

# **Cia. Hering**

*Interim Financial for the  
Quarters ended June 30, 2019  
and Independent Accountant's  
Review Report*

(Free Translation into English from  
The Original Previously Issued in  
Portuguese for the Convenience of  
Readers Outside Brazil)

KPMG Auditores Independentes

# Cia. Hering

**(Publicly-held company)**

## Quarterly financial information

**June 30, 2019**

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## MESSAGE FROM MANAGEMENT

The second quarter was marked by higher than average temperatures and greater promotional activities, as well as a more challenging environment for apparel retailing. According to IBGE and Cielo data, 2Q19 showed sales slowdown and consumer confidence drop that negatively impacted business performance, especially on the Mother's Day commemorative date.

**Despite a challenging short term, we remain convinced of our strategic choices, our ability to execute and absolutely confident in building a prosperous future for the Company.**

At Cia. Hering, 2Q19 was marked by high performance dispersion and sales volatility. Despite the beginning of the quarter with SSS growth at levels similar to those of 1Q19, the deceleration from the second half of April onwards continued throughout May, mainly reflecting the climate effect in the South and Southeast regions, negatively influencing the result of the Company.

In this context, gross revenues increased 0.4% and same store sales rose 1.7%. It is important to highlight that despite the sales slowdown and the customer flow drop in the stores, the Company continues to expand its gross margin with an increase of 50 bp and remains focused on the execution of its strategic guidelines, investing in brand strengthening and the continuous pursuit of operational efficiency.

From the quarterly learning, we realized the importance of adapting the collections calendar of the first semester and expanding our portfolio with new categories and different storytelling to minimize risks associated with seasonality. We reinforce our belief in our core business by emphasizing our basic proprietary style and enhancing our hybrid production matrix. We believe that attributes of quality, comfort and versatility are becoming more widespread in the consumer's way of dressing and associated with a modern and cool speech represent a powerful value proposition. In different spheres of society, the casual urban look predominates as a global trend and we can certainly appropriate from this movement.

In this quarter we strengthened our marketing investments to increase our brands' desire. For the Hering brand, our ambition is to be the basics that Brazil chooses every day.

We explored once again the rich Brazilian musical territory, and in April we launched the campaign "Hering e Você. Você e Hering. Juntinhos". The brand invited the Latin Grammy nominated singer-songwriter: IZA - our 2019 ambassador and star of the contemporary music scene. The artist also starred in the three phases of the campaign - Institutional, Mother's Day and Valentine's Day. In the media, we broadcasted through open and pay TV, urban furniture in the São Paulo city, Youtube, Facebook, Instagram, Spotify, Portals and Programmatic Media.

In children's brands, we had at PUC the launch of the Minions pajamas collection, with the campaign "My favorite pajamas", with strong dissemination on social networks. Additionally during June, we promoted slime workshops at traditional June parties. At Hering Kids, we brought to 'Mês do Brincar' a reinforcement promoting quality time between parents and children, which translated into a Buy & Win partnership with Estrela toys, reinforcing the brand's positioning to drive discoveries. from childhood, emotionally connecting the whole family. We also had the launch of the MOVE collection, where we invited young artists to promote a great street dance challenge wearing our collection inspired by the streetstyle and micro influencers to promote the main pieces of the collection within their favorite sport.

With the proposal to strengthen the jeans line, DZARM invited the actress Isis Valverde to interpret their versions of the original denim. The collab featured campaign and fashion film that were widely publicized in digital media. For Mother's Day, we have joined 2 brands of the Company: DZARM + PUC with the "Stay (mom) love" capsule collection, inspired by the relationship between mothers and daughters, and that proposed looks like "Tal Mãe Tal Filha (o)" so that the whole family could combine in tune.

We continue to focus on franchise network engagement, prioritizing the correct supply and better execution at the store level, always strengthening the sell-out vision, as since 4Q18 on, the goals are set based on the sell-out of the previous year, improving franchisees' profitability by raising sales quality and maintaining adequate inventory levels.

We understand that Multibrand channel faces challenges with a consumption and consumer confidence drop, as well as higher inventory levels, but we see great opportunities for the channel, which is being reinvigorated, including changes in the Go to Market journey with greater investment in the showroom buying experience, offering services and content for the development of business partners and evolution in the business relationship model with the consequent resignification of roles in the organizational structure. Additionally, in 2Q19, we piloted with our Qualified Retailers a new project to strengthen the commercial relationship, speed up and read the sell-out sales of these customers, which today already represent 30% of channel revenues and are 10% in number of customers. It is worth mentioning that the first package of measures which includes the simplification of our commercial policy based on a loyalty program that is calculated according to two variables: volume and frequency, was implemented in the summer collection showroom, whose largest participation is allocated in the third quarter.

From the perspective of building a digital culture and data driven management model, through automated artificial intelligence tools, we continue to expand our CRM platform to understand, know and engage with our consumers. In 2Q19, we started testing custom activations and evolved in the "NPS - Net Promoter Score" indicator, with expansion of 100 bp.

In the Omnichannel front, which guarantees the shopping experience improvement, incremental sales already reach 5% in some stores, reducing disruptions and retaining our customers. Following the roll out of the Omnichannel project, 172 franchised stores were implemented in 2Q19, totaling 358 stores in the chain.

The digitalization of the Multibrand channel also symbolizes this business evolution. Through Portal Conecta - an originally transactional B2B platform - we aim to strengthen our relationship with ours more than 11,000 multibrand and franchise customers by expanding services with personalization of offers, benefits, training, purchase recommendations, among others.

In the constant search for operational efficiency, the quarter was marked by important reorganizations. We seek to improve our logistics matrix, bring more speed in product development and consequently reduce Time to Market. We closed the operations of the Encano unit, that was responsible for making samples and concentrated our activities in the Itororó unit, both located in the Santa Catarina state. Additionally, we adapted our organizational structure to this transformation cycle, in which we pursue a culture with strong entrepreneurial trait, greater autonomy and meritocracy. These movements impacted the profitability of the quarter, but optimized our organizational structure generating synergy for the Company.

Finally, we reaffirm our commitment to a strong capital structure, high cash generation and commitment to our shareholder. We understand that the quarterly results represent a challenge, but without structural impact, inherent to the nature of the business and will be adjusted in the medium and long term execution. The Company is today, following a profound organizational, cultural and modernization of management restructuring, following a leading role with a sustainable growth path for the 2019-2021 triennium.

## CONSOLIDATED HIGHLIGHTS

R \$ Thousand	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
<b>Gross Revenue</b>	<b>422,225</b>	<b>420,422</b>	<b>0.4%</b>	<b>860,083</b>	<b>826,329</b>	<b>4.1%</b>
Domestic Market	412,489	405,893	1.6%	840,411	800,979	4.9%
Foreign Market	9,736	14,529	-33.0%	19,672	25,350	-22.4%
<b>Net Revenue</b>	<b>359,992</b>	<b>362,293</b>	<b>-0.6%</b>	<b>733,929</b>	<b>706,096</b>	<b>3.9%</b>
<b>Gross Profit</b>	<b>156,353</b>	<b>155,551</b>	<b>0.5%</b>	<b>318,728</b>	<b>295,745</b>	<b>7.8%</b>
<i>Gross Margin</i>	43.4%	42.9%	50 b.p.	43.4%	41.9%	150 b.p.
<b>Net Income</b>	<b>40,683</b>	<b>57,286</b>	<b>-29.0%</b>	<b>87,368</b>	<b>91,599</b>	<b>-4.6%</b>
<i>Net Margin</i>	11.3%	15.8%	-450 b.p.	11.9%	13.0%	-110 b.p.
<b>EBITDA</b>	<b>46,153</b>	<b>58,013</b>	<b>-20.4%</b>	<b>103,187</b>	<b>103,312</b>	<b>-0.1%</b>
<i>EBITDA Margin</i>	12.8%	16.0%	-320 b.p.	14.1%	14.6%	-50 b.p.
<b>ROIC (a)</b>	<b>21.2%</b>	<b>20.7%</b>	<b>50 b.p.</b>	<b>21.2%</b>	<b>20.7%</b>	<b>50 b.p.</b>
<b>SSS<sup>1</sup></b>	<b>1.7%</b>	<b>-2.4%</b>	<b>410 b.p.</b>	<b>6.0%</b>	<b>-0.7%</b>	<b>670 b.p.</b>

(a) Last 12 months.

<sup>1</sup> Given the consolidation of Hering and Hering Kids brands, which from 2Q19 started to be managed within the same business unit, the data were unified.

Values in the above table include the effects of IFRS16

## SALES PERFORMANCE

Gross Revenue - R \$ Thousand	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
<b>Gross Revenue</b>	<b>422,225</b>	<b>420,422</b>	<b>0.4%</b>	<b>860,083</b>	<b>826,329</b>	<b>4.1%</b>
Domestic Market	412,489	405,893	1.6%	840,411	800,979	4.9%
Foreign Market	9,736	14,529	-33.0%	19,672	25,350	-22.4%
<b>Domestic Market Gross Revenue</b>	<b>412,489</b>	<b>405,893</b>	<b>1.6%</b>	<b>840,411</b>	<b>800,979</b>	<b>4.9%</b>
Hering	311,998	297,738	4.8%	639,130	590,789	8.2%
Hering Kids	53,430	54,021	-1.1%	107,119	108,517	-1.3%
PUC	21,253	26,007	-18.3%	43,721	49,283	-11.3%
Dzarm	19,688	19,837	-0.8%	37,904	37,195	1.9%
Others <sup>1</sup>	6,120	8,290	-26.2%	12,537	15,195	-17.5%

Domestic Market Share	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
Multibrand	186,464	186,054	0.2%	370,665	368,646	0.5%
Franchise	129,283	131,357	-1.6%	284,089	266,257	6.7%
Owned Stores	80,157	75,729	5.8%	153,715	140,054	9.8%
Webstore	15,087	11,042	36.6%	29,570	22,083	33.9%
Others <sup>1</sup>	1,498	1,711	-12.4%	2,372	3,939	-39.8%
<b>Total</b>	<b>412,489</b>	<b>405,893</b>	<b>1.63%</b>	<b>840,411</b>	<b>800,979</b>	<b>4.92%</b>
Multibrand	45.2%	45.8%	-60 b.p.	44.1%	46.0%	-190 b.p.
Franchise	31.3%	32.4%	-110 b.p.	33.8%	33.2%	60 b.p.
Owned Stores	19.4%	18.7%	70 b.p.	18.3%	17.5%	80 b.p.
Webstore	3.7%	2.7%	100 b.p.	3.5%	2.8%	70 b.p.
Others <sup>1</sup>	0.4%	0.4%	-	0.3%	0.5%	-20 b.p.
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

<sup>1</sup> It considers the sale of second line items and leftovers.

The Company's gross revenue totaled R\$ 422.2 million in 2Q19, 0.4% higher than the previous year, with a franchise channel decline, offset by owned stores and webstore positive performances. The 2Q19 was challenging for the Company explained by higher temperatures than the historical average, hampering the sale of winter collection items, notably in the overtops (knitting, coats and jackets) category. The other categories presented SSS growth at the same levels observed in the previous quarter.

### **Owned stores**

Sales of stores operated by the Company totaled R\$ 80.2 million, 5.8% higher than 2Q18, with positive performance in all brands. The result is linked to the SSS growth and the productivity increase per square meter related to higher sales conversion, influenced by the better execution at the point of sale, despite the number of stores reduction. It highlights the positive performance of outlet stores, with an increase in the average ticket and number of services growth, explained by the opening of 3 stores in the last 12 months.

### **Franchises**

Sales to franchises stores (sell-in) totaled R\$ 129.3 million, 1.6% lower than the same quarter last year. This result was influenced by the volume decrease of replenishment orders, due to the low turnover of goods at the point of sale, as previously mentioned. It highlights, however, the sustainability preservation of the network and the inventory levels dimensioning versus the sales made to the final consumer, with the number of collections reduction and the balance between *sell-in* and *sell-out*, as from the 2018 High Summer collection, the sell-in was defined based on the sell-out performance of the previous year explained by the incentive structure evolution, which aims to maintain the health of the network.

### **Multibrand**

Sales to the multibrand channel totaled R\$ 186.5 million, up to 0.2% versus the same period last year. The channel performance remains challenging against a slower-than-planned macroeconomic recovery, despite an average order growth from the existing customers.

### **Webstores**

E-commerce sales totaled R\$ 15.1 million, an increase of 36.6% compared to the same quarter of 2018, with double-digit growth in all brands, driven by the increase in platform flow related to the intensifications of marketing campaigns, contributing to more sessions and improved conversion. It highlights the implementation of new features in the webstores that aim to enhance the consumer purchase experience, such as (i) Chat Bot: technology based on algorithms for interaction with consumers through the use of Artificial Intelligence - reaching the retention of about 40% of interactions and (ii) improvements in search engines, including filters, customization and top searches. Webstores accounted for 3.8% of revenues, an increase of 120 bp from 2Q18.

### **Foreign Market**

The foreign market decreased by 33.0%, mainly due to the sales decline in Paraguay and Uruguay. In these markets its worth mentioning the higher temperatures than historical averages, besides the increased local competitiveness. The foreign market represented 2.3% of the Company's revenues.

## DISTRIBUTION NETWORK

Cia. Hering has a hybrid distribution model that enables its products to reach the final consumer through 719 stores in Brazil, 20 stores in the foreign market, 10,808 multibrand retailers and 5 webstores. This capillarity allows the Company to reach different audiences and regions, attributes of a truly democratic brand.

As part of the Company's sanitation process, 16 franchised stores were closed in the 2Q19 and 15 new units were opened, including 12 Hering Store, 2 Basic Shop and 1 Hering Kids. It is worth mentioning that we expanded our store formats launching the pilot "franchise light" - a simplified franchise standard with lower investment levels, ideal for smaller markets, away from large urban centers and in strong commercial neighborhoods. This format will also be enabled by the conversion of Qualified Retail, allowing the Company to have access to data readings, such as inventories and sales bases, optimizing business management. It is worth mentioning that all new stores, regardless of the format, are already born digital and integrated to the Omnichannel. The new formats expansion provides a strategic control of the Company to define the best model according to the needs of a specific public or region. This adaptability allows us to reach new horizons and expand geographically, always putting the consumer at the center of the business.

Additionally, the Company continues to advance in the cycle of reforms initiated in 2018. The project includes important improvements, with more spaces for product exposition and greater flexibility to adjust the layout of the store. In total 65 stores were remodeled in this format and, combined with the best management practices, provide superior sales growth. As a result, the Company expects to remodel approximately 100 stores by the year-end 2019.

## HERING NETWORK<sup>1</sup>

Total sales in the Hering network (sell-out) in 2Q19 decreased by 0.5% compared to 2Q18, influenced by the sales area reduction (-5.9%), explained by the closing of 26 stores in the last 12 months. It is worth mentioning that revenues per m<sup>2</sup> increased 5.4%. The stores operated by the Company stands out, with an expansion of 3.2%, despite the sales area reduction, influenced by the closure of 7 stores in the last 12 months.

High temperatures impacted sell-out sales in cold regions, which account for about 80% of sales. This decrease is explained by the lower overtops sales, despite the SSS growth in other categories at the same levels observed in the previous quarter. Same Store Sales, which include comparable stores opened at least 13 months ago by Hering Store and Hering Kids, including online sales, grew 1.7%.

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<sup>1</sup> Given the consolidation of Hering and Hering Kids brands, which from 2Q19 started to be managed within the same business unit, the data were unified.



# ECONOMIC AND FINANCIAL PERFORMANCE

R\$ Thousand	2Q19	Part. (%)	2Q18	Part. (%)	VAR.		1S19	Part. (%)	1S18	Part. (%)	VAR.	
					2Q19   2Q18						1S19   1S18	
<b>Gross Revenue</b>	<b>422,225</b>	<b>117.3%</b>	<b>420,422</b>	<b>116.0%</b>	<b>0.4%</b>		<b>860,083</b>	<b>117.2%</b>	<b>826,329</b>	<b>117.0%</b>	<b>4.1%</b>	
Sales Deduction	(62,233)	-17.3%	(58,129)	-16.0%	7.1%		(126,154)	-17.2%	(120,233)	-17.0%	4.9%	
<b>Net Revenue</b>	<b>359,992</b>	<b>100.0%</b>	<b>362,293</b>	<b>100.0%</b>	<b>-0.6%</b>		<b>733,929</b>	<b>100.0%</b>	<b>706,096</b>	<b>100.0%</b>	<b>3.9%</b>	
Cost of Goods Sold	(204,399)	-56.8%	(207,396)	-57.2%	-1.4%		(417,400)	-56.9%	(412,423)	-58.4%	1.2%	
AVP (Adjustment to Present Value)	5,341	1.5%	4,050	1.1%	31.9%		10,553	1.4%	7,807	1.1%	35.2%	
Subvention for Expenditure	3,954	1.1%	4,402	1.2%	-10.2%		8,440	1.1%	9,628	1.4%	-12.3%	
Depreciation and Amortization	(8,535)	-2.4%	(7,798)	-2.2%	9.5%		(16,794)	-2.3%	(15,363)	-2.2%	9.3%	
<b>Gross Profit</b>	<b>156,353</b>	<b>43.4%</b>	<b>155,551</b>	<b>42.9%</b>	<b>0.5%</b>		<b>318,728</b>	<b>43.4%</b>	<b>295,745</b>	<b>41.9%</b>	<b>7.8%</b>	
Operating Expenses	(132,094)	-36.7%	(112,755)	-31.1%	17.2%		(258,621)	-35.2%	(222,487)	-31.5%	16.2%	
Selling Expenses	(93,856)	-26.1%	(85,471)	-23.6%	9.8%		(175,549)	-23.9%	(167,513)	-23.7%	4.8%	
Loss due to non-recoverability of assets	(2,484)	-0.7%	(2,317)	-0.6%	7.2%		(5,433)	-0.7%	(2,909)	-0.4%	86.8%	
Administrative and General Exp. and Management Remuneration	(15,082)	-4.2%	(14,217)	-3.9%	6.1%		(30,443)	-4.1%	(28,371)	-4.0%	7.3%	
Depreciation and Amortization	(13,359)	-3.7%	(7,419)	-2.0%	80.1%		(26,286)	-3.6%	(14,691)	-2.1%	78.9%	
Profit Sharing	-	0.0%	(200)	-0.1%	-100.0%		(4,700)	-0.6%	(783)	-0.1%	500.3%	
Other Operating Income (Expenses), net	(7,313)	-2.0%	(3,131)	-0.9%	133.6%		(16,210)	-2.2%	(8,220)	-1.2%	97.2%	
<b>Operating Income Before Financial Results</b>	<b>24,259</b>	<b>6.7%</b>	<b>42,796</b>	<b>11.8%</b>	<b>-43.3%</b>		<b>60,107</b>	<b>8.2%</b>	<b>73,258</b>	<b>10.4%</b>	<b>-18.0%</b>	
Financial income	18,895	5.2%	17,618	4.9%	7.2%		35,371	4.8%	33,315	4.7%	6.2%	
Financial expenses	(7,911)	-2.2%	(10,077)	-2.8%	-21.5%		(17,426)	-2.4%	(17,312)	-2.5%	0.7%	
Total Financial Income	10,984	3.1%	7,541	2.1%	45.7%		17,945	2.4%	16,003	2.3%	12.1%	
<b>Operating Income Before Interest in Subsidiaries</b>	<b>35,243</b>	<b>9.8%</b>	<b>50,337</b>	<b>13.9%</b>	<b>-30.0%</b>		<b>78,052</b>	<b>10.6%</b>	<b>89,261</b>	<b>12.6%</b>	<b>-12.6%</b>	
Income and Social Contribution Taxes - Current	-	0.0%	(255)	-0.1%	-100.0%		228	0.0%	186	0.0%	22.6%	
Income and Social Contribution Taxes - Deferred	5,440	1.5%	7,204	2.0%	-24.5%		9,088	1.2%	2,152	0.3%	322.3%	
<b>Net Income for the Period</b>	<b>40,683</b>	<b>11.3%</b>	<b>57,286</b>	<b>15.8%</b>	<b>-29.0%</b>		<b>87,368</b>	<b>11.9%</b>	<b>91,599</b>	<b>13.0%</b>	<b>-4.6%</b>	
Controlling shareholders	40,683	11.3%	57,286	15.8%	-29.0%		87,368	11.9%	91,599	13.0%	-4.6%	
Basic earnings per share - R\$												
Controlling shareholders	0.2521		0.3533		-28.6%		0.5408		0.5660		-4.5%	
<b>EBITDA</b>	<b>46,153</b>	<b>12.8%</b>	<b>58,013</b>	<b>16.0%</b>	<b>-20.4%</b>		<b>103,187</b>	<b>14.1%</b>	<b>103,312</b>	<b>14.6%</b>	<b>-0.1%</b>	

Values in the table include the effects of IFRS16 (see reconciliation table)

## RECONCILIATION TABLE TO THE IFRS16 ON THE INCOME STATEMENT

R\$ THOUSAND	2019 Reported	IFRS16 Adjustments	2019 Pro-Forma	1S19 Reported	IFRS16 Adjustments	1S19 Pro-Forma
Net Revenue	359,992	-	359,992	733,929	-	733,929
Cost of Goods Sold	(204,399)	(857)	(205,256)	(417,400)	(1,715)	(419,115)
Depreciation on COGS	(8,535)	783	(7,752)	(16,794)	1,565	(15,229)
Selling Expenses	(93,856)	(5,821)	(99,677)	(175,549)	(11,476)	(187,025)
G&A and Management Remuneration	(15,082)	(347)	(15,429)	(30,443)	(694)	(31,137)
Depreciation and Amortization	(13,359)	5,492	(7,867)	(26,286)	10,856	(15,430)
Financial Income*	10,984	1,241	12,225	17,945	2,543	20,488
Others Expenses / Costs and Taxes without IFRS 16 impact	4,938	-	4,938	1,966	-	1,966
<b>Net Income</b>	<b>40,683</b>	<b>491</b>	<b>41,174</b>	<b>87,368</b>	<b>1,079</b>	<b>88,447</b>
<b>EBITDA</b>	<b>46,153</b>	<b>(7,025)</b>	<b>39,128</b>	<b>103,187</b>	<b>(13,885)</b>	<b>89,302</b>

## GROSS REVENUE

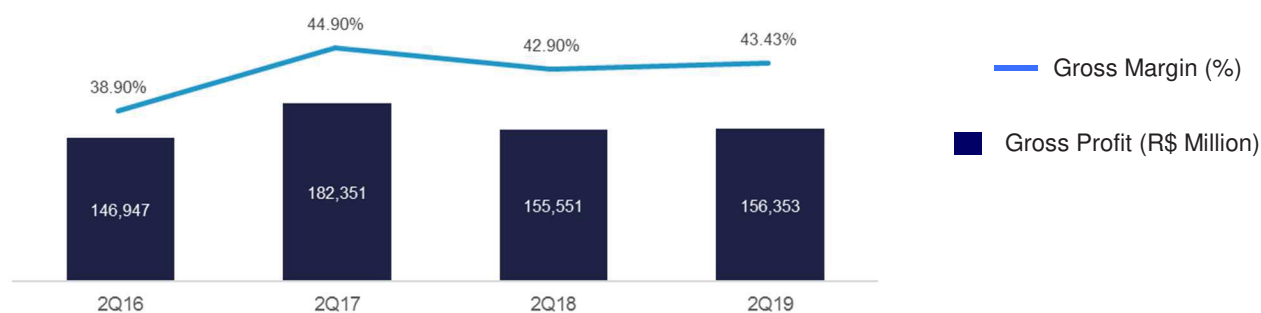
The Company's gross revenue reached R\$ 422.2 million in the second quarter, a 0.4% increase compared to 2Q18. The main factors related to this result were highlighted in the sales performance section above.



## GROSS PROFIT AND GROSS MARGIN

The Company's gross profit reached R\$ 156.4 million in 2Q19, a 0.5% increase compared to 2Q18, explained by lower sales volume, especially in the franchise and multibrand channels, as previously mentioned.

The efficient gross margin management was notable in the quarter, which, despite the poor sales performance, expanded by 50 bp in 2Q19, reaching 43.4%, as a result of better utilization of manufacturing capacity. It is worth mentioning that part of this gain was partially offset by a higher provision of obsolete products in inventories.



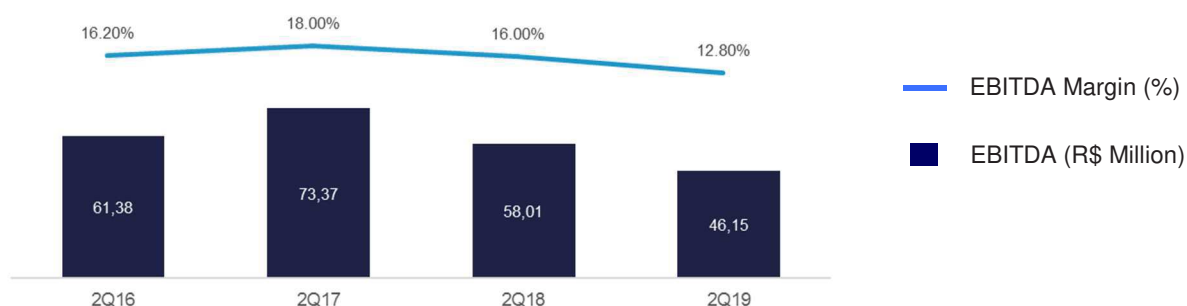
## OPERATIONAL EXPENSES

In 2Q19, operating expenses reached R\$ 132.1 million, an increase of 17.2%, impacted by: (i) R\$ 14.1 million growth (+134% vs. 2Q18) in marketing investments focused on brands' strengthening; (ii) a R\$ 3.9 million increase in 'other operating expenses', related to labor severance from the organizational restructuring and the closure of the Encano unit. This amount totaled R\$ 8.3 million in the quarter; (iii) extemporary tax credits, mainly PIS/COFINS, in the amount of R\$ 8.5 million vs. R\$ 9.0 million in 2Q18.

There was no provision for profit sharing in this quarter due to the results below planned.

## EBITDA AND EBITDA MARGIN

Earnings before interest, depreciation, amortization and taxes ('EBITDA') reached R\$ 46.2 million, a 20.4% fall in 2Q19, while the EBITDA margin reached 12.8%, a decrease of 320 bp, mainly due to an increase in operating expenses, including extraordinary effects, as mentioned in the previous section. Excluding the impact of IFRS16 (see reconciliation table), EBITDA would total R\$ 39.1 million, a 32.6% decrease, reaching 10.9% in EBITDA margin with a 510 bp decline.



Reconciliation of EBITDA - R\$ thousand	2Q19	2Q18	VAR.		1S19	1S18	VAR.	
			2Q19	2Q18			1S19	1S18
Net Income	40,683	57,286	-29.0%		87,368	91,599	-4.6%	
(+) Income and Social Contribution Tax	(5,440)	(6,949)	-21.7%		(9,316)	(2,338)	298.5%	
(-) Net Financial Income	(10,984)	(7,541)	45.7%		(17,945)	(16,003)	12.1%	
(+) Depreciation and Amortization	21,894	15,217	43.9%		43,080	30,054	43.3%	
<b>(=) EBITDA</b>	<b>46,153</b>	<b>58,013</b>	<b>-20.4%</b>		<b>103,187</b>	<b>103,312</b>	<b>-0.1%</b>	
EBITDA Margin	12.8%	16.0%	-320 b.p.		14.1%	14.6%	-50 b.p.	

## NET PROFIT AND NET MARGIN

Net income for the quarter totaled R\$ 40.7 million, a decrease of 29.0% when compared to 2Q18, as a result of operating income decline. Despite the net income reduction, we highlight (i) the increase in net financial income, totaling R\$ 11.0 million, 45.7% higher than the same period of the previous year, explained by higher interest income related to an increase in the average cash of the period and favorable net exchange variation. In addition, the lowest effective income tax rate is highlighted as a result of the interest on capital deliberation.

Excluding the impact of IFRS16 (see reconciliation table), the profit would total R\$ 41.2 million, a decrease of 28.1% when compared to 2Q18.



## INVESTMENTS

We continue to invest in different fronts and initiatives that support the company's new growth cycle. Investments in the quarter totaled R\$ 9.2 million and were mainly allocated to: (i) developments in the B2B sales portal and other IT systems; (ii) developments in the industrial plants and automation of logistics processes e (iii) new points acquisition and expansion of store remodeling.

The allocation of resources was distributed as follows:

Investments (R\$ Thousands)	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
Industrial Plant	3,259	807	303.8%	7,018	2,080	237.4%
IT	3,765	2,703	39.3%	6,976	5,817	19.9%
Stores	2,156	4,202	-48.7%	4,215	2,965	42.2%
Others	35	183	-80.9%	280	217	29.0%
<b>Total</b>	<b>9,215</b>	<b>7,895</b>	<b>16.7%</b>	<b>18,489</b>	<b>11,079</b>	<b>66.9%</b>

## CASH FLOW

In 2Q19, Cia. Hering generated R\$ 19.3 million in free cash, R\$ 48.5 million lower than in 2Q18, as a result of greater investment in working capital, notably in inventories of finished products. The cash conversion cycle reduced in 10 days explained by actions to lengthen the deadlines with suppliers.

Cash Flow - Consolidated (R\$ thousand)	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
<b>EBITDA</b>	<b>46,153</b>	<b>58,013</b>	<b>(11,860)</b>	<b>103,187</b>	<b>103,812</b>	<b>(625)</b>
No cash items	6,087	4,114	1,973	13,056	7,336	5,720
Lease Effect	(7,025)	-	(7,025)	(13,885)	-	(13,885)
AVP (Adjustment to Present Value) - Clients and Suppliers	3,505	6,874	(3,369)	8,521	13,200	(4,679)
Current Income tax and Social Contribution	-	(255)	255	228	186	42
<b>Working Capital Capex</b>	<b>(20,163)</b>	<b>7,030</b>	<b>(27,193)</b>	<b>(1,242)</b>	<b>47,614</b>	<b>(48,856)</b>
Accounts receivable from clients	(2,588)	(2,311)	(277)	39,709	55,208	(15,499)
Inventories	(29,901)	12,453	(42,354)	(68,243)	(5,415)	(62,828)
Accounts payable to suppliers	14,044	19,320	(5,276)	36,362	41,774	(5,412)
Taxes payable	2,696	(4,872)	7,568	(8,265)	(15,025)	6,760
Franchisee Financing - Refurbishment plan	622	477	145	(42)	3,400	(3,442)
Others	(5,036)	(18,037)	13,001	(763)	(32,328)	31,565
<b>CapEx</b>	<b>(9,215)</b>	<b>(7,896)</b>	<b>(1,319)</b>	<b>(18,489)</b>	<b>(11,079)</b>	<b>(7,410)</b>
<b>Free Cash Flow</b>	<b>19,342</b>	<b>67,880</b>	<b>(48,538)</b>	<b>91,376</b>	<b>160,569</b>	<b>(69,193)</b>

## RETURN ON CAPITAL INVESTED - ROIC

In 2Q19, Cia. Hering's return on invested capital was 21.2%, 50 bp higher than 2Q18, explained by the invested capital control in the last 12 months, despite the Company's operating result.

Return on Invested Capital (ROIC) - R\$ thousands	2Q19	1Q19	VAR. 2Q19   1Q19	2Q18	VAR. 2Q19   2Q18
EBITDA	259,432	271,291	-4.4%	248,632	4.3%
(-) Depreciation and Amortization	(74,624)	(67,947)	9.8%	(61,916)	20.5%
(+) Amortization - Right of use properties <sup>1</sup>	4,735	5,083	-6.8%	6,849	-30.9%
(+) Financial Results - APV <sup>2</sup>	15,236	18,753	-18.8%	31,044	-50.9%
(+) IR&CS - Effective rate <sup>3</sup>	11,329	12,837	-11.7%	(3,436)	-429.7%
<b>Operating Income</b>	<b>216,109</b>	<b>240,018</b>	<b>-10.0%</b>	<b>221,173</b>	<b>-2.3%</b>
Fixed Assets	435,977	422,285	3.2%	419,419	3.9%
Accumulated amortization - Right of use properties	51,097	49,729	2.8%	44,783	14.1%
Working capital	532,798	559,719	-4.8%	605,813	-12.1%
<b>Average Invested Capital*</b>	<b>1,019,872</b>	<b>1,031,732</b>	<b>-1.1%</b>	<b>1,070,015</b>	<b>-4.7%</b>
<b>ROIC</b>	<b>21.2%</b>	<b>23.3%</b>	<b>-210 b.p.</b>	<b>20.7%</b>	<b>50 b.p.</b>

Notes to the financial statements: (1) Nr. 15; (2) Nr. 31; (3) Nr. 32

(\*) Last 4 quarters average

## **SHAREHOLDERS REMUNERATION**

At the Board of Directors' Meeting held on 05.08.2019, the distribution of interest on capital in the amount of R\$ 20,489,274.08 (R\$ 0.1268 per share) was approved based on the shareholder position of May 16<sup>th</sup>, 2019. The company's shares were traded "ex dividends" as of May 17<sup>th</sup>, 2019 and the amount was paid on July 5<sup>th</sup>, 2019.

In the first half of 2019, the amount of R\$ 43.5 million was distributed in interest on capital (R\$ 0.2691), corresponding to the allocation of net income for 2019.

## **BUYBACK PROGRAM**

The program was approved on February 28<sup>th</sup>, 2019 at the Meeting of the Board of Directors and authorizes the acquisition up to 1.5 million shares, corresponding to 1.20% of the total free float shares, effective until February 28<sup>th</sup>, 2020.



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## Quarterly Information Review Report

To the Shareholders and Board of Directors  
Cia Hering  
Blumenau - SC

### Introduction

We have reviewed the interim financial statements, individual and consolidated, of Cia Hering ("Company") contained within the Quarterly Information for the quarter ended June 30, 2019, which comprise the balance sheet as of June 30, 2019 and the related statements of income, comprehensive income, for the three and six months period then ended and the changes in shareholders' equity and cash flows for the six months period then ended, including the notes to the financial statements.

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

### Scope of the review

We conducted our review in accordance with Brazilian and international standards for reviewing interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). An interim review consists principally of making enquiries and having discussions with persons responsible for financial and accounting matters, and applying analytical and other review procedures. An interim review is substantially less in scope than an audit conducted in accordance with auditing standards and, consequently, does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express such an audit opinion.



### **Conclusion about the interim financial statements**

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

### **Other issues**

#### ***Statements of value added***

The individual and consolidated interim financial statements, in relation to the statements of value added for the six months period ended in June 30, 2018, prepared under the responsibility of the Company's Management and presented as supplementary information regarding IAS 34, were submitted to review procedures performed jointly with the review of the interim quarterly information of the Company. In order to form our conclusion, we assessed if the statements are reconciled with the interim accounting information and records, as applicable, and if their form and content are in accordance with the criteria defined in CPC 09 - Statements of Value Added. Based on our review, we are not aware of any fact that would lead us to believe that the statements of value added aforementioned have not been fairly stated, in all material aspects, in relation to the interim financial statements, individual and consolidated, taken as a whole.

Joinville July 23, 2019

KPMG Auditores Independentes  
CRC SC-000071/F-8  
*Original report in Portuguese signed by*  
Marcelo Lima Tonini  
Accountant CRC PR-045569/O-4 T - SC



## CIA. HERING

## BALANCE SHEETS

JUNE 30, 2019 AND DECEMBER 31, 2018

(In thousands of Brazilian Reals - R\$)

Assets	Note	Parent company		Consolidated		Liabilities	Note	Parent company		Consolidated	
		06/30/19	12/31/18	06/30/19	12/31/18			06/30/19	12/31/18		
<b>Current assets</b>						<b>Current liabilities</b>					
Cash and cash equivalents	5	366,310	319,417	366,656	320,540	Trade accounts payable		244,271	207,909	244,271	207,909
Trade accounts receivable	7	414,382	459,052	414,411	459,074	Payroll and related taxes	16	52,168	42,584	52,212	42,584
Inventories	9	387,128	320,142	387,128	320,142	Taxes in installments		836	976	929	976
Recoverable taxes	10	77,370	77,128	77,375	77,134	Income and social contribution taxes		7	7	7	63
Other accounts receivable	8	9,927	10,767	9,927	10,767	Taxes payable	17	12,501	20,081	12,518	20,092
Prepaid expenses		3,104	1,665	3,104	1,665	Provisions for contingencies	19	2,420	2,420	2,420	2,420
		<u>1,258,221</u>	<u>1,188,171</u>	<u>1,258,601</u>	<u>1,189,322</u>	Other provisions	19	33,936	32,262	33,936	32,262
						Tax incentive obligations	18	2	172	2	172
						Interest on equity and dividends payable	24.e	19,289	40,726	19,289	40,726
						Related parties	20	2,002	2,014	-	-
						Derivative financial Instruments	23.e	-	170	-	170
						Other accounts payable		11,242	17,499	11,242	17,499
						Leases	22	23,195	-	23,195	-
								<u>401,869</u>	<u>366,820</u>	<u>400,021</u>	<u>364,873</u>
<b>Noncurrent assets</b>						<b>Noncurrent liabilities</b>					
Interest-earning bank deposits	6	4,952	4,830	4,952	4,830	Taxes in installments		1,199	1,550	1,275	1,550
Recoverable taxes	10	22,007	16,271	22,007	16,271	Provisions for contingencies	19	12,526	14,309	12,526	14,309
Deferred taxes	11	58,739	49,977	58,739	49,977	Other provisions	19	104	104	104	104
Trade accounts receivable	7	8,303	8,782	8,303	8,782	Employee Benefits	21	2,677	2,499	2,677	2,499
Other accounts receivable	8	16,294	17,923	16,294	17,923	Tax incentive obligations	18	490	633	490	633
Investments in subsidiaries	12	2,152	3,013	-	-	Other accounts payable		201	-	201	85
Property, plant and equipment	13	294,995	305,695	294,995	305,695	Leases	22	40,554	-	40,554	-
Intangible assets	14	95,033	111,329	95,033	111,329			<u>57,751</u>	<u>19,095</u>	<u>57,827</u>	<u>19,180</u>
Right of use	15	74,060	-	74,060	-						
		<u>576,535</u>	<u>517,820</u>	<u>574,383</u>	<u>514,807</u>	<b>Shareholders' equity</b>	24				
						Capital		374,387	369,618	374,387	369,618
						Capital reserve		38,711	35,982	38,711	35,982
						Treasury shares		(3,233 )	(6,372 )	(3,233 )	(6,372 )
						Earnings reserve		914,598	914,694	914,598	914,694
						Valuation adjustments to equity		6,672	6,154	6,672	6,154
						Controlling shareholders		<u>1,375,136</u>	<u>1,320,076</u>	<u>1,375,136</u>	<u>1,320,076</u>
		<u>1,834,756</u>	<u>1,705,991</u>	<u>1,832,984</u>	<u>1,704,129</u>			<u>1,834,756</u>	<u>1,705,991</u>	<u>1,832,984</u>	<u>1,704,129</u>

The notes are an integral part of the financial statements.

## CIA. HERING

## INCOME STATEMENTS

PERIODS OF 3 AND 6 MONTHS ENDED IN JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reals - R\$)

	Note	Parent company				Consolidated			
		2st Quarter 19	6 months 19	2st Quarter 18	6 months 18	2st Quarter 19	6 months 19	2st Quarter 18	6 months 18
Net operating revenue	26	359,992	733,929	361,589	704,660	359,992	733,929	362,293	706,096
Cost of goods sold	27	(203,639)	(415,201)	(206,742)	(410,351)	(203,639)	(415,201)	(206,742)	(410,351)
Gross profit		156,353	318,728	154,847	294,309	156,353	318,728	155,551	295,745
Operating income (expenses)									
Selling expenses	28	(93,856)	(175,549)	(85,471)	(167,513)	(93,856)	(175,549)	(85,471)	(167,513)
Impairment of accounts receivable	23.aii	(2,484)	(5,433)	(2,317)	(2,909)	(2,484)	(5,433)	(2,317)	(2,909)
Administrative and general expenses	29	(12,723)	(25,712)	(11,986)	(23,788)	(12,809)	(25,806)	(12,013)	(23,828)
Management remuneration	21	(2,156)	(4,511)	(2,203)	(4,536)	(2,273)	(4,637)	(2,204)	(4,543)
Depreciation and amortization		(13,359)	(26,286)	(7,419)	(14,691)	(13,359)	(26,286)	(7,419)	(14,691)
Profit sharing	19	-	(4,700)	(200)	(783)	-	(4,700)	(200)	(783)
Other net operating income (expenses)	30	(7,283)	(16,069)	(2,922)	(7,268)	(7,313)	(16,210)	(3,131)	(8,220)
Net income before financial results, equity and taxes		24,492	60,468	42,329	72,821	24,259	60,107	42,796	73,258
Financial income	31	18,879	35,338	17,600	33,282	18,895	35,371	17,618	33,315
Financial expenses	31	(7,877)	(17,403)	(10,348)	(17,573)	(7,911)	(17,426)	(10,077)	(17,312)
Net financial income (expenses)		11,002	17,935	7,252	15,709	10,984	17,945	7,541	16,003
Equity in income	12	(251)	(351)	681	577	-	-	-	-
Net income before income and social contribution taxes		35,243	78,052	50,262	89,107	35,243	78,052	50,337	89,261
Income and contribution taxes - current	32	-	228	(180)	340	-	228	(255)	186
Income and contribution taxes - deferred	32	5,440	9,088	7,204	2,152	5,440	9,088	7,204	2,152
Net income for the year		40,683	87,368	57,286	91,599	40,683	87,368	57,286	91,599
Allocated to:									
Controlling shareholders		40,683	87,368	57,286	91,599	40,683	87,368	57,286	91,599
Earnings per share - R\$									
Basic earnings per share	33	-	-	-	-	0.2521	0.5408	0.3533	0.5660
Diluted earnings per share	33	-	-	-	-	0.2459	0.5284	0.3469	0.5561

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF COMPREHENSIVE INCOME  
 PERIODS OF 3 AND 6 MONTHS ENDED IN JUNE 30, 2019 AND 2018  
 (In thousands of Brazilian Reais - R\$)

	Note	Parent company				Consolidated			
		2st Quarter 19	6 months 19	2st Quarter 18	6 months 18	2st Quarter 19	6 months 19	2st Quarter 18	6 months 18
Net income for the year		40,683	87,368	57,286	91,599	40,683	87,368	57,286	91,599
Items that can be subsequently reclassified to the income statement:									
Fair value of financial instruments of cash flow hedge net of taxes	23	139	632	2,853	3,001	139	632	2,853	3,001
		139	632	2,853	3,001	139	632	2,853	3,001
Comprehensive income		40,822	88,000	60,139	94,600	40,822	88,000	60,139	94,600
Total comprehensive income allocated to:									
Controlling shareholders		40,822	88,000	60,139	94,600	40,822	88,000	60,139	94,600

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

JUNE 30, 2019 AND DECEMBER 31, 2018

(In thousands of Brazilian Reais - R\$)

	Parent Company and Consolidated								
	Capital	Capital reserve	Tax incentives	Profit reserves		Treasury shares	Accumulated profit	Equity valuation adjustment	Total equity
				Legal reserve	Profit retention			Other comprehensive income	
Balances at December 31, 2018	369,618	35,982	841,261	56,556	16,877	(6,372)	-	6,154	1,320,076
Stock option plan (note 25)	-	2,729	-	-	-	-	-	-	2,729
Treasury shares sold (note 24.b)	-	-	-	-	234	3,139	-	-	3,373
Realization of indexation of PP&E	-	-	-	-	-	-	114	(114)	-
Adjustment financial instruments - hedge accounting (note 23.e)	-	-	-	-	-	-	-	632	632
Capital Increase with Tax Incentives Reserves	330	-	(330)	-	-	-	-	-	-
Capital Increase with Stock Option exercise	4,439	-	-	-	-	-	-	-	4,439
Net income for the year	-	-	-	-	-	-	87,368	-	87,368
Interest on shareholders' equity (note 24.e)	-	-	-	-	-	-	(43,481)	-	(43,481)
Balances at June 30, 2019	<u>374,387</u>	<u>38,711</u>	<u>840,931</u>	<u>56,556</u>	<u>17,111</u>	<u>(3,233)</u>	<u>44,001</u>	<u>6,672</u>	<u>1,375,136</u>

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

JUNE 30, 2018 AND 2017

(In thousands of Brazilian Reals - R\$)

	Parent Company and Consolidated							Total equity
	Capital	Capital reserve	Tax incentives	Legal reserve	Profit reserves		Equity valuation adjustment	
					Profit retention	Accumulated profit	Other comprehensive income	
Balances at December 31, 2017	369,618	30,815	703,633	51,462	70,363	-	7,021	1,232,912
Stock option plan (note 25)	-	2,966	-	-	-	-	-	2,966
Realization of indexation of PP&E	-	-	-	-	-	119	(119)	-
Adjustment financial instruments (outstanding) - hedge accounting	-	-	-	-	-	-	3,001	3,001
Net income for the period	-	-	-	-	-	91,599	-	91,599
Destinations:								
Dividends and interest on shareholders' equity (note 24)	-	-	-	-	-	(29,989)	-	(29,989)
Interest on shareholders' equity (note 25)	-	-	-	-	-	(39,993)	-	(39,993)
Balances at June 30, 2018	<u>369,618</u>	<u>33,781</u>	<u>703,633</u>	<u>51,462</u>	<u>70,363</u>	<u>21,736</u>	<u>9,903</u>	<u>1,260,496</u>

The notes are an integral part of the financial statements.

## CIA. HERING

## STATEMENT OF CASH FLOWS

PERIODS OF 6 MONTHS ENDED IN JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reals - R\$)

	Note	Parent company		Consolidated	
		06/30/19	06/30/18	06/30/19	06/30/18
Cash flows from operating activities					
Net income for the year		87,368	91,599	87,368	91,599
Adjustments to reconcile net income to net cash generated by operating activities:					
Net deferred income and social contribution taxes	32	(9,088)	(2,152)	(9,088)	(2,152)
Monetary, exchange rate and interest variations	22	2,543	1,342	2,543	1,342
Depreciation and amortization	13/14 / 15	29,565	30,054	27,491	30,054
Depreciation and amortization - Leases	15	13,515	-	15,589	-
Provision for doubtful accounts	23	5,433	2,909	5,433	2,909
Write-off of fixed assets	13/14	817	1,258	817	1,258
Income from write-off of lease and trade fund	15	177	-	177	-
Stock option plan	25	2,729	2,966	2,729	2,966
(Reversal) net of formation of provision for adjustment to realizable value	9	1,257	(368)	1,257	(368)
(Reversal) net of formation of provisions for contingencies	19	2,466	445	2,466	445
Employee benefits	21	178	126	178	126
Equity in (loss) income of subsidiaries	12	351	(577)	-	-
Changes in assets and liabilities					
Trade accounts receivable		39,716	55,150	39,709	55,208
Inventories		(68,243)	(5,415)	(68,243)	(5,415)
Recoverable taxes		(3,536)	(18,505)	(3,535)	(18,507)
Other assets		1,030	2,264	1,030	2,264
Accounts payable to suppliers		36,362	41,774	36,362	41,774
Accounts payable and provisions		1,741	(12,676)	1,700	(12,685)
Income and social contribution taxes		-	-	(56)	(12)
Taxes payable		(8,384)	(15,010)	(8,209)	(15,013)
Dividends received	12	510	548	-	-
Interest paid on loans		-	(1,008)	-	(1,008)
Net cash provided by operating activities		<u>136,507</u>	<u>174,724</u>	<u>135,718</u>	<u>174,785</u>
Cash flows from investing activities					
Purchase of property, plant and equipment	13	(13,095)	(6,038)	(13,095)	(6,038)
Purchase of intangible assets	14	(4,334)	(5,041)	(4,334)	(5,041)
Purchase of rights use assets	15	(1,060)	-	(1,060)	-
Net cash used in investing activities		<u>(18,489)</u>	<u>(11,079)</u>	<u>(18,489)</u>	<u>(11,079)</u>
Cash flows from financing activities					
Capital increase		4,439	-	4,439	-
Interest earning bank deposits		(122)	523	(122)	523
Interest on equity and dividends		(64,918)	(67,214)	(64,918)	(67,214)
Payment of principal and interest - Lease	22	(13,885)	-	(13,885)	-
Disposal of treasury shares for the stock option plan	24	3,373	-	3,373	-
Related parties		(12)	296	-	-
Net cash used in financing activities		<u>(71,125)</u>	<u>(66,395)</u>	<u>(71,113)</u>	<u>(66,691)</u>
Increase (decrease) in cash and cash equivalents		<u>46,893</u>	<u>97,250</u>	<u>46,116</u>	<u>97,015</u>
Demonstration of the increase (decrease) in cash and cash equivalents					
At the beginning of the year		319,417	147,883	320,540	148,821
At the end of the year		<u>366,310</u>	<u>245,133</u>	<u>366,656</u>	<u>245,836</u>
		<u>46,893</u>	<u>97,250</u>	<u>46,116</u>	<u>97,015</u>

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF ADDED VALUE  
PERIODS OF 6 MONTHS ENDED IN JUNE 30, 2019 AND 2018

(In thousands of Brazilian Reais - R\$)

	Parent company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Revenues				
Products sold (gross revenue)	860,083	824,806	860,083	826,329
Provision for doubtful accounts	(5,433)	(2,909)	(5,433)	(2,909)
	854,650	821,897	854,650	823,420
Inputs acquired from third parties (including ICMS and IPI)				
Raw materials consumed	(157,434)	(137,696)	(157,434)	(137,783)
Costs of goods sold	(119,838)	(135,264)	(119,838)	(135,264)
Materials, power, third-party services and other operating expenses	(241,602)	(203,345)	(241,940)	(204,345)
	(518,874)	(476,305)	(519,212)	(477,392)
Retentions				
Depreciation and amortization	(43,080)	(30,054)	(43,080)	(30,054)
Net added value created by the Company	292,696	315,538	292,358	315,974
Value added received in transfer				
Equity in income (loss) of subsidiaries	(351)	577	-	-
Financial income	35,338	33,282	35,371	33,315
Rent	(966)	56	(966)	56
	34,021	33,915	34,405	33,371
Total added value to be distributed	326,717	349,453	326,763	349,345
Distribution of added value				
Employees				
Direct compensation	112,105	105,906	112,105	105,906
Benefits	13,826	12,689	13,826	12,689
Severance Fund (FGTS)	7,850	7,797	7,850	7,797
	133,781	126,392	133,781	126,392
Taxes				
Federal	58,254	66,619	58,254	66,773
State	17,927	20,016	17,927	20,016
Municipal	1,016	976	1,016	976
	77,197	87,611	77,197	87,765
Financiers				
Interest	1,302	1,342	1,302	1,342
Rent	12,764	27,130	12,764	27,130
Others	14,305	15,379	14,351	15,117
	28,371	43,851	28,417	43,589
Equity capital				
Interest on shareholder's equity	43,481	39,993	43,481	39,993
Dividends	-	29,989	-	29,989
Retained earnings	43,887	21,617	43,887	21,617
	87,368	91,599	87,368	91,599
Total added value distributed	326,717	349,453	326,763	349,345

The notes are an integral part of the financial statements.

CIA. HERING

NOTES TO THE QUARTERLY FINANCIAL INFORMATION FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018

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

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## **1 General information**

Cia. Hering, with main offices in Blumenau, Santa Catarina, and manufacturing units in the States of Santa Catarina, Goiás, and Rio Grande do Norte, was founded in 1880 and its key activity is the production and marketing of threads, fabrics, and knitwear, textiles and knitwear, and clothing in general.

The Company's shares are traded on the New Market segment of São Paulo Stock Exchange (Bovespa), under the ticker symbol HGTX3.

## **2 Preparation basis**

### **(a) Statement of compliance**

The individual and consolidated quarterly financial information were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and also in accordance with the accounting practices adopted in Brazil (BR GAAP).

This financial statement is presented in thousands of Reais and were authorized for conclusion by Management on July 23, 2019.

The Company's Administrators declare that all relevant information specific to the quarterly financial information, and only such information, is being evidenced, and corresponds to the information used in management.

The presentation of the individual and consolidated Statement of Added Value is required by Brazilian corporate law and the accounting practices adopted in Brazil applicable to publicly-held companies. The IFRSs do not require the presentation of this statement.

### **(b) Measurement basis**

The individual and consolidated quarterly financial information were prepared based on the historical cost, except when the explanatory notes indicate otherwise.

### **(c) Functional currency and reporting currency**

The individual and consolidated quarterly financial information are presented in Brazilian Reais, which is the Company's functional currency. All quarterly financial information presented in Brazilian Reais has been rounded to the nearest value.



#### (d) Use of estimates and judgments

The preparation of the individual and consolidated quarterly financial information according to IFRS and BR GAAP standards requires Management to make judgments, estimates and assumptions that affect the application of accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Revisions related to accounting estimates are recognized in the period when the estimates are revised and in any future period affected.

The accounting policies and areas that require a higher level of judgment and use of estimates in the preparation of the quarterly financial information are as follows:

- Note 11 – Realization of deferred income tax
- Note 13 – Useful life of fixed assets
- Note 19 – Provision for risk and other provisions
- Note 21 – Employee benefits
- Note 22 – Classification and recording of lease agreements
- Note 23 – Risk management and financial instruments
- Note 25 – Stock options plan measurement

### 3 Significant accounting policies

#### (a) Consolidation basis

The consolidated quarterly financial information includes the quarterly financial information of Cia. Hering and its subsidiaries, as listed below:

	País	Participation (%)	
		06/30/19	12/31/18
HRG Comércio do Vestuário e Intermediação de Serviços Financeiros Ltda.	Brasil	99.99	99.99
Hering Internacional SAFI	Uruguai	100.00	100.00

The quarterly financial information of the subsidiaries is included in the consolidated quarterly financial information as from the date they start to be controlled by the Company until the date such control ceases.

The criteria adopted in the consolidation are those provided in CPC 36 – Consolidated quarterly financial information, of which we highlight the following:

- The Company includes in its consolidation all subsidiaries in which the parent company, directly or indirectly, has significant influence to ensure its shareholders permanent and predominant power to elect the majority of directors.
- All intra-group balances, and unrealized income, expenses, gains and losses arising from intragroup transactions are eliminated in full.
- Removal of portions of the results, retained earnings or losses and the cost of inventories or non-current assets that match results, not yet achieved, of business between the companies.

- Elimination of the relevant investment in proportion to its respective equity.

## **(b) Foreign currency**

The Company's Management has defined that its functional currency is the Real in foreign currency, i.e. all transactions that are not carried out in the functional currency, are translated at the exchange rate on the dates of each transaction. Monetary assets and liabilities in foreign currency are translated into the functional currency at the exchange rate on the closing date. The gains and losses from the fluctuations in the exchange rates on monetary assets and liabilities are recognized in the statement of income.

## **(c) Financial instruments**

### **(i) Non-derivative financial assets**

#### **Recognition and measurement**

Financial assets are initially recognized and measured in accordance with the classification of financial instruments in the following categories: (i) amortized cost; (ii) fair value through comprehensive income and (iii) fair value. In order to define the classification of financial assets according to CPC 48 / IFRS9, the company evaluated the business model in which the financial asset is managed and its characteristics of contractual cash flows.

The Company recognizes the loans, receivables and deposits initially as of the date of origination. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the trade date on which the Company becomes a party to the contractual provisions of the instrument.

The Company lowers a financial asset when contractual rights to the cash flows of the asset expire, or when it transfers the rights to the receipt of the contractual cash flows on a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred.

The financial assets held by the Company as of June 30, 2019 are classified as follows:

#### **Amortized cost**

Financial assets held by the Company to obtain contractual cash flows arising from the principal and interest, when applicable. These assets are subsequently measured at amortized cost using the effective interest method (when applicable) and are assessed for impairment at each balance sheet date. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss, as well as any gain or loss on derecognition. Cash and cash equivalents, trade accounts receivable and other assets are classified in this category, with the variations recognized in the Financial Result.

## **(ii) Non-derivative financial liabilities**

The Company recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the negotiation date on which the Company becomes a party to the contractual provisions of the instrument. The Company writes off a financial liability when its contractual obligations are discharged, cancelled or settled.

The Company has the following non-derivative financial liabilities: borrowings and financing, suppliers and other accounts payable. Such financial liabilities are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## **(iii) Derivative financial liabilities**

The Company has derivative financial instruments to manage its exposure to currency risks, including forward foreign exchange contracts.

Derivatives are initially recognized at fair value on contracting date and subsequently re-measured at fair value on period. Possible gains or losses are immediately recognized in income, unless derivative is assigned and effective as a hedge instrument, in this case, time of recognition in income depends on hedging relationship nature.

The Company assigns certain hedging instruments for risk in foreign exchange rates variation in firm commitments, as cash flow hedge.

At the beginning of hedging relationship, for the adoption of the “Hedge Accounting” the Company documents the relation between the hedge instrument and the hedged item with its objectives in risk management and its strategy to assume several hedging transactions. In addition, in the beginning of the hedge operation and continuously, the Company documents if the hedging instrument used in a hedging relationship is highly effective to offset in the hedged item's fair value or cash flow, attributable to the hedged risk.

The effective portion of changes in derivatives' fair value that is assigned and qualified as cash flow hedge is recognized in other comprehensive income. Gains or losses related to the ineffective portion are immediately recognized under “financial income”.

Amounts previously recognized in other comprehensive income and accumulated in shareholders' equity are reclassified into income for the period in which the hedged item affects income, under the same statement of income caption in which such item is recognized. However, when a foreseen hedged transaction results in the recognition of a non-financial asset or liability, gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred to the initial measurement of this asset or liability cost.

“Hedge accounting” is interrupted when the Company cancels the hedging relationship, the hedge instrument matures or is sold, rescinded or executed, or no longer qualifies as hedge accounting. Any gains or losses recognized in other comprehensive income and accumulated in equity on that date remain in equity and are recognized when foreseen transaction is finally recognized in income. When the foreseen transaction is no longer expected to occur, accumulated gains or losses that are deferred in shareholders' equity are immediately recognized in income.

Derivatives that are not assigned as hedging instruments are classified as current assets or liabilities.

Note 23 includes more detailed information on derivative financial instruments.

#### **(d) Cash and cash equivalents**

Includes cash balances, current accounts (demand bank deposits), short term investments (interest earning bank deposits) considered immediately marketable or convertible into a known sum of cash and subject to an insignificant risk of change of value, with a three-month maturity date or less from the date of operation contracting.

Financial investments are recorded at cost of acquisition amount plus income earned through the reporting date of the balance sheets, which approximate their fair values and do not exceed their market or realizable value.

#### **(e) Trade accounts receivable**

Trade accounts receivable are recorded at the amount invoiced, adjusted to present value (note 7). The amount recorded as Expected credit losses is considered sufficient by management to cover any losses on the realization of the receivables.

#### **(f) Inventories**

These are measured at the average cost of acquisition or production, adjusted to the replacement cost or net realizable value, when applicable. The cost of finished products and work in process comprises the cost of raw materials, labor and other indirect costs related to production based on the normal capacity occupancy. Provisions for realization of inventories (reduction to market value) and slow-moving and/or obsolete inventories are formed when they are identified.

The net realizable value is the estimated price at which inventories can be realized in the normal course of business, deducted from the estimated completion costs and selling expenses.

#### **(g) Property, plant and equipment (PP&E)**

##### **(i) Recognition and measurement**

PP&E items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses, when applicable.

When parts of a PP&E item have different useful lives, they are accounted for as separate items (major components) of PP&E.

Gains and losses on disposal of a PP&E item are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized net within "Other income" in the income statement.

## **(ii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost. The residual value of the assets written off is not material, and, accordingly, is not considered in the determination of the depreciable amount.

Depreciation is recognized in the income statement using the straight-line method over the estimated useful life of each part of an item of property, plant and equipment, since this is the method that best reflects the consumption pattern of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current period were calculated using the weighted average useful life of the assets of each group, are presented below:

<b>Description</b>	<b>Average useful life (years)</b>
Buildings and improvements	31.26
Facilities and production equipment	10.04
Furniture and fixtures	6.21
Computer and peripherals	4.67
Vehicles	4.53
Leasehold improvements	7.27

The depreciation methods, useful lives and residual values will be reviewed at each reporting date and potential adjustments will be recognized as a change in accounting estimates prospectively.

## **(iii) Subsequent costs**

The replacement cost of a component of PP&E is recognized in the carrying value of the item when it is probable that the future economic benefits embodied in the component will flow to the Company and its cost can be reliably measured. The carrying amount of the component that is replaced is written off. Costs of normal maintenance on property, plant and equipment are charged to the income statement as incurred.

## **(h) Intangible assets**

### **(i) Recognition and measurement**

The Company's intangible assets are trademarks and patents, right to use properties and software. The value of patents and trademarks refers to the registration of the Company's brands at the competent national and international entities that are amortized according to the validity of the records. Right to use properties refers to the registration of commercial sites of the own stores that are amortized according to term defined in the contract. The software value refers to third parties software acquired and internally generated that are amortized over the useful life defined. All of them have defined useful lives and are measured at cost, net of accumulated amortization and impairment losses.

## **(ii) Amortization**

Amortization is calculated over the cost of the asset, or other amount substituted for cost. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this is the method that best reflects the consumption pattern of the future economic benefits embodied in the asset.

The useful estimated lives are as follows:

<b>Description</b>	<b>Average useful life (years)</b>
Trademarks and patents	10.00
Software licenses	8.48

The amortization methods, useful lives and residual values will be reviewed at each reporting date and potential adjustments will be recognized as a change in accounting estimates prospectively.

## **(iii) Subsequent expenditures**

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the income statement as incurred.

## **(i) Impairment**

### **(i) Financial assets (including receivables)**

A financial asset measured at fair value through profit or loss is assessed at each reporting date for objective evidence of impairment. An asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that such loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

The objective evidence that financial assets are impaired may include default or late payment by a debtor, restructuring of the amount owed to the Company under conditions that would not be considered in other transactions or indications that a debtor or issuer will declare bankruptcy.

The company considers evidence of loss of value for loans and receivables. All significant loans and receivables are assessed for impairment. Receivables that are not individually significant are assessed on an aggregate basis in relation to impairment by grouping the notes with similar risk characteristics.

When assessing impairment on an aggregate basis the Company makes use of historical trends of probability of default, the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment in relation to the assumptions, if the current economic and credit conditions are such that the actual losses will be higher or lower than those suggested by historical trends.

A decrease in the recoverable value of a financial asset measured at amortized cost is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in an allowance in the income statement against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## **(ii) Non-financial assets**

The carrying values of non-financial assets of the Company are reviewed each period to determine whether there is sign of loss in the recovery value (impairment). If such indication exists, the asset's recoverable amount is determined.

The Administration has not identified any information that showed loss of recoverable value of nonfinancial assets.

## **(j) rights to use assets and leases**

The Company adopted CPC 06 (R2) / IFRS 16 - Leases as of January 1, 2019.

The new accounting policy applicable as of January 1, 2019, introduces a single model for the accounting of leases in the balance sheet for tenants, where at the beginning of the agreement the Company evaluates whether the lease is or contains a lease.

A contract is or contains a lease if the contract transfers the right to control the use of an identified asset for a period of time in exchange for payments, for which it is necessary to assess whether: (i) the contract involves the use of an identified asset, which may be explicit or implicit, and may be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantial right to replace the asset, then the asset is not identified; (ii) the Company has the right to obtain substantially all economic benefits from the use of the asset during the contract period; and (iii) the Company has the right to direct the use of the asset. It means that the Company has the right of decision making to change how and for what purpose the asset is used.

A lessee recognizes a right of use asset that represents his right to use the leased asset and a lease liability that represents his obligation to make lease payments.

The right of use asset is initially measured at cost and comprises the initial amount of the lease liability adjusted for any payment made on or before the contract commencement date, plus any incurred initial direct cost and estimated cost of disassembly, removal, restoration of the asset in the place where it is located, minus any incentive received. The right to use asset is subsequently depreciated using the straight-line method from the date of commencement to the end of the useful life of the right of use or the end of the lease term.

Lease liabilities are initially measured at the present value of unrealized payments, discounted using the interest rate implied in the lease or, if the rate can not be determined readily, by the incremental loan rate.

After the initial measurement, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change (i) in future payments resulting from a change in the index or rate (ii) in the estimate of the expected amount to be paid in the guaranteed residual value or (iii) changes in the evaluation if the Company of which it will exercise the option of purchase, extension or termination. When the lease liability is remeasured, the corresponding adjustment amount is recorded in the book value of the right of use asset or in the result if the book value of the right of use asset has been reduced to zero.

Operating lease contracts are recognized as an expense over the lease term.

#### **(k) Employee benefits**

The Company grants to its administrators, executives and employees many benefits that are usual in the market. To improve the alignment of the interest of its administrators, executives and team of employees, the Company also grants the following benefits:

##### ***(i) Defined benefit plans***

A defined benefit plan is a post-employment benefit plan other than the defined contribution plan. The Company possess private pension plan for its employees (defined benefit plans). The actuarial calculations are performed annually by a qualified and independent actuary hired by the Company. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to their present value. Any unrecognized prior service costs and the fair values of any plan assets are deducted. The discount rate is the yield of prime debt securities at the reporting date, whose maturity dates approximate the terms and conditions of the Company's obligations and are denominated in the same currency in which the benefits are expected to be settled. When the calculation results in a benefit for the Company, the asset to be recognized is limited to the total of any unrecognized prior service costs and the present value of the economic benefits available as future plan refunds or reduction in the future payments.

In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any Company plan. An economic benefit is available to the Company when it is realizable over the plan life, or upon settlement of the plan's liabilities.

When the benefits of a plan are increased, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

Remeasurements, composed of gains and losses, the effect of the limit of assets (assets ceiling) and the return on plan assets, both excluding net interest, are recognized in the statement of comprehensive income, if at all, in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

The Company recognizes all actuarial gains and losses resulting from defined benefit plans in other comprehensive income.



***(ii) Other long-term benefits to employees***

The Company's net obligation in relation to employee benefits other than pension plans and health plans is the amount of the future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to calculate its present value, and the fair value of any related assets is deducted. The calculation is performed on the projected unit credit method. Any actuarial gains and losses are recognized in the income (loss) in the period they occur.

***(iii) Short-term benefits to employees***

Obligations for short-term employee benefits are measured on a non-discounted basis and incurred as expenses as the related service is rendered.

The liability is recognized at the amount expected to be paid under the cash bonus plans or short-term profit sharing if the Company has a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

***(iv) Stock options plan transactions***

The effects of the stock options plan are calculated based on the fair value and recognized in the balance sheet and statement of income at the extent the contractual conditions are met. The fair value calculated of share-based payment agreements is recognized at the grant date, as expenses, with a corresponding increase in shareholders' equity, over the period when employees become unconditionally entitled to the premiums.

**(l) Provisions**

A provision is recorded when the Company has a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation. The expense referring to any provision is presented in the statement of income, net of any reimbursement.

**(m) Adjustment to present value**

Fixed purchase and sale transactions in installments were brought to present value on transactions date, based on deadlines and at the rate of 0.73% p.m. and 0.60% p.m., respectively. These rates represent SELIC rate for the period in purchase transactions and discount rate in early payment of sale transactions. No assumptions were made that took into account credit risk factors or other risks, because the Company uses a simplified model and because of the operations' characteristics. The average days sales outstanding is 88 days and the average days payable outstanding is 87 days. The "Prodec III" tax incentive, subject to annual interest of 4%, was adjusted to present value at the Company's average borrowing rate.

The adjustment to present value of purchases is recorded to trade payables and charged to financial income/loss, over the duration of the term in the case of trade payables. The adjustment to present value of credit sales is charged to trade receivables and the realization thereof is recorded under financial income/loss over the duration of the term. The adjustment to present value of tax incentive obligations and non-current taxes payable and the contra entry thereof are recorded under financial income/loss.

## **(n) Capital**

### ***(i) Common Shares***

Common shares are classified as shareholders' equity. Additional costs directly attributable to the issue of shares and share options are recognized as a deduction from shareholders' equity. Effects from taxes related to these transactions' costs are accounted for in accordance with CPC 32/IAS 12.

### ***(ii) Treasury Shares***

The Company's own equity instruments that are repurchased (treasury shares) are recorded at cost, as a reduction of equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## **(o) Operating income - Sale of goods**

The Company initially adopted CPC 47 as from January 1, 2018, which establishes the following 5 steps for recognizing a revenue: (i) Identify the contract with the customer; (ii) Identify performance obligations in the contract; (iii) Determine the price of the transactions; (iv) Allocating the price of the transaction to the performance obligations; (v) Recognize revenue when performance obligations are met.

Therefore, revenue is measured based on the consideration specified in the contract with the customer and is recognized when the products are delivered and accepted by the customers in their facilities. For contracts that allow the customer to return the goods, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of recognized accumulated revenue will not occur.

The operating revenue of our own stores is recognized after invoicing and delivery of the merchandise to the customer. The operating revenue of the retail and franchise network of the national and international market is recognized after the billing and exit of the merchandise from the Company's establishment. The Company also monitors the deadline for the delivery of goods to customers and makes adjustments to operating revenue when necessary.

If discounts are likely to be granted and the amount can be measured reliably, then the discount is recognized as a reduction in operating income as sales are recognized.

## **(p) Government grants and assistance**

Government grants and assistance are recognized when there is reasonable assurance that the terms and conditions set forth by the granting governments have been fulfilled and are calculated and recorded in accordance with the contracts, agreements and legislation applicable to each incentive, as described in note 18. The effects on income are recorded on the accrual basis of accounting, where gains are recorded in the group of sales deductions (taxes levied) and cost of goods sold, against current liabilities.

## **(q) Financial income and expenses**

Financial revenues comprise income from interest on interest earning bank deposits, adjustment to present value and other sundry revenues. These interest incomes are recognized in profit or loss. The Company also has revenue from foreign exchange, which is also accounted for directly in profit or loss. The distributions received from investees recorded under the equity method reduce the amount of the investment.

Financial expenses include interest expenses on borrowings, financial charges on taxes and adjustment to present value. These interest expenses and revenue are recognized in profit or loss. The Company also has an expense from foreign exchange, which is also accounted for directly in profit or loss. Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are accounted for in profit or loss using the effective interest rate method. During the period of June 30, 2019, there was no capitalization of interest on loans.

#### **(r) Income and social contribution taxes**

Current tax assets and liabilities of the last year and of previous years are measured at recoverable value expected or payable to the tax authorities. Current income and social contribution taxes are calculated with a basis on the effective rates of income and social contribution taxes on net income and consider the offset of tax loss and negative basis of social contribution, limited to 30% of taxable income and are recognized in the statement of income, except to the extent they are related to items directly recognized in shareholders' equity or comprehensive income. In that case, the tax is also recorded in shareholders' equity or comprehensive income.

The deferred income and social contribution tax assets are due to tax losses, negative contribution basis and asset and liability temporary differences. Such taxes are supported by a study of future taxable results generation.

The recording of these deferred taxes took into account the expectation of future taxable income, as well as the expectations of realization of the temporary difference assets and liabilities and are calculated based on the rates currently in force under the tax legislation as shown in Note 32.

The deferred tax assets accounting value is reviewed at each reporting date and is offset to the extent that it is no longer probable that taxable profits will be available to allow that all or part of the tax asset is utilized.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets against tax liabilities, and if they relate to income taxes levied by the same tax authority on the same taxable entity.

#### **(s) Income per share**

The basic earnings per share are calculated based on the result for the period attributable to the Company's controlling and non-controlling shareholders and the weighted average of outstanding common shares in the respective period. The diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments that can be converted into shares, with a dilution effect, in the periods presented, pursuant to CPC 41 and IAS 33.

#### **(t) Segment information**

An operating segment is a component of the Company which engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Company. All operating results of the operating segments are frequently reviewed by the Executive Management for decisions regarding the resources to be allocated to the segment to be taken and to assess their performance, for which individual quarterly financial information is available.

The Company and its subsidiaries have a single operating segment: the manufacture and sale of apparel and accessories, as disclosed in note 34.

**(u) Statement of Added Value**

The Company prepared statements of added value in accordance with the rules of technical pronouncement CPC 09 - Statement of Added Value, which are presented as an integral part of the quarterly financial information under BRGAAP applicable to publicly-held companies, whereas under IFRS they represent supplementary financial information.

**(v) Changes in key accounting policies**

**(i) CPC 06 (R2) / IFRS 16 - Leases**

The Company initially applied CPC 06 (R2) / IFRS 16 as of January 1, 2019 and, as a result of this adoption, recognized new assets and liabilities for its operating leases at the stores and Distribution Center.

The nature of the expenses related to those leases changed because the Company recognizes a cost of depreciation of right of use assets and interest expense on lease obligations. The Company previously recognized a line operating lease expense over the lease term and recognized assets and liabilities to the extent that there was a time difference between actual lease payments and recognized expenses.

The Company adopted CPC 06 (R2) / IFRS 16, using the modified retrospective approach and therefore comparative information was not republished and continues to be presented in accordance with the previous standard.

The Company applied the practical file regarding the definition of a lease in the transition. This means that CPC 06 (R2) / IFRS 16 was used for all contracts entered into before January 1, 2019 that were identified as leases in accordance with CPC 06 (R1) / IAS 17 and ICPC 03 / IFRIC 4.

The impacts of the adoption of CPC 06 (R2) / IFRS 16 are presented below:

**Impact on the Consolidated Balance Sheet**

<b>June 30, 2019</b> <b>(In thousands of Brazilian Reais - R\$)</b>	<b>According</b>		<b>Ref.</b>	<b>Values without</b> <b>the adoption of</b>
	<b>Introduced</b>	<b>settings</b>		<b>CPC 06 / IFRS 16</b>
<b>Assets</b>				
<b>Current assets</b>	<b>1,258,601</b>	<b>-</b>		<b>1,258,601</b>
<b>Não circulante</b>	<b>574,383</b>	<b>(62,670)</b>		<b>511,713</b>
Other	405,290	-		405,290
Intangible assets	95,033	11,390	(a)	106,423
Right of use	74,060	(74,060)	(a)/(b)	-
<b>Total Assets</b>	<b>1,832,984</b>	<b>(62,670)</b>		<b>1,770,314</b>
<b>Liabilities</b>				
<b>Current liabilities</b>	<b>400,021</b>	<b>(23,195)</b>		<b>376,826</b>
Other	376,826	-		376,826
Leases	23,195	(23,195)	(b)	-
<b>Noncurrent liabilities</b>	<b>57,827</b>	<b>(40,554)</b>		<b>17,273</b>
Others	17,273	-		17,273
Leases	40,554	(40,554)	(b)	-
<b>Shareholders' equity</b>	<b>1,375,136</b>	<b>1,079</b>		<b>1,376,215</b>
Capital	1,331,135	-		1,331,135
Accumulated income	44,001	1,079	(c)	45,080
<b>Total Liabilities</b>	<b>1,832,984</b>	<b>(62,670)</b>		<b>1,770,314</b>

## Impact on the Consolidated Income Statement

<b>Current quarter</b> <b>04/01/2019 à 06/30/2019</b> <b>(In thousands of Brazilian Reais - R\$)</b>	<b>According</b> <b>Introduced</b>	<b>settings</b>	<b>Ref.</b>	<b>Values without</b> <b>the adoption of</b> <b>CPC 06 / IFRS 16</b>
Net operating revenue	359,992	-		359,992
Cost of goods sold	(203,639)	(74)		(203,713)
Operating income (expenses)	(118,735)	(6,168)		(124,903)
Depreciation and amortization	(13,359)	5,492		(7,867)
Net financial income (expenses)	10,984	1,241		12,225
Income and contribution taxes	5,440	-		5,440
<b>Net income for the period</b>	<b>40,683</b>	<b>491</b>	<b>(c)</b>	<b>41,174</b>

<b>Accumulated period</b> <b>01/01/2019 à 06/30/2019</b> <b>(In thousands of Brazilian Reais - R\$)</b>	<b>According</b> <b>Introduced</b>	<b>settings</b>	<b>Ref.</b>	<b>Values without</b> <b>the adoption of</b> <b>CPC 06 / IFRS 16</b>
Net operating revenue	733,929	-		733,929
Cost of goods sold	(415,201)	(150)		(415,351)
Operating income (expenses)	(232,335)	(12,170)		(244,505)
Depreciation and amortization	(26,286)	10,856		(15,430)
Net financial income (expenses)	17,945	2,543		20,488
Income and contribution taxes	9,316	-		9,316
<b>Net income for the period</b>	<b>87,368</b>	<b>1,079</b>	<b>(c)</b>	<b>88,447</b>

## Impact on the Statement of Cash Flows

Accumulated period 01/01/2019 à 06/30/2019 (In thousands of Brazilian Reais - R\$)	According Introduced		settings	Values without the adoption of CPC 06 / IFRS 16
<b>Cash flows from operating activities</b>				
Net income for the period	87,368		1,079	88,447
Depreciation and amortization	43,080		(12,421)	30,659
Others	6,512		(2,543)	3,969
Changes in assets and liabilities	(1,242)		-	(1,242)
<b>Net cash provided by operating activities</b>	<b>135,718</b>		<b>(13,885)</b>	<b>121,833</b>
<b>Net cash used in investing activities</b>	<b>(18,489)</b>		<b>-</b>	<b>(18,489)</b>
<b>Cash flows from financing activities</b>				
Other	(57,228)		-	(57,228)
Payment of principal and interest - Lease	(13,885)		13,885	-
<b>Net cash used in financing activities</b>	<b>(71,113)</b>		<b>13,885</b>	<b>(57,228)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>46,116</b>			<b>46,116</b>
At the beginning of the year	320,540			320,540
At the end of the year	366,656			366,656
<b>Increase (decrease) in cash and cash equivalents</b>	<b>46,116</b>			<b>46,116</b>

(a) Refers to the reclassification of the Intangible Trade Fund to the Right to Use Assets.

(b) Refers to the recognition of leasehold assets and lease liabilities of lease agreements defined as leases in accordance with IFRS 16 / CPC 06 (R2). Explanatory notes 15 and 22.

(c) The adjustment refers to the impact on net income of the adoption of the new standard that changes the accounting method of lease contracts classified as lease. Previously, the minimum contractual amount of rent was recorded as an expense and as of January 1, 2019 recorded as assets and liabilities adjusted to present value. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under depreciation and amortization, and the value of the liability is adjusted by the interest incurred and the amount recorded under the heading of financial expenses. The variable amount referring to the lease contracts, remain recorded as operating expense.

## 4 Determination of the fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Trade accounts receivable and other credits

The fair value of accounts receivable and other receivables is estimated as the present value of future cash flows, discounted at the market interest rate on presentation date.

### (ii) Non-derivative financial assets and liabilities

The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on quarterly financial information date.

### (iii) Derivative financial assets and liabilities

Future exchange contracts are measured based on foreign exchange rates and yield curves obtained based on quotations and with the same maturities of contracts.

### (iv) Share-based plan, liquidated in shares

The fair value of employee's share options and the rights on the valuation of shares are measured using the Black-Scholes method for the 5th program and Binomial for the 6th to 10th program of the 2008 plan and the 1<sup>st</sup> to 3<sup>rd</sup> program of the 2017 plan.

Measurement variations occur for share prices on measurement date, instrument exercise price, estimated volatility (based on historic volatility weighted average adjusted for expected changes based on publicly-available information), life of instruments weighted average (based on historic experience and general behavior of the option owner), expected dividends and interest rate free of risk (based on public securities).

Out-of-market service and performance conditions inherent to transactions are not taken into consideration on fair value determination.

The effects of the share based plan are calculated based on the fair value and recognized in the balance sheet and statement of income at the extent the contractual conditions are met (note 25).

## 5 Cash and cash equivalents

	<u>Parent company</u>		<u>Consolidated</u>	
<b>Current assets</b>	<b>06/30/19</b>	<b>12/31/18</b>	<b>06/30/19</b>	<b>12/31/18</b>
Cash and banks	5,501	34,639	5,847	35,762
Cash and banks/foreign currency	3,753	6,546	3,753	6,546
Financial investments:				
Fixed Income – Bank Deposit Certificate CDB	<u>357,056</u>	<u>278,232</u>	<u>357,056</u>	<u>278,232</u>
	<u>366,310</u>	<u>319,417</u>	<u>366,656</u>	<u>320,540</u>

The company has amounts in cash, checking account, and financial investments in fixed income - CDB of instant redemption, the remuneration ranging from 97.7% to 100.2% of the change in CDI, which average maturity period is three months.

Short-term investments are readily convertible into a known amount of cash and subject to an insignificant risk of a change in value and have therefore been considered as cash equivalents in the cash flow statements.

The Company's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities are disclosed in note 23.

## 6 Interest-earning bank deposits restricted

The Company holds R\$ 4,952 (R\$ 4,830 on December 31, 2018) of investments in Bank Deposit Certificates (CDB), earning interests from 99.00% of CDI, which will be held until maturity, are related to the Hering-Prev Benefit Plan, to tackle the resulting deficit existing in the plan existing in the plan, as determined by the legislation.



The Company's exposure to interest rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

## 7 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	<b>06/30/19</b>	<b>12/31/18</b>	<b>06/30/19</b>	<b>12/31/18</b>
<b>Current</b>				
Domestic market	428,012	470,638	428,041	470,660
Foreign market	13,492	15,232	13,492	15,232
	<u>441,504</u>	<u>485,870</u>	<u>441,533</u>	<u>485,892</u>
Adjustments to present value	(5,290)	(6,225)	(5,290)	(6,225)
Expected credit losses	(21,832)	(20,593)	(21,832)	(20,593)
	<u>(27,122)</u>	<u>(26,818)</u>	<u>(27,122)</u>	<u>(26,818)</u>
	<u>414,382</u>	<u>459,052</u>	<u>414,411</u>	<u>459,074</u>
<b>Non Current</b>				
Domestic market	8,303	8,782	8,303	8,782
	<u>8,303</u>	<u>8,782</u>	<u>8,303</u>	<u>8,782</u>
	<u>422,685</u>	<u>467,834</u>	<u>422,714</u>	<u>467,856</u>

Changes in the adjustment to present value during the period was as follows:

	<u>Parent company and consolidated</u>	
	<b>06/30/19</b>	<b>12/31/18</b>
Balance at beginning of period	(6,225)	(6,412)
Additions	(16,207)	(36,057)
Write-offs	17,142	36,244
Balance at end of period	<u>(5,290)</u>	<u>(6,225)</u>

The adjustment to present value will be realized according to the accounts receivable maturity date, which is 88 days on average.

The company's exposure to credit and currency risks related to accounts receivable is disclosed in note 23.

## 8 Other accounts receivable

	<b>Parent company and Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
<b>Current</b>		
Advance to domestic suppliers	596	372
Advance to employees	3,346	3,591
Trade accounts receivable refurbishment plan Franchisee	5,843	6,668
Other	142	136
	<u>9,927</u>	<u>10,767</u>
	<b>Parent company and Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
<b>Noncurrent</b>		
Fomentar	838	838
Judicial deposits - Other	2,615	2,596
Judicial deposits - Labor and Civil	10,999	12,538
Other	1,842	1,951
	<u>16,294</u>	<u>17,923</u>

## 9 Inventories

	<b>Parent company and Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Finished goods	168,375	123,745
Resale goods	81,431	69,662
Work in process	70,918	65,586
Inventories held by third parties	23,138	17,333
Raw materials	51,815	30,999
Imports in transit	3,146	25,800
Advance to suppliers	3,019	474
Provision for adjustment to realizable value	(14,714)	(13,457)
	<u>387,128</u>	<u>320,142</u>

Certain items considered obsolete, or slow moving, as well as surplus collections, were subject to the formation of provisions for adjustment to the realizable value.

During the period, the provision for adjustment of inventories to the net realizable value showed the following movement:

	<b>Parent company and consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Balance at beginning of period	(13,457)	(15,178)
Constitution of provision	(8,444)	(6,628)
Reversal of provision by sale	7,187	8,349
Balance at end of period	<u>(14,714)</u>	<u>(13,457)</u>

No inventories have been pledged as collateral.

## 10 Recoverable taxes

The Company and its subsidiaries have tax credits that are recorded in current and in non-current assets according to the expected realization period, as shown below:

	<b>Parent Company</b>		<b>Consolidated</b>	
<b>Current</b>	<b>06/30/19</b>	<b>12/31/18</b>	<b>06/30/19</b>	<b>12/31/18</b>
IPI	741	430	741	430
ICMS to recover (State VAT) (a)	43,778	40,392	43,778	40,392
ICMS to recover (PP&E)	1,945	1,722	1,945	1,722
IRPJ and CSLL to offset (b)	12,511	18,599	12,511	18,599
INSS to recover (c)	5,937	6,592	5,937	6,592
Withholding Income Tax (IRRF) to offset	4,304	2,571	4,304	2,571
PIS and COFINS to recover (d)	6,455	5,034	6,455	5,034
Pis and Cofins with fixed assets	537	-	537	-
Other	1,162	1,788	1,167	1,794
	<u>77,370</u>	<u>77,128</u>	<u>77,375</u>	<u>77,134</u>

	<b>Parent Company and Consolidated</b>	
<b>Noncurrent</b>	<b>06/30/19</b>	<b>12/31/18</b>
IPTU (e)	2,424	2,424
ICMS to recover (State VAT) (a)	8,072	5,853
ICMS to recover (PP&E)	2,620	3,517
Withholding Income Tax (IRRF) to offset	869	1,343
Pis and Cofins with fixed assets	4,795	-
Other	3,227	3,134
	<u>22,007</u>	<u>16,271</u>

(a) ICMS to recover (State VAT) - Credits arising from the Company's normal flow of operations in Santa Catarina and the purchase of ICMS credits from the states of Rio de Janeiro, São Paulo, Minas Gerais and Goiás, which will be offset against ICMS debts in future periods.

(b) IRPJ and CSLL to offset – The Company paid IRPJ and CSLL based on suspension and reduction trial balance during 2017 and 2018. Advances were paid higher than the amount calculated in the year. The amounts collected in the period were reversed to this heading for the purpose of offsetting short-term with income and social contribution taxes payable in future periods.

(c) INSS to recover - The Company carried out a credit assessment of social security contribution incorrect deduction from payrolls as a transportation and food stamps from the period of June 2013 to July 2018 and the largest collected FAP in the period from April 2014 to December 2015, the amounts of which will be offset by INSS of future periods. In 2019, the amount of R\$ 4,679 related to recognized in 2018, and new complementary credit of R\$ 4,024 was recognized, updated monetarily.

(d) PIS and COFINS recoverable – The Company carried out a review of PIS and COFINS credits of period from July 2013 to October 2018, based on the new understanding established by the STJ Superior Court of Justice totaling R\$ 21,753, part of which was offset in 2018 and part of the the first half of 2019. In 2019 additional credits were raised for this work, from September 2014 to May 2019, totaling an amount of R \$ 7,070, being part already compensated during the period.

(e) Property tax (IPTU) - In 2006, the Company recorded a credit in connection with IPTU tax after winning a common lawsuit in connection with the unconstitutional requirement of a progressive IPTU tax for the period from 1999 to 2003, definitely judged on October 9, 2006. The balance adjusted for inflation until June 30, 2019 amounted to R\$ 2,424, a sum that awaits in the line of court payment sentences at the town hall in favor of the Company.

## 11 Deferred taxes

### (a) Breakdown

The Company has tax credits deriving from tax losses and social contribution negative calculation bases for current year, with no prescription period, and also deriving from temporary additions and exclusions, as follows:

	<b>Parent company and Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
<b>Assets</b>		
Tax Losses and Negative Basis	31,710	23,140
Adjustments to present value - clients and suppliers	509	1,072
Provision for tax contingencies	917	876
Impairment of accounts receivable	7,423	7,002
Provision for administrative expenses	1,938	1,953
Profit sharing provision - PPR	1,622	24
Provision for commercial expenses	1,415	2,823
Provision for variable selling expenses	5,749	5,600
Provision for slow moving inventories	4,748	4,235
Provision for civil and labor contingencies	4,165	4,812
Actuarial liabilities employee benefits	910	850
Exchange gains and losses (net)	79	201
Other temporary differences	998	781
<b>Total assets</b>	<b>62,183</b>	<b>53,369</b>
<b>Liabilities</b>		
Taxes on indexation of PP&E	(3,437)	(3,496)
Taxes on hedge accounting	-	326
Other temporary differences	(7)	(222)
<b>Total liabilities</b>	<b>(3,444)</b>	<b>(3,392)</b>
<b>Total Net</b>	<b>58,739</b>	<b>49,977</b>

Management believes that the deferred assets arising from temporary differences will be realized in proportion to the final resolution of the contingencies and the events to which they refer when they will be offset against taxable income.

The tax credit registration is supported by the future business plan prepared by the Company's Management, which were approved by the Board of Directors at a meeting held on December 12, 2018. The plan demonstrates that the Company will determine taxable income in future years, in amounts considered sufficient by Management to realize such amounts. In order to prepare projections of future taxable income, the Company uses assumptions in line with its corporate strategies, such as revenue growth and profit margins increase in the macroeconomic scenario, considering current and past performance and expected growth in the market for performance. Under this business plan, such credits will be realized up to the year 2022.

Management periodically reassesses the actual result of this business plan in the generation of taxable profits and, consequently, reassesses the expectation of realization of these taxable credits recorded.

Management, based on its income projections, estimates that the tax credits recorded will be fully realized, as shown below:

2019	6,828
2020	14,603
2021	23,545
2022 so on	<u>17,207</u>
	<u><u>62,183</u></u>

The assumptions related to the business perspective, the projections of operational and financial results and the Company's potential of growth are forecasts and were based on management expectations regarding the Company's future. As a consequence, the estimates may not occur in the future, taking into account the inherent uncertainties to these forecasts.

**(b) Change of deferred income tax and of social contribution**

	Parent company and Consolidated						
	12/31/17	Recognized in the income statement	Recognized in other comprehensive results	12/31/18	Recognized in the income statement	Recognized in other comprehensive results	06/30/19
<b>Assets</b>							
Tax Losses and Negative Basis	11,957	11,183	-	23,140	8,570	-	31,710
APV - Clients and Suppliers	1,813	(741)	-	1,072	(563)	-	509
Actuarial liabilities employee benefits	472	86	292	850	60	-	910
Temporary differences	35,396	(7,290)	-	28,106	869	-	28,975
Exchange gains and losses (net)	310	(109)	-	201	(122)	-	79
	<u>49,948</u>	<u>3,129</u>	<u>292</u>	<u>53,369</u>	<u>8,814</u>	<u>-</u>	<u>62,183</u>
<b>Liabilities</b>							
Taxes on indexation of PP&E	(3,616)	120	-	(3,496)	59	-	(3,437)
Taxes on hedge accounting	-	-	326	326	-	(326)	-
Other temporary differences	(83)	(139)	-	(222)	215	-	(7)
	<u>(3,699)</u>	<u>(19)</u>	<u>326</u>	<u>(3,392)</u>	<u>274</u>	<u>(326)</u>	<u>(3,444)</u>
<b>Total net</b>	<u>46,249</u>	<u>3,110</u>	<u>618</u>	<u>49,977</u>	<u>9,088</u>	<u>(326)</u>	<u>58,739</u>

## 12 Investments in subsidiaries

Below is a summary of the invested companies' information and equity in subsidiaries recorded during the period.

	<b>HRG Com. Vest. Interm. de Serviços Finan. Ltda.</b>	<b>Hering Internac. S.A – SAFI</b>	<b>06/30/19</b>	<b>12/31/18</b>
Current and noncurrent assets total	380	2,002	2,382	3,164
Current and noncurrent liabilities total	230	-	230	151
Shareholders' equity	150	2,002	2,152	3,013
Net income for the year	-	-	-	2,268
Result for the year	(339)	10	(329)	524
Interest in capital (%)	99.99%	100.00%		
Balance at the beginning of the year	1,000	2,013	3,013	2,745
Dividends	(510)	-	(510)	(548)
Equity in subsidiaries	(340)	(11)	(351)	816
Equity method investment	<u>150</u>	<u>2,002</u>	<u>2,152</u>	<u>3,013</u>

## 13 Property, plant and equipment

### (a) Changes in cost and in depreciation

Parent Company and Consolidated									
	12/31/17	Additions	Transfer	Write-off	12/31/18	Additions	*Transfer	Write-off	06/30/19
<b>Cost:</b>									
Buildings and improvements	127,305	30	91	(31)	127,395	-	179	(2)	127,572
Facilities and prod. equipment	253,277	7,059	17,154	(6,658)	270,832	5,305	7,390	(5,218)	278,309
Furniture and fixtures	41,444	3,207	26	(799)	43,878	833	51	(1,412)	43,350
Computer and peripherals	44,548	4,230	148	(689)	48,237	2,829	46	(89)	51,023
Vehicles	2,614	230	-	(411)	2,433	111	-	(83)	2,461
Leasehold improvements	65,022	15	5,751	(283)	70,505	-	3,137	(343)	73,299
Lands	29,011	30	-	(46)	28,995	-	-	-	28,995
Construction in progress	22,690	18,540	(23,170)	(848)	17,212	4,017	(13,245)	(202)	7,782
	<u>585,911</u>	<u>33,341</u>	<u>-</u>	<u>(9,765)</u>	<u>609,487</u>	<u>13,095</u>	<u>(2,442)</u>	<u>(7,349)</u>	<u>612,791</u>
<b>Depreciation:</b>									
Buildings and improvements	(36,364)	(4,055)	-	21	(40,398)	(2,049)	-	2	(42,445)
Facilities and prod. equipment	(138,914)	(18,041)	-	6,169	(150,786)	(9,021)	-	4,769	(155,038)
Furniture and fixtures	(26,316)	(4,764)	-	724	(30,356)	(2,245)	-	1,251	(31,350)
Computer and peripherals	(33,448)	(5,174)	-	679	(37,943)	(2,480)	-	88	(40,335)
Vehicles	(2,069)	(198)	-	354	(1,913)	(111)	-	78	(1,946)
Leasehold improvements	(33,348)	(9,294)	-	246	(42,396)	(4,630)	-	344	(46,682)
	<u>(270,459)</u>	<u>(41,526)</u>	<u>-</u>	<u>8,193</u>	<u>(303,792)</u>	<u>(20,536)</u>	<u>-</u>	<u>6,532</u>	<u>(317,796)</u>
<b>Net:</b>									
Buildings and improvements	90,941	(4,025)	91	(10)	86,997	(2,049)	179	-	85,127
Facilities and prod. equipment	114,363	(10,982)	17,154	(489)	120,046	(3,716)	7,390	(449)	123,271
Furniture and fixtures	15,128	(1,557)	26	(75)	13,522	(1,412)	51	(161)	12,000
Computer and peripherals	11,100	(944)	148	(10)	10,294	349	46	(1)	10,688
Vehicles	545	32	-	(57)	520	-	-	(5)	515
Leasehold improvements	31,674	(9,279)	5,751	(37)	28,109	(4,630)	3,137	1	26,617
Lands	29,011	30	-	(46)	28,995	-	-	-	28,995
Construction in progress	22,690	18,540	(23,170)	(848)	17,212	4,017	(13,245)	(202)	7,782
	<u>315,452</u>	<u>(8,185)</u>	<u>-</u>	<u>(1,572)</u>	<u>305,695</u>	<u>(7,441)</u>	<u>(2,442)</u>	<u>(817)</u>	<u>294,995</u>

\* The balance of transfers refers to PIS and COFINS credits on property, plant and equipment, from prior periods, which were reduced from property, plant and equipment and added to the recoverable taxes.

### (b) Useful life review

The depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.



### (c) Assets pledged as collateral and pledge

As of June 30, 2019, the Company had property, plant and equipment items pledged as collateral for tax incentives in the amount of R\$ 1,103 (R\$ 1,103 as of December 31, 2018), as shown in Note 18.c.

### (d) Impairment of assets

The recoverable value of fixed assets is analyzed, at least, once a year, and for the period ended June 30, 2019, Management did not find the need for formation of provision for the recoverable value of the asset.

## 14 Intangible assets

### (a) Changes in cost and in amortization

	Parent Company and Consolidated							
	12/31/17	Additions	Transfer	Write-off	12/31/18	Additions	*Transfer	06/30/19
<b>Cost:</b>								
Trademarks and patents	2,952	-	-	-	2,952	-	-	2,952
Right to use properties	65,224	301	-	(794)	64,731	-	(64,731)	-
Software	131,656	3,625	5,165	(92)	140,354	306	16,648	157,308
Intangible assets in progress software	12,930	12,354	(5,165)	-	20,119	4,028	(16,648)	7,499
	<u>212,762</u>	<u>16,280</u>	<u>-</u>	<u>(886)</u>	<u>228,156</u>	<u>4,334</u>	<u>(64,731)</u>	<u>167,759</u>
<b>Amortization:</b>								
Trademarks and patents	(2,542)	(94)	-	-	(2,636)	(43)	-	(2,679)
Right to use properties	(44,556)	(7,294)	-	794	(51,056)	-	51,056	-
Software	(50,543)	(12,684)	-	92	(63,135)	(6,912)	-	(70,047)
	<u>(97,641)</u>	<u>(20,072)</u>	<u>-</u>	<u>886</u>	<u>(116,827)</u>	<u>(6,955)</u>	<u>51,056</u>	<u>(72,726)</u>
<b>Net:</b>								
Trademarks and patents	410	(94)	-	-	316	(43)	-	273
Right to use properties	20,668	(6,993)	-	-	13,675	-	(13,675)	-
Software	81,113	(9,059)	5,165	-	77,219	(6,606)	16,648	87,261
Intangible assets in progress software	12,930	12,354	(5,165)	-	20,119	4,028	(16,648)	7,499
	<u>115,121</u>	<u>(3,792)</u>	<u>-</u>	<u>-</u>	<u>111,329</u>	<u>(2,621)</u>	<u>(13,675)</u>	<u>95,033</u>

\*The balance presented in the transfers column refers to the reclassification of the Intangible Goodwill for Assets of Rights of Use in accordance with IFRS16 / CPC06 (2) (note 15).

### (b) Useful life review

The amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

**(c) Impairment of intangible assets**

Intangible assets are tested for impairment at least on an annual basis. For the period ended June 30, 2019, recording a provision for impairment loss on intangible assets was not deemed necessary by Management.

**15 Right to use assets**

**(a) Composition and movement**

<b>Parent Company and Consolidated</b>					
	<b>Average term (years)</b>	<b>01/01/19</b>	<b>Additions</b>	<b>Write-off</b>	<b>06/30/19</b>
<b>Cost:</b>					
Store		64,176	2,023	(1,743)	64,456
Distribution center		5,154	-	-	5,154
Buildings		5,307	-	-	5,307
Trade fund		64,731	1,060	(864)	64,927
		<u>139,368</u>	<u>3,083</u>	<u>(2,607)</u>	<u>139,844</u>
<b>Depreciation:</b>					
Store	2 to 5	-	(10,213)	174	(10,039)
Distribution center	2	-	(1,427)	-	(1,427)
Buildings	5	-	(781)	-	(781)
Trade fund	5	(51,056)	(3,168)	687	(53,537)
		<u>(51,056)</u>	<u>(15,589)</u>	<u>861</u>	<u>(65,784)</u>
<b>Net:</b>					
Store		64,176	(8,190)	(1,569)	54,417
Distribution center		5,154	(1,427)	-	3,727
Buildings		5,307	(781)	-	4,526
Trade fund		13,675	(2,108)	(177)	11,390
		<u>88,312</u>	<u>(12,506)</u>	<u>(1,746)</u>	<u>74,060</u>

The trade fund is tested for impairment at least on an annual basis. For the period ended June 30, 2019, recording a provision for impairment loss on intangible assets was not deemed necessary by Management.

**16 Payroll and related taxes**

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Payroll	9,486	9,372	9,486	9,372
Vacation	16,460	17,344	16,460	17,344
13° Payroll	6,383	-	6,383	-
INSS	15,181	10,966	15,225	10,966
FGTS	2,918	3,129	2,918	3,129
Others	1,740	1,773	1,740	1,773
	<u>52,168</u>	<u>42,584</u>	<u>52,212</u>	<u>42,584</u>

**17 Taxes payable**

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
<b>Current</b>				
ICMS on sales (VAT)	4,077	12,626	4,077	12,626
PIS and COFINS	5,249	3,051	5,249	3,051
Withholding Income Tax (IRRF)	1,775	2,585	1,792	2,585
Goiás Protege Fund	1,157	1,315	1,157	1,315
Others	243	504	243	515
	<u>12,501</u>	<u>20,081</u>	<u>12,518</u>	<u>20,092</u>

**18 Tax incentives**

The liabilities for tax incentives are presented adjusted at present value, when applicable.

(a) Programa de Desenvolvimento da Empresa Catarinense (PRODEC III) - This program was introduced to fund the expansion of the Company's business. The grace period for each released installment is 48 months, after which the full settlement occurs. The financing is charged annual interest of 4%. The contracted amount as of February 2009 was R\$ 270,157, the incentive is valid for 200 months, and the first installment was released in November 2009. The amount of R\$ 15,514 was used until June 30, 2019. The Company's main obligation under this incentive consists of making investments, which are being fulfilled and proven at the State Finance Department.

(b) Programa de Apoio ao Desenvolvimento Industrial do Rio Grande do Norte (PROADI) - To comprise the current assets of the unit located in the city of Parnamirim. Under the contract the incentive has a term of 360 months, commencing in October 2001 and ending in September 2031. The financing charges consist of annual interest of 3% p.a. and monetary restatement according to the variance of the referential rate (TR) in the month. This incentive has no limit. The value of the installment released represents 75% (seventy-five percent) of the ICMS due in the month, and 1% of this cleared amount is settled in full with a grace period of 60 days. The amount of R\$ 582 was used on June 30, 2019 (R\$ 1,203 on June 30, 2018), which is recorded under Sales Deductions in the income statement. The Company's main obligation under the benefit was paying all of its labor, social security and tax obligations on time, which are being fulfilled by the Company.

(c) The Company is entitled to the Industrial Development Program of Goiás (PRODUZIR) - to strengthen the working capital for the implementation of the unit located in the municipality of São Luís de Montes Belos / GO. The portion to be released is used by means of deduction of the ICMS payment due in the month, and of the amount of tax to be collected on the incentive activities, 2% are paid and 98% are the value of the benefit. Contributions are made to each PROTEGE fund in regressive rates, starting in April 2019, starting at 15% and ending at in March 2020, in addition to contributions to the PROTEGE Fund, at a rate of 4% on the value of the benefit, provided for in the contract and contribution to FUNPRODUZIR, at a rate of 5% on value of the benefit. The amount used on June 30, 2019 was R\$ 976 and is recorded in the income for the year in the caption Deductions on Sales. The main obligations of the Company for the use of the benefit include the realization of investments in its industrial unit and the payment of its labor, social security and tax, which are being duly complied with. By virtue of the benefit, the Company offered property, plant and equipment as collateral, whose book value at June 30, 2019 is R\$ 1,103, consisting of real estate of Cia. Hering. This incentive has a validity period of up to 31 of December 2032, as established by Complementary Law.

The subsidies for investment and costing (from December 2017 all subsidies are now treated as investment) the PROADI, Crédito Outorgado, Crédito Atacadista, “TTD” and “Crédito Presumido de ICMS” in Santa Catarina on internet sales programs are recognized monthly on accrual basis and entered directly into the income statement for the period under Sales Deductions (R\$ 57,709 on June 30, 2019 and R\$ 52,225 on June 30, 2018) and Cost of goods sold (R\$ 8,440 on June 30, 2019 and R\$ 9,628 on June 30, 2018). The PRODEC and PRODEC III incentives are recognized the month after the accrual month when the installment is released; they are recognized in the non-current liabilities and the current ICMS debit in the current liabilities is reduced as a contra entry.

The Goiás incentives enjoyed on June 30, 2019 were thus characterized as a subsidy for investments and therefore excluded from the calculation basis for income tax and social contribution, resulting in a reduction of R\$ 19,481 (R\$ 17,761 on June 30, 2018). The PROADI state incentive (enjoyed in Rio Grande do Norte) is also a subsidy for investments and in the same period generated a reduction of R\$ 198 (R\$ 409 on June 30, 2018). The state incentive TTD and Crédito Presumido de ICMS on internet sales (enjoyed in Santa Catarina) characterized as a subsidy for investments and in the same period generated a reduction of R\$ 2,812 (R\$ 2,860 on June 30, 2018). The total reduction in Income Tax and Social Contribution on June 30, 2019, resulting from investment subsidies, was R\$ 22,491 (R\$ 21,030 on June 30, 2018), as shown in Note 32b. If the Company needs to make investments in PP&E to meet obligations of the tax benefit, this amount will be recognition in income by virtue of the depreciation or amortization of the related assets.

The Company stated in its books the sums received as a subsidy for investment in fiscal incentives (Proadi and Lei do Vestuário, TTD and Crédito Presumido de ICMS on internet sales) under "Reserve for tax incentives", pursuant to article 195- of Brazilian Corporate Law (note 24.d).

## **19 Provisions for contingencies and other provisions**

The Company has several labor, civil and tax lawsuits in progress, arising from the normal course of its business.

Provisions for contingencies were recorded for risks considered a probable loss by the legal advisors of the Company. The Company believes that the provisions formed, as presented below, are sufficient to cover loss with the lawsuits and court fees.

	<b>Parent company and Consolidated</b>			
	<b>Current</b>		<b>Noncurrent</b>	
	<b>06/30/19</b>	<b>12/31/18</b>	<b>06/30/19</b>	<b>12/31/18</b>
<b>Provision for contingencies:</b>				
Labor (a)	2,420	2,420	7,119	7,042
Tax (b)	-	-	2,697	2,576
Civil (c)	-	-	2,710	4,691
	<u>2,420</u>	<u>2,420</u>	<u>12,526</u>	<u>14,309</u>
<b>Other provisions:</b>				
Selling expenses (d)	22,163	24,865	-	-
Administrative expenses (e)	7,004	7,326	104	104
Accrued profit sharing - PPR(f)	4,769	71	-	-
	<u>33,936</u>	<u>32,262</u>	<u>104</u>	<u>104</u>
<b>Total</b>	<u>36,356</u>	<u>34,682</u>	<u>12,630</u>	<u>14,413</u>

(a) Labor - consist mainly of requests from representatives and employees that recognize a possible employment relationship with the Company and occupational accident compensation. There are also lawsuits claiming hazard pay to which some employees from the production units are allegedly entitled and occupational accident compensation and subsidiary with the Company. There are judicial deposits on these proceedings in the amount of R\$ 10,791 (R\$ 9,794 on December 31, 2018).

(b) Tax lawsuits - refers to legal disputes relating to INSS maternity leave and garbage collection fee for which there are judicial deposits in the same amount and IRPJ and CSLL tax assessment notices.

(c) Civil - the main lawsuits are related to indemnity actions in connection to the normal operations of the Company. For these cases there are judicial deposits in the amount of R\$ 28 (R\$ 2,744 on December 31, 2018).

(d) Provision for commercial expenses - refers to provision for the payment of commissions to representatives, freight on sales, rents and provisions referring to sales campaign.

(e) Provision for administrative expenses - Consists mainly of the provision for payment of consulting fees and electricity supply.

(f) Provision for profit sharing - the company grants all employees bonuses related to the profit sharing plan, which is linked to the achievement of specific objectives, based on the achievement of individual and corporate goals, established and agreed upon at the beginning of each year. In 2018, payments in the amount of R \$ 25,880 occurred, corresponding to the participation in the results of 2017 and complement of the provision in the amount of R\$ 783. On June 30, 2019, there was provision in the amount of R \$ 4,700 due to the Company's result have been sufficient to achieve the goals established in the PPR program.

The change in provisions for risks and other provision is show below:

	Parent company and Consolidated								
	12/31/17	Additions	Reversal	Realization	12/31/18	Additions	Reversal	Realization	06/30/19
<b>Provision for risks</b>									
Labor	9,558	2,051	(152)	(1,995)	9,462	1,982	-	(1,905)	9,539
Tax	2,770	89	(283)	-	2,576	132	(11)	-	2,697
Civil	4,316	1,347	(182)	(790)	4,691	363	-	(2,344)	2,710
	16,644	3,487	(617)	(2,785)	16,729	2,477	(11)	(4,249)	14,946
<b>Other provisions</b>									
Selling expenses	21,532	153,268	-	(149,935)	24,865	59,210	-	(61,912)	22,163
Administrative expenses	6,366	73,883	-	(72,819)	7,430	27,175	-	(27,497)	7,108
Accrued profit sharing - PPR	25,168	783	-	(25,880)	71	4,700	(2)	-	4,769
	53,066	227,934	-	(248,634)	32,366	91,085	(2)	(89,409)	34,040
<b>Total</b>	<b>69,710</b>	<b>231,421</b>	<b>(617)</b>	<b>(251,419)</b>	<b>49,095</b>	<b>93,562</b>	<b>(13)</b>	<b>(93,658)</b>	<b>48,986</b>

Possible Loss - No accounting provisions were recorded for the amounts of risks considered possible losses by the legal counsel of the Company, in conformity with accounting practices. These contingencies are spread out in tax, labor and civil lawsuits, which totals R\$ 501,148 on June 30, 2019 (R\$ 393,531 on December 31, 2018).

With regard to possible tax contingencies, the Company is in litigation at the federal administrative level in relation to disallowances of credit and/or non-approvals tax offsets for IPI, PIS, COFINS, IRPJ and CSLL, the amount of which (corrected for inflation) is R\$ 60,219 (R\$ 59,233 on December 31, 2018) and tax violation notices regarding CIDE, IRRF, PIS, COFINS, IRPJ, CSLL and Social Security contributions, the amount of which (corrected for inflation) is R\$ 267,278 (R\$ 227,253 on December 31, 2018). It is also in litigation at the state administrative level against the State of Goiás, relating to ICMS Tax Assessment Notices, and restated amount corresponds to R\$ 27,531 (R\$ 14,626 on December 31, 2018).

Concerning civil contingencies, the Company started a lawsuit against Banco Santos' Bankruptcy Estate claiming a declaration of total release of its debts with Banco Santos. Whereas, Banco Santos' Bankruptcy Estate started four lawsuits against Cia. Hering involving Credit Limit Contracts and BNDES-Exim Financing Agreement. Two of the lawsuits claims the revocation of Letters of Debt Release related to these transactions and the third lawsuit claim the execution of BNDES-Exim Financing Agreement. The execution lawsuit alleges that obligation assumed under said Financing Agreement was not settled. The executed amount at the time the lawsuit was started totaled R\$ 50,003. The Company filed an appeal against the execution and, as collateral, obtained a letter of guarantee in the amount of R\$ 65,006 from Itaú BBA, whose replacement was requested in a petition filed on June, 25, 2018, in order for it to correspond to the updated amount of the debt, plus the 30% required by law, according to a court decision. The new bank guarantee was contracted with Banco Santander on June 04, 2018, in the amount of R\$ 152,321.

The fourth lawsuit claims the payment by the Company of a debt arising from the alleged default in fulfilling the obligations under Credit Limit Contract, whose amount charged at the time the lawsuit was started, the involved amount totaled R\$ 26,916. In summary, the total amount claimed by Banco Santos' Bankruptcy Estate, adjusted for inflation until June 30, 2019 (without including the interest set forth by law), totaled R\$ 204,114 (R\$ 156,488 as of December 31, 2018). The amount assessed as remote loss by the Company is R\$ 129,772 (R\$ 124,651 as of December 31, 2018) and as possible loss, R\$ 74,342 (R\$ 31,837 as of December 31, 2018).

With regard to labor contingencies, the Company is listed as a Defendant in a Public Civil Action proposed by the Public Labor Ministry in the State of Goiás regarding alleged irregularities in the model of the company's faction contract. The Public Labor Ministry intends, among other recognition of the employment relationship between the Company and all current and futures contracted through factions; responsibility of the Company in relation to the amounts labor contracts arising from these contracts; the company's obligation not to do consisting of refraining from using or hiring employees by means of a faction contract; alternatively that the configuration of industrial economic group be recognized between the Company and all factions that provide services to the company, recognizing the joint and several liability of the company for the fulfillment of all the rights and social charges resulting from the employment contracts entered into by the suppliers and the condemnation of the Company to the payment of compensation for moral damages collective in the amount of R\$ 38,625. The Company filed a defense in this lawsuit informing in addition, that there are no irregularities in the contracting of the factions mentioned by the Public Labor Ministry as well as requiring the dismissal of the claim. The process is currently awaiting hearing, the time at which the witness evidence will be produced, which is due for September 2019. According to the lawyer responsible for representing the Company, the probability of loss by the company is considered possible in the amount of R\$ 15,730.

## 20 Related parties

Transactions involving intercompany loans and management compensation are as follows:

### (a) Key Personnel from management

The Company provides their directors with health care, health care benefits, life insurance, retirement planning, and food aid, as shown in the short-term benefits line item, below. The benefits are partially funded by their managers and are recorded as expenses when incurred. Directors also participate in the Company's stock option plan, as defined in note 25.

Amounts referring to remuneration and benefits of management key personnel, represented by the Board of Directors and statutory officers, are as follows:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<b>06/30/19</b>	<b>06/30/18</b>	<b>06/30/19</b>	<b>06/30/18</b>
Management remuneration	4,511	4,536	4,637	4,543
Variable remuneration	893	-	893	-
Short-term benefits	700	736	700	736
Others (INSS)	902	925	902	925
Stock options payments	2,143	2,057	2,143	2,057
	<u>9,149</u>	<u>8,254</u>	<u>9,275</u>	<u>8,261</u>

The Company is managed by a Board of directors and Executive Board, both of which have been elected for two years, subject to reelection.

## **(b) Other related-party transactions**

The transactions refer to the loan agreements with the subsidiary Hering International SAFI, whose balance as of June 30, 2019 was R\$ 2,002 (R\$ 2,014 as of December 31, 2018). The term of validity of these contracts is indeterminate.

On May 25, 2011 Cia. Hering began operating with a representation office in the city of Nanjing in China. This office has as its object the quality inspection of products imported, as well as the prospection of new suppliers. As of June 30, 2019, the amount spent with this operation was of R\$ 1,775 (R\$ 3,766 on December 31, 2018), recognized in the income statement in the group costs.

Until June 2019 there were some loan operations to refurbish the franchises for the franchise company related to some of the Company's directors. The total amount of the loan and grant amounted to R\$ 597 of financing (as of December 31, 2018 there were no loans). The Company understood that the terms of the agreement were consistent with the current standards of Business.

## **(c) Sales to related parties**

The Company performed commercial transactions (sales) with franchises related to some of its Directors. On June 30, 2019, these transactions totaled R\$ 20,528 (R\$ 19,047 on June 30, 2018), of which, R\$ 7,818 is recorded under Trade accounts receivable on June 30, 2019 (R\$ 6,275 on December 31, 2018). It is provided personal aval from the related companies' owners, in the amount of R\$ 5,976 on June 30, 2019 (R\$ 5,246 on December 31, 2018), to guarantee the Company's receivables. The transactions with these related parties are held under the same usual terms and conditions applicable to the other franchisees of the Company.

## **21 Employee benefits**

The Company sponsors defined benefit and defined contribution pension plans for its employees, and maintains health plans as described below:

### ***Private pension plan***

The supplementary pension plans made available to employees are of the defined benefit and defined, serving all Company employees, and contribution type for Company employees who adhere to the plan. The monthly contributions of the sponsor are calculated with a basis on the salary and contribution of the participants, whether contributors or not.

The defined benefit plan gives taxpaying employees the right to receive lifetime monthly income (with or without a 5-year guaranteed period). This option was open only to those employees enrolled in the plan and eligible for the life retirement benefit until October 2018, when the Previc Plan amendment was approved, limiting the defined benefit to a portion of employees. In June 30, 2019 was 19 people (22 as of December 31, 2018). Non-contributory employees are guaranteed the amount corresponding to up to three salaries paid in a single installment, was of 5,820 as of June 30, 2019 (5,550 as of December 31, 2018). The number of contributors to the private pension plan (defined contribution) as at June 30, 2019 was 273 people (251 at December 31, 2018), contributing R\$ 506 in the period (R\$ 975 in the previous period) and the sponsor contributed the same amount.



The Company had its last actuarial valuation calculated on December 31, 2018, whose effects are shown below:

**(a) Balances of the pension plan – Defined Benefit**

	<b>Parent company and Consolidated</b>	
	<b>Pension Plan</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Present value of actuarial obligations with coverage	(40,960)	(40,782)
Fair value of the plan assets	38,283	38,283
(Deficit) surplus	<u>(2,677)</u>	<u>(2,499)</u>

Changes in the defined benefit plan for the period ended June 30, 2019 were the recognition of R\$ 178 (R\$ 126 as of June 30, 2018) in the statement of income, the counterpart of which was the liability for employee benefits.

**(b) Changes in the present value of the defined benefit obligations**

	<b>Parent company and Consolidated</b>
	<b>Pension Plan</b>
	<b>12/31/18</b>
Defined benefit obligations as of January 1	38,406
Current service costs and interest	131
Interest on actuarial obligation	3,610
Actuarial (gains) losses recognized in other comprehensive income	1,595
Benefits paid in the year	<u>(2,960)</u>
<b>Defined benefit obligations as of December 31</b>	<b><u>40,782</u></b>

**(c) Change in the present value of the plan's assets**

	<b>Parent company and Consolidated</b>
	<b>Pension Plan</b>
	<b>12/31/18</b>
Fair value of plan assets as of January 1	37,019
Expected return on plan assets	3,489
Actuarial (losses) gains on the plan's assets	503
Contributions from sponsor	232
Benefits paid by the plan	<u>(2,960)</u>
<b>Fair value of plan assets as of December 31</b>	<b><u>38,283</u></b>

The plan's assets are represented by quotas of participation in funds. On December 31, 2018, the sum of equity Instruments was R\$ 38,283, whose expected return for the following fiscal year is R\$ 3,460. The assessment of expected return performed by the Management is based on historical trends and market analyst projections for the asset during the life of the respective obligation.

**(d) Expense / (Income) recognized in profit or loss**

In the period ended on June 30, 2019, the amount of R\$ 178 related to the pension plans (R\$ 126 on June 30, 2018).

**(e) Actuarial gains and losses recognized in other comprehensive income**

	<b>Parent company and Consolidated</b>
	<b>Pension Plan</b>
	<b>12/31/18</b>
Amount accrued as of January 1	1,185
Actuarial (gain) losses recognised	860
<b>Amount accrued as of December 31</b>	<b>2,045</b>

The amounts above are immediately incorporated to the accumulated income account, as permitted by CPC 33(R1) and IAS19.

**(f) Components of the projected expenses / (income) of the plan**

	<b>Parent company and Consolidated</b>
	<b>Pension Plan</b>
	<b>12/31/19</b>
Gross current service cost (with interest)	130
Interest on actuarial obligation	3,687
Expected yield of the assets	(3,460)
	<b>357</b>

The Company expects to contribute R\$ 245 defined benefit plans during 2019.

**(g) History of experience adjustments**

<b>Pension Plan</b>	<b>Parent company and Consolidated</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Present value of actuarial obligations	(40,782)	(38,406)	(33,706)	(27,117)	(22,182)
Fair value of the plan assets	38,283	37,019	33,552	27,927	23,079
Effect of asset ceiling	-	-	-	(810)	(897)
(Deficit) surplus for the covered plans	(2,499)	(1,387)	(154)	-	-
Adjustment for experience in plan liabilities	(1,595)	(3,708)	(5,733)	(4,337)	313
Adjustment for experience in plan assets	503	2,258	4,321	4,071	284

**(h) Actuarial assumptions**

The asset and liability were determined by means of actuarial calculations made by an independent actuary following the premises identified below:

	<b>Parent company and consolidated</b>
	<b>Pension Plan</b>
<b>(i) Weighted average of the hypotheses used to determine the actuarial obligation and the expense/(income) to be recognized</b>	<b>12/31/18</b>
Nominal discount rate	9.56%
Nominal salary adjustment rate	5.81%
Estimated inflation rate	4.40%
Nominal discount rate	9.93%
Post-retirement mortality table	AT-2000 Softened in 10%
<b>(ii) Assumed life expectations on retirement at age 65</b>	
Retiring today (member age 65)	20.4
Retiring in 25 years (member age 40 today)	20.4

Assumptions on future mortality are based on published statistics and mortality tables. The mortality tables used were: (i) Mortality table AT-2000 Softened in 10%; (ii) Disability Entrance Table Alvaro Vindas; (iii) Disability Mortality Table RRB-1944(MI). Age at retirement date is considered as 55 years, and that 100% of the employees retire upon first eligibility to early retirement.

### (i) Sensitivity analysis

The following tables present the sensitivity analysis for December 31, 2018 that demonstrate the effect on the present value of the defined benefit obligations arising from the variation of half a percentage point of the discount rate and the variation of the expectation of survival of the participants in 1 year, an increase of R\$ 1,727 and a reduction of R\$ 1,875 in the discount rate, an increase of R\$ 857 and a reduction of R\$ 871 in the mortality table:

	<b>Pension Plan</b>		
	<b>Baseline</b>	<b>Project Scenarios</b>	
		<b>0.5% increase</b>	<b>0.5% decrease</b>
<b>Impacts on pensions plan obligations</b>			
Discount rate	40,781	39,054	42,656
Inflation rate	40,781	40,781	40,781
Mortality table (+1 -1)	40,781	41,638	39,910
Weighted average of the defined benefit obligation (in years)	8.83	8.66	8.99

## 22 Lease liability

As of June 30, 2019, the Company had 74 (75 as of December 31, 2018) lease agreements for its commercial, industrial and administrative units. The lease agreements of the commercial units (stores), for the most part, provide for a variable lease expense, incident on sales, or a minimum amount, being the monthly obligation of the Company to pay the higher value between both. In addition, some contracts provide for the additional payment for the month of December. The minimum amounts payable on contracts are adjusted annually according to the variation of the main inflation indexes and some contracts provide for scalable readjustments during the term of the contract. The majority of the contracts have five-year terms with the renewal option after that date.

The accounting treatment for these contracts was changed as from January 1, 2019, as mentioned in notes 3.j and 3.v. The contracts characterized as leases, in accordance with IFRS 16 / CPC 06 (R2), are now recorded as Assets of Right of Use and Lease Liabilities. The remaining contracts were registered according to the expense jurisdiction.

At the initial adoption of IFRS 16 / CPC 06 (R2), the weighted average discount rate used was 0.60%.

(a) Changes in lease liability

Parent Company and Consolidated						
	01/01/19	Additions	Payment of principal and interest	Interest	Write-off	06/30/19
Store	64,176	2,023	(11,474)	2,197	(1,569)	55,353
Distribution center	5,153	-	(1,042)	128	-	4,239
Buildings	5,308	-	(1,369)	218	-	4,157
	<u>74,637</u>	<u>2,023</u>	<u>(13,885)</u>	<u>2,543</u>	<u>(1,569)</u>	<u>63,749</u>
					<b>Current liabilities</b>	23,195
					<b>Noncurrent liabilities</b>	40,554

(b) Estimates of achievement

	Present value of		
	Leases	Interest	Leases
2.019	13,682	(2,122)	11,560
2.020	25,471	(2,995)	22,476
2.021	16,651	(1,625)	15,026
2.022	10,878	(689)	10,189
2023 so on	4,620	(122)	4,498
<b>Net June 30, 2019</b>	<u><b>71,302</b></u>	<u><b>(7,553)</b></u>	<u><b>63,749</b></u>

23 Risk management and financial instruments

(a) Risk management

The Company carries out operations with financial instruments. The management of these instruments is done through operating strategies and internal controls aimed at assuring liquidity, profitability and security. The use of financial instruments for hedging purposes is done through a periodic analysis of the risk exposure that management intends to mitigate (exchange, interest rate, etc.). The control policy consists of permanent monitoring of the contracted conditions versus the existing conditions on the market. The Company does not invest in derivatives or any other risky assets on a speculative basis.

Operations instruments are approved and monitored by the Board of Directors of the Company.

The values of the asset and liability financial instruments contained in the quarterly financial information for the period ended June 30, 2019 were determined in accordance with the criteria and the accounting practices disclosed in specific notes.

The Company presents exposure to the following risks related to the usage of financial instruments:

- Credit risk

This arises from the possibility of the Company suffering losses due to the default of their customers or of financial institutions where they have funds or financial investments.

To mitigate these risks, the Company has a policy of analyzing the financial position of their customers, for which it manages the credit risk by means of a credit qualification and concession policy.

The Company also accounts for expected credit losses, in the amount of R\$ 21,832 (R\$ 20,593 on December 31, 2018), which represents 4.85% of the balance of the accounts receivable (R\$ 4.16% on December 31, 2018), to counter credit risk.

As required by CPC 40, the Company discloses the maximum risk exposure of accounts receivable without considering guarantees received or other instruments that could improve credit recovery level, analysis of accounts receivable per maturity and guarantees.

***(i) Credit risk exposure***

The carrying amounts of financial assets represent the maximum credit exposure. The maximum credit risk exposure on the quarterly financial information date was:

	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Cash and cash equivalents	366,656	320,540
Interest-earning bank deposits	4,952	4,830
Trade accounts receivable	449,836	494,674
Other receivables	26,221	28,690

***(ii) Impairment losses***

The maturities of the accounts receivable on the quarterly financial information date was:

	<b>Consolidated</b>	
<b>Accounts receivable</b>	<b>06/30/19</b>	<b>12/31/18</b>
Current	399,116	448,292
Past-due:		
0 to 30 days	12,148	8,828
31 to 90 days	7,846	7,680
91 to 180 days	6,503	7,039
181 to 360 days	7,368	10,164
Over 360 days	16,855	12,671
	<u>449,836</u>	<u>494,674</u>

Changes of expected credit losses in relation to the loans and receivables during the year was as follows:

	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Balance at beginning of period	(20,593)	(18,207)
Additions	(5,433)	(8,524)
Write-offs	4,194	6,138
Balance at end of period	<u>(21,832)</u>	<u>(20,593)</u>

The Company assesses the need for provision for doubtful accounts through an individual analysis of overdue credits, conjugated with the rate of loss. The Company also evaluates the need for a provision of losses with expected credits, considering the projected future billing growth and the increment of new clients.

The expense on the recognition of the provision of losses with expected credits was recorded in “Impairment of accounts receivable” in the statement of income. When there is no expectation of recovery amount, the amounts credited to line account “Impairment of accounts receivable” are in general reversed against the definite write-off of the receivable against income or loss for the year.

***(iii) Guarantees***

The Company does not keep any guarantees for past due notes.

- Liquidity risk

It arises from the likelihood of reduction in funds intended for debt payments. Management monitors the continuous forecasts of liquidity requirements to ensure the Company has sufficient cash to meet its operational needs.

In addition, the Company maintains short-term investment balances which may be redeemed at any time to cover possible mismatches between maturity dates of its contract obligations and its cash generation.

The Company invests excess cash in financial assets subject to interest (note 5) by choosing instruments with appropriate maturity or sufficient liquidity to provide a safety margin as determined by the provisions above mentioned.

As of June 30, 2019 the Company's cash equivalents have immediate liquidity and are considered to manage liquidity risk.

The following table shows the expected maturity for the financial assets and liabilities contracted by the Company, and the values shown include the estimated principal and interest levied on the operations, calculated utilizing rates prevailing on June 30, 2019:

	Average interest rate	Consolidated						Total
		Until 1 month	1 to 3 months	4 to 12 months	1 to 2 years	2 to 3 years	Over to 3 years	
Cash and cash equivalents	-	366,656	-	-	-	-	-	366,656
Trade accounts receivable and others	0.60%	167,619	197,748	64,749	5,406	2,120	289	437,931
Leases	0.60%	(2,296)	(6,856)	(17,868)	(34,995)	(9,287)	-	(71,302)
Suppliers and other payables	0.73%	(108,809)	(96,618)	(53,668)	(271)	(56)	(84)	(259,506)
		423,170	94,274	(6,787)	(29,860)	(7,223)	205	473,779

The Company has an agreement for mutual collaboration with the financial institution in transactions for acquisition of “Payor Risk” credit, which consists in suppliers advancing outstanding trade notes, the Bank advances that amount to the supplier on request date and then receives amount owed by the Company on maturity date. This transaction cost is charged from the supplier by the bank, the Company does not incur interest or other costs. The credit limit for this operation is approved at a Meeting of the Board of Directors, and does not use the Company's remaining credit limit with the bank. On these amounts, as well as for the amounts of other vendors, the adjustment to present value is registered, considering the rate and terms described in note 3 (m). The terms of the operations under debtor risk do not differ significantly from the normal operations of supply, as for example in relation to the usual payment deadlines. The decision to carry out this operation is solely and exclusively of the supplier, which bears the financial costs of the operation. Management evaluates that there are no risks to the Company in this transaction and maintains the amount recorded in suppliers caption, considering that this presentation better reflects the basics of the operation performed. At June 30, 2019, the amount of this operation was R\$ 89,819 (R\$ 71,796 at December 31, 2018).

- **Market risk**

It arises from the possibility of fair value or the future cash flows of financial instruments oscillate due to changes in market prices. Market risk comprises the following types of risks:

- (i) **Interest rate risk**

This arises from the possibility of the Company sustaining gains or losses arising from fluctuations in interest rates on its financial assets and liabilities. In order to mitigate this type of risk, the Company seeks to diversify the raising of funds and, in certain circumstances, protection operations are performed to reduced the financial cost of operations.

	Consolidated	
	06/30/19	12/31/18
Financial instruments - Variable rate (Financial assets)	362,008	283,062
	<u>362,008</u>	<u>283,062</u>



## (ii) Exchange rate risk

This arises from the possibility of fluctuations in the exchange rates of the foreign currencies, mainly the U.S. dollar and Euro (EUR), used by the Company for the purchase of imports, the sale of products and the contracting of financial instruments, as well as the amounts payable and receivable in foreign currency. Transactions are denominated mainly in the following currencies: USD and EUR.

The Company understands that its net exposure is maintained at an acceptable level, and permanently assesses the utilization of hedge transactions to mitigate these risks.

The foreign exchange rate exposure of the Company is represented as follows:

	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>12/31/18</b>
Cash in foreign currency (note 5)	3,753	6,546
Trade accounts receivable (note 7)	13,492	15,232
Accounts payable to suppliers	(35,598)	(40,133)
Derivative financial instruments	-	71,490
	<u>(18,353)</u>	<u>53,135</u>

The derivative financial instruments referring to future contracts of purchase or sale of US dollars are used mainly to hedge financial outflows resulting for the import of finished products.

As of June 30, 2019, the Company held USD 23,578 thousand and JPY 2,043 (USD 23,611 and EUR 949 on December 31, 2018) in letters of credit related the imports contracted with suppliers.

## (iii) Operating risk

Operating risk is the risk of direct or indirect losses arising from different causes related to the Company's processes, personnel, technology and infrastructure and external factors, such as credit, market and liquidity risks, as well as those arising from legal and regulatory requirements and from generally accepted corporate behavior standards. Operating risks are associated to all operations of the Company.

The Company's objective is to manage operating risk and avoid financial losses and damages to the Company's reputation, as well as seeking cost effectiveness.

Top management is responsible for developing and implementing controls to address operating risks. This responsibility is supported by the development of general standards regarding operating risk management.

## (iv) Other pricing risks

This arises from the possibility of fluctuations in the market of the inputs used in the production process, mainly regarding the cotton thread. These fluctuations in prices can cause substantial changes in the costs of the Company and it is not possible for the Company to assure the ability to pass on - in part or in whole - these costs in the selling price of its products. To mitigate these risks, the Company manages inventories by forming regulating inventories of this raw material.

## (b) Financial instruments – fair value

The table below presents the main financial instruments operations contracted, as well as the respective fair values calculated by Company's management.

For disclosure purposes, the fair value of financial assets and liabilities, with the book value, are the following:

	Consolidated			
	06/30/19		12/31/18	
	Book value	Fair value	Book value	Fair value
Amortized cost:				
Cash and cash equivalents	366,656	366,656	320,540	320,540
Interest-earning bank deposits	4,952	4,952	4,830	4,830
Trade accounts receivable and other receivables	432,641	432,641	478,623	478,623
Suppliers and other payables	(255,714)	(255,714)	(225,493)	(225,493)
Leases	(63,749)	(63,749)		
Derivative financial instruments assigned at fair value through income	-	-	787	787
Derivative financial instruments assigned to hedge accounting relationships	-	-	(957)	(957)

The accounting values of financial instruments recorded in the balance sheet are equivalent to their respective fair values and do not reflect changes in future economy such as interest rates and rates of taxes and other variables that may affect their determination.

The following methods and premises were adopted in the determination of the fair value:

- Interest-earnings bank deposits – The values informed in the balance sheet are similar to the fair value due to the remuneration rates being based on the fluctuation of the CDI.
- Trade accounts receivables, other accounts receivable, suppliers and other accounts payable – Occur directly from the operations of the Company and subsidiaries, recorded as amortized costs and are recorded by their original value, deducted of provision for losses as applicable and adjustment at fair value when applicable. The accounting value is approximate to the fair value given the short-term settlement of these transactions.
- Borrowings and financing – Are classified as financial liabilities not measured at fair value and are recorded by the amortized cost method in accordance with the contractual conditions. This definition was adopted because the values are not held for trading that in accordance with understanding of the Management reflects the most relevant accounting information. The fair value of these transactions are similar to its book values, due to being financial instruments whose rates are similar to the market rates and having specific characteristics.
- Derivatives - foreign exchange futures are measured based on foreign exchange rates and yield curves obtained based on quotations and for the same maturities of the contracts.

When measuring fair value of an asset or liability, the Company uses observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques. Level 2 fair value measurements are used for the Company's derivatives.

**(c) Capital management**

The Company manages its capital to safeguard continuous return to its shareholders and benefit other interested parties, in addition to maintaining an ideal capital structure to invest in its growth. Among the strategies adopted by the Company, the following stand out:

Debt Management: One of the Company's goals is not to renew bank loans bearing high interest, and to focus on long-term financing transactions linked to productive investments with more attractive maturities and interest rates.

As of June 30, 2019, the amount of cash and cash equivalents was R\$ 366,656 and there were no loan and financing balances.

**(d) Sensitivity analysis**

**(i) Interest rate variation sensitivity analysis**

Short-term investments and financial expenses arising from the Company's borrowings and financing are impacted by changes in interest rates, such as CDI.

As at June 30, 2019, Management considered the annualized rate for the reference period as the probable scenario. The income from financial investments and loan expensed was projected for the next 12 months.

Description	Amount R\$	Risk	Consolidated					
			Probable		Possible		Remote	
			%	Gain (Loss)	%	Gain (Loss)	%	Gain (Loss)
Financial investments (*)	362,008	Low CDI	6.40	-	4.80	(5,792)	3.20	(11,584)

*\*Balance at June 30, 2019 applied to the CDB and repurchase operations classified in cash and cash equivalents and noncurrent subject to the CDI.*

**(ii) Exchange rate variation sensitivity analysis**

The Company has assets and liabilities linked to foreign currency in the balance sheet as at June 30, 2019 and adopted, for sensitivity analysis purposes, the market rate in effect during the preparation of this quarterly financial information as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

Accordingly, the table below simulates the effects of currency fluctuations on the future income/(loss):

Operation	Consolidated						
	Amount	Probable		Possible		Remote	
	06/30/19	Rate	Gain	Rate	Gain	Rate	Gain
	R\$	USD	(Loss)	USD	(Loss)	USD	(Loss)
Cash in foreign currency	3,753	3.8316	-	4.7895	938	5.7474	1,877
Trade accounts receivable	13,492	3.8316	-	4.7895	3,373	5.7474	6,746
Accounts payable to suppliers	<u>(35,598)</u>	3.8316	-	4.7895	<u>(8,900)</u>	5.7474	<u>(17,799)</u>
Exchange rate gain (loss) net	<u>(18,353)</u>		-		<u>(4,589)</u>		<u>(9,176)</u>

In addition to the sensitivity analysis required by CVM Instruction 475/08, the Company evaluates its financial instruments considering their possible effects on profit or loss and equity on relation to the risks assessed by on the quarterly financial information reporting date, as suggested by CPC 40 and IFRS 7. Based on the equity position outstanding as at June 30, 2019, these effects are estimated to approximate the values mentioned in the “Probable” column, in the table above.

#### (e) Derivative financial instruments

The Company has the policy of conducting derivative transactions to mitigate or eliminate the inherent risks to its business, consisting of US Dollar future purchase contracts that are primarily used as hedging instruments of financial outflows resulting for imports. Such operations, when they exist, are monitored through their internal controls.

The operations assigned as “hedge accounting”, whose item referred to highly probable imports and future purchases of merchandise for resale in foreign currency. The bookkeeping adopted by the Company is the cash flow hedge. These derivative transactions are accounted for in the Company’s balance at fair value, and the effective portion of changes in derivatives’ fair value that is assigned and classified as cash flow hedge is recognized under other comprehensive income in shareholders' equity, being reclassified into income at the time the hedged item affects income, under the same caption in which such item is recognized. Gains or losses related to the ineffective portion or not assigned are immediately recognized in financial income.

On June 30, 2019, there were no derivative transactions (NDFs) in Open.

The settlements of NDF's operations in the period ended June 30, 2019 added up to a Notional of USD 18,450 (whose goods were sold), generating a loss that represented a loss of R\$ 1,954 for the Company, of which R\$ 1,734 (expense R\$ 1,745 in 2019 and income R\$ 11 in 2018) was recognized as loss on Operating Income and R\$ 222 (expense of R\$ 998 in 2019 and income of R\$ 776 in 2018) recognized as Financial Expenses.

## 24 Shareholders' equity and reserves

### (a) Capital

The authorized share capital comprises 350,000,000 common shares, with no par value, and the subscribed and paid-in capital as of June 30, 2019 consisted of 162,115,506 common shares (including the 223,923 shares held in treasury) held by the following shareholders (interests over 5%):

	06/30/19		12/31/18	
Atmos Capital Gestão de Recursos Ltda	16,217,782	10.0%	16,217,782	10.0%
Investimento e Participação INPASA S/A	11,964,724	7.4%	11,964,724	7.4%
Ivo Hering	11,768,370	7.3%	11,768,370	7.3%
Velt Partners	8,868,000	5.5%	8,868,000	5.5%
Coronation Fund Managers Ltd. (*)	-	-	8,052,473	5.0%
Dynamo Administração de Recursos	-	-	9,317,300	5.8%
Somerset Capital Management	-	-	8,191,813	5.1%
Others	113,296,630	69.8%	87,463,172	53.9%
	<u>162,115,506</u>	<u>100%</u>	<u>161,843,634</u>	<u>100%</u>

(\*) Manager headquartered in South Africa

### (b) Shares in Treasury

On August 1, 2017, the Company's Board of Directors approved the creation of a New Program for the Repurchase of the Company's Common Shares (Program 2018 – 2019) to be held in treasury and subsequent disposal and / or cancellation and/or to meet the "Plan of Option to Purchase Company Shares", limited to 5,000,000 (five million) common shares of the Company, the expiration date of which was extended to February 1, 2019. Of the shares acquired in this program, the amount of 223,923 remains in treasury.

As of June 30, 2019, treasury shares had the following movement:

	Shares in Treasury (thousands)	Average cost R\$ (*)	Total cost R\$ thousand
Balances at December 31, 2018	441	14,45	6,372
Disposal of shares in treasury, by exercise of call option on March 15, 2019	(184)	14.48	(2,670)
Disposal of shares in treasury, by exercise of call option on June 06, 2019	(32)	14.48	(469)
Balances at June 30, 2019	<u>224</u>	<u>14.42</u>	<u>3,233</u>

(\*) Includes brokerage fees and the BM&FBovespa and CBLC

In March 2019, 184,376 shares of the ninth and tenth stock option programs were exercised, at an average price of R\$ 15.47, totaling R\$ 2,850. In order to face this exercise of stock options, the Company used a portion of treasury shares at an average cost of R\$ 14.48, totaling R\$ 2,670.

In June 2019, 32,376 shares of the ninth and tenth stock option programs were exercised, at an average price of R\$ 16.10, totaling R\$ 521. In order to face this exercise of stock options, the Company used a portion of treasury shares at an average cost of R\$ 14.48, totaling R\$ 469.

**(c) Capital reserve**

Stock options granted as described in Note 25 are recorded as capital reserves.

**(d) Earnings reserves**

▪ **Legal reserve**

Recognized at a rate of 5% of net income, according to the provisions of Article 193 of Law 6,404/76, up to the limit of 20% of the Shareholder's Equity.

▪ **Profit retention**

Refers to the remaining amount of net income for the year, after the recognition of legal reserve, tax incentive reserve, proposal for dividend distribution and interest on shareholders' equity, created for the realization of investments, expansion and reinforcement of working capital. In 2017 and 2018 part of the Profit Retention Reserve was used to pay dividends and interest on shareholders' equity.

▪ **Other profit reserves**

Tax incentives

Refers to amounts of investment grants received, represented by the tax incentives granted (note 18) and reduction incentives of IRPJ, as follows:

	<u>06/30/19</u>	<u>12/31/18</u>
Lei do Vestuário - GO	560,452	560,452
Pró-Emprego - SC	87,084	87,084
Proadi - RN	90,551	90,551
Fomentar - GO	31,750	31,750
Tax (IRPJ) Operating Profit	29,526	29,526
Créd. Presumido Importados/Internet - SC	30,630	30,630
Produzir - GO	6,562	6,562
Crédito Atacadista - GO	4,370	4,370
Reinvestment income tax reduction	6	336
	<u>840,931</u>	<u>841,261</u>

**(e) Remuneration to shareholders**

Dividends

The corporate by-laws determine the distribution of a minimum dividend of 25% of the net profit for the year, adjusted in accordance with article 195-A and article 202 of Law 6,404/76.

### Interest on equity

The Company calculates interest on capital in accordance with the option set forth in Law no. 9,249/95. At the meeting of the Board of Directors held on March 27, 2019, the Board of Directors made a proposal of R\$ 20,842 (net of IRRF in the amount of R\$ 2,152) to pay interest on equity based on the profit to be earned in the current fiscal year, which was approved, paid on April 24, 2019.

The Company calculates interest on capital in accordance with the option set forth in Law no. 9,249/95. At the meeting of the Board of Directors held on May 08, 2019, the Board of Directors made a proposal of R\$ 18,530 (net of IRRF in the amount of R\$ 1,957) to pay interest on equity based on the profit to be earned in the current fiscal year, which was approved, and will be paid on July 05, 2019.

### **(f) Equity evaluation adjustment**

The balance comprises the effect of the recording of the employee's benefits of HeringPrev Private Pension Plan, Health Plan (Note 21) and derivative financial instruments assigned to Hedge Accounting (Note 23). and monetary restatement of property, plant and equipment being the most representative balance.

## **25 Stock option plan**

On at June 30, 2019 the Company had two outstanding Stock Option Purchase Plan, one of which was approved at the Ordinary and Extraordinary General Meeting held on April 10, 2008 (Plan 2008) and a new Stock Option Purchase Plan approved at the Ordinary and Extraordinary General Meeting held on December 04, 2017 (Plan 2017). The approval of the programs of granting of shares under each plan is carried out by the Company's Board of Directors. The approval by the Board of Directors, the number of shares granted by program and the exercise price per share is disclosed below:

	Stock Option Purchase Plan								
	Plan 2008						Plan 2017		
	5th	6th	7th	8th	9th	10th	1st	2nd	3rd
Approval date	05/08/12	05/21/13	07/25/13	05/21/14	07/29/15	05/24/16	12/13/17	08/29/18	05/08/19
Number of shares granted	246,000	264,000	72,872	953,850	1,335,112	1,226,445	701,541	1,181,229	594,903
Exercise price / R\$ share	45.83	38.61	34.24	25.05	12.64	14.25	26.50	16.16	29.73

The programs provide that the options granted to beneficiaries can only be exercised according to the following terms and conditions: (vesting condition) (a) up to 25% (twenty five per cent) of total amount of shares of the option from the end of the first year counted from the date of signature of the respective Adhesion Agreement between the Company and each beneficiary; (b) up to 50% (fifty per cent) of total amount of shares of the option, less those already exercised, from the end of the second year counted from the date of signature of the respective Adhesion Agreement between the Company and each beneficiary; (c) up to 75% (seventy five per cent) of total amount of shares of the option, less those already exercised, from the end of the third year counted from the date of signature of the respective Adhesion Agreement between the Company and each beneficiary; and (d) up to 100% (one hundred per cent) of total amount of shares of the option, minus those already exercised, from the end of the fourth year counted from the date of signature of the respective Adhesion Agreement between the Company and each beneficiary.

The exercise of the options may only occur once the legal relationship between the Beneficiary and the Company or any of its subsidiaries or affiliates is verified, up to the date of the effective exercise of the options.

The programs also provide the right to exercise, in case of the death, retirement or permanent disability of the participant. After an option becomes exercisable, the beneficiary may exercise it at any time, up to the end of the period of seven years from the date of the granting of such option. Each option refers to the right of subscribing one share of the Company.

The exercise of the option provides the beneficiaries the same rights granted to other shareholders of the Company. The plan is administered by a committee appointed by the Board of Directors.

As established by the CPC Technical Pronouncement 10 – Share-based payment, the Company booked the fair value of options. The amount was calculated by a third party with the expertise in this type of methodology that calculated using the Black & Scholes method to the 5th programs, and the Binomial model for the 6th to 10th program of the 2008 plan and for the 1st to 3rd program of the 2017 (this method was used because it adequately allows the inclusion of premises such as anticipated exercise, expiration due to loss of bond and other characteristics).

The fair value of options on the granting date is shown in the Total amount in the table below and consider the following assumptions:

	Stock Option Purchase Plan									
	Plan 2008					Plan 2017				
	5th	6th	7th	8th	9th	10th	1st	2nd	3rd	
Granting date	05/08/12	05/21/13	07/25/13	05/21/14	07/29/15	05/24/16	12/13/17	08/29/18	05/08/19	
Number of shares	246,000	264,000	72,872	953,850	1,335,112	1,226,445	701,541	1,181,229	594,903	
Exercise price	45.83	38.61	34.24	25.05	12.64	14.25	26.50	16.16	29.73	R\$/share
Closing price	45.91	43.50	30.56	21.79	11.64	13.08	26.21	16.74	31.75	R\$/share
Volatility (daily)	2.34%	1.83%	2.36%	2.19%	2.75%	2.49%	2.67%	2.67%	2.67%	
Volatility (annualy)	37.21%	29.01%	37.46%	34.63%	43.71%	39.50%	37.44%	37.43%	37.65%	
Dividend yield	4.00%	4.00%	4.00%	5.10%	5.50%	5.50%	4.70%	5.40%	3.17%	p.a
Termination fee (*)	-	1.01%	1.01%	1.10%	5.00%	14.29%	-	-	-	p.a
Termination fee (**)	-	-	-	-	15.00%	13.64%	-	-	-	p.a
Market to Strike Ratio	-	2.33	2.33	2.25	2.25	2.24	2.09	2.09	2.09	
IPCA coupon (**)	3.65%	3.83%	4.89%	6.16%	6.65%	6.13%	5.12%	5.70%	4.19%	p.a
Total term	7	7	7	7	7	7	7	7	7	years
Price per share	17.00	11.87	8.80	5.38	3.30	2.90	7.96	5.15	11.37	R\$/share
Total amount	4,183	3,134	641	5,128	4,404	3,561	5,585	6,083	6,764	R\$ thousand

(\*) The company's termination fee, from the 9th program onwards, is presented segregated between Executive Officers and Other.

(\*\*) Risk free interest rate



The closing rate of the price per share of the Company Hering, with code HGTX3 and the volatility rate reported above for the for the 5th until 10th programs of the 2008 plan and for the 1st to 3rd program of the 2017 was taken directly from the Bloomberg service. The IPCA curve coupon was obtained from the site of the Futures and Commodities Exchange (BM&F) in the Historical Data field, Search by trading floor, file “Derivatives Market - Swap Market Rates”. The contract coupon IPCA is traded under the symbol DAP. For rate volatility, it was taken a series of closing prices of Company stock under the code HGTX3, and it was calculated on the daily historical volatility, which was later annual for use in calculating the fair value of stock options.

The periods analyzed were:

	Stock Option Purchase Plan								
	Plan 2008						Plan 2017		
	5th	6th	7th	8th	9th	10th	1st	2nd	3rd
Approval date	05/08/12	05/21/13	07/25/13	05/21/14	07/29/15	05/24/16	12/13/17	08/29/18	05/08/19
Number of shares granted	246,000	264,000	72,872	953,850	1,335,112	1,226,445	701,541	1,181,229	594,903
Exercise price / R\$ share	45.83	38.61	34.24	25.05	12.64	14.25	26.50	16.16	29.73

**(a) Stock Option Plan 2008, liquidated in shares (Plan 2008)**

In the Stock Option Plan 2008, ten stock option programs were issued. The shares granted in the first, second and third stock option program were fully exercised by the beneficiaries.

After observing the vesting periods established in the Programs, each granted Stock Option entitles the Beneficiary, defined by the Board of Directors, the subscription of one share of the Company.

If all the options available were exercised on June 30, 2019, the current shareholders’ capital would be diluted by 0,91% (1.24% on December 31, 2018).

Presented according to the change in the options, the average exercise price for the stock options is as follows:

	06/30/19		12/31/18	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Available options at the beginning of the year	2,003,224	28.51	2,702,010	28.39
Exercised options (note 24.a/b)	(354,002)	15.91	(48,125)	15.29
Cancelled options	<u>(178,800)</u>	68.86	<u>(650,661)</u>	33.26
Available options at the end of the year	<u>1,470,422</u>	27.54	<u>2,003,224</u>	28.51
Exercisable options at the end of the year	1,131,176	31.10	1,351,761	34.81

In the period ended June 30, 2019, the Company recognized in the income statement the amount of R\$ 988 (R\$ 2,683 on December 31, 2018) referring to the fair value of the plan.

**(b) New Stock Option Plan 2017, liquidated in shares (Plan 2017)**

Cia Hering approved a New Stock Option Plan in the Extraordinary Shareholders' meeting of December 4, 2017. After observing the vesting periods established in the Programs, each granted Stock Option entitles the Beneficiary, defined by the Board of Directors, the subscription of one share of the Company.

The calculation of the exercise price of the Stock Option payable by the Beneficiaries will be established, under the terms of the Stock Option Plans, by the weighted average by the trading volume of the closing quotations of the common shares of the Company in B3 Brasil Bolsa Balcão, in the 90 (ninety) trading sessions prior to the approval date of each Stock Option Program by the Board of Directors (Exercise Price), which exercise price will be adjusted by IPC-A, from the grant date of the respective Stock Option to the exercise date. Stock Options may be fully or partially exercised within the term and period fixed in each Program, counted as from its approval/grant date by the Board of Directors.

Considering the hypothesis that all options that were available were exercised as of June 30, 2019, the dilution of capital of current shareholders would be 1.36%.

The average exercise price of the stock options, presented according to the movements of the options are shown below:

	<u>06/30/19</u>		<u>12/31/18</u>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Available options at the beginning of the year	1,749,797	19.99	701,541	26.50
Granted options	594,903	29.73	1,181,229	16.16
Exercised options	(134,623)	16,80	-	-
Cancelled options	-	-	<u>(132,973)</u>	27.49
Available options at the end of the year	<u>2,210,077</u>	23.13	<u>1,749,797</u>	19.99
Exercisable options at the end of the year	331,068	28.11	142,136	27.49

In the period ended June 30, 2019, the Company recognized in the income statement the amount of R\$ 1,741 (R\$ 2,484 on December 31, 2018) referring to the fair value of the plan.

## 26 Revenue

The Company's net revenue is broken down as follows:

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>	<b>06/30/19</b>	<b>06/30/18</b>
Domestic market	696,623	664,858	696,623	666,381
Own stores	167,522	153,993	167,522	153,993
Foreing market	19,672	25,350	19,672	25,350
Royalties	8,201	7,604	8,201	7,604
Returns	(31,935)	(26,999)	(31,935)	(26,999)
<b>Gross revenue</b>	<b>860,083</b>	<b>824,806</b>	<b>860,083</b>	<b>826,329</b>
Adjustments to present value - Revenue	(16,207)	(18,282)	(16,207)	(18,282)
Rebates and IBCC (Instituto Brasileiro de Controle do Câncer)	(2,076)	292	(2,076)	292
Sales tax	(107,871)	(102,156)	(107,871)	(102,243)
<b>Deductions</b>	<b>(126,154)</b>	<b>(120,146)</b>	<b>(126,154)</b>	<b>(120,233)</b>
<b>Net revenue</b>	<b>733,929</b>	<b>704,660</b>	<b>733,929</b>	<b>706,096</b>

## 27 Costs of goods or services sold

	<b>Parent company and Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>
Raw material and Resale goods	232,734	231,039
Salaries, charges and benefits	76,715	84,923
Depreciation	15,230	15,363
Outsource labor	68,872	55,586
Energy	5,682	5,336
Other Costs	15,968	18,104
	<b>415,201</b>	<b>410,351</b>

## 28 Selling expenses

	<b>Parent company and consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>
Sales commissions expenses	26,705	26,603
Sales freight expenses	20,834	20,113
Personnel expenses	49,166	43,217
Advertising and promotions expense	37,517	23,459
Property rental expenses (i)	10,939	23,210
Expenses with samples and product development	10,175	8,551
Traveling expenses	4,899	5,306
Expenses for third-party services	4,649	8,028
Other expenses	10,665	9,026
	<u>175,549</u>	<u>167,513</u>

(i) As from January 1, 2019, the lease contracts classified in accordance with IFRS 16 / CPC 06 (R2) were accounted for in the right of use and lease liabilities. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under "Depreciation and Amortization".

## 29 Administrative and general expenses

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>	<b>06/30/19</b>	<b>06/30/18</b>
Personnel expenses	16,438	14,945	16,438	14,945
Expenses for third-party services	3,463	3,659	3,463	3,659
Institutional advertising expense	721	668	721	668
Expenses with donations	31	83	31	83
Expenses for information technology service	1,962	1,643	1,962	1,643
Traveling expenses	680	506	680	506
Property rental expenses (i)	490	986	490	986
Other expenses	1,927	1,298	2,021	1,338
	<u>25,712</u>	<u>23,788</u>	<u>25,806</u>	<u>23,828</u>

(i) As from January 1, 2019, the lease contracts classified in accordance with IFRS 16 / CPC 06 (R2) were accounted for in the right of use and lease liabilities. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under "Depreciation and Amortization".

### 30 Other net operating (expenses) and income

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>	<b>06/30/19</b>	<b>06/30/18</b>
<b>Other operating income</b>				
Tax credit	9,131	9,031	9,131	9,031
Claims received	472	345	472	345
Revenue from sale of PP&E and intangible assets	590	393	590	393
Assignment of financial services	-	4,500	-	4,500
Others	661	1,219	661	1,219
	<u>10,854</u>	<u>15,488</u>	<u>10,854</u>	<u>15,488</u>
<b>Other operating expenses</b>				
Formation and reversals of labor and civil provisions	(2,355)	(2,631)	(2,355)	(2,631)
Stock option plan	(2,729)	(2,966)	(2,729)	(2,966)
Actuarial evaluation of pension plans	(179)	(126)	(179)	(126)
Cost from write-off of PP&E/intangible	(575)	(404)	(575)	(404)
Labor indemnities	(8,697)	(5,387)	(8,697)	(5,387)
Goiás Protege Fund	(6,678)	(7,389)	(6,678)	(7,389)
Representatives indemnities	(2,087)	(1,818)	(2,087)	(1,818)
Others	(3,623)	(2,035)	(3,764)	(2,987)
	<u>(26,923)</u>	<u>(22,756)</u>	<u>(27,064)</u>	<u>(23,708)</u>
<b>Other net operating (expenses) and income</b>	<u>(16,069)</u>	<u>(7,268)</u>	<u>(16,210)</u>	<u>(8,220)</u>

### 31 Net financial result

	Parent Company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
<b>Financial income</b>				
Interest on financial operations	9,823	6,778	9,823	6,778
Interest on taxes recovered	585	354	585	354
Adjustment to present value	17,142	19,365	17,142	19,365
Interest received and renegotiated	7,489	6,584	7,489	6,617
Other income	299	201	332	201
	<u>35,338</u>	<u>33,282</u>	<u>35,371</u>	<u>33,315</u>
<b>Financial expenses</b>				
Interest on financial operations	-	(1,342)	-	(1,342)
Financial charges on taxes	(69)	(148)	(69)	(148)
Adjustment to present value	(9,832)	(6,179)	(9,832)	(6,179)
Derivative expenses	(998)	(713)	(998)	(713)
Interest lease (note 22)	(2,543)	-	(2,543)	-
Bank fees and commissions	(2,478)	(2,490)	(2,478)	(2,229)
Other expenses	(1,466)	(1,900)	(1,467)	(1,900)
Net exchange rate variation expense	(17)	(4,801)	(39)	(4,801)
	<u>(17,403)</u>	<u>(17,573)</u>	<u>(17,426)</u>	<u>(17,312)</u>
<b>Net financial result</b>	<u>17,935</u>	<u>15,709</u>	<u>17,945</u>	<u>16,003</u>

### 32 Income and social contribution taxes

#### (a) Breakdown of income tax and of social contribution

	Parent company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Current taxes:				
Social contribution	266	144	266	100
Income tax	(38)	196	(38)	86
	<u>228</u>	<u>340</u>	<u>228</u>	<u>186</u>
Deferred taxes:				
Social contribution	2,461	68	2,461	68
Income tax	6,627	2,084	6,627	2,084
	<u>9,088</u>	<u>2,152</u>	<u>9,088</u>	<u>2,152</u>

**(b) Reconciliation at the effective rate**

	Parent company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Net profit before income and social contribution taxes	78,052	89,107	78,052	89,261
Current rate:	34%	34%	34%	34%
Estimated expense according to the current rate	(26,538)	(30,296)	(26,538)	(30,349)
Tax impact on permanent additions and exclusions :				
Equity in controlled companies / subsidiaries	(119)	196	-	-
Investment subsidy (i)	22,491	21,030	22,491	21,030
Interest on shareholder's capital	14,784	13,597	14,784	13,597
Other permanents additions (exclusions)	(1,302)	(2,035)	(1,421)	(1,940)
Income and social contribution taxes	9,316	2,492	9,316	2,338
Income and social contribution taxes - current	228	340	228	186
Income and social contribution taxes - deferred	9,088	2,152	9,088	2,152
Effective rate	(12%)	(3%)	(12%)	(3%)

(i) Refers to the tax benefits mentioned in note 18.

**(c) Breakdown of deferred taxes in the income of statements**

	Parent company and Consolidated	
	06/30/19	06/30/18
Constitution on temporary additions	581	(9,919)
Reversal on temporary exclusions	(122)	(782)
Constitution on tax losses and negative bases	8,570	12,792
Realization of the monetary correction of the asset	59	61
	9,088	2,152

### 33 Earnings per share

#### (a) Basic earnings per share

Earnings per share are calculated by dividing income from the Company's shareholders by the weighted average value of common shares issued in the year, minus shares bought by the Company and held as treasury shares.

	<u>Consolidated</u>	
	<u>06/30/19</u>	<u>06/30/18</u>
Profit attributable to the Company's shareholders	87,368	91,599
Weighted average number of common shares - thousands	161,876	161,827
Weighted average number of common treasury shares - thousands	<u>(311)</u>	<u>-</u>
	<u>161,565</u>	<u>161,827</u>
Basic earnings per share - R\$	<u>0.5408</u>	<u>0.5660</u>

#### (b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to presume the conversion of all potential diluted common shares. The Company has a class of potential diluted common shares that refers to the stock option.

For stock options, the number of shares that could have been acquired at fair value (market annual average price of the Company's share) is calculated based on the monetary value of subscription rights linked to outstanding stock options. The number of shares calculated as described above is compared to the number of issued shares, assuming that the stock option is exercised.

	<u>Consolidated</u>	
	<u>06/30/19</u>	<u>06/30/18</u>
Profit attributable to the Company's shareholders	87,368	91,599
Weighted average number of common shares - thousands	161,565	161,827
Share purchase option adjustment - thousands	<u>3,765</u>	<u>2,881</u>
Weighted average number of common shares (diluted) - thousands	<u>165,330</u>	<u>164,708</u>
Basic earnings per share - R\$	<u>0.5284</u>	<u>0.5561</u>



### 34 Operating segments

The Company has a single operating segment defined as textile, which embodies the production of apparel and accessories. The Company is organized, and has its performance assessed, as a single business unit for operating, commercial, managerial and administrative purposes. This view is supported by the following factors:

- there are no divisions in its structure for managing different product lines, markets or sales channels;
- its plants operate for all the product lines, markets and sales channels;
- the Company's strategic decisions are supported by studies that show market opportunities, and not only by the performance by product, trademark or channel.

The Company's products are distributed into different trademarks and channels (Trademarks: Hering, Hering Kids, PUC and DZARM.; Channels: Retail, Franchise and Own Stores). However, these units are controlled and managed as a single segment, and results are monitored and evaluated in a centralized manner.

Management makes a follow-up of gross revenues, on the domestic market, by trademark and distribution channel, as shown below:

	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>
<b>Trademarks</b>		
Hering	639,130	590,789
Hering Kids	107,119	108,517
PUC	43,721	49,283
DZARM.	37,904	37,195
*Others	12,537	15,195
<b>Gross revenue domestic market</b>	<b>840,411</b>	<b>800,979</b>
<b>Gross revenue foreign market</b>	<b>19,672</b>	<b>25,350</b>
<b>Total gross revenue</b>	<b>860,083</b>	<b>826,329</b>
	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>
<b>Channel</b>		
Retail	370,665	368,646
Franchise	284,089	266,257
Own stores	153,715	140,054
Webstore	29,570	22,083
*Others	2,372	3,939
<b>Gross revenue domestic market</b>	<b>840,411</b>	<b>800,979</b>
<b>Gross revenue foreign market</b>	<b>19,672</b>	<b>25,350</b>
<b>Total gross revenue</b>	<b>860,083</b>	<b>826,329</b>

\* Considers the sale of second line items and leftovers

The net revenues from the domestic and foreign markets are as follows:

	<b>Consolidated</b>	
	<b>06/30/19</b>	<b>06/30/18</b>
Gross revenue domestic market	840,411	800,979
Gross revenue foreign market	<u>19,672</u>	<u>25,350</u>
<b>Gross revenue</b>	<u>860,083</u>	<u>826,329</u>
Deductions	<u>(126,154)</u>	<u>(120,233)</u>
<b>Net revenue</b>	<u>733,929</u>	<u>706,096</u>

Foreign revenue is not recorded separately by geographical area, as it represents only 2.29% of total net revenue as of June 30, 2019 (3.59% on June 30, 2018) (Company and consolidated balances).

There is no client that is individually responsible for more than 10% of domestic and foreign sales.

### **35 Insurance**

The Company adopts the policy of contracting insurance coverage for assets subject to risks for amounts considered to be sufficient to cover eventual casualties, considering the nature of its activity. The risk assumptions, due to their nature, are out of the scope of the review of the quarterly financial information, and therefore were not examined by our independent auditors.

As at June 30, 2019, operating risk insurance coverage was comprised of R\$ 178,758 for material damage, R\$ 214,514 for loss of profit and R\$ 27,000 for civil liability.

## **Declaration of Directors**

In accordance with CVM Instruction 480/09, the Board states that reviewed, discussed and agreed with the view expressed in the independent auditors' report and the quarterly financial statement for the period ended June 30 2019.

### **EXECUTIVE BOARD**

Fábio Hering - Chief Executive Officer  
Cristina Caresia Marques - Director of Personnel Management and Organization  
Marcelo Toledo – Industrial Director  
Guilherme Farinelli Silva – Director of Digital Transformation  
Marciel Eder Costa - Director of Administration  
Moacyr José Matheussi – Director of Supplies  
Rafael Bossolani – Chief Financial Officer and Investor Relations Officer  
Romaél Soso – Business Unit Director  
Thiago Hering – Executive Director of Business

### **BOARD OF DIRECTORS**

Ivo Hering – President  
Fábio Hering – Advisor  
Andrea Oliveira Mota Baril - Advisor  
Claudia Worms Sciama - Advisor  
Fabio Colletti Barbosa - Advisor  
Celso Luís Loducca – Advisor  
Patrick Charles Morin Junior – Advisor

Cleonice Ghidolin Destri  
Accountant CRC-SC no. 27.477/O-4

## OTHER RELEVANT COMPANY INFORMATION

In compliance with the Rules of Corporate Governance Practices, we present below some additional information about the company.

### 1 - Considering the Rules of Corporate Governance Practices (Novo Mercado), we present below, the shareholding on June 30, 2019:

#### 1.1 Cia Hering

Shareholder	06/30/19		12/31/18	
Atmos Capital Gestão de Recursos Ltda	16,217,782	10.0%	16,217,782	10.0%
Investimento e Participação INPASA S/A	11,964,724	7.4%	11,964,724	7.4%
Ivo Hering	11,768,370	7.3%	11,768,370	7.3%
Velt Partners	8,868,000	5.5%	8,868,000	5.5%
Coronation Fund Managers Ltd. (*)	-	-	8,052,473	5.0%
Dynamo Administração de Recursos Ltda	-	-	9,317,300	5.8%
Somerset Capital Management	-	-	8,191,813	5.1%
Outros	113,296,630	69.8%	87,463,172	53.9%
Total	162,115,506	100%	161,843,634	100%

(\*) Manager headquartered in South Africa

#### 1.2 Investimento e Participações Inpasa S.A

	Common Shares		Total	
Ivo Hering	211,855	26.4%	211,855	26.4%
Amaral Invest. e Partic. Ltda	95,181	11.9%	95,181	11.9%
Dorca Adm. De Bens e Part. Ltda	66,370	8.3%	66,370	8.3%
Clamaro Adm. Part. de Bens Ltda	59,618	7.4%	59,618	7.4%
IPE Inv. e Part. Empr. Ltda	58,422	7.3%	58,422	7.3%
Adm. Coml. Ind. Blumenauense Ltda	49,045	6.1%	49,045	6.1%
Dimare Participações Societárias Ltda	45,871	5.7%	45,871	5.7%
Others	216,405	26.9%	216,405	26.9%
Total	802,767	100%	802,767	100%

### 1.2.1 Adm. Coml. Ind. Blumenauense Ltda

<b>Shareholder</b>	<b>Shares</b>	<b>%</b>
Espólio de Ricardo Hering	144,342,319	99.9%
Barbara Lebrecht	144,487	.1%
<b>Total</b>	<b>144,486,806</b>	<b>100%</b>

### 1.2.2 Dorca Adm. De Bens e Part. Ltda

<b>Shareholder</b>	<b>Shares</b>	<b>%</b>
Gil Prayon	1,092,553	45.7%
Jean Prayon	1,072,553	44.8%
Others	227,234	9.5%
<b>Total</b>	<b>2,392,340</b>	<b>100%</b>

### 1.2.3 Amaral Investimentos e Participações Ltda

<b>Shareholder</b>	<b>Shares</b>	<b>%</b>
Carlos Tavares D'Amaral	6,500	50.0%
Marcio Tavares D'Amaral	6,500	50.0%
<b>Total</b>	<b>13,000</b>	<b>100%</b>

### 1.2.4 Clamaro Administração e Participação de Bens Ltda

<b>Shareholder</b>	<b>Shares</b>	<b>%</b>
Cláudio Hering Meyer	2,560,228	30.6%
Marcos Hering Meyer	2,560,228	30.6%
Roberto Hering Meyer	2,560,228	30.6%
Uta Hedy Hering Meyer	682,002	8.2%
<b>Total</b>	<b>8,362,686</b>	<b>100%</b>

### 1.2.5 IPE Investimentos e Participação de Bens Ltda

Shareholder	Shares	%
Ivo Hering	6,329,015	22.0%
Andrea Hildegard Hering Vila Boas	7,426,166	26.0%
Karin Hering de Miranda	7,426,166	26.0%
Cristiane Hering de Toni	7,426,166	26.0%
Rotraud Katharina Hering	4,364	-
<b>Total</b>	<u>28,611,877</u>	<u>100%</u>

### 1.2.6 Dimare Participações Societárias Ltda.

Shareholder	Shares	%
Rene Werner Linnenkamp	8,354,773	100.0%
Marlene Karin Werner	1,000	-
<b>Total</b>	<u>8,355,773</u>	<u>100%</u>

## 2 - Shareholding of controlling parties, management and outstanding shares

### Shareholding on 06/30/2019

Shareholder	Common Shares	%	Total	%
<b>Controlling Shareholder</b>	34,488,672	21.3%	34,488,672	21.3%
<b>Management</b>				
- Board of Directors	119,003	0.1%	119,003	0.1%
- Executive Board	106,634	0.1%	106,634	0.1%
Others Shareholders	<u>127,401,197</u>	<u>78.7%</u>	<u>127,401,197</u>	<u>78.7%</u>
<b>TOTAL</b>	<u>162,115,506</u>	<u>100%</u>	<u>162,115,506</u>	<u>100%</u>
<b>Outstanding Shares</b>	127,401,197	78.7%	127,401,197	78.7%

**Shareholding on 03/31/2019**

<b>Shareholder</b>	<b>Common Shares</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Controlling Shareholder Management</b>	34,538,672	21.3%	34,538,672	21.3%
- Board of Directors	121,403	0.1%	121,403	0.1%
- Executive Board	321,895	0.2%	321,895	0.2%
Others Shareholders	<u>126,861,664</u>	<u>78.4%</u>	<u>126,861,664</u>	<u>78.4%</u>
<b>TOTAL</b>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>
<b>Outstanding Shares</b>	126,861,664	78.4%	126,861,664	78.4%

**Shareholding on 12/31/2018**

<b>Shareholder</b>	<b>Common Shares</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Controlling Shareholder Management</b>	35,077,011	21.7%	35,077,011	21.7%
- Board of Directors	122,003	0.1%	122,003	0.1%
- Executive Board	204,516	0.1%	204,516	0.1%
Others Shareholders	<u>126,440,104</u>	<u>78.1%</u>	<u>126,440,104</u>	<u>78.1%</u>
<b>TOTAL</b>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>
<b>Outstanding Shares</b>	126,440,104	78.1%	126,440,104	78.1%

**Shareholding on 09/30/2018**

<b>Shareholder</b>	<b>Common Shares</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Controlling Shareholder Management</b>	35,229,011	21.8%	35,229,011	21.8%
- Board of Directors	122,003	0.1%	122,003	0.1%
- Executive Board	204,516	0.1%	204,516	0.1%
Others Shareholders	<u>126,288,104</u>	<u>78.0%</u>	<u>126,288,104</u>	<u>78.0%</u>
<b>TOTAL</b>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>	<u><u>161,843,634</u></u>	<u><u>100%</u></u>
<b>Outstanding Shares</b>	126,288,104	78.0%	126,288,104	78.0%

### **3 - Arbitration clause.**

The Company, its shareholders, managers and the Fiscal Board (when established) members undertake to resolve by arbitration, every and all dispute or controversy which may arise among them, especially related to or derived from enforcement, validity, effectiveness, construal, violation and its effects of provisions contained in the Brazilian Corporation Law number 6,404/76, in the Company's Bylaws, in the rules issued by the Brazilian Monetary Committee (CMN), by the Brazilian Central Bank and by the Brazilian Securities and Exchange Commission (CVM), as well as other rules related to the capital markets operation in general besides those included in the "Novo Mercado" Listing Regulation, in the "Novo Mercado" Listing Agreement and in the Arbitration Regulation of the Market Arbitration Panel.

### **4 - Independent Auditors**

Cia. Hering policy with its independent auditors is referred to the provision of services not related to external auditing based on principles that preserve the independence of the auditors. These principles are based on the fact that the auditor should not assess his/her own work, nor carry out managerial functions or even advocate for its customer. During the period ended on June 30, 2019, the Company's independent auditors were not contracted for other services beyond the examination of the quarterly financial statements of the period.