9,653 | 81,475 | 64,796 |
| Loans and financing (noncurrent) | 28,812 | 31,978 | 629,090 | 562,622 |
| Debentures (noncurrent) | - | - | 36,901 | 73,669 |
| Government concessions (noncurrent) | - | - | 44,027 | 44,087 |
| Related parties | 182,616 | 76,048 | 330 | 58 |
| Other obligations | 13,016 | 25,670 | 63,039 | 26,065 |

The main risk factors to which the Company and its subsidiaries are exposed reflect strategic-operational and economic-financial matters. The strategic-operational risks (such as demand trend, competition, technological innovation, significant changes in the industry structure, among others) are inherent to the Company's operating activities and are addressed by its management. The economic-financial risks mainly reflect customers' delinquency, macro-economic trends, such as currency exchange and interest rates, as well as the nature of the derivative instruments used by the Company, its subsidiaries, and its counter-parties. These risks are managed through internal control policies, specific strategies and establishment of approval authorities.

b) Fair value--The fair values of loans and financing and debentures are similar to their amortized cost recorded in the interim financial statements because they are indexed to floating interest rates (CDI and LIBOR), which accompany market rates. Considering the maturities of other short-term financial instruments, the Company estimates that their fair values approximate book values.

c) Classification of financial instruments--Except for derivatives, and certain marketable securities, which are classified and measured at fair value through profit or loss, all financial assets and liabilities listed above are classified and measured as "Amortized Cost". The derivative financial instruments are "Measured at fair value through profit or loss" and the portion related to the cash flow hedge, which effectiveness can be measured, has its gains and losses recognized directly in shareholders' equity as valuation adjustments and presented in the statement of comprehensive income.

d) Risk management and derivative and non-derivative financial instruments:

d.1 – Objectives and risk management strategies--The Company believes that risk management is important in driving its strategy of profitable growth. The Company is exposed to market risks, mainly related to changes in exchange rates, commodity prices (cotton) and volatility of interest rates. The goal of managing these risks is to eliminate possible unexpected variations in the results of the group's companies, arising from these variations.

The purpose of derivative transactions is always related to the elimination of market risks, identified in our policies and guidelines and, also, to the management of the volatility of financial flows. The measurement of efficiency and evaluation of results occurs throughout the life of the contracts. The monitoring of the impact of these transactions is analyzed quarterly by the Cash and Debt Management Committee where the mark-to-market of these transactions is discussed and validated. All derivative financial instruments are recorded at fair value in the Company's interim financial statements. As of June 30, 2019 and December 31, 2018, except for the transaction described in item d.3.3 and d.4 below, there were no outstanding derivative financial instruments.

d.2 – Derivatives use policy--According to internal policies, the Company's financial results should be related to cash provided by its business and not by gains in the financial market. Therefore, it considers the use of derivatives as a tool to protect eventual exposures related to risks arising from such exposures, and not for speculative purposes. The derivative transactions goal is to reduce Company's market risks exposures.

d.3 – Exchange rate risk--This risk arises from the possibility that the Company and its subsidiaries may incur losses due to exchange rate fluctuations that would reduce the nominal billed amounts or increase funds raised in the market.

d.3.1 – Exchange rate risk on foreign investments:

The Company has foreign investments that increase its foreign currency exchange exposure, as follows:

| | 06.30.2019 | | | |
|---|---|---|---|---|
| | R$ | $ARG | US$ | Exchange rate variation on foreign investments R$ |
| Coteminas Argentina (*) | 38,478 | 426,359 | - | 2,164 |
| LAT Capital | 6,961 | - | 1,816 | 13 |
| SGUS | 425,785 | - | 111,107 | (4,015) |
| Santanense Argentina S.A. | (63) | (698) | - | 9 |
| Coteminas International Ltd. | 7,329 | - | 1,912 | (76) |
| Coteminas (Sucursal Argentina) | (39) | (432) | - | 5 |
| | ------------ | ------------ | ------------ | ------------ |
| Total of foreign investments | 478,451 | 425,229 | 114,835 | (1,900) |
| | ======= | ======= | ======= | ======= |

| | 12.31.2018 | | | |
|---|---|---|---|---|
| | R$ | $ARG | US$ | Exchange rate variation on foreign investments R$ |
| Coteminas Argentina (*) | 38,426 | 373,794 | - | (10,616) |
| LAT Capital | 2,805 | - | 724 | 431 |
| SGUS | 183,333 | - | 47,314 | 22,656 |
| Santanense Argentina S.A. | (81) | (788) | - | 50 |
| Coteminas International Ltd. | 9,188 | - | 2,371 | 2,008 |
| Coteminas (Sucursal Argentina) | (42) | (409) | - | 25 |
| | ------------ | ------------ | ------------ | ------------ |
| Total of foreign investments | 233,629 | 372,597 | 50,409 | 14,554 |
| | ======= | ======= | ======= | ======= |

(*) Investment in Coteminas Argentina is adjusted for inflation. See note 2.4.

d.3.2 – Exchange rate risks on the Company and on its direct and indirect subsidiaries in the financial instruments in Brazil:

The financial instruments exposure of the Company and its Brazilian subsidiaries is as follows:

| Financial instruments | 06.30.2019 | 12.31.2018 |
|---|---|---|
| Cash and cash equivalents | 3,310 | 2,441 |
| Derivatives financial instruments | - | 4,798 |
| Accounts receivable | 77,405 | 73,510 |
| Marketable securities | 75,375 | 75,729 |
| Receivable – sale of investment | - | 163,128 |
| Suppliers | (7,035) | (1,877) |
| Loan and financing | (274,877) | (238,894) |
| Related parties | (184,196) | (42,348) |
| | ----------- | ----------- |
| Total exposure in Brazilian Reais | (310,018) | 36,487 |
| | ====== | ====== |
| Total exposure in equivalent thousands of US Dollars | (80,898) | 9,416 |
| | ====== | ====== |

The sensitivity analysis of financial instruments, considering the US dollar denominated cash flows, as of June 30, 2019, is shown below:

| | | | Scenarios | | |
|---|---|---|---|---|---|
| Maturity | Risk | Exposure value in thousands of US$ | Probable | II | III |
| 2019 | US dollar depreciation | (69,832) | 301 | (66,527) | (133,354) |
| 2020 | US dollar depreciation | (5,033) | (1,008) | (6,083) | (11,157) |
| 2021 | US dollar depreciation | (6,033) | (1,511) | (7,669) | (13,826) |
| | | ----------- | ----------- | ----------- | ----------- |
| | | (80,898) | (2,218) | (80,279) | (158,337) |
| | | ====== | ====== | ====== | ====== |

Amounts in parenthesis (negative numbers) stated in the scenarios above refer to exchange rate variance losses. The positive amounts relate to exchange rate variations gains.

The “Probable” scenario represents the result of the probable exchange rate variation, considering the cash flow of the assets and liabilities presented above, applying future dollar exchange rates and comparing to the dollar exchange rate at the end of the current period. Scenarios II and III reflect 25% and 50% deterioration of future dollar exchange rates, respectively.

The future dollar exchange rates were obtained from B3 S.A. – Brasil, Bolsa, Balcão.

d.3.3 – Exchange rate risk on derivative instruments transactions of the Company and its subsidiaries:

Consolidated information for derivative instruments with exchange rate risk is shown below:

| | Notional Value – US$ thousands | | Fair Value – Asset (Liability) | |
|---|---|---|---|---|
| Description | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Option Contract (1) -- | | | | |

| Description | Notional Value – US$ thousands 06.30.2019 | Notional Value – US$ thousands 12.31.2018 | Fair Value – Asset (Liability) 06.30.2019 | Fair Value – Asset (Liability) 12.31.2018 |
|---|---|---|---|---|
| Position: Sell<br>Currency: US$<br>Dollar settlement: R$3.8700<br>Counterpart: Itaú BBA<br>Other information:<br>2 contracts of US $35,000 thousands (each), maturing on February/19 | - | 70,000 | - | 5,359 |
| Option Contract (2) --<br>Position: Buy<br>Currency: US$<br>Dollar settlement: R$4.2700<br>Counterpart: Itaú BBA<br>Other information:<br>1 contract of US $35,000 thousands, maturing on February/19 | - | 35,000 | - | (260) |
| Option Contract (3) --<br>Position: Buy<br>Currency: US$<br>Dollar settlement: R$4.2050<br>Counterpart: Itaú BBA<br>Other information:<br>1 contract of US $35,000 thousands, maturing on February/19 | - | 35,000 | - | (301) |
| Total | | | - | 4,798 |

Options contracts--Are recorded at fair value through the statement of operations. The fair value of the contracts was obtained directly from the counterpart financial institution, which evaluates these financial instruments based on the data obtained in B3 S.A. – Brazil, Bolsa, Balcão, such as the future dollar rate, volatility, interest rates and own algorithms.

The financial instruments above, were settled upon receipt of R$9,450 in February 2019.

d.4 – Commodities price risk (cotton)--This risk arises from the possibility of the Company and its subsidiaries may incur losses due to fluctuations in the price of cotton, its main raw material. In the first six-month period ended on June 30, 2019, the indirect subsidiary CSA recognized a gain of R$3,080 (R$17,914 in the same period of 2018). As of June 30, 2019 there were no outstanding contracts.

d.5 – Interest rates risk--Cash and cash equivalents and marketable securities yield, approximately, the equivalent to CDI (Certificate of Interbank Deposit) rates. Interest-bearing liabilities, which reflect rates equivalent to LIBOR, or fixed interest rates, are disclosed in notes 14 and 20. Considering the cash flows of these liabilities (except as described in d.5.1 and d.5.2 below) and the contracted interest rates, Management determined that the exposure to market changes on the contracted interest rates is not significant. Therefore, the sensitivity analysis is deemed unnecessary for these financial instruments.

d.5.1 – Variable interest rate risks on derivative financial instruments:

Interest rates swap contracts--Are presented and measured at fair value and are based on the cash flow of the loans denominated in foreign currency. Gains or losses are recorded under the “Financial expenses – interests” caption in the statements of operations. There were no interest rate derivatives in the periods ended June 30, 2019 and December 31, 2018.

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d.5.2 – Variable interest rate risk on non-derivatives financial instruments:

The amounts related to the Company and its subsidiaries' non-derivatives financial instruments subject to variable interest rate exposure are as follows:

| Description | 06.30.2019 | | | | 12.31.2018 |
|---|---|---|---|---|---|
| | Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | Payable |
| Loan Agreement --<br>Interest: 130.0% of CDI<br>Counterpart: Banco Brasil S.A. - NCE<br>Maturity: November/2023 | 165,000 | 1,006 | (3,778) | 162,228 | 165,962 |
| Loan Agreement --<br>Interest: 130.0% of CDI<br>Counterpart: Banco Brasil S.A. - NCE<br>Maturity: November/2023 | 165,000 | 1,006 | (3,778) | 162,228 | 166,046 |
| Loan Agreement --<br>Interest: 127.5% of CDI<br>Counterpart: Banco Brasil S.A. - CCB<br>Maturity: June/2021 | 90,000 | 255 | (2,203) | 88,052 | 110,025 |
| Loan Agreement --<br>Interest: 127.5% of CDI<br>Counterpart: Banco Brasil S.A.<br>Maturity: June/2021 | 60,000 | 170 | (1,469) | 58,701 | 73,349 |
| (Refer to Note 14) | | | | 471,209 | 515,382 |
| Loan Agreement --<br>Interest: 120.0% of CDI<br>Counterpart: Banco Votorantim S.A.<br>Maturity: September/2019 | 40,000 | 957 | - | 40,957 | 40,932 |
| Loan Agreement --<br>Interest: 120.0% of CDI<br>Counterpart: Banco Votorantim S.A.<br>Maturity: September/2019 | 20,000 | 430 | - | 20,430 | 20,424 |
| Loan Agreement --<br>Interest: 120.0% of CDI<br>Counterpart: Banco Votorantim S.A.<br>Maturity: October/2019 | 20,000 | 340 | - | 20,340 | 20,333 |
| (Refer to Note 14) | | | | 81,727 | 81,689 |
| Loan Agreement --<br>Interest: 149.0% of CDI<br>Counterpart: Banco BBM S.A. - CCB<br>Maturity: June/2021 | 31,148 | 23 | - | 31,171 | 39,345 |
| Loan Agreement --<br>Interest: CDI + 4.0%<br>Counterpart: Banco BBM S.A. - CCB<br>Maturity: July/2021 | 6,797 | 6 | - | 6,803 | 8,589 |
| Loan Agreement --<br>Interest: 150.5% of CDI<br>Counterpart: Banco BBM S.A. - CCB<br>Maturity: July/2021 | 11,595 | 8 | - | 11,603 | 14,404 |
| Loan Agreement --<br>Interest: 149.0% of CDI<br>Counterpart: Banco BBM S.A. - CCB<br>Maturity: November/2021 | 8,000 | 6 | - | 8,006 | 8,006 |
| (Refer to Note 14) | | | | 57,583 | 70,344 |

| Description | 06.30.2019 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 12.31.2018 Payable |
|---|---|---|---|---|---|
| Loan Agreement --<br>Interest: CDI + 7.3%<br>Counterpart: BDMG S.A.<br>Maturity: November/2019 | 3,479 | 1,471 | (45) | 4,905 | 9,032 |
| (Refer to Note 14) | | | | 4,905 | 9,032 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: Banco ABC do Brasil S.A. - CCB<br>Maturity: April/2022 | 18,106 | 27 | - | 18,133 | 18,188 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: ABC do Brasil S.A.<br>Maturity: April/2022 | 16,371 | 25 | - | 16,396 | 16,449 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: ABC do Brasil S.A.<br>Maturity: April/2022 | 18,710 | 29 | - | 18,739 | 18,799 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: ABC do Brasil S.A.<br>Maturity: April/2022 | 21,048 | 33 | - | 21,081 | 21,148 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: ABC do Brasil S.A.<br>Maturity: April/2022 | 18,710 | 29 | (581) | 18,158 | 18,050 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: ABC do Brasil S.A.<br>Maturity: April/2022 | 10,000 | 15 | - | 10,015 | 10,014 |
| Loan Agreement --<br>Interest: CDI + 4.4%<br>Counterpart: Banco ABC do Brasil S.A. - CCE<br>Maturity: April/2022 | 10,000 | 16 | - | 10,016 | 10,047 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: Banco ABC do Brasil S.A. - CCE<br>Maturity: April/2022 | 10,000 | 16 | - | 10,016 | 10,047 |
| Loan Agreement --<br>Interest: CDI + 4.2%<br>Counterpart: Banco ABC do Brasil S.A. - CCE<br>Maturity: April/2022 | 10,000 | 16 | - | 10,016 | 10,015 |
| (Refer to Note 14) | | | | 132,570 | 132,757 |
| Loan Agreement --<br>Interest: CDI + 6.5%<br>Counterpart: Banco Fibra S.A. - CCE<br>Maturity: July/2020 | 6,190 | 34 | - | 6,224 | 9,098 |
| Loan Agreement --<br>Interest: CDI + 6.3%<br>Counterpart: Banco Fibra S.A. - CCE<br>Maturity: August/2019 | 4,000 | 77 | - | 4,077 | - |
| Loan Agreement --<br>Interest: CDI + 6.5%<br>Counterpart: Banco Fibra S.A. - CCE<br>Maturity: April/2019 | - | - | - | - | 4,403 |

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| Description | 06.30.2019 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 12.31.2018 Payable |
|---|---|---|---|---|---|
| Loan Agreement --<br>Interest: CDI + 6.3%<br>Counterpart: Banco Fibra S.A. - CCE<br>Maturity: May/2019 | - | - | - | - | 5,404 |
| Loan Agreement --<br>Interest: CDI + 6.4%<br>Counterpart: Banco Fibra S.A. - CCE<br>Maturity: November/2019 | 1,458 | 10 | - | 1,468 | 3,231 |
| Loan Agreement --<br>Interest: CDI + 6.5%<br>Counterpart: Banco Safra S.A.<br>Maturity: June/2020 | 8,667 | 39 | - | 8,706 | 13,061 |
| (Refer to Note 14) | | | | 20,475 | 35,197 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: February/2020 | 3,333 | 20 | - | 3,353 | 5,071 |
| Loan Agreement --<br>Interest: CDI + 4.7%<br>Counterpart: Banco Safra S.A.<br>Maturity: September/2019 | 2,500 | 5 | - | 2,505 | 7,510 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: December/2019 | 2,917 | 24 | - | 2,941 | 5,089 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: February/2020 | 3,333 | 20 | - | 3,353 | 5,071 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: November/2019 | 20,000 | 203 | - | 20,203 | 20,179 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: December/2019 | 20,000 | 151 | - | 20,151 | 20,137 |
| Loan Agreement --<br>Interest: CDI + 4.6%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: May/2019 | - | - | - | - | 2,085 |
| Loan Agreement --<br>Interest: CDI + 4.4%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: August/2019 | 833 | 3 | - | 836 | 3,345 |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A. - CCB<br>Maturity: October/2019 | 6,000 | 25 | - | 6,025 | - |
| Loan Agreement --<br>Interest: CDI + 5.3%<br>Counterpart: Banco Safra S.A.<br>Maturity: May/2020 | 4,594 | 30 | - | 4,624 | - |
| (Refer to Note 14) | | | | 63,991 | 68,487 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)

| Description | 06.30.2019 Principal amount R$ thousands | Accrued interest | Prepaid interest | Payable | 12.31.2018 Payable |
|---|---|---|---|---|---|
| Loan Agreement -- Interest: CDI + 2.8% Counterpart: Banco Itaú Unibanco S.A. – CCB Maturity: April/2019 | - | - | - | - | 25,260 |
| Loan Agreement -- Interest: CDI + 3.0% Counterpart: Banco Itaú Unibanco S.A. – CCB Maturity: April/2019 | - | - | - | - | 20,810 |
| (Refer to Note 14) | | | | - | 46,070 |
| Loan Agreement -- Interest: CDI + 4% Counterpart: Caixa Econômica Federal Maturity: September/2022 | 19,906 | 84 | (434) | 19,556 | 22,567 |
| Loan Agreement -- Interest: 149.6% of CDI Counterpart: Caixa Econômica Federal Maturity: December/2021 | 20,312 | 60 | (427) | 19,945 | - |
| (Refer to Note 14) | | | | 39,501 | 22,567 |
| Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Daycoval S.A. Maturity: September/2020 | 16,667 | 135 | - | 16,802 | 20,165 |
| Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Daycoval S.A. Maturity: October/2020 | 9,058 | 18 | - | 9,076 | 10,210 |
| (Refer to Note 14) | | | | 25,878 | 30,375 |
| Loan Agreement -- Interest: CDI + 6.3% Counterpart: Banco Pine S.A. Maturity: December/2019 | 7,500 | 31 | - | 7,531 | 15,063 |
| Loan Agreement -- Interest: CDI + 7.0% Counterpart: Banco Pine S.A. Maturity: February/2020 | 10,667 | 45 | - | 10,712 | - |
| Loan Agreement -- Interest: CDI + 6.3% Counterpart: Banco Pine S.A. Maturity: June/2020 | 5,000 | 42 | - | 5,042 | - |
| (Refer to Note 14) | | | | 23,285 | 15,063 |
| Loan Agreement -- Interest: 115.0% of CDI Counterpart: Banco Fibra S.A. Maturity: August/2019 | 39,000 | 3 | - | 39,003 | - |
| (Refer to Note 14) | | | | 39,003 | - |
| Loan Agreement -- Interest: CDI + 6.8% Counterpart: Banco Sofisa S.A. Maturity: June/2020 | 10,000 | 11 | - | 10,011 | - |
| (Refer to Note 14) | | | | 10,011 | - |

| Description | 06.30.2019 Principal amount R$ thousands | 06.30.2019 Accrued interest | 06.30.2019 Prepaid interest | 06.30.2019 Payable | 12.31.2018 Payable |
|---|---|---|---|---|---|
| Loan Agreement (*) --<br>Interest: 89.0% of CDI<br>Counterpart: Banco Santander S.A. – PPE<br>Maturity: May/2019 | - | - | - | - | 44,335 |
| Loan Agreement (*) --<br>Interest: 103.0% of CDI<br>Counterpart: Banco Santander S.A. - PPE<br>Maturity: February/2020 | - | - | - | - | 37,896 |
| Loan Agreement (*) --<br>Interest: 118.8% of CDI<br>Counterpart: Banco Santander S.A. - PPE<br>Maturity: November/2020 | - | - | - | - | 42,773 |
| (Refer to Note 14) | | | | - | 125,004 |
| Debentures 3rd series --<br>Interest: 110.0% of CDI<br>Counterpart: Gaia Agro Sec., S.A.<br>Maturity: June/2020 | 25,000 | 54 | (587) | 24,467 | 36,734 |
| Debentures 4th series --<br>Interest: CDI + 2.75%<br>Counterpart: Several debenture holders<br>Maturity: February/2021 | 87,500 | 893 | (1,591) | 86,802 | 111,588 |
| (Refer to Note 15) | | | | 111,269 | 148,322 |
| | 1,088,399 | 7,901 | (14,893) | 1,081,407 | 1,300,289 |

(*) Agreements renegotiated in 2019 to US$ + 8.1% per annum.

The sensitivity analysis of the non-derivative financial instruments above, considering the scheduled payments of principal and interest as of June 30, 2019, is as follows:

| | | | Scenarios | | |
|---|---|---|---|---|---|
| Maturity | Risk | Principal average balance | Probable | II | III |
| 2019 | CDI increase | 1,034,921 | 39,939 | 45,952 | 53,871 |
| 2020 | CDI increase | 639,804 | 53,333 | 59,747 | 70,489 |
| 2021 | CDI increase | 397,241 | 30,449 | 40,153 | 47,785 |
| 2022 | CDI increase | 196,607 | 14,553 | 21,181 | 25,403 |
| 2023 | CDI increase | 80,000 | 5,197 | 8,283 | 9,951 |
| | | | ====== | ====== | ====== |

Amounts shown in the scenarios above represent projected interest expense, in their respective years and scenarios, considering the average loan balances on each year. The "Probable" scenario represents the result of the probable CDI variations, considering the principal and interest maturity dates. Scenarios II and III reflect 25% and 50% increase in the future CDI index, respectively. The future CDI rates were obtained at B3 S.A. - Brasil, Bolsa, Balcão.

d.6 – Credit risk--The Company is subject to credit risk on its cash and cash equivalents and marketable securities. This risk is mitigated by the policy of entering into transactions only with major financial institutions. The credit risk on accounts receivable is reduced due to the selectivity of customers and credit policy. The Company has a credit management system based on the combination of information originated by several departments of the Company, primarily sales, finance, accounting, legal and external sources that enable the credit and collection departments to establish credit limits for its customers that are approved by a credit committee.

d.7 – Liquidity risk management--The Company presented the consolidated financial assets and liabilities, according to their cash flows, based on their approximate maturity date, and using nominal contractual interest rates, in its annual financial statements for the year ended December 31, 2018. As of June 30, 2019, there was no significant change in relation to the amounts disclosed in the annual financial statements.

d.8 – Capital management risk--The Company manages its capital structure to ensure the continuity of its operational activities and, at the same time, to maximize the returns to its shareholders. The Company's strategy remained unchanged in the period covered by these interim financial statements.

The Company's net debt is as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 12.31.2018 | 06.30.2019 | 12.31.2018 |
| Loans and financing | 165,244 | 154,402 | 1,410,271 | 1,400,045 |
| Debentures | - | - | 111,269 | 148,322 |
| Cash and cash equivalents | (325) | (167) | (201,097) | (145,067) |
| Marketable securities | (1,496) | (1,452) | (128,869) | (128,540) |
| Derivative financial instruments | - | - | - | (4,798) |
| Total net debt | 163,423 | 152,783 | 1,191,574 | 1,269,962 |
| Total equity | 1,064,794 | 1,028,122 | 1,892,568 | 1,801,179 |
| Total net debt and equity | 1,228,217 | 1,180,905 | 3,084,142 | 3,071,141 |
| Total net debt | 163,423 | 152,783 | 1,191,574 | 1,269,962 |
| Cash holdback amount | - | - | (24,143) | - |
| Total net debt after cash holdback amount | 163,423 | 152,783 | 1,167,431 | 1,269,962 |

## 26. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate interim financial information is available and evaluated regularly by the decision maker, with the purpose of determining the allocation of resources to an individual segment and evaluate its performance. Given that decisions on strategic planning, finance, purchasing, investment and application of resources, as well as evaluation of investment and key executives performance of the Company are made separately by each direct subsidiary, the Company and its subsidiaries have concluded that they have three operating segments.

The Company owns several factories that supply each other so that, together, they form an integrated industry in spinning, weaving, finishing and manufacturing of home textile products. The Company does not have separate operating segments in its sales categories and the reports used for strategic and operational decision making are always consolidated. There are no specific operational units for each category of goods sold. Therefore, these operations are denominated "Wholesale" because its products are not sold to the final consumer.

The indirect subsidiary AMMO and C7S have a set of separate information and investment decisions, pricing, store expansion, multichannel sales, and others, which are individually made, and are denominated "Retail" as its products are sold directly to the final consumer.

The indirect subsidiary CTS has three plants that supply each other so that, together, form an integrated industry in spinning, weaving and finishing of woven fabrics ("Denim") mainly used for garments. There is no operating segment between the sales categories of the Company, where supporting reports to make strategic and operating decisions are always consolidated. There are no specific operating units for each category of goods sold.

The Company presents below the information by segment (expressed in millions of Reais):

| | 06.30.2019 (continuing operations) | | | | | |
|---|---|---|---|---|---|---|
| | Brazil | | | | | |
| | Wholesale | Retail | Denim | Argentina wholesale | Others unallocated (*) | Total |
| Net revenues | 535.8 | 120.9 | 234.0 | 68.3 | (65.0) | 894.0 |
| Cost of goods sold | (420.2) | (57.0) | (186.5) | (55.3) | 64.4 | (654.6) |
| Gross profit | 115.6 | 63.9 | 47.5 | 13.0 | (0.6) | 239.4 |
| Selling, general and administrative expenses | (105.2) | (68.3) | (30.4) | (10.4) | (13.1) | (227.4) |
| Equity | - | - | - | - | 1.4 | 1.4 |
| Other | 5.6 | 5.7 | (2.1) | - | (39.6) | (30.4) |
| Operating results | 16.0 | 1.3 | 15.0 | 2.6 | (51.9) | (17.0) |
| Financial results | - | - | - | - | (99.1) | (99.1) |
| Income (loss) before taxes | 16.0 | 1.3 | 15.0 | 2.6 | (151.0) | (116.1) |
| Depreciation and amortization | 29.5 | 12.6 | 6.1 | 2.9 | 7.6 | 58.7 |

| | 06.30.2018 (continuing operations) | | | | | |
|---|---|---|---|---|---|---|
| | Brazil | | | | | |
| | Wholesale | Retail | Denim | Argentina wholesale | Others unallocated (*) | Total |
| Net revenues | 502.0 | 122.0 | 205.7 | 81.0 | (76.7) | 834.0 |
| Cost of goods sold | (362.7) | (58.1) | (154.0) | (64.9) | 76.2 | (563.5) |
| Gross profit | 139.3 | 63.9 | 51.7 | 16.1 | (0.5) | 270.5 |
| Selling, general and administrative expenses | (91.2) | (67.3) | (28.4) | (14.7) | (17.4) | (219.0) |
| Equity | - | - | - | - | 0.3 | 0.3 |
| Other | 4.9 | 0.2 | (1.1) | - | (8.5) | (4.5) |
| Operating results | 53.0 | (3.2) | 22.2 | 1.4 | (26.1) | 47.3 |
| Financial results | - | - | - | - | (119.0) | (119.0) |
| Income (loss) before taxes | 53.0 | (3.2) | 22.2 | 1.4 | (145.1) | (71.7) |
| Depreciation and amortization | 32.9 | 1.9 | 5.7 | 0.8 | 0.4 | 41.7 |

(*) Relates to the expenses of the Company and non-operating subsidiaries, equity in affiliated companies and unallocated financial results.

The Company's subsidiaries, through the analysis of sales performance, classify its products under the categories of sales (or product lines) such as: bedding, tabletop and bath, intermediate products, and retail.

Revenue information by category or product lines is as follows:

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 06.30.2018 |
| Net revenues (in millions of Reais): | | |
| Bedding, tabletop and bath | 429.3 | 396.7 |
| Intermediate products | 343.8 | 316.1 |
| Retail | 120.9 | 121.2 |
| | 894.0 | 834.0 |
| Volume (thousands of metric tons): | | |
| Bedding, tabletop and bath | 12.3 | 12.5 |
| Intermediate products | 19.2 | 19.1 |
| | 31.5 | 31.6 |

The Company and its subsidiaries have over 13,000 active clients as of June 30, 2019.

## 27. EXPENSES BY NATURE

The Company presents its consolidated statements of operations by function. The expenses by nature and their classification by function are presented as follows:

By nature:

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 06.30.2018 |
| Cost of raw materials, goods and services acquired from third parties | (605,919) | (556,362) |
| Employee benefits | (205,586) | (196,832) |
| INSS | (26,789) | (26,007) |
| Depreciation and amortization | (58,722) | (41,710) |
| Finished goods and work in process inventory variations | 19,118 | 45,429 |
| Exchange rate variations on inventories of foreign subsidiary | (1,959) | 11,116 |
| Others | (2,169) | (18,000) |
| Total by nature | (882,026) | (782,366) |

By function:

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 06.30.2018 |
| Cost of goods sold | (654,641) | (563,508) |
| Selling expenses | (149,397) | (140,307) |
| General and administrative expenses | (69,588) | (70,208) |
| Management fees | (8,400) | (8,343) |
| Total by function | (882,026) | (782,366) |

## 28. NET REVENUES

The reconciliation between gross revenues and net revenues presented in the statements of operations is as follows:

| | Consolidated | |
|---|---|---|
| | 06.30.2019 | 06.30.2018 |
| OPERATING REVENUES: | | |
| Gross revenues | | |
| Sales of products, services and others | 1,151,274 | 1,062,060 |
| Sales deductions | (257,197) | (228,086) |
| NET REVENUES | 894,077 | 833,974 |

## 29. BASIC AND DILUTED INCOME (LOSS) PER SHARE

Basic and diluted income (loss) per share was calculated as follows:

| | 06.30.2019 | 06.30.2018 |
|---|---|---|
| NET LOSS FOR THE PERIOD OF THE CONTINUED OPERATIONS | (80,988) | (21,303) |
| NET INCOME FOR THE PERIOD OF THE DISCONTINUED OPERATIONS | 102,856 | 16,170 |
| NET INCOME (LOSS) FOR THE PERIOD | 21,868 | (5,133) |
| Weighted-average outstanding shares: | | |
| Common shares | 13,912,800 | 13,912,800 |
| Preferred shares | 16,723,657 | 16,723,657 |
| | 30,636,457 | 30,636,457 |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE - R$ | | |
| From continuing operations | (2.6435) | (0.6953) |
| From discontinued operations | 3.3573 | 0.5278 |
| | 0.7138 | (0.1675) |

The Company does not have shares with dilutive potential. Therefore, the basic income (loss) per share equals the diluted income per share.

## 30. DISCONTINUED OPERATIONS

On December 28, 2018, the subsidiary SGPSA announced a material fact, informing it had entered into an "Asset Purchase and Contribution Agreement" ("Agreement") with Keeco, a US company for home products, to combine its North American operations. Under the terms of the Agreement, concluded on March 15, 2019 (see note 31), the indirect subsidiary SGUS agreed to sell the assets and liabilities used in its operations to Keeco for US$126 million, including: US$90 million in cash, of which US$83.7 million at closing and US$6.3 million as cash holdback amount retained for 18 months (R$24,143) and US$36 million in common shares of the combined company, representing an interest of 17.5% in the combined company's capital, Keeco Holdings, LLC.

Accordingly, under CPC 31 and IFRS 5, revenues and expenses from operations sold to Keeco previously presented in the “North America – Wholesale” operating segment were presented as “Discontinued operations” in the statements of operations for the six-months ended June 30, 2019. The statements of operations, comprehensive income and cash flows for the six-months ended June 30, 2018 have been restated for comparison purposes, considering the discontinued operations.

The balance of discontinued operations as of December 31, 2018 is as follows:

| | Consolidated |
|---|---|
| ASSETS | |
| CURRENT: | |
| Accounts receivable | 91,053 |
| Inventories | 161,120 |
| Other receivables | 4,852 |
| NONCURRENT: | |
| Others | 774 |
| Property, plant and equipment | 6,764 |
| Intangible assets | 43,681 |
| Total assets held for sale | 308,244 |
| LIABILITIES | |
| CURRENT: | |
| Loans and financing | 111,679 |
| Suppliers | 112,689 |
| Payroll and related charges | 866 |
| Other payables | 4,867 |
| NONCURRENT: | |
| Employee benefit plans | 9,985 |
| Total liabilities directly related to assets held for sale | 240,086 |
| ASSETS HELD FOR SALE, NET | 68,158 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)

The results of discontinued operations highlighted in the statements of operations are presented below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 06.30.2018 | 06.30.2019 | 06.30.2018 |
| NET REVENUES | - | - | 199,739 | 408,584 |
| COST OF GOODS SOLD | - | - | (177,698) | (346,799) |
| GROSS PROFIT | - | - | 22,041 | 61,785 |
| OPERATING INCOME (EXPENSES): | | | | |
| Selling expenses | - | - | (5,320) | (12,032) |
| General and administrative expenses | - | - | (8,054) | (16,942) |
| Equity in subsidiaries | 102,856 | 16,170 | - | - |
| Others, net | - | - | (2,926) | 2,095 |
| INCOME FROM OPERATIONS | 102,856 | 16,170 | 5,741 | 34,906 |
| Financial expenses – interests and other charges | - | - | (3,750) | (2,843) |
| INCOME FROM OPERATIONS BEFORE TAXES | 102,856 | 16,170 | 1,991 | 32,063 |
| Income and social contribution taxes: | | | | |
| Current | - | - | (197) | (1,507) |
| Deferred | - | - | - | - |
| Income (loss) for the period from discontinued operations, before gain on sale of the net assets held for sale | 102,856 | 16,170 | 1,794 | 30,556 |
| Gain on sale of the net assets held for sale | - | - | 192,568 | - |
| NET INCOME FOR THE PERIOD – DISCONTINUED OPERATIONS | 102,856 | 16,170 | 194,362 | 30,556 |

The cash flow statements of discontinued operations are presented below:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 06.30.2019 | 06.30.2018 | 06.30.2019 | 06.30.2018 |
| Cash flows from discontinued operations activities: | | | | |
| Net income for the year | 102,856 | 16,170 | 194,362 | 30,556 |
| Depreciation and amortization | - | - | 1,841 | 1,309 |
| Equity in subsidiaries | (102,856) | (16,170) | - | - |
| Income and social contribution taxes | - | - | 82,721 | 1,507 |
| Gain on the sale of discontinued operations | - | - | (275,092) | - |
| Bank charges, interests and commissions | - | - | 2,668 | 2,123 |
| Reversal of impairment on the recoverable value of assets | - | - | - | (1,047) |
| | - | - | 6,500 | 34,448 |
| Changes in assets and liabilities | | | | |
| Accounts receivable | - | - | (1,617) | (3,104) |
| Inventories | - | - | (11,635) | (17,922) |
| Suppliers | - | - | (6,173) | (8,035) |
| Others | - | - | 3,031 | (441) |
| Net cash provided by (used in) discontinued operations activities before interest and taxes | - | - | (9,894) | 4,946 |
| Interest paid | - | - | (969) | (1,402) |
| Income and social contribution taxes paid | - | - | (521) | (442) |
| Net cash provided by (used in) discontinued operations activities after interest and income taxes | - | - | (11,384) | 3,102 |
| Cash flows from investing discontinued operations activities: | | | | |
| Acquisition of property, plant and equipment in discontinued operations | - | - | - | (164) |
| Proceeds from sale of discontinued operations | - | - | 469,631 | - |
| Net cash provided by (used in) investing discontinued operations activities | - | - | 469,631 | (164) |
| Cash flows from discontinued financing activities : | | | | |
| Proceeds from new loans | - | - | 43,754 | 98,059 |
| Repayment of loans | - | - | (156,941) | (92,296) |
| Net cash provided by (used in) financing activities | - | - | (113,187) | 5,763 |
| Total cash provided by discontinued operations | - | - | 345,060 | 8,701 |

## 31. GAIN ON SALE OF THE NET ASSETS HELD FOR SALE

| | March 15, 2019 | |
|---|---|---|
| | US$ thousand | R$ thousand (*) |
| Proceed from the sale of assets and liabilities | 126,000 | 490,984 |
| Net assets held for sale | (49,924) | (194,538) |
| Change on net working capital | 2,249 | 8,764 |
| Transaction costs | (7,729) | (30,118) |
| | --------- | ----------- |
| Gain before income taxes | 70,596 | 275,092 |
| Current income tax absorption | (600) | (2,338) |
| Deferred income tax realization (noncash) | (20,578) | (80,186) |
| | --------- | --------- |
| Gain on sale of the net assets held for sale | 49,418 | 192,568 |
| | ===== | ===== |

(*) Amounts in Reais calculated using the exchange rate as of March 31, 2019, of R$3.8967.

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