

# Saraiva Livreiros S.A. - Under judicial reorganization (formerly “Saraiva S.A. Livreiros Editores”)

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Independent auditor’s report on review of the interim financial information

As of June 30, 2019



(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail. See Note 33 to the interim financial information.)

# Independent auditor's report on review of the interim financial information

---

**Grant Thornton Auditores  
Independentes**

Av. Eng. Luís Carlos Berrini, 105 - 12º  
andar Itaim Bibi, São Paulo (SP) Brasil

T +55 11 3886-5100

To the Management, Directors and Shareholders of  
**Saraiva Livreiros S.A. – Under Judicial Reorganization**  
São Paulo – SP

## Introduction

We have reviewed the individual and consolidated interim financial information of Saraiva Livreiros S.A. Under Judicial Reorganization (“Company”), identified as Parent and Consolidated, respectively, included in the Interim Financial Information Form (ITR) for the quarter ended June 30, 2019, which comprises the balance sheet as of June 30, 2019 and the related statement of profit and loss, statement of comprehensive income (loss), statement of changes in equity, and statement of cash flows for the three and six-month periods then ended, including the explanatory notes.

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

## Scope of review

Except for the matters described in the “Basis for qualified conclusion on the individual and consolidated interim financial information” paragraph, we conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 – Review of interim financial information performed by the independent auditor of the entity and ISRE 2410 – Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Basis for qualified conclusion on the individual and consolidated interim financial information

### Measurement and realization of trade payables, borrowings and financing and payroll and related taxes

As described in Notes 13, 15 and 17, as of June 30, 2019, the Company has the following obligations payable: **i)** borrowings and financing, in the amount of R\$144,351 thousand, consolidated (net value of lease – CPC 06 (R2); **ii)** trade payables, in the amount of R\$1,730 thousand, Parent, and R\$560,351 thousand, consolidated; and **iii)** payroll and related taxes, in the amount of R\$390 thousand, Parent, and R\$16,781 thousand, consolidated. Such liabilities and legal and contractual obligations and respective financial instruments are recorded at fair value at amortized cost through profit or loss. However, such amounts do not include the late payment fine and interest adjustment that precede the judicial reorganization plan and do not consider any adjustments that might be required in case the judicial reorganization plan is approved by creditors, which may result in possible reduction of liabilities recorded. Therefore, we were unable to determine whether making adjustments to borrowings and financing, trade payables and payroll and related taxes as well as to the components of the statement of profit and loss, statement of comprehensive loss, statement of changes in equity, and statement of cash flows for the quarter then ended, is necessary.

## Qualified conclusion on the individual and consolidated interim financial information

Based on our review, except for the possible effects of the matters described in the “Basis for qualified conclusion on the individual and consolidated interim financial information” paragraph, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITR referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of Interim Financial Information (ITR) and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

## Significant uncertainty as to the ability to continue as a going concern and judicial reorganization plan

As described in Notes 1 and 31 to the individual and consolidated interim financial information, the Company, together with its subsidiary, filed a request for judicial reorganization on November 23, 2018, which was approved on November 26, 2018. The Company and its subsidiary then submitted a judicial reorganization plan on February 04, 2019, which is under evaluation, review and approval by creditors.

During the period ended June 30, 2019, the Company incurred individual and consolidated loss in the amount of R\$135,522 thousand and R\$135,533 thousand, respectively, and, at that date, the Company's current liabilities exceeded its total current assets by R\$4,632 thousand and R\$482,519 thousand, Parent and consolidated, respectively.

Considering the uncertainty relating to the approval of the judicial reorganization plan by the General Creditors Meetings and the possible impacts thereof on the businesses of the Company and its subsidiary, the continuity of the Company's and its subsidiary's operations will depend on the completion and approval of such plan and on the creditors' acceptance of the proposed conditions. Therefore, the result of the approval and the conditions under which the judicial reorganization plan will be approved by creditors indicate the existence of significant doubt on the Company's ability to continue as a going concern. Our conclusion is not qualified regarding this matter.

## Other matters

### Interim statements of value added

The interim financial information referred to above includes the individual and consolidated statements of value added (“DVA”) for the six-month period ended June 30, 2019, prepared under the responsibility of the Company’s management and presented as additional information for IAS 34 purposes.

These statements were subject to review procedures performed together with the review of the interim financial information in order to conclude whether they are reconciled to the interim financial information and accounting records, as applicable, and whether their form and substance are in accordance with the criteria defined in NBC TG 09 – Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that such statement of value added were not prepared, in all material respects, according to the criteria defined in that Standard and consistently in relation to the individual and consolidated interim financial statements taken as a whole.

São Paulo, August 14, 2019



Rafael Dominguez Barros  
Assurance Partner

Grant Thornton Auditores Independentes

## Contents

<b>Company information</b>	
Capital composition	7
<b>Individual financial statements</b>	
Balance sheet – Assets	8
Balance sheet – Liabilities	9
Statement of income	10
Statement of comprehensive income	11
Statement of cash flows	12
<b>Statement of changes in shareholders' equity</b>	
Statement of changes in shareholders' equity (DMPL) - 01/01/2019–06/30/2019	13
Statement of changes in shareholders' equity (DMPL) - 01/01/2018–06/30/2018	14
Statement of added value	15
<b>Consolidated financial statements</b>	
Balance sheet – Assets	16
Balance sheet – Liabilities	17
Statement of income	19
Statement of comprehensive income	20
Statement of cash flows	21
<b>Statement of changes in shareholders' equity</b>	
Statement of changes in shareholders' equity (DMPL) - 01/01/2019–06/30/2019	22
Statement of changes in shareholders' equity (DMPL) - 01/01/2018–06/30/2018	23
Statement of added value	24
Performance comment	25
Notes to the financial statements	32
<b>Opinions and Statements</b>	
Opinions and Statements / Management's Statement on the Individual and Consolidated Interim Financial Information	73
Opinions and Statements / Management's Statement on the Independent Auditor's Report on Review	74

## Company information / Capital composition

<b>Quantity of shares (Thousand)</b>	<b>Current quarter 06/30/2019</b>
<b>Paid-in capital</b>	
Common	9,622
Preferred shares	17,080
<b>Total</b>	<b>26,702</b>
<b>Treasury</b>	
Common	16
Preferred shares	0
<b>Total</b>	<b>16</b>

**Individual interim financial information / Balance sheet - Assets - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	06/30/2019	12/31/2018
1	Total assets	42,316	164,650
1.01	Current assets	22,198	23,043
1.01.01	Cash and cash equivalents	23	760
1.01.03	Trade receivables	50	52
1.01.03.02	Other receivables	50	52
1.01.03.02.04	Other	50	52
1.01.06	Recoverable taxes	179	179
1.01.06.01	Current recoverable taxes	179	179
1.01.07	Prepaid expenses	519	625
1.01.08	Other current assets	21,427	21,427
1.01.08.01	Noncurrent assets available for sale	21,427	21,427
1.02	Noncurrent assets	20,118	141,607
1.02.01	Long-term assets	19,824	20,281
1.02.01.08	Prepaid expenses	1,441	1,680
1.02.01.10	Other noncurrent assets	18,383	18,601
1.02.01.10.03	Judicial deposits	11,762	11,827
1.02.01.10.04	Recoverable taxes	6,591	6,744
1.02.01.10.05	Other	30	30
1.02.02	Investments	23	120,966
1.02.02.01	Equity interests	23	120,966
1.02.02.01.02	Equity interests in subsidiaries	0	120,943
1.02.02.01.04	Other investments	23	23
1.02.03	Property and equipment	271	360
1.02.03.01	Property, plant and equipment in use	271	360

**Individual interim financial information / Balance sheet - Liabilities - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	06/30/2019	12/31/2018
2	Total liabilities	42,316	164,650
2.01	Current liabilities	26,830	23,913
2.01.01	Payroll and related taxes	390	383
2.01.01.01	Social security obligations	113	111
2.01.01.02	Payroll related obligations	277	272
2.01.02	Trade payables	1,730	1,719
2.01.02.01	Domestic suppliers	1,730	1,719
2.01.02.01.01	Domestic suppliers	1,730	1,719
2.01.03	Taxes payable	85	63
2.01.03.01	Taxes payable - Federal	85	63
2.01.03.01.02	Withholding income tax	62	59
2.01.03.01.05	Other	23	4
2.01.05	Other payables	24,625	21,748
2.01.05.01	Payables to related parties	4,163	2,183
2.01.05.01.02	Payables to subsidiaries	4,163	2,183
2.01.05.02	Other	20,462	19,565
2.01.05.02.01	Dividends and interest on capital payable	5,832	5,832
2.01.05.02.06	Advance for future capital increase	10,000	10,000
2.01.05.02.08	Other payables	1,912	1,096
2.01.05.02.09	Payables to former shareholders	2,718	2,637
2.02	Noncurrent liabilities	30,084	19,831
2.02.02	Other payables	21,085	11,634
2.02.02.01	Payables to related parties	9,451	0
2.02.02.01.02	Payables to subsidiaries	9,451	0
2.02.02.02	Other	11,634	11,634
2.02.02.02.03	Dividends and interest on capital payable	11,634	11,634
2.02.03	Deferred taxes	4,173	4,586
2.02.03.01	Deferred income tax and social contribution	4,173	4,586
2.02.04	Provisions	4,826	3,611
2.02.04.01	Provisions for social security, labor and civil risks	4,826	3,611
2.02.04.01.02	Provision for social security and labor risks	4,415	3,246
2.02.04.01.04	Provision for civil risks	411	365
2.03	Equity	-14,598	120,906
2.03.01	Paid-in capital	282,999	282,999
2.03.02	Capital reserves	5,329	5,311
2.03.02.04	Stock options granted	5,329	5,311
2.03.04	Earnings reserves	-233	-233
2.03.04.09	Treasury shares	-233	-233
2.03.05	Retained earnings (accumulated losses)	-313,972	-178,450
2.03.06	Valuation adjustments to equity	11,279	11,279



**Individual interim financial information / Statement of profit and loss - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	04/01/2019 to 06/30/2019	01/01/2019 to 06/30/2019	04/01/2018 to 06/30/2018	01/01/2018 to 06/30/2018
3.04	Operating income (expenses)	-70,440	-133,645	-36,714	-35,198
3.04.02	General and administrative expenses	-1,511	-3,160	-1,190	-2,365
3.04.02.01	Management fees	-344	-689	-474	-943
3.04.02.02	Profit sharing - Management	-6	-18	-17	-42
3.04.02.04	Other	-1,161	-2,453	-699	-1,380
3.04.04	Other operating income	11	11	31	31
3.04.05	Other operating expenses	-48	-102	-305	-621
3.04.05.01	Depreciation and amortization	-41	-88	-290	-595
3.04.05.02	Other	-7	-14	-15	-26
3.04.06	Share of profit (loss) of investees	-68,892	-130,394	-35,250	-32,243
3.05	Profit (loss) before finance income (costs) and taxes	-70,440	-133,645	-36,714	-35,198
3.06	Finance income (costs)	-49	-105	-11	-117
3.06.01	Finance income	152	308	349	565
3.06.02	Finance costs	-201	-413	-360	-682
3.07	Profit (loss) before taxes on income	-70,489	-133,750	-36,725	-35,315
3.09	Profit (loss) from continuing operations	-70,489	-133,750	-36,725	-35,315
3.10	Profit (loss) from discontinued operations	-1,196	-1,772	-932	-1,022
3.10.01	Profit/loss from discontinued operations	-1,196	-1,772	-932	-1,022
3.11	Profit/loss for the period	-71,685	-135,522	-37,657	-36,337
3.99	Earnings (loss) per share (R\$/share)				
3.99.01	Basic earnings (loss) per share				
3.99.01.01	Common share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.01.02	Preferred share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.02	Diluted earnings (loss) per share				
3.99.02.01	Common share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.02.02	Preferred share	-2.68663	-5.07840	-1.41031	-1.36090

**Individual interim financial information / Statement of comprehensive loss - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	04/01/2019 to 06/30/2019	01/01/2019 to 06/30/2019	04/01/2018 to 06/30/2018	01/01/2018 to 06/30/2018
4.01	Profit (loss) for the period	-71,685	-135,522	-37,657	-36,337
4.02	Other comprehensive income	0	0	-271	-437
4.03	Comprehensive income for the period	-71,685	-135,522	-37,928	-36,774

### Individual interim financial information / Statement of cash flows - (R\$ thousand) - Indirect Method

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	01/01/2019 to 06/30/2019	01/01/2018 to 03/31/2018
6.01	Net cash provided by operating activities	-3,836	-4,006
6.01.01	Cash provided by operations	-3,065	-2,051
6.01.01.01	Profit (loss) before income tax and social contribution	-133,750	-35,315
6.01.01.02	Depreciation and amortization	89	631
6.01.01.04	Share of profit (loss) of investees	130,394	32,243
6.01.01.05	Gain (loss) on write-off and sale of property and equipment and investment	-10	0
6.01.01.06	Finance charges on borrowings and obligations	105	356
6.01.01.07	Stock option plan	18	42
6.01.01.08	Other operating provisions	89	-8
6.01.02	Changes in assets and liabilities	-771	-1,955
6.01.02.04	Other operating assets	108	-374
6.01.02.05	Trade payables	11	365
6.01.02.09	Other operating liabilities	839	-296
6.01.02.10	Cash flows from operations and discontinued operations	-1,729	-1,650
6.02	Net cash provided by investing activities	10	0
6.02.02	Proceeds from sales of fixed assets	10	0
6.03	Net cash provided by financing activities	3,089	13,963
6.03.01	Advance for future capital increase	0	10,000
6.03.06	Purchase of treasury shares	1,875	4,536
6.03.08	Foreign currency borrowings	1,214	-573
6.05	Increase (decrease) in cash and cash equivalents	-737	9,957
6.05.01	Cash and cash equivalents at the beginning of the period	760	11
6.05.02	Cash and cash equivalents at the end of the period	23	9,968

**Individual interim financial information / Statement of changes in equity - DMPL-01/01/2019–06/30/2019 (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	Paid-in capital	Capital reserves, stock options granted and treasury shares	Earnings reserves	Retained earnings or accumulated losses	Other comprehensive income (loss)	Equity
5.01	Opening balances	282,999	5,078	0	-178,450	11,279	120,906
5.03	Adjusted opening balances	282,999	5,078	0	-178,450	11,279	120,906
5.04	Capital transactions with shareholders	0	18	0	0	0	18
5.04.03	Options granted recognized	0	18	0	0	0	18
5.05	Total comprehensive income (loss)	0	0	0	-135,522	0	-135,522
5.05.01	Profit (loss) for the period	0	0	0	-135,522	0	-135,522
5.07	Closing balances	282,999	5,096	0	-313,972	11,279	-14,598

**Individual interim financial information / Statement of changes in equity - DMPL-01/01/2018–06/30/2018 (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	Paid-in capital	Capital reserves, stock options granted and treasury shares	Earnings reserves	Retained earnings or accumulated losses	Other comprehensive income (loss)	Equity
5.01	Opening balances	282,999	5,011	123,280	0	10,732	422,022
5.03	Adjusted opening balances	282,999	5,011	123,280	0	10,732	422,022
5.04	Capital transactions with shareholders	0	42	0	0	0	42
5.04.03	Options granted recognized	0	42	0	0	0	42
5.05	Total comprehensive income (loss)	0	0	0	-36,337	-437	-36,774
5.05.01	Profit (loss) for the period	0	0	0	-36,337	0	-36,337
5.05.02	Other comprehensive income	0	0	0	0	-437	-437
5.05.02.01	Adjustments to financial instruments	0	0	0	0	-437	-437
5.07	Closing balances	282,999	5,053	123,280	-36,337	10,295	385,290

**Individual interim financial information / Statement of value added - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	01/01/2019 to 06/30/2019	01/01/2018 to 06/31/2018
7.01	Revenue	11	30
7.01.02	Other income	11	30
7.02	Inputs acquired from third parties	-1,718	-619
7.02.02	Materials, electric power, outside services and other	-1,718	-619
7.03	Gross value added	-1,707	-589
7.04	Retentions	-1,861	-1,654
7.04.01	Depreciation, amortization and depletion	-89	-632
7.04.02	Other	-1,772	-1,022
7.04.02.01	Loss from discontinued operations	-1,772	-1,022
7.05	Net wealth created	-3,568	-2,243
7.06	Wealth received in transfer	-130,086	-31,678
7.06.01	Share of profit (loss) of investees	-130,394	-32,243
7.06.02	Finance income	308	565
7.07	Total wealth for distribution	-133,654	-33,921
7.08	Wealth distributed	-133,654	-33,921
7.08.01	Personnel	1,045	1,459
7.08.01.01	Salaries and wages	712	972
7.08.01.02	Benefits	169	87
7.08.01.03	Severance Pay Fund (FGTS)	1	8
7.08.01.04	Other	163	392
7.08.02	Taxes and contributions	435	370
7.08.02.01	Federal	172	149
7.08.02.03	Municipal	263	221
7.08.03	Lenders and lessors	388	587
7.08.03.01	Interest	186	437
7.08.03.03	Other	202	150
7.08.03.03.01	Finance costs	202	150
7.08.04	Shareholders	-135,522	-36,337
7.08.04.03	Retained earnings / Loss for the period	-135,522	-36,337

**Consolidated interim financial information / Balance sheet - Assets - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	06/30/2019	12/31/2018
1	Total assets	1,139,852	978,674
1.01	Current assets	338,194	483,634
1.01.01	Cash and cash equivalents	21,811	95,423
1.01.02	Short-term investments	0	6
1.01.02.03	Short-term investments at amortized cost	0	6
1.01.02.03.01	Held-to-maturity securities	0	6
1.01.03	Trade receivables	73,397	91,185
1.01.03.01	Trade receivables	42,460	57,685
1.01.03.02	Other receivables	30,937	33,500
1.01.03.02.01	Advances to suppliers	24,762	29,347
1.01.03.02.02	Other supplier accounts	2,011	3,164
1.01.03.02.04	Other	4,164	989
1.01.04	Inventories	123,350	174,851
1.01.06	Recoverable taxes	97,001	97,976
1.01.06.01	Current recoverable taxes	97,001	97,976
1.01.07	Prepaid expenses	1,208	2,766
1.01.08	Other current assets	21,427	21,427
1.01.08.01	Noncurrent assets available for sale	21,427	21,427
1.02	Noncurrent assets	801,658	495,040
1.02.01	Long-term assets	261,106	240,488
1.02.01.08	Prepaid expenses	1,868	2,483
1.02.01.10	Other noncurrent assets	259,238	238,005
1.02.01.10.03	Judicial deposits	67,084	43,791
1.02.01.10.04	Recoverable taxes	192,112	194,172
1.02.01.10.06	Other	42	42
1.02.02	Investments	149	23
1.02.02.01	Equity interests	23	23
1.02.02.01.05	Other investments	23	23
1.02.02.02	Investment Properties	126	0
1.02.03	Property and equipment	345,754	51,584
1.02.03.01	Property, plant and equipment in use	44,744	51,584
1.02.03.02	Right of use - Lease	301,000	0
1.02.03.03	Construction in progress	10	0
1.02.04	Intangible assets	194,649	202,945
1.02.04.01	Intangible assets	194,649	202,945
1.02.04.01.02	Intangible assets in use	139,385	152,785
1.02.04.01.03	Intangible assets in progress	8,329	3,225
1.02.04.01.04	Goodwill	46,935	46,935

**Consolidated interim financial information / Balance sheet - Liabilities -  
(R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	06/30/2019	12/31/2018
2	Total liabilities	1,139,852	978,674
2.01	Current liabilities	820,713	800,036
2.01.01	Payroll and related taxes	16,781	13,514
2.01.01.01	Social security obligations	5,981	6,111
2.01.01.02	Payroll related obligations	10,800	7,403
2.01.02	Trade payables	560,351	549,324
2.01.02.01	Domestic suppliers	556,346	545,385
2.01.02.01.01	Domestic suppliers	556,346	545,385
2.01.02.02	Foreign suppliers	4,005	3,939
2.01.03	Taxes payable	5,109	6,823
2.01.03.01	Taxes payable - Federal	1,807	1,749
2.01.03.01.02	Withholding income tax	594	1,120
2.01.03.01.03	Taxes in installments - Law No. 12.966/14	176	172
2.01.03.01.05	Other	1,037	457
2.01.03.02	Taxes payable - State	3,276	5,067
2.01.03.02.01	State VAT - ICMS	2,956	4,574
2.01.03.02.02	Taxes in installments - State	320	493
2.01.03.03	Taxes payable - Municipal	26	7
2.01.04	Borrowings and financing	176,261	154,468
2.01.04.01	Borrowings and financing	139,060	154,468
2.01.04.01.01	In local currency	139,060	154,468
2.01.04.03	Finance lease	37,201	0
2.01.04.03.01	In local currency	37,201	0
2.01.05	Other payables	59,231	71,587
2.01.05.02	Other	59,231	71,587
2.01.05.02.01	Dividends and interest on capital payable	5,832	5,832
2.01.05.02.05	Operating lease	29,766	31,771
2.01.05.02.06	Advance for future capital increase	10,000	10,000
2.01.05.02.08	Advances from customers	6,708	17,856
2.01.05.02.10	Payables to former shareholders	2,718	2,637
2.01.05.02.11	Other payables	4,207	3,491
2.01.06	Provisions	2,980	4,320
2.01.06.02	Other provisions	2,980	4,320
2.01.06.02.05	Customer loyalty program	2,980	4,320



**Consolidated interim financial information / Balance sheet - Liabilities -  
(R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	06/30/2019	12/31/2018
2.02	Noncurrent liabilities	333,736	57,720
2.02.01	Borrowings and financing	290,838	18,403
2.02.01.01	Borrowings and financing	15,510	18,403
2.02.01.01.01	In local currency	15,510	18,403
2.02.01.03	Finance lease	275,328	0
2.02.01.03.01	In local currency	275,328	0
2.02.02	Other payables	18,940	17,924
2.02.02.02	Other	18,940	17,924
2.02.02.02.03	Taxes in installments - Law No. 12.966/14	567	641
2.02.02.02.05	Dividends and interest on capital payable	11,634	11,634
2.02.02.02.06	Taxes in installments - State	746	873
2.02.02.02.07	Other	5,993	4,776
2.02.03	Deferred taxes	4,173	4,586
2.02.03.01	Deferred income tax and social contribution	4,173	4,586
2.02.04	Provisions	19,785	16,807
2.02.04.01	Provisions for social security, labor and civil risks	19,785	16,807
2.02.04.01.01	Provisions for tax risks	3,219	3,210
2.02.04.01.02	Provision for social security and labor risks	13,514	11,564
2.02.04.01.04	Provision for civil risks	3,052	2,033
2.03	Consolidated Equity	-14,597	120,918
2.03.01	Paid-in capital	282,999	282,999
2.03.02	Capital reserves	5,329	5,311
2.03.02.04	Stock options granted	5,329	5,311
2.03.04	Earnings reserves	-233	-233
2.03.04.09	Treasury shares	-233	-233
2.03.05	Retained earnings (accumulated losses)	-313,972	-178,450
2.03.06	Valuation adjustments to equity	11,279	11,279
2.03.09	Noncontrolling Interests	1	12

**Consolidated interim financial information / Statement of profit and loss - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	04/01/2019 to 06/30/2019	01/01/2019 to 06/30/2019	04/01/2018 to 06/30/2018	01/01/2018 to 06/30/2018
3.01	Revenue from sales and/or services	155,827	360,589	364,565	934,936
3.01.01	Gross revenue from sales and/or services	161,328	373,990	395,339	1,003,753
3.01.02	Deductions from gross revenue	-5,501	-13,401	-30,774	-68,817
3.02	Cost of sales and/or services	-110,957	-266,445	-256,884	-647,578
3.03	Gross profit (loss)	44,870	94,144	107,681	287,358
3.04	Operating income (expenses)	-105,244	-205,590	-146,222	-310,430
3.04.01	Selling expenses	-54,698	-108,234	121,249	-244,606
3.04.02	General and administrative expenses	-30,410	-60,292	-18,132	-48,355
3.04.02.01	Management fees	-707	-1,415	-1,669	-4,425
3.04.02.02	Profit sharing - Management	-6	-18	-17	-42
3.04.02.04	Other	-29,697	-58,859	-16,446	-43,888
3.04.04	Other operating income	3,513	7,624	4,350	7,914
3.04.05	Other operating expenses	-23,649	-44,688	-11,191	-25,383
3.04.05.01	Depreciation and amortization	-20,735	-41,060	-9,076	-18,197
3.04.05.02	Other	-2,914	-3,628	-2,115	-7,186
3.05	Profit (loss) before finance income (costs) and taxes	-60,374	-111,446	-38,541	-23,072
3.06	Finance income (costs)	-10,121	-22,315	-15,525	-27,964
3.06.01	Finance income	1,155	2,441	16,046	17,752
3.06.02	Finance costs	-11,276	-24,756	-31,571	-45,716
3.07	Profit (loss) before taxes on income	-70,495	-133,761	-54,066	-51,036
3.08	Income tax and social contribution	0	0	17,338	15,718
3.08.01	Current	0	0	10,579	0
3.08.02	Deferred	0	0	6,759	15,718
3.09	Profit (loss) from continuing operations	-70,495	-133,761	-36,728	-35,318
3.10	Profit (loss) from discontinued operations	-1,196	-1,772	-932	-1,022
3.10.01	Profit/loss from discontinued operations	-1,196	-1,772	-932	-1,022
3.11	Consolidated profit/loss for the period	-71,691	-135,533	-37,660	-36,340
3.11.01	Attributable to the Company's owners	-71,685	-135,522	-37,657	-36,337
3.11.02	Attributable to noncontrolling interests	-6	-11	-3	-3
3.99	Earnings (loss) per share (R\$/share)				
3.99.01	Basic earnings (loss) per share				
3.99.01.01	Common share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.01.02	Preferred share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.02	Diluted earnings (loss) per share				
3.99.02.01	Common share	-2.68626	-5.07840	-1.41111	-1.36166
3.99.02.02	Preferred share	-2.68663	-5.07840	-1.41031	-1.36090

**Consolidated interim financial information / Statement of comprehensive loss - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	04/01/2019 to 06/30/2019	01/01/2019 to 06/30/2019	04/01/2018 to 06/30/2018	01/01/2018 to 06/30/2018
4.01	Consolidated profit (loss) for the period	-71,691	-135,533	-37,660	-36,340
4.02	Other comprehensive income	0	0	-271	-437
4.03	Consolidated comprehensive income (loss) for the period	-71,691	-135,533	-37,931	-36,777
4.03.01	Attributable to the Company's owners	-71,685	-135,522	-37,928	-36,774
4.03.02	Attributable to noncontrolling interests	-6	-11	-3	-3

## Consolidated interim financial information / Statement of cash flows - (R\$ thousand) - Indirect Method

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	01/01/2019 to 06/30/2019	01/01/2018 to 06/30/2018
6.01	Net cash provided by operating activities	-19,126	26,957
6.01.01	Cash provided by operations	-54,933	-10,694
6.01.01.01	Profit (loss) before income tax and social contribution	-133,761	-51,036
6.01.01.02	Depreciation and amortization	41,265	18,668
6.01.01.03	Allowance for expected credit losses	-2,287	5,535
6.01.01.04	Gain (loss) on write-off and sale of property and equipment and investment	374	582
6.01.01.05	Finance charges on borrowings and obligations	22,680	26,916
6.01.01.06	Stock option plan	18	42
6.01.01.08	Other operating provisions	13,803	809
6.01.01.09	Allowance for inventory losses	-464	0
6.01.01.10	Impairment losses	3,439	-12,210
6.01.02	Changes in assets and liabilities	35,807	37,651
6.01.02.01	Trade receivables - customers	17,512	-3,593
6.01.02.02	Inventories	37,699	133,822
6.01.02.03	Other receivables	-15,504	-11,546
6.01.02.04	Trade payables	11,027	-61,436
6.01.02.06	Payment of interest on borrowings and financing	-389	-8,539
6.01.02.08	Other operating liabilities	-12,809	-9,407
6.01.02.09	Cash flows from operations and discontinued operations	-1,729	-1,650
6.02	Net cash provided by investing activities	-5,896	-35,878
6.02.01	Purchase of property and equipment and intangible assets	-5,936	-36,083
6.02.02	Proceeds from sales of fixed assets	40	205
6.03	Net cash provided by financing activities	-48,590	-10,824
6.03.01	Advance for future capital increase	0	10,000
6.03.03	Borrowings and financing	16,640	24,034
6.03.05	Repayment of borrowings and financing	-66,444	-44,285
6.03.07	Cash flow from Investment of Discontinued Operations	1,214	-573
6.05	Increase (decrease) in cash and cash equivalents	-73,612	-19,745
6.05.01	Cash and cash equivalents at the beginning of the period	95,423	68,943
6.05.02	Cash and cash equivalents at the end of the period	21,811	49,198

**Consolidated interim financial information / Statement of changes in equity DMPL-01/01/2019–06/30/2019 - (R\$ thousand)**

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	Paid-in	Capital reserves, stock options granted and treasury shares	Earnings reserves	Retained earnings or accumulated losses	Other comprehensive income (loss)	Equity	Noncontrolling interests	Consolidated equity
5.01	Opening balances	282,999	5,078	0	-178,450	11,279	120,906	12	120,918
5.03	Adjusted opening balances	282,999	5,078	0	-178,450	11,279	120,906	12	120,918
5.04	Capital transactions with shareholders	0	18	0	0	0	18	0	18
5.04.03	Options granted recognized	0	18	0	0	0	18	0	18
5.05	Total comprehensive income (loss)	0	0	0	-135,522	0	-135,522	-11	-135,533
5.05.01	Profit (loss) for the period	0	0	0	-135,522	0	-135,522	-11	-135,533
5.07	Closing balances	282,999	5,096	0	-313,972	11,279	-14,598	1	-14,597

**Consolidated interim financial information / Statement of changes in equity - DMPL-01/01/2018–06/30/2018 (R\$ thousand)**

(Free translation from the original issued in Portuguese, In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	Paid-in	Capital reserves, stock options granted and treasury shares	Earnings reserves	Retained earnings or accumulated losses	Other comprehensive income (loss)	Equity	Noncontrolling interests	Consolidated equity
5.01	Opening balances	282,999	5,011	123,280	0	10,732	422,022	36	422,058
5.03	Adjusted opening balances	282,999	5,011	123,280	0	10,732	422,022	36	422,058
5.04	Capital transactions with shareholders	0	42	0	0	0	42	0	42
5.04.03	Options granted recognized	0	42	0	0	0	42	0	42
5.05	Total comprehensive income (loss)	0	0	0	-36,337	-437	-36,774	-3	-36,777
5.05.01	Profit (loss) for the period	0	0	0	-36,337	0	-36,337	-3	-36,340
5.05.02	Other comprehensive income	0	0	0	0	-437	-437	0	-437
5.05.02.01	Adjustments to financial instruments	0	0	0	0	-437	-437	0	-437
5.07	Closing balances	282,999	5,053	123,280	-36,337	10,295	385,290	33	385,323

**Consolidated interim financial information / Statement of value added - (R\$ thousand)**

(Free translation from the original issued in Portuguese, In the event of any discrepancies, the Portuguese language version shall prevail.)

Account	Description	01/01/2019 to 06/30/2019	01/01/2018 to 06/30/2018
7.01	Revenue	380,707	1,006,199
7.01.01	Sales of goods, products and services	375,330	1,003,615
7.01.02	Other income	7,664	8,119
7.01.04	Allowance/Reversal of allowance for expected credit losses	-2,287	-5,535
7.02	Inputs acquired from third parties	-372,621	-832,181
7.02.01	Cost of products, goods and services rendered	-273,691	-670,903
7.02.02	Materials, electric power, outside services and other	-98,516	-161,065
7.02.04	Other	-414	-213
7.02.04.02	Other operating expenses	-414	-213
7.03	Gross value added	8,086	174,018
7.04	Retentions	-43,037	-19,692
7.04.01	Depreciation, amortization and depletion	-41,265	-18,670
7.04.02	Other	-1,772	-1,022
7.04.02.01	Loss from discontinued operations	-1,772	-1,022
7.05	Net wealth created	-34,951	154,326
7.06	Wealth received in transfer	2,441	2,895
7.06.02	Finance income	2,441	2,895
7.07	Total wealth for distribution	-32,510	157,221
7.08	Wealth distributed	-32,510	157,221
7.08.01	Personnel	59,999	92,795
7.08.01.01	Salaries and wages	38,982	57,270
7.08.01.02	Benefits	14,190	17,285
7.08.01.03	Severance Pay Fund (FGTS)	4,578	5,681
7.08.01.04	Other	2,249	12,559
7.08.02	Taxes and contributions	16,451	38,966
7.08.02.01	Federal	6,200	1,237
7.08.02.02	State	6,871	33,370
7.08.02.03	Municipal	3,380	4,359
7.08.03	Lenders and lessors	26,573	61,800
7.08.03.01	Interest	18,191	25,152
7.08.03.02	Rentals	2,476	31,175
7.08.03.03	Other	5,906	5,473
7.08.03.03.01	Finance costs	5,906	5,473
7.08.04	Shareholders	-135,533	-36,340
7.08.04.03	Retained earnings / Loss for the period	-135,522	-36,337
7.08.04.04	Noncontrolling interests in retained earnings	-11	-3

## DEAR SHAREHOLDERS,

Saraiva Livreiros S.A. - Under Judicial Reorganization ("Company") (B3: SLED3 and SLED4), controller of Saraiva e Siciliano S.A. - Under Judicial Reorganization ("Varejo"), one of the largest retailers in content focused on culture and education in Brazil, announces its financial results for the second quarter and six-month period ended June 30, 2019 ("2Q19" and "1H19", respectively).

The financial information contained herein refers to the quarter ended June 30, 2019, and the comparisons are made in relation to the same period last year unless otherwise stated.

The financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) and accounting practices adopted in Brazil.

Any non-accounting information or information derived from non-accounting figures has not been reviewed by the independent auditors.

## Judicial Reorganization Process

On November 18, the Company filed a request for judicial reorganization with the 2<sup>nd</sup> Bankruptcy and Judicial Recovery Court of the Judicial District of São Paulo, in the State of São Paulo, in order to reorganize the obligations with its creditors. We opted for this move due to the need to seek protection for the rescheduling of Saraiva's liabilities with its suppliers, thus, guaranteeing the continuity of the operation.

The economic crisis that began in 2015 was one of the most challenging periods in the country's recent economic history, with significant repercussions on the Company's operations and largely contributed to the need for the request for judicial reorganization.

In recent years, the Company has adopted several initiatives to reverse the negative effects caused by the economic crisis: at the end of 2015, it completed the sale of its publishing segment and, with the persistent scenario of economic crisis in the following years, implemented a robust project of transformation, which led to the achievement, at the beginning of 2018, of growth in gross sales and market share in the categories of Books, Games, Telephony and in the Back to Class segment. Other emergency measures were taken in early November 18, in the development of a restructuring plan designed to make the operation lean, dynamic and aimed at obtaining operational profitability and strengthening the Cash.

However, the impacts caused by the economic crisis, associated with the effects of events in time, such as the increase below expectations in the average price of books, the shrinkage of some segments of products that had significant representation in the billing, the difficulties we faced for the realization of tax credits and in contracting new lines of credit, in addition to other events relevant to the operation, as the reduction in revenues due to difficulties in the implementation of a new internal management system, compromised the achievement of the desired results, which undermined the Company's prospect of meeting its short-term obligations.

Due to the worsening of this situation, we believe that the presentation of the request for judicial reorganization was the most appropriate measure in the context of the crisis in the publishing market, which reflects the country's economic scenario. The purpose of the transaction is to protect the cash, making the Company regain its stability and, subsequently, its economic growth, as well as guarantee the preservation of the continuity of its operation.

With the approval of the request for judicial reorganization, the Company intensified negotiations with its main creditors in order to establish commercial conditions and payment models that could facilitate common interests, mainly aiming at the successful approval of the judicial reorganization plan, in addition to implementing several actions to ensure the sustainability of the business, during and after the period prior to the approval of the plan.

In this respect, we can highlight:

- **Product supply:** Over the last few months, the Company has entered into a contract addendum with the suppliers, guaranteeing the resumption of product supply, including on consignment, with this action, the Company has active contracts with suppliers who represented most of the book sale estimated, and that should ensure supplies and assortment in the coming months. The result of the measure was positive and there was no reduction in the expected supply levels.
- **Release of receivables:** In March 2019, the Company concluded the negotiation with Banco Itaú for the release of R\$31 million in credit card receivables that guaranteed the payments of financial operations, allowing the Company to have access to a large part of the billing. Negotiations with Banco do Brasil are in progress and the Company expects that alternatives will be found that will benefit Saraiva's cash.



- **Reduction of operating expenses:** The restructuring plan, which began in November 2018, already showed important results in 2019. With sales realized in line with the Company's expectation, we observed a reduction of more than 30% in relation to the same period of 2018, demonstrating the potential success of the recovery process.
- **Consolidated image and market leadership:** Despite the impacts of successive crises, the Company maintains its strengthened image and leadership in some segments of the book market, evidenced by the success in negotiations with suppliers of the book category, who value the success of Saraiva in the judicial reorganization process.

The results of the above actions, together with the restructuring of the operation, including the adjustment of its product mix, reduction of operating expenses and adjustments in the number of stores, confirm the Company's operational feasibility. Saraiva expects that the General Creditors Meeting to be held on August 23, 2019 will approve the Judicial Reorganization Plan. The Company will maintain its stakeholders updated on this matter.

## Message from Management

---

In the face of the economic crisis that has been affecting the book market for four years, coupled with an accumulation of tax credits and a closed financial system, we understand that the **efforts and searches for alternatives** made in recent periods **were not sufficient to reverse the scenario**. Therefore, we are **making abrupt changes throughout Saraiva's structure in order to** raise the operational and financial level, so that they were consistent with the projection presented in the judicial reorganization plan report and that would assist in **the Company's continuity**.

These changes in the **Omnichannel** are focused on enhancing the results of our stores and e-commerce operations, improving our **Category Management** in order to reduce our tax credits and increase our cash generation, mainly focusing on Books, and on our **Organizational Restructuring** that will improve productivity, which, along with the strength of the Saraiva brand, will contribute to the Company's future.

**Re-adjustment of the product mix: We discontinued the categories that had lower profitability and increased demand for working capital**, such as Technology, including Computer items (excluding minor accessories), Telephony (excluding minor accessories), Technical Assistance and Adventure and Leisure. The Technology categories consumed 44% of the Company's Working Capital, but contributed with only 18% of Gross Profit and 5% of Margin Contribution, damaging our profitability.

**Reduction of Operating Expenses:** As a result of the change in the product mix and the extremely delicate financial situation of the Company, we made decisions aimed at the evolution of the operation, including reduction in the number of employees, renegotiation and review of our main contracts with service providers, reduction of scope with prioritization of alternatives with higher cost/benefit ratio, and revisions and optimizations in the logistics network, adapting our supply system to the new product mix.

**Restructuring of the Number of Stores: Prioritizing higher-yielding units with EBITDA greater than 5.0%**, we restructured our fleet of stores, closing down stores with a low value generation perspective that did not fit the Company's new product mix. In the quarter, we evolved in terms of **negotiations with shopping malls** where, through partnerships, we **optimized the areas** of our units. In line with our discussions with several stakeholders, we are also defining a new standard service model for Saraiva, **focused on customer experience and conversion into sales**.

**Migration to a new e-commerce platform:** We are reassessing our e-commerce sales projections for the coming quarters since we have seen a resilient recovery of online sales, due mainly to higher competition in the bookstore category with the entry of new players in the marketplace model. In addition, sales in our e-commerce channel, one of the most significant in the country, covering the entire national territory, were also negatively impacted by instabilities in our e-commerce and therefore recorded performances below our expectations. In order to mitigate the inconsistencies of e-commerce channel, we began in April 2019, the **implementation of a new e-commerce platform**, which has a lighter, more agile and stable system than the one currently used and will contribute with improvements in performance and increases in the website visits. This new platform also optimizes the process of including partners in our own marketplace, where we will continue to offer **Technology product categories**, which include items such as **Telephony and Computer items**. Our own marketplace, where **partner stores sell and have the opportunity to expose their products to our website visitors**, operates through an agile methodology, and is part of Saraiva's strategy to provide a complete experience to our customers with a greater variety of products and services that relate to and complement our DNA.

**Product Supply:** Following the filing for judicial reorganization, the Company, with the support and partnership of our suppliers, began an extensive process to standardize the supply of products of all categories, with a greater focus on Books, our main line of business. Through agreements that had the adhesion of the majority of our suppliers, we are **gradually normalizing our supply**, albeit with adjustments in the volume, in physical stores and e-commerce, enabling the necessary return of our operation.

Even with the changes mentioned, **we will maintain our goal to offer the best experience to our customers**. We will continue to evolve our platform, one of the most sophisticated in the market, always seeking the best customer ratings, such as **online to Store actions through curation initiatives** implemented in all stores and fairs, with own curatorship in each of the units, according to stock availability, with cheap and fast replacement, and also implemented in our e-commerce where, for example, we have influencer curators (*booktubers*, authors etc.) who recommend 10 chosen titles and explain their choices in video.

In spite of the substantial market challenge ahead of us, **we are fully confident in the growth and recovery of the book market in Brazil**. Considering we already see a recovery in other relevant sectors of the national retail market, in addition to recent releases that show an improvement in important economic indicators, we now face a scenario that favors the prospect of recovery for our main sectors of activity.

We have made the necessary adjustments to reverse the negative scenario and ensure the Company's sustainability. Through our main initiatives **to readjust the product mix, reduce expenses**, gather the **support of specialized consultancies** and the **strength of the Saraiva brand**, we are convinced that we will surpass this process.

## HIGHLIGHTS

---

§ 26.1% decrease in Recurring Operating Expenses

§ Improvement of 12 days in Accounts Receivable when compared to 2Q18

§ Progress in our strategy to position the Company as an omnichannel operation:

- Click & Collect service, through which customers shop on our E-commerce channel and pick up their purchases at one of our stores, Currently, around 18,1% of the online orders are placed in under this model;

§ In March 2019, Saraiva Plus program had 17.3 million registered customers and around 69% of our revenue identified. Currently 90% of active customers (with purchases in the last 12 months) are participants of the program.

§ Closing of 5 stores with a low value generation perspective.

# Main Indicators

Table 1. Main Indicators (R\$'000, unless otherwise specified)

Consolidated	2Q19	2Q18	Y/Y	1Q19	Q/Q	1H19	1H18	Y/Y
Gross Revenue ( <i>Stores + E-commerce</i> ) <sup>1</sup>	161,328	395,339	-59.2%	212,662	-24.1%	373,990	1,003,753	-62.7%
Store Sales	105,443	243,567	-56.7%	130,826	-19.4%	236,269	597,705	-60.5%
E-commerce Sales	55,885	151,772	-63.2%	81,836	-31.7%	137,721	406,048	-66.1%
Net Revenue ( <i>Stores + E-commerce</i> ) <sup>1</sup>	155,827	364,565	-57.3%	204,762	-23.9%	360,589	934,936	-61.4%
Store Sales	102,331	227,973	-55.1%	126,040	-18.8%	228,371	563,611	-59.5%
E-commerce Sales	53,496	136,592	-60.8%	78,722	-32.0%	132,218	371,326	-64.4%
Gross Profit	44,870	107,681	-58.3%	49,274	-8.9%	94,144	287,358	-67.2%
Gross Margin (%)	28.8%	29.5%	-0.7 p.p.	24.1%	4.7 p.p.	26.1%	30.7%	-4.6 p.p.
Operating Expenses <sup>2</sup>	(101,293)	(137,146)	-26.1%	(96,369)	5.1%	(197,662)	(292,233)	-32.4%
Recurring Operating Expenses <sup>2 3</sup>	(101,293)	(137,146)	-26.1%	(96,369)	5.1%	(197,662)	(288,668)	-31.5%
EBITDA	(56,423)	(29,465)	91.5%	(47,095)	19.8%	(103,518)	(4,875)	>500%
EBITDA Margin (%)	-36.2%	-8.1%	-28.1 p.p.	-23.0%	-13.2 p.p.	-28.7%	-0.5%	-28.2 p.p.
Adjusted EBITDA <sup>2 3</sup>	(56,423)	(29,465)	91.5%	(47,095)	19.8%	(103,518)	(1,309)	>500%
Adjusted EBITDA Margin (%) <sup>2</sup>	-36.2%	-8.1%	-28.1 p.p.	-23.0%	-13.2 p.p.	-28.7%	-0.1%	-28.6 p.p.
Adjusted Net Income (Loss) before Disc, Operations <sup>3</sup>	(70,489)	(36,725)	91.9%	(63,261)	11.4%	(133,750)	(32,962)	305.8%
Adjusted Net Margin (%) before Disc, Operations <sup>3</sup>	-45.2%	-10.1%	-35.2 p.p.	-30.9%	-14.3 p.p.	-37.1%	-3.5%	-33.6 p.p.
Net results from Discontinued Operations	(1,196)	(932)	28.3%	(576)	107.6%	(1,772)	(1,022)	73.4%
Adjusted Net Income (Loss) <sup>3</sup>	(71,685)	(37,657)	90.4%	(63,837)	12.3%	(135,522)	(33,984)	298.8%
Adjusted Net Margin (%) <sup>3</sup>	-46.0%	-10.3%	-35.7 p.p.	-31.2%	-14.8 p.p.	-37.6%	-3.6%	-33.9 p.p.
Net Income (Loss)	(71,685)	(37,657)	90.4%	(63,837)	12.3%	(135,522)	(36,337)	273.0%
Net Margin (%)	-46.0%	-10.3%	-35.7 p.p.	-31.2%	-14.8 p.p.	-37.6%	-3.9%	-33.7 p.p.
SSS - Same Store Sales Growth (%)	-46.4%	-4.6%	-41.8 p.p.	-60.3%	13.9 p.p.	-52.2%	0.4%	-52.6 p.p.
E-Commerce Sales Growth	-63.2%	2.5%	-65.7 p.p.	-67.8%	4.6 p.p.	-66.1%	19.4%	-85.5 p.p.
Number of Stores – End of Period	74	104	-28.8%	79	-6.3%	74	104	-28.8%
Sales Area – End of Period (m <sup>2</sup> )	49,469	60,420	-18.1%	51,935	-4.7%	49,469	60,420	-18.1%

Note 1: Includes the "Saraiva Entrega" revenue in the Physical Stores results,

Note 2: Includes the Depreciation and Interest accounts (CPC 06 (R2) - IFRS 16) of R\$ 16,8 million in 2Q19 and R\$ 33,1 million in 1H19,

Note 3: Excludes the impact of non-recurring and extraordinary restructuring expenses to increase productivity: R\$3,6 million in 1H18,

## RESULTS

---

**REVENUE** – Gross revenue totaled R\$ 161.3 million in 2Q19, down 59.2% when compared to 2Q18. Net revenue followed the same trend, decreasing 57.3% in the quarter. It should be noted that a portion of the reduction in sales is explained by the initiation of the Company's restructuring process, which includes the discontinuation of the Technology category, the supply that is still being normalized, a decrease in the number of physical stores, and a significant reduction in revenues due to stability problems of our online channel.

**PHYSICAL STORES REVENUE** – In 2Q19, gross revenue from physical stores reached R\$ 105,4 million, which represents a 56.7% decrease over the same periods of the previous year. In terms of comparable stores, we had a decrease of 46.4%. Along similar lines, net revenue reduced 55.1%.

**E-COMMERCE REVENUE** – In 2Q19, gross sales and net sales of our website Saraiva.com decreased 63.2% and 60.8%, respectively, when compared to the same period last year. Sales in our e-commerce channel, one of the most significant in the country, covering the entire national territory, were strongly and negatively impacted by instabilities in our e-commerce, which are being solved and will be eliminated with the new e-commerce platform, which has a lighter, more agile and stable system than the one currently used. In addition to reassessing our projections for the coming quarters, we have seen a resilient recovery of online sales, due mainly to higher competition in the bookstore category with the entry of new players in the marketplace model.

**GROSS PROFIT** – Gross profit, despite the reduction of 58.3% in 2Q19, presented a stable margin, which went from 29.5% in 2Q18 to 28.8% in 2Q19. During the quarter, we adopted the strategy of discontinuing products that had lower margins, depreciating the gross result of the period. During the first quarter, we remained discontinuing products with lower margins, which strongly impacted the gross result.

We continue to invest in new tools, particularly a new dynamic pricing system for e-commerce, aimed at contributing to increased sales and better management of gross margin. Moreover, we will focus on our book business, which has margins higher than the other categories being discontinued.

**OPERATING EXPENSES** – The recurring operating expenses totaled R\$101.3 million in 2Q19, representing a strong decrease of 26.1% in the quarter as a response to the Company's recent initiatives. It is important to mention that we remain focused on rationalizing our expenses in order to improve results, and we are already reaping the gains of the measures recently taken. We continue to make ongoing adjustments to our structure, always aiming for improvements in performance and productivity that solidify the basis for the Company's recovery.

**EBITDA** – EBITDA, strongly affected by the discontinuation of the Technology category, the supply that is still being normalized, and the significant reduction in revenues due to stability problems of our online channel, totaled a negative R\$56.4 million in 2Q19.

**Table 2. EBITDA (R\$'000, unless otherwise indicated)**

Consolidated	2Q19	2Q18	Y/Y	1Q19	Q/Q	1H19	1H18	Y/Y
<b>Net Income (Loss)</b>	<b>(71,685)</b>	<b>(37,657)</b>	<b>90,4%</b>	<b>(63,837)</b>	<b>12,3%</b>	<b>(135,522)</b>	<b>(36,337)</b>	<b>273,0%</b>
(+) Financial Result <sup>1</sup>	3,667	15,525	-76.4%	5,795	-36.7%	9,462	27,964	-66.2%
(+) Income Tax / Social	-	(17,338)	-100.0%	-	-	-	(15,718)	-100.0%
(+) Depreciation Amortization <sup>1</sup>	10,405	9,076	14.6%	10,376	0.3%	20,781	18,197	14.2%
(+) Net Income from Discontinued Oper./Other	1,190	929	28,1%	571	108,4%	1,761	1,019	72,8%
<b>EBITDA<sup>1</sup></b>	<b>(56,423)</b>	<b>(29,465)</b>	<b>91,5%</b>	<b>(47,095)</b>	<b>19,8%</b>	<b>(103,518)</b>	<b>(4,875)</b>	<b>&gt;500%</b>
<i>EBITDA Margin (%)</i>	-36.2%	-8.1%	-28.1 p.p.	-23,0%	-13.2 p.p.	-28.7%	-0.5%	-28.2 p.p.
(+) Non-Recurring Expenses <sup>2</sup>	-	-	-	-	-	-	3,565	-100.0%
<b>Adjusted EBITDA</b>	<b>(56,423)</b>	<b>(29,465)</b>	<b>91,5%</b>	<b>(47,095)</b>	<b>19,8%</b>	<b>(103,518)</b>	<b>(1,309)</b>	<b>&gt;500%</b>
<i>Adjusted EBITDA Margin (%)</i>	-36.2%	-8.1%	-28.1 p.p.	-23,0%	-13.2 p.p.	-28.7%	-0.1%	-28.6 p.p.

Note 1, Includes the Depreciation and Interest accounts (CPC 06 (R2) - IFRS 16) of R\$ 16,8 million in 2Q19 and R\$ 33,1 million in 1H19,

Note 2, Excludes the impact of non-recurring and extraordinary restructuring expenses to increase productivity: R\$3,6 million in 1H18,

**WORKING CAPITAL\*** – The average term of accounts receivable went from 57 days in 2Q18 to 45 days in 2Q19. The average inventory coverage period decreased by 8 days, from 109 days in 2Q18 to 101 days in 2Q19. The supplier payment term reached 383 days in 2Q19, when compared to 107 days in 2Q18.

\* to calculate the operating cycle days, we used the average of the last 12 months

**NET FINANCIAL REVENUE (EXPENSES)** – Net financial result, excluding the impact of the accounting change due to the CPC 06 (R2) - IFRS 16, was an expense of R\$ 3,7 million in 2Q19, representing a reduction of 76.4% when compared to 2Q18.

**NET INCOME (LOSS) FOR THE PERIOD** – Net Loss before the results of discontinued operations reached R\$ 70.5 million in 2Q19.

**INVESTMENTS (CAPEX)** – The investments made totaled R\$ 5,2 million in 2Q19 versus R\$ 15,7 million in 2Q18, confirming the reduction indicated by the Company. It's worth to mention that the major part of the investments was directed to the implementation of a new e-commerce platform, which has a lighter, more agile and stable system.

**LIQUIDITY** – According to the guidelines of the ongoing Judicial Reorganization process, the payment flows of the Company's financing lines were paralyzed after the filing of the application.

The current balance of the Company's obligations with financial institutions is currently under negotiation with Banco do Brasil. It is important to note that during this process, the Company has a portion of its bank cash position blocked due to Legal Deposits.

On June 30, 2019, the total balance of available cash, blocked cash and credit card receivables totaled R\$79.5 million, against R\$134.3 million on March 31, 2019, mainly explained by lower sales and the discontinuation of the Technology category.

The table below presents the Saraiva's consolidated net debt, which totaled R\$135.5 million on June 30, 2019, versus R\$116.7 million on March 31, 2019, and R\$249.5 million on June 30, 2018. If we consider credit card receivables, net debt came to R\$103.8 million on June 30, 2019, versus R\$52.2 million on March 31, 2018, and R\$59.0 million on June 30, 2018.

**Table 4. Evolution of the main CONSOLIDATED debt indicators monitored by the Company (R\$'000)**

<b>Consolidated</b> <sup>1 2</sup>	<b>2Q19</b>	<b>2Q18</b>	<b>Y/Y</b>	<b>1Q19</b>	<b>Q/Q</b>
<b>Transaction Type</b>					
Loans and Financing	154,570	296,187	-47.8%	153,688	0.6%
(+) Acquisition Obligations	2,718	2,557	6.3%	2,677	1.5%
(-) Cash and Cash Equivalents / Financial Investments	21,811	49,215	-55.7%	39,681	-45.0%
<b>Consolidated Net Debt Before Receivables</b>	<b>135,477</b>	<b>249,529</b>	<b>-45.7%</b>	<b>116,684</b>	<b>16.1%</b>
(-) Credit Card Receivables	31,664	190,480	-83.4%	64,473	-50.9%
<b>Consolidated Net Debt After Receivables</b>	<b>103,813</b>	<b>59,049</b>	<b>75.8%</b>	<b>52,212</b>	<b>98.8%</b>

Note 1: Excludes the impact of CPC 06 (R2) - IFRS 16),

Note 2: "Receivables Prepayment" (R\$ 1,2 million in 2Q19, R\$7,4 million in 1Q19, , and 71,8 million in 2Q18),

**OUR STORES** – Saraiva closed 2Q19 with 74 stores in 17 Brazilian States and in the Federal District. In line with our strategy of prioritizing assets that have stronger value creation potential and the recent initiatives, we closed 5 stores until June 30, 2019.

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

## SARAIVA LIVREIROS S.A. - UNDER JUDICIAL REORGANIZATION AND SUBSIDIARY

### NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE QUARTER ENDED JUNE 30, 2019

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

---

#### **1. GENERAL INFORMATION**

Saraiva Livreiros S.A. – under judicial reorganization (“Parent Company”) is a Brazilian publicly-held corporation founded in 1914 and headquartered at Rua Henrique Schaumann, 270, in the city of São Paulo, State of São Paulo, with shares traded on B3 S.A. - Brasil, Bolsa, Balcão (“B3”) under the ticker symbols SLED3 and SLED4, and Level 2 of Corporate Governance, engaged in the retail segment by means of Saraiva e Siciliano S. A. under judicial reorganization (“Varejo”).

Varejo is a Brazilian privately-held company headquartered in the city of São Paulo, State of São Paulo, controlled by the Parent, which holds a direct equity interest of 99.99% in its common shares, and primarily engaged in the retail of books, games, films, music, stationary, digital content, and e-readers. Sales are made through electronic retailing and a chain of 73 stores. Varejo also operates technology products by means of its own marketplace, integrated to the e-commerce.

In the year ended December 31, 2018, the Parent recorded loss of R\$301,730 mainly due to the current scenario of economic crisis, started in 2015, which has caused consecutive economic downturns and, consequently, contraction in consumption, strongly impacting Varejo’s operations.

On November 23, 2018, the Company filed a request for judicial reorganization to make it feasible overcoming the financial crisis while preserving the source of income and the continuity of the business. The request for judicial reorganization was approved and a trustee was appointed on November 26, 2018. On August 1, 2019, the revised Judicial Reorganization Plan submitted on February 04, 2019 was added to the tax debt refinancing process. The Company expects the Judicial Reorganization Plan to be approved on August 23, 2019, when a new Creditors Meeting will be held (Note 31).

The full documentation and other information relating to the judicial reorganization are available at the Company’s premises, on its Investors Relations website ([www.saraivari.com.br](http://www.saraivari.com.br)) and on the website of the Brazilian Securities and Exchange Commission - CVM ([www.cvm.gov.br](http://www.cvm.gov.br)).

## **2. BASIS OF PREPARATION AND PRESENTATION OF THE INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL INFORMATION**

### *Statement of compliance*

The interim financial information includes the individual and consolidated interim financial information, prepared and presented in accordance with CPC 21 - Interim Financial Reporting, and the consolidated interim financial information in accordance with CPC 21 and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Interim Financial Information (ITR). The accounting practices adopted in Brazil applied to the individual financial information do not differ from the International Financial Reporting Standards (IFRS), which has permitted entities to measure investments in subsidiaries, associates and shared-control companies in the separate financial statements using the equity method of accounting.

All information relevant for the individual and consolidated interim financial information, and only this information, is disclosed and corresponds to that used by Management in managing the operations of the Parent and Varejo.

The basis of preparation and presentation of the Parent's and Varejo's interim financial information relating to the measurement, functional currency and sources of judgment and estimates is the same as that disclosed in the financial statements for the year ended December 31, 2018 (Note 2), published on March 29, 2019.

The Executive Board's meeting held on August 14, 2019 authorized the completion and disclosure of this individual and consolidated interim financial information, which comprises, when applicable, events occurred subsequently to June 30, 2019.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The individual and consolidated interim financial information was prepared under the same accounting policies as those disclosed in the financial statements for the year ended December 31, 2018 (Note 3), published on March 29, 2019.

In the quarter ended June 30, 2019, the plot of land and the building that lodges the Parent's operating unit in Guarulhos are presented as assets held for sale for the amount of R\$21,427, equivalent to the lower of the carrying amount and the fair value less selling expenses.

The results from discontinued operations presented in the quarter comprise the residual results from operations related to the Parent's publishing segment, sold to Editora Ática S.A. in 2015.

### **New standards and interpretations issued by IASB and CPC**

Standards and amendments that are effective beginning January 01, 2019:

- IFRS 16 – Leases – CPC 06 (R2);
- IFRIC 23 – Uncertainty over income tax treatments;
- Amendments to IFRS 9 – prepayment features with negative compensation;
- Amendments to IAS 28 – Long-term interests in associates and joint ventures;



- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture.

Standard applicable to Varejo effective beginning January 01, 2019:

### **IFRS 16/CPC 06 – Leases**

Since January 01, 2019, the Company has adopted CPC 06 (R2) / IFRS 16 Leases, which introduced a single lease model that replaced the concept of classification between operating and finance leases. IFRS 16 replaced the existing standards applicable to leases, including CPC 06 / IAS 17 - Leases and ICPC 03 / IFRIC 4, SIC 15 and SIC 27 - Additional Aspects of Leases. The main objective is to define if the agreement contains a lease or the agreement relates to service provision.

The Management of the Company and its subsidiary evaluated the impacts of the new standard and elected to use the modified simplified approach of the retrospective transition effect, without restating comparative periods. The following criteria were adopted in the initial recognition and measurement of assets and liabilities:

- Recognition of the right-of-use asset on the initial application date to leases formerly classified as operating leases. The measurement of the right-of-use asset at the amount equivalent to the lease liability adjusted to present value;
- Recognition of the lease liability on the initial application date for leases formerly classified as operating leases. The lease liability was measured at the present value of the remaining lease payments.

CPC 06 (R2)/IFRS 16 includes two recognition exemptions for lessees which were applied by the Company and its subsidiary on the initial application date, January 01, 2019:

- i. Agreements whose remaining term on the first-time adoption date was equal or lower than 12 months: the Company continued to recognize lease payments associated to these leases as expenses on a straight-line basis, over the lease term;
- ii. Agreements for which underlying assets were low value: the Company continued to recognize lease payments associated to these leases as expenses on a straight-line basis, over the lease term.

The new standard defines the principles for recognition, measurement, presentation and disclosure of leases and introduces a single model to account for leases in the balance sheet for lessees. A lessee recognizes a right-of-use asset that represents their right to use the leased asset and a lease liability that represents their obligation to make lease payments, Optional exemptions are available for short-term leases and low value assets. For lessors, the accounting treatment remains unchanged; leases continue to be classified either as operating or finance leases.

Impact of the adoption of CPC 06 (R2) on the consolidated interim financial information:

	Financial statements as at 12/31/2018	Impacts of adopting IFRS16 / CPC 06(R2)	Financial statements as at 01/01/2019
<b>Assets</b>			
Current	483,634	-	483,634
Noncurrent	495,040	313,948	808,988
intangible Assets (right of use)	-	313,948	313,948
<b>Total do Assets</b>	<b>978,674</b>	<b>313,948</b>	<b>1,292,622</b>
<b>Liabilities</b>			
Current	800,036	30,108	830,144
Leases payable		30,108	30,108
Noncurrent	57,720	283,840	341,560
Leases payable		283,840	283,840
Equity	120,918	-	120,918
<b>Total do Liabilities and Equity</b>	<b>978,674</b>	<b>313,948</b>	<b>1,292,622</b>

#### 4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

##### a) Cash and cash equivalents

	Parent		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Cash and banks - hecking account	23	119	21,811	49,110
Short-term investments - cash equivalents	-	641	-	46,313
	<u>23</u>	<u>760</u>	<u>21,811</u>	<u>95,423</u>

Short-term investments consist of Bank Certificates of Deposit (CDBs), yielding interest equivalent to 70% to 75% of the Interbank Deposit Rate (CDI), immediately convertible into a known cash amount and subject to an insignificant risk of change in value.

## b) Short-term investments

Short-term investments are comprised of Bank Certificates of Deposit (CDBs) yielding the equivalent to 98% to 99.2% of the CDI which are restricted as guarantee of lawsuits.

	Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>
Short-term investments	<u>-</u>	<u>6</u>

The exposure to interest rate risks and a sensitivity analysis of financial assets and financial liabilities are disclosed in Note 27.

## 5. TRADE RECEIVABLES - CUSTOMERS

	Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>
Trade notes	10,875	10,910
Credit cards	<u>33,206</u>	<u>47,114</u>
	44,081	58,024
Allowance for expected credit losses	<u>(1,621)</u>	<u>(339)</u>
	<u>42,460</u>	<u>57,685</u>

Varejo's days sales outstanding (trade notes receivable) is 45 days (55 days at December 31, 2018). Trade receivables, represented by credit cards, are primarily distributed among the following acquirers: Private Label, Rede and Cielo.

Management did not recognize the adjustment to present value, since all transactions are short term and the effect of such adjustments is considered immaterial when compared to the financial statements taken as a whole.

Maximum exposure to credit risk at the end of each reporting period is the carrying amount of each aging range.

Aging list of receivables

	Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>
Current	39,463	53,693
Past due	<u>4,618</u>	<u>4,331</u>
	<u>44,081</u>	<u>58,024</u>

Trade receivables from Varejo customers are mostly represented by credit and debit card receivables whose losses are originated by sales cancellations or charge back, either because the transaction is not recognized by the cardholder or due to fraud involving the use of cards. Estimated losses on credit card receivables are calculated on sales, based on historical losses, and adjusted as receivables are collected. An allowance for expected credit losses is recognized based on the likelihood of collection and its calculation considers receivables more than 180 days past due and objective evidence of insolvency, default our delays on the part of the debtor. No other significant losses were identified in analyzing impairment of receivables.

Amount charged to profit and loss:

	Consolidated			
	04/01/19 a 06/30/19	01/01/19 a 06/30/19	04/01/18 a 06/30/18	01/01/18 a 06/30/18
Estimated loss on trade receivables	-	-	-	(107)
Effective loss on trade receivables and credit cards	(1,798)	(2,291)	(3,299)	(5,454)
Recovery of trade receivables considered uncollectible	4	4	6	26
	<u>(1,794)</u>	<u>(2,287)</u>	<u>(3,293)</u>	<u>(5,535)</u>

## 6. INVENTORIES

	Consolidated	
	06/30/19	12/31/18
Goods for resale	121,391	173,147
Packaging materials and consumables	1,959	1,704
	<u>123,350</u>	<u>174,851</u>

### Loss on obsolescence of inventories

Losses on obsolescence of Varejo's transactions are estimated for groups of similar inventory items in which there was evidence that the net value of realization of goods, due to sales made in the normal course of business, will be lower than the cost value, due to impairment, obsolescence, low turnover or slow moving according to the criteria established by the policy relating to losses on obsolescence of inventories.

The actions adopted by Management in 2018 to increase profitability and strengthen cash included an important adjustment to the mix of products, with the focus remaining on the books segment and technology categories (information technology, telephony, technical assistance and leisure) being discontinued. The strategy to realize the inventory of technology items required a revision to the estimate of loss for such inventory in the six-month period ended June 30, 2019.

Goods for resale are presented net of losses on obsolescence of inventories in the amount of R\$37,805 as of June 30, 2019 (R\$24,002 at December 31, 2018).

## 7. RECOVERABLE TAXES

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Social Contribution to Finance				
Social Security - COFINS (ii)	1,743	1,744	132,571	127,655
Social Integration Program - PIS (ii)	37	39	27,565	26,485
Corporate Income Tax - IRPJ	2,817	2,745	22,681	26,210
Social Contribution				
on Net Profit - CSLL	1,994	2,216	14,234	14,154
State VAT - ICMS				
Recoverable ICMS (i)	-	-	91,801	97,383
Other	179	179	261	261
	<u>6,770</u>	<u>6,923</u>	<u>289,113</u>	<u>292,148</u>
Current assets	179	179	97,001	97,976
Noncurrent assets	<u>6,591</u>	<u>6,744</u>	<u>192,112</u>	<u>194,172</u>
	<u>6,770</u>	<u>6,923</u>	<u>289,113</u>	<u>292,148</u>

- (i) ICMS and ICMS ST on Varejo's business and supply operations. There are ongoing actions addressed to the São Paulo State's Treasury Department, where the retail supply operations are centralized, with a view to recover credits accumulated through e-CredAc costing system, under the prevailing RICMS-SP legislation, in the amount of R\$67,922, net of loss at realizable value of R\$2,100. With the reduction in the mix of products offered by Varejo taxed by ICMS, beginning the last quarter of 2018, there will be a substantial reduction in the accrued amounts of tax credits, In the year ended December 31, 2018, impairment losses were estimated and provided for in the amount of R\$20,169;
- (ii) Represented substantially by credits from PIS/Cofins contributions, originating from Varejo's operations, in the amount of R\$158,356 (R\$152,357 at December 31, 2018) recognized on purchases of goods and services, inputs and expenses, under the prevailing legislation, between 2014 and 2019, which, through the current reporting date, had not been offset against the amount due and paid of the respective contributions.

## 8. INCOME TAX AND SOCIAL CONTRIBUTION

### a) Deferred income tax and social contribution

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Noncurrent assets:				
Provisions for taxes and contributions payable	-	-	359	1,583
Provision for Tax, civil and labor risks	1,640	1,227	5,632	3,441
Provision for cost of sales of goods held on consignment	-	-	9,330	3,987
Impairment losses	-	-	8,809	16,737
Other provisions	-	-	4,741	1,468
	<u>1,640</u>	<u>1,227</u>	<u>28,871</u>	<u>27,216</u>
Noncurrent liabilities:				
Tax amortization of goodwill on business acquisitions	-	-	21,214	21,214
Deemed cost of property, plant and equipment - 'land'	5,810	5,810	5,810	5,810
Finance lease	-	-	6,017	4,775
Other	3	3	3	3
	<u>5,813</u>	<u>5,813</u>	<u>33,044</u>	<u>31,802</u>
	<u>(4,173)</u>	<u>(4,586)</u>	<u>(4,173)</u>	<u>(4,586)</u>
Noncurrent liabilities	<u>(4,173)</u>	<u>(4,586)</u>	<u>(4,173)</u>	<u>(4,586)</u>

The realization of deferred tax assets recognized in Parent and Varejo on temporary differences was considered up to the limit of deferred tax liabilities recognized on temporary differences.

Tax credits arising from income tax and social contribution calculated, respectively, on Varejo's social contribution tax loss carryforwards were reversed since there is no history of taxable income, under CPC 32 - Income taxes.

b) Reconciliation of effective income tax and social contribution expense

	Parent		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Accounting loss before income tax and social contribution	(133,750)	(35,315)	(133,761)	(51,036)
Combined tax rate	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>
Income tax and social contribution at the combined tax rate	45,475	12,007	45,479	17,352
Permanent additions - nondeductible expenses	(7)	(19)	(351)	(609)
Permanent deductions:				
Share of profit (loss) of investees	(44,333)	(10,963)	-	-
Unrecognized tax credits	<u>(1,135)</u>	<u>(1,025)</u>	<u>(45,128)</u>	<u>(1,025)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,718</u>
Income tax and social contribution on profit (loss) for the period:				
Deffered	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,718</u>

## 9. RELATED PARTIES

a) Business transactions and intragroup loans

The Parent's related parties are as follows:

- Varejo - subsidiary;
- Instituto Jorge Saraiva - other related parties,

Related-party transactions include donation operations; reimbursement of subsidiary's expenses; intragroup loans; and Advance for Future Capital Increase (AFCI).

Donations in cash are made to Instituto Jorge Saraiva, which was founded in 2004 to support social and community actions in the local community. In the six-month period ended June 30, 2019, donations made amounted to R\$243 (R\$349 at June 30, 2018).

Balances and transactions with Varejo:

	<u>06/30/19</u>	<u>12/31/18</u>
Balances at the beginning of the period/year	2,183	7,996
Borrowings	2,400	8,754
Payments made	(525)	(15,100)
Finance costs	105	533
Balances at the end of the period/year	<u>4,163</u>	<u>2,183</u>

b) Board of Directors' and Executive Board's members compensation:

	<u>Parent</u>				<u>Consolidated</u>			
	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18
Board of Directors' fees	338	677	339	681	374	749	356	697
Executive Board fees	6	12	5	12	333	666	1,193	3,478
Subtotal	344	689	344	693	707	1,415	1,549	4,175
Share-based payment	6	18	17	42	6	18	17	42
Other compensation	88	174	79	165	192	376	386	989
	<u>438</u>	<u>881</u>	<u>440</u>	<u>900</u>	<u>905</u>	<u>1,809</u>	<u>1,952</u>	<u>5,206</u>

The Parent does not grant postemployment and severance benefits. Under Brazilian Corporate Law and the Parent's bylaws, shareholders are responsible for setting, at the Annual Shareholders' Meeting, the overall compensation of the Board of Directors and the Executive Board. Management members may be granted profit sharing under article 152 of Law No. 6404/76.

The information on the six-month period ended June 30, 2018 was rectified due to the presentation of Supervisory Board's compensation, in the amount of R\$144 (Management fees - R\$250 and Other - R\$50) together with the compensation of the Board of Directors' members.



## 10. INVESTMENTS

Varejo's equity interests and main information:

	<u>06/30/19</u>	<u>12/31/18</u>
Number of shares - in thousands	489,666	489,666
Number of shares held - in thousands	489,626	489,626
Equity interest	99.99%	99.99%
Parent's share in equity (including receivables from Varejo)	100.00%	100.00%
Capital	515,123	515,123
Equity	15,932	146,337
(-) Unrealized profit on sale of intangible assets to Varejo	<u>(15,931)</u>	<u>(25,382)</u>
Total	<u>1</u>	<u>120,955</u>
Investment value	<u>-</u>	<u>120,943</u>

Basis to calculate share of profit (loss) of investees by the Parent:

	<u>Parent</u>			
	<u>04/01/19</u> <u>to 06/30/19</u>	<u>01/01/19</u> <u>to 06/30/19</u>	<u>04/01/18</u> <u>to 06/30/18</u>	<u>01/01/18</u> <u>to 06/30/18</u>
Calculation basis of share of (profit) loss of investee: Varejo's loss	<u>(68,898)</u>	<u>(130,405)</u>	<u>(35,252)</u>	<u>(32,245)</u>
Share of (profit) loss of investee	<u>(68,892)</u>	<u>(130,394)</u>	<u>(35,250)</u>	<u>(32,243)</u>

Changes in investments were as follows:

	<u>06/30/19</u>	<u>12/31/18</u>
Balances at the beginning of period/year	120,943	414,068
Share of Varejo's profit	(130,394)	(293,672)
Unrealized profit in subsidiary	9,451	-
Share in Varejo's hedge accounting	<u>-</u>	<u>547</u>
Balance at the end of period/year	<u>-</u>	<u>120,943</u>

Varejo's main information:

	<u>06/30/19</u>	<u>12/31/18</u>
Total assets	1,132,962	962,562
Current and noncurrent liabilities	1,120,030	816,225
Equity	15,932	146,337
	<u>06/30/19</u>	<u>06/30/18</u>
Net operating revenue	360,589	934,936
Costs of sales and services	<u>(266,445)</u>	<u>(647,578)</u>
Gross profit	94,144	287,358
Operating expenses	(165,366)	(290,596)
Depreciation	(40,972)	(17,602)
Other	<u>3,999</u>	<u>723</u>
Profit (loss) from operations	(108,195)	(20,117)
Finance income (costs)	<u>(22,210)</u>	<u>(27,847)</u>
Profit (loss) before taxes	(130,405)	(47,964)
Income tax and social contribution	<u>-</u>	<u>15,718</u>
Loss	<u>(130,405)</u>	<u>(32,246)</u>

## 11. PROPERTY AND EQUIPMENT

	Annual depreciation rate - %	Parent					
		06/30/19			12/31/18		
		Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Machinery and equipment	10	783	(782)	1	799	(798)	1
Furniture, fixtures and facilities	10	2,490	(2,283)	207	2,490	(2,253)	237
Leasehold improvements	(*)	5,421	(5,383)	38	5,421	(5,371)	50
IT equipment	20	<u>12,387</u>	<u>(12,362)</u>	<u>25</u>	<u>12,387</u>	<u>(12,315)</u>	<u>72</u>
		<u>21,081</u>	<u>(20,810)</u>	<u>271</u>	<u>21,097</u>	<u>(20,737)</u>	<u>360</u>

(\*) Leasehold improvements are depreciated over the lower of the lease term or the estimated economic useful lives of the assets.

	Annual depreciation rate - %	Consolidated					
		06/30/19			12/31/18		
		Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Buildings and constructions	4	-	-	-	1,260	(1,260)	-
Machinery and equipment	10	6,447	(3,936)	2,511	6,568	(3,810)	2,758
Furniture, fixtures and facilities	10	74,457	(58,528)	15,929	83,893	(65,801)	18,092
Leasehold improvements	(*)	154,345	(138,449)	15,896	164,499	(146,364)	18,135
IT equipment	20	69,703	(59,295)	10,408	70,832	(58,233)	12,599
Leased asset		321,280	(20,280)	301,000	-	-	-
Construction in progress	-	10	-	10	-	-	-
		<u>626,242</u>	<u>(280,488)</u>	<u>345,754</u>	<u>327,052</u>	<u>(275,468)</u>	<u>51,584</u>

(\*) Leasehold improvements are depreciated over the lower of the lease term or the estimated economic useful lives of the assets.

Changes in Property and equipment were as follows:

	Parent			
	12/31/18	Additions	Write-offs	06/30/19
Cost:				
Machinery and equipment	799	-	(16)	783
Furniture, fixtures and facilities	2,490	-	-	2,490
Leasehold improvements	5,421	-	-	5,421
IT equipment	12,387	-	-	12,387
Total cost	<u>21,097</u>	<u>-</u>	<u>(16)</u>	<u>21,081</u>
Accumulated depreciation:				
Machinery and equipment	(798)	-	16	(782)
Furniture, fixtures and facilities	(2,253)	(30)	-	(2,283)
Leasehold improvements	(5,371)	(12)	-	(5,383)
IT equipment	(12,315)	(47)	-	(12,362)
Total depreciation	<u>(20,737)</u>	<u>(89)</u>	<u>16</u>	<u>(20,810)</u>
Net value	<u>360</u>	<u>(89)</u>	<u>-</u>	<u>271</u>

Consolidated							
	12/31/18	Additions	Write-offs	Transfers	Impact of adopting		
					Impairment loss	IFRS16 / CPC06 (R2)	06/30/19
Cost:							
Buildings and constructions	1,260	-		(1,400)	140	-	-
Machinery and equipment	6,568	-	(59)	-	(62)	-	6,447
Furniture, fixtures and facilities	83,893	-	(1,227)	-	(8,209)	-	74,457
Leasehold improvements	164,499	219	(4,324)	-	(6,049)	-	154,345
IT equipment	70,832	29	(380)	-	(778)	-	69,703
Construction in progress	-	10	-	-	-	-	10
Leased asset	-	-	-	-	-	321,280	321,280
Total cost	<u>327,052</u>	<u>258</u>	<u>(5,990)</u>	<u>(1,400)</u>	<u>(14,958)</u>	<u>321,280</u>	<u>626,242</u>
Accumulated depreciation:							
Buildings and constructions	(1,260)	(14)		1,274	-	-	-
Machinery and equipment	(3,810)	(247)	59	-	62	-	(3,936)
Furniture, fixtures and facilities	(65,801)	(2,097)	1,073	-	8,297	-	(58,528)
Leasehold improvements	(146,364)	(2,220)	4,070	-	6,065	-	(138,449)
IT equipment	(58,233)	(2,434)	374	-	998	-	(59,295)
Leased asset	-	-	-	-	-	(20,280)	(20,280)
Total depreciation	<u>(275,468)</u>	<u>(7,012)</u>	<u>5,576</u>	<u>1,274</u>	<u>15,422</u>	<u>(20,280)</u>	<u>(280,488)</u>
Net value	<u>51,584</u>	<u>(6,754)</u>	<u>(414)</u>	<u>(126)</u>	<u>464</u>	<u>301,000</u>	<u>345,754</u>

Impairment tests are performed when there are indications of losses. In the year ended December 31, 2018. Management identify events that would indicate the existence of impairment losses of R\$1,933. In the six-month period ended June 30, 2019, the estimated loss was adjusted by R\$464. Management did not identify other events that would indicate losses due to impairment in the six-month period.

## 12. INTANGIBLE ASSETS

	Annual amortization rate - %	Parent					
		06/30/19			12/31/18		
		Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Software	20	<u>710</u>	<u>(710)</u>	<u>-</u>	<u>710</u>	<u>(710)</u>	<u>-</u>

	Annual amortization rate - %	Consolidated					
		06/30/19			12/31/18		
		Cost	Accumulated amortization	Net value	Custo	Accumulated amortization	Net value
Goodwill	-	47,776	(841)	46,935	47,776	(841)	46,935
Commercial assignment	20	21,158	(21,158)	-	25,047	(25,047)	-
Software	20	237,357	(98,035)	139,322	237,071	(84,349)	152,722
Trademarks and patents	-	63	-	63	63	-	63
Intangible assets in progress	-	8,329	-	8,329	3,225	-	3,225
		<u>314,683</u>	<u>(120,034)</u>	<u>194,649</u>	<u>313,182</u>	<u>(110,237)</u>	<u>202,945</u>

Changes in Intangible assets were as follows:

	Parent	
	12/31/18	06/30/19
Cost:		
Software	<u>710</u>	<u>710</u>
Accumulated amortization:		
Software	<u>(710)</u>	<u>(710)</u>
Net value	<u>-</u>	<u>-</u>

	Consolidated				
	12/31/18	Additions	Write-offs	Impairment	06/30/19
Cost:					
Goodwill	47,776	-	-	-	47,776
Commercial assignment	25,047	-	-	(3,889)	21,158
Software	237,071	574	(122)	(166)	237,357
Trademarks and patents	63	-	-	-	63
Intangible assets in progress	3,225	5,104	-	-	8,329
Total cost	<u>313,182</u>	<u>5,678</u>	<u>(122)</u>	<u>(4,055)</u>	<u>314,683</u>
Accumulated amortization:					
Goodwill	(841)	-	-	-	(841)
Commercial assignment	(25,047)	-	-	3,889	(21,158)
Software	(84,349)	(13,973)	121	166	(98,035)
Total amortization	<u>(110,237)</u>	<u>(13,973)</u>	<u>121</u>	<u>4,055</u>	<u>(120,034)</u>
Net value	<u>202,945</u>	<u>(8,295)</u>	<u>(1)</u>	<u>-</u>	<u>194,649</u>

For goodwill and intangible assets with indefinite useful life, impairment tests are performed annually, regardless of whether there are indications of losses and, for the other intangible assets, when there are indications of impairment. In the year ended December 31, 2018, Management identify events that would indicate the existence of impairment losses of R\$ 1. In the quarter ended June 30, 2019, Management did not identify events that would indicate the existence of losses due to impairment.

### Goodwill

	Acquisition date	<u>06/30/19</u>	<u>12/31/18</u>
Goodwill on business acquisition:			
Siciliano	06/03/08	<u>46,935</u>	<u>46,935</u>

### Siciliano

As of December 31, 2018, the recoverable amount of this cash-generating unit (CGU) was determined based on the calculation of the value in use by using the projected free cash flows supported by a six-year financial budget and a notional discount rate of 13% per year.

The projected cash flows for a six-year period, such as increased sales, costs and expenses, are based on the annual budget approved by Management.

The main assumptions used in the projected free cash flow are as follows:

- Revenues: projected from 2019 to 2024 in line with the UGC's expansion history, as well as the estimated macroeconomic scenario for the next years;
- Operating costs and expenses: Projected based on Siciliano's latest performance, which considers the action plan to increase productivity and the estimated growth in revenues.

Cash flows after the six-year period were extrapolated at a constant annual growth rate of 4%, which corresponds to the expected inflation rate.

### 13. BORROWINGS AND FINANCING

	Consolidated	
	06/30/19	12/31/18
In local currency:		
Working capital loans	145,264	121,158
Unamortized borrowing costs	(913)	(1,630)
Finance lease	10,219	16,083
Bail BNDES - Itaú	-	37,260
	<u>154,570</u>	<u>172,871</u>
Lease financing		
In national currency:		
leases payable - CPC 06 (R2)	<u>312,529</u>	<u>-</u>
	<u>467,099</u>	<u>172,871</u>
Current liabilities	176,261	154,468
Noncurrent liabilities	<u>290,838</u>	<u>18,403</u>
	<u>467,099</u>	<u>172,871</u>

Since January 01, 2019, Varejo's Management has recognized and measured lease agreements in accordance with CPC 06 (R2). The lease liability is recognized at the present value of the contractual obligations on the date of the rental agreements with a contra entry to right of use, recorded in a property and equipment account. Expenses incurred on depreciation and interest are recognized separately in the profit and loss for the periods.

#### Summary of the characteristics of borrowings and financing

Institution	Purpose	Type	Contract	Maturity	Collaterals	Contracted amount	Finance charges
Banco do Brasil S/A	Working capital	CCB	Mar/2017	Feb/2020	Parent's collateral signature and property	R\$ 120,000	132% CDI variation p.a.
Banco do Brasil S/A	Working capital	CCB	Aug/2017	Apr/2019	Parent's collateral signature	R\$ 15,000	132% CDI variation p.a.
Banco Itaú S/A	Working capital	CCB	Mar/2019	Sept/2021	Parent's collateral signature and receivables	R\$ 16,640	100% CDI a.a. + 3% p.m
HP Financial Services S/A	Software and maintenance	Leasing	Nov/2015	Dec/2020	Leased asset	R\$ 10,709	100% CDI a.a. + 0.29% p.m
SG Equipment Finance S/A	Software and maintenance	Leasing	Dec/2014	Dec/2019	Leased asset	R\$ 12,223	100% CDI a.a. + 0.23% p.m
HP Financial Services S/A	Software and maintenance	Leasing	Mar/2017	Feb/2020	Leased asset	R\$ 6,451	100% CDI a.a. + 0.26% p.m

Changes in the six-month period ended June 30, 2019

Descrição	12/31/18	Loans obtained	Impact of adopting CPC 06 (R2)	Charges	Major payments and interest	06/30/19
Working capital loans	119,528	16,640	-	8,572	(389)	144,351
Finance lease	16,083	-	-	734	(6,598)	10,219
Bail BNDES - Itaú	37,260	-	-	983	(38,243)	-
leases payable	-	-	321,978	12,853	(22,302)	312,529
	<u>172,871</u>	<u>16,640</u>	<u>321,978</u>	<u>23,142</u>	<u>(67,532)</u>	<u>467,099</u>

BNDES financing

Collaterals

In December 2018, BNDES executed the guarantee with Banco Itaú for the settlement of the borrowings' outstanding balance, in the amount of R\$40,617. On June 30, 2019, the outstanding balance of the guarantee, in the amount of R\$41,640, was settled by using the checking account balance, in the amount of R\$25,000, and borrowings contracted with Banco Itaú, in the form of Bank Credit Notes, in the amount of R\$16,718.

Summary of the conditions contracted:

- **Transaction date:** 03/13/2019;
- **Finance charges:** 3% p.a. + 100% of CDI;
- **Collateral:** A minimum of R\$3.5MM of Agenda from Mastercard and Hipercard brands;
- **Transaction term:** 30 months and 1-year grace period for the principal.

Working capital loans

*Transactions contracted to meet working capital requirements*

Banco do Brasil

Varejo renegotiated the amount of R\$120,000, also contracted with Banco do Brasil, to a rate of 132% of the CDI, with extension of the payment term to three years, with repayments on a quarterly basis and a one-year grace period. On July 25, 2018, an amendment was signed to change the principal repayment schedule and exchange the original collateral (assignment of trade receivables) for mortgage.

On July 27, 2017, Varejo contracted a transaction in the form of Bank Credit Notes (CCB), in the amount of R\$15,000, bearing charges of 120% of the CDI variation, maturing in February 2018 and guaranteed by the Parent's collateral signature. In February 2018, the amount of R\$13,000, at a rate of 124.25% of the CDI variation, with extension of the payment term to one year, thus maturing on August 01, 2018. In July 2018, the amount of R\$13,000, was renegotiated at a rate of 132% of the CDI variation and the repayment term was extended to November 01, 2018. In October 2018, the amount of R\$13,000 was renegotiated at a rate of 132% of the CDI variation, and the payment term was extended to April 01, 2019.



#### 14. DEFERRED REVENUE - CUSTOMER LOYALTY PROGRAM

Varejo's customer loyalty program Saraiva Plus promotes the purchases of products made by customers both online and at the stores, by converting the respective amounts into points that, accumulated under the rules of the program, may be used as a credit to pay future purchases.

On June 16, 2017, changes were introduced to the customer loyalty program. Under the new regulation governing the Program, at each 500 points (Bonus) acquired (formerly, at each 1,000 points), the customer is granted a voucher of R\$10,00 to be used in up to three months in the form of discounts in future purchases made in any store and Varejo electronic commerce. This voucher may be used to purchase any product. Vouchers issued but not used expire in three months. Any points accumulated that do not reach 500 points expire in 12 months. Sale revenue leveraged by the customer loyalty program is recognized in deferred income, in current liabilities, in the amount of accumulated points, according to accumulation rules. Deferred income is recognized in profit or loss when the vouchers acquired by the customers are actually used and when the right to use the vouchers and points that do not accumulated Bonus actually expires.

As of June 30, 2019, deferred revenue of the loyalty program, recognized in a specific line item in consolidated, is R\$2,980 (R\$4,320 as of December 31, 2018).

#### 15. TRADE PAYABLES

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Domestic suppliers	1,730	1,719	556,346	545,385
Foreign suppliers	<u>-</u>	<u>-</u>	<u>4,005</u>	<u>3,939</u>
	<u>1,730</u>	<u>1,719</u>	<u>560,351</u>	<u>549,324</u>

Management did not recognize the adjustment to present value, since all transactions are short term and the effect of such adjustments is considered immaterial when compared to the financial statements taken as a whole.

## 16. TAXES AND CONTRIBUTIONS PAYABLE

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Tax on the circulation of goods and services ICMS	-	-	2,956	4,574
Withholding income tax (IRRF)	62	59	594	1,120
Social contributions withheld at source on services taken from legal entities	22	2	902	278
Service Tax (ISS)	-	-	26	7
Taxes in installments - Law No. 12.966/14 (a)	-	-	743	814
Taxes in installments - State (b)	-	-	1,066	1,366
Other	<u>1</u>	<u>2</u>	<u>135</u>	<u>178</u>
	<u>85</u>	<u>63</u>	<u>6,422</u>	<u>8,337</u>
Current liabilities	85	63	5,109	6,823
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>1,313</u>	<u>1,514</u>
	<u>85</u>	<u>63</u>	<u>6,422</u>	<u>8,337</u>

- (a) Payment of 2014 tax debts in installments relating to federal taxes offset against PIS/Cofins credits determined in 2007 and 2008, in the amount of R\$2,245, which had not been authorized. The amount paid in the six-month period ended June 30, 2019 was R\$87 (R\$170 at December 31, 2018).
- (b) Payment of 2018 tax debts in installments in the States of Santa Catarina, Ceará and Rio Grande do Sul relating to ICMS tax assessments. The amount paid in the six-month period ended June 30, 2019 amounted to R\$275 (R\$716 in the year ended December 31, 2018).

## 17. PAYROLL AND RELATED TAXES

	Parent			
	<u>12/31/18</u>	<u>Expense</u>	<u>Payment</u>	<u>06/30/19</u>
Vacation pay	217	5	-	222
Salaries	55	5	(5)	55
Severance Pay Fund	17	1	-	18
Social Security Contribution (INSS)	<u>94</u>	<u>193</u>	<u>(192)</u>	<u>95</u>
	<u>383</u>	<u>204</u>	<u>(197)</u>	<u>390</u>

	Consolidated			
	<u>12/31/18</u>	<u>Expense</u>	<u>Payment</u>	<u>06/30/19</u>
Vacation pay	7,165	2,947	(4,064)	6,048
13th salary	-	2,957	(448)	2,509
Salaries	237	31,710	(29,704)	2,243
Severance Pay Fund	1,212	4,578	(4,573)	1,217
Social Security Contribution (INSS)	<u>4,900</u>	<u>9,877</u>	<u>(10,013)</u>	<u>4,764</u>
	<u>13,514</u>	<u>52,069</u>	<u>(48,802)</u>	<u>16,781</u>

### 18) PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Parent and Varejo are parties to tax, civil and labor lawsuits at the judicial and administrative levels, with present obligation and probability of outflow of funds that incorporate economic benefits in order to settle this obligation. Accrued amounts are considered sufficient to cover possible outflows to settle the respective obligations.

The provision for risks and judicial deposits made to guarantee some of the lawsuits are as follows:

#### Provisions

	Parent		
	<u>12/31/18</u>	<u>Recognition/ (Reversal)</u>	<u>06/30/19</u>
Labor	3,246	1,169	4,415
Civil	<u>365</u>	<u>46</u>	<u>411</u>
	<u>3,611</u>	<u>1,215</u>	<u>4,826</u>
	Consolidated		
	<u>12/31/18</u>	<u>Recognition/ (Reversal)</u>	<u>06/30/19</u>
Labor	11,564	1,950	13,514
Civil	2,033	1,019	3,052
ICMS - Tax assessment notice (a)	1,048	9	1,057
PIS / COFINS - Exclusion of ICMS from the calculation basis	<u>2,162</u>	<u>-</u>	<u>2,162</u>
	<u>16,807</u>	<u>2,978</u>	<u>19,785</u>

- (a) Provision corresponding to the principal and fine amount which is the subject of a lawsuit in which the Company claims the annulment of tax assessment notices issued in 2011 relating to ICMS credits taken on purchases of goods from suppliers which were considered unqualified by the State of São Paulo Finance Department.

## Judicial deposits

	Parent		
	Addition/ 31/12/18 (Write-off) 06/30/19		
PIS/COFINS (a)	977	10	987
Administrative proceedings - tax offset	6,066	-	6,066
Other lawsuits and administrative proceedings	3,260	171	3,431
Labor lawsuits	<u>1,524</u>	<u>(246)</u>	<u>1,278</u>
	<u>11,827</u>	<u>(65)</u>	<u>11,762</u>

  

	Consolidated		
	Addition/ 31/12/18 (Write-off) 06/30/19		
PIS/COFINS (a)	1,077	10	1,087
Administrative proceedings - tax offset	6,066	-	6,066
Other lawsuits and administrative proceedings (b)	32,150	23,693	55,843
Labor lawsuits	<u>4,498</u>	<u>(410)</u>	<u>4,088</u>
	<u>43,791</u>	<u>23,293</u>	<u>67,084</u>

- (a) Lawsuits filed by the Parent and Varejo challenged the broadening of the calculation base for the PIS and Cofins federal contributions and the increase in Cofins rate, established by Law No. 9718/98. The lawsuits were issued a final and unappealable decision favorable to the companies and the release of the deposits awaits processing;
- (b) Includes the amount: i) R\$20,424 relating to IPI, II (Import Duty), PIS and Cofins taxes originating from a preliminary injunction partially granted in a writ to recognize tax immunity and zero tax rate for PIS/Cofins contributions on imports of LEV digital readers; ii) R\$26,024, related to cash blocked by Banco do Brasil.

## Contingent liabilities

The Parent's and Varejo's Management challenge at administrative level and in courts tax, civil and labor lawsuits whose likelihood of loss is assessed as possible by their legal counsel, in the estimated amount of R\$581,466, of which R\$297,459 Parent and R\$284,007 Varejo (R\$516,815 as of December 31, 2018, of which R\$362,443 Parent and R\$254,372 Varejo).

Breakdown of the main liabilities assessed as possible loss:

TAX LAWSUITS	SUBJECT	ESTIMATED AMOUNT
a- INSS	Tax assessment notices issued against the Parent relating to the recognition of tax credits on employees' and Management members' profit sharing and non-compliance with accessory obligations.	5,629
b- IRPJ/CSLL/PIS/Cofins	Substantially represented by proceedings the decision of which did not allow the use of the tax credits taken by the Parent and Varejo to pay federal taxes.	202,095
c- PIS/Cofins	Refers to lawsuits challenging the broadening of the PIS/Cofins tax base and the increase in Cofins rate established by Law No, 9718/98 for which a final unappealable decision partially favorable to the Parent and Varejo was issued. The judicial deposits made in Banco do Brasil and transferred to Caixa Econômica Federal are still under discussion.	58,237
d- II, IPI, ICMS, PIS and Cofins	Court injunction obtained by Varejo to acknowledge tax immunity and the applicability of a zero tax rate for PIS/Cofins contributions on imports of LEV digital readers,	41,883
e- ICMS	Tax assessment notices issued against Varejo regarding ICMS credits taken on purchases of goods from suppliers considered unqualified by the São Paulo State Finance Department.	27,574
f- Sundry	Other tax lawsuits and proceedings in discussion at the judicial and administrative levels.	171,768
<b>TOTAL</b>		<b>507,186</b>

CIVIL LAWSUITS	SUBJECT	ESTIMATED AMOUNT
a- Lease contracts	Actions relating to renewal of lease contracts filed by Varejo relating to its operating units.	18,864
b- Other	Other lawsuits discussing varied matters to which the Parent is a party and individual consumer relationship actions to which Varejo is a party.	40,748
<b>TOTAL</b>		<b>59,612</b>

LABOR LAWSUITS	SUBJECT	ESTIMATED AMOUNT
a- Sundry	Labor lawsuits filed against the Parent and Varejo primarily claiming joint liability or acknowledgment of employee-employer relationship arising from service agreements,	14,668

## 19) EQUITY

### a) Capital

As of June 30, 2019, the Parent's capital is R\$282,999 (R\$282,999 at December 31, 2018), represented by 26,701,745 shares, of which 9,622,313 are common shares and 17,079,432 are preferred shares without par value and with the right to vote in General Shareholders' Meetings. The Parent's bylaws comply with B3's Level 2 Differentiated Corporate Governance Practices.

The Parent is authorized to increase capital by issuing new shares for subscription, upon the Board of Directors' resolution, and regardless of any amendments to the bylaws, by up to 20,000,000 shares. Out of this total, up to 500,000 shares may be granted as stock options, pursuant to the bylaws.

The Parent's preferred shares, which may not exceed two thirds of the total shares issued, entitle their holders to the following rights or advantages:

- Restricted voting rights, pursuant to the bylaws;
- Right to sell the preferred shares in the case of sale of the Parent's control, pursuant to the bylaws;
- Dividends equal to those paid on common shares;
- Share in the distribution of bonus shares out of capitalization of reserves, retained earnings and any other funds, under the same terms and conditions granted to common shareholders,

Common shares cannot be converted into preferred shares, and vice versa.

b) Treasury shares - CVM Instructions 10/80 and 298/97

The Parent has 15,700 common shares held in treasury, represented by R\$233, with a strike price of R\$27 (R\$1,75 per share as of July 28, 2019).

c) Dividends and interest on capital

Shareholders are entitled to a minimum dividend of 25% of adjusted net income for the year.

The Parent may not, unless authorized by a majority vote in a special preferred shareholders' meeting, hold, for more than four successive quarters, cash and cash equivalents in an amount greater than 25% of the Parent's total assets. Cash and cash equivalents will correspond to the amounts recorded in line item 'Cash and cash equivalents' exceeding the sum of the amounts recorded in line item 'Borrowings and financing' in current and noncurrent liabilities. Pursuant to the bylaws, the amount of interest on capital for purposes of calculation of mandatory dividends is net of income tax.

d) Stock option plan - Parent

The Programs approved by the Board of Directors were granted for the Parent's and Varejo's managers and employees. Options will be exercised through the issuance of new shares and/or sale of treasury shares held by the Parent, based on the option to be adopted by the Board of Directors.

The fair value of stock option plans was calculated on the grant date of each program and based on the binomial pricing model. The effects were reflected in profit or loss, in line item “Operating expenses”, and in equity, in line item “Earnings reserve”, as follows:

Grant year and program	Amounts recorded		Total
	Through 12/31/18	Nine-month period ended 06/30/19	
2014 - 7th Program (4th tranche)	197	-	197
2014 - 7th Program (5th tranche)	219	18	237
	<u>416</u>	<u>18</u>	<u>434</u>

The table below shows the changes in stock option grants in the six-month period ended June 30, 2019:

	7th Program (4th tranche)	7th Program (5th tranche)
Total number of stock options granted	176,400	176,400
(-) Stock options not exercised and forfeited	<u>(176,400)</u>	<u>(134,000)</u>
(=) Number of stock options as at June 30, 2019	<u>-</u>	<u>42,400</u>

In the period from May 07 and September 06, 2018, options equivalent to 42,400 shares under the 7<sup>th</sup> Program (4<sup>th</sup> tranche) were not exercised and forfeited.

In determining the fair value of stock options, the following economic assumptions were used:

	7th Program (4th tranche)	7th Program (5th tranche)
Grant date	7/16/2014	7/16/2014
Beginning of option exercise period	5/7/2018	5/13/2019
End of option exercise period	9/6/2018	9/13/2019
Risk-free interest rate	11.68%	11.74%
Number of eligible managers and e	11	11
Price set - R\$	21.00	21.00
Index	IPCA	IPCA
Number of outstanding options	<u>-</u>	<u>42,400</u>
Option fair value at grant date - per stock option - R\$	<u>4.64</u>	<u>5.57</u>
Option value for exercise, adjusted by IPCA and adjusted by dividends distributed through June 30, 2019 - R\$	<u>-</u>	<u>26.52</u>

e) Valuation adjustments to equity

The balance of R\$11,279, net of deferred taxes totaling R\$5,810, represents the deemed cost of the Parent's plot of land as a result of the adoption of the deemed cost approach applicable to the first-time adoption of the new accounting practices adopted in Brazil.

f) Special reserve for undistributed mandatory dividends

Reserve recognized at the Extraordinary and General Shareholders' Meeting held on April 29, 2016.

On August 2, 2017, the Parent disclosed a material fact notice to its shareholders and the general market to announce that, as part of a CVM administrative proceeding, the Parent's Management and shareholders undertook to implement the following schedule to distribute the remaining balance of the mandatory minimum dividend for 2015, transferred to current and noncurrent liabilities, in the total amount of R\$17,452:

Resolution	Amount
GSM of 2018	5,818
GSM of 2019	5,817
GSM of 2020	5,817

On April 26, 2018, the distribution of the portion in the amount of R\$5,818, corresponding to the gross amount of R\$0,21798 per share and equivalent to 33% of the Special Reserve balance, was approved.



The partial distribution of the mandatory dividend held in 2015, in the amount of R\$5,817, the payment of which was scheduled for December 18, 2018, as approved by the General Shareholders Meeting of April 26, 2018, was suspended due to the legal provision related to the judicial reorganization request (Article 6 of Law No. 11101/2015).

g) Noncontrolling interest

	<u>06/30/19</u>	<u>12/31/18</u>
Balance at the beginning of the period/year	12	36
Noncontrolling interests in profit for the period/year	<u>(11)</u>	<u>(24)</u>
Balance at the end of the period/year	<u><u>1</u></u>	<u><u>12</u></u>

**20. NET OPERATING REVENUE**

	<u>Consolidated</u>			
	<u>04/01/19</u>	<u>01/01/19</u>	<u>04/01/18</u>	<u>01/01/18</u>
	<u>to 06/30/19</u>	<u>to 06/30/19</u>	<u>to 06/30/18</u>	<u>to 06/30/18</u>
Net operating revenue:				
Goods soled and services provided	163,949	382,566	402,621	1,022,587
(-) Taxes	(6,445)	(14,741)	(30,138)	(68,679)
(-) Returns	(2,621)	(8,576)	(7,282)	(18,834)
(-) Deferred income - Saraiva Plus	944	1,340	(636)	(138)
	<u><u>155,827</u></u>	<u><u>360,589</u></u>	<u><u>364,565</u></u>	<u><u>934,936</u></u>

## 21. EXPENSES BY NATURE

	Parent				Consolidated			
	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18
Goods	-	-	-	-	(110,957)	(266,445)	(253,891)	(639,976)
Cost of services	-	-	-	-	-	-	(2,993)	(7,602)
Personnel expenses and charges	(238)	(493)	(325)	(586)	(32,671)	(68,405)	(48,643)	(103,013)
Management fees	(344)	(689)	(474)	(943)	(707)	(1,415)	(1,669)	(4,425)
Advertising and publicity	-	-	-	-	(6,611)	(11,960)	(7,525)	(16,945)
Operating leases	-	-	-	-	224	(2,123)	(14,052)	(30,171)
Legal publications	-	(208)	-	(208)	(1)	(314)	-	(277)
Common area maintenance fees and p	-	-	-	-	(7,364)	(15,885)	(8,826)	(17,771)
Freight and packaging	-	-	-	-	(8,410)	(16,720)	(17,608)	(39,245)
IT services	-	-	-	-	(3,108)	(3,901)	(4,191)	(8,793)
Consulting and advisory services	-	-	-	-	(2,478)	(4,161)	(1,914)	(3,869)
Travels and accommodation	-	-	-	-	(118)	(173)	(214)	(487)
Expenses on credit cards, bank slips and collection	-	-	-	-	(2,239)	(4,539)	(5,680)	(14,807)
Credit losses	-	-	-	-	(1,794)	(2,287)	(3,293)	(5,535)
Other	(929)	(1,770)	(391)	(628)	(19,831)	(36,643)	(25,766)	(47,623)
	<u>(1,511)</u>	<u>(3,160)</u>	<u>(1,190)</u>	<u>(2,365)</u>	<u>(196,065)</u>	<u>(434,971)</u>	<u>(396,265)</u>	<u>(940,539)</u>
Classified as:								
Cost of goods and services sold	-	-	-	-	(110,957)	(266,445)	(256,884)	(647,578)
Selling expenses	-	-	-	-	(54,698)	(108,234)	(121,249)	(244,606)
General and administrative	(1,511)	(3,160)	(1,190)	(2,365)	(30,410)	(60,292)	(18,132)	(48,355)
	<u>(1,511)</u>	<u>(3,160)</u>	<u>(1,190)</u>	<u>(2,365)</u>	<u>(196,065)</u>	<u>(434,971)</u>	<u>(396,265)</u>	<u>(940,539)</u>

## 22. OTHER OPERATING EXPENSES

	Parent				Consolidated			
	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18
Gain (loss) on write-off and/or sale of fixed assets	10	10	-	-	(146)	(374)	(2)	(8)
Impairment loss	-	-	-	-	419	463	-	-
Write-off of judicial deposits	-	-	-	-	-	-	(1,103)	(1,651)
PIS/Cofins on other operating and finance income	(7)	(14)	(15)	(25)	(435)	(965)	(547)	(1,033)
Private label card	-	-	-	-	(972)	(972)	(317)	(732)
Provision for risks	-	-	-	-	(1,755)	(1,755)	(17)	(571)
Losses and other events involving goods	-	-	-	-	-	-	452	(452)
State tax installment plans	-	-	-	-	-	-	-	(1,426)
Discontinued Projects	-	-	-	-	-	-	(574)	(574)
Other operating expenses	-	-	-	(1)	-	(25)	(7)	(66)
	<u>3</u>	<u>(4)</u>	<u>(15)</u>	<u>(26)</u>	<u>(2,889)</u>	<u>(3,628)</u>	<u>(2,115)</u>	<u>(7,186)</u>

## 23. OTHER OPERATING INCOME

	Parent				Consolidated			
	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18
Unredeemed gift cards, and other unclaimed customer award credits	-	-	-	-	2,823	6,173	2,388	5,397
Recovered expenses	-	-	-	-	741	1,069	1,144	1,166
Indemnities for product losses	-	-	-	-	-	-	256	256
Other operating income	<u>1</u>	<u>1</u>	<u>31</u>	<u>31</u>	<u>(52)</u>	<u>382</u>	<u>562</u>	<u>1,095</u>
	<u>1</u>	<u>1</u>	<u>31</u>	<u>31</u>	<u>3,512</u>	<u>7,624</u>	<u>4,350</u>	<u>7,914</u>

## 24. FINANCE INCOME (COSTS)

	Parent				Consolidated			
	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/18 to 06/30/18	01/01/18 to 06/30/18
Finance income:								
Exchange rate changes on borrowings and financing	-	-	-	-	27	504	156	247
Fair value - swap transaction	-	-	-	-	-	-	14,857	14,857
Interest received from customers	-	-	-	-	4	7	7	14
Interest on recoverable taxes	152	293	303	519	1,043	1,667	968	1,943
Financial discounts obtained	-	15	46	46	56	189	47	564
Other interest and inflation gains	-	-	-	-	25	74	11	127
	<u>152</u>	<u>308</u>	<u>349</u>	<u>565</u>	<u>1,155</u>	<u>2,441</u>	<u>16,046</u>	<u>17,752</u>
Finance costs:								
Interest and inflation adjustment on borrowings and financing	-	-	-	-	(8,111)	(17,877)	(6,197)	(11,547)
Interest on loans made by the subsidiary	(65)	(105)	(200)	(357)	-	-	-	-
Fair value - swap transaction	-	-	-	-	-	-	7	-
Financial discounts granted	-	-	-	-	-	-	(9)	(30)
Other interest and inflation adjustment losses	(42)	(86)	(40)	(81)	(112)	(400)	(23,717)	(30,522)
Tax on lending transactions (IOC)	(12)	(25)	(41)	(95)	(204)	(659)	(73)	(234)
Other financial commissions	(51)	(100)	(39)	(77)	(2,632)	(5,347)	(1,461)	(3,125)
Other	(31)	(97)	(40)	(72)	(217)	(473)	(121)	(258)
	<u>(201)</u>	<u>(413)</u>	<u>(360)</u>	<u>(682)</u>	<u>(11,276)</u>	<u>(24,756)</u>	<u>(31,571)</u>	<u>(45,716)</u>
	<u>(49)</u>	<u>(105)</u>	<u>(11)</u>	<u>(117)</u>	<u>(10,121)</u>	<u>(22,315)</u>	<u>(15,525)</u>	<u>(27,964)</u>

## 25. OPERATING LEASE - VARIABLE PORTION OF RENTAL AGREEMENTS

As of June 30, 2019, Varejo had 73 lease agreements with shopping mall management companies or owners of street stores qualified as operating leases. Most of the street store lease agreements provide for a variable rental expense, based on sales, or a minimum amount adjusted for inflation on an annual basis by inflation indexes and the real estate segment performance, are effective for five years, subject to renewal, and are usually guaranteed by the Parent through pledge. Lease agreements for Varejo's logistics and administrative areas provide for fixed amounts, annually adjustments for inflation according to changes in the main inflation indices.

The lease amount for properties is always the higher of: (a) the equivalent to 2% to 10% of a store's gross monthly sales; or (b) a minimum monthly amount annually adjusted using certain inflation indices, as applicable. Said lease agreements are effective for indeterminate or determinate periods; in the latter case, these periods range from five to ten years, subject to amicable or court-ordered (renewal lawsuit) renewal. Beginning January 01, 2019, the amount recorded in line item "Rentals", in operating expenses, is related to the variable portion of the lease agreements and other contracts not falling under the definition of leases set out in CPC 06 (R2).

Rental expenses, net of recoverable taxes, are as follows:

	Consolidated			
	04/01/19	01/01/19	04/01/18	01/01/18
	to 06/30/19	to 06/30/19	to 06/30/18	to 06/30/18
Operating leases - Note 21	<u>(224)</u>	<u>2,123</u>	<u>14,052</u>	<u>30,171</u>

The balance of "Operating leases - store rentals" included in current liabilities as of June 30, 2019, consolidated, is R\$29,766 (R\$31,771 as of December 31, 2018).

## 26. LOSS PER SHARE

Under the Parent's bylaws, holders of preferred shares are entitled the same dividends as those holding common shares. The table below shows the calculation of loss per share pursuant to CPC 41 (IAS 33):

	LPS - Total			LPS - Continuing			LPS - Discontinued		
	01/01/19 to 06/30/19			01/01/19 to 06/30/19			01/01/19 to 06/30/19		
	Common	Preferred	Total	Common	Preferred	Total	Common	Preferred	Total
Loss attributable to the Parent's shareholders	(48,786)	(86,736)	(135,522)	(48,148)	(85,602)	(133,750)	(638)	(1,134)	(1,772)
Weighted average number of outstanding shares (in thousands) used in determining basic loss per share	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>
Weighted average number of outstanding shares (in thousands) used in determining diluted loss per share	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>
Basic loss per share - R\$	(5.07840)	(5.07840)		(5.01197)	(5.01197)		(0.06642)	(0.06642)	
Diluted loss per share - R\$	(5.07840)	(5.07840)		(5.01197)	(5.01197)		(0.06642)	(0.06642)	

  

	LPS - Total			LPS - Continuing			LPS - Discontinued		
	01/01/18 to 06/30/18			01/01/18 to 06/30/18			01/01/18 to 06/30/18		
	Common	Preferred	Total	Common	Preferred	Total	Common	Preferred	Total
Loss attributable to the Parent's shareholders	(13,081)	(23,256)	(36,337)	(12,713)	(22,602)	(35,315)	(368)	(654)	(1,022)
Weighted average number of outstanding shares (in thousands) used in determining basic loss per share	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>
Weighted average number of outstanding shares (in thousands) used in determining diluted loss per share	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>	<u>9,607</u>	<u>17,079</u>	<u>26,686</u>
Basic loss per share - R\$	(1.36166)	(1.36166)		(1.32336)	(1.32336)		(0.03831)	(0.00339)	
Diluted loss per share - R\$	(1.36166)	(1.36090)		(1.32336)	(1.32262)		(0.03831)	(0.00338)	

## 27. FINANCIAL INSTRUMENTS

### a) Capital risk management

The main objectives of the Parent's and Varejo's Management in managing capital include: to ensure the continuity of operations to generate return to shareholders and maintain a capital structure that is appropriate to minimize the related costs.

The Parent's and Varejo's capital structure is comprised of financial liabilities with financial institutions (Note 13), cash and cash equivalents (Note 4), and equity (Note 19).

The debt ratios are summarized as follows:

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
Borrowings and financing, net of derivative instruments and business acquisitions	3,766	2,637	1,133,025	175,508
(-) Cash, cash equivalents and short-term investments	<u>(23)</u>	<u>(760)</u>	<u>(21,811)</u>	<u>(95,429)</u>
Net debt	3,743	1,877	1,111,214	80,079
Equity	<u>(14,598)</u>	<u>120,906</u>	<u>(14,597)</u>	<u>120,918</u>
Total	<u>(10,855)</u>	<u>122,783</u>	<u>1,096,617</u>	<u>200,997</u>
Net debt ratio	<u>-34.48%</u>	<u>1.53%</u>	<u>101.33%</u>	<u>39.84%</u>

Periodically, Parent's and Varejo's Management revises the capital structure and its ability to settle its liabilities, and monitors on a timely basis the average term of trade receivables, trade payables, and inventories, and takes the necessary actions to maintain them at levels considered adequate for financial management purposes.

b) Categories of financial instruments

	<u>Parent</u>	
	<u>06/30/19</u>	<u>12/31/18</u>
	Carrying	Carrying
	<u>amount</u>	<u>amount</u>
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents		
and short-term investments	<u>23</u>	<u>760</u>
Financial liabilities		
Liabilities at amortized cost		
Trade payables	1,730	1,719
Dividends	17,466	17,466
Related parties - intragroup loans	4,163	2,183
AFCI	10,000	10,000
Other payables	<u>2,718</u>	<u>2,637</u>
	<u>36,077</u>	<u>34,005</u>

	<u>Consolidated</u>	
	<u>06/30/19</u>	<u>12/31/18</u>
	Carrying	Carrying
	<u>amount</u>	<u>amount</u>
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents		
and short-term investments	21,811	95,429
Loans and receivables		
Trade receivables - customers	<u>42,460</u>	<u>57,685</u>
	<u>64,271</u>	<u>153,114</u>
Financial liabilities		
Liabilities at amortized cost		
Borrowings and financing	467,099	172,871
Trade payables	560,351	549,324
Operating lease	29,766	31,771
Dividends	17,466	17,466
AFCI	10,000	10,000
Other payables	<u>3,563</u>	<u>3,489</u>
	<u>1,088,245</u>	<u>784,921</u>

The Parent's and Varejo's Management believes that the financial instruments, which are recognized in the individual and consolidated financial statements at their carrying amounts, do not record significant changes and approximate their respective fair values at the end of each reporting period.

The balance of line item "Borrowings and financing" is adjusted for inflation based on market indices (CDI, TJLP and UM Selic, only through December 31, 2018 for borrowings taken from BNDES, settled in December 2018) and contractual rates (Note 13) and variable interest because of market conditions; therefore, the outstanding balance recognized at the end of each reporting period approximates its market value.

c) Financial risks

The Parent's and Varejo's activities are exposed to market, credit, liquidity, operating risks as well as to the risk limited to the amount paid by the derivative used as an instrument to hedge against changes in the currency price.

Risk management is carried out by the Parent's and Varejo's Management in accordance with the policies approved by the respective Executive Boards, The Parent's and Varejo's Finance area identify, assess and hedge against possible financial risks in cooperation with the operating functions.

d) Interest rate risk management

The Parent's and Varejo's operations are exposed to usual market risks due to changes in interest rates, substantially on borrowings and short-term investments. The interest rate risk management policy defined by Management comprises the continuous monitoring of the economic scenario to identify possible fluctuations in interest rates and, when applicable, contract hedge transactions against fluctuations in interest rates and well as weighting between contracting fixed and floating transactions.

Balances that represented the maximum exposure to the interest rate risk as of the reporting date:

		Consolidated <u>06/30/19</u> <u>Carrying amount</u>
	<u>Risk</u>	
Short-term investments	Increase in CDI	468,247
Other payables	Increase in CDI	<u>2,718</u>
Exposure		<u><u>470,965</u></u>

e) Supplementary sensitivity analysis of financial instruments pursuant to CVM Instruction 475/08

The sensitivity analysis was developed based on the exposure to CDI fluctuation, which is the main index applicable to borrowings and the investments of cash surpluses.

The Parent presents below the additional disclosures on the Parent's and Varejo's financial instruments required by CVM Instruction 475, of December 17, 2008, specifically on the supplementary sensitivity analysis required by IFRSs and the accounting practices adopted in Brazil.

In preparing this sensitivity analysis, the Parent's and Varejo's Management adopted the following assumptions:

- Identify the market risks that may result in material losses;
- Outline a probable risk scenario (Scenario I);
- Outline two additional scenarios with stresses of at least 25% and 50% in the risk variable considered (Scenario II and Scenario III, respectively).

Possible effects on the balance sheet accounts based on the scenarios analyzed:

Assets and liabilities with interest recalculated according to previously outlined scenarios.

Transaction	Risk	Carrying amounts		
		Scenario I	Scenario II	Scenario III
Interest-earning bank deposits subject to CDI rate - Retailing Varejo	Baixa do CDI	<u>(389)</u>	<u>(973)</u>	<u>(1,948)</u>
Financial leasings subject to CDI rates - Retailing Varejo	Increase in CDI	<u>(82)</u>	<u>(204)</u>	<u>(410)</u>
Net income (loss)		<u><u>(471)</u></u>	<u><u>(1,177)</u></u>	<u><u>(2,358)</u></u>

f) Credit risk management

The Parent's and Varejo's sales and credit policies are subject to the credit policies established by their Management and are intended to minimize possible problems arising from the default of their customers. This objective is attained through a careful selection of the customer portfolio, which considers the customer ability to pay (credit rating).



Maximum exposure to this risk at the end of the quarter:

	Parent		Consolidated	
	<u>06/30/19</u>	<u>12/31/18</u>	<u>06/30/19</u>	<u>12/31/18</u>
	Carrying	Carrying	Carrying	Carrying
	<u>amount</u>	<u>amount</u>	<u>amount</u>	<u>amount</u>
Financial assets				
Cash and cash equivalents				
and short-term investments	23	760	21,811	95,429
Trade receivables - customers	-	-	42,460	57,685
	<u>23</u>	<u>760</u>	<u>64,271</u>	<u>153,114</u>

As of June 30, 2019, the consolidated allowance for expected credit losses balance is R\$1,621 (R\$339 at December 31, 2018) to cover credit risks.

g) Management of liquidity risk

Management monitors the continuous forecasts of the Parent's and Varejo's liquidity requirements to ensure they have sufficient cash to meet their operating needs.

Because of the dynamics of its business, the Parent and Varejo maintain a borrowing flexibility by maintaining lines of credit with some financial institutions.

The table below details the maturity of financial liabilities:

Transaction	Parent				Total
	Up to 1 year	Up to 2 years	3 to 5 years	Over 5 years	
Trade payables	1,730	-	-	-	1,730
Dividends	5,832	5,817	5,817	-	17,466
AFCI	10,000	-	-	-	10,000
Other payables	2,718	-	-	-	2,718

  

Transaction	Consolidated				Total
	Up to 1 year	Up to 2 years	3 to 5 years	Over 5 years	
Trade payables	560,351	-	-	-	560,351
Borrowings and fin	196,695	69,748	171,263	147,182	584,889
Dividends	5,832	5,817	5,817	-	17,466
Operating lease	29,766	-	-	-	29,766
AFCI	10,000	-	-	-	10,000
Other payables	3,563	-	-	-	3,563

h) Risk concentration

The financial instruments that potentially expose the Parent and Varejo to concentration of credit risk consist basically of banks, short-term investments, and trade receivables. The balance of Varejo's trade receivables is substantially distributed among credit card acquirers. The total balance of trade receivables is denominated in Brazilian reais (R\$).

i) Lines of credit

	<u>Consolidated</u>	
	<u>06/30/19</u>	<u>12/31/18</u>
Loans:		
Used	145,264	158,418
Financing:		
Used	-	58,136

j) Guarantees obtained

	<u>Consolidated</u>
	<u>06/30/19</u>
Letters of guarantee to federal tax execution proceedings	<u>8,389</u>

In the quarter ended June 30, 2019, on the letters of guarantees obtained, finance costs of R\$171 (R\$1,112 at June 30, 2018) were generated.

k) Carrying amount and fair value of financial assets and financial liabilities

	Parent		Consolidated	
	06/30/19		06/30/19	
	Carrying amount	Fair value	Carrying amount	Fair value
Fair value through profit or loss				
Cash and cash equivalents and short-term investments	23	23	21,811	21,811
Loans and receivables				
Trade receivables - customers	-	-	42,460	42,460
Liabilities held at amortized cost				
Borrowings and financing	-	-	467,099	470,463
Dividends	17,466	17,466	17,466	17,466
Trade payables	1,730	1,730	560,351	560,351
Operating lease	-	-	29,766	29,766
Related parties - intragroup loans	4,163	4,163	-	-
AFCI	10,000	10,000	10,000	10,000
Other payables	2,718	2,718	3,563	3,563

The following methods and assumptions were used to calculate the fair value:

- Cash and cash equivalents – Defined as assets for cash management and represented by cash and bank deposits, whose fair values approximates their carrying amounts;
- Trade receivables, trade payables and related parties – Balances directly provided by operations, whose fair values approximates their carrying amounts.

The Parent discloses its financial assets and financial liabilities at fair value based on CPC 38, CPC 39 and CPC 40 (R1), which provide for measurement, recognition and presentation of financial instruments.

Fair value hierarchy

The financial assets and financial liabilities recorded at fair value are classified and disclosed according to the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities, available of measurement date;

Level 2 – inputs, except for quoted prices, included in Level 1, that are observable for the asset or liability, directly (prices) or indirectly (derived from prices); and

Level 3 – assumptions, considered for assets or liabilities, not based on observable market data (non-observable data), In this level, the fair value estimate becomes subjective.

The Parent's and Varejo's assets and liabilities measured at fair value as of June 30, 2019 are as follows:

	Parent			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>
	Consolidated			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents and short-term investments	<u>21,811</u>	<u>-</u>	<u>-</u>	<u>21,811</u>

## 28. SEGMENT INFORMATION

The management of Saraiva Group's businesses, for financial and operating purposes, is performed by means of a single segment referred to as "Varejo".

The Varejo segment refers to the retail business of cultural, leisure, and information products. Sales are made through a chain of stores located in the main Brazilian cities and the ecommerce website saraiva.com.br.

## 29. DISCONTINUED OPERATIONS

Discontinued operations are represented by the residual results of the publishing segment sold to Editora Ática S.A. in 2015.

Profit (loss) from discontinued operations for the quarter ended June 30:

	Parent		Consolidated	
	<u>06/30/19</u>	<u>06/30/18</u>	<u>06/30/19</u>	<u>06/30/18</u>
Operating expenses	<u>(2,185)</u>	<u>(800)</u>	<u>(2,185)</u>	<u>(800)</u>
Loss before income tax	<u>(2,185)</u>	<u>(800)</u>	<u>(2,185)</u>	<u>(800)</u>
Deferred income tax	<u>413</u>	<u>(222)</u>	<u>413</u>	<u>(222)</u>
Loss from discontinued operations	<u>(1,772)</u>	<u>(1,022)</u>	<u>(1,772)</u>	<u>(1,022)</u>

Profit (loss) from discontinued operations is R\$1,772 (R\$1,022 at June 30, 2018), consolidated, is fully assigned to controlling shareholders.

Cash flow from discontinued operations:

	<u>Parent</u>		<u>Consolidated</u>	
	<u>06/30/19</u>	<u>06/30/18</u>	<u>06/30/19</u>	<u>06/30/18</u>
Net cash used in operating activities	(1,729)	(1,650)	(1,729)	(1,650)
Net cash provided by financing activities	<u>1,214</u>	<u>(573)</u>	<u>1,214</u>	<u>(573)</u>
Net cash provided by discontinued operations	<u>(515)</u>	<u>(2,223)</u>	<u>(515)</u>	<u>(2,223)</u>

### 30. INSURANCE

The Parent's and Varejo's Management have the policy of obtaining insurance for assets exposed to risks considered sufficient to cover possible losses in light of the nature of its activities.

Insurance coverage contracted:

	<u>06/30/19</u>	<u>12/31/18</u>
Loss of profits	419,247	419,247
Fire - maximum importance	1,147,571	1,147,571
D&O - Civil liability - Directors, executive officers and management members - maximum importance	100,000	100,000
D&O - General civil liability - maximum importance	2,000	2,000
International transportation	3,708	3,708
Tax execution	70,853	70,853

### 31. JUDICIAL REORGANIZATION PROCESS

The economic crisis started in 2015 was one of the most challenging periods in Brazil's recent economic history – with a significant impact across all Varejo's operations – and partly explained the Company's request for judicial reorganization.

The Company took a number of actions to reverse the adverse effects of the economic downturn: at the end of 2015, the Company completed the sale of its publishing segment and, as the economic crisis continued in the subsequent years, the Company implemented a robust transformation project comprised of a set of actions and has placed a major emphasis on the omnichannel, customer centricity, digital transformation and operating efficiency fronts. As a result, at the beginning of 2018, the Company recorded increased gross sales and gained market share in the books, games, telephony and back-to-school segments. In addition to said project, emergency actions were taken which resulted in a restructuring plan being drawing up early November 2018 with a view to streamline the Company's operations, ensuring that they become more dynamic and focused on bringing operating profitability and strengthening cash.

The main restructuring plan actions resulted in: i) closing down 22 stores that were unlikely to generate value; ii) discontinuation of products recording low profitability and high demand for working capital – and responsible for the systematic accumulation of tax credits –, putting the focus back to the book segment again, which is Varejo's core business; iii) adjusting the cost and expense structure by the adoption of the Zero-Based Budgeting (ZBB) method, under which roles and the staff are kept to the minimum necessary to maintain the operation running without causing negative impacts on operating results and the service delivered to customers; and iv) a comprehensive revision and optimization of the logistics network, aligning the supply chain to the new mix of products.

However, the impacts caused by the economic recession, coupled with the effects of events over time, such as the adjustment to the average price of books, which was below the expected rate, shrinkage of some product segments that accounted for a relevant portion of revenue, difficulties to realize tax credits, difficulties to obtain new lines of credit, among other events that are significant for the operation, prevented the Company's from obtaining the expected results, which affected its prospects to discharge its short-term obligations.

For this reason, on November 23, 2018, the Company filed a request for judicial reorganization to make it feasible overcoming the financial crisis while preserving the source of income and the continuity of the business. The request for judicial reorganization was approved and a trustee was appointed on November 26, 2018. On August 1, 2019, the revised Judicial Reorganization Plan submitted on February 04, 2019 was added to the tax debt refinancing process. The Company expects the Judicial Reorganization Plan to be approved on August 23, 2019, when a new Creditors Meeting will be held.

With the approval of the judicial reorganization request, Management has intensified the negotiations with its major creditors to establish commercial conditions and payment models that can make common interests feasible, especially with a view to have the Plan approved by the creditors, besides implementing several actions to ensure the sustainability of the businesses during and after the period preceding the approval of the Judicial Reorganization Plan.

The actions taken include the following:

*1. Supply of products*

The Company amended agreements with the majority of its book suppliers selling on consignment to ensure supply, granting performance bonus and promoting enhanced efficiency in the accountability and settlement processes. With this action, the Company maintains assets, contracts that accounted for 88% of book sales in 2018 and are expected to ensure the supply and product range over the next months. This action had a positive result and there was no reduction in the expected supply levels.

*2. Release of credit card receivables*

In July 2019, the Company completed the negotiation with Banco Itaú for the release of credit card receivables amounting R\$31,000 which were used to collateralize payments of financial transactions, making it possible for the Company to access a considerable portion of revenue. Negotiations with Banco do Brasil are under way, and Management's expectation is that alternatives will be found that will benefit the Company's cash.

### *3. Decrease in operating expenses*

The restructuring plan started in November 2018 already showed important results in the first months of 2019. With sales made in line with Management's expectation, a reduction above 33% was recorded in expenses compared to the same period of 2018, signaling the Company's potential for being successful in the judicial reorganization process.

### *4. Economic Feasibility Report*

Management, supported by a report prepared by the consulting firm Galeazzi e Associados, attested its capacity to honor its obligations under the terms proposed in the judicial reorganization plan. The report certifies the Company's cash-generation capacity and likelihood to continue as a going concern, based on assumptions that are factual and aligned with actions addressed by Management to meet the obligations under the judicial reorganization plan.

### *5. Consolidated image and industry leadership*

Despite the impacts of consecutive crises, the Company's image and leadership in some segments of the book market remains strong, which may be seen from the negotiations made with book suppliers, which support the Company's success in the judicial reorganization plan.

### *6. Recovery of Brazil's book market*

In last two-month periods, sales in the book industry showed that the market starts to recover, which signals an improvement in the operations of retail chains and those of their suppliers.

Management has endeavored all efforts to make the adjustments possible and necessary to ensure that the Company is able to continue as a going concern. Management acknowledges the size of the challenges ahead; however, based on evidence from the actions that are under way, Management's vision of the Company's capacity to recover itself is optimistic.

## **32. EVENTS AFTER THE REPORTING PERIOD**

On August 1, 2019, the revised Judicial Reorganization Plan submitted on February 04, 2019 was added to the tax debt refinancing process. The Company expects the Judicial Reorganization Plan to be approved on August 23, 2019, when a new Creditors Meeting will be held.

## **33. EXPLANATION ADDED TO THE TRANSLATION FOR THE ENGLISH VERSION**

The accompanying interim financial information was translated into English from the original Portuguese version prepared for local purposes. Certain accounting practices applied by the Entity that conform to those accounting practices adopted in Brazil may not conform to the generally accepted accounting principles in the countries where this interim financial information may be used.

---

**OPINIONS AND STATEMENTS / MANAGEMENT'S STATEMENT ON THE INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL INFORMATION**

In conformity with CVM Instruction No. 480, article 25, item VI, dated December 7, 2009, the Board of Directors hereby declares that they reviewed, discussed and agreed with the Individual and Consolidated Interim Financial Information for the quarter ended June 30, 2019.

São Paulo, August 14, 2019



**OPINIONS AND STATEMENTS / MANAGEMENT'S STATEMENT ON THE INDEPENDENT  
AUDITOR'S REPORT ON REVIEW OF THE INDIVIDUAL AND CONSOLIDATED INTERIM  
FINANCIAL INTERIM INFORMATION**

In conformity with CVM Instruction No. 480, article 25, item V, dated December 7, 2009, the Board of Directors hereby declares that they reviewed, discussed and agreed with the Independent Auditor's Report on Review of the Individual and Consolidated Interim Financial Information for the quarter ended June 30, 2019.

São Paulo, August 14, 2019