

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

Springs Global Participações S.A.

Individual and Consolidated
Financial Statements for the Quarter
ended September 30, 2019 and Report
on Review of Interim Financial
Information

BDO RCS Auditores Independentes

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INDIVIDUAL AND CONSOLIDATED QUARTERLY INFORMATION

To the
Shareholders and Management of
Springs Global Participações S. A.
Montes Claros - MG

Introduction

We have reviewed the individual and consolidated interim financial information of Springs Global Participações S.A. ("Company"), included in the Quarterly Information, for the quarter ended September 30, 2019, which comprises the statement of financial position as of September 30, 2019, and the respective statements of operations and comprehensive income (loss) for the three and nine-month period then ended, and of changes in equity and cash flows for the nine-month period then ended, including a summary of significant accounting policies and other notes.

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

Scope of the review

We conducted our review in accordance with Brazilian and international standards for reviewing interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). An interim review consists principally of applying analytical and other review procedures, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review 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. Accordingly, we do not express such an audit opinion.

Conclusion on the individual and consolidated interim information

Based on our review, we are not aware of any fact that leads us to believe that the individual and consolidated interim financial information included in the Quarterly Information referred to above has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM).



Other matters

Audit of the amounts corresponding to the year ended December 31, 2018, and review of amounts corresponding to the three- and nine-month period ended September 30, 2018

The individual and consolidated statements of financial position for the year ended December 31, 2018, presented for comparison purposes, were reviewed by other independent auditor, whose report thereon, dated April 05, 2019, was qualified regarding the following matters: (a) recognition of tax credits and (b) noncompliance with certain clauses of loans, financing and debentures due to the mentioned qualification. The corresponding amounts, individual and consolidated, related to the statements of operations and comprehensive income (loss) for the three- and nine-month period and of changes in equity and cash flows for the nine-month period ended September 30, 2018, included in the Quarterly Information, were reviewed by other independent auditor, whose report thereon, dated November 12, 2018, was unmodified.

Interim statements of value added

The quarterly information referred to above includes the individual and consolidated statements of value added for the nine-month period ended September 30, 2019, prepared under the responsibility of the Company's Management and presented as supplementary information for the purposes of IAS 34. These statements were submitted to review procedures executed with the review of the quarterly information, with the purpose of concluding whether they are reconciled with the interim financial information and accounting records, as applicable, and if its form and contents meet the criteria defined in NBC TG 09 - Statements of Value Added. Based on our review, we are not aware of any fact that would lead us to believe that these statements of value added were not prepared, in all material respects, in accordance with the criteria established in this Standard and consistently with the individual and consolidated interim financial information taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, November 13, 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)
SPRINGS GLOBAL PARTICIPAÇÕES S.A.

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

(In thousands of Brazilian Reais)

	Note	Company		Consolidated	
		09.30.2019	12.31.2018	09.30.2019	12.31.2018
ASSETS					
CURRENT:					
Cash and cash equivalents	3	73	49	171,995	139,474
Marketable securities	4	-	-	49,785	16,995
Derivative financial instruments	24.d.3.3	-	-	-	4,798
Accounts receivable	5	-	-	463,159	503,798
Leases receivable	11	-	-	4,305	-
Inventories	6.a	-	-	422,736	405,352
Advances to suppliers	6.b	-	-	70,513	56,614
Recoverable taxes	18.c	420	148	39,914	17,736
Cash holdback amount	29	-	-	26,236	-
Other receivables		1,069	1,168	43,759	33,783
Assets held for sale	29	-	-	-	308,244
		-----	-----	-----	-----
Total current assets		1,562	1,365	1,292,402	1,486,794
		-----	-----	-----	-----
NONCURRENT:					
Long-term assets:					
Marketable securities	4	-	-	82,173	75,729
Receivable – clients	7	-	-	73,054	39,934
Related parties	22	-	-	15,211	18,946
Advances to suppliers	6.b	-	-	41,871	53,914
Leases receivable	11	-	-	87,684	-
Recoverable taxes	18.c	-	-	220,799	228,231
Deferred taxes	18.b	1,905	1,905	73,558	150,033
Property, plant and equipment held for sale	10.b	-	-	38,826	37,444
Escrow deposits	19	-	-	11,312	12,541
Others		-	-	41,249	41,601
		-----	-----	-----	-----
		1,905	1,905	685,737	658,373
		-----	-----	-----	-----
Investments in subsidiaries	8.a	1,453,047	1,383,186	-	-
Investment in affiliate	8.b	-	-	149,918	-
Investment properties	9	-	-	360,734	347,823
Property, plant and equipment	10.a	-	-	656,060	649,181
Right-of-use assets	11	-	-	159,828	-
Intangible assets	12	-	27,303	79,636	81,873
		-----	-----	-----	-----
Total noncurrent assets		1,454,952	1,412,394	2,091,913	1,737,250
		-----	-----	-----	-----
Total assets		1,456,514	1,413,759	3,384,315	3,224,044
		=====	=====	=====	=====

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
SPRINGS GLOBAL PARTICIPAÇÕES S.A.

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

(In thousands of Brazilian Reais)

LIABILITIES AND EQUITY

	Note	Company		Consolidated	
		09.30.2019	12.31.2018	09.30.2019	12.31.2018
LIABILITIES					
CURRENT:					
Loans and financing	13	12,891	4,759	525,328	527,241
Debentures	14	-	-	87,459	74,653
Suppliers	15	37	-	147,866	112,830
Taxes		52	189	18,149	19,451
Payroll and related charges		78	79	74,285	62,983
Income and social contribution taxes payable		-	-	55	17,766
Government concessions	16	-	-	21,862	21,361
Leases payable	17	-	-	33,346	8,765
Other payables		-	-	45,986	59,928
Liabilities related to assets held for sale	29	-	-	-	240,086
		-----	-----	-----	-----
Total current liabilities		13,058	5,027	954,336	1,145,064
		-----	-----	-----	-----
NONCURRENT:					
Loans and financing	13	9,967	-	462,683	417,818
Debentures	14	-	-	24,645	73,669
Leases payable	17	-	-	252,188	14,456
Related parties	22	12,926	83,690	-	58
Government concessions	16	-	-	43,773	44,087
Miscellaneous accruals	19	-	-	12,286	12,933
Employee benefit plans	20	-	-	106,284	103,968
Deferred taxes	18.b	-	-	81,484	64,394
Other obligations		-	-	26,073	22,555
		-----	-----	-----	-----
Total noncurrent liabilities		22,893	83,690	1,009,416	753,938
		-----	-----	-----	-----
EQUITY:					
	21				
Capital		1,860,265	1,860,265	1,860,265	1,860,265
Capital reserves		79,381	79,381	79,381	79,381
Assets and liabilities valuation adjustments		114,071	114,036	114,071	114,036
Cumulative translation adjustments		(215,737)	(241,807)	(215,737)	(241,807)
Accumulated deficit		(417,417)	(486,833)	(417,417)	(486,833)
		-----	-----	-----	-----
Total equity		1,420,563	1,325,042	1,420,563	1,325,042
		-----	-----	-----	-----
Total liabilities and equity		1,456,514	1,413,759	3,384,315	3,224,044
		=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	Note	Company			
		07.01.2019 to 09.30.2019	01.01.2019 to 09.30.2019	07.01.2018 to 09.30.2018	01.01.2018 to 09.30.2018
OPERATING EXPENSES:					
General and administrative expenses		(38)	(880)	(805)	(2,538)
Management fees		(381)	(609)	(229)	(801)
Equity in subsidiaries	8.a	(62,439)	(120,174)	(13,428)	(35,295)
		-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS		(62,858)	(121,663)	(14,462)	(38,634)
Financial expenses – interests		(1,123)	(2,806)	(2,282)	(6,171)
Financial expenses – bank charges and others		(140)	(489)	(366)	(859)
Financial income		5	12	1	1
		-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES		(64,116)	(124,946)	(17,109)	(45,663)
Income and social contribution taxes:					
Current	18.a	-	-	-	-
Deferred	18.a	-	-	-	-
		-----	-----	-----	-----
NET LOSS FOR THE PERIOD – CONTINUING OPERATIONS		(64,116)	(124,946)	(17,109)	(45,663)
Equity in subsidiary – discontinued operations	29	-	194,362	7,746	38,302
		-----	-----	-----	-----
NET INCOME (LOSS) FOR THE PERIOD		(64,116)	69,416	(9,363)	(7,361)
		=====	=====	=====	=====
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE – R\$					
Continuing operations		(1.2823)	(2.4989)	(0.3422)	(0.9132)
Discontinued operations		-	3.8872	0.1549	0.7660
		-----	-----	-----	-----
Total		(1.2823)	1.3883	(0.1873)	(0.1472)
		=====	=====	=====	=====

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SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	Note	Consolidated			
		07.01.2019 to 09.30.2019	01.01.2019 to 09.30.2019	07.01.2018 to 09.30.2018	01.01.2018 to 09.30.2018
NET REVENUES	27	380,431	1,049,319	380,145	1,024,105
COST OF GOODS SOLD	26	(254,167)	(731,091)	(262,274)	(687,422)
GROSS PROFIT		126,264	318,228	117,871	336,683
OPERATING INCOME (EXPENSES):					
Selling expenses	26	(71,330)	(204,202)	(65,798)	(190,251)
General and administrative expenses	26	(28,275)	(80,864)	(23,918)	(76,454)
Management fees	26	(2,903)	(8,350)	(2,883)	(8,663)
Others, net		4,887	23,990	11,718	11,827
INCOME FROM OPERATIONS		28,643	48,802	36,990	73,142
Financial expenses – interests		(35,377)	(98,263)	(30,551)	(92,484)
Interest on leases	17	(7,201)	(20,734)	-	-
Financial expenses – bank charges and others		(14,691)	(41,047)	(13,958)	(37,788)
Financial income		8,072	28,293	9,008	20,854
Exchange rate variations, net		(43,386)	(38,663)	(17,930)	(55,680)
LOSS FROM OPERATIONS BEFORE TAXES		(63,940)	(121,612)	(16,441)	(91,956)
Income and social contribution taxes:					
Current	18.a	(176)	(482)	(668)	(758)
Deferred	18.a	-	(2,852)	-	47,051
NET LOSS FOR THE PERIOD – CONTINUING OPERATIONS		(64,116)	(124,946)	(17,109)	(45,663)
Net income from subsidiary – discontinued operations	29	-	194,362	7,746	38,302
NET INCOME (LOSS) FOR THE PERIOD		(64,116)	69,416	(9,363)	(7,361)

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	Company and consolidated			
	07.01.2019 to 09.30.2019	01.01.2019 to 09.30.2019	07.01.2018 to 09.30.2018	01.01.2018 to 09.30.2018
NET INCOME (LOSS) FOR THE PERIOD	(64,116)	69,416	(9,363)	(7,361)
Other comprehensive income (loss):				
- Items that will impact the statements of operations:				
Exchange rate variations on foreign investments	32,546	30,708	4,999	18,446
Exchange rate variations on discontinued investments	-	(4,638)	-	-
	-----	-----	-----	-----
	32,546	26,070	4,999	18,446
- Items that will not impact the statements of operations:				
Actuarial gain on pension plans	25	35	-	-
	-----	-----	-----	-----
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(31,545)	95,521	(4,364)	11,085
	=====	=====	=====	=====
ATTRIBUTABLE TO:				
Owners of the Company				
Continuing operations	(31,545)	(94,203)	(12,110)	(27,217)
Discontinued operations	-	189,724	7,746	38,302
	-----	-----	-----	-----
	(31,545)	95,521	(4,364)	11,085
	=====	=====	=====	=====

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

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SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2018

(In thousands of Brazilian Reais)

	Note	Capital	Capital reserve	Assets and liabilities valuation adjustments	Cumulative translation adjustments	Earnings reserves		Accumulated deficit	Total equity
						Legal	Retained earnings		
BALANCES AS OF DECEMBER 31, 2017		1,860,265	79,381	82,435	(274,173)	1,842	23,328	(623,571)	1,149,507
Effects of the hyperinflationary adjustment of the indirect subsidiary in Argentina	2.4	-	-	-	19,895	-	-	-	19,895
BALANCES AS OF JANUARY 1, 2018		1,860,265	79,381	82,435	(254,278)	1,842	23,328	(623,571)	1,169,402
Comprehensive income (loss):									
Net loss for the period		-	-	-	-	-	-	(7,361)	(7,361)
Exchange rate variations on foreign investments	2.1.b	-	-	-	34,128	-	-	-	34,128
Impact of subsidiaries- Exchange rate variations on foreign investments	2.1.b	-	-	-	(15,682)	-	-	-	(15,682)
Total comprehensive income (loss)		-	-	-	18,446	-	-	(7,361)	11,085
BALANCES AS OF SEPTEMBER 30, 2018		1,860,265	79,381	82,435	(235,832)	1,842	23,328	(630,932)	1,180,487

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

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SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2019

(In thousands of Brazilian Reais)

	Note	Capital reserve	Assets and liabilities valuation adjustments	Cumulative translation adjustments	Accumulated deficit	Total equity	
BALANCES AS OF DECEMBER 31, 2018		1,860,265	79,381	114,036	(241,807)	(486,833)	1,325,042
Comprehensive income (loss):							
Net income for the period		-	-	-	-	69,416	69,416
Exchange rate variations on foreign investments	2.1.b	-	-	-	32,593	-	32,593
Exchange rate variations on discontinued investments		-	-	-	(4,638)	-	(4,638)
Actuarial gain on pension plans		-	-	35	-	-	35
Impact of subsidiaries-							
Exchange rate variations on foreign investments	2.1.b	-	-	-	(1,885)	-	(1,885)
Total comprehensive income		-	-	35	26,070	69,416	95,521
BALANCES AS OF SEPTEMBER 30, 2019		1,860,265	79,381	114,071	(215,737)	(417,417)	1,420,563

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

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SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	Company		Consolidated	
	01.01.2019 to 09.30.2019	01.01.2018 to 09.30.2018	01.01.2019 to 09.30.2019	01.01.2018 to 09.30.2018
Cash flows from operating activities				
Net income (loss) for the period	69,416	(7,361)	69,416	(7,361)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	83,565	56,582
Equity in subsidiaries	120,174	35,295	-	-
Equity in subsidiaries – discontinued operations	(194,362)	(38,302)	-	-
Gain from the sale of discontinued operations	-	-	(275,092)	-
Income and social contribution taxes	-	-	86,055	(44,026)
Gain on disposal of property, plant and equipment and intangibles	-	-	(89)	(2,999)
Monetary variations	-	-	3,090	4,656
Exchange rate variations	-	-	38,663	55,680
Bank charges, interests and commissions	3,189	5,893	123,642	85,353
	(1,583)	(4,475)	129,250	147,885
Changes in assets and liabilities				
Marketable securities	-	-	(25,847)	(11,636)
Derivative financial instruments	-	-	4,798	(18,854)
Accounts receivable	-	-	38,512	(40,454)
Inventories	-	-	(40,572)	(33,185)
Advances to suppliers	-	-	(1,980)	(323)
Cash holdback amount	-	-	(24,143)	-
Suppliers	37	45	26,204	5,802
Others	(800)	326	(47,463)	23,616
Net cash provided by (used in) operating activities	(2,346)	(4,104)	58,759	72,851
Interest paid	(1,955)	(1,302)	(74,759)	(74,628)
Income and social contribution taxes paid	-	-	(3,337)	(1,685)
Net cash used in operating activities after interest and income taxes	(4,301)	(5,406)	(19,337)	(3,462)
Cash flows from investing activities				
Investment properties	-	-	(5,380)	(13,062)
Property, plant and equipment	-	-	(59,065)	(40,480)
Intangibles	-	-	(125)	(2,080)
Proceeds from sale of property, plant and equipment	-	-	1,073	4,426
Proceeds from sale of discontinued operations	-	-	329,350	-
Loans between related parties	(13,728)	22,599	(47,669)	(30,411)
Net cash provided by (used in) investing activities	(13,728)	22,599	218,184	(81,607)

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

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SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>01.01.2019</u> <u>to</u> <u>09.30.2019</u>	<u>01.01.2018</u> <u>to</u> <u>09.30.2018</u>	<u>01.01.2019</u> <u>to</u> <u>09.30.2019</u>	<u>01.01.2018</u> <u>to</u> <u>09.30.2018</u>
Cash flows from financing activities				
Proceeds from new loans	24,194	-	294,619	744,183
Repayment of loans	(6,141)	(17,284)	(417,746)	(681,730)
Repayment of leases	-	-	(41,967)	-
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	18,053	(17,284)	(165,094)	62,453
	-----	-----	-----	-----
Effect of exchange rate variations on cash and cash equivalents of foreign subsidiaries	-	-	(1,232)	2,551
	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents	24	(91)	32,521	(20,065)
	-----	-----	-----	-----
Cash and cash equivalents:				
At the beginning of the period	49	103	139,474	155,442
At the end of the period	73	12	171,995	135,377
	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents	24	(91)	32,521	(20,065)
	=====	=====	=====	=====

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

(In thousands of Brazilian Reais)

	Company		Consolidated	
	01.01.2019 to 09.30.2019	01.01.2018 to 09.30.2018	01.01.2019 to 09.30.2019	01.01.2018 to 09.30.2018
REVENUES				
Sales of products, goods and services	-	-	1,250,786	1,218,540
Gain on disposal of property, plant and equipment and intangibles	-	-	89	2,999
	-----	-----	-----	-----
	-	-	1,250,875	1,221,539
MATERIALS ACQUIRED FROM THIRD PARTIES				
Cost of goods and services sold	-	-	(486,359)	(413,506)
Materials, energy, third party services, and others	(1,379)	(3,149)	(290,445)	(294,050)
	-----	-----	-----	-----
	(1,379)	(3,149)	(776,804)	(707,556)
GROSS VALUE ADDED	(1,379)	(3,149)	474,071	513,983
RETENTIONS				
Depreciation and amortization	-	-	(81,724)	(54,560)
	-----	-----	-----	-----
NET VALUE ADDED PRODUCED BY THE COMPANY	(1,379)	(3,149)	392,347	459,423
VALUE ADDED RECEIVED BY TRANSFER				
Equity in subsidiaries	(120,174)	(35,295)	-	-
Equity in subsidiaries – discontinued operations	194,362	38,302	-	-
Financial income	12	1	28,293	20,854
Exchange rate variation	-	-	30,296	37,897
Royalties	-	-	15,725	14,361
Net income for the period – discontinued operations	-	-	194,362	38,302
	-----	-----	-----	-----
	74,200	3,008	268,676	111,414
TOTAL VALUE ADDED FOR DISTRIBUTION (TO RETAIN)	72,821	(141)	661,023	570,837
	=====	=====	=====	=====
DISTRIBUTION OF VALUE ADDED				
Salary, wages and compensation	-	-	251,145	244,075
Taxes, duties and contributions	599	1,049	135,641	102,832
Payments to third parties	2,806	6,171	204,821	231,291
Net income (loss) for the period	69,416	(7,361)	69,416	(7,361)
	-----	-----	-----	-----
VALUE ADDED DISTRIBUTED (RETAINED)	72,821	(141)	661,023	570,837
	=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2019

(Amounts in thousands of Brazilian Reais)

1. OPERATIONS

Springs Global Participações S.A. (the “Company”), headquartered at Avenida Lincoln Alves dos Santos, number 955, in Montes Claros – MG, Brazil, was incorporated on November 24, 2005. On January 24, 2006 received as capital contribution 100% of the shares of Coteminas S.A. (“CSA”) and Springs Global US, Inc. (“SGUS”), privately-held companies headquartered in Brazil and in the United States, respectively, whose shareholders were Companhia de Tecidos Norte de Minas – Coteminas (“CTNM”), the Company’s parent company, and the former shareholders of Springs Industries, Inc. (“SI”), respectively.

On April 30, 2009, the Company started its bed, tabletop and bath retail operations, under the brands MMartan and Casa Moyses and later, in October 2011, with the brand Artex. The retail operation of these brands is run by subsidiary AMMO Varejo Ltda. (“AMMO”). On January 1, 2019, the Company sold to its subsidiary CSA all the shares representing the capital of AMMO Varejo Ltda., which became an indirect subsidiary of the Company.

The Company has leading brands in their markets, such as MMartan, Casas Moisés, Artex, Santista, Paládio, Calfat, Garcia, Arco Íris, Magicolor, among others. The Company’s products have a privileged market standing on the shelves of the largest and most demanding retail channels of the world.

As disclosed in note 29 of the interim financial statements, on March 15, 2019, the sale of the operating assets and liabilities of the North American subsidiary SGUS was concluded. As of that date, the subsidiary SGUS holds 17.5% of Keeco, LLC, which combined the operations of the two companies.

2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the Company’s Board of Directors on November 13, 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 September 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, 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.

(c) Impairment of financial instruments--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.

(d) Cash and cash equivalents--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.

(e) Marketable securities--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.

(f) Accounts receivable and allowance for expected losses on doubtful debt accounts--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, except when they meet the criteria for capitalization.

(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:

	<u>Useful life</u>
Buildings	40 years
Installations	15 years
Machinery and equipment	15 years
Hydroelectric Plant - Porto Estrela	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 subsidiary, 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.

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 its subsidiaries CSA and SGUS, of which it owns directly and indirectly 100% of the capital.

The subsidiary CSA, parent company of Coteminas Argentina S.A., da AMMO Ltda., LAT Capital Ltd., and C7S Tecnologia Ltda. with ownership interest of 100%, was included in consolidation based on its consolidated interim financial statements.

The subsidiary SGUS, parent company of: (i) Warbird Corporation (Delaware, US); (ii) Springs Home Textiles Reynosa, S.A. de C.V. (Mexico); (iii) Casa Springs S.A. de C.V. (Mexico); (iv) Springmaid International, Inc. (India); (v) Springs Cayman Holding Ltd. (Cayman Islands); and (vi) Springs Shanghai Trading Co., Ltd. (China), all wholly-owned, was included in consolidation based on its consolidated interim financial statements.

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.

The effects of the exchange rate variations on foreign investments and equity valuation adjustments are disclosed in a separate caption in the statement of changes in equity, "Cumulative translation adjustments" and "Assets and liabilities valuation adjustments" respectively, and are recognized in the statement of operations upon the sale of the investments that gave rise to them. The accounting practices of the foreign subsidiaries were adjusted to comply with the Company's accounting practices.

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

	<u>2019</u>	<u>2018</u>	<u>Variance %</u>
Exchange rate as of:			
December 31	-	3.8748	-
September 30	4.1644	4.0039	4.0 %
Average exchange rate:			
September 30 (3 months)	4.0226	3.9647	1.5%
September 30 (9 months)	3.8970	3.6332	7.3%

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.

Transition approach:

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.

Impacts on the balance sheet:

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 11 and 17 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	
	09.30.2019	12.31.2018	09.30.2019	12.31.2018
Repurchase transactions (*)	-	-	122,379	89,141
Foreign exchange funds (US\$)	-	-	923	78
Foreign deposits	-	-	29,439	43,274
Checking accounts deposits	73	49	19,254	6,981
	-----	-----	-----	-----
	73	49	171,995	139,474
	=====	=====	=====	=====

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

4. MARKETABLE SECURITIES

	Consolidated	
	09.30.2019	12.31.2018
Fixed income – foreign	16,513	6,142
Investment fund – foreign	32,856	10,138
Restricted deposits (US\$) (1)	82,173	75,729
Restricted cash (2)	416	715
	-----	-----
	131,958	92,724
Current	(49,785)	(16,995)
	-----	-----
Noncurrent	82,173	75,729
	=====	=====

(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.

(2) On September 30, 2019, the subsidiary SGUS had restricted cash in financial institutions in the amount of US\$100 thousand (US\$185 thousand as of December 31, 2018) related to a compensating balance arrangement.

5. ACCOUNTS RECEIVABLE

	Consolidated	
	09.30.2019	12.31.2018
Domestic customers	425,764	474,147
Foreign customers	49,548	38,069
Credit card companies	8,979	10,648
Related parties – domestic market	1,980	2,474
Related parties – foreign market	1,154	2,814
	-----	-----
	487,425	528,152
Allowance for expected losses on bad debts	(24,266)	(24,354)
	-----	-----
	463,159	503,798
	=====	=====

Accounts receivable from customers consist of receivables with an average collection period of approximately 97 days (108 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 nine-month period ended September 30, 2019. Changes in the consolidated allowance for doubtful accounts are as follows:

	09.30.2019	12.31.2018
Balance at the beginning of the period	(24,354)	(25,792)
Additions	-	(1,730)
Exchange rate variation	88	(233)
Discontinued operations (*)	-	3,401
	-----	-----
Balance at the end of the period	(24,266)	(24,354)
	=====	=====

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

6. INVENTORIES AND ADVANCES TO SUPPLIERS

a. Inventories

	Consolidated	
	09.30.2019	12.31.2018
Raw materials and supplies	100,489	85,828
Work in process	87,155	92,537
Finished products	198,311	186,897
Repair parts	36,781	40,090
	-----	-----
	422,736	405,352
	=====	=====

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 provision are as follows:

	Raw materials and supplies	Work in process	Finished products	Repair parts	Total
Balances as of December 31, 2018	(2.446)	(186)	(5)	(1.203)	(3.840)
(Additions) disposals	65	29	-	-	94
Exchange rate variations	627	47	2	-	676
	-----	-----	-----	-----	-----
Balances as of September 30, 2019	(1.754)	(110)	(3)	(1.203)	(3.070)
	=====	=====	=====	=====	=====

	Raw materials and supplies	Work in process	Finished products	Repair parts	Total
Balances as of December 31, 2017	(544)	-	(3,837)	(2,614)	(6,995)
(Additions) disposals	-	-	(1,976)	-	(1,976)
Exchange rate variations	-	-	(1,045)	397	(648)
	-----	-----	-----	-----	-----
Balances as of September 30, 2018	(544)	-	(6,858)	(2,217)	(9,619)
	=====	=====	=====	=====	=====

b. Advances to suppliers

	Consolidated	
	09.30.2019	12.31.2018
Raw material supplier (*)	78,000	78,000
Other advances	34,384	32,528
	-----	-----
	112,384	110,528
	(70,513)	(56,614)
Current	-----	-----
Noncurrent	41,871	53,914
	=====	=====

(*) Refers to payments made by the Company to cotton suppliers, transferred to CSA subsidiary in 2018.

7. RECEIVABLE – CLIENTS

	Consolidated	
	09.30.2019	12.31.2018
Clients in out-of-court recovery plan (a)	12,199	14,611
Clients in court recovery plan (b)	2,112	2,103
Installment plan agreed with clients (c)	1,373	719
Financing on stores transfer (d)	3,635	6,362
Clients in court recovery plan (e)	1,499	1,499
Sale of real estate (f)	11,307	14,057
Other credits (g)	63,164	11,151
Others	614	449
	-----	-----
	95,903	50,951
Current (*)	(22,849)	(11,017)
	-----	-----
Noncurrent	73,054	39,934
	=====	=====

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

(a) Payments in 51 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 up to 59 fixed installments.

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

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

(f) Payments in 37 equal monthly installments with interest of 0.5% per month.

(g) Payment in 4 annual installments with first payment in September 2020, with interest of 5% per year plus US dollar exchange variation.

8. INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANY

a) Direct investments:

Subsidiaries	Equity	Ownership interest %	Net income (loss) for the period	Total investment		Equity in subsidiaries (Company)	
				09.30.2019	12.31.2018	09.30.2019	09.30.2018
SGUS (*)	456,670	100.0	(17,173)	456,670	251,491	(17,173)	29,050
CSA	996,377	100.0	(103,001)	996,377	1,101,263	(103,001)	(59,792)
AMMO (**)	107,325	100.0	(10,273)	-	30,432	-	(4,553)
				-----	-----	-----	-----
				1,453,047	1,383,186	(120,174)	(35,295)
				=====	=====	=====	=====

(*) The net income for the period does not include the discontinued portion of the equity in subsidiaries in the statement of operations of R\$194,362 (R\$38,302 on September 30, 2018). See note 29.

(**) On January 1, 2019, the Company sold to its subsidiary CSA all the shares representing the capital stock of AMMO Varejo Ltda. for the book value of R\$57,735 (R\$30,432 in investments and R\$27,303 of goodwill), using part of the intercompany notes.

b) Indirect investments:

SGUS' investments

Subsidiaries	Equity (deficit)	Ownership interest %	Total investment		Equity in subsidiaries	
			09.30.2019	12.31.2018	09.30.2019	09.30.2018
Warbird Corporation (Delaware, US)	(42)	100.0	(42)	(38)	(1)	(1)
Springs Home Textiles Reynosa, S.A. de C.V. (Mexico) (1)	2,191	100.0	2,191	2,064	(27)	(9)
Casa Springs S.A. de C.V. (Mexico) (1)	1,891	100.0	1,891	1,760	(0)	(1)
Springmaid International, Inc. (India)	77	100.0	77	71	-	(83)
Springs Canada, Inc. (Ontario, Canada) (2)	-	-	-	63,357	1,203	5,575
Springs Cayman Holding Ltd. (Cayman Islands)	4,606	100.0	4,606	4,286	-	-
Springs Shanghai Trading Co., Ltd. (China) (3)	(1,554)	100.0	(1,554)	(931)	(628)	(1,198)
			-----	-----	-----	-----
			7,169	70,569	547	4,283
			=====	=====	=====	=====
Affiliate						
Keeco, LLC (California, US) (4)	155,241	17.5	149,918	-	-	-
			=====	=====	=====	=====

(1) Warbird Corporation's (Delaware, US) wholly-owned subsidiaries.

(2) As of March 15, 2019, this company becomes a wholly-owned subsidiary of Keeco Holdings, LLC, see note 29.

(3) Springs Cayman Holding Ltd.'s (Cayman Islands) wholly-owned subsidiary.

(4) As of March 15, 2019, the 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.

CSA's investment

	Equity	Ownership interest %	Net income (loss) for the year	Total investment		Equity in subsidiaries	
				09.30.2019	12.31.2018	09.30.2019	09.30.2018
Subsidiaries -							
Coteminas Argentina S.A. (1)	20,597	100.0	(21,031)	20,597	38,426	(21,031)	(40,288)
LAT Capital Ltd.	6,822	100.0	3,407	6,822	2,805	3,407	1,879
C7S Tecnologia Ltda.	9,461	100.0	542	9,461	8,919	542	5,127
AMMO Varejo Ltda. (2)	107,325	100.0	(10,273)	107,325	-	(10,273)	-
				-----	-----	-----	-----
				144,205	50,150	(27,355)	(33,282)
				=====	=====	=====	=====

(1) In 2019, the Company subscribed and paid capital in the subsidiary in the amount of R\$5,697.

(2) On January 1, 2019, CSA acquired from the Company all the shares representing the capital stock of AMMO Varejo Ltda. for the book value of R\$57,735 (R\$30,432 in investments and R\$27,303 of goodwill), using part of the intercompany notes. On the same date, it contributed capital in AMMO Varejo, in the amount of R\$87,166, also using intercompany notes with AMMO.

9. INVESTMENT PROPERTIES

The consolidated balances of investment properties are as follows:

	Investment properties São Gonçalo		Investment properties Montes Claros (3)	Total
	Business complex (1)	Residential complex (2)		
Balances as of December 31, 2017	211,176	-	-	211,176
Additions and disposals	16,022	93	55,276	71,391
Transfer from PP&E	2,744	-	-	2,744
Surplus/added value (equity) (*)	-	44,203	-	44,203
Change in fair value (P&L) (**)	18,309	-	-	18,309
	-----	-----	-----	-----
Balances as of December 31, 2018	248,251	44,296	55,276	347,823
Additions	5,380	-	-	5,380
Change in fair value (P&L) (**)	-	-	7,531	7,531
	-----	-----	-----	-----
Balances as of September 30, 2019	253,631	44,296	62,807	360,734
	=====	=====	=====	=====

(*) Values recorded in assets and liabilities valuation adjustments, in shareholders' equity, net of taxes.

(**) Amounts recognized in the statement of operations in the respective period/year.

The subsidiary CSA obtained assessments made by specialists in real estate appraisals to determine the fair value of all properties, and the positive difference between the residual cost of the property and the fair value calculated, net of tax effects, was recorded under "Other comprehensive income", in the category of items that will not affect the statements of operations in the case of an initial evaluation at fair value, and in the statements of operations when the fair value variation is verified as of the second measurement.

(1) Business complex: In the year ended December 31, 2017, the subsidiary CSA consolidated and started the phased implementation of a lease project of its facility located in São Gonçalo do

Amarante - RN, 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 64.1 thousand m² have already been leased, and new lease agreements are in progress. In the nine-month period ended on September 30, 2019, rental income and services was R\$5,627 (R\$1,588 in the same period of 2018).

The calculated values were as follows:

	<u>12.31.2018</u>	Additions (disposals)	<u>09.30.2019</u>
Residual cost of the property:			
Land and improvements	3,801	-	3,801
Buildings	22,414	-	22,414
Installations	12,795	-	12,795
Construction in progress	23,478	5,380	28,858
	-----	-----	-----
Total residual cost	62,488	5,380	67,868
Surplus/added value (a)	185,763	-	185,763
	-----	-----	-----
Fair value (b)	248,251	5,380	253,631
	=====	=====	=====

(a) Calculated deferred tax liability of R\$63,159. See note 18.b.1.

(b) Fair value based on the valuation report from Mercado Assessoria e Ratings 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.

(2) Residential complex: In 2018, the subsidiary CSA made available a new area in the municipality of São Gonçalo do Amarante - RN containing 520 thousand m² to start a housing development. The calculated values were as follows:

	<u>2018</u>
Residual cost of the property:	
Land and improvements	93

Total residual cost	93
Surplus/added value (a)	44,203

Fair value (b)	44,296
	=====

(a) Deferred tax liability of R\$15,029. See note 18.b.1.

(b) Fair value based on the valuation report from Mercado Assessoria e Ratings 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.

(3) Investment property Montes Claros: These properties are classified as properties for investment by the subsidiary CSA and are composed as follows:

	12.31.2018	Change in fair value	09.30.2019
Land and installations (old MECA) (44,623 m ²)	18,386	11,714	30,100
Land of the ESURB behind CODEVASF (2,770 m ²)	2,781	-	2,781
Land of the ESURB Santa Rita II neighborhood (11,700 m ²)	4,602	-	4,602
Two lots at Reserva Real (11,287 m ²)	3,574	-	3,574
Land in Ibituruna (11,842 m ²)	11,842	(4,142)	7,700
Land new municipality region (72,491 m ²)	14,091	(41)	14,050
	-----	-----	-----
	55,276	7,531	62,807
	=====	=====	=====

These properties were evaluated by experts contracted by the 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. The fair value was based on an appraisal report issued by Mercado 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 fair value evaluation, a deferred tax liability of R\$2,561 was calculated. See note 18.b.1.

10. PROPERTY, PLANT AND EQUIPMENT AND PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

a. Property, plant and equipment

	Rate (*) %	09.30.2019		12.31.2018	
		Cost	Accumulated depreciation	Net book value	Net book value
Land and improvements	0.9	41,412	(16,990)	24,422	25,490
Buildings	2.4	377,070	(166,692)	210,378	216,271
Installations	6.4	215,435	(158,501)	56,934	58,683
Machinery and equipment	7.1	1,172,088	(902,125)	269,963	282,875
Hydroelectric Plant - Porto Estrela (**)	2.8	37,665	(19,100)	18,565	19,610
Furniture, fixtures and others	10.4	110,710	(88,580)	22,130	24,315
Construction in progress	-	53,668	-	53,668	21,937
		-----	-----	-----	-----
		2,008,048	(1,351,988)	656,060	649,181
		=====	=====	=====	=====

(*) Weighted average annual depreciation rate.

(**) See note 16.

Considering the operating profitability and operational 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 plant - Porto Estrela (a)	Furniture, fixtures and others	Construction in progress	Total
Balance as of December 31, 2018	25,490	216,271	58,683	282,875	19,610	24,315	21,937	649,181
Additions	717	38	392	10,786	32	1,697	45,403	59,065
Net disposals	(243)	-	(24)	(366)	-	-	-	(633)
Transfers								
- PP&E	216	261	4,432	8,365	-	281	(13,555)	-
Exchange rate variations	(232)	506	(118)	(220)	-	47	(117)	(134)
Depreciation in the period	(1,345)	(6,698)	(6,337)	(31,476)	(1,077)	(3,986)	-	(50,919)
Impairment adjustment	(181)	-	(94)	(1)	-	(224)	-	(500)
Balance as of September 30, 2019	24,422	210,378	56,934	269,963	18,565	22,130	53,668	656,060
	=====	=====	=====	=====	=====	=====	=====	=====
	Land and improvements	Buildings	Installations	Machinery and equipment	Hydroelectric plant - Porto Estrela (a)	Furniture, fixtures and others	Construction in progress	Total
Balance as of December 31, 2017	20,182	213,222	58,447	305,318	20,997	23,355	27,644	669,165
Monetary restated – Argentina (b)	5,713	9,136	3,968	7,457	-	236	291	26,801
Balance as of January 1, 2018	25,895	222,358	62,415	312,775	20,997	23,591	27,935	695,966
Additions	167	1,049	730	5,675	7	1,557	31,295	40,480
Net disposals	(78)	-	(34)	(233)	-	(159)	(88)	(592)
Transfers								
- PP&E	38	274	2,568	9,634	-	439	(12,953)	-
- Investment properties	-	-	-	45	-	-	-	45
Exchange rate variations	-	-	-	-	-	-	(2,744)	(2,744)
Depreciation in the period	(1,459)	957	(1,085)	(1,413)	-	160	(2,432)	(5,272)
	(902)	(6,532)	(6,096)	(35,421)	(1,076)	(4,205)	-	(54,232)
Balance as of September 30, 2018	23,661	218,106	58,498	291,062	19,928	21,383	41,013	673,651
	=====	=====	=====	=====	=====	=====	=====	=====

(a) See note 16.

(b) 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\$38,826 (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	09.30.2019
Cost	435,217	-	(694)	32,065	466,588
Depreciation	(367,074)	(1,235)	691	(27,200)	(394,818)
Provision for loss	(30,699)	-	-	(2,245)	(32,944)
	-----	-----	-----	-----	-----
	37,444	(1,235)	(3)	2,620	38,826
	=====	=====	=====	=====	=====

	12.31.2017	Additions	Disposals	Transfer from/to PP&E	Exchange rate variations	09.30.2018
Cost	385,546	-	(7,247)	(3,197)	75,919	451,021
Depreciation	(324,971)	(939)	6,412	3,152	(65,294)	(381,640)
Provision for loss	(26,844)	-	618	-	(3,989)	(30,215)
	-----	-----	-----	-----	-----	-----
	33,731	(939)	(217)	(45)	6,636	39,166
	=====	=====	=====	=====	=====	=====

11. RIGHT-OF-USE ASSETS AND LEASES RECEIVABLE

The composition of assets contracted as leases are as follows:

	Rate (2) % a.a.	Consolidated		
		09.30.2019		
		Cost	Accumulated amortization	Net book value
Properties	52.1	13,779	(2,400)	11,379
Properties – SGUS (1)	8.3	36,967	(2,311)	34,656
Properties – stores	30.2	56,990	(12,798)	44,192
Vehicles	27.3	693	(581)	112
Investment properties (1)		74,171	(4,682)	69,489
		-----	-----	-----
Total right-of-use assets		182,600	(22,772)	159,828
Leases receivable (1)		98,122	(6,133)	91,989
		-----	-----	-----
		280,722	(28,905)	251,817
		=====	=====	=====

(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) (*)	13,743	34,590	44,230	693	68,585	103,163	265,004
Additions (**)	36	-	12,760	-	875	-	13,671
Disposals (***)	-	-	-	-	-	(10,491)	(10,491)
Amortization in the period	(2,400)	(2,187)	(12,798)	(581)	(4,435)	(7,270)	(29,671)
Exchange rate variations	-	2,253	-	-	4,464	6,587	13,304
	-----	-----	-----	-----	-----	-----	-----
Balance as of September 30, 2019	11,379	34,656	44,192	112	69,489	91,989	251,817
	=====	=====	=====	=====	=====	=====	=====

(*) See note 17 for the initial adoption of IFRS16/CPC06.

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

(***) Early termination of lease contract, in agreement with the landlord.

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

Year	Lease receivable
2019	3,441
2020	13,840
2021	14,045
2022	14,260
2023	14,487
2024 then after	102,678

	162,751
Present value adjustment	(70,762)

	91,989
Current	(4,305)

Noncurrent	87,684
	=====

12. INTANGIBLE ASSETS

	Consolidated	
	09.30.2019	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)	8,242	9,043
Intellectual property (4)	6,178	7,378
Store locations (real estate intangible) (5)	21,565	21,801
	-----	-----
Total	79,636	81,873
	=====	=====

(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 the business unit that has 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:

	Goodwill on the acquisition of AMMO	Trademarks – owned	Trademarks – use license	Intellectual property	Store locations (real estate intangible)	Total
Balance as of December 31, 2018	27,303	16,348	9,043	7,378	21,801	81,873
Additions (disposals)	-	-	-	-	(236)	(236)
Amortization	-	-	(540)	(1,200)	-	(1,740)
Exchange rate variations	-	-	(261)	-	-	(261)
Balance as of September 30, 2019	27,303	16,348	8,242	6,178	21,565	79,636

	Goodwill on the acquisition of North American companies	Goodwill on the acquisition of AMMO	Trademarks – owned	Trademarks – use license	Intellectual property	Store locations (real estate intangible)	Total
Balance as of December 31, 2017	37,748	27,303	16,339	9,157	3,139	21,102	114,788
Additions (disposals)	-	-	10	-	-	979	989
Amortization	-	-	-	(410)	(471)	-	(881)
Exchange rate variations	7,728	-	-	(4,015)	-	-	3,713
Hyper-inflationary adjustment– Argentina (a)	-	-	-	2,271	-	-	2,271
Balance as of September 30, 2018	45,476	27,303	16,349	7,003	2,668	22,081	120,880

(a) See note 2.4.

13. LOANS AND FINANCING

	Currency	Annual interest rate - %	Maturity	Consolidated	
				09.30.2019	12.31.2018
Local currency (*):					
Banco do Brasil S.A. (a)	R\$	127.5 and 130.0 of CDI	2023	401,808	442,033
Banco do Brasil S.A. – CDC	R\$	9.3	2020	34,233	32,925
Banco BBM S.A. – CCB	R\$	149.0 and 150.5 of CDI and 4.0 + CDI	2021	51,184	70,344
Banco ABC do Brasil S.A. – CCE	R\$	4.2 + CDI	2022	48,194	48,297
Banco Bradesco S.A. (*)	R\$	4.4 and 4.5 + CDI	2019	19,762	19,577
BNDES (Finame)	R\$	3.0 to 9.5	2023	390	1,206
Banco Daycoval S.A.	R\$	4.5 + CDI	2020	20,811	30,375
Banco Itaú Unibanco S.A. - CCB	R\$	2.8 + CDI	2019	-	25,260
Banco Santander S.A.	R\$	16.1	2019	36,497	-
Banco Safra S.A. - CCB	R\$	5.3 + CDI	2020	50,178	50,476
Banco Fibra S.A. - CCE	R\$	6.5 + CDI	2020	4,788	9,098
Banco Sofisa S.A.	R\$	6.8 + CDI	2020	30,290	-
Caixa Econômica Federal - CCB (*)	R\$	149.6 of CDI	2021	17,945	-
Others	R\$	-	2019	11,081	7,849
				-----	-----
				727,161	737,440
Foreign currency:					
Banco Patagônia	\$ARG	24.3 to 68.0	2019	6,616	11,740
Banco Luso Brasileiro S.A.	US\$	8.9	2019	10,679	9,712
Banco do Brasil S.A.	US\$	5.6 to 6.2	2020	37,356	43,672
Banco Santander S.A. PPE (b)	US\$	8.1	2021	128,068	125,004
JP Morgan	US\$	Libor + 0.9	2019	18,803	17,491
Banco Pine S.A.	US\$	8.5	2020	8,319	-
Banco Itaú Unibanco S.A.	US\$	7.6	2019	29,797	-
Banco Fibra S.A.	US\$	5.4	2019	21,212	-
				-----	-----
				260,850	207,619
				-----	-----
Total				988,011	945,059
Current				(525,328)	(527,241)
				-----	-----
Noncurrent				462,683	417,818
				=====	=====

(*) Loans held in part by the Company in the amount of R\$22,858.

(a) Loan of subsidiary CSA, with early maturity covenants, in which the Company, 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) Loan guaranteed by linked marketable securities in the amount of US\$18,900 thousand (see note 4). The loan contains covenants where the Company, 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 controlling shareholder for various loans; and (ii) sureties and bank guarantees for the remaining financing.

Maturities are as follows:

	2020			2021	2022 and 2023	Total
	2019	Current	Noncurrent			
Local currency:						
Banco do Brasil S.A.	12,475	31,313	10,507	130,051	217,462	401,808
Banco do Brasil S.A. - CDC	20,189	14,044	-	-	-	34,233
Banco BBM S.A. - CCB	6,387	19,117	6,372	19,308	-	51,184
Banco ABC do Brasil S.A. CCE	4,744	13,966	4,655	18,622	6,207	48,194
Banco Bradesco S.A.	19,762	-	-	-	-	19,762
BNDES (Finame)	223	122	10	15	20	390
Banco Daycoval S.A.	5,150	15,095	566	-	-	20,811
Banco Santander S.A.	36,497	-	-	-	-	36,497
Banco Safra S.A. – CCB	43,345	6,833	-	-	-	50,178
Banco Fibra S.A.	1,455	3,333	-	-	-	4,788
Banco Sofisa S.A.	20,290	10,000	-	-	-	30,290
Caixa Econômica Federal - CCB	2,014	5,964	2,008	7,959	-	17,945
Others	11,081	-	-	-	-	11,081
	183,612	119,787	24,118	175,955	223,689	727,161
Foreign currency:						
Banco Patagônia	6,616	-	-	-	-	6,616
Banco Luso Brasileiro S.A.	10,679	-	-	-	-	10,679
Banco do Brasil S.A.	26,254	11,102	-	-	-	37,356
Banco Santander S.A. PPE	25,498	63,649	22,319	16,602	-	128,068
JP Morgan	18,803	-	-	-	-	18,803
Banco Pine S.A.	-	8,319	-	-	-	8,319
Banco Itaú Unibanco S.A.	29,797	-	-	-	-	29,797
Banco Fibra S.A.	21,212	-	-	-	-	21,212
	138,859	83,070	22,319	16,602	-	260,850
Total	322,471	202,857	46,437	192,557	223,689	988,011

Changes in consolidated loans and debentures were as follows:

	09.30.2019			09.30.2018
	Loans	Debentures	Total	Total
Beginning balance	945,059	148,322	1,093,381	1,075,636
Debt proceeds or renewal	254,615	-	254,615	746,895
Accrued interest	67,872	8,095	75,967	76,873
Paid principal	(223,305)	(37,500)	(260,805)	(681,730)
Paid interest	(65,800)	(7,990)	(73,790)	(73,135)
Exchange rate variations	14,497	-	14,497	45,520
Prepaid charges, net	(4,927)	1,177	(3,750)	(2,712)
Ending balance	988,011	112,104	1,100,115	1,187,347

14. DEBENTURES

a) On June 12, 2017, 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 SA ("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 1 st installment – 25.00%	12/18/2018
Maturity of 2 nd installment – 25.00%	06/18/2019
Maturity of 3 rd installment – 25.00%	12/18/2019
Maturity of 4 th 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 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 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) subsidiary CSA uses the net proceeds of the disposed assets for repayment of bank loans.

Fidejussory guarantee: Surety given by the Company.

(2) Covenants:

In addition to the usual covenants, the Company 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.

b) On February 19, 2018, 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 1 st installment	05/19/2018
Maturity of 12 th 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 the subsidiary CSA, see note 9.1, 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 the Company and by Josué Christiano Gomes da Silva.

(2) Covenants:

The Company has no commitment to maintain financial ratios.

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

	Debentures from		09.30.2019	12.31.2018
	3 rd series	4 th series		
Original amount	25,000	87,500	112,500	150,000
Prepaid interest	(434)	(1,347)	(1,781)	(2,958)
Accrued interest	473	912	1,385	1,280
	-----	-----	-----	-----
Debentures total	25,039	87,065	112,104	148,322
Current	(25,039)	(62,420)	(87,459)	(74,653)
	-----	-----	-----	-----
Noncurrent	-	24,645	24,645	73,669
	=====	=====	=====	=====

15. SUPPLIERS

	Consolidated	
	09.30.2019	12.31.2018
Domestic market	122,155	96,452
Foreign market	25,711	16,378
	-----	-----
	147,866	112,830
	=====	=====

Accounts payable to suppliers consist of amounts with an average maturity term of approximately 55 days (44 days as of December 31, 2018).

16. GOVERNMENT CONCESSIONS

The 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 CSA's control.

As consideration for the concession granted, 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 2002 to 2012	Years 16 to 25 2013 to 2022	Years 26 to 35 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	6,897	659,941	1, 074,756
	=====	=====	=====

For accounting purposes, 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 September 30, 2019, this amount represents R\$65,635, of which, R\$21,862 is classified in current liabilities and R\$43,773 is classified as noncurrent liabilities (R\$65,448, of which, R\$21,361 is classified in current liabilities and R\$44,087 is classified as noncurrent liabilities on December 31, 2018).

As of September 30, 2019, the net book value of the property, plant and equipment related to the current concession is R\$18,565 (R\$19,610 as of December 31, 2018) (see note 10), 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.

17. LEASES PAYABLE

The breakdown of leases payable is as follows:

	<u>Maturity</u>	<u>Consolidated</u> <u>09.30.2019</u>
Properties	2023	11,754
Properties – SGUS	2030	226,734
Properties – stores	2025	46,931
Vehicles	2020	115

		285,534
Current		(33,346)

Noncurrent		252,188
		=====

Changes in the consolidated leases payable were as follows:

	<u>Properties</u>	<u>SGUS</u> <u>(*)</u>	<u>Properties -</u> <u>stores</u>	<u>Vehicles</u>	<u>Total</u>
Balances on December 31, 2018 (1)	-	23,221	-	-	23,221
Exchange variation	-	131	-	-	131
Initial adoption IFRS 16/CPC 06 R2 (2)	13,743	206,338	44,230	693	265,004
	-----	-----	-----	-----	-----
Balance on January 1, 2019	13,743	229,690	44,230	693	288,356
Additions (3)	36	-	12,760	-	12,796
Disposals (4)	-	(10,854)	-	-	(10,854)
Charges	897	17,290	3,613	29	21,829
Payments	(2,922)	(24,766)	(13,672)	(607)	(41,967)
Exchange variation	-	15,281	-	-	15,281
Others	-	93	-	-	93
	-----	-----	-----	-----	-----
Balances on September 30, 2019	11,754	226,734	46,931	115	285,534
	=====	=====	=====	=====	=====

(*) Liability corresponding to right-of-use assets classified as: (i) Real Estate - SGUS; (ii) Investment properties; and (iii) Leases receivable. See note 11.

(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.

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).

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

(4) Early termination of lease contract, in agreement with the landlord.

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

<u>Continuing operations</u>	<u>Consolidated</u>
Lease payments in the period	40,140
Amortization of right-of-use assets	(28,425)
Interest on leases in the period	(20,734)
Disposals, net	363

Total effects with the application of IFRS 16	(8,656)
	=====
<u>Discontinued operations</u>	<u>Consolidated</u>
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)
	=====

18. INCOME TAX AND OTHER TAXES

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

	Company		Consolidated	
	09.30.2019	09.30.2018	09.30.2019	09.30.2018
Income (loss) from operations before taxes (*)	69,416	(7,361)	155,471	(51,387)
Equity in subsidiaries	(74,188)	(3,007)	-	-
Investment support	-	-	(30,279)	(34,630)
Permanent differences from foreign subsidiaries	-	-	(4,049)	(1,733)
Other	-	-	688	7
	-----	-----	-----	-----
Income tax basis	(4,772)	(10,368)	121,831	(87,743)
34% income tax rate	1,622	3,525	(41,423)	29,833
Unrecognized tax credits	(1,622)	(3,525)	(44,163)	(31,854)
Tax credit of foreign subsidiary	-	-	(291)	47,051
Others	-	-	(178)	(1,004)
	-----	-----	-----	-----
Total income taxes	-	-	(86,055)	44,026
	=====	=====	=====	=====
 Continuing operations				
Income taxes – current	-	-	(482)	(758)
Income taxes – deferred	-	-	(2,852)	47,051
	-----	-----	-----	-----
	-	-	(3,334)	46,293
	=====	=====	=====	=====
 Discontinued operations				
Income taxes – current	-	-	(2,535)	(2,267)
Income taxes – deferred	-	-	(80,186)	-
	-----	-----	-----	-----
	-	-	(82,721)	(2,267)
	=====	=====	=====	=====

(*) Includes income from discontinued operations before taxes. See notes 29 and 30.

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.

Deferred income and social contribution taxes are composed as follows:

	12.31.2018	Recognized in:		Exchange rate variations	Other	09.30.2019
		Statement of operations	Equity			
Assets:						
Temporary differences (CSA – Argentina) (1) (a)	646	-	-	-	56	702
Temporary differences (CSA – Brasil) (1) (p)	13,734	(291)	-	-	-	13,443
Net operating losses (CSA – Brasil) (1) (p)	3,049	291	-	-	-	3,340
Tax credits from foreign subsidiary (CSA – Brasil) (1) (p)	7,167	-	-	-	-	7,167
Net operating losses (SGUS – EUA) (2)	145,182	(80,477)	-	5,237	(1,235)	68,707
Temporary differences (AMMO – Brasil) (1) (a)	257	-	-	-	291	548
Net operating losses (AMMO – Brasil) (1) (a)	2,042	-	-	-	(347)	1,695
Net operating losses (SGPSA – Brasil) (a)	1,906	-	-	-	-	1,906
	-----	-----	-----	-----	-----	-----
	173,983	(80,477)	-	5,237	(1,235)	97,508
Deferred tax liabilities:						
Investment properties (CSA – Brasil) (1) (p)	(78,188)	(2,561)	-	-	-	(80,749)
Hyperinflationary adjustment (CSA – Argentina) (1) (p)	(10,156)	-	-	-	3,010	(7,146)
Temporary differences (CSA – Brasil) (1) (p) (*)	-	-	-	-	(17,539)	(17,539)
	-----	-----	-----	-----	-----	-----
Total deferred taxes, net	85,639	(83,038)	-	5,237	(15,764)	(7,926)
	=====	=====	=====	=====	=====	=====
Noncurrent assets (sum of a)	150,033	(80,477)	-	5,237	(1,235)	73,558
Noncurrent liabilities (sum of p)	(64,394)	(2,561)	-	-	(14,529)	(81,484)
	=====	=====	=====	=====	=====	=====

(*) Deferred income taxes on PIS and COFINS tax credits transferred from current liabilities. See note 23.

(1) Deferred taxes of subsidiary CSA:

Deferred tax assets:

The 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:

Year	Consolidated		
	Temporary differences	Operating losses (*)	CSA consolidated
2020	(291)	291	-
2021	702	-	702
2022	547	-	547
2023 and thereafter	13,735	11,911	25,646
	-----	-----	-----
	14,693	12,202	26,895
	=====	=====	=====

(*) 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 September 30, 2019, CSA had net operating losses of R\$800,520 (R\$689,919 as of December 31, 2018) and social contribution tax losses of R\$806,876 (R\$696,197 as of December 31, 2018), whose tax assets were not recognized in the financial statements. As of September 30, 2019, the indirect subsidiary AMMO had net operating losses of R\$203,104 and social contribution tax losses of R\$283,076.

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 9 and 2.4 to the interim financial statements.

	Investment properties São Gonçalo		Investment properties Montes Claros (9.3)	Total
	Business complex (9.1)	Residential complex (9.2)		
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) Temporary differences (CSA – Brasil) (*)				7,146 17,539
Deferred tax liabilities				105,434

(*) Deferred income taxes on PIS and COFINS tax credits transferred from current liabilities. See note 23.

(2) Deferred taxes of subsidiary SGUS:

The 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 subsidiary SGUS had a deferred tax assets balance, as of September 30, 2019, totaling R\$68,707 (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 subsidiary SGUS and Keeco, as disclosed in notes 29 and 30, 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 subsidiary SGUS, as of September 30, 2019, is shown below:

Year	Subsidiary SGUS
2020	2,599
2021	3,695
2022	4,853
2023	7,203
2024 and thereafter	50,357

	68,707
	=====

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 September 30, 2019, subsidiary SGUS had R\$509,452 in tax losses (R\$472,625 at December 31, 2018) whose tax assets were not recognized in the interim financial statements.

c. Recoverable taxes

	Company		Consolidated	
	09.30.2019	12.31.2018	09.30.2019	12.31.2018
ICMS (state VAT)	-	-	9,786	5,078
Income and social contribution taxes prepayments	420	148	11,791	15,491
Recoverable PIS and COFINS (*)	-	-	235,492	221,228
IVA – Gross proceeds (Argentina)	-	-	1,371	2,119
VAT – China and Mexico	-	-	1,394	1,294
Recoverable IPI	-	-	346	83
Other recoverable taxes	-	-	533	674
	-----	-----	-----	-----
	420	148	260,713	245,967
Current	(420)	(148)	(39,914)	(17,736)
	-----	-----	-----	-----
Noncurrent	-	-	220,799	228,231
	=====	=====	=====	=====

(*) Includes credits from purchases and amounts related to credits resulting from the elimination of ICMS from the PIS and COFINS calculation basis. See note 23.

19. MISCELLANEOUS ACCRUALS

The Company and its subsidiaries are challenging in court the legality of certain taxes and 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, labor and civil claims, whose loss was estimated as possible in the amount of R\$91,380, R\$3,426 and R\$41,886, respectively, (R\$90,003, R\$4,165 and R\$41,687, respectively, on December 31, 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 labor lawsuits are related to labor claims of former employees and third parties. 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.

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

	Consolidated	
	09.30.2019	12.31.2018
Tax litigation claims - others	100	98
Labor	10,614	11,468
Civil and others	1,572	1,367
	-----	-----
Total	12,286	12,933
	=====	=====
Escrow deposits	11,312	12,541
	=====	=====

INSS – The subsidiary CSA is a plaintiff in a lawsuit against the Brazilian Treasury Department, disputing the INSS tax assessment on amounts considered to be employee termination costs and FAP (Accident Prevention Factor).

Labor – The subsidiary CSA is the defendant in lawsuits from former employees and third parties.

Civil – The subsidiary CSA is a plaintiff in a lawsuit against the Federal Government disputing the legality of the collection of “COFURH – Compensação Financeira pela Utilização de Recursos Hídricos”.

Changes in the consolidated accrual are as follows:

	Tax litigation claims	Labor	Civil and others	Total
	Others			
Balances on December 31, 2018	98	11,468	1,367	12,933
Additions	2	861	650	1,513
Disposals	-	(1,522)	(166)	(1,688)
Exchange variation	-	(193)	(279)	(472)
	-----	-----	-----	-----
Balances on September 30, 2019	100	10,614	1,572	12,286
	=====	=====	=====	=====

	Tax litigation claims		Labor	Civil and others	Total
	INSS	Others			
Balances on December 31, 2018	1,998	149	13,589	2,874	18,610
Additions	-	-	855	98	953
Disposals	(1,998)	-	(2,615)	(1,935)	(6,548)
	-----	-----	-----	-----	-----
Balances on September 30, 2018	-	149	11,829	1,037	13,015
	=====	=====	=====	=====	=====

20. EMPLOYEE BENEFIT PLANS

Substantially all of the employees of the subsidiary SGUS are covered by defined-contribution plans. Some executives of SGUS are covered by defined-benefit plans. 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, SGUS may, at its discretion, make a contribution in the proportion of the amounts contributed by the participants.

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 subsidiary SGUS are adjusted periodically. 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 plans' assets are invested in diversified equity securities and fixed-income funds (including US government debt). 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 September 30, 2019 and 2018:

	09.30.2019	09.30.2018
Components of net periodic benefit cost:		
Service cost	777	910
Interest cost, net	3,111	2,612
	-----	-----
Net periodic benefit cost	3,888	3,522
	=====	=====

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:

	<u>09.30.2019</u>	<u>12.31.2018</u>
Pension plan obligations	113,893	109,149
Other employee benefit obligations	3,047	4,734
	-----	-----
Total employee benefit plans	116,940	113,883
	-----	-----
Current (a)	(10,656)	(9,915)
	-----	-----
Noncurrent	106,284	103,968
	=====	=====

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

21. EQUITY

a. Capital

The subscribed and paid-in capital is represented by 50,000,000 common shares with voting rights. There was no change in the number of shares subscribed and paid for the period between January 1, 2018 and September 30, 2019.

b. Dividends and realizable earnings reserve

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 is determined in compliance with article 196 of law 6,404/76 and it is intended to be used on future investments.

d. Cumulative translation adjustments

Represents the exchange variation on investments in foreign direct and indirect subsidiaries.

e. Assets and liabilities valuation adjustments

Represents the unrealized gains and losses on: (i) subsidiaries' initial added value of investment properties at fair value and; (ii) actuarial gains and losses on defined benefit plans of subsidiaries.

22. RELATED-PARTY BALANCES AND TRANSACTIONS

	Receivable		Payable	
	09.30.2019	12.31.2018	09.30.2019	12.31.2018
Company:				
Coteminas S.A. (1)	-	-	12,926	83,690
	-----	-----	-----	-----
	-	-	12,926	83,690
	=====	=====	=====	=====
Consolidated:				
Companhia de Tecidos Norte de Minas – Coteminas	12,530	17,203	-	-
Coteminas International Ltd.	2,609	1,654	-	-
Santanense Argentina	55	74	-	-
Argentina branch	17	15	-	-
Seda, Inc.	-	-	-	58
	-----	-----	-----	-----
	15,211	18,946	-	58
	=====	=====	=====	=====

(1) On January 1, 2019, the Company sold to its subsidiary CSA the total shares representing the capital of AMMO Varejo Ltda. for its book value of R\$57,735 (R\$30,432 in investment and R\$27,303 in goodwill), utilizing a part of the intercompany notes.

	Finance charges	
	09.30.2019	09.30.2018
Company:		
Coteminas S.A.	(698)	(4,576)
Companhia de Tecidos Norte de Minas - Coteminas	-	(1)
	-----	-----
	(698)	(4,577)
	=====	=====
Consolidated:		
Companhia de Tecidos Norte de Minas – Coteminas	10,556	9,761
Companhia Tecidos Santanense	219	(637)
Coteminas International Ltd.	61	25
Wembley S.A.	4	-
	-----	-----
	10,840	9,149
	=====	=====

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 held on December 29, 2015 also approved payment of 2% commission (two percent annually), limited to the cumulative amount of R\$47,750, on sureties/ guarantees provided by the controlling shareholder on loans and financing contracted by the Company and its subsidiaries. As of September 30, 2019, the amount of R\$14,920 was recorded with R\$4,669 (R\$5,288 as of December 31, 2018) in the caption "Other receivables" in current assets and R\$10,251 in the caption "Others" in noncurrent assets (R\$13,669 as of December 31, 2018), related to guarantees on existing contracts and credit facilities. In the nine-month period ended on September 30, 2019, the amount of R\$4,037 was recorded as interest expenses under the caption "Financial expenses – bank charges and others" (R\$5,703 in the same period of 2018).

In the nine-month period ended on September 30, 2019, the subsidiary CSA supplied intermediate products to a related party, Companhia Tecidos Santanense, in the amount of R\$12,915 (R\$23,470

in the same period of 2018). On September 30, 2019, there were no advances from clients in the caption "Other payables" under current liabilities (R\$7,500 on December 31, 2018).

On September 30, 2019, the subsidiary CSA had credits in the amount of R\$63,164 (R\$11,151 on December 31, 2018) ceded by CTNM, included in "Receivable - clients" in noncurrent assets. See note 7g.

CTNM and the indirect subsidiary AMMO Varejo have a rental agreement for the property where their distribution center and office are located. In the nine-month period ended on September 30, 2019, payments were made in the amount of R\$2,608. See notes 11 and 17.

On September 30, 2019, the indirect subsidiary LAT Capital Ltd. had R\$29,946 in investments in foreign funds and deposit accounts, received from Coteminas International Ltd., a company under common control.

All of the above transactions, buying and selling products and loan transactions, are conducted at market prices and rates.

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.

23. TAX RECOVERY

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, a favorable judgement 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 and the right to exclude the ICMS from the PIS and COFINS calculation base from that date. 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.

The Company, supported by the position of its technical and legal advisors, understood 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.

In December 2018, the subsidiaries CSA and AMMO Varejo recognized credits in the amount of R\$208,924 for the periods from January 2006 to February 2017 and January 2011 to July 2017 respectively, which updated are recorded in the caption "Tax recovery".

The credits of subsidiary CSA were cleared in the third quarter of 2019 and are being compensated. The credits of indirect subsidiary AMMO Varejo are in the process of being enabled for compensation.

24. 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	
	09.30.2019	12.31.2018	09.30.2019	12.31.2018
FINANCIAL ASSETS				
Amortized cost:				
Cash and cash equivalents	73	49	171,995	139,474
Marketable securities (current)	-	-	31,703	7,045
Accounts receivable	-	-	463,159	503,798
Cash holdback amount	-	-	26,236	-
Other receivables	1,069	1,168	43,759	33,783
Marketable securities (noncurrent)	-	-	82,173	75,729
Receivable – clients	-	-	73,054	39,934
Related parties	-	-	15,211	18,946
Escrow deposits	-	-	11,312	12,541
Others	-	-	41,249	41,601
Fair value through profit or loss:				
Derivative financial instruments	-	-	-	4,798
Marketable securities (current)	-	-	18,082	9,950
FINANCIAL LIABILITIES				
Amortized cost:				
Loans and financing (current)	12,891	4,759	525,328	527,241
Debentures (current)	-	-	87,459	74,653
Suppliers	37	-	147,866	112,830
Government concessions (current)	-	-	21,862	21,361
Other accounts payable	-	-	45,986	59,928
Loans and financing (noncurrent)	9,967	-	462,683	417,818
Debentures (noncurrent)	-	-	24,645	73,669
Related parties	12,926	83,690	-	58
Government concessions (noncurrent)	-	-	43,773	44,087
Other obligations	-	-	26,073	22,555

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 (TJLP, CDI and LIBOR), which accompany market rates. Considering the maturities of other 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 September 30, 2019 and December 31, 2018, except for the transaction described in items 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:

	09.30.2019			Exchange rate variation on foreign investments R\$
	R\$	\$ ARG	US\$	
Coteminas Argentina	20,597	284,838	-	(2,495)
LAT Capital	6,822	-	1,638	610
SGUS	456,670	-	109,660	32,593
	-----	-----	-----	-----
Total of foreign investments	484,089	284,838	111,298	30,708
	=====	=====	=====	=====

	12.31.2018			Exchange rate variation on foreign investments R\$
	R\$	\$ ARG	US\$	
Coteminas Argentina (*)	38,426	373,794	-	(10,616)
LAT Capital	2,805	-	724	431
SGUS	251,491	-	64,904	22,656
	-----	-----	-----	-----
Total of foreign investments	292,722	373,794	65,628	12,471
	=====	=====	=====	=====

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

d.3.2) Exchange rate risks on financial instruments of the Company and its subsidiaries:

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

Financial instruments	09.30.2019	12.31.2018
Cash and cash equivalents	923	78
Derivative financial instruments	-	4,798
Accounts receivable	45,294	42,867
Marketable securities	82,173	75,729
Receivable - clients	63,164	11,151
Suppliers, net	(10,072)	(1,430)
Loan and financing	(235,431)	(178,388)
Related parties	(296,863)	(125,915)
	-----	-----
Total exposure in Brazilian Reais	(350,812)	(171,110)
	=====	=====
Total exposure in equivalent thousands of US Dollars	(84,241)	(44,160)
	=====	=====

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

Maturity	Risk	Exposure value in thousands of US\$	Scenarios		
			Probable	II	III
2019	US Dollar appreciation	(53,981)	(304)	(56,579)	(112,853)
2020	US Dollar appreciation	(38,464)	(1,149)	(41,481)	(81,814)
2021	US Dollar appreciation	(1,413)	71	(1,382)	(2,836)
2022	US Dollar appreciation	4,926	2,116	7,773	13,430
2023	US Dollar appreciation	4,691	3,072	8,724	14,375
		-----	-----	-----	-----
		(84,241)	3,806	(82,945)	(169,698)
		=====	=====	=====	=====

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:

Description	Notional Value – US\$ thousands		Fair Value – Asset (Liability)	
	09.30.2019	12.31.2018	09.30.2019	12.31.2018
Option Contract -- Position: Sell Currency: US\$ Dollar settlement: R\$3.8700 Counterpart: Itaú BBA Other information: 2 contracts of US\$35,000 thousands (each), maturing on February/19	-	70,000	-	5,359
Option Contract -- Position: Buy Currency: US\$ Dollar settlement: R\$4.2700 Counterpart: Itaú BBA Other information: 1 contract of US\$35,000 thousands, maturing on February/19	-	35,000	-	(260)
Option Contract -- Position: Buy Currency: US\$ Dollar settlement: R\$4.2050 Counterpart: Itaú BBA Other information: 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 are 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 nine-month period ended on September 30, 2019, the subsidiary CSA recognized a gain of R\$3,080 (R\$18,854 in the same period of 2018). As of September 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 (except as described in d.5.1 and d.5.2 below), which reflect rates equivalent to LIBOR, or fixed interest rates, are disclosed in notes 13 and 22. Considering the cash flows of these liabilities 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.

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 – interest” caption in the statements of operations. There were no interest rate derivatives in the periods ended September 30, 2019 and 2018.

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	09.30.2019			12.31.2018	
	Principal amount R\$ thousands	Accrued interest	Prepaid interest	Payable	Payable
Loan Agreement -- Interest: 130.0% of CDI Counterpart: Banco Brasil S.A. – NCE Maturity: November/2023	165,000	901	(3,520)	162,381	165,962
Loan Agreement -- Interest: 130.0% of CDI Counterpart: Banco Brasil S.A. – NCE Maturity: November/2023	165,000	901	(3,520)	162,381	166,046
Loan Agreement -- Interest: 127.5% of CDI Counterpart: Banco Brasil S.A. – CCB Maturity: June/2021	78,750	215	(1,919)	77,046	110,025
(Refer to Note 13)				401,808	442,033
Loan Agreement -- Interest: 149.0% of CDI Counterpart: Banco BBM S.A. – CCB Maturity: June/2021	27,064	8	-	27,072	39,345
Loan Agreement -- Interest: CDI + 4.0% Counterpart: Banco BBM S.A. – CCB Maturity: July/2021	5,906	3	-	5,909	8,589
Loan Agreement -- Interest: 150.5% of CDI Counterpart: Banco BBM S.A. – CCB Maturity: July/2021	10,199	3	-	10,202	14,404
Loan Agreement -- Interest: 149.0% of CDI Counterpart: Banco BBM S.A. – CCB Maturity: November/2021	8,000	1	-	8,001	8,006
(Refer to Note 13)				51,184	70,344
Loan Agreement -- Interest: CDI + 4.2% Counterpart: Banco ABC Brasil S.A. – CCB Maturity: April/2022	18,106	34	-	18,140	18,188
Loan Agreement -- Interest: CDI + 4.2% Counterpart: Banco ABC Brasil S.A. – CCB Maturity: April/2022	10,000	18	-	10,018	10,047
Loan Agreement -- Interest: CDI + 4.2% Counterpart: Banco ABC Brasil S.A. – CCE Maturity: April/2022	10,000	18	-	10,018	10,047
Loan Agreement -- Interest: CDI + 4.2% Counterpart: Banco ABC Brasil S.A. – CCE Maturity: April/2022	10,000	18	-	10,018	10,015
(Refer to Note 13)				48,194	48,297

Description	09.30.2019			12.31.2018	
	Principal amount R\$ thousands	Accrued interest	Prepaid interest	Payable	Payable
Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Daycoval S.A. Maturity: September/2020	13,333	106	-	13,439	20,165
Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Daycoval S.A. Maturity: October/2020	7,360	12	-	7,372	10,210
(Refer to Note 13)				20,811	30,375
Loan Agreement -- Interest: CDI + 2.8% Counterpart: Banco Fibra S.A. – CCE Maturity: April/2019	-	-	-	-	25,260
(Refer to Note 13)				-	25,260
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: December/2019	1,667	15	-	1,682	5,089
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: February/2020	2,083	13	-	2,096	5,071
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: November/2019	20,000	184	-	20,184	20,179
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: December/2019	20,000	142	-	20,142	20,137
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: March/2020	4,000	56	-	4,056	-
Loan Agreement -- Interest: CDI + 5.3% Counterpart: Banco Safra S.A. – CCB Maturity: March/2020	2,000	18	-	2,018	-
(Refer to Note 13)				50,178	50,476
Loan Agreement -- Interest: CDI + 6.5% Counterpart: Banco Fibra S.A. Maturity: July/2020	4,762	26	-	4,788	9,098
(Refer to Note 13)				4,788	9,098
Loan Agreement -- Interest: CDI + 6.8% Counterpart: Banco Sofisa S.A. Maturity: October/2019	10,000	104	-	10,104	-
Loan Agreement -- Interest: CDI + 6.8% Counterpart: Banco Sofisa S.A. Maturity: December/2019	10,000	97	-	10,097	-

Description	09.30.2019			12.31.2018	
	Principal amount R\$ thousands	Accrued interest	Prepaid interest	Payable	Payable
Loan Agreement -- Interest: CDI + 6.8% Counterpart: Banco Sofisa S.A. Maturity: January/2020	10,000	89	-	10,089	-
(Refer to Note 13)				30,290	-
Loan Agreement -- Interest: 149.6% of CDI Counterpart: Caixa Econômica Federal – CCB Maturity: December/2021	18,281	46	(382)	17,945	-
(Refer to Note 13)				17,945	-
Loan Agreement (*) -- Interest: 89.0% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: May/2019	-	-	-	-	44,335
Loan Agreement (*) -- Interest: 103.0% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: February/2020	-	-	-	-	37,896
Loan Agreement (*) -- Interest: 118.8% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: November/2020	-	-	-	-	42,773
(Refer to Note 13)				-	125,004
Debentures 3 rd series -- Interest: 110.0% of CDI Counterpart: Gaia Agro Sec. S.A. Maturity: June/2020	25,000	473	(434)	25,039	36,734
Debentures 4 th series -- Interest: CDI + 2.75% Counterpart: Several debenture holders Maturity: February/2021	87,500	912	(1,347)	87,065	111,588
(Refer to Note 14)				112,104	148,322
	744,011	4,413	(11,122)	737,302	949,209

(*) Agreements renegotiated in 2019 at a rate of 8.1% per annum + exchange variation, with maturity extended to 2021.

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

Maturity	Risk	Principal average balance	Scenarios		
			Probable	II	III
2019	CDI increase	719,435	11,803	14,161	17,245
2020	CDI increase	541,240	37,601	42,482	50,330
2021	CDI increase	351,890	22,592	32,473	38,852
2022	CDI increase	187,213	12,014	19,887	23,880
2023	CDI increase	80,000	4,410	7,785	9,351
			=====	=====	=====

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 September 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:

	Consolidated	
	09.30.2019	12.31.2018
Loans and financing	988,011	945,059
Debentures	112,104	148,322
Cash and cash equivalents	(171,995)	(139,474)
Marketable securities	(131,958)	(92,724)
Derivative financial instruments	-	(4,798)
	-----	-----
Total net debt	796,162	856,385
	-----	-----
Total equity	1,420,563	1,325,042
	-----	-----
Total net debt and equity	2,216,725	2,181,427
	=====	=====
Total net debt	796,162	856,385
Cash holdback amount	(26,236)	-
	-----	-----
Total net debt after cash holdback amount	769,926	856,385
	=====	=====

25. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate financial statements are 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. 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 on a consolidated basis, the Company and its subsidiaries have concluded that they have two operating segments: "Wholesale" and "Retail".

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

The financial statements, segregated by the segments previously explained, are presented below (in millions of Reais):

	09.30.2019 (continuing operations)				Total
	Brasil		Argentina	(*) Others	
	Wholesale	Retail	Wholesale	unallocated	
Net revenues	832.6	192.7	109.6	(85.6)	1,049.3
Cost of goods sold	(637.0)	(93.0)	(86.2)	85.1	(731.1)
Gross profit	195.6	99.7	23.4	(0.5)	318.2
Selling, general and administrative expenses	(162.7)	(103.6)	(16.2)	(10.9)	(293.4)
Other	9.7	5.7	(3.3)	11.9	24.0
Operating results	42.6	1.8	3.9	0.5	48.8
Financial results	-	-	-	(170.4)	(170.4)
Income (loss) before taxes	42.6	1.8	3.9	(169.9)	(121.6)
Depreciation and amortization	44.6	18.9	4.4	13.8	81.7

(*) Includes Company expenses and the results from the continuing operations of subsidiary SGUS.

09.30.2018 (continuing operations)					
	Brasil		Argentina Wholesale	(*) Others unallocated	Total
	Wholesale	Retail			
Net revenues	816.7	189.6	116.0	(98.2)	1,024.1
Cost of goods sold	(601.3)	(92.2)	(93.3)	99.4	(687.4)
Gross profit	215.4	97.4	22.7	1.2	336.7
Selling, general and administrative expenses	(141.7)	(103.6)	(20.9)	(9.2)	(275.4)
Other	7.5	10.5	(0.2)	(6.0)	11.8
Operating results	81.2	4.3	1.6	(14.0)	73.1
Financial results	-	-	-	(165.1)	(165.1)
Income (loss) before taxes	81.2	4.3	1.6	(179.1)	(92.0)
Depreciation and amortization	50.1	2.4	1.2	0.9	54.6

(*) Includes Company expenses and the results from the continuing operations of subsidiary SGUS.

The Company, through the analysis of sales performance, classifies 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	
	09.30.2019	09.30.2018
Net revenues (in millions of Reais):		
Bedding, tabletop and bath	671.2	642.1
Intermediate products	185.5	192.6
Retail	192.6	189.4
	1,049.3	1,024.1
Volume (in thousands of tons):		
Bedding, tabletop and bath	19.5	19.9
Intermediate products	17.6	18.0
	37.1	37.9

The Company has over 10,000 active clients as of September 30, 2019.

26. 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	
	09.30.2019	09.30.2018
Cost of raw materials, goods and services acquired from third parties	(651,463)	(634,887)
Employee benefits	(251,146)	(244,076)
INSS	(26,992)	(26,392)
Depreciation and amortization	(81,724)	(54,560)
Finished goods and work in process inventory variations	(8,103)	25,822
Exchange rate variations on inventories of foreign subsidiaries	(5,303)	(1,639)
Other	224	(27,058)
	-----	-----
Total by nature	(1,024,507)	(962,790)
	=====	=====

By function:

	Consolidated	
	09.30.2019	09.30.2018
Cost of goods sold	(731,091)	(687,422)
Selling expenses	(204,202)	(190,251)
General and administrative expenses	(80,864)	(76,454)
Management fees	(8,350)	(8,663)
	-----	-----
Total by function	(1,024,507)	(962,790)
	=====	=====

27. NET REVENUES

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

	Consolidated	
	09.30.2019	09.30.2018
OPERATING REVENUES:		
Gross revenues	1,404,462	1,317,115
Sales deductions	(355,143)	(293,010)
	-----	-----
NET REVENUES	1,049,319	1,024,105
	=====	=====

28. BASIC AND DILUTED INCOME (LOSS) PER SHARE

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

	<u>09.30.2019</u>	<u>09.30.2018</u>
NET LOSS FOR THE PERIOD OF THE CONTINUED OPERATIONS	(124,946)	(45,663)
NET INCOME FOR THE PERIOD OF THE DISCONTINUED OPERATIONS	194,362	38,302
NET INCOME (LOSS) FOR THE PERIOD	----- 69,416	----- (7,361)
Weighted-average outstanding common shares	50,000,000	50,000,000
BASIC AND DILUTED INCOME (LOSS) PER SHARE (R\$)		
From continuing operations	(2.4989)	(0.9132)
From discontinued operations	3.8872	0.7660
	----- 1.3883	----- (0.1472)
	=====	=====

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

29. DISCONTINUED OPERATIONS

On December 28, 2018, the Company 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 30), 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\$26,236 presented in current assets at September 30, 2019) 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 nine-month period ended September 30, 2019. The statements of operations, comprehensive income and cash flows for the nine-month period ended September 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:

	<u>12.31.2018</u>
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:	
Other obligations	9,985

Total liabilities directly related to assets held for sale	240,086
	=====
ASSETS HELD FOR SALE, NET	68,158
	=====

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

	Company		Consolidated	
	09.30.2019	09.30.2018	09.30.2019	09.30.2018
NET REVENUES	-	-	199,739	657,944
COST OF GOODS SOLD	-	-	(177,698)	(568,939)
GROSS PROFIT	-	-	22,041	89,005
OPERATING INCOME (EXPENSES):				
Selling expenses	-	-	(5,320)	(19,110)
General and administrative expenses	-	-	(8,054)	(26,359)
Equity in subsidiaries	194,362	38,302	-	-
Others, net	-	-	(2,926)	1,576
INCOME FROM OPERATIONS	194,362	38,302	5,741	45,112
Financial expenses – interests and other charges	-	-	(3,750)	(4,543)
INCOME FROM OPERATIONS BEFORE TAXES	194,362	38,302	1,991	40,569
Income and social contribution taxes:				
Current	-	-	(197)	(2,267)
Deferred	-	-	-	-
Income for the period from discontinued operations, before gain on sale of the net assets held for sale	194,362	38,302	1,794	38,302
Gain on sale of the net assets held for sale	-	-	192,568	-
NET INCOME FOR THE PERIOD – DISCONTINUED OPERATIONS	194,362	38,302	194,362	38,302

The cash flow statements of discontinued operations are presented below:

	Company		Consolidated	
	09.30.2019	09.30.2018	09.30.2019	09.30.2018
Cash flows from discontinued operations activities:				
Net income for the year	194,362	38,302	194,362	38,302
Depreciation and amortization	-	-	1,841	2,022
Equity in subsidiaries	(194,362)	(38,302)	-	-
Income and social contribution taxes	-	-	82,721	2,267
Gain on the sale of discontinued operations	-	-	(275,092)	-
Bank charges, interests and commissions	-	-	2,668	3,464
Reversal of impairment on the recoverable value of assets	-	-	-	(1,047)
	-----	-----	-----	-----
	-	-	6,500	45,008
Changes in assets and liabilities				
Accounts receivable	-	-	(1,617)	(10,475)
Inventories	-	-	(11,635)	(26,683)
Suppliers	-	-	(6,173)	7,464
Others	-	-	3,031	2,984
	-----	-----	-----	-----
Net cash provided by (used in) discontinued operations activities before interest and taxes	-	-	(9,894)	18,298
Interest paid	-	-	(969)	(2,358)
Income and social contribution taxes paid	-	-	(521)	(431)
	-----	-----	-----	-----
Net cash provided by (used in) discontinued operations activities after interest and income taxes	-	-	(11,384)	15,509
	-----	-----	-----	-----
Cash flows from investing discontinued operations activities:				
Acquisition of property, plant and equipment in discontinued operations	-	-	-	(1,353)
Proceeds from sale of discontinued operations	-	-	469,631	-
	-----	-----	-----	-----
Net cash provided by (used in) investing discontinued operations activities	-	-	469,631	(1,353)
	-----	-----	-----	-----
Cash flows from discontinued financing activities:				
Proceeds from new loans	-	-	43,754	155,025
Repayment of loans	-	-	(156,941)	(130,595)
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	-	-	(113,187)	24,430
	-----	-----	-----	-----
Total cash provided by discontinued operations	-	-	345,060	38,586
	=====	=====	=====	=====

30. 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.
