

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

Vivara Group

Combined Financial Statements
for the Six-month Period Ended
June 30, 2019 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITOR'S REPORT ON THE COMBINED FINANCIAL STATEMENTS

To the Shareholders and Management of
Vivara Group

Opinion

We have audited the accompanying combined financial statements of Vivara Group ("Group"), which comprise the balance sheet as at June 30, 2019, and the related combined statements of income, of comprehensive income, of changes in equity, of cash flows and of value added for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Vivara Group as at June 30, 2019, and its combined financial performance and its combined cash flows for the six-month period then ended, in accordance with the accounting practices adopted in Brazil, specifically in accordance with technical pronouncement CPC 44 - Combined Financial Statements.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the combined financial statements" section of our report. We are independent of the Group in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis

Presentation of the combined financial statements

As described in note 2 to the combined financial statements, Group's Management decided to combine the balances and transactions of the companies Tellerina Comércio de Presentes e Artigos para Decoração S.A. and Conipa Indústria e Comércio de Presentes, Metais e Artigos de Decoração Ltda., to demonstrate the Group's assets, liabilities, equity, income and expenses. The process of combining balance sheet and profit and loss accounts and other information in the combined financial statements corresponds to the aggregation of asset and liability account balances and income and expenses, by their nature, and subsequent elimination of transactions between the combined companies, if applicable. The combined financial statements are being presented solely for the purpose of providing additional analysis to third parties and do not represent the individual or consolidated financial statements of a legal entity and its subsidiaries.

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As mentioned in note 2 to the combined financial statements, these financial statements should not be relied upon as a basis for dividend and tax purposes or for any other corporate purpose. Our opinion is not qualified related to this matter.

Key audit matters

Key audit matters ("KAM") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the combined financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not provide a separate opinion on these matters.

Restrictive covenants

Why is it a KAM?

The Group, as described in note 17 to the combined financial statements, has several loan and financing agreements with restrictive financial covenants linked to the maintenance of certain financial ratios, calculated based on the combined financial statements, including another affiliated entity of the Group, that is not included in these combined financial statements.

We considered such matter a key audit matter in our audit, since any failure in calculating the financial ratios set out in the restrictive financial covenants, or exercising judgment about and interpreting those covenants, may entail the debt reclassification to current liabilities and/or accelerated repayment of borrowings and financing.

How the matter was addressed in our audit

We obtained an understanding of the Group's relevant controls over the monitoring and calculation of financial ratios to assess the restrictive covenants and read the clauses defined under the loan and financing agreements associated with the determination of financial ratios. We matched the information contained in spreadsheets prepared by the Group's Management for calculating the financial ratios to the accounting records and checked the calculations made by Management. We discussed the methodology adopted to calculate the financial covenants.

We also assessed the appropriateness of the Group's disclosures on this matter, reported in note 17 to the combined financial statements.

Based on the evidence obtained through our procedures described above, we consider that the determination of financial ratios by Management for the assessment of compliance with the restrictive covenants and the related disclosures in the notes are acceptable in the context of the combined financial statements taken as a whole.

Accounting of the effects of the adoption of technical pronouncement CPC 06 (R2) – Leases

Why is it a KAM?

The Group has important commitments resulting from operating lease agreements and, as at January 1, 2019, it is required to account for its operating lease transactions in accordance with technical pronouncement CPC 06 (R2) – Leases. This new technical pronouncement introduced complex accounting aspects for measuring the right-of-use assets and leasing liabilities.

This matter was deemed relevant in our audit because: (i) it refers to the adoption of a technical pronouncement that had a material impact on the financial statements, as described in note 29 to the combined financial statements; (ii) there is judgment involved regarding the interest rates considered for calculating the liability; (iii) there is judgment involved in defining the lease terms to be considered for each leasing agreement; and (iv) there is judgment applied to initial accounting, with regard to the transition rules.

How the matter was addressed in our audit

Our audit procedures included, but were not limited to: (i) assessing the design of the internal controls related to identification and classification of the leasing agreements; (ii) analyzing the accounting policies established by Management in comparison with the requirements of technical pronouncement CPC 06 (R2); (iii) performing documentary testing of the operating lease agreements, which were the basis for the calculation; and (iv) involving our IFRS technical experts in the analysis of the guidelines used by Management to calculate the effects from adopting this new technical pronouncement.

Based on the evidence obtained through our procedures described above, we consider that the calculation and criteria for assessment of the effects from adopting technical pronouncement CPC 06 (R2) are acceptable, for purposes of accounting and disclosure of information in the context of the combined financial statements taken as a whole.

Responsibilities of Management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with the accounting practices adopted in Brazil, specifically in accordance with technical pronouncement CPC 44 - Combined Financial Statements, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

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

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

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

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

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

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

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

São Paulo, August 19, 2019


DELOITTE TOUCHE TOHMATSU
Auditores Independentes


Marcelo de Figueiredo Seixas
Engagement Partner

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

VIVARA GROUP

BALANCE SHEET AS AT JUNE 30, 2019

(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>Note</u>	<u>06/30/2019</u>	<u>12/31/2018</u>	<u>LIABILITIES AND EQUITY</u>	<u>Note</u>	<u>06/30/2019</u>	<u>12/31/2018</u>
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	5	66,725	84,781	Trade payables	13	38,924	46,204
Securities	6	608	590	Borrowings and financing	17	150,408	115,892
Trade receivables	7	220,815	214,981	Investments - equity deficiency	10	-	96
Due from related parties	20	3,909	1,911	Due to related parties	20	691	478
Inventories	8	366,880	348,290	Payroll and related taxes	14	44,068	48,140
Recoverable taxes	9	62,398	56,933	Taxes payable	15	62,489	73,608
Prepaid expenses and other receivables		14,318	13,607	Taxes in installments	16	827	1,224
Derivatives	17	<u>3,386</u>	<u>4,208</u>	Leases payable		9,162	13,224
Total current assets		<u>739,039</u>	<u>725,301</u>	Right-of-use leases payable	29	18,751	-
				Other payables		<u>14,522</u>	<u>17,643</u>
NONCURRENT ASSETS				Total current liabilities		<u>339,842</u>	<u>316,509</u>
Escrow deposits	18	13,702	13,309				
Due from related parties	20	7,150	9,698	NONCURRENT LIABILITIES			
Deferred income tax and social contribution	21.b)	36,790	51,729	Borrowings and financing	17	137,340	99,553
Derivatives	17	4,026	6,490	Taxes in installments	16	2,156	2,110
Recoverable taxes	9	192,455	33,486	Provision for civil, labor and tax risks	18	15,855	19,766
Investments	10	1,939	-	Right-of-use leases payable		207,695	-
Property, plant and equipment	11	264,200	40,824	Other payables		-	692
Intangible assets	12	<u>8,458</u>	<u>8,810</u>	Total noncurrent liabilities		<u>363,046</u>	<u>122,121</u>
Total noncurrent assets		<u>528,720</u>	<u>164,346</u>				
				EQUITY			
				Capital	19.a)	147,712	147,712
				Earnings reserves	19.b)	366,723	293,208
				Accumulated losses		55,201	10,097
				Other non-comprehensive income		<u>(4,765)</u>	-
				Total equity		564,871	451,017
				TOTAL LIABILITIES AND EQUITY		<u>1,267,759</u>	<u>889,647</u>
TOTAL ASSETS		<u>1,267,759</u>	<u>889,647</u>				

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

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

VIVARA GROUP

STATEMENT OF INCOME

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

(In thousands of Brazilian reais - R\$, except earnings per share)

	<u>Note</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
NET REVENUE FROM SALES AND SERVICES	22	523,748	464,128
Costs of sales and services	23	(183,931)	(125,227)
GROSS PROFIT		<u>339,817</u>	<u>338,901</u>
OPERATING INCOME (EXPENSES)			
Selling expenses	23	(164,460)	(165,891)
General and administrative expenses	23	(81,159)	(61,916)
Share of profit (loss) of subsidiaries	10	(180)	(228)
Other operating income (expenses), net	25	107,707	(715)
INCOME BEFORE FINANCE INCOME (COSTS)		<u>201,725</u>	<u>110,151</u>
FINANCE INCOME (COSTS)			
Finance income	26	53,819	6,759
Finance costs	27	(36,829)	(24,837)
OPERATING INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		<u>218,715</u>	<u>92,073</u>
INCOME TAX AND SOCIAL CONTRIBUTION			
Current	21.a)	(17,781)	(12,531)
Deferred	21.a)	(14,897)	(2,708)
PROFIT FOR THE PERIOD		<u>186,037</u>	<u>76,834</u>
EARNINGS PER SHARE - R\$	28	<u>6.51363</u>	<u>2.69015</u>

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VIVARA GROUP

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019
(In thousands of Brazilian reais - R\$)

	<u>06/30/2019</u>	<u>06/30/2018</u>
PROFIT FOR THE PERIOD	186,037	76,834
Other comprehensive income:		
Fair value of financial instruments	(4,765)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>181,272</u>	<u>76,834</u>

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

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VIVARA GROUP

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019
(In thousands of Brazilian reais - R\$)

	Note	Capital	Earnings reserve Tax incentive	Legal reserve	Accumulated losses	Other comprehensive income	Total
BALANCES AS AT DECEMBER 31, 2017		147,712	207,179	566	(31,106)	-	324,351
Profit for the period		-	-	-	76,834	-	76,834
Recognition of tax incentive reserve	19.b)	-	21,152	-	(21,152)	-	-
Distributed dividends	19.c)	-	-	-	(27,469)	-	(27,469)
BALANCES AS AT JUNE 30, 2018		<u>147,712</u>	<u>228,331</u>	<u>566</u>	<u>(2,893)</u>	<u>-</u>	<u>373,716</u>
BALANCES AS AT DECEMBER 31, 2018		147,712	291,372	1,836	10,097	-	451,017
Profit for the period		-	-	-	186,037	-	186,037
Recognition of tax incentive reserve	19.b)	-	73,515	-	(73,515)	-	-
Distributed dividends	19.c)	-	-	-	(67,418)	-	(67,418)
Fair value of financial instruments		-	-	-	-	(4,765)	(4,765)
BALANCES AS AT JUNE 30, 2019		<u>147,712</u>	<u>364,887</u>	<u>1,836</u>	<u>55,201</u>	<u>(4,765)</u>	<u>564,871</u>

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VIVARA GROUP

STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019
(In thousands of Brazilian reais - R\$)

	Note	06/30/2019	06/30/2018
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the period		186,037	76,834
Adjustments to reconcile profit for the period to net cash provided by (used in) operating activities:			
Depreciation and amortization	23	21,513	9,059
Charges and exchange rate changes on borrowings and financing	17	9,016	15,794
Charges on right-of-use leases		12,472	-
Current and deferred income tax and social contribution	21	32,678	15,239
Allowance for inventory losses	8	(822)	775
Provision for civil, labor and tax risks	18	(2,181)	650
Expected credit losses	7	134	220
Share of profit (loss) of subsidiaries	10	180	228
Gain (loss) on sale of investments		(1,159)	-
Tax credits	9	(103,658)	-
Inflation adjustments to escrow deposits and recoverable taxes		(51,779)	(4,137)
Increase (decrease) in operating assets and liabilities:			
Trade receivables		(10,732)	35,663
Due from related parties		475	(29,191)
Inventories		(17,770)	(85,415)
Recoverable taxes		(11,306)	29,503
Escrow deposits		(91)	(221)
Other receivables		1,293	7,374
Trade payables		(7,280)	(17,964)
Payroll and related taxes		(4,072)	(1,550)
Taxes payable		(13,790)	(40,948)
Leases payable		(4,062)	(3,708)
Taxes in installments		(351)	(1,010)
Contingencies paid		(1,729)	(1,301)
Other payables		(3,768)	(105)
Cash provided by operating activities		29,248	5,789
Income tax and social contribution paid		(15,109)	(8,207)
Paid interest on borrowings and financing	17	(6,844)	(18,810)
Net cash provided by (used in) operating activities		7,295	(21,228)
CASH FLOW FROM INVESTING ACTIVITIES			
Short-term investments	6	(17)	(17)
Intragroup loans		(2,000)	-
Purchase of property, plant and equipment	11	(8,690)	(4,735)
Sale of property, plant and equipment		1,232	1,064
Purchase of intangible assets	12	(2,030)	(1)
Net cash used in investing activities		(11,505)	(3,689)
CASH FLOW FROM FINANCING ACTIVITIES			
Interest on capital paid	19.c)	-	(7,290)
Dividends paid	19.c)	(67,418)	(27,469)
Borrowings and financing	17	129,000	-
Repayment of borrowings and financing	17	(56,907)	(41,350)
Settlement of swap contracts		1,323	(625)
Repayment of right-of-use leases		(19,844)	-
Repayment of intragroup borrowings		-	(2,600)
Net cash used in financing activities		(13,846)	(79,334)
DECREASE IN CASH AND CASH EQUIVALENTS		(18,056)	(104,251)
Opening balance of cash and cash equivalents		84,781	124,758
Closing balance of cash and cash equivalents		66,725	20,507

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

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

VIVARA GROUP

STATEMENT OF VALUE ADDED
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019
(In thousands of Brazilian reais - R\$)

	Note	06/30/2019	06/30/2018
REVENUE			
Sales of goods, products and services	22	659,614	586,040
Other income	25	105,661	154
Expected credit losses	25	(134)	(220)
INPUTS ACQUIRED FROM THIRD PARTIES			
Costs of sales and services		(169,956)	(112,221)
Supplies, power, outside services and other inputs		(81,746)	(72,519)
GROSS VALUE ADDED		513,439	401,234
Depreciation and amortization	11 and 12	(21,513)	(9,059)
WEALTH CREATED BY THE COMPANY		491,926	392,175
WEALTH RECEIVED IN TRANSFER			
Profit sharing of associates	10	(180)	(228)
Finance income	26	53,819	6,759
TOTAL WEALTH FOR DISTRIBUTION		545,565	398,706
WEALTH DISTRIBUTED			
Personnel:			
Salaries and wages		76,524	74,102
Benefits		13,321	13,290
Severance Pay Fund (FGTS)		7,140	6,397
		96,985	93,789
Taxes, fees and contributions:			
Federal		99,006	74,857
State		97,953	87,866
Municipal		1,272	1,066
		198,231	163,789
Lenders and lessors:			
Interest and banking expenses	27	36,829	24,837
Rentals		26,987	38,878
Royalties		496	579
		64,312	64,294
Shareholders:			
Dividends and interest on capital	19.c)	67,418	27,469
Retained earnings		118,619	49,365
		186,037	76,834
TOTAL WEALTH DISTRIBUTED		545,565	398,706

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

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VIVARA GROUP

NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS

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

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

Vivara Group, established in 1962, is engaged in the manufacturing and sale of jewelry and other articles. The combined financial statements comprise the financial statements of: Tellerina Comércio de Presentes e Artigos para Decoração S.A. and Conipa Indústria e Comércio de Presentes, Metais e Artigos de Decoração Ltda. (the "Vivara Group Entities", "Companies" and/or "Vivara Group"), which are managed as one single economic entity. Beginning June 2019, the Companies started to be controlled by Vivara Participações S.A.

Tellerina Comércio de Presentes e Artigos para Decoração S.A. ("Tellerina") established its registered head office in the city of Manaus, State of Amazonas, and administrative center in the city of São Paulo, State of São Paulo. Through a chain of stores under the brand "VIVARA", Tellerina is primarily engaged in the import, export and retail and wholesale trade of jewelry, costume jewelry, articles made from non-precious metals and their alloys, plated jewelry, precious stones, watches, chronometric instruments, leather goods and similar goods, besides providing jewelry design and repair services in general. As at June 30, 2019, Tellerina had 180 stores and 54 kiosks operating in Brazil (167 stores and 51 kiosks as at June 30, 2018).

Conipa Indústria e Comércio de Presentes, Metais e Artigos de Decoração Ltda. ("Conipa") is headquartered in the city of Manaus, State of Amazonas. This company is primarily engaged in the manufacture of jewelry, goldsmithery and watch items, selling these products in the retail and wholesale markets, besides providing jewelry and watch repair services. The Company was established on July 21, 2016 through capital contribution, upon transfer of assets, rights and obligations ("Contribution") by Tellerina.

2. BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS

2.1. Combination of the financial statements

Vivara Group's combined financial statements, under the Group Management's responsibility, are being presented solely for the purpose of providing, through a single financial statement, information on all the Group's activities, regardless of its shareholding structure.

The combined financial statements are presented for the purpose of providing additional analyses on the operations of Vivara Group, and do not represent the individual financial statements of Tellerina Comércio de Presentes e Artigos para Decoração S.A. and Conipa Indústria e Comércio de Presentes, Metais e Artigos de Decoração Ltda., and should not be taken as a basis for the calculation of dividends, taxes or any other corporate purposes.

The combined financial statements of Vivara Group do not comprise the financial information on associate Etna Comércio de Móveis e Artigos para Decoração S.A., as mentioned in note 17 in relation to the covenant calculation of the financial conglomerate.

The preparation of the combined financial statements requires Management to make judgments to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions refer basically to realization of deferred income tax assets and liabilities, provision for taxes and contributions with suspended payment, provision for risks and determination of contingent liabilities and the fair value of securities and derivatives. The settlement of transactions involving these estimates may result in amounts that are different from estimates due to the inaccuracy inherent in the calculation process. Estimates and assumptions are periodically reviewed by Vivara Group's Management.

The following criteria were adopted for the combination of the financial statements of each combined company:

- Elimination of intragroup asset and liability balances.
- Elimination of intragroup transactions, balances and unrealized gains and losses on transactions between the Companies. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred.

The table below shows the individual balances and related eliminations:

<u>06/30/2019</u>	<u>Tellerina</u>	<u>Conipa</u>	<u>Eliminations</u>	<u>Combined</u>
Assets	1,334,047	594,278	(660,566)	1,267,759
Liabilities	1,066,005	147,622	(510,739)	702,888
Equity	268,042	446,655	(149,827)	564,871
Profit or loss	78,949	127,402	(20,314)	186,037
<u>06/30/2018</u>				
Assets	884,948	409,855	(486,762)	808,138
Liabilities	728,234	55,699	(333,533)	450,400
Equity	156,714	354,157	(153,229)	357,642
Profit or loss	3,833	50,153	22,848	76,834

2.2. Statement of compliance

The combined financial statements have been prepared in accordance with accounting practices adopted in Brazil, issued by the Accounting Pronouncements Committee ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM"), specifically pursuant to technical pronouncement CPC 44 – Combined Financial Statements.

2.3. Statement of relevance

In preparing the combined financial statements, Management only disclosed relevant information that could support their users in the decision-making process, without failing to comply with the existing minimum requirements. In addition, Management asserts that all relevant information is being disclosed and corresponds to the information used in managing the business.

2.4. Basis of preparation

The combined financial statements have been prepared based on the historical cost, unless otherwise stated. The historical cost is generally based on the fair value of the consideration given in exchange for an asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market players at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Management takes into account the characteristics of the asset or liability if market players would take those characteristics into account when pricing the asset or liability at the measurement date.

2.5. Functional and reporting currency

Items included in the combined financial statements are measured in Brazilian reais (R\$), the currency of the economic environment in which the Group operates, which is adopted as the Group's functional and reporting currency.

2.6. Use of estimates and judgments

The preparation of combined financial statements in accordance with accounting practices adopted in Brazil, requires Management to make judgments, estimates and assumptions that affect the adoption of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates. Estimates and assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognized in the year in which estimates are revised and in any future years affected.

The main accounts subject to assumptions and estimates are included in the following notes:

- Notes 11 and 12 – useful lives and impairment test of property, plant and equipment and intangible assets.
- Note 17 – fair value of securities and derivative financial instruments.
- Note 18 - provision for civil, labor and tax risks.
- Note 21.b) – deferred income tax and social contribution.

3. SIGNIFICANT ACCOUNTING POLICIES

a) General principles and revenue recognition criteria

Assets, liabilities, income and expenses are recognized on an accrual basis. Sales revenue is recognized in the statement of income when a performance obligation is satisfied through the transfer of promised goods and related control to a customer, as well as when the price is identifiable and the performance obligations are met. Sales revenue is stated net of deductions, including taxes on sales.

b) Foreign currency-denominated transactions

Foreign currency-denominated transactions are initially recognized at the fair value of the corresponding currencies at the date the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated into Brazilian reais (R\$) at the quoted market rates prevailing at the balance sheet dates. Any differences in the payment or translation of monetary items are recognized in finance income (costs).

c) Financial instruments

Classification and measurement of financial assets and financial liabilities

CPC 48 retains most of the current requirements set out in CPC 38 concerning the classification and measurement of financial liabilities. However, it eliminates the previous categories determined under CPC 38 for financial assets: held-to-maturity, loans and receivables and available-for-sale.

The classification of financial assets and financial liabilities under CPC 48 is generally based on the business model within which financial assets are managed and on their contractual cash flow characteristics.

In accordance with CPC 48, upon initial recognition, financial assets are classified as measured at: amortized cost; fair value through other comprehensive income ("FVTOCI"); or fair value through profit or loss ("FVTPL").

The following accounting policies are applicable to the subsequent measurement of financial assets:

Financial assets measured at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.
Financial assets measured at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, exchange gains and losses and impairment losses are recognized in profit or loss. Any gains or losses arising on the derecognition are also recognized in profit or loss.
Financial assets measured at FVTOCI	These assets are measured at fair value through other comprehensive income as they are designated for trading before maturity.

Under CPC 48, a financial asset is measured at amortized cost provided that the following conditions are met and it is not designated as measured at FVTPL:

- It is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- Its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal amount.

A financial asset is measured at FVTOCI provided that the following conditions are met and it is not designated as measured at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal amount.

As assessed by Vivara Group, transactions involving advanced receivables from credit card companies should be measured at fair value through other comprehensive income.

Upon initial recognition of investments in equity instruments that are not held for trading, the Companies may irrevocably elect to report subsequent changes in the fair value of investments in other comprehensive income ("OCI"). Such decision is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVTOCI, as described above, are measured at FVTPL. These assets include all derivative financial assets. Upon initial recognition, the Companies may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (fair value option available in CPC 48).

A financial asset is initially measured at fair value, plus, in the case of an asset not measured at FVTPL, transaction costs that are directly attributable to its acquisition.

The following table includes the original measurement categories under CPC 38 and the new measurement categories introduced by CPC 48 for each class of financial assets and/or financial liabilities.

CPC 38			CPC 48		
Assets	Note	Category	Carrying amounts	Category	Carrying amounts
Cash and cash equivalents	5	Amortized cost	66,725	Amortized cost	66,725
Trade receivables (except for receivables from credit card companies)	7	Loans and receivables	5,468	Amortized cost	5,468
Receivables from credit card companies	7	Loans and receivables	220,112	FVTOCI	215,347
Due from related parties	20	Loans and receivables	11,059	Amortized cost	11,059
Derivatives - swap	30	FVTPL	7,412	FVTPL	7,412
Total financial assets			<u>310,776</u>		<u>306,011</u>
Trade payables	13	Amortized cost	(38,924)	Amortized cost	(38,924)
Borrowings	17	Amortized cost	(287,748)	Amortized cost	(287,748)
Lease liabilities	29	-	-	Amortized cost	(226,446)
Total financial liabilities			<u>(326,672)</u>		<u>(553,118)</u>

Derivatives

The Companies use derivative financial instruments classified as swaps to hedge foreign currency-denominated contracts and contracts subject to fixed rates. These derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. These contracts should have the same maturity dates, interest and principal repayment dates and be executed with the same financial conglomerate associated with the hedged item.

These instruments are classified as financial instruments "measured at fair value" and their variations are recognized in finance income (costs).

d) Statement of value added

The purpose of this statement is to disclose the wealth created by the Companies and its distribution during a certain reporting period, and is presented by the Companies, as required by the Brazilian Corporate Law, as an integral part of their combined financial statements.

This statement was prepared based on information obtained from the accounting records used as a basis for the preparation of combined financial statements and supplementary records, and pursuant to the provisions of CPC 09 - Statement of Value Added.

e) Cash and cash equivalents

Comprise cash and banks and short-term investments maturing within up to 90 days from investment date.

Short-term investments substantially refer to Bank Deposit Certificates ("CDBs") and are carried at cost, plus income earned through the end of the reporting period, which does not exceed their realizable value.

f) Trade receivables and allowance for expected credit losses

Trade receivables correspond to proceeds from the sale of goods and are recorded at their original amounts, less the allowance for expected credit losses.

Trade receivables are initially recorded at the transaction amount, which corresponds to the selling price, and are subsequently measured according to the portfolio: (i) at fair value through other comprehensive income, for receivables from credit card companies; and (ii) at amortized cost, for all other portfolios.

The allowance for expected credit losses is measured on the transaction date, taking into account the lifetime of receivables. The Company adopts a credit risk matrix considering the historical experience of losses, based on the average aging list of receivables.

g) Inventories

Measured at the acquisition or production costs and other costs incurred on bringing the inventories to their present locations and conditions. In the case of finished product and work-in-process inventories, cost includes a proportional share of manufacturing overheads based on normal operating capacity.

Inventories are stated at the weighted average cost, less any estimated losses, when applicable.

h) Property, plant and equipment

Recognition and measurement

Property, plant and equipment items are measured at the historical acquisition or construction cost, less accumulated depreciation and accumulated impairment losses, when applicable.

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of assets built by the Companies themselves includes costs of materials and direct labor, as well as any other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

Any gains and losses on disposals are measured as the difference between the disposal proceeds and the carrying amount and are recognized in "Other operating income (expenses), net" in the statement of income.

Rights of use relating to leased properties are represented by the present value of the fixed or minimum rental payment flows under the lease agreements of the properties where the Company's stores, factory and offices are located. They are amortized over the lease term, subject to automatic renewal for an equal period.

Subsequent costs

These costs are capitalized only when it is probable that the economic benefits embodied in the component will flow to the Companies and its cost can be reliably measured. Recurring maintenance costs are recognized in profit or loss, when incurred.

Depreciation

Property, plant and equipment items are depreciated from the date on which those assets are available for use, or, in the case of internally built assets, from the day construction is completed and the assets are available for use.

Depreciation is calculated to amortize the cost of property, plant and equipment items, less their estimated residual values, on a straight-line basis, over their estimated useful lives. Depreciation is generally recognized in profit or loss, unless the relevant amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of their estimated useful lives and the lease term, unless it is reasonably certain that the Companies will obtain ownership of assets at the end of the lease term. Land is not depreciated.

The estimated useful lives of the significant property, plant and equipment items for the current and comparative reporting periods are broken down as follows:

	Useful life - years
Machinery and equipment	10
Facilities	10
Furniture and fixtures	10
Hardware	5
Leasehold improvements	5
Rights of use – leased properties	4 to 10
Company cars	5

The estimated useful lives of property, plant and equipment items are reviewed on an annual basis at the end of the reporting periods. When applicable, the effects of changes in the remaining useful life are recorded on a prospective basis.

i) Intangible assets

Stated at the acquisition cost of points of sale, with amortization over the lease term, which is five years for stores and kiosks. Not all chain's points of sale are acquired, since these costs should not be incurred in certain locations.

Software purchased from third parties and software under development are recorded as well.

j) Investment

Investments are accounted for under the equity method in the combined financial statements.

k) Impairment

Management annually assesses whether there is evidence that an asset might be impaired. If there is any evidence of impairment, the recoverable amount of the asset is estimated, which is the higher of: (i) its fair value less estimated costs to sell; and (ii) its value-in-use. The value-in-use is equivalent to pretax discounted cash flows arising from the continuing use of an asset. When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized.

l) Provisions

Recognized when:

- The Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of funds will be required to settle the obligation and the obligation amount can be reliably estimated.
- Provisions are measured at the present value of the expected disbursement to settle the obligation using the appropriate discount rate, according to related risks. They are adjusted through the end of the reporting period for the probable loss amount, according to the nature of each contingency and based on the legal counsel's opinion.

m) Finance income (costs)

Finance income consists of interest income that is recognized in the statement of income under the effective interest method. Finance costs comprise banking expenses that are recognized in the statement of income under the effective interest method.

n) Income tax and social contribution

Current and deferred taxes

Current and deferred income tax and social contribution are calculated at the rates of 15% for income tax, plus a 10% surtax on taxable income exceeding R\$240, and 9% on taxable income for social contribution, considering the offset of tax loss carryforwards, limited to 30% of taxable income.

Income tax and social contribution expenses comprise current and deferred taxes, which are recognized in profit or loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to taxes payable in relation to prior years.

Deferred tax is recognized on temporary differences and tax loss carryforwards between the carrying amounts of assets and liabilities for accounting purposes and the corresponding tax bases used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied on temporary differences and tax loss carryforwards when realized, pursuant to the laws that have been enacted or substantially enacted through the end of each reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes imposed by the same tax authority on the same entity subject to taxation.

Deferred income tax and social contribution assets are recognized for all unutilized tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which those tax losses, tax credits and deductible temporary differences can be utilized.

Deferred income tax and social contribution assets are reviewed at the end of each reporting period and reduced to the extent that their realization is no longer probable.

Tax incentives - operating profit

As its jewelry factory is located within an area under the jurisdiction of the Amazon Region Development Authority (SUDAM), and pursuant to Declaratory Executive Act No. 146 issued by Manaus Federal Revenue Service Office on November 25, 2011, Conipa is eligible for a tax incentive granting a 75% reduction of income tax on operating profit, applied to sales of own products manufactured in the Manaus Free Trade Zone, which are recognized in profit or loss and subsequently allocated to the capital reserve, in equity.

By virtue of such benefit granted, Conipa is compelled to: (i) comply with the labor and social laws, as well as the environmental protection and control standards; (ii) apply the income tax reduction to activities directly related to manufacturing operations conducted within SUDAM's jurisdiction; (iii) recognize a capital reserve that includes the amount resulting from such reduction, which may be only used for loss absorption or capital increase purposes; (iv) prohibit the distribution to partners or shareholders of any tax amounts unpaid owing to this reduction, under penalty of losing entitlement to such tax incentive and being compelled to collect, in respect of the distributed amounts, the tax amounts unpaid by Conipa, without prejudice to the tax levy on profit distributed as income and the applicable penalties; and (v) annually file the income tax returns, indicating the reduction amount corresponding to the relevant year, pursuant to the applicable standards.

o) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the Companies' owners by the weighted average number of common shares issued during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares, in order to assume the conversion of all potential common shares diluted by vested stock options.

p) Operating segments

The operating segments are addressed consistently with the internal report provided to the Group's chief decision maker, i.e., the CEO, who is in charge of allocating funds and assessing the performance of each operating segment.

4. NEW PRONOUNCEMENTS, AMENDMENTS AND INTERPRETATIONS ISSUED BY CPC, AND STANDARDS ISSUED EFFECTIVE BEGINNING 2019

CPC 06 (R2) – Leases

CPC 06 (R2) - Leases, which supersedes CPC 06 (R1) - Leases, eliminates the distinction between operating leases and finance leases beginning January 1, 2019. In addition, the standard requires the recognition of assets (the right to use the leased item) and liabilities related to future leases discounted to present value for virtually all lease agreements.

Operating lease expenses are replaced by depreciation expenses related to the right of use and interest expenses associated with the lease liabilities. Previously, the Companies mainly recognized operating lease expenses on a straight-line basis over the lease term, as well as assets and liabilities only to the extent there was a time difference between the actual lease payments and the lease expense period. Therefore, performance indicators such as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and, to a lesser extent, operating income, will be positively impacted; on the other hand, finance income (costs) will be adversely affected.

Finally, profit will be affected as well, since the total lease expenses (depreciation expenses plus finance costs) are usually higher at the beginning of the lease term and decrease over time, unlike a straight-line charge under the current system. Moreover, net cash from operating activities will be higher, since cash payments of the main portion of lease liabilities and the related interest will be classified as cash flows from financing activities.

The adoption of CPC 06 (R2) mostly affected the recognition of operating leases for the Companies' stores.

Management elected to adopt the modified retrospective approach as the transition method on January 1, 2019, and prospectively since the beginning of the first applicable period.

Management chose to apply the two recognition exemptions proposed by the standard to the following agreements: (i) short-term leases of assets (shorter than or equal to 12 months); and (ii) property leases involving low-value assets or variable-value assets.

Rentals not included in the initial measurement of liabilities (for example, variable rentals) are classified as operating expenses, as well as the charges on short-term leases, leases of low-value assets or variable-value assets.

The lease term corresponds to the legally applicable period of the agreement, considering the options for termination and renewal through judicial means, whose use by the Companies is reasonably certain.

The rental payment flows are adjusted to present value, considering the remaining term of each lease and applying the discount rate equivalent to the market prices on the execution dates of each lease agreement and equivalent to the funds raised, which represent the total investments made for the opening of new stores. The discount rate was determined based on the actual rate corresponding to the market prices (reference in % of the CDI rate), including the spread and lowering collaterals based on the market rates set by the main financial institutions with which the Company enters into transactions. The future CDI rate curve was considered, based on the different repayment periods set out under the lease agreements.

The Companies had 235 operating lease agreements as at December 31, 2018, out of which 165 agreements were classified as right-of-use leases upon the first-time adoption.

Measurement of lease liabilities and right-of-use assets

Regarding the agreements that fall under this standard scope, the Group's Management considered only the fixed minimum rental amount as a lease component for liability measurement purposes. On January 1, 2019, the measurement of lease liabilities comprises total future fixed rental payments, net of taxes, in which the renewals are considered in accordance with the Group's internal policy, which usually occurs one year before the maturity date of the agreements, when the renewals are determined to be reasonably certain.

The measurement of right-of-use assets corresponds to the initial amount of lease liabilities, including the initial direct costs incurred. The Group's Management elected to adopt the practical expedient for transition purposes, without considering the initial costs in the initial measurement of right-of-use assets, so as to maintain the same amount of the initial lease liability.

On January 1, 2019, the Group's Management recognized right-of-use assets and lease liabilities at present value, in the amount of R\$226,195.

The table below shows the effects from the first-time adoption on the Group's opening balance sheet balances:

Combined	Balances stated as at 12/31/2018	First-time adoption of CPC 06 (R2)	Adjusted opening balances as at 01/01/2019
Current assets	725,301	-	725,301
Noncurrent assets	164,346	226,446	390,792
Current liabilities	316,509	18,751	335,260
Noncurrent liabilities	122,121	207,695	329,816
Equity	451,017	-	451,017

The variations in the balances of right-of-use assets are shown in note 11 and the balances affecting profit or loss for the period, as well as the variations in lease liabilities are shown in note 29.

ICPC 22 - Uncertainty over Income Tax Treatments

In December 2018, CPC issued ICPC 22 – Uncertainty over Income Tax Treatments, so as to clarify the accounting recognition when there is uncertainty over income tax treatments governed by CPC 32 – Income Taxes. This accounting pronouncement is effective for annual periods beginning on or after January 1, 2019.

Tellerina is a party to lawsuits involving the recognition of income tax and social contribution credits arising on the calculation of taxable income from prior years, in the amount of R\$9,913, which have already been offset through the payment of other taxes and contributions. Management believes that the adopted tax treatment will be held valid by tax authorities; therefore, the involved amount is disclosed in note 18, as part of the amount of lawsuits assessed as possible losses. There are no other amounts that could materially affect the adoption of such technical pronouncement.

5. CASH AND CASH EQUIVALENTS

	Combined	
	06/30/2019	12/31/2018
Cash	3,304	5,878
Banks - checking account	12,700	22,646
Short-term investments (*)	50,721	56,257
Total	66,725	84,781

(*) As at June 30, 2019, short-term investments are represented by: (i) automatic investments in the amount of R\$2,721, yielding interest equivalent to 10% of the Interbank Deposit Certificate (CDI) rate fluctuation (R\$6,249 as at December 31, 2018); and (ii) repurchase agreements, in the amount of R\$48,000, yielding interest equivalent to 80% of the CDI rate (R\$50,008 as at December 31, 2018, yielding interest equivalent to 75% of the CDI rate).

6. SECURITIES

These securities are represented by Bank Deposit Receipts ("RDBs"), yielding interest equivalent to 95% of the CDI rate fluctuation.

The transactions are pledged as collateral for a working capital loan obtained from Banco do Nordeste do Brasil – BNB, which matures on November 18, 2019, as stated in note 17.

7. TRADE RECEIVABLES

	Combined	
	06/30/2019	12/31/2018
Credit card companies (*)	215,347	209,001
Checks to be cleared	2,336	3,436
Bank slips	4,045	3,323
Subtotal	221,728	215,760
Allowance for expected credit losses	(913)	(779)
Total	220,815	214,981

(*) As part of its cash management strategy, Tellerina collects a portion of credit card receivables in advance, without right of reimbursement to the credit card companies, which are stated net of the management fees charged by those companies.

The aging list of trade receivables is as follows:

	Combined	
	06/30/2019	12/31/2018
Past-due:		
1 to 30 days	577	404
31 to 60 days	81	191
61 to 90 days	3,786	7
91 to 120 days	8	12
121 to 150 days	11	11
151 to 180 days	12	12
Over 180 days	913	779

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Current:		
1 to 30 days	72,697	82,885
31 to 60 days	23,266	34,685
61 to 90 days	11,010	11,949
91 to 120 days	23,891	11,518
121 to 150 days	25,091	8,652
151 to 180 days	19,772	10,805
Over 180 days	<u>40,613</u>	<u>53,850</u>
Total	<u>221,728</u>	<u>215,760</u>

Management measures the loss allowance in an amount equivalent to lifetime expected credit losses (ECL) for trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix, by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of the current and forecast direction of conditions at the reporting date.

The variations in the allowance for expected credit losses are broken down as follows:

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Balance at the beginning of the period	(779)	(1,528)
Additions	(185)	(1,045)
Reversals	<u>51</u>	<u>1,794</u>
Balance at the end of the period	<u>(913)</u>	<u>(779)</u>

8. INVENTORIES

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Finished products	233,246	247,898
Raw materials	57,651	62,106
Consumables and packaging materials	8,654	10,173
Inventories in transit and advances to suppliers	70,490	32,096
Allowance for inventory losses	<u>(3,161)</u>	<u>(3,983)</u>
Total	<u>366,880</u>	<u>348,290</u>

Variations in the allowance for inventory losses are as follows:

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Balance at the beginning of the period	(3,983)	(2,714)
Additions	-	(2,051)
Reversals	<u>822</u>	<u>782</u>
Balance at the end of the period	<u>(3,161)</u>	<u>(3,983)</u>

The Companies recognize an allowance for slow-moving inventories and losses on melting gold and silver jewelry from discontinued collections or acquired from customers.

Products unsold within one year are classified as slow-moving inventories. For the period under analysis, no significant changes in the accrued balances were identified.

The jewelry melting losses are immaterial, in percentage terms, due to the technology deployed to recover the relevant raw materials (gold, silver and stones).

9. RECOVERABLE TAXES

	Combined	
	06/30/2019	12/31/2018
Income tax (IRPJ) (a)	30,763	25,573
Social contribution (CSLL) (a)	21,812	27,813
State VAT (ICMS) (b)	46,428	35,276
Taxes on revenue (PIS and COFINS) (c)	155,554	1,726
Other	296	31
Total	<u>254,853</u>	<u>90,419</u>
Current assets	62,398	56,933
Noncurrent assets	192,455	33,486
Total	<u>254,853</u>	<u>90,419</u>

a) Income tax (IRPJ) and social contribution (CSLL)

The IRPJ and CSLL credits were calculated by deducting the ICMS tax incentive in effect in Manaus Free Trade Zone from the related tax bases, corresponding to the period from 2013 to 2016, which are expected to be fully realized in 2019 through the offset against other federal taxes.

b) State VAT (ICMS)

The long-term recoverable amounts refer to ICMS credits arising on accumulated credit balances from the operations of Vivara stores mostly located in the States of Pernambuco, Rio Grande do Norte and Alagoas.

In Pernambuco, which accounts for most of these credit balances, the Group required to join a Special Regime to be exempted from applying the Value-added Margins set out in Appendix 12 of Decree 44650/17; and, should these preliminary claims not be accepted, a Special Regime would be required for the prepayment of ICMS amounts due, as follows: in the first year: fixed value-added margin of 5%; in the second year: fixed value-added margin of 10%; and, in the third year: fixed value-added margin of 20%.

The ICMS credits are expected to be realized as follows:

Year	Combined
	06/30/2019
2019 – 2 nd half	4,767
2020	6,246
2021	3,505
2022	3,330

<u>Year</u>	<u>Combined 06/30/2019</u>
2023	3,329
2024 and thereafter	25,252
Total	<u>46,428</u>

c) Taxes on revenue (PIS and COFINS)

Recognition of inflation-adjusted PIS and COFINS credits relating to the credit utilization request filed with the Federal Revenue Service in May 2019, pursuant to a final and unappealable favorable court decision rendered on December 13, 2018 and related certificate issued on January 15, 2019, with respect to the ICMS deduction from the tax base of federal contributions. In the period, tax credits amounted to R\$152,393, out of which R\$103,658 corresponds to the principal amount and R\$48,735 refers to inflation adjustments, as described in notes 25 and 26, respectively.

Recoverable PIS and COFINS balances comprise tax credits derived from other operations, in the amount of R\$3,161 (R\$1,726 as at December 31, 2018).

The PIS and COFINS credits are expected to be realized as follows:

<u>Year</u>	<u>Combined 06/30/2019</u>
2019 – 2 nd half	18,532
2020	57,886
2021	60,781
2022	18,355
Total	<u>155,554</u>

10. INVESTMENTS

The Group holds equity interests in the associate PP-NMM Administração de Bens Ltda. ("PP-NMM"), which is engaged in the acquisition and management of own and third-party assets, for own and third-party use, including, but not limited to, aircraft.

Currently, PP-NMM is exclusively engaged in managing the aircraft used on a shared basis among all PP-NMM's shareholders, including the Group.

On March 22, 2019, the Group contributed capital to investee PP-NMM according to the "Private Instrument of 1st Amendment to and Consolidation of the Articles of Association" through 3,582,210 new shares, at the par value of R\$1.00 each, totaling R\$3,582, payable by the investee upon credit capitalization at equal amount as a result of advances for future capital increase previously made by it. Thereafter, it has assigned and transferred, on onerous basis, 2,841,105 Company's shares, at the par value of R\$1.00 each, in the total amount of R\$2,841, to the new shareholder Voar – Cooperative of Aircraft Users under Shares Ownership Regime.

In light of the foregoing and of the contribution made by the other shareholders of PP-NMM, according to the aforesaid legal act, the Group has decreased its interest from 30% to 15%.

On April 16, 2019, the Group contributed capital to investee PP-NMM according to the "Private Instrument of 2nd Amendment to and Consolidation of the Articles of Association" through 314,589 new shares, at the par value of R\$1.00 each, totaling R\$315, payable by the investee upon credit capitalization at equal amount as a result of advances for future capital increase previously made by it. Due to the contribution also made by the other shareholders of PP-NMM, according to the aforesaid legal act, the Group maintained its equity interest.

June 30, 2019

	Equity	Equity interest	Investment	Share of profit (loss) of subsidiaries
PP-NMM Administração de Bens Ltda.	<u>12,924</u>	<u>15%</u>	<u>1,939</u>	<u>(180)</u>

December 31, 2018

	Equity	Equity interest	Investment	Share of profit (loss) of subsidiaries
PP-NMM Administração de Bens Ltda.	<u>(320)</u>	<u>30%</u>	<u>(96)</u>	<u>(464)</u>

The Company recorded losses amounting to R\$794 in the period ended June 30, 2019 (R\$1,546 as at December 31, 2018).

Variations in investments are broken down below:

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Balance at the beginning of the period	(96)	368
Capital contribution	3,897	-
Gain on sale of investments	1,159	-
Share of profit (loss) of subsidiaries	(180)	(464)
Partial sale of equity interest	(2,841)	-
Balance at the end of the period	<u>1,939</u>	<u>(96)</u>

11. PROPERTY, PLANT AND EQUIPMENT

	Annual average depreciation rate - %	Combined			
		06/30/2019		12/31/2018	
		Cost	Accumulated depreciation	Residual value	Residual value
Leasehold improvements	20	58,434	(41,721)	16,713	13,837
Furniture and fixtures	10	33,056	(17,781)	15,275	15,030
Machinery, equipment and facilities	10	17,564	(10,114)	7,450	6,753
Company cars	20	1,431	(1,322)	109	131
IT equipment	20	16,594	(13,193)	3,401	3,426
Properties	-	350	-	350	350
Rights of use – leased properties	10 to 25	233,817	(13,580)	220,237	-
Advances to suppliers and construction in progress (*)	-	665	-	665	1,297
Total		<u>361,911</u>	<u>(97,711)</u>	<u>264,200</u>	<u>40,824</u>

- (*) Refers to the cost of construction works at new points of sale and significant renovations in existing points of sale, which are subsequently transferred to line item "Leasehold improvements" upon the launching or reopening of these points of sale.

The Group's Management did not identify the need to recognize an allowance for impairment losses on property, plant and equipment.

Variations in property, plant and equipment are as follows:

	Combined			
	12/31/2018	Additions	Write-offs	Transfers
				06/30/2019
Cost:				
Leasehold improvements	52,684	2,497	-	3,253
Furniture and fixtures	31,452	1,143	(7)	468
Machinery, equipment and facilities	16,250	939	(1)	376
Company cars	1,459	-	(28)	-
IT equipment	15,949	469	-	176
Properties	350	-	-	-
Rights of use – leased properties	-	233,817	-	-
Advances to suppliers and construction in progress	1,297	3,641	-	(4,273)
	<u>119,441</u>	<u>242,506</u>	<u>(36)</u>	<u>-</u>
				<u>361,911</u>
Depreciation:				
Leasehold improvements	(38,847)	(2,874)	-	-
Furniture and fixtures	(16,422)	(1,366)	7	-
Machinery, equipment and facilities	(9,497)	(618)	1	-
Company cars	(1,328)	(22)	28	-
Rights of use – leased properties	-	(13,580)	-	-
IT equipment	(12,523)	(670)	-	-
	<u>(78,617)</u>	<u>(19,130)</u>	<u>36</u>	<u>-</u>
				<u>(97,711)</u>
Total	<u>40,824</u>	<u>223,376</u>	<u>-</u>	<u>-</u>
				<u>264,200</u>
	Combined			
	12/31/2017	Additions	Write-offs	Transfers
				12/31/2018
Cost:				
Leasehold improvements	45,935	570	-	6,179
Furniture and fixtures	28,218	3,234	-	-
Machinery, equipment and facilities	15,339	911	-	-
Company cars	1,369	90	-	-
IT equipment	14,343	1,625	(19)	-
Properties	350	-	-	-
Advances to suppliers and construction in progress	1,217	6,277	(18)	(6,179)
	<u>106,771</u>	<u>12,707</u>	<u>(37)</u>	<u>-</u>
				<u>119,441</u>
Depreciation:				
Leasehold improvements	(33,000)	(5,847)	-	-
Furniture and fixtures	(13,829)	(2,593)	-	-
Machinery, equipment and facilities	(8,342)	(1,155)	-	-
Company cars	(1,288)	(40)	-	-
IT equipment	(11,270)	(1,254)	1	-
	<u>(67,729)</u>	<u>(10,889)</u>	<u>1</u>	<u>-</u>
				<u>(78,617)</u>
Total	<u>39,042</u>	<u>(1,818)</u>	<u>(36)</u>	<u>-</u>
				<u>40,824</u>

12. INTANGIBLE ASSETS

	Combined		
	<u>12/31/2018</u>	<u>Additions</u>	<u>Write-offs</u>
			<u>06/30/2019</u>
Cost:			
Points of sale	30,906	-	-
Intangible assets in progress	-	918	-
IT system	13,934	1,112	-
	<u>44,840</u>	<u>2,030</u>	<u>-</u>
Amortization:			
Points of sale	(27,244)	(1,120)	-
IT system	(8,786)	(1,262)	-
	<u>(36,030)</u>	<u>(2,382)</u>	<u>-</u>
Total	<u>8,810</u>	<u>(352)</u>	<u>-</u>

	Combined		
	<u>12/31/2017</u>	<u>Additions</u>	<u>Write-offs</u>
			<u>12/31/2018</u>
Cost:			
Points of sale	30,946	-	(40)
IT system	13,393	542	(1)
	<u>44,339</u>	<u>542</u>	<u>(41)</u>
Amortization:			
Points of sale	(24,611)	(2,633)	-
IT system	(6,285)	(2,501)	-
	<u>13,443</u>	<u>(4,592)</u>	<u>(41)</u>
Total	<u>13,443</u>	<u>(4,592)</u>	<u>(41)</u>

13. TRADE PAYABLES

Substantially consist of purchases of raw materials and goods for resale, with an average payment term of 90 days.

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Domestic trade payables	16,742	21,197
Foreign trade payables	22,182	25,007
Total	<u>38,924</u>	<u>46,204</u>

14. PAYROLL AND RELATED TAXES

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Accrued vacation pay	12,646	12,159
Payroll	12,714	13,878
Bonuses	3,201	5,325
Severance pay fund (FGTS)	2,460	2,772
Social security contribution (INSS)	9,077	9,262
Withholding income tax (IRRF)	3,539	4,325
Other	431	419
Total	<u>44,068</u>	<u>48,140</u>

15. TAXES PAYABLE

	Combined	
	06/30/2019	12/31/2018
State VAT (ICMS)	15,156	30,139
Federal VAT (IPI) (*)	19,157	18,517
Taxes on revenue (PIS and COFINS)	10,337	13,221
Income tax (IRPJ) and social contribution (CSLL)	16,260	10,211
Other	579	1,014
Total	<u>62,489</u>	<u>73,102</u>

(*) Tellerina has no longer been paying the Federal VAT (IPI) calculated on a monthly basis since July 2014, pursuant to an preliminary injunction handed down for such purpose, concerning the tax levy on the customs clearance of manufactured goods and on the shipment of goods from an importer's location for sale in the domestic market, thereby equating the importer with the industrial establishment, when the former would not provide any benefits in the industrial field.

16. TAXES IN INSTALLMENTS

	Combined	
	06/30/2019	12/31/2018
State VAT (ICMS) (a)	1,003	1,221
Federal REFIS - Law 11941/09 (b)	93	146
Federal REFIS - Law 12996/14 (c)	743	798
Federal REFIS - PERT (d)	1,144	1,169
Total	<u>2,983</u>	<u>3,334</u>
Current liabilities	827	1,224
Noncurrent liabilities	<u>2,156</u>	<u>2,110</u>
Total	<u>2,983</u>	<u>3,334</u>

- (a) Represented by tax debts corresponding to the period from 2014 to 2017 due to the Federal District and States of Mato Grosso, Mato Grosso do Sul and São Paulo, which are payable in 60 monthly installments for the Federal District and São Paulo, 48 monthly installments for Mato Grosso and 36 monthly installments for Mato Grosso do Sul. The tax installments due to the Federal District were settled in March 2019, and the new installments are payable to the State of São Paulo.
- (b) In November 2009, the Companies joined the Tax Debt Refinancing Program ("REFIS"), introduced by Law 11941/09 and Provisional Measure 470/09, for the payment of social security debts and other tax debts corresponding to 2009 in 180 monthly installments. In August 2017, the Companies opted to partially waive the tax debt refinancing arrangements for debts associated with the Brazilian Federal Revenue Service (RFB), including the remaining debts under the Special Tax Regularization Program ("PERT").
- (c) In November 2014, the Companies joined the Tax Debt Refinancing Program ("REFIS"), introduced by Law 12996/14, for the payment of income tax and social contribution debts corresponding to 2009 in 120 monthly installments.

- (d) In August 2017, the Companies joined the Special Tax Regularization Program ("PERT"), introduced by Law 13496/17, for the payment of remaining debts from other federal tax installment plans. In August 2018, the tax installments were consolidated before the Brazilian Federal Revenue Service (RFB).

The variations in tax installments are broken down as follows:

	Combined	
	06/30/2019	12/31/2018
Balance at the beginning of the period	3,334	6,722
Additions	298	-
Discount for prepayment	-	(1,120)
Inflation adjustments	68	94
Payments	(717)	(2,362)
Balance at the end of the period	<u>2,983</u>	<u>3,334</u>

The amounts classified in noncurrent liabilities mature as follows:

	Combined	
Year	06/30/2019	12/31/2018
2020	262	407
2021	375	258
2022 and thereafter	<u>1,519</u>	<u>1,445</u>
Total	<u>2,156</u>	<u>2,110</u>

17. BORROWINGS AND FINANCING

a) Breakdown of balances

	Rate	Combined	
		06/30/2019	12/31/2018
<u>In local currency</u>			
Working capital	CDI + 3.75% p.a.	68,237	85,282
Working capital	CDI + 0.13% p.m.	-	24,025
Working capital	Fixed rate of 0.68% p.m.	267	586
Working capital	CDI + 2% p.a.	44,043	-
Working capital	CDI + 1.9% p.a.	40,275	-
Government Agency for Machinery and Equipment Financing (FINAME)	Fixed rate of 0.21% p.m.	6,509	7,462
National Bank for Economic and Social Development (BNDES)	URTJLP/UMIPCA-M184/Fixed rate from - 0.49% p.m. to 0.81% p.m.	4,304	5,196
<u>In foreign currency</u>			
Working capital	LIBOR + 0.75% p.m.	24,160	24,109
Working capital	Fixed rate of 4.675% p.a.	54,423	68,785
Working capital	Fixed rate of 0.54% p.a.	45,530	-
Total borrowings and financing		<u>287,748</u>	<u>215,445</u>
Derivatives (assets) – swap contracts	US\$ 5.5% p.a.	<u>(7,412)</u>	<u>(10,698)</u>
Total borrowings and financing, net		<u>280,336</u>	<u>204,747</u>
Current assets		(3,386)	(4,208)
Noncurrent assets		(4,026)	(6,490)
Current liabilities		150,408	115,892
Noncurrent liabilities		<u>137,340</u>	<u>99,553</u>
Total		<u>280,336</u>	<u>204,747</u>

b) Variations in borrowings and financing

	Combined	
	06/30/2019	12/31/2018
Balance at the beginning of the period	204,747	293,314
Borrowings	129,000	-
Principal repayments	(56,907)	(96,614)
Settlement of swap contracts	1,323	986
Interest payment	(6,844)	(18,810)
Cash flows from financing activities	66,572	(114,438)
Interest incurred	7,484	23,351
Finance charges on swap contracts	1,963	2,392
Exchange rate changes	(431)	128
Noncash variations	9,016	25,871
Balance at the end of the period	280,336	204,747

As at June 30, 2019, the amounts classified in noncurrent liabilities mature as follows:

Year	Combined	
	06/30/2019	12/31/2018
From 1 to 2 years	59,517	60,953
From 2 to 3 years	57,375	30,365
Over 3 years	16,422	1,745
Total	133,314	93,063

Certain borrowing and financing agreements entered into with financial institutions are subject to a covenant, under which the Companies are required to present annual combined financial statements duly audited by independent auditors, accepted by the financial institution granting the loans, in accordance with the following conditions:

The net debt-to-EBITDA ratio shall not exceed 2.5x in 2017, 2.25x in 2018 and 2x in 2019 and 2020. The calculation should be based on the combined financial statements of the economic group to which the companies Tellerina, Conipa and Etna Comércio de Móveis e Artigos para Decoração S.A. ("Etna") belong.

Vivara Group and Etna Comércio de Móveis e Artigos para Decoração S.A. had agreed on cross-guarantee practices under the borrowing and financing agreements. These companies agreed to waive such cross-guarantees throughout 2019. Negotiations with the financial institutions are at an advanced stage and, in several cases, under formalization. In addition, the financial covenants have also been negotiated to cover only the companies Tellerina and Conipa.

Net finance costs shall not exceed 1.25x the EBITDA for the period, considering the financial statements of the conglomerate composed of Tellerina, Conipa and Etna.

As at June 30, 2019, the Group was compliant with those covenants.

18. PROVISION FOR CIVIL, LABOR AND TAX RISKS AND ESCROW DEPOSITS

As at June 30, 2019 and December 31, 2018, the Group was a party to civil, labor and tax lawsuits assessed as probable losses by its legal counsel, as follows:

	Combined			
	Civil (a)	Labor (b)	Tax (c)	Total
<u>Provision</u>				
Balance as at December 31, 2017	3,459	2,636	23,344	29,439
Additions	886	3,072	1,819	5,777
Payments	(222)	(3,072)	-	(3,294)
Reversals	(1,710)	(1,084)	(9,362)	(12,156)
Balance as at December 31, 2018	2,413	1,552	15,801	19,766
Additions	879	3,521	1,213	5,613
Payments	(192)	(1,538)	-	(1,730)
Reversals	(1,042)	(1,525)	(5,227)	(7,794)
Balance as at June 30, 2019	<u>2,058</u>	<u>2,010</u>	<u>11,787</u>	<u>15,855</u>
<u>Escrow deposits</u>				
Balance as at December 31, 2017	-	1,368	11,327	12,695
Additions	-	58	310	368
Inflation adjustments	-	27	580	607
Redemptions	-	(115)	(246)	(361)
Balance as at December 31, 2018	-	1,338	11,971	13,309
Additions	-	817	86	903
Inflation adjustments	-	-	301	301
Redemptions	-	(811)	-	(811)
Balance as at June 30, 2019	<u>-</u>	<u>1,344</u>	<u>12,358</u>	<u>13,702</u>

(a) Civil lawsuits

Refer to lawsuits involving store rental renewals, under which the Group is required to pay provisional rental amounts until a final and unappealable court decision is rendered, recognizing a provision for the difference between the provisional rental amount paid and the amount pleaded under these lawsuits. In addition, for lawsuits involving consumer relations rights, the provision is calculated based on past unfavorable outcomes from all lawsuits and the historical loss amount per type of claim.

(b) Labor lawsuits

Refer to labor lawsuits filed by former employees, mostly claiming overtime pay and related charges, salary equalization, vacation pay and pecuniary bonus, remunerated weekly rest, severance pay, 13th salary, compensation for pain and suffering, bonuses, employment relationship and overtime bank system annulment.

(c) Tax lawsuits

Substantially refer to lawsuits on the constitutionality of PIS and COFINS credits taken by the Companies and tax assessment notices relating to State VAT (ICMS) amounts due in the States of São Paulo and Santa Catarina.

Since March 15, 2017, the Companies have been no longer including the State VAT (ICMS) in the tax base of taxes on revenue (PIS and COFINS), pursuant to the decision handed down by the Federal Supreme Court ("STF") on that date. Moreover, the Companies are parties to an ongoing lawsuit on such matter, for which a final and unappealable favorable court decision was rendered on December 13, 2018.

Nearly all recorded reversals correspond to the statute of limitations for Tax Authorities' challenges as to matters subject to litigation, with respect to PIS and COFINS credits taken and the tax base of income tax and social contribution.

Lawsuits assessed as possible losses

As at June 30, 2019 and December 31, 2018, Management did not identify the need to recognize a provision for potential losses on ongoing lawsuits, which are assessed as possible losses by its legal counsel, as follows:

	Combined	
	<u>06/30/2019</u>	<u>12/31/2018</u>
Civil	2,588	2,734
Labor lawsuits	20,162	22,901
Tax risks (*)	367,762	310,617
Total	<u>390,512</u>	<u>336,252</u>

(*) Mostly represented by lawsuits and tax assessment notices relating to State VAT (ICMS) amounts due in the States of São Paulo, Rio de Janeiro and Pernambuco.

19. EQUITY

a) Capital

Tellerina

On June 15, 2019, shareholders were completely changed, assigning and transferring all their shares.

As at June 30, 2019 and December 31, 2018, fully subscribed and paid-up capital amounts to R\$132,041 and is comprised of registered common and preferred shares, all without par value, held as follows:

	Combined		
	<u>30/06/2019</u>		
	Common shares	Preferred shares	Total
Tellerina			
Vivara Participações S.A.	<u>8,202,029</u>	<u>4,688,018</u>	<u>12,890,047</u>
	Combined		
	<u>12/31/2018</u>		
	Common shares	Preferred shares	Total
Tellerina			
Telop Participações Ltda.	3,936,974	2,250,248	6,187,222
Coata Participações Ltda.	2,296,567	1,312,645	3,609,212
Nacado Participações Ltda.	1,476,366	843,844	2,320,210
Vinati Participações Ltda.	492,122	281,281	773,403
Total	<u>8,202,029</u>	<u>4,688,018</u>	<u>12,890,047</u>

Conipa

On June 15, 2019, shareholders were completely changed, assigning and transferring all their shares.

As at June 30, 2019 and December 31, 2018, fully subscribed and paid-up capital amounts to R\$15,671 and is comprised of equal shares, with par value of R\$1.00 each, held as follows:

<u>Conipa</u>	<u>06/30/2019</u> <u>Total shares</u>
Vivara Participações S.A.	<u>15,671,158</u>
<u>Conipa</u>	<u>12/31/2018</u> <u>Total shares</u>
Telop Participações Ltda.	7,522,156
Coata Participações Ltda.	4,387,924
Nacado Participações Ltda.	2,820,808
Vinati Participações Ltda.	940,270
Total	<u>15,671,158</u>

b) Tax incentive reserve

Recognized according to the tax incentives related to:

- Operating profit, with 75% reduction in the income tax base; the benefit was granted to Tellerina in 2010 and used until August 2016, i.e., the date of the spin-off establishing Conipa, which became entitled to such benefit until December 2024.
- Investment grant and funding, related to the State VAT (ICMS) tax incentive prevailing in Manaus Free Trade Zone, as well as in the States of Rio de Janeiro, Minas Gerais, Bahia and Pará.

The variations in these reserves are broken down as follows:

	<u>Combined</u>			
	<u>12/31/2018</u>	<u>Additions</u>	<u>Write-offs</u>	<u>06/30/2019</u>
Tax incentive - operating profit	118,828	29,136	-	147,964
ICMS tax incentive	<u>172,544</u>	<u>44,378</u>	-	<u>216,922</u>
Total	<u>291,372</u>	<u>73,514</u>	-	<u>364,886</u>
	<u>Combined</u>			
	<u>12/31/2017</u>	<u>Additions</u>	<u>Write-offs</u>	<u>12/31/2018</u>
Tax incentive - operating profit	95,948	22,880	-	118,828
ICMS tax incentive	<u>111,231</u>	<u>61,313</u>	-	<u>172,544</u>
Total	<u>207,179</u>	<u>84,193</u>	-	<u>291,372</u>

c) Dividend distribution policy

Tellerina

Dividends will be distributed in accordance with the relevant Bylaws and the Brazilian Corporate Law, which determine the following allocations:

- 5% to the legal reserve.
- Distribution of mandatory minimum dividends at a percentage rate to be set at the General Shareholders' Meeting, pursuant to the prevailing legislation (at least 25% of profit for the year, after the recognition of a legal reserve and reserve for contingencies).

As at June 30, 2019, the Company distributed dividends amounting to R\$500; no interest on capital was paid. In 2018 no dividend and interest on capital were distributed.

Conipa

The annual profit calculated by the Company will be allocated as decided by the shareholders representing the majority of the Company's capital, it being permitted the distribution not proportionally to the interest held by each shareholder in the Company's capital. None of the shareholders shall be entitled to any portion of profit until a decision on its allocation is expressly made.

In the period ended June 30, 2019, the distribution of dividends to shareholders in the amount of R\$66,918 (R\$27,469 as at June 30, 2018) was approved. Additionally, no interest on capital will be distributed to shareholders.

20. RELATED PARTIES

Balances	Combined	
	06/30/2019	12/31/2018
<u>Assets</u>		
Due from related parties:		
PP-NMM Administradora de Bens Ltda. ("PP-NMM") (a)	9,059	11,609
Intragroup loans:		
Etna Comércio de Móveis e Artigos para Decoração S.A. ("Etna")	2,000	-
Total	11,059	11,609
Current	3,909	1,911
Noncurrent	7,150	9,698
Total	11,509	11,609
<u>Liabilities</u>		
Intragroup borrowings:		
Etna	341	342
Makauf Empreendimentos S.A.	350	136
Total	691	478

(a) Receivables with final maturity in June 2022, subject to fixed charges of 0.21% p.m.

In the period, compensation paid to the Group's executive officers amounted to R\$8,362 (R\$5,021 in 2018) and was recorded in line item "General and administrative expenses" in the statement of income. The Group does not grant any long-term benefits to its executive officers.

21. INCOME TAX AND SOCIAL CONTRIBUTION

a) Reconciliation of income tax and social contribution expenses

	Combined	
	06/30/2019	06/30/2018
Profit before income tax and social contribution	218,715	92,073
Combined statutory rate	34%	34%
Income tax and social contribution expense at statutory rate	(74,363)	(31,305)
Permanent differences:		
Share of profit (loss) of subsidiaries	(61)	(77)
Other permanent differences	(478)	(6,655)
Tax incentive - operating profit	29,136	11,942
Tax incentive - deemed ICMS credits - Manaus Free Trade Zone	15,088	10,856
Income tax and social contribution expense	<u>(32,678)</u>	<u>(15,239)</u>
Current	(17,781)	(12,531)
Deferred	(14,897)	(2,708)
Total	<u>(32,678)</u>	<u>(15,239)</u>

b) Deferred income tax and social contribution

	Combined	
	06/30/2019	12/31/2018
Deferred tax assets on temporary differences:		
Allowance for doubtful debts	913	779
Allowance for inventory losses	3,161	3,983
Accrued expenses	16,260	19,956
Provision for civil, labor and tax risks	15,855	19,766
Tax loss carryforwards	72,017	107,660
Total	108,206	152,144
Combined statutory rate	34%	34%
Deferred income tax and social contribution assets	<u>36,790</u>	<u>51,729</u>

c) Expected realization of deferred income tax and social contribution assets

Deferred income tax and social contribution assets were recognized based on analyses prepared by Management as to the generation of future taxable income to allow these amounts to be fully realized over the coming years, including the expected realization of deductible temporary differences, as outlined below:

<u>As at June 30, 2019</u>	<u>Combined Amount</u>
Up to 1 year	17,641
From 1 to 2 years	15,610
From 2 to 3 years	3,539
Total	<u>36,790</u>

22. NET REVENUE FROM SALES AND SERVICES

	Combined	
	06/30/2019	06/30/2018
Gross sales revenue	808,631	720,433
Gross service revenue	3,271	2,473
Deductions from gross revenue:		
State VAT (ICMS)	(76,782)	(74,252)
Tax on revenue (COFINS)	(44,601)	(36,320)
Tax on revenue (PIS)	(9,702)	(7,827)
F.T.I. (*)	(4,617)	(3,390)
Service tax (ISS)	(164)	(123)
Sales returns/exchanges	(152,288)	(136,866)
Total	<u>523,748</u>	<u>464,128</u>

The ICMS amounts are stated net of the tax incentive of same nature mentioned in note 19 (R\$44,377 as at June 30, 2019 and R\$31,929 as at June 30, 2018).

This combined position only comprises revenue from sales to end consumers and taxes levied thereon, without including revenue from sales of raw materials, goods for resale and copyrights associated with the transactions conducted between Tellerina and Conipa.

(*) The "Fundo de Fomento ao Turismo, Infraestrutura, Serviço e Interiorização do Desenvolvimento do Estado do Amazonas (F.T.I.)" is a state tax levied on Conipa's sales of products manufactured in Manaus Free Trade Zone to other Brazilian States.

23. EXPENSES BY NATURE

The Group's statement of income is presented based on a classification of expenses according to their function. The information on the nature of these expenses recognized in the statement of income is as follows:

	Combined	
	06/30/2019	06/30/2018
Acquisition cost of inputs, raw materials and goods for resale	(174,294)	(114,640)
Personnel	(115,525)	(110,329)
Freight	(9,115)	(8,072)
Marketing/selling expenses	(24,672)	(17,505)
Professional services	(18,996)	(14,207)
Rentals and common area maintenance fees	(24,121)	(38,878)
Commission on credit cards	(11,929)	(10,908)
Electric power, water and telephone	(4,034)	(3,042)
Taxes and fees	(15,247)	(14,258)
Depreciation and amortization	(21,513)	(9,059)
Other expenses by nature	(10,105)	(12,136)
Total	<u>(429,551)</u>	<u>(353,034)</u>
Classified as:		
Costs of sales and services	(183,931)	(125,227)
Selling expenses	(164,460)	(165,887)
General and administrative expenses	(81,159)	(61,920)
Total	<u>(429,551)</u>	<u>(353,034)</u>

This combined position does not comprise the costs of raw materials, goods for resale and copyrights associated with the transactions conducted between Tellerina and Conipa.

24. SEGMENT REPORTING

The Group's activities are conducted in one single operating segment, i.e., the retail industry. The Group is organized as a single business unit for commercial and managerial purposes, and its performance is evaluated on such basis. The information is consistently provided to the Group's chief decision maker, i.e., the CEO, who is in charge of allocating funds and assessing the operations.

Such view is based on the following factors:

- Currently, the plant's production is exclusively targeted at the Group's retail stores and online sales.
- The Group's strategic decisions are focused on:
 - Seeking remarkable quality, certified inputs, as well as new technologies to be deployed in the production lines.
 - Conducting analyses on business expansion opportunities, jewelry market trends, international fashion trends and distribution channels.
- The Group's revenue is measured by category and sales channel.

The Group's products are controlled and overseen by Management as a single business segment. Those products are distributed by category and through different sales channels; however, the CEO evaluates the Group's performance as a whole, as well as the selling, managerial and administrative results, taking into account that the structure of costs and expenses is entirely shared among all product categories.

For managerial purposes, Management monitors the consolidated gross revenue by category and sales channel, as shown below:

<u>Gross revenue</u>	<u>Combined</u>	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Jewelry	339,166	294,543
Life	198,124	185,845
Watches	102,907	92,007
Accessories	16,146	11,172
Services	3,271	2,473
Total	<u>659,614</u>	<u>586,040</u>
Stores	607,459	544,512
Online	41,450	33,077
Other	10,705	8,451
Total	<u>659,614</u>	<u>586,040</u>

25. OTHER OPERATING INCOME (EXPENSES), NET

	Combined	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Provision for civil, labor and tax risks	2,181	(650)
Reversal of allowance for expected credit losses	(134)	(220)
Tax credits (*)	103,658	-
Gain (loss) on sale of investments	1,159	-
Other income	844	155
Total	<u>107,708</u>	<u>(715)</u>

(*) PIS and COFINS credits as mentioned in note 9.

26. FINANCE INCOME

	Combined	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Income from short-term investments	351	738
Discounts obtained	42	146
Inflation adjustments (*)	51,779	4,137
Exchange gains	559	1,602
Other finance income	1,078	136
Total	<u>53,819</u>	<u>6,759</u>

(*) As at June 30, 2019, it substantially refers to inflation adjustments to PIS and COFINS credits, as mentioned in note 9.

27. FINANCE COSTS

	Combined	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Interest on borrowings and financing	(9,017)	(15,794)
Charges on right-of-use leases	(12,472)	-
Tax on financial transactions (IOF)	(2,143)	(450)
Charges on advanced receivables from credit card companies	(5,205)	(5,396)
Bank fees	(593)	(129)
Interest and fines on taxes and accessory obligations	(1,366)	(661)
Exchange losses	(3,279)	(1,067)
Other finance costs	(2,754)	(1,340)
Total	<u>(36,829)</u>	<u>(24,837)</u>

28. EARNINGS PER SHARE

The table below shows the profit attributable to shareholders and the weighted average number of outstanding shares used to calculate basic and diluted earnings. The Group does not enter into any transactions affecting the dilution of earnings.

	Combined	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Profit for the period	<u>186,037</u>	<u>76,834</u>
Basic denominator (in thousands of shares):		
Number of shares – Tellerina	12,890,047	12,890,047
Number of shares – Conipa	<u>15,671,158</u>	<u>15,671,158</u>
Total number of shares	<u>28,561,205</u>	<u>28,561,205</u>
Basic and diluted earnings per share (in R\$)	<u>6.51363</u>	<u>2.69015</u>

29. RIGHT-OF-USE LEASES

As at June 30, 2019, the Companies entered into 238 agreements for the lease of their stores, kiosks, factory and administrative center with third parties (235 as at December 31, 2018).

The balances and variations in right-of-use liabilities for the period are broken down as follows:

	<u>Combined</u> <u>06/30/2019</u>
Balance as at December 31, 2018	-
First-time adoption of CPC 06 (R2)	226,195
Additions – new agreements	1,207
Remeasurement	6,416
Lease payments	(19,844)
Finance charges recognized	<u>12,472</u>
Balance as at June 30, 2019	<u>226,446</u>
Current liabilities	18,751
Noncurrent liabilities	<u>207,695</u>
Total	<u>226,446</u>

Lease payments are expected to be made as follows:

	<u>Combined</u> <u>06/30/2019</u>
Up to 1 year	18,751
From 1 to 3 years	58,325
From 3 to 5 years	64,880
From 5 to 7 years	57,348
Over 7 years	<u>27,142</u>
Total	<u>226,446</u>

The variable rentals, determined under short-term leases or leases of low-value assets that were not recognized as rights of use for the period, are recorded in line item "Rentals and common area maintenance fees", in the total amount of R\$9,035, as stated in note 23.

The variations in profit or loss accounts for the period corresponding to right-of-use leases are as follows:

	<u>Combined</u> <u>06/30/2019</u>
Depreciation expenses	(13,580)
Finance charges recognized	<u>(12,472)</u>
Total	<u><u>(26,052)</u></u>

30. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	<u>Combined</u>	
	<u>06/30/2019</u>	<u>12/31/2018</u>
<u>Financial assets</u>		
Amortized cost:		
Cash and cash equivalents	66,725	84,781
Trade receivables (except for receivables from credit card companies)	5,468	214,981
Related parties	<u>11,059</u>	<u>11,609</u>
Subtotal	<u>83,252</u>	<u>311,371</u>
Fair value through other comprehensive income:		
Receivables from credit card companies	<u>215,347</u>	<u>-</u>
Fair value through profit or loss:		
Derivatives	<u>7,412</u>	<u>10,698</u>
Total financial assets	<u><u>306,011</u></u>	<u><u>322,069</u></u>
<u>Financial liabilities</u>		
Amortized cost:		
Trade payables	38,923	46,204
Lease liabilities	226,446	-
Borrowings and financing	<u>287,748</u>	<u>215,445</u>
Total financial liabilities	<u><u>553,117</u></u>	<u><u>273,367</u></u>

b) Financial risks

In the normal course of business, the Companies are exposed to several financial risks: market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Companies' risk management strategy focuses on the unpredictability of the financial markets and aims to minimize any adverse impacts on their financial performance.

c) Foreign exchange risk management

Due to the financial obligations assumed by the Companies, which are denominated in U.S. dollars (US\$), a foreign exchange hedging policy was implemented, establishing exposure limits associated with this risk, under which transactions involving swap derivatives are entered into.

The Companies' net foreign exchange exposure is shown below:

	Combined	
	06/30/2019	12/31/2018
Short positions:		
Foreign currency-denominated borrowings (without swap)	(24,160)	(24,109)
Foreign currency-denominated borrowings (with swap)	(99,953)	(68,785)
Foreign trade payables	(22,182)	(25,007)
Total exposure	(146,295)	(117,901)
Derivatives	100,017	68,834
Net exposure	(46,278)	(49,067)

c.1) Derivatives

The Companies entered into swap transactions to minimize the foreign exchange risks arising on foreign currency-denominated borrowings and financing. These transactions consist of swapping the exchange rate changes for a percentage rate equivalent to the CDI fluctuation.

The Companies entered into a loan agreement for which no swap derivatives were contracted, due to the interest rates applicable to such transaction.

As at June 30, 2019 and December 31, 2018, the outstanding swap transactions are broken down as follows:

Description	Combined			
	Rates	Notional amount	Fair value	Cumulative effect up to 06/30/2019 marked to market
<u>Swap contracts</u>				
Long positions:				
Exchange rate changes - US\$	US\$ 5.5% p.a.	92,605	100,017	7,412
Short positions:				
CDI fluctuation	CDI + 3.5% p.a.	92,605	92,605	-
Net amount receivable				<u>7,412</u>

Description	Combined			
	Rates	Notional amount	Fair value	Cumulative effect up to 12/31/2018 marked to market
<u>Swap contracts</u>				
Long positions:				
Exchange rate changes - US\$	US\$ 5.5% p.a.	58,136	68,834	10,698
Short positions:				
CDI fluctuation	CDI + 3.5% p.a.	58,136	58,136	-
Net amount receivable				<u>10,698</u>

The asset balance totaling R\$7,412 refers to the net adjustment receivable, calculated at fair value as at June 30, 2019, of derivatives outstanding on that date, which was recorded in line item "Derivatives".

c.2) Foreign trade payables

The Companies import goods, raw materials and inputs from foreign suppliers, which are used in the manufacturing and sales processes. These purchases are substantially denominated in U.S. dollars (US\$) and are exposed to exchange rate changes, as follows:

	<u>06/30/2019</u>	<u>12/31/2018</u>
Foreign trade payables	<u>(22,182)</u>	<u>(25,007)</u>
Net exposure	<u>(22,182)</u>	<u>(25,007)</u>

d) Sensitivity analysis

Foreign exchange risk

For purposes of conducting a sensitivity analysis of financial instruments, Management believes that the equivalent liabilities recorded in the balance sheet should be considered, combining both transactions, as shown in the following table:

Total foreign exchange exposure	(146,295)
Notional amount of derivatives	<u>100,017</u>
Foreign exchange exposure, net	<u>(46,278)</u>

Accordingly, as a result of the considerations above, only the amount of R\$46,278 is being applied for the sensitivity analysis purposes.

In order to measure the expected net impact on profit or loss for the next 12 months, arising on potential foreign currency fluctuations, a sensitivity analysis considering three scenarios was prepared as to the Companies' exposure to the foreign exchange risks underlying their borrowings.

Under scenario I, an exchange rate of R\$3.8789 was defined based on the future U.S. dollar quotation on B3, limited to 12 months. Under scenarios II and III, a 25% and 50% appreciation in the U.S. dollar was projected, respectively.

<u>Group's risk</u>	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>
Notional amount of the net exposure	46,278	46,278	46,278
Projected fair value	46,842	58,553	70,264
Effects of exchange rate changes	564	12,275	23,986
U.S. dollar rate	3.8789	4.8487	5.8184

Interest rate risk

Considering that almost all foreign currency-denominated borrowings and financing are hedged by swap contracts as at December 31, 2018, exchanging the foreign-currency liability index for the CDI rate fluctuation, due to the Group's policy to hedge against foreign exchange risks, the Group is, therefore, exposed to the CDI rate fluctuation. The exposure to interest rate risks underlying the transactions pegged to the CDI rate fluctuation is as follows:

	<u>Combined</u>
Total borrowings and financing pegged to the CDI fluctuation	<u>163,635</u>

Although the Companies' Management believes there is a low risk of significant fluctuations in the CDI rate throughout 2019, two scenarios were projected for the sensitivity analysis on the risk of CDI rate increase that would affect finance costs, stressing 25% and 50% increases in such rate, respectively.

<u>Group's risk</u>	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>
Financing pegged to the CDI fluctuation	163,635	163,635	163,635
Projected fair value	163,635	166,290	168,945
Effects of CDI fluctuation	-	2,655	5,310
CDI rate	6.49%	8.11%	9.74%

e) Credit risk management

The proceeds from the Companies' sales made to a significant number of customers are substantially derived from credit and debit cards, which minimizes the credit risk.

f) Liquidity risk management

Effectively managing liquidity risks implies maintaining funds available through committed credit facilities and the ability to settle market positions. Management monitors the continuous forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operating needs.

The table below shows in detail the maturity of outstanding financial liabilities:

<u>Transaction</u>	<u>Up to 1 year</u>	<u>Up to 2 years</u>	<u>From 2 to 5 years</u>	<u>Total</u>
Trade payables	38,924	-	-	38,924
Borrowings and financing	170,540	88,688	54,254	313,482

g) Fair value of financial instruments

When applicable, the Companies adopt CPC 40 – Financial Instruments: Disclosures for financial instruments measured in the balance sheet at fair value, which requires the disclosure of fair value measurements based on the following hierarchy level:

- Level 1 inputs: are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Companies can access at the measurement date.
- Level 2 inputs: are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs: are unobservable inputs for the asset or liability.

As at June 30, 2019, all of the Companies' derivative financial instruments were grouped into Level 2. The fair value of receivables from credit card companies is measured under Level 2.

31. INSURANCE COVERAGE

The Companies adopt an insurance policy that considers mainly the risk concentration and its materiality, according to the nature of their activities and advice from insurance brokers. As at June 30, 2019, the insurance coverage is broken down as follows:

- Inventory damages – R\$172,619 (effective through February 2020).
- Property and fleet damages - R\$14,400 (effective through April 2020).

32. AUTHORIZATION FOR ISSUANCE OF THE COMBINED FINANCIAL STATEMENTS

These combined financial statements were approved and authorized for issuance by Management on August 19, 2019.
