Grant Thornton

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 and individual and consolidated financial statements

As at December 31, 2018

Grant Thornton

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DEAR SHAREHOLDERS,

Saraiva Livreiros S.A. – em Recuperação Judicial (“Company”) (B3: SLED3 and SLED4), controller of Saraiva e Siciliano S.A. – em Recuperação Judicial (“Varejo”), one of the largest retailers in content focused on culture and education in Brazil, announces its financial results for the fourth quarter and year ended on December 31, 2018 (4Q18 and 2018).

The financial information contained herein refers to the second quarter ended on December 31, 2018, 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 2nd 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 nov/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, 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 160 suppliers, guaranteeing the resumption of product supply, including on consignment. With this action, the Company has active contracts with suppliers who represented around 88% of the book sale estimated for 2018 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 mar/19, 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 Nov/18, already showed important results in the first months of 2019. With sales realized in line with the Company's expectation, we observed a reduction of more than 35% in relation to the same period of 2018, demonstrating the potential success of the recovery process.
- **Feasibility Report prepared by Galeazzi and Associados** attesting to the Company's ability to honor its obligations. The report attests to the cash generation capacity and the probable continuity of the business, based on feasible assumptions and in line with the actions addressed by the Company to comply with the proposed judicial reorganization plan for creditors.
- **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.

Message from Management

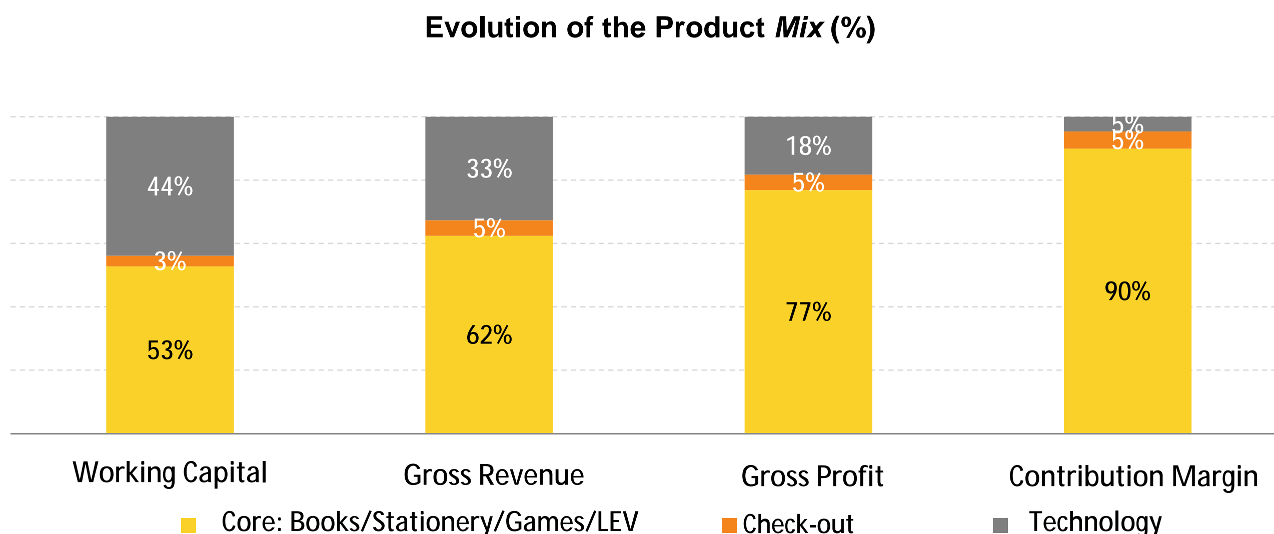
In the face of the economic crisis that has been affecting the book market for four years, coupled with an accumulation of tax credits and a closed financial system, we understand that the **efforts** and **searches for alternatives** made in recent periods **were not sufficient to reverse the scenario**. Therefore, we **made 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**. Our **fourth quarter** of 2018 was a **period of transition**, in which our **results were strongly impacted** by the **drastic changes** that make possible the Company's recovery. Among the changes, we highlight:

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. In this movement, we will no longer generate a large part of our tax credits, one of the main reasons for the consumption of cash in recent years. We estimate that, with this readjustment, we will reduce by R$50 million the generation of tax credits in 2019. This revision of categories also enabled us to further reduce the Company's staff, in addition to the closure of 2 Distribution Centers.

As shown in the following chart, 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.

Chart 1. Reduction/Elimination of categories regarded as the most offensive to Profitability



With the change, **we direct all our efforts** to the publishing market and partnerships with suppliers, focusing our business on the **book** market. In addition to the world of reading, **we will continue to directly offer Stationery, Games, Movies** and **Music** products, as well as the **Checkout** categories such as **Toys, Magazines** and **Bomboniere**. We will offer the other Technology items through our own marketplace business model. With these content categories (Books, Lev, Games, Stationery, Movies, Music and Checkout), which historically represented more than 60.0% of Saraiva's revenues, we will have greater profitability, maximizing our result.

It should be noted that, at the **beginning of 2019**, even with the negative impact of Technology items that should be completely discontinued by the end of May/19, we saw an **increase in our margin**, indicating the assertiveness in our new strategy. Excluding the discontinued categories, we have already seen an increase in our margin when comparing the first two months of 2019 to the same period of the previous year.

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:

- Termination of approximately 700 employees (350 of whom in physical stores) in all the Company's business units, adapting the structure of costs and expenses to the Company's new strategy with a greater focus on competitiveness and the sustainable development of the operation;
- Renegotiation and review of our main contracts with service providers;
- Reduction of scope with prioritization of alternatives with higher cost/benefit ratio;
- Revisions and optimizations in the logistics network, adapting our supply system to the new product mix.

In the **first two months of 2019**, our plan of action has already begun to show results. With sales in line with the expectation of the plan, we observed a **decrease of more than 35% in our expenses** compared to 2018, solidifying the basis for the Company's recovery.

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 early 2019, our units have been performing as estimated, with additional profitability gains even with the reduction in revenue. Among the initiatives carried out, we can highlight:

- Closure, until Dec/18, of 14 Saraiva stores, and of all 8 iTown units, Saraiva's Apple specialty stores focused on a Technology mix;
- Reduction of 350 employees in the stores, as mentioned in the previous item.

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 approximately 160 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. Through these agreements and renegotiations, we are moving towards a **new virtuous circle**, where the more stabilized the supply, the greater the return to the Company and its suppliers.

Support from Galeazzi Consulting

Hired at the beginning of 2018, with the objective of generating **continuous gains in operational efficiency** and ensuring that the structure can support **optimum operation** with **effective dilution of costs**. Responsible for the preparation of the Zero Base Budget, the consultancy firm has been assisting the Company not only in the process of Judicial Reorganization, but also in generating results and building solid bases of performance.

Even with the changes mentioned, **we will maintain our goal to offer the best experience to our customers**. We will continue to evolve our omnichannel platform, one of the most sophisticated in the market, always seeking the best customer ratings:

- **We will continue to offer Technology product categories, which include items such as Telephony and Computer items, through our own marketplace**, which currently operates integrated with our e-commerce. 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. The channel will bring even more benefits to the Company and its customers, contributing to the increase in operating revenues and to the improvement of Saraiva's working capital.
- In addition, we continue to **expand our partnerships in the marketplace** to **sell products on strategic partner sites** such as Walmart, Mercado Livre and B2W, among others. Currently, 70% of purchases of our products in this channel were made by consumers who were not our customers.
- **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.
- **Implementation of a new e-commerce platform**, with a lighter, more agile and stable system than the one currently used, which will contribute to a better performance and increase the conversion rate of the site, as well as a 32% reduction in the annual expenditure budget.

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

§ The Company filed a request for judicial reorganization with the 2nd Bankruptcy and Judicial Reorganization Court of the Judicial District of São Paulo, in the State of São Paulo, in order to reorganize the obligations with its creditors.

§ Implementation of a comprehensive Plan of Action focused on improving profitability and strengthening the operating cash:

- Change in Product Mix with portfolio excluding Technology category (Computing, Telephony, Wearables e Technical Support) and improving profitability;
- Zero budgeting adjusting the Company´s cost structure and expenses;
- Closing of 22 units that had a low prospect of value generation;
- Gradual return of supplies through the signature of agreements with Suppliers;
- Revisions and optimizations in the logistics network, adapting our supply system to the new Category Mix.

§ 9.7% decrease in Recurring Operating Expenses.

§ Improvement of 5 days in Accounts Receivable.

§ 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 19.7% of the online orders are placed in under this model. Of those customers who opt for this service, 20.0% make an additional purchase when they pick up the product at the physical store;
- Partnership with Mercado Livre to use the Click & Collect service, allowing our customers to pick up their online purchases in physical stores. Currently, consumers who were not customers made about 70% of the purchases of Saraiva products on display in Mercado Livre.

§ In dec/18, Saraiva Pluis program had 16.8 million registered customers (+8.9% vs 4Q17) and around 72% of our revenue identified (+1.0 p.p. vs 4Q17). Currently 84.5% of active customers (with purchases in the last 12 months) are participants of the program.

§ Opening, in oct/18, of a new store in Shopping Estação Cuiabá (Cuiabá/MT) with new, more modern and attractive architectural design that requires less investment than the previous model, favoring faster paybacks.

SUBSEQUENT EVENTS

§ On December 18, the Company was prevented from paying the principal and the interest portion of the financing from the BNDES, which executed the guarantee of R$ 40.6 million with Banco Itaú. On March 19, the renegotiation of this amount was completed, enabling the release of R$31 million of receivables as collateral.

§ In the first two months of 2019, we saw the beginning of the recovery of the Company's results after the implementation of the restructuring in 2018:

- Revenue in line with the plan;

- Increase in gross margin of continued categories;
- Decrease of more than 35% in Operating Expenses.

§ Closing, in mar/19, of 2 units with a low value generation perspective.

Main Indicators

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

Consolidated	4Q18	4Q17	Q/Q	3Q18	Q/Q	2018	2017	H/H
Gross Revenue *(Stores + E-commerce)*[1]	220,870	529,219	-58.3%	329,281	-32.9%	1,553,904	1,883,326	-17.5%
Store Sales	156,968	319,770	-50.9%	211,949	-25.9%	966,621	1,175,172	-17.7%
E-commerce Sales	63,902	209,449	-69.5%	117,333	-45.5%	587,283	708,153	-17.1%
Net Revenue *(Stores + E-commerce)*[1]	200,098	476,842	-58.0%	310,388	-35.5%	1,445,422	1,724,886	-16.2%
Store Sales	143,004	295,012	-51.5%	201,517	-29.0%	908,132	1,093,802	-17.0%
E-commerce Sales	57,094	181,831	-68.6%	108,870	-47.6%	537,290	631,085	-14.9%
Gross Profit	43,316	161,206	-73.1%	81,215	-46.7%	411,889	574,801	-28.3%
Gross Margin (%)	2,6%	33,8%	-12.2 p.p.	26,2%	-4.5 p.p.	28,5%	33,3%	-4.8 p.p.
Operating Expenses	(156,976)	(138,866)	13.0%	(130,695)	20.1%	(579,904)	(560,629)	3.4%
Recurring Operating Expenses[1]	(123,500)	(136,766)	-9.7%	(130,695)	-5.5%	(542,863)	(532,016)	2.0%
EBITDA	(113,660)	22,340	-	(49,480)	129.7%	(168,015)	14,172	-
EBITDA Margin (%)	-56,8%	4,7%	-61.5 p.p.	-15,9%	-40.9 p.p.	-11,6%	0,8%	-12.4 p.p.
Adjusted EBITDA	(80,184)	24,440	-	(49,480)	62.1%	(130,974)	42,785	-
Adjusted *EBITDA Margin (%)*[2]	-40,1%	5,1%	-45.2 p.p.	-15,9%	-24.1 p.p.	-9,1%	2,5%	-11.5 p.p.
Adjusted Net Income (Loss) before Disc. Operations[2]	(176,276)	200	-	(65,384)	169.6%	(274,622)	(30,470)	>500%
Adjusted *Net Margin (%)* before Disc. Operations[2]	-88,1%	0,0%	-88.1 p.p.	-21,1%	-67.0 p.p.	-19,0%	-1,8%	-17.2 p.p.
Net results from Discontinued Operations	(421)	(1,029)	-59.1%	(1,218)	-65.4%	(2,661)	(2,655)	0.2%
Adjusted Net Income (Loss)[2]	(176,697)	(829)	>500%	(66,602)	165.3%	(277,283)	(33,125)	>500%
Adjusted Net Margin (%)[2]	-88,3%	-0,2%	-88.1 p.p.	-21,5%	-66.8 p.p.	-19,2%	-1,9%	-17.3 p.p.
Net Income (Loss)	(198,791)	(2,215)	>500%	(66,602)	198.5%	(301,730)	(52,009)	480.2%
Net Margin (%)	-99,3%	-0,5%	-98.9 p.p.	-21,5%	-77.9 p.p.	-20,9%	-3,0%	-17.9 p.p.
SSS - Same Store Sales Growth (%)	-45,1%	-12,5%	-32.6 p.p.	-15,5%	-29.6 p.p.	-14,0%	-7,8%	-6.2 p.p.
E-Commerce Sales Growth	-69,5%	25,2%	-94.7 p.p.	-26,1%	-43.4 p.p.	-17,1%	15,3%	-32.4 p.p.
Number of Stores – End of Period	82	103	-20.4%	103	-20.4%	82	103	-20.4%
Sales Area – End of Period (m²)	53,198	59,594	-10.7%	60,127	-11.5%	53,198	59,594	-10.7%

Note 1: Includes the "Saraiva Entrega" revenue in the Physical Stores results.
Note 2: Excludes the impact of non-recurring and extraordinary restructuring expenses to increase productivity and write-off of tax credits: R$33.5 million in 2018, R$37.0 million in 2018, R$2.1 million in 4Q17 and R$28.6 million in 2017.

RESULTS

REVENUE – Gross revenue totaled R$ 220.9 million in 4Q18, down 58.3% when compared to the R$ 529.2 million registered in 4Q17. Net revenue followed the same trend, decreasing 58.0% in the quarter. In the year of 2018, the decreases were 17.5% and 16.2%, respectively. It is worth noting that a portion of the reduction in sales is the result of the beginning of the discontinuation of the Technology category, reduced supply over the period, a decrease in the number of physical stores, and a significant reduction in revenues due to difficulties in the implementation of a new internal management system in oct-nov/18.

PHYSICAL STORES REVENUE – In 4Q18 and 2018, gross revenue from physical stores reached R$ 157.0 million and R$ 966.6 million, which represents a 50.9% and 17.7% decrease, respectively, over the same periods of the previous year. In terms of comparable stores, we had a decrease of 45.1% and 14.0% when compared to 4Q17 and 2017. Along similar lines, net revenue reduced 51.5% and 17.0%, respectively.

E-*COMMERCE* REVENUE – In 4Q18 and 2018, gross sales of our website Saraiva.com decreased 69.5% and 17.1% when compared to the same periods last year. Net sales totaled R$ 57.1 million and R$ 537.3 million in the same periods. 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, 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.

GROSS PROFIT – Gross profit presented a reduction of 73.1% in 4Q18, reaching R$ 43.3 million with a decrease of 12.2 p.p. in gross margin, which went from 33.8% in 4Q17 to 21.6% in 4Q18. In the year of 2018, the decreases were 28.3% and 4.8 p.p., respectively

During the quarter, in addition to the due to difficulties in the implementation of a new internal management system in oct-nov/18, we adopted the strategy of discontinuing products that had lower margins, depreciating the gross result of the period. To mitigate these effects not only in the current quarter but also in the future, 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$ 123.5 million in 4Q18 and R$ 542.9 million in 2018, representing a strong decrease of 9.7% 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. In the first two months of 2019, our action plan has already begun to show results, with a decrease of more than 35% in our expenses compared to 2018, solidifying the basis for the Company's recovery.

EBITDA – EBITDA, strongly impacted by the discontinuation of the Technology category and the brief reduction in supply, totaled a negative R$80.2 million in 4Q18 and R$ 131.0 million in 2018.

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

Consolidated	4Q18	4Q17	Y/Y	3Q18	Q/Q	2018	2017	Y/Y
Net Income (Loss)	**(198,791)**	**(2,215)**	**>500%**	**(66,602)**	**198.5%**	**(301,730)**	**(52,009)**	**480.2%**
(+) Financial Result	8,018	14,086	-43.1%	14,360	-44.2%	50,342	48,372	4.1%
(+) Income Tax / Social	65,750	2,009	>500%	(6,954)	-	43,078	(18,090)	-
(+) Depreciation Amortization	10,958	7,431	47.5%	8,503	28.9%	37,658	33,247	13.3%
(+) Net Income from Discontinued Operations/Other	405	1,029	-60.6%	1,213	-66.6%	2,637	2,652	-0.6%
EBITDA	**(113,660)**	**22,340**	**-**	**(49,480)**	**129.7%**	**(168,015)**	**14,172**	**-**
EBITDA Margin (%)	-56.8%	4.7%	-	-15.9%	-	-11.6%	0.8%	-
(+) Non-Recurring Expenses[1]	33,5	2,1	>500%	-	-	37,0	28,6	29.5%
Adjusted EBITDA	**(80,184)**	**24,440**	**-**	**(49,480)**	**62.1%**	**(130,974)**	**42,785**	**-**
Adjusted EBITDA Margin (%)	-40.1%	5.1%	-	-15.9%	-	-9.1%	2.5%	-

Note: 1. Non-recurring and extraordinary restructuring expenses to increase productivity (R$4.6 MM), write-off of tax credits (R$15.2 MM) and write-off of goodwill (R$13.7 MM) in 4Q18.

WORKING CAPITAL* – The working capital/net revenue ratio improved reaching 6.2%.

The average term of accounts receivable went from 60 days in 4Q17 to 55 days in 4Q18. The average inventory coverage period increased by 6 days, from 101 days in 4Q17 to 107 days in 4Q18. The supplier payment term, which increased by 106 days, reaching 190 days in 4Q18, when compared to 84 days in 4Q17.

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

NET FINANCIAL REVENUE (EXPENSES) – Net financial result was an expense of R$ 8.0 million in 4Q18 and R$ 50.3 million in 2018.

NET INCOME (LOSS) FOR THE PERIOD – Net Loss before the results of discontinued operations reached R$ 176.3 million in 4Q18 R$ 274.6 million in 2018.

INVESTMENTS (CAPEX) – The investments made totaled R$0.5 million in 4Q18 versus R$18.6 million in 4Q17, confirming the reduction indicated by the Company. In year terms, the volume of investments reached R$85.0 million in 2018 versus R$53.3 million in 2017. The volume of investments was mainly directed to initiatives and new tools for e-commerce, projects covering the area of Information Technology, the opening of stores, and to the implementation of an Enterprise Resource Planning (ERP), which is in the stabilization phase and caused negative impacts on the operation during 4Q18.

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.

On December 18, the Company was prevented from paying the principal and the interest portion of the financing from the BNDES, which executed the guarantee of R$40.6 million with Banco Itaú. On March 19, the Company concluded the renegotiation of this amount, enabling the release of R$31 million of receivables in guarantee from Banco Itaú. The remaining balance of the Company's obligations with financial institutions is in negotiation with Banco do Brasil.

The table below presents the Saraiva's consolidated net debt, which totaled R$ 79.4 million on December 31, 2018, versus R$ 164.8 million on September 30, 2018, and R$ 247.2 million on December 31, 2017.

If we consider credit card receivables, net debt came to R$ 32.3 million on December 31, 2018, versus R$ 122.2 million on September 30, 2018, and R$ 48.1 million on December 31, 2017.

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

Consolidated [1]	4Q18	4Q17	Y/Y	3Q18	Q/Q
Transaction Type					
Loans and Financing²	**172,870**	**313,627**	**-44.9%**	**178,016**	**-2.9%**
(+) Acquisition Obligations	2,637	2,477	6.5%	2,597	1.5%
(-) Cash and Cash Equivalents / Financial Investments	96,138	68,953	39.4%	15,813	>500%
Consolidated Net Debt Before Receivables	**79,369**	**247,151**	**-67.9%**	**164,800**	**-51.8%**
(-) Credit Card Receivables	47,086	199,069	-76.3%	42,580	10.6%
Consolidated Net Debt After Receivables	**32,283**	**48,082**	**-32.9%**	**122,220**	**-73.6%**

Note 1: "Receivables Prepayment" (R$25.4 million in 4Q18, R$115.2 million in 4Q17, and 69.5 million in 3Q18)

OUR STORES – Saraiva closed 4Q18 with 82 stores in 17 Brazilian states and in the Federal District. In 2018, in line with our strategy of prioritizing assets that have stronger value creation potential and the recent initiatives, we closed 25 stores until December 31, 2018:

Regarding the prioritization of investments, we inaugurated four new units in 2018, in line with the new ideal store concepts defined by Management, with investment/m² 25% lower, on average, and favoring faster paybacks:

- Store in Recreio Shopping (Rio de Janeiro/RJ), with sales area of 266 m², in apr/17;
- Store in Patteo Olinda Shopping (Olinda/PE), with sales area of 579 m², in apr/17;
- Store in Ilha Plaza Shopping (Rio de Janeiro/RJ), with sales area of 213 m², in jun/18;
- Store in Shopping Estação Cuiabá (Cuiabá/MT), with sales area of 483 m², in oct/18.

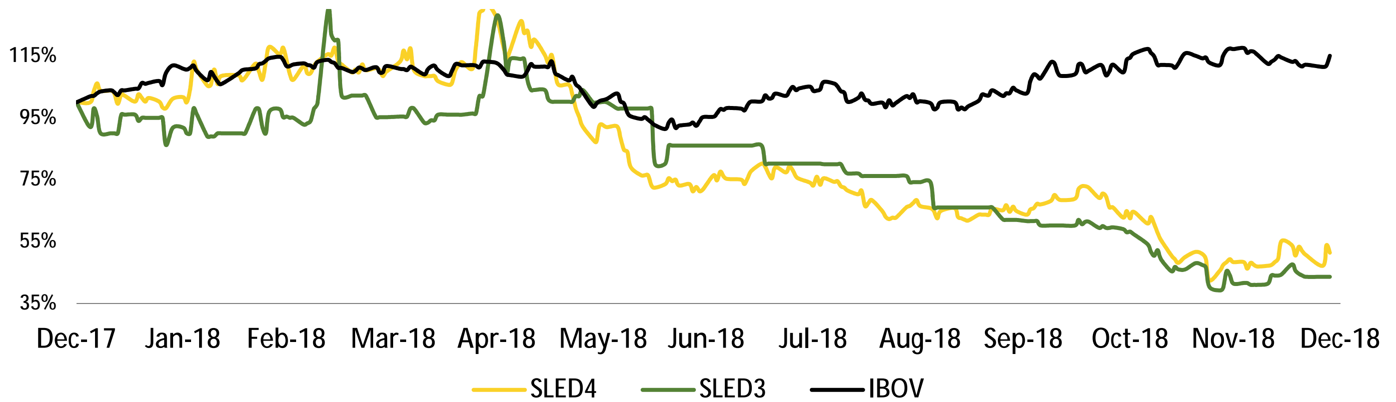
CAPITAL MARKETS

Below is a table of indicators summarizing the movement of Saraiva's shares in 2018 compared with 2017.

Indicadores(*)	2018	2017	Var.
Participation in trading sections - %[1]	100.0	100.0	-
Qtt. trades – thousand[1]	161.4	293.0	-44,9%
Volume traded – R$ thousand[1]	582.4	1,437.0	-59,5%
Share Price (PN) – R$	2.18	4.24	-48,6%
Share Price (ON) – R$	2.18	5.00	-56,4%
Total shares outstanding – thousand	26,686	26,686	-
Market Value – R$ mllion	58.2	120.4	-51,7%

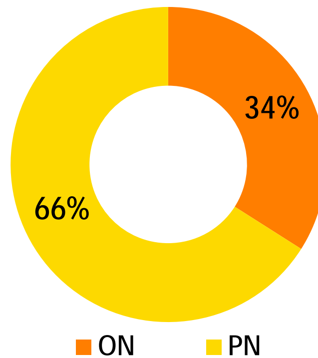
Source: B3
1 12/28/2018
(*) Unaudited

Saraiva's preferred shares reported a decrease of 48.6% over the previous year. During the same period, the Ibovespa stock index recorded a positive variation of 15.0%. As of December 31, 2018 Saraiva's market capitalization was R$ 58.2 million.



Shareholding Structure

Saraiva's subscribed and paid in capital stock was R$ 283.0 million on December 31, 2018, made up of a total of 26,701,745 shares, all nominative, book entry and with no par value. Of these shares, 9,622,313 are common (ON) and 17,079,432, preferred (PN). The Company holds 15,700 common shares as treasury stock.



Dividends

Due to the filing and granting of the request for judicial reorganization with the 2nd Bankruptcy and Judicial Reorganization Court of the Judicial District of São Paulo, State of São Paulo, under number 1119642-14.2018.8.26.0100, in compliance with Article 6 of Law 11,101/2015, the partial distribution of the mandatory dividend withheld from the fiscal year 2015 was suspended. The payment would total R$5,817,033.30 and was scheduled to occur on December 18, 2018, as approved by the Company´s Annual Shareholders´ Meeting held on April 26, 2018 ("Dividends"). The Company will provide new information regarding the payment of Dividends during the fiscal year 2019.

EMPLOYEES

We closed 2018 with 2,785 employees (3,186 in 2017). The Human Resources strategic initiatives focused on development, engagement, diversity and efficiency/productivity.

INDEPENDENT AUDITORS

The financial information (individual and consolidated) have been examined by Grant Thornton Auditores Independentes (“Grant Thornton”).

The engagement of independent auditors is based on the principles which safeguard the independence of the auditor, consisting in (a) the auditor not auditing its own work; (b) not exercising managerial functions; and (c) not advocating on behalf of the Company or rendering any services which might be deemed as subject to restriction under prevailing regulations.

The total value booked relative to outside audit fees for fiscal year 2018 was R$ 607 thousand.

ADHERENCE TO THE MARKET ARBITRATION PANEL

As a result of adherence to Corporate Governance Level 2, the Company, its shareholders and management undertake through arbitration to resolve all conflicts established in the Commitment Clause in the Bylaws pursuant to B3’s Market Arbitration Panel Regulations.

DECLARATION OF THE EXECUTIVE BOARD ON THE FINANCIAL STATEMENTS

Pursuant to the provision in Article 25 of CVM Instruction 480/09, the Executive Board declares that it has reviewed, discussed and agrees with the financial statements, individual and consolidated, authorizing its conclusion on this date.

DECLARATION OF THE EXECUTIVE BOARD ON THE OPINION OF THE INDEPENDENT AUDITORS

Pursuant to the provision in Article 25 of CVM Instruction 480/09, the Executive Board declares that it has reviewed, discussed and agrees with the opinions expressed in the opinion of the independent auditors on these statements, issued as of this date.

ACKNOWLEDGEMENTS

We wish to thank all shareholders, clients, suppliers, financial institutions, employees and communities for the support provided in 2018.

São Paulo, March 26, 2019.

The Management

FISCAL COUNCIL OPINION

The Fiscal Council of Saraiva Livreiros S.A. - in Judicial Recovery ("Company"), in the exercise of its legal and statutory attributions, analyzed: (i) the management's annual report for the fiscal year ended December 31, 2018; and (ii) the financial statements for the fiscal years ended December 31, 2018 and 2017, including the report of Grant Thornton Independent Auditors, with exception, issued on March 26, 2019, on the financial statements prepared in accordance with the standards financial reporting and accounting practices adopted in Brazil. Based on its findings and clarifications obtained from management, the Company's Fiscal Council, unanimously, is of the opinion that items (i) and (ii) above are capable of being submitted to a resolution of the Company's shareholders at a General Meeting

São Paulo, March 27, 2019.

João Verner Juenemann	**Carlos Antonio Vergara Cammas**
Presidente do CF	Vice-Presidente do CF
Sérgio Ramires Salzano	**Edmundo de Macedo Soares e Silva Filho**
Secretário	

Fábio Naum Salim Man

Grant Thornton

(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 financial statements.)

Independent auditor's report

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

Qualified opinion

We have audited the accompanying individual and consolidated financial statements of Saraiva Livreiros S.A.- under Judicial Reorganization ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss, statement of comprehensive loss, statement of changes in equity, and statement of cash flows for the year then ended, and the corresponding explanatory notes, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for qualified opinion" section, the financial statements present fairly, in all material respects, the individual and consolidated financial position of Saraiva Livreiros S.A. - under Judicial Reorganization as at December 31, 2018, the individual and consolidated financial performance and individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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

As described in Notes 1 and 32 to the individual and consolidated financial statements, the Company, together with is subsidiary, filed a request for judicial reorganization on November 23, 2018, which as approved on November 26, 2018. The Company and its subsidiary submitted a judicial reorganization plan on February 04, 2019, which is under evaluation, revision and approval by their creditors.

During the year ended December 31, 2018, the Company incurred individual and consolidated loss in the amount of R$ 301,730 thousand and R$ 301,754 thousand, respectively, and, at that date, the Company's current liabilities exceeded its total current assets by R$ 870 thousand and R$ 316,402 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 opinion is not qualified regarding of this matter.

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Basis for qualified opinion on the individual and consolidated financial statements

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

As described in Notes 13, 15 and 17, as at December 31, 2018, the Company has the following obligations payable: **i)** borrowings and financing, in the amount of R$ 172,871 thousand, consolidated; **ii)** trade payables, in the amount of R$ 1,719 thousand, Parent, and R$ 549,324 thousand, consolidated; and **iii)** payroll and related taxes, in the amount of R$ 383 thousand, Parent, and R$ 13,514 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 precedes 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, is necessary.

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the individual and consolidated financial statements” section of our report. We are independent of the Company and its subsidiary in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the individual and consolidated financial statements.

Key audit matters

Key Audit Matters (KAM) are those matters that, in our judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements taken as a whole and in forming our opinion on such individual and consolidated financial statements, and, therefore, we do not provide a separate opinion on these matters. In addition to the matter described in the “Significant uncertainty as to the ability to continue as a going concern and judicial reorganization plan” section and the matter described in the “Basis for qualified opinion on the individual and consolidated financial statements” section, we determined that the matters below are the key audit matters that should be communicated in our report.

1. Existence and valuation of the Subsidiary’s inventories – Note 6

As discussed in Note 6, as at December 31, 2018, the Company had the amount of R$ 174,851 thousand in the consolidated financial statements. Inventories are basically comprised of goods for resale that are stored in the distribution center located in the city of Cajamar, State of São Paulo, and in physical stores, located in 17 States of Brazil. The existence and valuation of inventories may be affected by errors in movements and controls over physical quantities, which are controlled by systemic incoming and outgoing inventory controls and checked by performing cyclical physical inventories. This matter was considered a critical and risk area in our work due to the significant risk that errors may occur in movements of physical quantities, which would result in inappropriate valuation of inventories as at December 31, 2018, since there is a considerable number of inventory items, and the volume of incoming and outgoing movements within the year was also high.

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How the matter was addressed in our audit

To mitigate the risk of material misstatements related to the existence of inventories due to possible errors in movements and physical control over inventories, we performed the following procedures, among others: **i)** understand and evaluate the internal controls implemented by Management to determine the standards and procedures in place to count physical inventories; **ii)** attend the physical count of inventories at certain stores and at the distribution center, on a sampling basis, and, in a sample of selected physical stores. We checked the differences of inventories identified, the respective reconciliations of differences and the documentation supporting the statements, and tested if the differences were properly recorded and if the respective taxes were properly recorded; **iii)** perform testing procedures over movements, for examinations made at an interim date or at a date subsequent to inventory counting through the reporting date; **iv)** supported by our information technology specialists, we checked the movements of incoming and outgoing inventory items for the period from 01/10/2018 (interim date) to 12/31/2018, to test inventories for completeness.

Based on the procedures performed, we identified some weaknesses in controls over inventories, arising, specifically, from the implementation of a new Enterprise Resources Planning (ERP) system. We have examined the accounting recognition of the adjustments necessary to inventories and costs of goods sold and concluded that inventories are presented in an acceptable manner as at December 31, 2018.

2. Information Technology Environment – Note 1

The Company operates in an environment highly dependent on technology which requires a complex infrastructure to support the high volume of transactions that are processes on a daily basis both by the e-commerce channel and physical stores.

The risks inherent in the information technology, coupled with the complex architecture of integration among legacy systems with industry solutions that support the processing of operations, considering the volume of transactions and the dependence on the effectiveness of the existing processes, may, eventually, result in incorrect processing of data and critical information, including that used in preparing individual and consolidated financial statements.

In October 2018, the Parent's operations and accounting and financial systems were migrated to the enterprise resources planning software SAP. However, due to performance problems in SAP solutions, which affected the Company's commercial and supply operations, the Company decided, on an emergency basis, that, beginning December, the transactional support for commercial and supply operations should be returned to the legacy systems, which would integrate the commercial transactions and supply operations to the SAP finance modules. The processes of changes in operating systems occurred during 2018 made the matter an area of risk and, therefore, a key audit matter in the current year.

How the matter was addressed in our audit

Our audit procedures included, among others, understanding the processes and the design of the business processes. We were supported by our Information Technology specialists, which performed the following procedures:

- Entity Level Controls (ELC) procedures, which encompassed an evaluation of the design of the general information technology controls over the systems supporting the Company's accounting and financial operations; we gained a general understanding of the Information Technology (IT) environment in relation to the systems that are relevant to the financial statements, an understanding of operating systems and database, understanding the complexities associated to each application, making inquiries and walkthroughs para to evaluate the design of the IT general controls that have an impact on the completeness of the reports used in the financial statements for areas including security management, software maintenance, execution of programs and new systems;

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- Computer-Assisted Audit Techniques (CAATs) procedures, encompassing transactional analyses of revenues and inventories during the period which, according to our professional judgment, represented the highest risks of misstatements in the individual and consolidated financial statements as a result of the implementation and integration between ERPs SAP S/4 Hana and SIS, and Journal Entries Testing (JET) procedures were performed to support our audit examination for the analyses of accounting entries made during the period from 01/01/2018 to 12/31/2018. In addition, the objective of the procedure also included the following: ensure the completeness of the extraction of accounting entries, ensure the identification of manual and automated entries, extract any unusual manual entries by using Computer-Assisted Audit Techniques (CAAT), based on the evaluation performed by the audit team on the operation of accounting entries to identify indications of fraud;
- As a result of the abovementioned change in software system, we performed a higher amount of substantive procedures for the year ended December 31, 2018.

Based on our audit approach and the procedures performed, we identified weaknesses in the Company's operating controls over the integration of data between systems and that resulted in adjustments being made to banks, trade receivables, inventories, trade payables, other operating income, and cost of goods sold and services rendered in the financial statements, which were recorded in an acceptable manner by the Company's Management in the individual and consolidated financial statements for the year ended December 31, 2018.

Other matters

Statements of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2018, prepared under the responsibility of the Company's Management and presented as supplemental information for IFRS purposes, have been subject to auditing procedures which were performed together with the audit of the Company's financial statements. In forming our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 – Statement of Value Added. In our opinion, except for the matter described in the "Basis for qualified opinion" paragraph, these statements of value added were appropriately prepared, in all material respects, according to the criteria defined in said Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Information other than the individual and consolidated financial statements and auditor's report thereon

The Company's Management is responsible for this other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in Management Report, we are required to report this fact. We have nothing to report in this regard.

Responsibility of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements, unless Management either intends to liquidate the Company and its subsidiary or to cease operations, or has no realistic alternative to avoid doing so.

Those charged with the Company's and its subsidiary's governance are those responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the individual and consolidated financial statements

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

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve override of internal control, collusion, forgery, intentional omissions or misrepresentations;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiary' internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiary' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiary to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the individual and consolidated financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit and, consequently, for the audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including those regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

São Paulo, March 26, 2019

Rafael Dominguez Barros
Assurance partner

Grant Thornton Auditores Independentes

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

BALANCE SHEETS AT DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian *Reais* - R$)

	Note	Parent		Consolidated	
ASSETS		12/31/18	12/31/17	12/31/18	12/31/17
CURRENT					
Cash and cash equivalents	4	760	11	95,423	68,943
Interest-earning bank deposits	4	-	-	6	9
Trade receivables	5	-	-	57,685	206,910
Stocks	6	-	-	174,851	460,541
Taxes and contributions recoverable	7	179	192	97,976	178,507
Other credits	-	52	51	33,500	18,277
Accounts receivable from sale of publishing segment	3.b)	21,427	21,427	21,427	21,427
Derivatives	13	-	-	-	1,010
Prepaid expenses	-	625	66	2,766	6,879
Total current assets		23,043	21,747	483,634	962,503
NONCURRENT					
Long-term assets:					
Deferred taxes and contributions	8.a)	-	-	-	43,372
Judicial deposits	18	11,827	18,402	43,791	39,668
Taxes and contributions	7	6,744	6,693	194,172	119,629
Derivatives	13	-	-	-	3,030
Other credits	-	1,710	30	2,525	1,837
		20,281	25,125	240,488	207,536
Investments:					
In subsidiary	10	120,943	414,068	-	-
Other	-	23	23	23	23
PP&E	11	360	1,150	51,584	68,290
Intangible assets	12	-	104	202,945	160,833
Total non-current assets		141,607	440,470	495,040	436,682
TOTAL ASSETS		164,650	462,217	978,674	1,399,185

Notes are an integral part of financial statements.

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

BALANCE SHEETS AT DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian Reais - R$)

	Note	Controladora		Consolidado	
LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/18	31/12/17	31/12/18	31/12/17
CURRENT					
Suppliers	15	1,719	996	549,324	546,880
Loans and financing	13	-	-	154,468	119,635
Deferred income tax and social contribution	9.a)	2,183	7,996	-	-
Social and labor obligations	17	383	467	13,514	19,359
Taxes and contributions payable	16	63	69	6,823	2,134
Dividends and interest on shareholders' equity	-	5,832	5,832	5,832	5,832
Deferred revenue - loyalty program	14	-	-	4,320	1,757
Operating leases - store rentals	25	-	-	31,771	12,563
Derivatives	-	10,000	-	10,000	-
Other obligations	-	3,733	2,181	23,984	32,202
Total current liabilities		23,913	17,541	800,036	740,362
NON-CURRENT					
Loans and financing	13	-	-	18,403	198,032
Deferred income tax and social contribution	8.a)	4,586	4,407	4,586	4,407
Provision for tax, civil and labor risks	18	3,611	4,136	16,807	13,492
Taxes and contributions payable	16	-	-	1,514	1,836
Dividends and interest on shareholders' equity	-	11,634	11,634	11,634	11,634
Other obligations	-	-	2,477	4,776	7,364
Total non-current liabilities		19,831	22,654	57,720	236,765
SHAREHOLDERS' EQUITY					
Share capital	19.a)	282,999	282,999	282,999	282,999
Treasury shares	19.b)	(233)	(233)	(233)	(233)
Stock option plan	-	5,311	5,244	5,311	5,244
Profit reserves	-	-	123,280	-	123,280
Adjusted equity valuations	19.e)	11,279	10,732	11,279	10,732
Accumulated losses	-	(178,450)	-	(178,450)	-
Shareholder equity attributed to controlling shareholders		120,906	422,022	120,906	422,022
Non-controlling interest	19.g)	-	-	12	36
Total shareholders' equity		120,906	422,022	120,918	422,022
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		164,650	462,217	978,674	1,399,185

Notes are an integral part of financial statements.

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

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian Reais - R$, except net earnings per share)

	Note	Parent		Consolidated	
		31/12/18	12/31/17	31/12/18	12/31/17
NET OPERATING REVENUE	20	-	-	1,445,422	1,724,886
COST OF GOODS AND SERVICES SOLD	21	-	-	(1,033,533)	(1,150,085)
GROSS INCOME		-	-	411,889	574,801
Sales	21	-	-	(354,243)	(459,998)
General and administrative	21	(4,147)	(6,111)	(192,987)	(109,502)
Depreciation and amortization	11 and 12	(851)	(1,693)	(37,658)	(33,247)
Equity equivalence	10	(293,672)	(41,635)	-	-
Other operating expenses	22	(38)	(139)	(52,472)	(16,762)
Other operating revenues	23	134	85	19,798	25,633
		(298,574)	(49,493)	(617,562)	(593,876)
LOSS BEFORE FINANCIAL INCOME (LOSS)		(298,574)	(49,493)	(205,673)	(19,075)
FINANCIAL INCOME (LOSS)					
Interest income	24	636	1,456	18,377	7,436
Interest expenses	24	(1,131)	(1,099)	(68,719)	(55,808)
		(495)	357	(50,342)	(48,372)
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		(299,069)	(49,136)	(256,015)	(67,447)
INCOME TAX AND SOCIAL CONTRIBUTION					
Deferred	8.b)	-	(218)	(43,078)	18,090
NET LOSS ON CONTINUING OPERATIONS		(299,069)	(49,354)	(299,093)	(49,357)
DISCONTINUED OPERATIONS					
Net income (loss) from discontinued operations (net of taxes)		(2,661)	(2,655)	(2,661)	(2,655)
NET INCOME (LOSS) FOR THE YEAR		(301,730)	(52,009)	(301,754)	(52,012)
Attributable to					
Controlling interest				(301,730)	(52,009)
Non-controlling interest	19.g)			(24)	(3)
				(301,754)	(52,012)
BASIC EARNINGS (LOSS) PER SHARE - R$					
ON	26			(11.30667)	(1.94892)
PN	26			(11.30667)	(1.94892)
DILUTED EARNINGS (LOSS) PER SHARE - R$					
ON	26			(11.30667)	(1.94892)
PN	26			(11.30335)	(1.94684)

Notes are an integral part of financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian Reais - R$)

	Note	Parent		Consolidated	
		31/12/18	12/31/17	31/12/18	12/31/17
Net income (loss) for the period		(301,730)	(52,009)	(301,754)	(52,012)
Other comprehensive income(loss)		-	(458)	-	(458)
TOTAL COMPREHENSIVE INCOME(LOSS)		(301,730)	(52,467)	(301,754)	(52,470)
Comprehensive income attributable to:					
Controlling shareholders				(301,730)	(52,467)
Non-controlling shareholders	19.g)			(24)	(3)
				(301,754)	(52,470)

Notes are an integral part of financial statements.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian Reais - R$)

					Profit reserves								
	Note	Share capital	Treasury shares	Reserve for stock option plan purchases	Legal reserve	Statutory reserve	Special Reserve for compulsory dividend unpaid	Adjusted equity valuation	Additional dividends proposed	Retained earnings (loss)	Attributable to Parent's proprietors	Non-controlling interest	Total shareholders' equity
BALANCES AT DECEMBER 31, 2016		282,999	(233)	5,125	37,749	137,540	17,452	11,190	-	-	491,822	39	491,861
Net income for the period		-	-	-	-	-	-	-	-	(52,009)	(52,009)	(3)	(52,012)
Adjusted valuation of derivatives	19.e)	-	-	-	-	-	-	(458)	-	-	(458)	-	(458)
Stock option plan	19.d)	-	-	119	-	-	-	-	-	-	119	-	119
Absorption of loss with profit reserves		-	-	-	-	(52,009)	-	-	-	52,009	-	-	-
Transfer to profit reserve	19.f)	-	-	-	-	-	(17,452)	-	-	-	(17,452)	-	(17,452)
BALANCES AT DECEMBER 31, 2017		282,999	(233)	5,244	37,749	85,531	-	10,732	-	-	422,022	36	422,058
Net income for the period		-	-	-	-	-	-	-	-	(301,730)	(301,730)	(24)	(301,754)
Adjusted valuation of derivatives	19.e)	-	-	-	-	-	-	547	-	-	547	-	547
Stock option plan	19.d)	-	-	67	-	-	-	-	-	-	67	-	67
Absorption of loss with profit reserves		-	-	-	(37,749)	(85,531)	-	-	-	123,280	-	-	-
BALANCES AT DECEMBER 31, 2018		282,999	(233)	5,311	-	-	-	11,279	-	(178,450)	120,906	12	120,918

Notes are an integral part of financial statements.

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

CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian *Reais* - R$)

	Note	Parent		Consolidated	
		31/12/18	12/31/17	31/12/18	12/31/17
CASH FLOW FROM OPERATING ACTIVITIES					
Loss before income tax and social contribution		(299,069)	(49,136)	(256,015)	(67,447)
Adjustments to reconcile income before income tax and social contribution with cash flow from operating activities:					
Depreciation and amortization (includes value appropriate to cost)	11 and 12	894	1,778	38,428	34,232
Allowance for doubtful accounts	5	-	-	18,799	4,038
Provision for inventory losses	6	-	-	2,270	(14,609)
Impairment loss		-	-	35,787	135
Equity equivalence net of adjusted profit in Retail inventory - ICPC 09 and realization of the fair value calculated on acquisition of investment	10	293,672	41,635	-	-
Income (loss) on disposal and/or sale of property, plant and equipment, intangible assets and investment	11 and 12	-	-	6,228	2,197
Financial charges and monetary variation on balances with related companies, financing, loans and tax obligations		533	270	38,240	2,939
Stock option plan	20.e)	67	119	67	119
Other operating provisions		81	(11)	5,825	17,413
Decrease (increase) in operating assets:					
Trade receivables	5	-	-	130,426	146,546
Inventory	6	-	-	283,419	(153,887)
Other operating assets		(547)	12,184	(28,817)	(86,038)
Increase (decrease) in operating liabilities:					
Suppliers	15	723	(200)	2,444	143,943
Income tax and social contribution paid		-	-	-	(236)
Payment of interest on loans and financing		-	-	(15,611)	(21,895)
Assignment of supplier credits to financial institutions		-	-	-	(740)
Other operating liabilities		(1,176)	(709)	12,945	431
Cash flow from discontinued operations		2,362	(835)	2,362	(835)
Cash flow from (used in) operating activities		(2,460)	5,095	276,797	36,636
CASH FLOW FROM INVESTMENT ACTIVITIES					
Acquisition of property, plant and equipment and intangible assets	11 and 12	-	-	(85,933)	(53,302)
Receipt from sale of property, plant and equipment	11 and 12	-	-	253	534
Cash from (used in) investing activities		-	-	(85,680)	(52,768)
CASH FLOW FROM FINANCING ACTIVITIES					
Payment of dividends and interest on equity		-	(4,788)	-	(4,788)
Advance for future capital increase		10,000	-	10,000	-
Loans obtained for working capital	13	-	-	24,134	257,112
Loans made to subsidiary, net of amounts paid	9.a)	-	7,726	-	-
Loans obtained from subsidiary, net of amounts paid	9.a)	(6,346)	-	-	-
Amortization of loans and financing		-	-	(198,326)	(28,436)
Cash from financing activities - discontinued operations		(445)	(8,179)	(445)	(8,179)
Cash used in financing activities		3,209	(5,241)	(164,637)	(40,215)
DECREASE IN BALANCE OF CASH AND CASH EQUIVALENTS		749	(146)	26,480	(56,347)
STATEMENT OF CHANGES IN BALANCES OF CASH AND CASH EQUIVALENTS					
Opening balance		11	157	68,943	125,290
Closing balance		760	11	95,423	68,943
DECREASE IN BALANCE OF CASH AND CASH EQUIVALENTS		749	(146)	26,480	(56,347)

Notes are an integral part of financial statements.

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

STATEMENTS OF ADDED VALUE
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(thousands of Brazilian *Reais* - R$)

	Note	Parent		Consolidated	
		31/12/18	12/31/17	31/12/18	12/31/17
ADDED VALUE					
Sales of goods and services		-	-	1,551,340	1,882,503
Allowance for doubtful accounts, net of reversals	5	-	-	(18,799)	(4,038)
Other operating revenues		134	85	20,051	26,847
		134	85	1,552,592	1,905,312
INPUTS ACQUIRED FROM THIRD PARTIES					
Cost of goods and services sold		-	-	(1,115,336)	(1,287,215)
Materials, energy, third-party services and others		(554)	(1,132)	(320,417)	(304,406)
Other operating expenses		-	-	(5,890)	(607)
GROSS ADDED VALUE		(420)	(1,047)	110,949	313,084
RETENTIONS					
Depreciation and amortization	11 and 12	(894)	(1,781)	(38,430)	(34,236)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS		(2,661)	(2,655)	(2,661)	(2,655)
NET ADDED VALUE		(3,975)	(5,483)	69,858	276,193
ADDED VALUE RECEIVED AS TRANSFER					
Equity equivalence	10	(293,672)	(41,635)	-	-
Interest income	24	636	1,456	4,781	7,436
		(293,036)	(40,179)	4,781	7,436
TOTAL ADDED VALUE TO BE DISTRIBUTED		(297,011)	(45,662)	74,639	283,629
DISTRIBUTION OF ADDED VALUE					
Employees - personnel and payroll charges		3,001	4,150	177,537	193,532
Government - taxes, fees and contributions		740	1,184	85,688	20,695
Financial creditors - financial expenses, excluding IOF		978	1,013	54,735	54,967
Lessees- rentals		-	-	58,433	66,447
Shareholders - (loss absorption) creation of profit reserve		(301,730)	(52,009)	(301,730)	(52,009)
Non-controlling interest	19.g)	-	-	(24)	(3)
		(297,011)	(45,662)	74,639	283,629

Notes are an integral part of financial statements.

1. GENERAL INFORMATION

Saraiva Livreiros S.A. - under judicial reorganization ("Parent Company"), founded in 1914, is a publicly traded Brazilian business corporation with its principal place of business at Rua Henrique Schaumann, 270, city of São Paulo, state of São Paulo, listed on the São Paulo Stock, Commodities and Futures Exchange (B3 S.A.) Corporate Governance Level 2, symbols SLED3 and SLED4, that operates in the retail segment through Saraiva and Siciliano S.A. ("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 is 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 80 stores. Varejo also operates technology products by means of its own market place, integrated to the e-commerce.

On October 01, 2018, the Parent's and Varejo's operations and accounting and financial systems were migrated to the enterprise resources planning software SAP. However, due to performance problems in SAP solutions, which affected the Company's commercial and supply operations, Management decided, on an emergency basis, that, beginning December 01, the transactional support for commercial and supply operations should be returned to the legacy systems, which would integrate the commercial and supply operations to SAP finance modules. Consequently, differences in the balances of banks, trade receivables, inventories and trade payables were identified that resulted in accounting adjustments, with contra entries to other operating income and costs of goods sold and services rendered, properly recorded by the Company.

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 February 4, 2019, the draft version of the Judicial Reorganization Plan was attached to the process (Note 32).

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) and on the website of the Brazilian Securities and Exchange Commission - SEC (www.cvm.gov.br).

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. *Statement of compliance*

The financial statements consist of individual and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board* (IASB) and accounting practices adopted in Brazil.

All material financial statements data, and these data only, are being shown and they correspond to the data used by the Management of the Subsidiary and of Varejo.

The Board of Directors Meeting held on March 26, 2019 authorized the conclusion and disclosure of the present individual and consolidated financial statements, which include events subsequent to December 31, 2018 when applicable.

2.2. *Basis for measurement*

The individual and consolidated financial statements have been prepared on the basis of historic cost, except for certain derivative and non-derivative financial instruments measured at fair value.

2.3. *Functional currency and presentation currency*

The functional currency and presentation currency used in the individual and consolidated financial statements is the *Real* (R$).

2.4. *Principal sources for judgment and estimates*

The preparation of the individual and consolidated financial statements requires Management to make certain judgments and use assumptions and estimates based on experience and on other factors considered relevant, which affect the values of assets and liabilities and may show results that differ from actual results.

The underlying estimates and assumptions are constantly reviewed, and the effects are recognized in the year in which any revision takes place.

Information on judgments related to the accounting policies adopted, which affect the amounts recognized in the individual and consolidated financial statements, and uncertainties as to assumptions and estimates which pose a significant risk of causing material adjustments next year, are shown in the following explanatory notes:

a) Allowance for expected credit losses – Note 5;
b) Write-off of obsolete inventories – Note 6;
c) Deferred taxes – Note 8;
d) Impairment of assets – Note 11 and 12;
e) Impairment of goodwill – Note 12;
f) Varejo’s customers loyalty program – Note 14;
g) Provision for tax, civil and labor risks – Note 18;
h) Fair value of derivative and non-derivative financial instruments – Note 27.

3. SIGNIFICANT ACCOUNTING POLICIES

The following policies have been adopted by the Parent Company for Varejo and have been applied consistently for the years shown in the individual and consolidated financial statements.

a) *Basis of consolidation*

The subsidiary's financial statements are included in the consolidated financial statements as from the date control was obtained through the date it ceases to exist.

Subsidiary

Varejo's financial, operating and accounting policies are controlled and adjusted by the Parent's Management.

In the Parent's individual financial statements, Varejo's financial statements are recognized under the equity method of accounting and, in preparing the consolidated financial statements, Varejo's financial statements as of the same reporting date were used.

Transactions eliminated on consolidation

Balances and transactions and any revenues or expenses from transactions between the Parent Company and Varejo are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses on transactions with Varejo, recorded by means of equity accounting, are eliminated against the investment in proportion to the Parent Company's participation. However, unrealized losses are eliminated only when there is no evidence of impairment.

b) *Discontinued operation and non-current assets held for sale.*

In the year ended December 31, 2018, the land and construction of the Guarulhos operating unit of the Parent Company, for the amount of R$21,427, equivalent to the lower of book value and fair value less costs to sell.

The result of the discontinued operations presented in the year comprises the residual result of operations related to the publishing segment of the Parent Company, sold to Editora Ática S.A. in 2015.

c) *Operating revenues*

Revenue primarily derives from goods sold and services rendered by Varejo.

Revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and/or services and they are accounted for based on the 5-step model established by CPC 47 – Revenue from Contracts with Customers, which replaced all revenue recognition requirements effective through December 31, 2017.

Management has elected to disclose revenue under the modified retrospective approach for annual periods beginning on January 01, 2018. In Management´s evaluation, no significant changes were identified in revenue recognition in relation to the formerly used model, basically because revenues are recognized when the control of ownership of goods and services is transferred.

Sales resulting in the delivery of awards to customers of Varejo's customer loyalty program ("Saraiva Plus") are accounted for as deferred income in the amount of the consideration received or receivable, adjusted by the average of the sales margin. Deferred income is recognized in profit or loss when credits are redeemed by customers and obligations are fulfilled and/or when the right to use the points expire.

d) Transactions and balances in foreign currency

Transactions in foreign currency are converted into the functional currency at the exchange rate ruling on the transaction date. Balances of balance sheet accounts are converted at the exchange rate ruing on the closing date. Gains and losses on currency variation resulting from the settlement of these transactions and the conversion of monetary assets and liabilities denominated in foreign currency are recognized in income.

e) Financial instruments

i) Non-derivative financial assets – recognition and derecognition

Loans and receivables are initially recognized on the date on which they originate. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date when the contracts are signed.

Derecognition of a financial asset occurs when the contractual rights expire, or when the risks and benefits of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net figure shown in the balance sheet when, and only when, there is a legal right to do so and it is intended to settle them on a net basis or to realize the asset and settle the liability simultaneously.

ii) Non-derivative financial assets - measurement

Financial assets measured at fair value through profit or loss

A financial asset is classified as measured through profit or loss if it is classified as held for trading and designated as such at the time of initial recognition. Transaction costs are recognized in income when incurred. They are measured at fair value and changes in fair value, including interest income, are recognized in income for the year.

Loans and receivables

These assets are initially measured at fair value plus any attributable transaction costs. After the initial recognition, loans and receivables are held at amortized cost, using the effective interest rate method.

Cash and cash equivalents

These include cash balances, banks and financial investments with an original maturity date of three months or less from the contract date, which are used for managing short-term obligations. These assets are subject to an insignificant risk of change in value.

iii) Non-derivative financial liabilities – recognition, write-off and measurement

Non-derivative financial liabilities are initially recognized on the date when the contractual provisions of the instrument are assumed. Financial liabilities are derecognized when the contractual obligations cease or are extinguished, by the withdrawal of one of the parties, by cancellation or when they mature.

These liabilities are initially measured at fair value plus any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost, using the effective interest rate method.

iv) Derivative financial instruments, including hedge accounting

These consist of transactions for settlement at a future date, whose amount changes in response to variations in the exchange rate. Derivative financial instruments are recognized at fair value on the contract date and adjusted to fair value on the closing date of each financial year. This category includes swap transactions for foreign currency loans.

Hedge accounting to protect loans denominated in foreign currency

Management uses hedge accounting to record, in the same accounting period, the effects of derivatives formally designated as hedging instruments, and the item hedged, relating to differences between the foreign currency and the functional currency.

The effective portion of a hedge, corresponding to foreign currency differences resulting from the reconversion of a financial asset designated as hedge, is recognized in other comprehensive income and accumulated under the heading “Adjustments to equity valuation” in shareholders’ equity. The non-effective portion of a hedge is recognized in income. The portion held in the adjustments to equity valuation account is transferred to income when the liability hedged is settled. Derivative transactions were settled in the year ended December 31, 2018.

f) Trade receivables and allowance for expected credit losses

Recorded at their original amounts of receivables, less the allowance for expected credit losses and receivables unlikely to be collected.

Expected losses on current and past-due trade receivables and credit card receivables are estimated based on the likelihood of collection and the history of losses.

Trade receivables are not adjusted to fair value, since they mature in the short term and the effects on the financial statements taken as a whole are not material.

g) Inventories of goods for resale

Recorded at average acquisition cost, when applicable, less loss from obsolescence, to adjust them to net realization value when this is lower.

Losses on inventory obsolescence of Varejo’s goods for resale are estimated and recognized for items that have not moved, where turnover is low or which are obsolete, and for items which are not in a saleable condition, as established by periodic checks undertaken by Management in line with criteria defined in the internal policy for inventory obsolescence.

h) Investments

Investments in subsidiaries are valued by equity accounting in the individual financial statements of the Parent Company. Unrealized profits on commercial transactions between the Parent Company and Varejo are eliminated through equity accounting (Note 10).

i) Property, plant and equipment

Registered at the cost of acquisition, formation or construction, less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis at rates that take into account the useful life of the assets (Note 11). Facilities and improvements to leasehold property of the Parent Company and Varejo are depreciated over the period of the lease, or over the useful life of the assets, whichever is shorter (Note 11).

Financial charges incurred on loans for the expansion or refurbishment of Varejo stores are not included in the cost of acquisition of property, plant and equipment, since the average time for outfitting and opening a store is three months, and therefore these charges do not qualify as assets.

Through the year ended December 31, 2018, assets held under finance leases are depreciated over their expected useful lives in the same manner as own assets, or over a shorter period, if applicable, under the terms of the respective lease agreement. For annual periods beginning on January 02, 2019, leases should be accounted for as required by technical pronouncement CPC 06(R2).

An item of property, plant and equipment is written off when disposed of or when there are no future economic benefits to accrue from its continued use. Any gains or losses on the sale or write-off of an item of property, plant and equipment are defined as the difference between the amount received on sale or write-off and the book value of the asset, and are recognized in income.

Depreciation methods, useful lives and residual values are reviewed at the end of each year, and any adjustments are recognized as changes to accounting estimates.

j) Intangible

Acquired separately

Intangible assets with a defined useful life and acquired separately are registered at cost, less amortization and impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful life (Note 12).

Costs of commercial assignments paid by Varejo on signing lease agreements for commercial properties are considered to be intangible assets on the agreement date and amortized on a straight-line basis over the period of the lease, if they have no residual value.

Generated internally

Costs of research activities are recognized, when incurred, as expenses in the current financial year.

Internally-generated intangible assets, arising from costs of software development, are recognized only if the following conditions are all met: (i) it is technically feasible to complete the intangible asset and make it available for use or sale; (ii) there is an intention to complete the intangible asset and use it or sell it; (iii) the intangible asset is capable of being used or sold, it will probably produce future economic benefits, and technical, financial and other resources are available to complete the development; and (iv) the costs attributable to the asset during its development can be reliably measured.

The amount initially recognized is the sum of costs incurred as from the date when the intangible asset first met the criteria for recognition. Subsequently the assets are registered at formation cost, less amortization and impairment losses if any.

Write-off of intangible assets

An intangible asset is written off when disposed of, or when there are no future economic benefits from its use or disposal. Gains or losses from the write-off of an intangible asset are measured as the difference between net revenues from disposal and the book value of the asset, and are recognized in income when the asset is written off.

Goodwill

The goodwill shown in the individual and consolidated financial statements is the result of the purchase and incorporation of a company acquired in 2008 and amortized on a straight line basis at a rate of 20% p.a. up to December 31, 2008. As from January 1, 2009, the goodwill was no longer amortized and instead was tested for impairment annually, irrespective of the existence of any indicators of loss.

k) Assessment of recoverable value of assets

i. Non-derivative financial assets

Financial assets not classified as financial assets at fair value through profit or loss, including investments booked on an equity accounting basis, are assessed at each balance sheet date to determine whether there is objective evidence of impairment.

Objective evidence of the impairment of financial assets includes:

- Default or late payment by the debtor;
- Restructuring of an amount owed to the Parent Company or subsidiaries on terms which they would not accept under normal conditions;
- Indications that the debtor or issuer is likely to file for bankruptcy;
- Adverse changes in the payment situation of debtors or issuers;
- The disappearance of an active market for the instrument; or observable data indicating that there has been a decline in the measurement of cash flows expected from a group of financial assets;
- Observable data indicating that there has been a decline in the measurement of cash flows expected from a group of financial assets.

Financial assets measured at amortized cost

The Parent Company and Varejo consider evidence of impairment of assets measured at amortized cost both at the individual and the collective level. All individually significant assets are assessed for impairment. Those identified as not having suffered impairment individually are then assessed collectively for any loss of value that may have occurred but has not yet been identified. Assets that are not individually significant are classified in groups with similar risk characteristics and assessed collectively for impairment.

When making collective assessments for impairment, the Parent Company and Varejo use past trends for recovery periods and losses of value incurred, adjusted to reflect Management's judgment as to whether current economic and credit conditions are such that actual losses will probably be higher, or lower, than those suggested by past trends.

An impairment loss is calculated as the difference between book value and the present value of estimated future cash flows, discounted at the original effective interest rate of the asset. Losses are recognized in income and reflected in a provision account. When the Parent Company and Varejo consider that there is no reasonable expectation of recovery, the assets are written off. When a subsequent event indicates a reduction in the estimated loss, the reduction is reversed to income.

Investees recognized by the equity accounting method

An impairment loss on an investee recognized by the equity accounting method is measured by comparing its recoverable value with its book value. Impairment losses are recognized in income and are reversed if there is a favorable change in the estimates used for determining recoverable value.

ii. Non-financial assets

Book values of non-financial assets of the Parent Company and Varejo, other than inventories and deferred income and social contribution tax assets, are reviewed at the end of each year to ascertain if there are indications of impairment. If there is an indication of a loss, the recoverable value of the asset is estimated and the book value adjusted accordingly. In the case of goodwill and intangible assets with no defined useful life, the recoverable value is tested annually, irrespective of any indication of loss.

Assets are grouped for impairment testing at the lowest possible level of assets generating cash inflows from continuous use (CGUs) that are for the most part independent of cash inflows from other assets. Goodwill from a business combination is allocated to the CGU or group of CGUs which is expected to benefit from synergies from the combination.

The recoverable value of an asset or CGU is the greater of its value in use or its fair value less selling costs. Value in use is based on estimated future cash flows discounted to present value at a discount rate reflecting the current market valuation of money over time and the specific risks of the asset or CGU.

Impairment of an asset or CGU is recognized if its book value exceeds its recoverable value.

Impairment losses are recognized in income. Losses recognized on CGUs are initially allocated to reduce any goodwill attributed to the CGU (or group of CGUs), and then to reduce the book value of other assets in the CGU (or group of CGUs) on a *pro rata* basis.

Impairment losses on goodwill are not reversed. Impairment losses on other assets are reversed only to the extent that their book value does not exceed the amount, net of depreciation or amortization, that would be shown in the books if the impairment had not been recognized.

l) Loans and financing

Recognized initially at fair value, on the date the proceeds are received, plus attributable transaction costs, and subsequently measured at amortized cost, using the effective interest rate method, plus charges, interest and monetary and currency differences incurred under the contract up to the end of each year, during the period of validity of the contract.

Loans denominated in foreign currency are converted into Reais at the exchange rate ruling on the closing date, and are linked to the corresponding swap transactions, which are registered on an accrual basis. Both the loans and the swaps are measured at fair value. Gains and losses on these contracts are recognized as adjustments to the financial result.

m) Funding costs

Costs incurred in raising funds from financial institutions are allocated to income over the period of the transaction, using the amortized cost method.

n) Provisions

A provision is recognized when there is a present, legal or constructive, obligation, resulting from a past event that will probably require an outflow of financial resources for its settlement, and when the amount can be reasonably estimated at year-end.

Provisions for tax, civil and labor risks are registered when there is a present obligation and an outflow of funds will probably be required to settle them, taking into account the nature of each risk and the opinion of the legal advisers of the Parent Company and Varejo. The basis and the nature of risk provisions are described in Note 18.

Contingent liabilities classified as possible losses, for which an outflow of cash is expected, are not recognized but are disclosed.

Liabilities are periodically assessed to determine if there is evidence of a probable outflow of funds incorporating economic benefits to settle them.

o) Leasing

Through the year ended December 31, 2018, leases are classified as financial leases when the terms of the lease agreement transfer substantially all the risks and benefits of ownership of the asset to the lessee. Other cases are classified as operating leases.

- Operating leases

  Payments made under operating leases are registered as expenses on a straight-line basis over the period of the lease. Contingent payments (variable installments depending on turnover) are recognized as expenses during the year in which they are incurred.

- Financial leases

  Capitalized in property, plant and equipment at the beginning of the lease for the fair value of the asset leased or the present value of minimum lease payments, whichever is lower, with a balancing entry of the corresponding obligations, net of financial charges, as current or non-current liabilities, depending on the term of the agreement.

  For annual periods beginning on January 02, 2019, leases should be accounted for as required by technical pronouncement CPC 06(R2).

p) Current and deferred income and social contribution taxes

- Current

  Provisions for corporate income tax ("IRPJ") and social contribution on net income ("CSLL") are calculated according to the current tax legislation in Brazil, at the rates applicable to real income, which is calculated as net book profit plus non-deductible expenses and excluding revenues considered to be exempt from tax; and after offsetting tax losses and negative bases for social contribution, limited to 30% of the real income for the year.

- Deferred

  Deferred IRPJ and CSLL assets are calculated on tax losses and negative bases of CSLL and on temporary differences calculated by Varejo, and on temporary differences in the Parent Company. Deferred IRPJ and CSLL assets are recognized to the extent that it is likely that future taxable income will be sufficient to deduct all the temporary differences, tax losses and negative bases of CSLL.

  Deferred IRPJ and CSLL are calculated at the rates expected to be applicable during the year when the assets or liabilities to which they refer will be respectively realized or settled. Deferred taxes are recognized as revenues or expenses, and included in the statement of income. Recovery of the balance of deferred assets is reviewed at the close of each year, and when it is no longer likely that future taxable profits will be available for the recovery of the entire asset, or part of it, the balance of the asset is adjusted to the estimated recovery value.

  Deferred tax assets and liabilities, represented by deferred IRPJ and CSLL, are shown net, except in the consolidated financial statements.

  Deferred tax assets are calculated on the basis of a study of expectations for the realization of future taxable profits, discounted to present value and after deducting all temporary differences. The calculation is revised annually and approved by Management. Forecasts of future results take into account the key performance variables for the Brazilian economy, the volume and price of sales, and tax rates.

q) Deferred income – customer loyalty program

Sale revenue from Varejo's customer loyalty program is recorded as "deferred income – customer loyalty program" in the amount equivalent to the accumulated points, adjusted by the average of the sale margin. Deferred income is recognized in profit or loss when customers actually use the credits they are entitled to – bonus, and when bonus actually expire.

The value of each point is calculated based on the number of points necessary to be entitled to the bonus and is adjusted by the average cost of goods sold. Under the regulation of the program effective since June 16, 2017, the points granted on purchases are valid for 12 months and, at each 500 points, customers become entitled to the Bonus and receives a voucher of R$10.00 to be used in up to three months in the form of discounts on any product bought at Varejo’s stores and electronic commerce.

r) Employee benefits

Liabilities for short-term benefits to employees are measured on a non-discounted basis and are recognized as expenses as the related service is provided.

A liability for short-term cash bonus plans and profit sharing, when applicable, is recognized if there is a legal or constructive obligation to pay the amount for past service provided by the employee, and the amount can be reliably estimated.

s) Share-based compensation

The share-based compensation plan for executives of the Parent Company and Varejo is measured by the fair value of the equity instruments on the grant date. Details of the calculation of fair value are given in Note 20 e).

The fair value of stock options determined on the grant date of each program is registered on a straight-line basis as an expense in income for each year during which the right is acquired, based on estimates of how many of the options granted will be exercised.

t) Dividends and interest on shareholders’ equity

The portion of the Parent Company’s Management proposal for the distribution of dividends and interest on shareholders’ equity which represents the minimum mandatory dividend, is registered as a liability under the heading of “dividends and interest on shareholders’ equity” because it is a statutory obligation of the Parent Company. On the other hand, the portion of dividends and shareholders’ equity which exceeds the mandatory minimum dividend, declared by Management after the close of the year to which the financial statements refer, but before the date of authorization of their publication, is registered as “additional dividends proposed”.

u) Presentation of earnings per share

Basic and diluted earnings per share are shown as required by technical pronouncement CPC 41 – Earnings per Share (IAS 33), as detailed in Note 27.

v) Financial income and expenses

The financial income (loss) consists basically of interest earned on financial investments and tax recoverable, and interest payable, monetary and currency differences on loans and financing, and tax payable. Interest is recognized in income for the year using the effective interest rate method, and monetary and currency differences are calculated at the rates ruling on the closing dates.

w) Information by segment

Income by segment, which is reported to the Executive Committee and the Board of Directors, includes items directly attributable to each segment and those than can reasonably be allocated. In some cases, detailed information may be used on products and other divisions of the Group which do not qualify as segments for reporting purposes. For the years ended December 31, 2018 and 2017, the only segment operating is Varejo itself.

x) Statement of value added ("DVA")

The purpose of the DVA is to demonstrate the creation of wealth and its distribution during a specific year, as required by Brazilian corporate law. It is part of the individual financial statements and appears as supplementary information to the consolidated financial statements because it is not provided for or required by the IFRS. The DVA was prepared on the basis of information obtained from the accounting records which serve as a basis for preparing the individual and consolidated financial statements, and as required by the provisions of technical pronouncement CPC 09 – Statement of Value Added.

y) New standards and interpretations issued by IASB and CPC

The following standards are effective for annual periods beginning January 01, 2018:

- IFRS 9 – Financial instruments – CPC 48;
- IFRS 15 – Revenue from contracts with customers – CPC 47;
- Clarifications to IFRS 15 – Revenue from contracts with customers, issued on April 12, 2016;
- Amendments to IFRS 2 – Classification and measurement of share-based payment;
- Amendments to IFRS 4 – Applying IFRS 9 – Financial instruments with IFRS 4 – Insurance Contracts;
- Amendments to IFRS 40 – Transfers of investment property;
- IFRIC 22 – Foreign currency transactions and advance consideration;
- Annual improvements to IFRSs: 2014-2016 Cycle.

Standards applicable to the Parent and Varejo, implemented beginning January 01, 2018:

- IFRS 9 (CPC 48) – Financial Instruments, issued in July 2014;
- IFRS 15 (CPC 47) – Revenue from contracts with customers, issued in May 2014 and amended in April 2016.

Standards and amendments that will become effective beginning January 01, 2019

- IFRS 16 – Leases – CPC 06(R2);
- Annual improvements to IFRSs - 2015-2017 Cycle;
- 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;
- IFRS 17 – Insurance contracts;
- Amendments to IFRS 10 and IAS 28 – sale or contribution of assets between an investor and its associate or joint venture.

Standards applicable to Varejo, implemented beginning January 01, 2019:

CPC 06 (R2) – Leases

Issued by CPC, this standard is equivalent to IFRS 16 – Leases, issued in January 2016 to replace the former release of such standard (CPC 06 [R1]), equivalent to IAS 17). CPC 06 (R2) establishes principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for all leases under a single model in the balance sheet , similarly to accounting for finance leases under CPC 06 (R1).
The standard includes two recognition exemptions for lessors – leases of low value assets (for example, coffee vending machines, printers and copier machines) and short-term leases (that is, 12 months or less).

At the commencement of a lease, the lessee recognizes a liability for future payments (lease liability) and an asset representing the right to use the underlying asset over the lease term (right-of-use asset). Lessees are required to recognize separately interest expense on lease liabilities and amortization expense on the right-of-use asset.

Lessees are also required to remeasure the lease liability if certain events (for example, a change in the lease term, a change in the future lease payments as a result of a change in an index or a rate used to determine those payments) occur. In general, lessees will recognize the remeasured lease liability value as an adjustment to the right-of-use asset.

CPC 06(R2), effective for annual periods beginning on January 01, 2019, require lessees and lessors to make disclosures more comprehensive that those required by CPC 06 (R1).

Transition to CPC 06 (R2)

The Company will adopt CPC 06 (R2) prospectively, including for agreements formerly identified as leases under CPC 06 (R1).

The Company will elect to use the exemptions proposed by the standard for lease agreements the term of which terminates in 12 months as from the initial application date and for leases of low-value assets, such as coffee vending machines, printers and copier machines.

The application of this standard will result in improvements in EBITDA and results from operations and an increase in depreciation and interest expenses.

The right-of-use assets identified relate to the lease of the administrative office space, distribution center and commercial stores. The impact on the 2019 opening balance was estimated at approximately R$302 million in leased assets and liabilities. The incremental weighted average rate used to measure leases was 8.53% per year.

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

	Financial statements as at 12/31/18	Impacts of adopting IFRS16 / CPC 06(R2)	Financial statements as at 01/01/19
Assets			
Current	483,634	-	483,634
Noncurrent	495,040	301,710	796,750
Intangible assets (right of use)		301,710	301,710
Total do Assets	978,674	301,710	1,280,384
Liabilities			
Current	800,036	29,404	829,440
Leases payable	-	29,404	29,404
Noncurrent	57,720	272,306	330,026
Leases payable	-	272,306	272,306
Equity	120,918	-	120,918
Total do Liabilities and equity	978,674	301,710	1,280,384

z) ***Determination of fair value***

The fair value is determined and disclosed for financial and non-financial assets and liabilities, as the case may be and when applicable, in accordance with CPC 28, CPC 39 and CPC 40. The fair value of financial assets and liabilities is presented in the Explanatory Notes 13, 20.e) and 28.

4. CASH AND CASH EQUIVALENTS AND INTEREST-EARNING BANK DEPOSITS

a) Cash and cash equivalents

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Cash and banks - hecking account	119	4	49,110	18,315
Short-term investments - cash equivalents	641	7	46,313	50,628
	760	11	95,423	68,943

Short-term investments include Bank Certificates of Deposit (CDBs), yielding interest equivalent to 58% to 70% of the Interbank Deposit Rate (CDI), immediately convertible into a known cash amount and subject to an insignificant risk of change in value.

b) Financial investments

Represented by Bank Certificates of Deposit (CDBs), remunerated at a rate equivalent to 98% to 99% of the Interbank Deposit Certificate (CDI) with liquidity restriction to guarantee legal proceedings

	Consolidated	
	12/31/18	12/31/17
Short-term investments	6	9

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

5. TRADE ACCOUNTS RECEIVABLE

	Consolidated	
	12/31/18	12/31/17
Trade notes	10,910	8,947
Credit cards	47,114	199,069
	58,024	208,016
Allowance for expected credit losses	(339)	(1,106)
	57,685	206,910

Varejo's days sales outstanding (trade notes receivable) is 55 days (60 days at December 31, 2017). Trade receivables, represented by credit cards, are primarily distributed among the following acquirers: PagSeguro, 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 period is the book value of each aging range.

Balances by maturity

	Consolidated	
	12/31/18	12/31/17
Current	53,693	194,614
Credit cards under analysis	-	12,032
Past due	4,331	1,370
	58,024	208,016

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.

The amount recorded in the income statement:

	Consolidado	
	12/31/18	12/31/17
Estimated loss on trade receivables	(107)	(1,105)
Effective loss on trade receivables and credit cards	(18,799)	(3,034)
Recovery of trade receivables considered uncollectible	107	101
	(18,799)	(4,038)

6. INVENTORY

	Consolidated	
	12/31/18	12/31/17
Goods for resale	173,147	459,211
Packaging materials and consumables	1,704	1,330
	174,851	460,541

Inventory obsolescence losses

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.

Based on objective evidence identified at December 31, 2017, relating to positive results of actions that have been addressed since 2016 to discharge obsolete, slow-moving and impaired inventories and on signs of recovery of the economic activity recorded especially in the fourth quarter of 2017, Management revised certain assumptions according to its policy in place to estimate loss due to obsolescence, which were maintained in estimating the loss incurred in the year ended December 31, 2018.

Goods for resale are presented net of losses on obsolescence of inventories in the amount of R$24,002 as at December 31, 2018 (R$21,732 as at December 31, 2017).

7. TAXES AND CONTRIBUTIONS RECOVERABLE

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Social Contribution to Finance Social Security - COFINS (ii)	1,744	1,742	127,655	116,382
Social Integration Program - PIS (ii)	39	37	26,485	24,711
Corporate Income Tax - IRPJ	2,745	2,817	26,210	31,729
Social Contribution on Net Profit - CSLL	2,216	2,109	14,154	10,906
Withholding Income Tax - IRRF	-	-	-	2,214
State VAT - ICMS				
Recoverable ICMS (i)	-	-	97,383	110,407
Other	179	180	261	1,787
	6,923	6,885	292,148	298,136
Current assets	179	192	97,976	178,507
Noncurrent assets	6,744	6,693	194,172	119,629
	6,923	6,885	292,148	298,136

(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$72,300, 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$152,357 (R$137,791 at December 31, 2017) recognized on purchases of goods and services, inputs and expenses, under the prevailing legislation, between 2014 and 2018, 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	
	12/31/18	12/31/17	12/31/18	12/31/17
Noncurrent assets:				
Tax loss carryforwards - social contribution	-	-	-	77,279
Provisions for taxes and contributions payable	1,227	1,406	1,583	1,742
Provision for cost of sales of goods held on consignment	-	-	3,987	8,246
Saraiva Plus customer loyalty program	-	-	1,469	597
Losses on obsolescence of inventories	-	-	9,455	7,389
Allowance for expected credit losses	-	-	733	273
Unrealized loss on swap transactions	-	-	-	-
Accrued profit sharing and bonuses	-	-	-	-
Accrued reward on sales	-	-	-	-
ICMS-ST	-	-	5,178	-
Impairment losses	-	-	657	90
Provision for negative goodwill on recove	-	-	714	714
Provision for the effective portion of hedg	-	-	-	283
Other provisions	-	-	3,440	2,888
	1,227	1,406	27,216	99,501
Noncurrent liabilities:				
Provision for book inventory losses	-	-	-	27,203
Tax amortization of goodwill on business acquisitions	-	-	21,214	25,865
Deemed cost of property, plant and equip	5,810	5,810	5,810	5,810
Unrealized gain on swap transactions	-	-	-	1,655
Finance lease	-	-	4,775	-
Other	3	3	3	3
	5,813	5,813	31,802	60,536
	(4,586)	(4,407)	(4,586)	38,965
Noncurrent assets	-	-	-	43,372
Noncurrent liabilities	(4,586)	(4,407)	(4,586)	(4,407)
	(4,586)	(4,407)	(4,586)	38,965

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 actual income tax and social contribution expense

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Accounting loss before income tax and social contributiion	(299,069)	(49,136)	(256,015)	(67,447)
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution at the combined tax rate	101,683	16,706	87,045	22,932
Permanent additions - nondeductible expenses	(33)	(111)	(4,719)	(2,185)
Permanent deductions:				
Share of profit (loss) of investees	(99,848)	(14,156)	-	-
Unrecognized tax credits	(1,802)	(2,657)	(125,404)	(2,657)
	-	(218)	(43,078)	18,090
Income tax and social contribution on profit (loss) for the period:				
Deffered	-	(218)	(43,078)	18,090

9. RELATED PARTIES

a) Business transactions and loans

The Parent Company'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 are made in cash to Instituto Jorge Saraiva, founded in 2004, which is engaged in social and community actions in the local community. In the year ended December 31, 2018, donations totaled R$551 (R$842 as at December 31, 2017).

Balances and transactions with Varejo:

	12/31/18	12/31/17
Balances at the beginning	7,996	-
Borrowings	8,754	7,726
Payments made	(15,100)	-
Finance costs	533	270
Balances at the end of the	2,183	7,996

b) Remuneration of the members of the Board of Directors and of the Board of Directors:

	Controladora		Consolidado	
	12/31/18	12/31/17	12/31/18	12/31/17
Board of Directors´ fees	1,361	1,777	1,469	1,813
Executive Board fees	21	24	4,141	4,142
Subtotal	1,382	1,801	5,610	5,955
Share-based payment	67	119	67	119
Other compensation	341	408	1,329	1,467
	1,790	2,328	7,006	7,541

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 year December 31, 2017 was rectified due to the presentation of Supervisory Board's compensation, in the amount of R$576 (Management fees - R$480 and Other - R$96) together with the compensation of the Board of Directors' members.

10. INVESTMENTS

The interest in Varejo and its main information were as follows:

	12/31/18	12/31/17
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%	98.12%
Capital	515,123	515,123
Equity	146,337	439,486
(-) Unrealized profit on sale of intangible assets to Varejo	(25,382)	(25,382)
Total	120,955	414,104
Investment value	120,943	414,068

Basis of calculation for the equity accounting result recognized by the Parent Company:

	Controladora	
	12/31/18	12/31/17
Calculation basis of share of (profit) loss of investee:		
Varejo's loss	(293,696)	(41,638)
Share of (profit) loss of investee	(293,672)	(41,635)

The alterations recognized in the investment accounts were as follows:

	12/31/18	12/31/17
Balances at the beginning of period/year	414,068	456,162
Share of Varejo’s profit	(293,672)	(41,635)
Share in Varejo’s hedge accounting	547	(459)
Balance at the end of period/year	120,943	414,068

Varejo's main information is as follows:

	12/31/18	12/31/17
Total assets	962,562	1,384,506
Current and noncurrent liabilities	816,225	945,020
Equity	146,337	439,486

	31/12/18	12/31/17
Net operating revenue	1,445,422	1,724,886
Costs of sales and services	(1,033,533)	(1,150,085)
Gross profit	411,889	574,801
Operating expenses	(543,083)	(565,488)
Depreciation	(36,807)	(31,554)
Other	(32,770)	11,024
Profit (loss) from operations	(200,771)	(11,217)
Finance income (costs)	(49,847)	(48,729)
Profit (loss) before taxes	(250,618)	(59,946)
Income tax and social contribution	(43,078)	18,308
Loss	(293,696)	(41,638)

11. PROPERTY, PLANT AND EQUIPMENT

		Parent					
	Annual depreciation rate - %	12/31/18			12/31/17		
		Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Machinery and equipment	10	799	(798)	1	799	(794)	5
Furniture, fixtures and facilities	10	2,490	(2,253)	237	2,490	(2,128)	362
Leasehold improvements	(*)	5,421	(5,371)	50	5,421	(4,910)	511
IT equipment	20	12,387	(12,315)	72	12,387	(12,115)	272
		21,097	(20,737)	360	21,097	(19,947)	1,150

(*) Leasehold improvements are depreciated over the assets' lease term or their useful life, whichever is shortest.

		Consolidated					
	Annual	12/31/18			12/31/17		
	depreciation rate - %	Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Buildings and constructions	4	1,260	(1,260)	-	1,400	(1,204)	196
Machinery and equipment	10	6,568	(3,810)	2,758	6,638	(3,370)	3,268
Furniture, fixtures and facilities	10	83,893	(65,801)	18,092	91,244	(65,256)	25,988
Leasehold improvements	(*)	164,499	(146,364)	18,135	183,329	(157,634)	25,695
Company cars	20	-	-	-	378	(378)	-
IT equipment	20	70,832	(58,233)	12,599	68,079	(54,977)	13,102
Construction in progress	-	-	-	-	41	-	41
		327,052	(275,468)	51,584	351,109	(282,819)	68,290

(*) Leasehold improvements are depreciated over the assets' lease term or their useful life, whichever is shortest.

Changes recognized in "Property, Plant and equipment" were as follows:

	Parent		
	12/31/17	Additions	12/31/18
Cost:			
Machinery and equipment	799	-	799
Furniture, fixtures and facilities	2,490	-	2,490
Leasehold improvements	5,421	-	5,421
IT equipment	12,387	-	12,387
Total cost	21,097	-	21,097
Accumulated depreciation:			
Machinery and equipment	(794)	(4)	(798)
Furniture, fixtures and facilities	(2,128)	(125)	(2,253)
Leasehold improvements	(4,910)	(461)	(5,371)
IT equipment	(12,115)	(200)	(12,315)
Total depreciation	(19,947)	(790)	(20,737)
Net value	1,150	(790)	360

	Consolidated					
	12/31/17	Additions	Write-offs	Transfers	Impairment loss	12/31/18
Cost:						
Buildings and constructions	1,400	-	-	-	(140)	1,260
Machinery and equipment	6,638	-	(70)	-	-	6,568
Furniture, fixtures and facilities	91,244	2,325	(9,409)	548	(815)	83,893
Leasehold improvements	183,329	1,804	(21,666)	1,667	(635)	164,499
Company cars	378	-	(378)	-		-
IT equipment	68,079	5,299	(2,619)	416	(343)	70,832
Construction in progress	41	2,531	-	(2,572)	-	-
Total cost	351,109	11,959	(34,142)	59	(1,933)	327,052
Accumulated depreciation:						
Buildings and constructions	(1,204)	(56)	-	-	-	(1,260)
Machinery and equipment	(3,370)	(510)	70	-	-	(3,810)
Furniture, fixtures and facilities	(65,256)	(5,871)	5,330	(4)	-	(65,801)
Leasehold improvements	(157,634)	(8,732)	20,004	(2)	-	(146,364)
Company cars	(378)	-	378	-	-	-
IT equipment	(54,977)	(5,656)	2,453	(53)	-	(58,233)
Total depreciation	(282,819)	(20,825)	28,235	(59)	-	(275,468)
Net value	68,290	(8,866)	(5,907)	-	(1,933)	51,584

Impairment testes are performed when there are indications of losses. In the year ended December 31, 2017, Management did not identify events that would indicate the existence of impairment losses. In the year ended December 31, 2018, Management identified events that indicated the existence of evidence of losses and recognized impairment loss in profit or loss for the year the amount of R$1,933.

12. INTANGIBLE ASSETS

		Parent					
	Annual amortization rate - %	12/31/18			12/31/17		
		Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
Software	20	710	(710)	-	710	(606)	104

	Annual amortizatio rate - %	Consolidated 12/31/18 Cost	Accumulated amortization	Net value	12/31/17 Custo	Accumulated amortization	Net value
Goodwill	-	47,776	(841)	46,935	61,705	(1,086)	60,619
Commercial assignment	20	25,047	(25,047)	-	30,716	(30,540)	176
Software	20	237,071	(84,349)	152,722	117,039	(67,054)	49,985
Trademarks and patents	-	63	-	63	63	-	63
Intangible assets in progress	-	3,225	-	3,225	49,990	-	49,990
		313,182	(110,237)	202,945	259,513	(98,680)	160,833

Changes recognized under "Intangible assets" were as follows:

	Parent 12/31/17	Additions	12/31/18
Cost:			
Software	710	-	710
Accumulated amortization:			
Software	(606)	(104)	(710)
Net value	104	(104)	-

	Consolidated 12/31/17	Additions	Write-offs	Transfers	Impairment loss	12/31/18
Cost:						
Goodwill	61,705	-	(13,929)	-	-	47,776
Commerci	30,716	-	(5,669)	-	-	25,047
Software	117,039	1,506	(132)	118,659	(1)	237,071
Trademarks and patents	63	-	-	-	-	63
Intangible assets in progress	49,990	72,468	(574)	(118,659)	-	3,225
Total cost	259,513	73,974	(20,304)	-	(1)	313,182
Accumulated amortization:						
Goodwill	(1,086)	-	245	-	-	(841)
Commerci	(30,540)	(176)	5,669	-	-	(25,047)
Software	(67,054)	(17,427)	132	-	-	(84,349)
Total	(98,680)	(17,603)	6,046	-	-	(110,237)
Net value	160,833	56,371	(14,258)	-	(1)	202,945

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, 2017, Management did not identify events that would indicate the existence of impairment losses. In the year ended December 31, 2018, Management identified events that indicated the existence of evidence of losses and recognized impairment loss in profit or loss for the year the amount of R$1.

Goodwill

	Acquisition date	Consolidated 12/31/18	12/31/17
Goodwill on business acquisition:			
Siciliano	03/06/08	46,935	60,619

The decrease of R$13,684 is related to the portion of the goodwill attributed to the Cash Generating Unit - UGC Siciliano, corresponding to the network stores that had their activities closed in 2018.

Siciliano

On December 31, 2018, the recoverable amount of this Cash Generating Unit - UGC was determined based on the calculation of the value in use using the projections of free cash flows based on a six-year financial budget and a nominal discount rate of 13% per year.

Six-year cash flow projections for growth in sales, costs, and expenses are based on the annual budget approved by Management.

The main assumptions used for free cash flow projections are:

- Revenues: projected from 2019 to 2024 in line with the CGU’s history of growth and with the macroeconomic scenario expected for coming years;

- Operating costs and expenses: projected based on Siciliano’s historical performance and estimated revenue growth.

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

13. LOANS AND FINANCING

	Consolidated	
	12/31/18	12/31/17
In local currency:		
BNDES	-	54,778
Working capital loans	121,158	146,236
Unamortized borrowing costs	(1,630)	(3,376)
Finance lease	16,083	19,216
Bail BNDES - Itaú	37,260	-
	172,871	216,854
In foreing currency:		
Working capital loans	-	100,813
	172,871	317,667
Current liabilities	154,468	119,635
Noncurrent liabilities	18,403	198,032
	172,871	317,667

Varejo's foreign-currency borrowings, linked to derivatives settled on July 13, 2018 corresponding to R$4,040, are disclosed in the year ended December 31, 2017 separately from derivatives in current and noncurrent assets.

Summary of characteristics of loans 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	Nov/2018	Parent's collateral signature	R$ 15,000	132% CDI variation p.a.
HP Financial Services S/A	Software and maintenance	Leasing	Nov/2015	Dec/2020	Leased asset	R$ 10,709	CDI variation
SG Equipment Finance S/A	Software and maintenance	Leasing	Dec/2014	Dec/2019	Leased asset	R$ 12,223	CDI variation
HP Financial Services S/A	Software and maintenance	Leasing	Mar/2017	Feb/2020	Leased asset	R$ 6,451	CDI variation

(a) The Long-Term Interest Rate (TJLP) for the year ended December 31, 2018 was 6.98% (7% as at December 31, 2017).

Changes in the year ended December 31, 2018 were as follows:

Description	12/31/17	Loans obtained	Bail BNDES - Itaú	Charges	Major payments and interest	12/31/18
BNDES	54,778	-	(37,260)	4,058	(21,576)	-
Working capital loans	243,673	23,699	-	34,649	(182,493)	119,528
Finance lease	19,216	435	-	6,300	(9,868)	16,083
Bail BNDES - Itaú	-	-	37,260	-	-	37,260
	317,667	24,134	-	45,007	(213,937)	172,871

BNDES Loans

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 March 13, 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$16,640.

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 as effective hedging instruments - hedge accounting

Banco Itaú BBA International

Loan operations in accordance with Law 4131/1962 - transfer of BACEN Resolution 3844/2010, linked to swap operations with monetary variation by CDI and pre and post fixed interest rates.

The loan and derivative instruments for hedging with Banco Itaú BBA International were contracted on January 20, 2015, in the amount of R$235,000 (US$ 89,524 thousand) with an interest rate of 3.53% pa, maturing in 22 January 2018, amortization of principal and payment of quarterly interest. On May 12, 2017, Varejo renegotiated the amount of R$95,000, with a three-year term extension, quarterly amortizations and a one-year grace period. The interest rate changed from 109.8% of the CDI variation to 111.2% of the CDI variation plus 2% a.

Derivative instruments have been formally designated as hedges.

Loans were early paid on July 13, 2018 with credit card receivables.

Other transaction to meet working capital requirements

Banco do Brasil

In March 2017, the Parent Company settled the balance of loans contracted with Banco do Brasil in 2015, in the amount of R$ 5,564.

Varejo re-arranged the amount of R$120,000, also contracted with Banco do Brasil, for a rate of 132% of CDI, with a three-year extension, with quarterly amortizations 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 in the form of a CCB, in the amount of R$15,000, with charges of 120% of the CDI variation, maturing in February 2018, guaranteed by the Parent Company's guarantee. 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.

Banco Daycoval

Operation contracted on August 29, 2017, in the form of a Bank Credit Note (CCB), in the amount of R$3,000, with charges of 100% of the CDI variation, plus 6% pa. of compensatory interest, maturing on August 29, 2018, guaranteed by the parent company's guarantee. The transaction was settled on the respective maturity date.

Banco Rendimento

Prepayment of receivables to suppliers, called Arrangement Confirme, contracted in October and December 2017 in the amounts of R$5,627 and R$3,001 and maturity in January and February 2018, respectively, with charges of 4% at, guaranteed by the Parent Company's guarantee. The transaction was settled on the respective maturity date.

Receivables factoring transactions with suppliers, referred to as “Convênio Confirme”, contracted in January 2018, in the amount of R$9,506 and maturity in April 2018, subject to finance charges at 4% per quarter, guaranteed by the Parent’s collateral signature. The transaction was settled on the respective maturity date.

On June 29, 2018, Varejo contracted a transaction in the form of Bank Credit Notes (CCB), in the amount of R$1,709, bearing charges of 1.5% p.m., maturing on July 16, 2018 and guaranteed by the Parent’s collateral signature. The transaction was settled on the respective maturity date.

Banco Original

Receivables factoring transactions with suppliers, referred to as “Convênio Confirme”, contracted in March 2018, in the amount of R$8,810 and maturity in June 2018, subject to finance charges at 3% per quarter, guaranteed by the Parent’s collateral signature. As part of the rescheduling process of the Parent’s financial liabilities, Management negotiated an extension of the payment term to July 19, 2018 in the residual amount of R$2,737, when the transaction was settled.

14. DEFERRED INCOME - LOYALTY PROGRAM

Varejo’s Saraiva Plus loyalty program encourages store and e-commerce customers to purchase products which earn points to be credited against 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 December 31, 2018, deferred income from the loyalty program, recorded under a specific heading in the consolidated, is R$4,320 (R$1,757 on December 31, 2017).

15. SUPPLIERS

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Domestic suppliers	1,719	996	545,385	543,199
Foreign suppliers	-	-	3,939	3,681
	1,719	996	549,324	546,880

Management did not recognize adjustment to present value since the operations are short-term. We do not believe such adjustments would have a material effect compared to the financial statements taken as a whole.

16. TAXES AND CONTRIBUTIONS PAYABLE

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Tax on the circulation of goods and services ICMS	-	-	4,574	-
Withholding income tax (IRRF)	59	66	1,120	1,269
Social contributions withheld at source on services taken from legal entities	2	-	278	499
Tax on revenue (PIS)	-	-	-	6
Tax on revenue (Cofins)	-	-	-	29
Service Tax (ISS)	-	-	7	148
Taxes in installments - Law No. 12.966/14 (a)	-	-	814	1,988
Taxes in installments - State (b)	-	-	1,366	22
Other	2	3	178	9
	63	69	8,337	3,970
Current liabilities	63	69	6,823	2,134
Noncurrent liabilities	-	-	1,514	1,836
	63	69	8,337	3,970

(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 year ended December 31, 2018 was R$170 (R$158 at December 31, 2017);

(b) Payment of tax debts in installments in 2018, in the States of Santa Catarina, Ceará and Rio Grande do Sul, relating to ICMS tax assessment notices. The amount paid in the year ended December 31, 2018 was R$716.

17. SOCIAL AND LABOR OBLIGATIONS

	Parent			
	12/31/17	Expense	Payment	12/31/18
Vacation pay	215	10	(8)	217
Salaries	39	32	(16)	55
Severance Pay Fund	119	(45)	(57)	17
Social Security Contribution (INSS)	94	388	(388)	94
	467	385	(469)	383

	Consolidated			
	12/31/17	Expense	Payment	12/31/18
Vacation pay	8,292	8,949	(10,076)	7,165
13th salary	-	8,330	(8,330)	-
Salaries	3,637	90,808	(94,208)	237
Severance Pay Fund	1,755	13,226	(13,769)	1,212
Social Security Contribution (INSS)	5,675	27,305	(28,080)	4,900
	19,359	148,618	(154,463)	13,514

18. PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Parent and Varejo are parties in administrative and judicial proceedings involving civil-law and labor/employment claims in proceedings and cases with present obligation and probability of outflow of funds that incorporate economic benefits in order to settle this obligation. The amounts provisioned are considered sufficient to cover probable outflows of funds to settle their respective obligations. The composition of the provision and the court deposits that guarantee some of the processes is shown below:

Provisions

	Parent		
	12/31/17	Recognition/ (Reversal)	12/31/18
Labor	4,130	(884)	3,246
Civil	6	359	365
	4,136	(525)	3,611

	Consolidated		
	12/31/17	Recognition/ (Reversal)	12/31/18
Labor	11,187	377	11,564
Civil	1,316	717	2,033
ICMS - Tax assessment notice (a)	989	59	1,048
PIS / COFINS - Exclusion of ICMS from the calculation basis	-	2,162	2,162
	13,492	3,315	16,807

(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.

Court deposits

	Parent		
	12/31/17	Addition/ (Write-off)	12/31/18
PIS/COFINS (a)	957	20	977
Administrative proceedings - tax offset	6,066	-	6,066
Other lawsuits and administrative proceedings	9,634	(6,374)	3,260
Labor lawsuits	1,745	(221)	1,524
	18,402	(6,575)	11,827

	Consolidated		
	12/31/17	Addition/ (Write-off)	12/31/18
PIS/COFINS (a)	1,055	22	1,077
Administrative proceedings - tax offset	6,066	-	6,066
Other lawsuits and administrative proceedings (b)	28,703	3,447	32,150
Labor lawsuits	3,844	654	4,498
	39,668	4,123	43,791

(a) Legal actions filed by Parent Company and Varejo challenged the extended calculation basis for the PIS and COFINS federal contributions and the higher COFINS, established by Law No. 9718/98. A final unappealable decision was issued favorably to the companies, and the release of the deposits awaits processing;

(b) Includes the amount of R$19,959 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.

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$516,815, of which R$262,443 Parent and R$254,372 Varejo (R$653,668 as at December 31, 2017, of which R$346,824 Parent and R$306,844 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	2,015
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.	162,820
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.	36,299
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.	61,511
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.	28,232
f- Sundry	Other tax lawsuits and proceedings in discussion at the judicial and administrative levels.	155,918
TOTAL		446,795

CIVIL LAWSUITS	SUBJECT	ESTIMATED AMOUNT
a- Lease contracts	Actions relating to renewal of lease contracts filed by Varejo relating to its operating units.	23,636
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.	31,166
TOTAL		54,802

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.	15,218

19. SHAREHOLDERS' EQUITY

a) Share capital

On December 31, 2018, the Parent Company's share capital of R$282,999 (R$282,999 at December 31, 2017) is represented by 26,701,745 shares, of which 9,622,313 are common shares and 17,079,432 are preferred shares without par value that have voting rights at shareholders' general meetings. Parent Company's bylaws comply with B3 Level 2 for 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 preferred shares of the Parent Company, whose number may not exceed two-thirds of the total number of shares issued, give the holders the following rights or advantages:

- Restricted voting rights as per its bylaws;
- Right to sell preferred shares in the event of sale or transfer of the Parent Company’s control power, as per its bylaws;
- Dividends equal to those attributed to common shares;
- Participation in the distribution of bonus shares arising from capitalization of reserves, retained earnings and any other funds on the same conditions as holders of common shares.

Common shares cannot be converted to preferred shares or vice versa.

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

Parent Company holds 15,700 common shares in treasury shown at R$233 with market value R$34 (R$2.18 per share - quotation on December 21, 2018).

c) Dividends and interest on shareholders’ equity

Shareholders are assured a minimum dividend of 25% of adjusted net income for each period.

The Controlling Shareholder may not, unless authorized by the majority of votes in a special meeting of the holders of preferred shares, retain, for more than four successive quarters, financial availability in an amount greater than 25% of its total assets. The financial availability shall correspond to the sum of the amounts recorded under the caption “Cash and cash equivalents”, in excess of the sum of the amounts recorded under “Loans and financing” of current and non-current liabilities. According to the statutory provision, the amount of interest on capital for the purpose of calculating the mandatory dividend is net of income tax.

d) Parent Company’s stock option plan

The programs approved by the Board of Directors were granted for Parent Company and Varejo managers and employees. The options will be exercised by issuing new shares and/ or sale of treasury shares held by the Parent Company, as decided by the Board of Directors when options are exercised.

The stock option programs fair value was calculated on the grant date of each program and based on the binomial pricing model. The effects were reflected in the item “Operating expenses”, in income and under “Profit reserves” in shareholders’ equity, as follows:

	Amounts recorded			
Grant year and program	Through 12/31/17	Nine-month period ended 12/31/18	Total	Amounts to be recorded in futur periods
2014 - 7th Program (3rd tranche)	153	-	153	-
2014 - 7th Program (4th tranche)	179	18	197	-
2014 - 7th Program (5th tranche)	170	49	219	18
	502	67	569	18

Changes in stock options granted for the year ended December 31, 2018 are shown as follows:

	7th Program (3rd tranche)	7th Program (4th tranche)	7th Program (5th tranche)
Total number of stock options granted	176,400	176,400	176,400
(-) Stock options not exercised and forfeited /	(176,400)	(176,400)	(134,000)
(=) Number of stock options as at December 31, 2018	-	-	42,400

In the period between May 8 and September 2017, options equivalent to 42,400 shares of the 7th Program (3rd tranche) were not exercised and expired.

In the period between May 8 and September 6, 2017, options equivalent to 42,400 shares of the 7th Program (3rd tranche) were not exercised and expired.

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

To determine the fair value of stock options, the following economic assumptions were made:

	7th Program (3rd tranche)	7th Program (4th tranche)	7th Program (5th tranche)
Grant date	7/16/2014	7/16/2014	7/16/2014
Beginning of option exercise period	5/8/2017	5/7/2018	5/13/2019
End of option exercise period	9/6/2017	9/6/2018	9/13/2019
Risk-free interest rate	11.50%	11.68%	11.74%
Number of eligible managers and employees	11	11	11
Price set - R$	21.00	21.00	21.00
Index	IPCA	IPCA	IPCA
Number of outstanding options	-	-	42,400
Option fair value at grant date - per stock option - R$	3.64	4.64	5.57
Option value for exercise, adjusted by IPCA and adjusted by dividends distributed through December 31, 2018 - R$	-	-	25.91

e) Equity valuation adjustments

The balance of R$11,279, net of deferred taxes of R$5,810, represents: the amount attributed to property, plant and equipment "Land" of the Parent Company as a result of the adoption of the deemed cost practice, applicable to the initial 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 Company's shares will be traded on an ex-dividend basis beginning May 02, 2018, and the payment of dividends was set at December 18, 2018.

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. 11.101/2015).

g) Non-controlling interest

	12/31/18	12/31/17
Balance at the beginning of the period/year	36	39
Noncontrolling interests in profit for the period/year	(24)	(3)
Balance at the end of the period/year	12	36

20. NET OPERATING REVENUE

	Consolidado	
	12/31/18	12/31/17
Net operating revenue:		
Goods soled and services provided	1,581,388	1,916,431
(-) Taxes	(105,918)	(157,616)
(-) Returns	(27,484)	(33,106)
(-) Deferred income - Saraiva Plus	(2,564)	(823)
	1,445,422	1,724,886

21. EXPENSES BY TYPE

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Goods	-	-	(1,023,488)	(1,132,252)
Cost of services	-	-	(10,045)	(17,833)
Personnel expenses and charges	(1,274)	(2,229)	(198,499)	(215,783)
Management fees	(1,382)	(1,801)	(5,610)	(5,955)
Advertising and publicity	-	-	(27,965)	(36,513)
Operating leases	-	-	(56,785)	(64,073)
Legal publications	(217)	(294)	(332)	(429)
Common area maintenance fees and promotion funds	-	-	(34,312)	(35,886)
Freight and packaging	-	-	(61,223)	(62,177)
IT services	(67)	-	(18,745)	(15,046)
Consulting and advisory services	-	(192)	(8,134)	(7,573)
Travels and accommodation	-	-	(1,268)	(1,194)
Expenses on credit cards,				
bank slips and collection	-	-	(22,339)	(27,815)
Credit losses	-	-	(18,799)	(4,038)
Other	(1,207)	(1,595)	(93,219)	(93,018)
	(4,147)	(6,111)	(1,580,763)	(1,719,585)
Classified as:				
Cost of goods and services sold	-	-	(1,033,533)	(1,150,085)
Selling expenses	-	-	(354,243)	(459,998)
General and administrative	(4,147)	(6,111)	(192,987)	(109,502)
	(4,147)	(6,111)	(1,580,763)	(1,719,585)

22. OTHER OPERATING EXPENSES

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Gain (loss) on write-off and/or sale of fixed assets, intangible and Godwill	-	-	(19,322)	(2,133)
Impairment loss	-	-	(22,102)	-
Allowance for investment losses	-	-	-	(135)
Write-off of recoverable taxes	-	-	-	(1,928)
Write-off of receivables from suppliers considered uncollectible	-	-	-	(1,199)
Write-off of judicial deposits	-	-	(673)	-
PIS/Cofins on other operating and finance income	(37)	(75)	(2,453)	(2,305)
Private label card	-	-	(1,132)	(728)
Provision for risks	-	-	(1,619)	(4,522)
Provision for negative goodwill - recoverable taxes	-	-	-	(2,100)
Losses and other events involving goods	-	-	(452)	(1,415)
State tax installment plans	-	-	(1,526)	-
Discontinued projects	-	-	(574)	-
Other operating expenses	(1)	(64)	(2,619)	(297)
	(38)	(139)	(52,472)	(16,762)

23. OTHER OPERATING REVENUES

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Unredeemed gift cards, and other unclaimed customer award credits	-	-	9,920	12,814
Recoverable social contributions	-	-	-	8,192
Accounting adjustments - new management system implementation	-	-	5,575	-
Recovered expenses	-	-	1,731	1,277
Indemnities for product losses	-	-	388	143
(Reversal) recognition of provision for risks	5	-	5	540
Other operating income	129	85	2,179	2,667
	134	85	19,798	25,633

24. FINANCIAL INCOME (LOSS)

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Finance income:				
Income from short-term investments	1	1	608	953
Fair value - swap transaction	-	-	13,596	-
Interest received from customers	-	3	47	53
Interest on recoverable taxes	582	1,448	3,097	5,230
Financial discounts obtained	53	4	771	601
Non-deliverable Forward - NDF transactions	-	-	-	126
Other interest and inflation gains	-	-	258	473
	636	1,456	18,377	7,436
Finance costs:				
Interest and inflation adjustment on borrowings and financing	-	(208)	(17,940)	(26,294)
Interest on loans made by the subsidiary	(533)	(270)	-	-
Fair value - swap transaction	-	-	-	(5,342)
Financial discounts granted	-	-	(39)	(32)
Other interest and inflation adjustment losses	(187)	(242)	(41,467)	(13,274)
Tax on lending transactions (IOF)	(153)	(86)	(388)	(841)
Other financial commissions	(153)	(145)	(8,181)	(8,142)
Non-deliverable Forward - NDF transactions	-	-	-	(336)
Other	(105)	(148)	(704)	(1,547)
	(1,131)	(1,099)	(68,719)	(55,808)
	(495)	357	(50,342)	(48,372)

25. OPERATING LEASES - STORE RENTALS

As at December 31, 2018, Varejo had 79 store rental agreements with shopping mall management companies or owners of street stores, qualified as leases for reporting purposes for the year ended December 31, 2018. 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 value of real estate leasing is always the highest of: (a) the equivalent of 2% to 10% of the gross monthly sales made by the store; or (b) a monthly minimum value updated annually by certain indices representative of inflation, as the case may be. These lease agreements have an indeterminate or determined duration; in the latter case, the time periods vary from five to ten years, subject to amicable or judicial contractual renewal (renewal action).

Lease expenses, net of recoverable taxes:

	Consolidadted	
	12/31/18	12/31/17
Operating leases - Note 21	56,785	64,073

The balance of "Operating lease - lease of stores" in current liabilities at December 31, 2018 in the consolidated balance is R$31,771 (R$12,563 at December 31, 2017).

26. LOSS PER SHARE

Under Parent Company's bylaws, holders of preferred shares are assured the same dividends as common shares. The following table shows the calculation of loss per share as per CPC Technical Pronouncement 41 (IAS 33):

	LPA - Total			LPA - Continuada			LPA - Descontinuada		
	01/01/18 a 31/12/18			01/01/18 a 31/12/18			01/01/18 a 31/12/18		
	Ordinárias	Preferênciais	Total	Ordinárias	Preferênciais	Total	Ordinárias	Preferênciais	Total
Prejuízo atribuído aos acionistas da Controladora	(108,618.7727)	(193,111.447)	(301,730)	(107,661)	(191,408)	(299,069)	(958)	(1,703)	(2,661)
Média ponderada de ações em circulação (em milhares) utilizadas na apuração do prejuízo básico por ação	9,607	17,079	26,686	9,607	17,079	26,686	9,607	17,079	26,686
Média ponderada de ações em circulação (em milhares) utilizadas na apuração do prejuízo diluído por ação	9,607	17,079	26,686	9,607	17,079	26,686	9,607	17,079	26,686
Prejuízo por ação - básico - R$	(11.30667)	(11.30667)		(11.20696)	(11.20696)		(0.09971)	(0.09971)	
Prejuízo por ação - diluído - R$	(11.30667)	(11.30335)		(11.20696)	(11.20367)		(0.09971)	(0.09968)	

	LPA - Total			LPA - Continuada			LPA - Descontinuada		
	01/01/17 a 31/12/17			01/01/17 a 31/12/17			01/01/17 a 31/12/17		
	Ordinárias	Preferênciais	Total	Ordinárias	Preferênciais	Total	Ordinárias	Preferênciais	Total
Prejuízo atribuído aos acionistas da Controladora	(18,723)	(33,286)	(52,009)	(17,767)	(31,587)	(49,354)	(956)	(1,699)	(2,655)
Média ponderada de ações em circulação (em milhares) utilizadas na apuração do prejuízo básico por ação	9,607	17,079	26,686	9,607	17,079	26,686	9,607	17,079	26,686
Média ponderada de ações em circulação (em milhares) utilizadas na apuração do prejuízo diluído por ação	9,607	17,079	26,686	9,607	17,079	26,686	9,607	17,079	26,686
Prejuízo por ação - básico - R$	(1.94892)	(1.94892)		(1.84942)	(1.84942)		(0.09950)	(0.09950)	
Prejuízo por ação - diluído - R$	(1.94892)	(1.94684)		(1.84942)	(1.84745)		(0.09950)	(0.09939)	

27. FINANCIAL INSTRUMENTS

a) Capital risk management

In terms of managing their capital, Parent and Varejo aims to ensure the continuity of the operations to offer a return to shareholders and maintain an adequate capital structure to minimize the costs associated with it.

Parent Company and Varejo's capital structures consist of financial liabilities owed to financial institutions (note 13), cash and cash equivalents (Note 4) and shareholders' equity (Note 19).

Debt indices may be summarized as follows:

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Borrowings and financing, net of derivative instruments and business acquisitions	2,637	2,477	175,508	316,104
(-) Cash, cash equivalents and short-term investments	(760)	(11)	(95,429)	(68,952)
Net debt	1,877	2,466	80,079	247,152
Equity	120,906	422,022	120,918	422,058
Total	122,783	424,488	200,997	669,210
Net debt ratio	1.53%	0.58%	39.84%	36.93%

Parent Company and Varejo managements periodically review capital structure and their ability to settle liabilities. They also monitor average terms of payment for accounts receivable, suppliers and inventories, and take any measures required to keep them at levels deemed appropriate for financial management purposes.

b) Categories of financial instruments

	Parent	
	12/31/18	12/31/17
	Carrying amount	Carrying amount
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents		
and short-term investments	760	11
Financial liabilities		
Liabilities at amortized cost		
Trade payables	1,719	996
Dividends	17,466	17,466
Related parties - intragroup loans	2,183	7,996
AFCI	10,000	-
Other payables	2,637	3,477
	34,005	29,935

	Consolidated	
	12/31/18	12/31/17
	Carrying amount	Carrying amount
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents		
and short-term investments	95,429	68,952
Fair value - swap transaction	-	4,040
Loans and receivables		
Trade receivables - customers	57,685	206,910
	153,114	279,902
Financial liabilities		
Liabilities at amortized cost		
Borrowings and financing	172,871	216,854
Trade payables	549,324	546,880
Operating lease	31,771	12,563
Dividends	17,466	17,466
AFCI	10,000	-
Other payables	3,489	4,206
Liabilities - fair value		
Borrowings and financing	-	100,813
	784,921	898,782

Parent Company's Management believes that its financial instruments, which are recognized in the individual and consolidated financial statements at their carrying amounts, do not show significant variations in relation to their respective market values at the end of each period.

The balance of "Loans and financing" is monetarily restated based on market rates (CDI, TJLP and UM Selic), contractual rates (Note 13) and variable interest rates due to market conditions; and therefore, the debtor balance recorded at the end of each period is close to the market value. However, there is no active market for loans and financing obtained with the BNDES and, therefore, differences could arise in relation to the book value if such amounts were settled in advance.

c) Financial risk

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 is managed by Parent Company and Varejo managements following policies approved by their boards. Parent Company and Varejo's Treasury department cooperates with operating units to detect, assess and hedge any financial risk.

d) Managing interest-rate risk

Parent Company and Varejo are exposed to normal market risks due to changing rates of interest charged on borrowings or earned on deposits. Management's interest rate risk management policy involves constantly monitoring economic scenarios to detect any interest rate fluctuations and if applicable arrange hedges against varying interest rates while weighing the outcomes of floating or fixed rate transactions.

Maximum interest-rate risk exposure at December 31, 2018 is shown in the table below:

		Consolidated
		12/31/18
	Risk	Carrying amount
Short-term investments	Decrease in CDI	71,047
Borrowings and financing	Increase in CDI	174,989
Trade payables	Increase in CDI	414
Other payables	Increase in CDI	2,637
Exposure		249,087

e) Additional sensitivity analysis for financial instruments, as per CVM Instruction 475/08

Sensitivity analysis was developed for exposure to varying rates of the CDI, which is the main index used for loans or for interest-earning deposits of cash surpluses.

The Parent Company shows supplementary details its financial instruments and those of Varejo as required by CVM Instruction 475 of December 17, 2008, specifically for sensitivity analysis supplementing requirements under IFRS and accounting practices adopted in Brazil.

To prepare this analysis, the Parent Company's and Varejo's management adopted the following measures:

- Identify market risks that may cause material losses;
- Define a probable risk behavior scenario (Scenario I);
- Define two additional scenarios with least 25% and 50% deterioration of the risk variation in question (scenarios II and III respectively).

Possible effects for equity balances are shown for the following scenarios:

Assets and liabilities with interest recalculated according to previously established scenarios

		Carrying amounts		
Transaction	Risk	Scenario I	Scenario II	Scenario III
Interest-earning bank deposits subject to CDI rate - Retailing Controladora	Decrease in CDI	(109)	(272)	(543)
Loans for working capital subject to CDI – Retailing Varejo	Increase in CDI	(457)	(1,144)	(2,292)
Financial leasings subject to CDI rates - Retailing Controladora	Increase in CDI	(100)	(251)	(504)
Fornecedores sujeitos a a variação do CDI - Varejo	Increase in CDI	(1)	(3)	(6)
Other liabilities subject to CDI rate - Parent Company	Increase in CDI	(7)	(18)	(36)
Net income (loss)		(674)	(1,688)	(3,381)

Interest rate risk

f) Managing currency exchange rate risk

US Dollar Purchase Contracts

The revenues of the Parent and Varejo are expressed in Reais. The foreign exchange risk arises from eventual commercial operations generated mainly by the importation of goods and services denominated in US dollars (US$). The foreign exchange risk management policy defined by the Parent and Varejo Management is to protect itself from possible imports through operations consisting of US dollar ("Non-deliverable Forward (NDF)" physical delivery or exchange contracts with physical delivery, used only as an instrument of value protection and never as a speculative instrument, and may be carried out in operations exposed to foreign currency that have a financial impact on the Parent Company and Varejo, however, not designated as "hedge".

Once defined the import is based on the level of the price of money that enables the marketing of goods and services in the local market within the expected profit margin standards and probable delivery times; from this fact, the exercise price and the maturity that will guide the contracting of the US dollar call options are defined.

During the years 2016 and 2017, the Varejo Company carried out operations related to the purchase of US dollar amount without physical delivery (NDF) for the purpose of protecting the import operations of its e-reader - LEV, below presented:

ABC Brasil Bank

		Exchange rate - R$ on the contract		Notional value	Gain (loss) recorded(a) (R$)
Contract	Maturity	date	Maturity	(US$ thousand)	12/31/17
4/18/2017	6/30/2017	3.1755	3.2952	1,051	126
7/7/2017	7/14/2017	3.2900	3.2108	491	(39)
7/7/2017	8/14/2017	3.3300	3.1695	558	(90)
8/14/2017	10/6/2017	3.2360	3.1871	1,585	(160)
				3,685	(163)

Safra Bank

		Exchange rate - R$ on the contract		Notional value	Loss recorded(a) (R$)
Contract	Maturity	date	Maturity	(US$ thousand)	12/31/17
12/8/2016	1/6/2017	3.4280	3.2591	1,025	(47)

The Parent and Varejo did not conduct USD non-deliverable forwards transactions in the year ended December 31, 2018.

Foreign currency loans

Varejo borrowed foreign currency loans (US$) plus interest rate (note 13), for which swap transactions were contracted to hedge against changes in rates exchange rate and interest rate fluctuations, replacing contracted interest and exchange variation of foreign currency by the variation of the CDI and pre-fixed and post-fixed rates.

In its form, the transaction links a loan agreement to a swap transaction executed on the same date, with the same maturity date, with the same counterparty and that should be settled at its net value. In essence, the operations are loans denominated in local currency plus a pre-fixed and / or post-fixed interest rate subject to the variation of the CDI, as the case may be.

The associated derivative instruments have been formally designated as hedges for the purpose of reducing the volatility of accounting results arising from the registration of derivative instruments at fair value through profit or loss, recognition of gains and losses arising from derivative financial instruments in the same accounting periods as the items subject to the hedge affect the accounting result.

Accounting recognition and related disclosures reflect the essence of the transaction.

The transactions were early settled on July 13, 2018.

Foreign currency exposure

	R$	
	12/31/18	12/31/17
Loans and financing	-	96,774
Swap	-	(96,774)
Net exposure	-	-

g) Managing credit risk

Parent Company and Varejo sales policies are subordinated to credit policies termed by their Management for the purpose of minimizing customer delinquency. This objective is achieved through a selective customer portfolio based on ability to pay (credit analysis).

Maximum exposure to this risk at that date is shown in the table below:

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Financial assets				
Cash and cash equivalents and short-term investments	760	11	95,429	68,952
Trade receivables - customers	-	-	57,685	206,910
	760	11	153,114	275,862

At December 31, 2018, the consolidated balance shows losses from doubtful debt in the amount of R$339 (R$1,106 at December 31, 2017) in order to cover credit risks.

h) Managing liquidity risk

Management monitors ongoing forecasts of Parent Company and Varejo liquidity requirements to ensure it has sufficient cash to meet operating needs.

Due to the dynamics of their business, Parent Company and Varejo have a flexible approach to funding through credit facilities from certain banks.

The following table shows financial liabilities with their due dates:

	Parent				
Transaction	Up to 1 year	Up to 2 years	3 to 5 years	Over 5 years	Total
Trade payables	1,719	-	-	-	1,719
Dividends	5,832	5,817	5,817	-	17,466
AFCI	10,000	-	-	-	10,000
Other payables	2,637	-	-	-	2,637

	Consolidated				
Transaction	Up to 1 year	Up to 2 years	3 to 5 years	Over 5 years	Total
Trade payables	549,324	-	-	-	549,324
Borrowings and financing	140,065	36,065	-	-	176,130
Dividends	5,832	5,817	5,817	-	17,466
Operating lease	31,771	-	-	-	31,771
AFCI	10,000	-	-	-	10,000
Other payables	3,489	-	-	-	3,489

i) Risk concentration

Financial instruments that may subject Parent and Varejo to credit risk concentration are mostly bank account balances, interest-earning deposits and trade receivables. The balance of Varejo's "Trade accounts receivable" item is largely spread across credit card companies. All customer receivables are BRL denominated.

j) Credit facilities

	Consolidated	
	12/31/18	12/31/17
Loans:		
Used	158,418	242,181
Financing:		
Used	58,136	58,136

k) Guarantees provided

	Consolidated
	12/31/18
Letters of guarantee to federal tax execution proceedings	8,139

In the year ended December 31, 2018, letters of guarantee incurred interest expenses amounting to R$1,883 (R$3,170 at December 31, 2017).

l) Book value and fair value of financial assets and liabilities:

	Parent		Consolidated	
	12/31/18		12/31/18	
	Carrying amount	Fair value	Carrying amount	Fair value
Fair value through profit or loss				
Cash and cash equivalents and short-term investments	760	760	95,429	95,429
Loans and receivables				
Trade receivables - customers	-	-	57,685	57,685
Liabilities held at amortized cost				
Borrowings and financing	-	-	172,871	176,427
Dividends	17,466	17,466	17,466	17,466
Trade payables	1,719	1,719	549,324	549,324
Operating lease	-	-	31,771	31,771
Related parties - intragroup loans	2,183	2,183	-	-
AFCI	10,000	10,000	10,000	10,000
Other payables	2,637	2,637	3,489	3,489

The following methods and assumptions were used to determine fair value:

- Cash and cash equivalents - defined as assets for cash management represented by cash and bank deposits, for which fair value is are close to book value;

- Customer, supplier and related party receivables - Balances arising directly from operations, for which fair values are close to book values;

- Loans and financing and derivatives (swaps) - Fair value for Parent Company and Varejo derivatives were based on the future value of the transactions determined for contractually agreed rates and conditions, discounted to present value at the market benchmark rates posted by B3for the period in question. In relation to Parent Company and Varejo loan and financing from BNDES, Management believes that book value is the best benchmark for fair value since the rates practiced are specific for transaction with BNDES.

Parent Company discloses its assets and liabilities at fair value based on CPC 38, CPC 39 and CPC 40 (R1) pronouncements, which define measurement, recognition, presentation and disclosure for financial instruments.

Fair value levels

Financial assets and liabilities recorded at fair value are classified and disclosed on the following levels:

- Level 1 - quoted prices (not adjusted) in active markets for identical assets or liabilities that are accessible at measurement date;

- Level 2 - inputs, except quoted prices, included in level 1 that are directly (prices) or indirectly (price derivatives) observable for the asset or liability; and
- Level 3 - premises for an asset or liability that are not based on observable market data (unobservable data). On this level, a fair value estimate becomes subjective.

Parent Company and consolidated assets and liabilities measured at fair value at December 31, 2018, are shown below:

	Parent			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	760	-	-	760

	Consolidated			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents and short-term investments	49,110	46,319	-	95,429

28. INFORMATION BY BUSINESS SEGMENT

Saraiva Group's business management, in the financial and operational areas, is carried out through the only segment called “Varejo”.

The Varejo segment corresponds to the retail business of products related to culture, leisure and information. The commercialization is carried out by the network of stores in the main cities of the Country and by the electronic commerce Saraiva.com.br.

29. DISCONTINUED OPERATIONS

Represented by the residual result of the operations of the publishing segment, sold to Editora Attica S.A. in 2015.

Statement of income from discontinued operations for the year ended December 31:

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Operating expenses	(2,480)	(948)	(2,480)	(948)
Loss from operations	(2,480)	(948)	(2,480)	(948)
Finance costs	(2)	(1,310)	(2)	(1,310)
Loss before income tax	(2,482)	(2,258)	(2,482)	(2,258)
Deferred income tax	(179)	(397)	(179)	(397)
Loss from discontinued operations	(2,661)	(2,655)	(2,661)	(2,655)

Income from discontinued operations in the consolidated amount of R$2,661 (R$2,655 on December 31, 2017) is fully attributed to the controlling shareholders.

Cash flow from (used in) discontinued operations

	Parent		Consolidated	
	12/31/18	12/31/17	12/31/18	12/31/17
Net cash used in operating activities	2,183	(835)	2,183	(835)
Net cash provided by financing activ	(445)	(8,179)	(445)	(8,179)
Net cash provided by discontinued operations	1,738	(9,014)	1,738	(9,014)

30. INSURANCE COVERAGE

Under Parent Company and Varejo policy, insurance coverage is arranged for risk-prone assets in amounts considered sufficient to cover any claims, given the nature of their business.

Insurance coverage is shown as follows:

	12/31/18	12/31/17
Loss of profits	419,247	100,000
Fire - maximum importance	1,147,571	212,902
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
Vehicles – civil liability only		
Maximum importance	-	1,017
International transportation	3,708	634
Tax execution	70,853	24,694

31. EVENTS AFTER THE REPORTING PERIOD

In March 2019, the Company and Banco Itaú completed the renegotiation of the amount relating to the collateral under the BNDES financing transaction. As a result, the collateral executed by BNDES was settled by using the Company's checking account balance and a loan obtained from Banco Itaú in the form of Bank Credit Notes - CCB (Note 13). The transaction released credit card receivables amounting to R$31 million, which had been used to collateralize the Company's financial transactions with Banco Itaú.

32. 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 February 4, 2019, the draft version of the Judicial Reorganization Plan was attached to the process.

With the approval of the judicial reorganization request, Management has intensified the negotiations with is 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 160 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 March 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. *Reduction of 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 35% 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 reported 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.

33. EXPLANATION ADDED TO THE TRANSLATION INTO THE ENGLISH VERSION

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

* * *