

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

# **Springs Global Participações S.A.**

Individual and Consolidated  
Interim Financial Information for the  
Three-month Period Ended September 30, 2018  
and Report on Review of Interim Financial  
Information

Deloitte Touche Tohmatsu Auditores Independentes

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

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

### **Introduction**

We have reviewed the accompanying individual and consolidated interim financial information of Springs Global Participações S.A. (the "Company"), identified as parent and consolidated, respectively, included in the Interim Financial Information Form (ITR), for the three-month period ended September 30, 2018, which comprises the balance sheet as of September 30, 2018 and the related statements of operations and of comprehensive income for the three and nine-month periods then ended and of changes in equity and of cash flows for the nine-month period then ended, including the explanatory notes.

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

### **Scope of review**

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

### **Conclusion on interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITR referred to above was not prepared, in all material respects, in accordance with technical pronouncement CPC 21 (R1) and international standard IAS 34, applicable to the preparation of the ITR, and presented in accordance with the standards issued by the CVM.

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

**Other matters**

*Statements of value added*

We have also reviewed the individual and consolidated statements of value added (“DVA”) for the nine-month period ended September 30, 2018, prepared under the responsibility of the Company’s Management, the presentation of which is required by the standards issued by the CVM applicable to the preparation of ITR and considered supplemental information for International Financial Reporting Standards - IFRS, which do not require the presentation of the DVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the individual and consolidated interim financial information taken as a whole.

São Paulo, November 12, 2018

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Guilherme Jorge Dagli Júnior  
Engagement Partner

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

(In thousands of Brazilian Reais)

	<u>ASSETS</u>				
	<u>Note</u>	<u>Company</u>		<u>Consolidated</u>	
		<u>09.30.2018</u>	<u>12.31.2017</u>	<u>09.30.2018</u>	<u>12.31.2017</u>
<b>CURRENT:</b>					
Cash and cash equivalents	3	12	103	135,377	155,442
Marketable securities	4	-	-	64,271	35,163
Financial instruments	23.d.4	-	-	18,854	-
Accounts receivable	5	-	-	551,140	497,647
Inventories	6	-	-	572,621	538,175
Advances to suppliers		-	-	37,511	37,159
Recoverable taxes	18.c	148	148	16,380	28,662
Other receivables		1,021	1,044	54,737	52,307
		-----	-----	-----	-----
Total current assets		1,181	1,295	1,450,891	1,344,555
		-----	-----	-----	-----
<b>NONCURRENT:</b>					
Long-term assets:					
Marketable securities	4	-	-	77,998	63,819
Receivable – clients	7	-	-	42,370	37,388
Receivable – sale of property	8	-	-	59,489	54,587
Related parties	22	-	-	46,641	39,711
Recoverable taxes	18.c	-	-	30,278	14,895
Deferred taxes	18.b	1,905	1,905	154,996	89,357
Property, plant and equipment held for sale	11.b	-	-	39,166	33,731
Escrow deposits	19	-	-	12,622	13,678
Others		-	-	33,204	34,568
		-----	-----	-----	-----
		1,905	1,905	496,764	381,734
		-----	-----	-----	-----
Investments in subsidiaries	9.a	1,214,788	1,193,335	-	-
Investment properties	10	-	-	226,982	211,176
Property, plant and equipment	11.a	-	-	646,850	669,165
Intangible assets	12	27,303	27,303	118,609	114,788
		-----	-----	-----	-----
Total noncurrent assets		1,243,996	1,222,543	1,489,205	1,376,863
		-----	-----	-----	-----
Total assets		1,245,177	1,223,838	2,940,096	2,721,418
		=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

(In thousands of Brazilian Reais)

LIABILITIES AND EQUITY

	Note	Company		Consolidated	
		09.30.2018	12.31.2017	09.30.2018	12.31.2017
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Loans and financing	13	4,873	21,866	392,624	444,861
Debentures	14	-	-	67,324	11,952
Suppliers	15	49	4	195,720	163,265
Taxes		177	120	20,328	13,553
Payroll and related charges		78	109	78,947	59,691
Government concessions	16	-	-	19,845	19,473
Noneconomic leases	17	-	-	8,717	7,202
Other payables		-	-	57,332	42,884
		-----	-----	-----	-----
Total current liabilities		5,177	22,099	840,837	762,881
		-----	-----	-----	-----
<b>NONCURRENT:</b>					
Loans and financing	13	-	-	620,793	582,180
Debentures	14	-	-	106,606	36,643
Noneconomic leases	17	-	-	15,898	13,816
Related parties	22	77,352	50,176	60	-
Government concessions	16	-	-	43,881	42,784
Miscellaneous accruals	19	-	-	13,015	18,610
Employee benefit plans	20	-	-	109,575	95,536
Deferred taxes	18.b	-	-	4,287	4,287
Other obligations		2,056	2,056	24,552	15,174
		-----	-----	-----	-----
Total noncurrent liabilities		79,408	52,232	938,667	809,030
		-----	-----	-----	-----
<b>EQUITY:</b>					
	21				
Capital		1,860,265	1,860,265	1,860,265	1,860,265
Capital reserves		79,381	79,381	79,381	79,381
Earnings reserves		25,170	25,170	25,170	25,170
Assets and liabilities valuation adjustments		82,435	82,435	82,435	82,435
Cumulative translation adjustments		(255,727)	(274,173)	(255,727)	(274,173)
Accumulated deficit		(630,932)	(623,571)	(630,932)	(623,571)
		-----	-----	-----	-----
Total equity		1,160,592	1,149,507	1,160,592	1,149,507
		-----	-----	-----	-----
Total liabilities and equity		1,245,177	1,223,838	2,940,096	2,721,418
		=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands of Brazilian Reais)

	Note	Company			
		07.01.2018 to 09.30.2018	01.01.2018 to 09.30.2018	07.01.2017 to 09.30.2017	01.01.2017 to 09.30.2017
OPERATING INCOME (EXPENSES):					
General and administrative expenses		(805)	(2,538)	(807)	(2,504)
Management fees		(229)	(801)	(340)	(658)
Equity in subsidiaries	9.a	(5,682)	3,007	18,860	16,504
		-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS		(6,716)	(332)	17,713	13,342
Financial expenses – interest		(2,282)	(6,171)	(2,061)	(6,440)
Financial expenses – bank charges and others		(366)	(859)	(227)	(751)
Financial income		1	1	4	116
		-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES		(9,363)	(7,361)	15,429	6,267
Income and social contribution taxes	18.a	-	-	-	-
		-----	-----	-----	-----
NET INCOME (LOSS) FOR THE PERIOD		(9,363)	(7,361)	15,429	6,267
		=====	=====	=====	=====
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE — R\$	27	(0.1873)	(0.1472)	0.3085	0.1253
		=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands of Brazilian Reais)

	Note	Consolidated			
		07.01.2018 to 09.30.2018	01.01.2018 to 09.30.2018	07.01.2017 to 09.30.2017	01.01.2017 to 09.30.2017
NET REVENUES	26	629,505	1,682,049	568,821	1,625,425
COST OF GOODS SOLD	25	(484,414)	(1,256,361)	(414,493)	(1,199,330)
GROSS PROFIT		145,091	425,688	154,328	426,095
OPERATING INCOME (EXPENSES):					
Selling expenses	25	(72,876)	(209,361)	(72,614)	(207,482)
General and administrative expenses	25	(33,335)	(102,813)	(30,689)	(94,694)
Management fees	25	(2,883)	(8,663)	(2,810)	(7,032)
Others, net		11,199	13,403	3,409	12,689
INCOME FROM OPERATIONS		47,196	118,254	51,624	129,576
Financial expenses – interest		(32,251)	(97,027)	(34,496)	(110,778)
Financial expenses – bank charges and others		(13,958)	(37,788)	(14,389)	(45,209)
Financial income		9,008	20,854	6,663	20,528
Exchange rate variations, net		(17,930)	(55,680)	4,420	(1,647)
LOSS FROM OPERATIONS BEFORE TAXES		(7,935)	(51,387)	13,822	(7,530)
Income and social contribution taxes:					
Current	18.a	(1,428)	(3,025)	(421)	(627)
Deferred	18.a	-	47,051	2,170	14,888
NET INCOME (LOSS) FOR THE PERIOD		(9,363)	(7,361)	15,571	6,731
ATTRIBUTABLE TO:					
Owners of the Company		(9,363)	(7,361)	15,429	6,267
Non-controlling interests		-	-	142	464
		(9,363)	(7,361)	15,571	6,731

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





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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

(In thousands of Brazilian Reais)

Note	Capital	Capital reserve	Earnings reserves		Assets and liabilities valuation adjustments	Cumulative translation adjustments	Accumulated deficit	Total equity attributable to the owners of the Company	Non-controlling interests	Total equity
			Legal	Retained earnings						
BALANCES AS OF DECEMBER 31, 2016	1,860,265	79,381	1,842	23,328	(36,664)	(271,090)	(633,926)	1,023,136	4,668	1,027,804
Comprehensive income (loss):										
Net income for the period	-	-	-	-	-	-	6,267	6,267	464	6,731
Exchange rate variations on foreign investments	2.1.b	-	-	-	-	875	-	875	(63)	812
Actuarial loss on pension plans		-	-	-	(49)	-	-	(49)	-	(49)
Impact of subsidiaries-										
Exchange rate variations on foreign investments	2.1.b	-	-	-	-	(7,138)	-	(7,138)	-	(7,138)
Total comprehensive income (loss)		-	-	-	(49)	(6,263)	6,267	(45)	401	356
Transactions with shares of indirect subsidiary		-	-	-	-	-	(7,971)	(7,971)	(3,849)	(11,820)
BALANCES AS OF SEPTEMBER 30, 2017	1,860,265	79,381	1,842	23,328	(36,713)	(277,353)	(635,630)	1,015,120	1,220	1,016,340

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2018

(In thousands of Brazilian Reais)

	Note	Capital	Capital reserve	Earnings reserves		Assets and liabilities valuation adjustments	Cumulative translation adjustments	Accumulated deficit	Total equity
				Legal	Retained earnings				
BALANCES AS OF DECEMBER 31, 2017		1,860,265	79,381	1,842	23,328	82,435	(274,173)	(623,571)	1,149,507
Comprehensive income (loss):									
Net income for the period		-	-	-	-	-	-	(7,361)	(7,361)
Exchange rate variations on foreign investments	2.1.b	-	-	-	-	-	34,128	-	34,128
Impact of subsidiaries- Exchange rate variations on foreign investments	2.1.b	-	-	-	-	-	(15,682)	-	(15,682)
Total comprehensive income (loss)		-	-	-	-	-	18,446	(7,361)	11,085
BALANCES AS OF SEPTEMBER 30, 2018		1,860,265	79,381	1,842	23,328	82,435	(255,727)	(630,932)	1,160,592

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS SEPTEMBER 30, 2018 AND 2017

(In thousands of Brazilian Reais)

	Company		Consolidated	
	01.01.2018 to 09.30.2018	01.01.2017 to 09.30.2017	01.01.2018 to 09.30.2018	01.01.2017 to 09.30.2017
Cash flows from operating activities				
Net income (loss) for the period	(7,361)	6,267	(7,361)	6,731
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	56,582	55,263
Equity in subsidiaries	(3,007)	(16,504)	-	-
Income and social contribution taxes	-	-	(44,026)	(14,261)
Gain on disposal of property, plant and equipment and intangibles	-	-	(2,999)	(7,486)
Monetary variations	-	-	4,656	1,160
Exchange rate variations	-	-	55,680	1,647
Bank charges, interests and commissions	5,893	7,085	85,353	122,465
	(4,475)	(3,152)	147,885	165,519
Changes in assets and liabilities				
Marketable securities	-	-	(11,636)	(5,421)
Financial instruments	-	-	(18,854)	-
Accounts receivable	-	-	(40,454)	(34,232)
Inventories	-	-	(33,185)	4,644
Advances to suppliers	-	-	(323)	(4,128)
Suppliers	45	(65)	5,802	(12,040)
Others	326	108	23,616	6,511
Net cash provided by (used in) operating activities	(4,104)	(3,109)	72,851	120,853
Interest paid	(1,302)	(2,264)	(74,628)	(100,275)
Income and social contribution taxes paid	-	-	(1,685)	(5,223)
Net cash provided by (used in) operating activities after interest and income taxes	(5,406)	(5,373)	(3,462)	15,355
Cash flows from investing activities				
Investment properties	-	-	(13,062)	(11,820)
Property, plant and equipment	-	-	(40,480)	(35,140)
Intangibles	-	-	(2,080)	(3)
Proceeds from disposal of property, plant and equipment	-	-	4,426	10,762
Loans between related parties	22,599	6,028	(30,411)	4,100
Net cash provided by (used in) investing activities	22,599	6,028	(81,607)	(32,101)

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS

FOR THE NINE-MONTH PERIODS SEPTEMBER 30, 2018 AND 2017

(In thousands of Brazilian Reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>01.01.2018</u> <u>to</u> <u>09.30.2018</u>	<u>01.01.2017</u> <u>to</u> <u>09.30.2017</u>	<u>01.01.2018</u> <u>to</u> <u>09.30.2018</u>	<u>01.01.2017</u> <u>to</u> <u>09.30.2017</u>
Cash flows from financing activities				
Proceeds from new loans	-	17,000	744,183	689,275
Repayment of loans	(17,284)	(17,861)	(681,730)	(707,371)
Net cash provided by (used in) financing activities	(17,284)	(861)	62,453	(18,096)
Effect of exchange rate variations on cash and cash equivalents of foreign subsidiaries	-	-	2,551	(5,416)
Decrease in cash and cash equivalents	(91)	(206)	(20,065)	(40,258)
Cash and cash equivalents:				
At the beginning of the period	103	268	155,442	160,360
At the end of the period	12	62	135,377	120,102
Decrease in cash and cash equivalents	(91)	(206)	(20,065)	(40,258)
	=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands of Brazilian Reais)

	Company		Consolidated	
	01.01.2018 to 09.30.2018	01.01.2017 to 09.30.2017	01.01.2018 to 09.30.2018	01.01.2017 to 09.30.2017
<b>REVENUES</b>				
Sales of products, goods and services	-	-	1,876,484	1,846,522
Gain on disposal of property, plant and equipment and intangibles	-	-	2,999	7,486
	-----	-----	-----	-----
	-	-	1,879,483	1,854,008
<b>MATERIALS ACQUIRED FROM THIRD PARTIES</b>				
Cost of goods and services sold	-	-	(855,527)	(846,705)
Materials, energy, third party services, and others	(3,149)	(3,101)	(316,801)	(283,099)
	-----	-----	-----	-----
	(3,149)	(3,101)	(1,172,328)	(1,129,804)
<b>GROSS VALUE ADDED</b>	-----	-----	-----	-----
	(3,149)	(3,101)	707,155	724,204
<b>RETENTIONS</b>				
Depreciation and amortization	-	-	(56,582)	(55,263)
	-----	-----	-----	-----
<b>NET VALUE ADDED PRODUCED BY THE COMPANY</b>				
	(3,149)	(3,101)	650,573	668,941
<b>VALUE ADDED RECEIVED BY TRANSFER</b>				
Equity in subsidiaries	3,007	16,504	-	-
Financial income	1	116	20,854	20,528
Exchange rate variation	-	-	37,897	661
Royalties	-	-	14,360	11,837
	-----	-----	-----	-----
	3,008	16,620	73,111	33,026
<b>TOTAL VALUE ADDED FOR DISTRIBUTION (TO RETAIN)</b>	-----	-----	-----	-----
	(141)	13,519	723,684	701,967
	=====	=====	=====	=====
<b>DISTRIBUTION OF VALUE ADDED</b>				
Salary, wages and compensation	-	-	338,675	339,298
Taxes, duties and contributions	1,049	812	110,936	151,247
Payments to third parties	6,171	6,440	281,434	204,691
Net income (loss) for the period	(7,361)	6,267	(7,361)	6,731
	-----	-----	-----	-----
<b>VALUE ADDED DISTRIBUTED (RETAINED)</b>				
	(141)	13,519	723,684	701,967
	=====	=====	=====	=====

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

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

SPRINGS GLOBAL PARTICIPAÇÕES S.A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2018

(Amounts in thousands of Brazilian Reais)

1. OPERATIONS

Springs Global Participações S.A. (the “Company”), domiciled in Montes Claros – MG, Brazil, was incorporated on November 24, 2005 and, on January 24, 2006 received as capital contribution 100% of the shares of Coteminas S.A. (“CSA”) and Springs Global US, Inc. (“SGUS”), privately-held companies headquartered in Brazil and in the United States, respectively, whose shareholders were Companhia de Tecidos Norte de Minas – Coteminas (“CTNM”) and the former shareholders of Springs Industries, Inc. (“SI”), respectively. On April 30, 2009, the Company acquired a controlling interest in Springs e Rossini Participações S.A. (“SRPSA”), the parent of MMartan Têxtil Ltda. (“MMartan”).

On July 27, 2007, the Company’s stock began trading in the “Novo Mercado” segment of B3 S.A. – Brazilian Stocks, Commodities and Futures Exchange (“B3”), under the code “SGPS3”.

The Company functions as the holding company of CSA and SGUS, companies that focus their manufacturing and distribution operations on bed and bath linens, previously carried out by CTNM and SI. This joint venture created a textile industrial complex of bed linens and bath products, with production units in Brazil, Argentina and the United States.

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

The Company’s products are sold in the United States and Canada by SGUS through its vast distribution chain that is close to the largest retailers in those markets. In Brazil and Argentina, its products are sold by CSA and its subsidiary Coteminas Argentina S.A.

In April 2009, the Company started its bed, tabletop and bath retail operations, under the brands MMartan and Casa Moyses and later, in October 2011, with the brand Artex. The retail operation of these brands is run by subsidiary AMMO Varejo Ltda. (“AMMO”).

2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the Company’s Board of Directors on November 12, 2018.

The Company presents its individual (“Company”) and consolidated (“Consolidated”) interim financial statements prepared simultaneously in accordance with technical pronouncement CPC 21 (R1) – Interim Financial Statements and in accordance with international standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as the standards issued by CVM (Brazilian Securities and Exchange Commission), applicable to the preparation of the Interim Financial Information.

The Company adopted all standards, review of standards and interpretations issued by the IASB and the CPC which were effective on September 30, 2018. All relevant information relating to the interim financial statements is included herein and corresponds to those used by Company's management in its administration.

## 2.1 – Translation of balances in foreign currency

### a) Functional and presentation currency

The interim financial statements of each subsidiary included in the consolidation of the Company and used as a basis for valuation of investments under the equity method are prepared using the functional currency of each entity. The functional currency of an entity is the currency of the primary economic environment in which it operates. To determine the functional currency of each of its subsidiaries, Management considered which currency significantly influences the selling price of their products and services, and the currency in which most of the production cost inputs are paid or incurred.

The interim consolidated financial statements are presented in Reais (R\$), which is the functional and presentation currency of the Company.

### b) Conversion of balances

The results and financial position of all subsidiaries included in the consolidation that have functional currencies different from the presentation currency are translated to the presentation currency as follows:

- i) assets and liabilities are translated at the exchange rate prevailing on the date of the interim consolidated financial statements;
- ii) income and expenses are translated at the monthly exchange rate; and
- iii) all differences resulting from the translation are recognized in equity under the caption "Cumulative translation adjustments" and are presented as other comprehensive income in the statement of comprehensive income.

## 2.2 – Accounting policies

The significant accounting policies used in the preparation of the interim financial statements are as follows:

(a) Results of operations--Results of operations are calculated in accordance with the accrual basis of accounting. Revenue is not recognized if there is significant uncertainty regarding its realization. Interest income and expense are recognized using the effective interest rate as financial income and expenses in the statements of operations. The extraordinary gains and losses and the transactions and provisions involving property, plant and equipment are recorded in the statements of operations as "Others, net".

(b) Financial instruments--The Company classifies financial assets and liabilities in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") and at amortized cost.

### i) Non-derivative financial assets and liabilities - recognition and derecognition

The Company recognizes financial assets and liabilities when and only when it becomes part of the contractual provisions of the instruments. The Company derecognizes a financial asset when the contractual rights to the asset's cash flows benefits expire, or when the Company transfers

the rights to the receipt of contractual cash flows on a financial asset in a transaction in which substantially all the risks and benefits of ownership of the financial asset are transferred. Any participation that is created or retained by the Company in such transferred financial assets is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligation is withdrawn, canceled or expired.

The financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to liquidate them on a net basis or to realize the asset and settle the liability simultaneously.

#### ii) Non-derivative financial assets - measurement

A financial asset is measured at amortized cost if it meets both of the following conditions:

- the asset is kept within a business model with the purpose of collecting contractual cash flows; and
- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income only if it satisfies both of the following conditions:

- the asset is kept within a business model with the purpose of collecting contractual cash flows; and
- the contractual terms of the financial asset give rise, on specific dates, to the cash flows that are only payments of principal and interest on the outstanding principal amount.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at initial recognition, the Company may irrevocably designate a financial asset or liability as measured at fair value through profit or loss in order to eliminate or significantly reduce a possible accounting mismatch resulting from the result of the respective asset or liability.

#### iii) Non-derivative financial liabilities - measurement

Financial instruments classified as liabilities, after their initial recognition at fair value, are measured based on the amortized cost method based on the effective interest rate. Interest, monetary restatement, exchange variation, are recognized in income, as financial income or expenses, when incurred.

#### iv) Derivatives measured at fair value through profit or loss

Contracted derivative instruments are not designated for hedge accounting. Changes in the fair value of any of these derivative instruments are recognized immediately in the statement of operations.



(c) Impairment of financial instruments--Financial assets not classified as financial assets at fair value through profit or loss, are valued at each balance sheet date to determine whether there is objective evidence of impairment loss. Objective evidence that financial assets had a loss of value includes:

- default or delays by the debtor;
- restructuring of a value due to the Company under conditions that would not be accepted under normal conditions;
- indications that the debtor or issuer will go into bankruptcy or judicial recovery;
- negative changes in the payment situation of debtors or issuers;
- the disappearance of an active market for the instrument due to financial difficulties; or
- observable data indicating that there was a decline in the measurement of the expected cash flows of a group of financial assets.

The Company considers evidence of impairment of assets measured at amortized cost both individually and collectively. All individually significant assets are evaluated for impairment. Those that have not individually suffered a loss of value are then evaluated collectively for any loss of value that may have occurred, but has not yet been identified, which includes the expected credit losses. Assets that are not individually significant are evaluated collectively as to the loss of value based on the grouping of assets with similar risk characteristics.

In evaluating the impairment loss on a collective basis, the Company uses historical trends of the recovery period and the amounts of loss incurred, adjusted to reflect management's judgment as to whether current economic and credit conditions are such that losses are likely to be higher or lower than those suggested by historical trends.

An impairment loss is calculated as the difference between the book value and the present value of the estimated future cash flows discounted at the original effective interest rate of the asset. Losses are recognized in the statement of operations and reflected in the impairment provision account. When the Company considers that there are no reasonable expectations of recovery, the amounts are written off. When a subsequent event indicates a reduction of the impairment loss, the reduction of the impairment provision is reversed through the statement of operations.

An impairment loss relating to an investment accounted for under the equity method is measured by comparing the recoverable value of the investment with its carrying amount. An impairment loss is recognized in profit or loss and reversed if there was a favorable change in the estimates used to determine recoverable value.

(d) Cash and cash equivalents--Includes cash, deposits, cash in transit and short-term investments with immediate liquidity and original maturities of 90 days or less (or without fixed maturity), which are subject to an insignificant risk of change in its value. Cash and cash equivalents are classified as non-derivative financial assets, measured at amortized cost, and interest earned is recognized in the statements of operations of the period.

(e) Marketable securities--Represented by amounts of immediate liquidity with maturities of more than 90 days and are subject to an insignificant risk of change in their value. The marketable securities relating to investment funds in equity instruments are classified as non-derivative financial assets, and are measured fair value through the statement of operations. All other marketable securities are classified as non-derivative financial assets measured at amortized cost and interest earned is recognized in the statements of operations of the period.

(f) Accounts receivable and allowance for expected losses on doubtful debt accounts--Accounts receivable from customers are initially recognized at transaction value and subsequently measured at amortized cost using the effective interest rate method less the estimated loss with doubtful accounts. The Company adopted the measurement of the estimated loss with doubtful accounts based on the entire life of the instruments, using the

simplified approach, taking into account the history of movements and historical losses. As a general rule, accounts overdue at more than 180 days represent a relevant indicator of expected loss, and are evaluated individually.

(g) Inventories--Valued at average acquisition or production cost, which is lower than net realizable value and are stated net of provision for losses on discontinued and/or obsolete items. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion of manufacturing and directly related selling expenses.

(h) Property, plant and equipment held for sale--Includes out-of-use machinery and equipment measured at fair value less selling expenses, when this amount is lower than net book value.

(i) Investments--Investments in subsidiaries are accounted for using the equity method based on the balance sheet of the respective subsidiaries as of the same date as the Company's balance sheet. The value of the equity of foreign subsidiaries is converted into Reais based on the current rate of its functional currency and the foreign exchange rate variation is recorded in "Cumulative translation adjustments" in equity and presented as other comprehensive income.

(j) Business combinations--The cost of the acquired entity is allocated to the acquired assets and liabilities, based on their estimated fair value at the acquisition date. Any difference between the entity's cost and the fair value of the acquired assets and liabilities is recognized as goodwill.

(k) Research and development expenses--Are recognized as expenses when incurred, except when they meet the criteria for capitalization.

(l) Leases--Operating leases are recognized as expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the future economic benefits. Contingent leases, related to either capital or operating leases, are recognized in the statements of operations when incurred. Subsidiary SGUS records an accrual for unrecoverable lease costs based on the estimated present value of future lease obligations (whose contracts are still valid after the closing of the leased facilities), net of existing sublease income and estimated sublease income for closed facilities which were not yet subleased.

(m) Investment properties--Are held for income or capital appreciation. Investment properties are initially recorded at cost and include transaction costs. After initial recognition, investment properties are measured at fair value against comprehensive income (loss) and, thereafter, are measured annually, or whenever circumstances indicate that their carrying amount is not recoverable and the variations arising from this valuation, when identified, are recognized in the statements of operations.

(n) Property, plant and equipment--Recorded at acquisition or construction cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. Expenses incurred that increase the value and extend the estimated useful lives of the assets are capitalized; maintenance and repairs are recorded as expenses when incurred.

The estimated useful life of property, plant and equipment is as follows:

	<u>Useful life</u>
Buildings	40 years
Installations	15 years
Equipment	15 years
Hydroelectric Plant - Porto Estrela	35 years
Furniture and fixtures	10 years
Vehicles	5 years
Computers and peripherals	5 years

The residual value and useful life of the assets are assessed by Management at least at the end of each year.

(o) Intangible assets--Represented by trademarks acquired, store locations, intellectual property and goodwill on companies acquired. Intangible assets with finite useful lives are amortized using the straight-line method, over their estimated useful lives. Intangible assets with indefinite useful lives are tested for impairment annually, or as deemed necessary, in order to determine the recoverability of their net book values.

(p) Impairment of non-financial assets--Assets included in property, plant and equipment, intangible assets, and other noncurrent assets are tested for impairment annually, or when circumstances indicate that the net book value may not be recoverable. When impairment is required, it is recognized in the statements of operations. Previous period impairment losses on fixed assets may be reversed whenever there is an assessment or reliable evidence that the value of the asset has recovered. The reversal is recognized in the statement of operations to the extent it does not exceed the previously recognized impairment losses.

(q) Income and social contribution taxes--The provision for income and social contribution taxes is calculated at the rate of approximately 34% on taxable income and is recognized net of the portion related to the income tax exemption. The accrual balance is net of prepayments made during the period, if applicable. For foreign subsidiaries, the tax rate ranges from 24% to 35%, according to the tax legislation of each country.

(r) Deferred income and social contribution taxes--Deferred income and social contribution taxes are recognized on net operating losses and temporary differences arising from provisions stated in the accounting records, which, according to the tax rules, will only be considered deductible or taxable when realized. A deferred tax asset is recognized only when there is an expectation of future taxable income.

(s) Miscellaneous accruals--Recorded at an amount considered sufficient by Management to cover probable losses. The escrow deposits related to the accruals are presented in noncurrent assets.

(t) Employee benefit plans--Pension plans and postretirement benefit costs are recognized on an accrual basis, based on actuarial calculations. Actuarial gains and losses are recognized in "Assets and liabilities valuation adjustment" when incurred.

(u) Basic and diluted earnings (loss) per share--Basic earnings (loss) per share is calculated by dividing the income or loss for the period attributable to the Company's shareholders by the weighted average number of outstanding shares. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of outstanding shares assuming conversion of potential shares to be issued. The Company did not identify any potential issuance of new shares and, therefore, a potential dilution in earnings (loss) per share.

(v) Monetary and exchange rate variations--Assets and liabilities subject to monetary or exchange rate variations are restated on the balance sheet dates, in accordance with the Brazilian Central Bank (BACEN) published rates or other contractual indices. Exchange gains and losses and monetary variations are recognized in the statements of operations for the period incurred, except for the exchange gains and losses on investments in foreign subsidiaries, which are recognized in "Cumulative translation adjustments" in equity.

(w) Revenue recognition--Revenue is measured at value of the consideration received or receivable, less any estimates of returns, cash discounts and/or trade discounts given to the buyer and other similar deductions. Revenue from operations is recognized when the performance obligation is satisfied, taking into consideration the following control transfer indicators: (i) the Company has a present right to receive payment for the asset; (ii) the customer has legal ownership of the asset; (iii) the Company transferred the physical ownership of the asset; (iv) the customer has the significant risks and benefits of ownership of the asset; and (v) the customer accepted the asset.

(x) Statements of Value Added ("DVA")--The purpose of these statements is to highlight the wealth created by the Company and its distribution over a given period. They are presented by the Company as required by the Brazilian Corporate Law, as part of its interim individual financial statements and as supplemental information for the interim consolidated financial statements, since it is not a statement provided nor required by IFRS standards. The DVAs have been prepared based on information obtained from accounting records that are the basis for the preparation of the interim financial statements.

(y) Owners of the Company and non-controlling interests--In the interim financial statements, "owners of the Company" represents all the shareholders of the Company and "non-controlling interests" represents the minority interest of the Company's subsidiaries.

### 2.3 – Accounting estimates

The preparation of interim financial statements makes use of estimates in order to record certain assets, liabilities and other transactions. To make these estimates, Management used the best information available at the time of preparation of the interim financial statements, as well as the experience of past and/or current events, also considering estimates regarding future events. Therefore, the interim financial statements include estimates related mainly to the determination of useful lives of property, plant and equipment, estimated recoverable value of noncurrent assets, provisions necessary for tax, civil and labor liabilities, determination of provisions for income tax, determination of fair value of financial instruments (assets and liabilities), determination of the fair value of investment properties, estimates related to the selection of interest rate, expected return on assets and the choice of mortality table and expected wage increases applied to the actuarial calculations. Actual results of transactions and information could differ from the estimates.

### 2.4 – Consolidation criteria

The consolidated interim financial statements include the accounts of the Company and its subsidiaries CSA, AMMO and SGUS, of which it owns directly and indirectly 100% of the capital.

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

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

The consolidation of the balance sheets and statement of operations accounts corresponds to the sum of assets, liabilities, revenues and expenses, according to their nature, after eliminating investments in subsidiaries, unrealized profits or losses and intercompany balances.

The effect of the exchange rate variations on foreign investments is disclosed in a separate caption in the statement of changes in equity, "Cumulative translation adjustments". The accounting practices of the foreign subsidiaries were adjusted to comply with the Company's accounting practices. Non-controlling interests were presented separately in the statements of operations and equity.

The interim financial statements of foreign subsidiaries have been translated into Brazilian Reais based on the US Dollar exchange rate as of September 30, 2018 and December 31, 2017 for balance sheet accounts and the average monthly exchange rate for statement of operations accounts, as follows:

	<u>2018</u>	<u>2017</u>	<u>Variance %</u>
Exchange rate as of:			
December 31	-	3.3080	-
September 30	4.0039	3.1680	26.4
Average exchange rate:			
September 30 (3 months)	3.9647	3.1486	25.9
September 30 (9 months)	3.6332	3.1768	14.4

In June 2018 Argentina was considered a hyperinflationary economy, in accordance with IAS 29 - Financial Reporting in Hyperinflationary Economies. As there is no defined general price index, the standard allows Management to exercise its judgment for the determination of the restated index of the financial statements. Accordingly, the indexes used were based on resolution 539/18 issued by the Argentinian Federation of Professional Councils in Economic Science: i) from January 1, 2017 onward the national CPI (national consumer price index); and ii) until December 31, 2016, the IPIM (internal wholesale price index). Based on preliminary analysis carried out by Management on the investment in the indirect subsidiary based in Argentina, the impacts were considered immaterial and therefore were not recorded in the interim financial statements for the quarter ended September 30, 2018, due to the complexity of the determination of the effects on adopting this standard. Management will update, refine and complete the analysis to determine and account for the effects of the adoption of the standard in its financial statements for the year ending December 31, 2018, including the impacts on the corresponding amounts as of December 31, 2017.

## 2.5 – New IFRS, revised IFRS and IFRIC interpretations (IASB International Financial Reporting Interpretations Committee).

- a) The IASB accounting pronouncements listed below were published and/or revised and are applicable for the annual periods beginning on or after January 1, 2018.

### CPC 47 (IFRS 15) - Revenue from contracts with customer

The Company did not identify significant impacts on the interim financial statements in accordance with CPC 47 - Revenue from Contracts with Customers, since the revenue was already recognized when the performance obligation was met.

### CPC 48 (IFRS 9) - Financial Instruments

The Company adopted the standard as of January 1, 2018 and, considering its current transactions, did not identify changes that had a material impact on the Company's interim financial statements, since the financial instruments maintained by the Company are not complex and do not present a risk of impact on remeasurement, as well as no risk of impairment or significant reduction in value due to the expectation of future losses, and only the classification of financial assets in the expected categories is applied.

- b) Certain new IASB accounting pronouncements and IFRIC interpretations were published and/or revised and have their mandatory adoption for the periods beginning after December 31, 2018. However, the early adoption of these new and revised standards and interpretations was not allowed:

### CPC 06 R2 (IFRS 16) - Leasing operations

In January 2016, the IASB issued IFRS 16 - Leasing, with the main objective of redefining the recognition of operating leases. The corresponding Technical Pronouncement CPC 06 (R2) - Leasing Operations was issued on December 21, 2017. The revision of this accounting pronouncement will be effective for fiscal years beginning on or after January 1, 2019.

The new pronouncement introduces a single model for accounting for leasing contracts, eliminating the distinction between operating and financial leases, resulting in the accounting of most lease agreements in the lessee's balance sheets. The accounting of lessors remains substantially unchanged and the distinction between operating and financial lease contracts is maintained. IFRS 16 replaces IAS 17 and its interpretations.

### CPC 32 (IFRIC 23) - Uncertainty over the treatment of taxes on profit

In June 2017, the IASB issued IFRIC 23 - Uncertainty Over Income Tax Treatments, with the purpose of clarifying the accounting when there are uncertainties of the taxes on profit regulated by IAS 12 - Income Taxes, being the corresponding technical pronouncement or CPC 32. This shall be effective for fiscal years beginning on or after January 1, 2019.

## 3. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	09.30.2018	12.31.2017	09.30.2018	12.31.2017
Repurchase transactions (*)	-	-	81,945	84,726
Foreign exchange funds (US\$)	-	-	-	3,437
Foreign deposits	-	-	45,391	65,897
Checking accounts deposits	12	103	8,041	1,382
	-----	-----	-----	-----
	12	103	135,377	155,442
	=====	=====	=====	=====

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

#### 4. MARKETABLE SECURITIES

	Consolidated	
	09.30.2018	12.31.2017
Fixed income – Foreign	17,033	16,969
Investment fund – Foreign	46,500	17,585
Restricted deposits (US\$) (2)	77,998	63,819
Restricted cash (1)	738	609
	-----	-----
	142,269	98,982
Current	(64,271)	(35,163)
	-----	-----
Noncurrent	77,998	63,819
	=====	=====

(1) On September 30, 2018, the subsidiary SGUS had restricted cash in financial institutions in the amount of US\$184 thousand (US\$184 thousand as of December 31, 2017) related to a compensating balance arrangement.

(2) Refers to foreign deposits, linked to the loan obtained from Santander S.A. The yield is 1.3% per annum and the deadline for redemption coincides with the terms of the loan. (See note 13.a).

#### 5. ACCOUNTS RECEIVABLE

	Consolidated	
	09.30.2018	12.31.2017
Domestic customers	416,598	392,626
Foreign customers	143,590	118,944
Credit card companies	12,355	4,771
Related parties – domestic market	1,936	5,622
Related parties – foreign market	2,908	1,476
	-----	-----
	577,387	523,439
Allowance for expected losses on bad debts	(26,247)	(25,792)
	-----	-----
	551,140	497,647
	=====	=====

Accounts receivable from customers consist of receivables with an average collection period of approximately 78 days (71 days as of December 31, 2017). Past due amounts are not significant and the allowance for expected losses on doubtful debts accounts is considered by Management sufficient to cover expected losses from these receivables.

The Company's Management believes that the risk related to accounts receivable is minimized because the composition of the Company's customer portfolio is diluted. The Company has over 10,000 active clients as of September 30, 2018 and only one customer accounts for approximately 10% of sales.

The aging list of the consolidated accounts receivable was presented in the annual financial statements for the year ended December 31, 2017. There was no significant change in the

composition of the aging list during the nine-month period ended September 30, 2018. Changes in the consolidated allowance for expected losses on doubtful accounts are as follows:

	<u>09.30.2018</u>	<u>12.31.2017</u>
Balance at the beginning of the period	(25,792)	(21,118)
Additions	(48)	(5,485)
Write-offs	-	868
Exchange rate variation	(407)	(57)
	-----	-----
Balance at the end of the period	(26,247)	(25,792)
	=====	=====

## 6. INVENTORIES

	<u>Consolidated</u>	
	<u>09.30.2018</u>	<u>12.31.2017</u>
Raw materials and supplies	110,194	98,863
Work in process	149,863	144,227
Finished products	275,948	256,116
Repair parts	36,616	38,969
	-----	-----
	572,621	538,175
	=====	=====

Inventories are presented net of the provision for losses, which, based on Management's assessment, is considered sufficient to cover losses related to obsolete and/or discontinued inventories. Changes in the provision are as follows:

	<u>12.31.2017</u>	<u>(Additions) disposals</u>	<u>Exchange rate variations</u>	<u>09.30.2018</u>
Raw materials and supplies	(544)	-	-	(544)
Finished products	(3,837)	(1,976)	(1,045)	(6,858)
Repair parts	(2,614)	-	397	(2,217)
	-----	-----	-----	-----
	(6,995)	(1,976)	(648)	(9,619)
	=====	=====	=====	=====

	<u>12.31.2016</u>	<u>(Additions) disposals</u>	<u>Exchange rate variations</u>	<u>09.30.2017</u>
Raw materials and supplies	(1,246)	-	-	(1,246)
Finished products	(9,194)	6,997	259	(1,938)
Repair parts	(2,994)	-	49	(2,945)
	-----	-----	-----	-----
	(13,434)	6,997	308	(6,129)
	=====	=====	=====	=====



## 7. RECEIVABLE – CLIENTS

	Consolidated	
	09.30.2018	12.31.2017
Clients in out-of-court recovery plan (a)	15,372	17,500
Clients in court recovery plan (b)	2,100	2,091
Installment plan agreed with clients (c)	174	211
Clients in court recovery plan (d)	1,528	1,549
Sale of real estate (e)	14,974	17,480
Financing on stores transfer (f)	7,746	9,671
Other credits (g)	11,376	-
Others	192	143
	-----	-----
	53,462	48,645
Current (*)	(11,092)	(11,257)
	-----	-----
Noncurrent	42,370	37,388
	=====	=====

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

(a) Payments in 63 equal monthly installments with interest equivalent to 80% of the Interbank Deposit Certificates – CDI rate.

(b) Payment in 20 semiannual installments including a grace period of 42 months before the first payment in March 2020, with interest of 0.5% per year plus Reference Rate (TR).

(c) Payment in 10 equal monthly installments.

(d) Payment in 11 increasing annual installments, with interest between 2% to 3% per year.

(e) Payments in 49 equal monthly installments with interest of 0.5% per month.

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

(g) Payment in single installment in June 2021, with interest of 5% per year plus exchange rate variance.

## 8. RECEIVABLE – SALE OF PROPERTY

In May 2015, the subsidiary CSA sold real estate located in the city of Montes Claros - MG, to the municipality, for R\$48,000, to be received in 12 monthly installments of R\$1,000 each, plus 24 monthly installments of R\$1,500 each, adjusted for inflation using the “IGP-M” from the date the agreement was signed and including a grace period of 12 months before the first payment. This agreement, in which the property transfer registration contained a pro-solvency clause, was signed with the Municipal Executive Branch after express consent of the Legislative Branch of that municipality. The Executive Branch came into possession of the property and began its retrofit projects. The subsidiary CSA has a guarantee for the installments, through revenue and quotas of the Municipality Participation Fund - “FPM”.

In January 2017, the newly appointed Executive Branch of Montes Claros municipality created a working group to reassess the economic and qualitative benefits of the project, so that together a

new condition for payment of the contract is established, in light of the current financial situation of the municipality.

On October 27, 2017, the Montes Claros municipality and the subsidiary CSA signed a letter of intent with the objective of enabling the implementation of the new Municipality complex which will house the government and the main departments in a single architectural complex located in the CSA's first plant in Montes Claros. The main points of the proposal are: (i) delivery of pre-selected municipal properties, which will be subject to independent evaluation, as payment of CSA receivables, (estimated at 77% of the total amount to be received), plus compensation for municipal taxes (estimated at 23% of total amount to be received), and (ii) implementation of the first phase of adapting the complex within 7 months after the start of the project, with investments made by CSA in the amount of approximately R\$10,477, which will be added to the total amount to be paid by the Montes Claros municipality to CSA. The ratification of the letter of intent shall be subject to a municipal bill to be submitted by the Executive Branch to the House.

The management of CSA, based on the opinion of its lawyers, in the letter of intent and in a recent update of the market value of the property, concluded that currently there are no expectations of losses with this receivable.

## 9. INVESTMENTS IN SUBSIDIARIES

### a) Direct investments:

Subsidiaries	Equity	Ownership interest %	Net income (loss) for the period	Total investment		Equity in subsidiaries (Company)	
				09.30.2018	12.31.2017	09.30.2018	09.30.2017
SGUS	251,525	100.0	67,352	251,525	150,045	67,352	64,273
CSA	932,389	100.0	(59,792)	932,389	1,007,863	(59,792)	(37,248)
AMMO	30,874	100.0	(4,553)	30,874	35,427	(4,553)	(10,521)
				1,214,788	1,193,335	3,007	16,504

### b) Indirect investments:

#### SGUS' investments

	Equity (deficit)	Ownership interest %	Total investment		Equity in subsidiaries	
			09.30.2018	12.31.2017	09.30.2018	09.30.2017
Warbird Corporation (Delaware, US)	(39)	100.0	(39)	(31)	(1)	(16)
Springs Home Textiles Reynosa, S.A. de C.V. (Mexico) (1)	2,133	100.0	2,133	1,760	(9)	(50)
Casa Springs S.A. de C.V. (Mexico) (1)	1,876	100.0	1,876	1,820	(1)	(2)
Springmaid International, Inc. (India)	74	100.0	74	135	(83)	-
Springs Canada, Inc. (Ontario, Canada) (2)	65,525	100.0	65,525	51,669	5,575	1,721
Springs Brands, LLC (Delaware, US) (2), (3)	-	100.0	-	-	-	1,747
Springs Cayman Holding Ltd. (Cayman Islands) (2)	4,428	100.0	4,428	3,663	-	(10)
Springs Shanghai Trading Co., Ltd. (China) (4)	(2,255)	100.0	(2,255)	(661)	(1,198)	(1,434)

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

(2) Wholly-owned subsidiaries of SGUS. Previously, these companies were wholly-owned subsidiaries of Springs Canada Holdings, LLC (Delaware, EUA), which was incorporated by SGUS on December 30, 2017.

(3) On December 31, 2017 Springs Brands, LLC was incorporated by SGUS.

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

## CSA's investment

	Equity	Ownership interest %	Net income (loss) for the period	Total investment		Equity in subsidiaries	
				09.30.2018	12.31.2017	09.30.2018	09.30.2017
Subsidiaries -							
Coteminas Argentina S.A. (2)	2,497	100.0	(40,288)	2,497	45,162	(40,288)	(5,264)
LAT Capital Ltd.	5,731	100.0	1,879	5,731	3,235	1,879	3,135
C7S Tecnologia Ltda. (1)	8,267	100.0	5,127	8,267	3,140	5,127	-
				-----	-----	-----	-----
				16,495	51,537	(33,282)	(2,129)
				=====	=====	=====	=====

(1) C7S Tecnologia Ltda. is a subsidiary of the Company and is headquartered in Blumenau – Santa Catarina (Brazil). The company focuses on developing and promoting internet sales directly to consumers. In 2017, the subsidiary was in its pre-operating stage and began its operations in February 2018.

(2) In 2018, CSA subscribed and paid capital in the subsidiary in the amount of R\$13,921 (US\$4,240 thousand).

## 10. INVESTMENT PROPERTIES

In the year ended December 31, 2017, the subsidiary CSA consolidated and started the phased implementation of a lease project of its facility located in São Gonçalo do Amarante - RN, which had previously ceased operations. As a way of implementing the project, throughout the year of 2017, the subsidiary CSA prepared and vacated the area designated for leasing and has already entered into lease agreements with large retailers. The complex is 247.3 thousand m<sup>2</sup> where 50.0 thousand m<sup>2</sup> have already been leased, and additional lease negotiations are in progress.

With the designation of the property for leasing purposes, with a defined income, separate from the textile operations of the subsidiary CSA, the residual value of the property and its improvements, previously recorded as property, plant and equipment at cost, were transferred to investment properties. The changes in the investment properties are as follows:

	12.31.2017	Additions (2)	Transfer from PP&E	09.30.2018
Residual cost of the property	43,722	13,062	2,744	59,528
Surplus/added value (1)	167,454	-	-	167,454
	-----	-----	-----	-----
	211,176	13,062	2,744	226,982
	=====	=====	=====	=====

(1) Recorded in assets and liabilities valuation adjustments, net of deferred tax liabilities of R\$56,934. See note 18.b.

(2) Improvements made to adjust the properties to tenants need such as buildings, streets, facades, among others.

The rental income in the first nine months of 2018 was R\$1,588 and is classified in the statement of operations under "Other, net".

## 11. PROPERTY, PLANT AND EQUIPMENT AND PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

### a. Property, plant and equipment

	Rate (*) %	Consolidated			
		09.30.2018		12.31.2017	
		Cost	Accumulated depreciation	Net book value	
Land and improvements	3.4	28,607	(10,659)	17,948	20,182
Buildings	2.7	364,280	(155,310)	208,970	213,222
Installations	6.5	197,775	(143,245)	54,530	58,447
Machinery and equipment	6.2	1,162,599	(878,994)	283,605	305,318
Hydroelectric Plant - Porto Estrela (**)	3.8	37,594	(17,666)	19,928	20,997
Furniture and fixtures	8.3	46,423	(35,383)	11,040	12,129
Vehicles	20.0	12,690	(11,614)	1,076	1,542
Computers and peripherals	15.4	62,897	(58,700)	4,197	3,816
Construction in progress	-	40,722	-	40,722	27,644
Others	10.0	172,280	(167,446)	4,834	5,868
		=====	=====	=====	=====
		2,125,867	(1,479,017)	646,850	669,165
		=====	=====	=====	=====

(\*) Weighted average annual depreciation rate.

(\*\*) See note 16.

Considering the operating profitability and cash generation, the Company and its subsidiaries concluded that there is no evidence of deterioration or failure to recover the balances held as property, plant and equipment.

The changes in consolidated property, plant and equipment are as follows:

Cost:

	12.31.2017	Additions	Disposals	Transfer between accounts and to investment properties	Exchange rate variations	09.30.2018
Land and improvements	30,380	167	(515)	38	(1,463)	28,607
Buildings	360,643	1,049	-	274	2,314	364,280
Installations	198,633	730	(968)	1,745	(2,365)	197,775
Machinery and equipment	1,148,007	5,675	(7,920)	12,773	4,064	1,162,599
Hydroelectric Plant - Porto Estrela	37,587	7	-	-	-	37,594
Furniture and fixtures	44,525	338	(197)	80	1,677	46,423
Vehicles	13,333	42	(1,180)	78	417	12,690
Computers and peripherals	54,740	1,177	(316)	282	7,014	62,897
Construction in progress	27,644	31,295	(88)	(15,697)	(2,432)	40,722
Others	144,610	-	-	-	27,670	172,280
	=====	=====	=====	=====	=====	=====
	2,060,102	40,480	(11,184)	(427)	36,896	2,125,867
	=====	=====	=====	=====	=====	=====

Accumulated depreciation:

	12.31.2017	Additions	Disposals	Transfer between accounts and to investment properties	Exchange rate variations	09.30.2018
Land and improvements	(10,198)	(902)	437	-	4	(10,659)
Buildings	(147,421)	(6,532)	-	-	(1,357)	(155,310)
Installations	(140,186)	(6,096)	934	823	1,280	(143,245)
Machinery and equipment	(842,689)	(35,421)	7,687	(3,094)	(5,477)	(878,994)
Hydroelectric Plant - Porto Estrela	(16,590)	(1,076)	-	-	-	(17,666)
Furniture and fixtures	(32,396)	(1,475)	129	-	(1,641)	(35,383)
Vehicles	(11,791)	(504)	1,094	-	(413)	(11,614)
Computers and peripherals	(50,924)	(1,189)	311	(1)	(6,897)	(58,700)
Others	(138,742)	(1,037)	-	-	(27,667)	(167,446)
	-----	-----	-----	-----	-----	-----
	(1,390,937)	(54,232)	10,592	(2,272)	(42,168)	(1,479,017)
	=====	=====	=====	=====	=====	=====

Cost:

	12.31.2016	Additions	Disposals	Transfer	Exchange rate variations	09.30.2017
Land and improvements	36,333	975	(2,145)	-	(437)	34,726
Buildings	424,331	9	(32,183)	17,340	(1,619)	407,878
Installations	228,648	126	(382)	4,114	(648)	231,858
Machinery and equipment	1,118,476	8,990	(20,601)	31,508	(3,526)	1,134,847
Hydroelectric Plant - Porto Estrela	37,584	3	-	-	-	37,587
Furniture and fixtures	44,315	508	(1,519)	90	(265)	43,129
Vehicles	16,690	493	(3,349)	(85)	(75)	13,674
Computers and peripherals	56,409	877	(3,198)	(830)	(760)	52,498
Construction in progress	56,392	23,159	(23)	(37,085)	(194)	42,249
Others	142,605	-	-	-	(3,562)	139,043
	-----	-----	-----	-----	-----	-----
	2,161,783	35,140	(63,400)	15,052	(11,086)	2,137,489
	=====	=====	=====	=====	=====	=====

Accumulated depreciation:

	12.31.2016	Additions	Disposals	Transfer	Exchange rate variations	09.30.2017
Land and improvements	(9,130)	(1,335)	676	-	7	(9,782)
Buildings	(183,804)	(7,143)	27,694	(7,682)	930	(170,005)
Installations	(153,103)	(6,407)	266	8	290	(158,946)
Machinery and equipment	(816,934)	(34,331)	16,915	383	2,807	(831,160)
Hydroelectric Plant - Porto Estrela	(15,156)	(1,075)	-	-	-	(16,231)
Furniture and fixtures	(31,355)	(1,555)	1,111	(10)	207	(31,602)
Vehicles	(14,899)	(598)	3,218	277	70	(11,932)
Computers and peripherals	(52,543)	(1,077)	2,789	1,017	720	(49,094)
Others	(135,593)	(968)	-	-	3,561	(133,000)
	-----	-----	-----	-----	-----	-----
	(1,412,517)	(54,489)	52,669	(6,007)	8,592	(1,411,752)
	=====	=====	=====	=====	=====	=====

b. Property, plant and equipment held for sale

The Company's subsidiaries identified assets that were removed from operations and considered held for sale. These assets include machinery and equipment removed as a result of the modernization of the Brazilian subsidiary manufacturing facilities and machinery and equipment from the American subsidiary manufacturing facilities that were shut down. Additionally, the equipment available for sale from the readjustment of productive capacities was also included in this category. These assets were measured at the lower of the net book value or market value, resulting in the recognition of probable impairment losses (reduction of recoverable value).

As a result of this analysis, the recoverable value of R\$39,166 (R\$33,731 as of December 31, 2017) was presented in noncurrent assets under "Property, plant and equipment held for sale".

Changes in property, plant and equipment held for sale are as follows:

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

  

	<u>12.31.2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfer to/from PP&amp;E</u>	<u>Exchange rate variations</u>	<u>09.30.2017</u>
Cost	448,763	440	(13,193)	(15,052)	(10,419)	410,539
Depreciation	(357,329)	(775)	10,206	6,007	9,383	(332,508)
Provision for losses	(42,199)	(73)	10,442	-	(558)	(32,388)
	-----	-----	-----	-----	-----	-----
	49,235	(408)	7,455	(9,045)	(1,594)	45,643
	=====	=====	=====	=====	=====	=====

12. INTANGIBLE ASSETS

	<u>Consolidated</u>	
	<u>09.30.2018</u>	<u>12.31.2017</u>
Goodwill on the acquisition of North American companies	45,476	37,748
Goodwill on the acquisition of AMMO (parent company)	27,303	27,303
Trademarks – owned	16,349	16,339
Trademarks – use license (*)	4,732	9,157
Intellectual property	2,668	3,139
Store locations (real estate intangible)	22,081	21,102
	-----	-----
Total	118,609	114,788
	=====	=====

(\*) Trademarks – use license: Represents the licensing of the use of the trademark "Santista" in Argentina and it is amortized over the term of the contract in 15 years.

The Company and its subsidiaries evaluate the recoverability of goodwill on investments annually and use accepted market practices, such as discounted cash flow for business units that have goodwill. Recoverability of goodwill is evaluated based on analysis and identification of facts and circumstances that could require the tests to be performed at an earlier date. If a fact or circumstance indicates that the recoverability of goodwill is affected, then the test is anticipated.

The projection period for the December 2017 cash flows was five years. The assumptions used to determine the fair value through the discounted cash flow method include: cash flow projections based on management estimates for future cash flows, discount rates and growth rates for determining the perpetuity. Additionally, the perpetuity has been calculated considering the stabilization of operating margins, working capital and investments levels.

The annual discount rate used was 13.3% and the perpetuity growth rate considered was 3% per year, for both SGUS goodwill, the acquisition of North American companies and the Company's goodwill in the acquisition of AMMO. The discount rate used was determined taking into consideration market information available on the test date.

Changes in consolidated intangible assets for the period were as follows:

	12.31.2017	Additions (disposals)	Amortization	Exchange rate variations	09.30.2018
Goodwill on the acquisition of North American companies	37,748	-	-	7,728	45,476
Goodwill on the acquisition of AMMO	27,303	-	-	-	27,303
Trademarks – owned	16,339	10	-	-	16,349
Trademarks – use license	9,157	-	(410)	(4,015)	4,732
Intellectual property	3,139	-	(471)	-	2,668
Store locations (real estate intangible)	21,102	979	-	-	22,081
	-----	-----	-----	-----	-----
Total	114,788	989	(881)	3,713	118,609
	=====	=====	=====	=====	=====

	12.31.2016	Additions (disposals)	Amortization	Exchange rate variations	09.30.2017
Goodwill on the acquisition of North American companies	36,821	393	-	(1,034)	36,180
Goodwill on the acquisition of AMMO	27,303	-	-	-	27,303
Trademarks – owned	16,334	3	-	-	16,337
Trademarks – use license	11,373	-	(559)	(1,192)	9,622
Store locations (real estate intangible)	24,136	(2,800)	-	-	21,336
	-----	-----	-----	-----	-----
Total	115,967	(2,404)	(559)	(2,226)	110,778
	=====	=====	=====	=====	=====

The intangible assets presented above (except “Trademarks – use license” and “Intellectual property”) have indefinite useful lives, and therefore are not amortized, but their recoverable values are tested for impairment annually. Trademarks are recorded at their acquisition cost. The amounts related to the store locations (real estate intangible) are recorded at the acquisition cost of the respective store, net of impairment, based on its market value determined by an independent broker with valuation expertise.

### 13. LOANS AND FINANCING

	Currency	Annual interest rate - %	Maturity	Consolidated	
				09.30.2018	12.31.2017
Local currency (*):					
Banco do Brasil S.A. (b)	R\$	127.5 to 135.0 of CDI	2021	449,194	410,348
Banco do Brasil S.A. - CDC	R\$	9.1 to 10.3	2019	31,772	34,229
Banco do Brasil S.A. (*)	R\$	167.2 of CDI	2018	-	36,945
Banco Itaú BBA S.A.	R\$	132.0 of CDI	2018	-	101,012
		149.0 and 150.5 of CDI			
Banco BBM S.A.	R\$	and 3.9 + CDI	2021	63,737	49,311
Banco ABC do Brasil S.A.	R\$	3.8 + CDI and 4,4 + CDI	2021	39,565	20,073
Banco Bradesco S.A. (*)	R\$	4.4 and 4.5 + CDI	2018	19,631	20,228
Banco Santander S.A.	R\$	-	2018	8,784	-
BNDES (Finame)	R\$	3.0 to 9.5	2023	1,507	2,435
Banco Daycoval S.A.		4.5 + CDI	2020	20,182	-
Banco Fibra S.A. - CCE		4.5 + CDI	2020	10,064	-
Others	R\$	-	2020	64	64
				-----	-----
				644,500	674,645
Foreign currency:					
Banco Patagonia	\$ARG	24.3 and 30.3	2019	15,507	30,047
Banco Frances	\$ARG	34.5	2018	1,537	2,797
Banco Rio - Cerrito	\$ARG	43.0	2018	609	2,898
Wells Fargo Bank, N.A. (c)	US\$ and CAD\$	3.9 to 6.0	2021	148,361	105,869
Banco do Brasil S.A.	US\$	5.9 and 6.0	2019	31,593	26,561
Banco Santander S.A. PPE (a)	US\$	89.0 to 118.8 of CDI	2020	139,191	170,956
JP Morgan	US\$	Libor + 0.85	2018	32,119	13,268
				-----	-----
				368,917	352,396
Total				-----	-----
				1,013,417	1,027,041
Current				(392,624)	(444,861)
				-----	-----
Noncurrent				620,793	582,180
				=====	=====

(\*) Loans held in part by the Company.

(a) Loan of subsidiary CSA, guaranteed by linked marketable securities in the amount of US\$18,900 thousand (see note 4). The loan contains covenants where the Company, as guarantor, agreed to comply with the following financial ratios in its consolidated financial statements: (i) Net Debt to EBITDA ratio, no greater than 3.5 during the year 2017; 3.25 during the year 2018; 3.0 during the year 2019; (ii) Net Debt to Shareholders' Equity ratio, no greater than 0.7; and (iii) EBITDA to net financial expenses ratio, no less than 2.0.

(b) Loan of subsidiary CSA, with early maturity covenants, in which the Company, SGPSA, as guarantor, agreed to comply with the following financial ratios: Net Debt to EBITDA ratio, no greater than 4.0 during the year 2017; 3.5 during the year 2018; 3.0 as of the year 2019, in its consolidated financial statements.

(c) Revolving credit facility with Wells Fargo Bank, N.A. in the amount of US\$60,000 with a five-year term. The revolving credit facility limits certain activities of SGUS such as sales of assets, distributions to shareholders and incurrence of additional indebtedness. Substantially all of SGUS' assets have been pledged as collateral pursuant to the loan agreement.

Loans are collateralized by: (i) registered security interest in real estate, machinery and equipment located in the city of Montes Claros, as well as a guarantee from the controlling shareholder for various loans; and (ii) sureties and bank guarantees for the remaining financing.



Maturities are as follows:

	2019			2020	2021 to 2023	Total
	2018	Short-term	Long-term			
Local currency:						
Banco do Brasil S.A.	11,437	87,267	65,804	153,200	131,486	449,194
Banco do Brasil S.A. - CDC	22,181	9,591	-	-	-	31,772
Banco BBM S.A.	8,786	18,021	6,007	24,028	6,895	63,737
Banco ABC do Brasil S.A.	2,708	10,780	3,809	15,879	6,389	39,565
Banco Bradesco S.A.	19,631	-	-	-	-	19,631
Banco Santander S.A.	8,784	-	-	-	-	8,784
BNDES (Finame)	397	655	290	130	35	1,507
Banco Daycoval S.A.	182	6,667	3,333	10,000	-	20,182
Banco Fibra S.A. - CCE	1,017	4,286	1,429	3,332	-	10,064
Others	54	3	4	3	-	64
	-----	-----	-----	-----	-----	-----
	75,177	137,270	80,676	206,572	144,805	644,500
Foreign currency:						
Banco Patagonia	8,518	6,989	-	-	-	15,507
Banco Frances	1,537	-	-	-	-	1,537
Banco Rio - Cerrito	609	-	-	-	-	609
Wells Fargo Bank, N.A.	-	-	-	-	148,361	148,361
Banco do Brasil S.A.	-	31,593	-	-	-	31,593
Banco Santander S.A. PPE	31,608	67,204	5,451	34,928	-	139,191
JP Morgan	32,119	-	-	-	-	32,119
	-----	-----	-----	-----	-----	-----
	74,391	105,786	5,451	34,928	148,361	368,917
	-----	-----	-----	-----	-----	-----
	149,568	243,056	86,127	241,500	293,166	1,013,417
	=====	=====	=====	=====	=====	=====

Changes in consolidated loans and debentures were as follows:

	Loans	Debentures	Total
Balance as of December 31, 2017	1,027,041	48,595	1,075,636
Debt proceeds or renewal	596,895	150,000	746,895
Accrued interest	66,377	10,496	76,873
Paid principal	(656,730)	(25,000)	(681,730)
Paid interest	(64,835)	(8,300)	(73,135)
Exchange rate variations	45,520	-	45,520
Prepaid charges, net	(851)	(1,861)	(2,712)
	-----	-----	-----
Balance as of September 30, 2018	1,013,417	173,930	1,187,347
	=====	=====	=====

## 14. DEBENTURES

a) On June 12, 2017, subsidiary CSA issued the 3<sup>rd</sup> series of non-convertible debentures with the following terms, which, on the same date, were fully subscribed by Gaia Agro Assessoria Financeira Ltda. ("Subscriber"). Subsequently, the Subscriber sold the debentures to Gaia Securitizadora Agro SA ("Securitization"), with the objective of relating the resources of the debentures to the issuance of Agribusiness Receivables Certificates ("CRA").

Debentures' Terms	
Quantity of issued debentures	50,000
Debentures unit price (amount in Brazilian Reais)	R\$1,000
Amortization:	
Maturity of 1 <sup>st</sup> installment – 25.00%	12/18/2018
Maturity of 2 <sup>nd</sup> installment – 8.33%	06/18/2019
Maturity of 3 <sup>rd</sup> installment – 16.67%	12/18/2019
Maturity of 4 <sup>th</sup> installment – 50.00%	06/18/2020
Return	110% of CDI
Interest amortization	Semiannual
Guarantees	(1)
Covenants	(2)

The funds were available to the subsidiary on the subscription date of the debentures. The issuance costs of the debentures and the subsequent issuance costs of the CRA, in the amount of approximately R\$1,977, equivalent to 3.95% of the total issuance amount, will be amortized as transaction cost, along with the debentures charges, prorated to the outstanding debt balance.

### (1) Guarantees:

Secured guarantee: Real estate of subsidiary CSA which market valuation is greater than 200% of the CRA issuance value. At any time, one or more real estate may be disposed at the discretion of subsidiary CSA and without consent of the CRA holders, provided that: (i) such sale shall not decrease the rate of 200% guarantee of the secured obligations to the CRA holders; and (ii) subsidiary CSA uses the net proceeds of the disposed assets for repayment of bank loans.

Fidejussory guarantee: Surety given by the Company.

### (2) Covenants:

In addition to the usual covenants, the Company has agreed to comply with the following financial ratios: (i) Net Debt to Adjusted EBITDA ratio, equal to or less than 4.0 (four); (ii) Net Debt to Shareholders' Equity ratio, equal to or less than 0.7 (seven tenths) except for June 2018, equal to or less than 0.8 (eight tenths); and (iii) EBITDA to Interest ratio, equal to or greater than 2.0 (two). The above ratios are required for the entire contract period and are measured semiannually starting in December 2017. The terms used to describe the ratios have their particular definition set forth in the contract and may differ from the financial statement lines.

b) On February 19, 2018, subsidiary CSA issued the 4<sup>th</sup> series of non-convertible debentures with the following terms, which, on February 19, 2018, was fully subscribed.

#### 4<sup>th</sup> Series Debentures Terms

Quantity of issued Debentures	150,000
Debentures unit price (amount in Brazilian Reais)	R\$1,000
Amortization	12 equal quarterly installments
Maturity of 1 <sup>st</sup> installment	05/19/2018
Maturity of 12 <sup>th</sup> installment	02/19/2021
Return	100% of CDI + 2.75% per annum
Interest amortization	12 equal quarterly installments
Guarantees	(1)
Covenants	(2)

#### (1) Guarantees:

Secured Guarantee: Property of the subsidiary CSA, see note 10, whose fair value must remain higher than 1.43 times the issue value of the Debentures in the first year and in the following years 1.67 times. In addition, the lease contracts of the property are part of the guarantee, and the fiduciary agent may, in case of default, retain the rent receivables until the default is resolved.

Fidejussory guarantee: Surety given by the Company and by Josué Christiano Gomes da Silva.

#### (2) Covenants:

The Company has no commitment to maintain financial ratios.

Balances of the debentures on September 30, 2018 were as follows:

	Original amount updated	Prepaid interest	Accrued interest	Balances on 09.30.2018	Balances on 12.31.2017
Debentures of:					
3 <sup>rd</sup> series	16,667	(635)	1,010	17,042	11,952
4 <sup>th</sup> series	50,000	(991)	1,273	50,282	-
	-----	-----	-----	-----	-----
Current liability	66,667	(1,626)	2,283	67,324	11,952
Debentures of:					
3 <sup>rd</sup> series	33,333	(404)	-	32,929	36,643
4 <sup>th</sup> series	75,000	(1,323)	-	73,677	-
	-----	-----	-----	-----	-----
Noncurrent liability	108,333	(1,727)	-	106,606	36,643
	-----	-----	-----	-----	-----
Debentures total	175,000	(3,353)	2,283	173,930	48,595
	=====	=====	=====	=====	=====

## 15. SUPPLIERS

	Consolidated	
	09.30.2018	12.31.2017
Domestic market	68,352	60,719
Foreign market	127,368	102,546
	-----	-----
	195,720	163,265
	=====	=====

Accounts payable to suppliers consist of amounts with an average maturity term of approximately 43 days (37 days as of December 31, 2017).

## 16. GOVERNMENT CONCESSIONS

The subsidiary CSA has equity interest in a consortium for an electric power generation concession with the companies CEMIG Geração e Transmissão S.A. and Vale (formerly known as Companhia Vale do Rio Doce), in equal percentages of 33.33%. No legally independent entity was established for the management of this consortium. Accounting records, equivalent to its interest, are maintained under CSA's control.

As consideration for the concession granted, CSA, together with the other consortium members, will pay installments over the concession period to the Federal Government, as presented below:

Beginning of concession period:	July 10, 1997
Concession period:	35 years
Total concession amount:	R\$333,310
Monetary adjustment:	IGP-M (general market price index)

Total annual installments of the concession:

	Years 5 to 15 2002 to 2012	Years 16 to 25 2013 to 2022	Years 26 to 35 2023 to 2032
Historical amounts:			
Minimum installment	120	120	120
Additional installment	-	12,510	20,449
	-----	-----	-----
Annual installment	120	12,630	20,569
Total installments	1,320	126,300	205,690
Monetarily adjusted installments	6,571	628,733	1,023,932
	=====	=====	=====

For accounting purposes, subsidiary CSA recognizes expenses incurred on an accrual basis, as a contra entry to noncurrent liabilities, on a straight-line basis, based on its share in the total concession amount, 33.33%, at present value, considering a basic interest rate, monetarily adjusted based on the IGP-M. As of September 30, 2018, this amount represents R\$63,726, of which, R\$19,845 is classified in current liabilities and R\$43,881 is classified as noncurrent liabilities (R\$62,257 as of December 31, 2017, of which, R\$19,473 is classified in current liabilities and R\$42,784 is classified as noncurrent liabilities).

As of September 30, 2018, the net book value of the property, plant and equipment related to the current concession is R\$19,928 (R\$20,997 as of December 31, 2017) (see note 11), considering CSA's equity interest in the investments for the construction of the Porto Estrela Hydroelectric Plant, located on the Santo Antônio River, 270 km from Belo Horizonte, with installed capacity of 112 MW. The plant began generation activities at the end of 2001.

## 17. LEASES

Subsidiary SGUS leases properties and equipment under operating leases. Total leasing expense in the nine-month period ended September 30, 2018 was R\$33,428 (R\$28,728 in the nine-month period ended September 30, 2017). Subsidiary SGUS contractually agreed with third-parties to sublease certain vacant facilities that no longer provide economic benefit. Total sublease income in the nine-month period ended September 30, 2018 was R\$13,055 (R\$10,835 in the nine-month period ended September 30, 2017).

Lease payments scheduled for the future years are estimated as follows:

Year	2018
2018 (*)	11,235
2019	39,358
2020	35,094
2021	35,354
2022	31,034

(\*) 3 months

After 2022, lease payments continue to decrease until the contracts terminate on several dates through 2030, totaling R\$219,806.

For the periods between 2018 and 2030, subsidiary SGUS is scheduled to receive sublease payments of R\$73,255.

The subsidiary SGUS has short and long-term accruals totaling R\$24,615 (R\$21,018 as of December 31, 2017) which consists of the present value of estimated future lease obligations (for the agreements that remained effective after the closing of certain leased facilities in the U.S.), net of existing sublease income and estimated sublease income of closed facilities, which were not yet subleased. This potential sublease income would result in a reduction of the above obligations by R\$139,414.

## 18. INCOME TAX AND OTHER TAXES

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

	Company		Consolidated	
	09.30.2018	09.30.2017	09.30.2018	09.30.2017
Income (loss) from operations before taxes	(7,361)	6,267	(51,387)	(7,530)
Permanent differences:				
Equity in subsidiaries	(3,007)	(16,504)	-	-
Investment support	-	-	(34,630)	(30,133)
Permanent differences from foreign subsidiaries	-	-	(1,733)	(2,119)
Other	-	-	7	(12,258)
	-----	-----	-----	-----
Income tax basis	(10,368)	(10,237)	(87,743)	(52,040)
34% income tax rate	3,525	3,481	29,833	17,694
Unrecognized tax credits	(3,525)	(3,481)	(31,854)	(2,962)
Tax credit of foreign subsidiary - SGUS	-	-	47,051	-
Other, net	-	-	(1,004)	(471)
	-----	-----	-----	-----
Total income taxes	-	-	44,026	14,261
	=====	=====	=====	=====
Income taxes - current	-	-	(3,025)	(627)
Income taxes - deferred	-	-	47,051	14,888
	=====	=====	=====	=====

### b. Deferred income and social contribution taxes

As a holding Company, the Company's operations consist of equity in subsidiaries and income from investment activities. Foreign subsidiaries' income is taxed as an addition to the taxable income and they receive tax credits for taxes paid in their respective countries, which is up to 25% of its income tax base. If there are tax losses, tax credits are not considered in Brazil, but they are offset with future income generated by the foreign subsidiary. Therefore, as a holding Company, tax credit recognition is allowed in specific situations.

Deferred income and social contribution taxes recorded in the consolidated interim financial statements arise from subsidiaries' temporarily nondeductible provisions, transferred tax credit, and subsidiaries' net operating losses.

Deferred income and social contribution taxes are composed as follows:

	12.31.2017	Recognized in:		Exchange rate variations	Other	09.30.2018
		Statement of operations	Equity			
<b>Assets:</b>						
Temporary differences (CSA – Argentina) (1) (a)	1,301	-	-	-	(589)	712
Temporary differences (CSA – Brasil) (1) (p)	17,703	(1,852)	-	-	-	15,851
Net operating losses (CSA – Brasil) (1) (p)	27,777	1,852	-	-	-	29,629
Tax credits from foreign subsidiary (CSA – Brasil) (1) (p)	7,167	-	-	-	-	7,167
Net operating losses (SGUS – EUA) (2)	83,577	47,051	-	19,391	-	150,019
Temporary differences (AMMO – Brasil) (a)	531	-	-	-	(214)	317
Net operating losses (AMMO – Brasil) (a)	2,042	-	-	-	-	2,042
Net operating losses (SGPSA – Brasil) (a)	1,906	-	-	-	-	1,906
	-----	-----	-----	-----	-----	-----
	142,004	47,051	-	19,391	(803)	207,643
<b>Deferred tax liabilities:</b>						
Investment properties (CSA – Brasil) (1) (p)	(56,934)	-	-	-	-	(56,934)
	-----	-----	-----	-----	-----	-----
<b>Total deferred taxes, net</b>	<b>85,070</b>	<b>47,051</b>	<b>-</b>	<b>19,391</b>	<b>(803)</b>	<b>150,709</b>
	=====	=====	=====	=====	=====	=====
Noncurrent assets (sum of a)	89,357	47,051	-	19,391	(803)	154,996
Noncurrent liabilities (sum of p)	(4,287)	-	-	-	-	(4,287)
	=====	=====	=====	=====	=====	=====

(1) Deferred taxes of subsidiary CSA:

Deferred taxes (assets):

The subsidiary CSA, based on its business plan and future projections, maintained deferred tax assets derived, primarily, from accumulated tax losses. Future projections consider the Company's operating results for the next 10 years adjusted to present value and a reduction of interest rates during that period and the resulting cost of debt, among other actions. Based on these actions and the assumptions used in the preparation of the business plan, the management of that subsidiary has expectations to generate future taxable income that will allow the realization of the deferred tax credits shown as follows:

Year	Parent company (CSA)		Subsidiary Argentina	CSA consolidated
	Temporary differences	Operating losses (*)		
2018	7,621	(7,621)	712	712
2019	-	94	-	94
2020	-	3,237	-	3,237
2021	-	5,986	-	5,986
2022	-	7,244	-	7,244
2023	-	9,120	-	9,120
2024 and thereafter	8,230	18,736	-	26,966
	-----	-----	-----	-----
	15,851	36,796	712	53,359
	=====	=====	=====	=====

(\*) Includes compensation of taxes paid in Argentina in the amount of R\$ 7,167.

Temporary differences are fully deductible from taxable income, while tax losses are limited to 30% of taxable income. Both have no deadline for expiration.

Additionally, as of September 30, 2018, subsidiary CSA had net operating losses of R\$698,966 (R\$639,730 as of December 31, 2017) and social contribution tax losses of R\$705,299 (R\$645,986 as of December 31, 2017), whose tax assets were not recognized in the interim financial statements.

Deferred taxes (liabilities):

Income and social contribution taxes resulting from the initial fair value adjustment on investment properties, see note 10.

Fair value	211,176
Total residual cost	(43,722)
	-----
Surplus/added value	167,454
Income and social contribution tax payable (34%)	56,934
	=====

(2) Deferred taxes of subsidiary SGUS:

The subsidiary SGUS, based on its business plan and future projections, maintained deferred tax assets derived, primarily, from accumulated tax losses. The subsidiary SGUS used to maintain a full valuation allowance on its deferred tax assets. Based on its historical profitability in recent years and the projections of its operating results, the subsidiary SGUS had a deferred tax assets balance, as of September 30, 2018, totaling R\$150,019 (R\$83,577 as of December 31, 2017). The change during the first nine months of 2018 is due to updating the amounts realized during the year and projections for future years, and exchange rate variation.

The projections considered the operating results of the Company for the next 10 years. Based on the assumptions utilized in the preparation of business plan, SGUS management expects to generate future taxable income that will allow the realization of the deferred tax credits.

The estimated realization for the deferred tax assets of subsidiary SGUS, as of September 30, 2018, is shown below:

Year	Subsidiary SGUS
2018	10,292
2019	22,044
2020	24,161
2021	23,889
2022	23,006
2023 and thereafter	46,627
	-----
	150,019
	=====

Temporary differences are fully deductible from taxable income and have no deadline for utilization. The net operating tax losses are also fully deductible, but the federal losses will expire between 2022 and 2034 and the state losses will expire between 2018 and 2034.

Additionally, on September 30, 2018, subsidiary SGUS had R\$477,821 in tax losses (R\$598,367 at December 31, 2017) whose tax assets were not recognized in the financial statements.



### c. Recoverable taxes

	Company		Consolidated	
	09.30.2018	12.31.2017	09.30.2018	12.31.2017
ICMS (state VAT)	-	-	5,141	5,489
Income and social contribution taxes prepayments	148	148	13,752	22,082
Recoverable PIS and COFINS (*)	-	-	23,180	9,019
IVA – Gross proceeds (Argentina)	-	-	2,432	2,115
VAT – China and Mexico	-	-	1,516	1,103
Recoverable IPI	-	-	83	1,301
Other recoverable taxes	-	-	554	2,448
	-----	-----	-----	-----
	148	148	46,658	43,557
Current	(148)	(148)	(16,380)	(28,662)
	-----	-----	-----	-----
Noncurrent	-	-	30,278	14,895
	=====	=====	=====	=====

(\*) Includes credits in the amount of R\$14,656, resulting from the elimination of ICMS from the PIS and COFINS calculation basis of the subsidiary AMMO. The subsidiary joined a lawsuit filed by SindiLojas, which became final and unappealable.

### 19. MISCELLANEOUS ACCRUALS

The Company and its subsidiaries are challenging in court the legality of certain taxes and civil and labor claims. The accrual was recognized based on the risk assessment made by Management and its legal counsel for all lawsuits in which losses are considered probable.

The Company and its subsidiaries have tax, labor and civil claims, whose loss was estimated as possible in the amount of R\$89,153, R\$4,616 and R\$1,832, respectively. The claims for which losses are considered probable are summarized as follows:

	Consolidated	
	09.30.2018	12.31.2017
Tax litigation claims:		
-INSS	-	1,998
-Others	149	149
Labor	11,829	13,589
Civil and others	1,037	2,874
	-----	-----
Total	13,015	18,610
	=====	=====
Escrow deposits	12,622	13,678
	=====	=====

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

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

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

Changes in the consolidated accrual are as follows:

	<u>12.31.2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>09.30.2018</u>
Tax litigation claims:				
-INSS	1,998	-	(1,998)	-
-Others	149	-	-	149
Labor	13,589	855	(2,615)	11,829
Civil and others	2,874	98	(1,935)	1,037
	-----	-----	-----	-----
	18,610	953	(6,548)	13,015
	=====	=====	=====	=====

## 20. EMPLOYEE BENEFIT PLANS

Substantially all of the employees of the subsidiary SGUS are covered by defined-contribution plans. Some executives of SGUS are covered by defined-benefit plans. Subsidiary SGUS may make contributions to the defined-contribution plan at its discretion, and these contributions are considered by means of a percentage of each participant's eligible compensation. In addition, should eligible participants contribute a percentage of their compensation to some defined-contribution plans, SGUS may, at its discretion, make a contribution in the proportion of the amounts contributed by the participants.

Subsidiary SGUS sponsors a defined-benefit pension plan for some of its employees, whose expected pension costs are accrued based on actuarial studies. Contributions of retired employees and subsidiary SGUS are adjusted periodically. Subsidiary SGUS' contributions to the defined-benefit plans are made pursuant to the "US Employee Retirement Income Security Act", and benefits are generally based on years of service and salary (compensation) levels.

The defined-benefit plans' assets are invested in diversified equity securities and fixed-income funds (including US government debt). Subsidiary SGUS also provides retirement benefits to eligible executives under nonqualified supplemental executive retirement plans.

The table below includes summarized information on the pension and postretirement plans as of September 30, 2018 and 2017:

	<u>09.30.2018</u>	<u>09.30.2017</u>
Components of net periodic benefit cost:		
Service cost	910	796
Interest cost, net	2,612	2,771
	-----	-----
Net periodic benefit cost	3,522	3,567
	=====	=====

SGUS' investment strategy is to invest in a diversified portfolio that will maximize returns, considering an acceptable risk level. Pension plan assets are invested in mutual funds which have a target allocation of 45% to 63% in domestic equity securities and 37% to 55% in fixed income funds. The expected returns on plan assets were developed in conjunction with external advisors and take into account long-term expectations for future returns based on SGUS' current investment strategy.

The balances of employee benefit plans and deferred compensation are as follows:

	<u>09.30.2018</u>	<u>12.31.2017</u>
Pension plan obligations	116,516	99,363
Other employee benefit obligations	3,731	4,990
	-----	-----
Total employee benefit plans	120,247	104,353
	-----	-----
Current (a)	(10,672)	(8,817)
	-----	-----
Noncurrent	109,575	95,536
	=====	=====

(a) Presented in the balance sheet caption "Payroll and related charges".

## 21. EQUITY

### a. Capital

The subscribed and paid-in capital is represented by 50,000,000 common shares with voting rights. There was no change in the number of shares subscribed and paid for the period between January 1, 2017 and September 30, 2018.

### b. Dividends and realizable earnings reserve

Shareholders are entitled to dividends equivalent to 1/3 of annual net income, adjusted as per Company's bylaws and the Brazilian Corporate Law.

### c. Retained earnings reserve

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

## 22. RELATED-PARTY BALANCES AND TRANSACTIONS

	<u>Receivable</u>		<u>Payable</u>	
	<u>09.30.2018</u>	<u>12.31.2017</u>	<u>09.30.2018</u>	<u>12.31.2017</u>
Company:				
Coteminas S.A.	-	-	77,352	50,176
	-----	-----	-----	-----
	-	-	77,352	50,176
	=====	=====	=====	=====
Consolidated:				
Companhia de Tecidos Norte de Minas – Coteminas	44,573	38,900	-	-
Coteminas International Ltd.	1,688	701	-	-
432 Park Avenue 49C LLC	300	-	-	-
Santanense Argentina	13	90	-	-
Argentina branch	67	20	-	-
Seda, Inc.	-	-	60	-
	-----	-----	-----	-----
	46,641	39,711	60	-
	=====	=====	=====	=====

	Finance charges	
	09.30.2018	09.30.2017
Company:		
Coteminas S.A.	(4,576)	(4,175)
Companhia de Tecidos Norte de Minas - Coteminas	(1)	(1)
	-----	-----
	(4,577)	(4,176)
	=====	=====
Consolidated:		
Companhia de Tecidos Norte de Minas – Coteminas	9,761	8,313
Companhia Tecidos Santanense	(637)	(112)
Encorpar – Empresa Nacional de Comércio, Redito e Participações S.A.	-	(44)
Coteminas International Ltd.	25	-
	-----	-----
	9,149	8,157
	=====	=====

The balances refer to loans contracted with the Company under fair conditions in accordance with market practices. The charges are calculated according to the cost of the Company's loans.

The Board of Directors meeting held on December 29, 2015 also approved payment of 2% commission (two percent annually), limited to the cumulative amount of R\$47,750, on sureties/ guarantees provided by the controlling shareholder on loans and financing contracted by the Company and its subsidiaries. As of September 30, 2018, the amount of R\$20,672 was recorded with R\$5,752 (R\$7,418 as of December 31, 2017) in the caption "Other receivables" in current assets and R\$14,920 in the caption "Others" in noncurrent assets (R\$18,957 as of December 31, 2017), related to guarantees on existing contracts and credit facilities. In the nine-months period ended September 30, 2018, the amount of R\$5,703 was recorded as interest expenses under the caption "Financial expenses – bank charges and others" (R\$7,528 in the same period of 2017).

In the nine-months period ended September 30, 2018, the subsidiary CSA supplied intermediate products to a related party, Companhia Tecidos Santanense, in the amount of R\$23,470 (R\$29,103 in the same period of 2017). On September 30, 2018, the amount of R\$9,593 was recorded in the caption of other accounts payable, as advances from clients, which are expected to be delivered by the end of the year. The transactions are conducted at market prices.

The amounts paid to key Management personnel are disclosed in the statements of operations, under caption "Management fees" and include existing long-term and post-employment benefits.

## 23. FINANCIAL INSTRUMENTS

a) General--The Company and its subsidiaries maintain derivatives and non-derivatives financial instruments transactions, whose risks are managed through strategic financial positions and controls to limit exposure to such risks. All transactions are fully recorded in the Company's books and described in the table below.

	Company		Consolidated	
	09.30.2018	12.31.2017 (restated)	09.30.2018	12.31.2017 (restated)
<b>FINANCIAL ASSETS</b>				
Amortized cost:				
Cash and cash equivalents	12	103	135,377	155,442
Marketable securities (current)	-	-	35,414	35,163
Accounts receivable	-	-	551,140	497,647
Other receivables	1,021	1,044	54,737	52,307
Marketable securities (noncurrent)	-	-	77,998	63,819
Receivable – clients	-	-	42,370	37,388
Receivable – sale of property	-	-	59,489	54,587
Related parties	-	-	46,641	39,711
Others	-	-	33,204	34,568
Fair value through profit or loss:				
Financial instruments	-	-	18,854	-
Marketable securities (current)	-	-	28,857	-
<b>FINANCIAL LIABILITIES</b>				
Amortized cost:				
Loans and financing (current)	4,873	21,866	392,624	444,861
Debentures (current)	-	-	67,324	11,952
Suppliers	49	4	195,720	163,265
Noneconomic lease (current)	-	-	8,717	7,202
Government concessions (current)	-	-	19,845	19,473
Other accounts payable	-	-	57,332	42,884
Loans and financing (noncurrent)	-	-	620,793	582,180
Debentures (noncurrent)	-	-	106,606	36,643
Noneconomic lease (noncurrent)	-	-	15,898	13,816
Related parties	77,352	50,176	60	-
Government concessions (noncurrent)	-	-	43,881	42,784
Other obligations	2,056	2,056	24,552	15,174

The main risk factors to which the Company and its subsidiaries are exposed reflect strategic-operational and economic-financial matters. The strategic-operational risks (such as demand trend, competition, technological innovation, significant changes in the industry structure, among others) are inherent to the Company's operating activities and are addressed by its Management. The economic-financial risks mainly reflect customers' delinquency, macro-economic trends, such as currency exchange and interest rates, as well as the nature of the derivative instruments used by the Company, its subsidiaries, and its counter-parties. These risks are managed through internal control policies, specific strategies and establishment of approval authorities.

b) Fair value--The fair values of loans and financing and debentures are similar to their amortized cost recorded in the interim financial statements because they are indexed to floating interest rates (TJLP, CDI and LIBOR), which accompany market rates. Considering the maturities of other financial instruments, the Company estimates that their fair values approximate book values.

c) Classification of financial instruments--Except for derivatives, and certain marketable securities, all financial instruments listed above are classified as "Amortized cost", in the case of assets, and as "Other financial liabilities", in the case of liabilities, initially measured at fair value and restated at amortized cost. The derivative financial instruments and certain marketable securities are classified as "Measured at fair value through profit or loss" and have their gains and losses from changes in fair value recognized in the statements of operations.

d) Risk management and derivative and non-derivative financial instruments:

d.1 – Objectives and risk management strategies--The Company believes that risk management is important in driving its strategy of profitable growth. The Company is exposed to market risks, mainly related to changes in exchange rates, commodity prices (cotton) and volatility of interest rates. The goal of managing these risks is to eliminate possible unexpected variations in the results of the group's companies, arising from these variations.

The purpose of derivative transactions is always related to the elimination of market risks, identified in our policies and guidelines and, also, to the management of the volatility of financial flows. All derivative financial instruments are recorded at fair value in the Company's interim financial statements. As of September 30, 2018, except for the transaction described in item d.4 below, there were no outstanding derivative financial instruments.

d.2 – Derivatives use policy--According to internal policies, the Company's financial results should be related to cash provided by its business and not by gains in the financial market. Therefore, it considers the use of derivatives as a tool to protect eventual exposures related to risks arising from such exposures, and not for speculative purposes. The derivative transactions goal is to reduce Company's market risks exposures.

d.3 – Exchange rate risk--This risk arises from the possibility that the Company and its subsidiaries may incur losses due to exchange rate fluctuations that would reduce the nominal billed amounts or increase funds raised in the market.

d.3.1) Exchange rate risk on foreign investments:

The Company has foreign investments that increase its foreign currency exchange exposure, as follows:

Total of foreign investments	09.30.2018	12.31.2017
Investments	259,753 =====	198,442 =====
In equivalent thousands of US Dollars	64,875 =====	59,989 =====

d.3.2) Exchange rate risks on the Company and on subsidiary CSA's financial instruments:

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

<u>Financial instruments</u>	<u>09.30.2018</u>	<u>12.31.2017</u>
Cash and cash equivalents	-	3,437
Financial instruments	18,854	-
Accounts receivable	55,263	39,324
Marketable securities	77,998	63,819
Receivable - clients	11,376	-
Suppliers, net	(1,285)	(1,455)
Loan and financing	(170,784)	(197,517)
Related parties	(129,339)	(65,518)
	-----	-----
Total exposure in Brazilian Reais	(137,917)	(157,910)
	=====	=====
Total exposure in equivalent thousands of US Dollars	(34,446)	(47,736)
	=====	=====

The sensitivity analysis of financial instruments, considering the US Dollar denominated cash flows, as of September 30, 2018, is shown below:

<u>Maturity</u>	<u>Risk</u>	<u>Exposure value in thousands of US\$</u>	<u>Scenarios</u>		
			<u>Probable</u>	<u>II</u>	<u>III</u>
2018	US Dollar appreciation	(5,617)	(709)	(6,509)	(12,309)
2019	US Dollar appreciation	(42,378)	(6,387)	(50,403)	(94,420)
2020	US Dollar appreciation	10,708	3,344	14,899	26,455
2021	US Dollar appreciation	2,841	1,818	5,116	8,414
		-----	-----	-----	-----
		(34,446)	(1,934)	(36,897)	(71,860)
		=====	=====	=====	=====

Amounts in parenthesis (negative numbers) stated in the scenarios above refer to exchange rate variance losses. The positive amounts relate to exchange rate variations gains. The "Probable" scenario represents the result of the probable exchange rate variation, considering the cash flow of the assets and liabilities presented above, applying future dollar exchange rates and comparing to the dollar exchange rate at the end of the current period. Scenarios II and III reflect 25% and 50% deterioration of future dollar exchange rates, respectively. The future dollar exchange rates were obtained from B3 S.A. – Brasil, Bolsa, Balcão.

d.3.3) Exchange rate risk on derivative instruments transactions of the Company and its subsidiaries:

Consolidated information for derivative instruments with exchange rate risk is shown below:

Description	Notional Value – US\$ thousands		Fair Value – Asset (Liability)	
	09.30.2018	12.31.2017	09.30.2018	12.31.2017
Option Contract (1) -- Position: Sell Currency: US\$ Dollar settlement: R\$3.8700 Counterpart: Itaú BBA Other information: 2 contracts of US \$35,000 thousands (each), maturing on February/19	70,000	-	8,439	-
Forward Contract (NDF) (2) -- Position: Buy Currency: US\$ Dollar settlement: R\$4.2700 Counterpart: Itaú BBA Other information: 1 contract of US \$35,000 thousands, maturing on February/19	35,000	-	(4,235)	-
Forward Contract (NDF) (3) -- Position: Buy Currency: US\$ Dollar settlement: R\$4.2050 Counterpart: Itaú BBA Other information: 1 contract of US \$35,000 thousands, maturing on February/19	35,000	-	(4,204)	-
Total			----- - =====	----- - =====

Options contracts -- are recorded at fair value through the statement of operations. The fair value of the contracts was obtained directly from the counterpart financial institution, which evaluates these financial instruments based on the data obtained in B3 S.A. – Brazil, Bolsa, Balcão, such as the future dollar rate, volatility, interest rates and own algorithms. (1) If the value of the US Dollar, at the contract maturity date, is less than R\$ 3.8700, the Company will receive the lower difference, multiplied by the dollar volume of the respective contracts. The difference for the Dollar greater than R\$ 3.8700 will not constitute an expense. (2) If the US dollar value on the contract maturity date is greater than R\$ 4.2700, the Company will pay the greater difference, multiplied by the dollar volume of the respective agreement. The difference for the dollar less than R\$ 4.2700 will not constitute an income. (3) If the US dollar value on the contract maturity date is greater than R\$ 4.2050, the Company will pay the greater difference, multiplied by the US dollar volume of the respective agreement. The difference for the dollar less than R\$ 4.2050 will not constitute an income. Contract with condition precedent until the value of the dollar reaches R\$ 4.4200 in the period of validity of the contract.

Maturity	Risk	Exposure value in thousands of US\$	Scenarios		
			Probable	II	III
2019	US Dollar appreciation	(70,000)	-	(61,176)	(132,736)
			=====	=====	=====

The "Probable" scenario represents the probable exchange rate variation considering the cash flows of the contracts (2) and (3) detailed above, applying the future rates of US dollars and comparing them with the US dollar rate at September 30, 2018. For scenarios II and III, a variation of future dollar rates was considered to be 25% and 50%, respectively. Future rates of US dollars were obtained at B3 S.A. - Brazil, Bolsa, Balcão.



d.4 – Commodities price risk (cotton)--This risk arises from the possibility of the Company and its subsidiaries may incur losses due to fluctuations in the price of cotton, its main raw material. A significant increase in the price of cotton may cause an increase in the cost of its products in an amount that the Company may be unable to pass such increases to its customers, reducing its margins. Below is the summary of the derivative instruments with commodities risk:

Description	Reference value (Notional) US\$ thous.		Fair value – current asset	
	09.30.2018	12.31.2017	09.30.2018	12.31.2017
Contract of cotton purchase -- Position: Buy Currency: current US Dollars Counterpart: Louis Dreyfus	11,873	-	18,854	-
	=====	=====	=====	=====

The prices of the derivative instruments were obtained based on the market information disclosed by ICE - International Cotton Exchange. In the nine-months period ended September 30, 2018, CSA recognized a gain of R\$18,854 (R\$2,922 in the first nine months of 2017).

The sensitivity analysis of derivative financial instruments shown above, considering the receipt of cotton, as of September 30, 2018, is shown below:

Maturity	Risk	Average balance (US\$)	R\$		
			Probable	II	III
2018	Decrease in price	5,211	3,461	(8,753)	(21,118)
2019	Decrease in price	6,662	15,393	(3,154)	(21,702)
		-----	-----	-----	-----
		11,873	18,854	(11,907)	(42,820)
		=====	=====	=====	=====

The "Probable" scenario represents the result of maintaining the price as of September 30, 2018. For scenarios II and III, a decrease of the price per pound was considered at 25% and 50%, respectively.

d.5 – Interest rates risk--Cash and cash equivalents and marketable securities yield, approximately, the equivalent to CDI (Certificate of Interbank Deposit) rates. Interest-bearing liabilities (except as described in d.5.1 and d.5.2 below), which reflect rates equivalent to LIBOR, or fixed interest rates, are disclosed in notes 13 and 22. Considering the cash flows of these liabilities and the contracted interest rates, Management determined that the exposure to market changes on the contracted interest rates is not significant. Therefore, the sensitivity analysis is deemed unnecessary.

d.5.1 – Variable interest rate risks on derivative financial instruments:

Interest rates swap contracts--Are presented and measured at fair value and are based on the cash flow of the loans denominated in foreign currency. Gains or losses are recorded under the "Financial expenses – interest" caption in the statements of operations. There were no interest rate derivatives in the nine-month periods ended September 30, 2018 and 2017.

d.5.2 – Variable interest rate risk on non-derivatives financial instruments:

The amounts related to the Company and its subsidiaries' non-derivatives financial instruments subject to variable interest rate exposure are as follows:

Description	09.30.2018			12.31.2017	
	Principal amount R\$ thousands	Accrued interest	Prepaid interest	Payable	Payable
Loan Agreement -- Interest: 128.7% of CDI Counterpart: Banco Brasil S.A. – NCE Maturity: November/2021	165,000	2,101	(1,191)	165,910	165,646
Loan Agreement -- Interest: 128.7% of CDI Counterpart: Banco Brasil S.A. – NCE Maturity: November/2021	165,000	2,101	(1,152)	165,949	165,477
Loan Agreement -- Interest: 127.5% of CDI Counterpart: Banco Brasil S.A. – CCB Maturity: June/2021	120,000	377	(3,042)	117,335	-
Loan Agreement -- Interest: 135.0% of CDI Counterpart: Banco Brasil S.A. – NCE Maturity: October/2018	-	-	-	-	19,111
Loan Agreement -- Interest: IRP + 11.2% Counterpart: Banco Brasil S.A. – CCB Maturity: June/2018	-	-	-	-	60,114
(Refer to Note 13)				449,194	410,348
Loan Agreement -- Interest: 132.0% of CDI Counterpart: Banco Itaú BBA S.A. Maturity: February/2018	-	-	-	-	101,012
(Refer to Note 13)				-	101,012
Loan Agreement -- Interest: 149.0% of CDI Counterpart: Banco BBM S.A. – CCB Maturity: March/2021	38,403	1,873	-	40,276	49,311
Loan Agreement -- Interest: CDI + 3.9 Counterpart: Banco BBM S.A. – CCB Maturity: March/2021	8,333	441	-	8,774	-
Loan Agreement -- Interest: 150.5% of CDI Counterpart: Banco BBM S.A. – CCB Maturity: May/2021	14,222	465	-	14,687	-
(Refer to Note 13)				63,737	49,311
Loan Agreement -- Interest: CDI + 3.8% Counterpart: Banco ABC Brasil S.A. – CCB Maturity: March/2021	19,355	144	-	19,499	20,073
Loan Agreement -- Interest: CDI + 4.4% Counterpart: Banco ABC Brasil S.A. – CCB Maturity: July/2021	10,000	54	-	10,054	-
Loan Agreement -- Interest: CDI + 4.4% Counterpart: Banco ABC Brasil S.A. – CCB Maturity: August/2021	10,000	12	-	10,012	-
(Refer to Note 13)				39,565	20,073

Description	09.30.2018			12.31.2017	
	Principal amount R\$ thousands	Accrued interest	Prepaid interest	Payable	Payable
Loan Agreement -- Interest: 89.0% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: May/2019	50,145	812	(115)	50,842	62,209
Loan Agreement -- Interest: 103.0% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: February/2020	38,768	140	(290)	38,618	54,107
Loan Agreement -- Interest: 118.8% of CDI Counterpart: Banco Santander S.A. – PPE Maturity: November/2020	50,061	177	(507)	49,731	54,640
(Refer to Note 13)				139,191	170,956
Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Daycoval S.A. Maturity: September/2020	20,000	182	-	20,182	-
(Refer to Note 13)				20,182	-
Loan Agreement -- Interest: CDI + 4.5% Counterpart: Banco Fibra S.A. - CCE Maturity: July/2020	10,000	64	-	10,064	-
(Refer to Note 13)				10,064	-
Debentures 3 <sup>rd</sup> series -- Interest: 110.0% of CDI Counterpart: Gaia Agro Sec. S.A. Maturity: June/2020	50,000	1,010	(1,039)	49,971	48,595
Debentures 4 <sup>th</sup> series -- Interest: CDI + 2.75% Counterpart: Several debenture holders Maturity: February/2021	125,000	1,273	(2,314)	123,959	-
(Refer to Note 14)				173,930	48,595
	894,287	11,226	(9,650)	895,863	800,295

The sensitivity analysis of the non-derivative financial instruments above, considering the scheduled payments of principal and interest as of September 30, 2018, is as follows:

Maturity	Risk	Principal average balance	Scenarios		
			Probable	II	III
2018	CDI increase	897,602	15,526	19,860	23,620
2019	CDI increase	708,148	54,959	88,083	104,914
2020	CDI increase	369,919	27,875	56,383	67,441
2021	CDI increase	114,659	6,308	15,221	18,316
			=====	=====	=====

Amounts shown in the scenarios above represent projected interest expense, in their respective years and scenarios, considering the average loan balances on each period.

The “Probable” scenario represents the result of the probable CDI variations, considering the principal and interest maturity dates. Scenarios II and III reflect 25% and 50% increase in the future CDI index, respectively. The future CDI rates were obtained at B3.

d.6 – Credit risk--The Company is subject to credit risk on its cash and cash equivalents, marketable securities, and derivative instruments. This risk is mitigated by the policy of entering into transactions only with major financial institutions.

The credit risk on accounts receivable is reduced due to the selectivity of customers and credit policy. The Company has a credit management system based on the combination of information originated by several departments of the Company, primarily sales, finance, accounting, legal and external sources that enable the credit and collection departments to establish credit limits for its customers that are approved by a credit committee.

d.7 – Liquidity risk management--The Company presented its consolidated financial assets and liabilities, according to their cash flows, based on their approximate maturity date, and using nominal contractual interest rates in its annual financial statements for the year ended December 31, 2017. As of September 30, 2018, there was no significant change when compared to the published annual financial statements.

d.8 – Capital management risk--The Company manages its capital structure to ensure the continuity of its operational activities and, at the same time, to maximize the returns to its shareholders. The Company's strategy remained unchanged in the period covered by these interim financial statements.

The Company's net debt is as follows:

	Consolidated	
	09.30.2018	12.31.2017
Loans and financing	1,013,417	1,027,041
Debentures	173,930	48,595
Cash and cash equivalents	(135,377)	(155,442)
Marketable securities	(142,269)	(98,982)
Financial instruments	(18,854)	-
	-----	-----
Total net debt	890,847	821,212
	-----	-----
Total equity	1,160,592	1,149,507
	-----	-----
Total net debt and equity	2,051,439	1,970,719
	=====	=====

## 24. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate interim financial statements are available and evaluated regularly by the decision maker, with the purpose of determining the allocation of resources to an individual segment and evaluate its performance. Decisions on strategic planning, finance, purchasing, investment and application of resources, as well as evaluation of investment and key executives performance of the Company are made on a consolidated basis, the Company and its subsidiaries have concluded that they have two operating segments: "Wholesale" and "Retail". The Wholesale segment is subdivided into two sub-segments: South America, which includes operations in Brazil and Argentina; and North America, which includes operations in the United States of America and Canada.

The Company owns several factories that supply each other so that, together, they form an integrated industry in spinning, weaving, finishing and manufacturing of home textile products. The Company does not have separate operating segments in its sales categories and the reports used for strategic and operational decision making are always consolidated. There are no specific

operational units for each category of goods sold. Therefore, these operations are denominated “Wholesale” because its products are not sold to the final consumer.

The subsidiary AMMO has a set of separate information and investment decisions, pricing, store expansion and others that are individually made, and are denominated “Retail” as its products are sold directly to the final consumer.

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

	09.30.2018					
	South America			North America	Others	Total
	Wholesale	Retail	Total	Wholesale	unallocated	
Net revenues	891.6	189.6	1,081.2	657.9	(57.0)	1,682.1
Cost of goods sold	(646.8)	(92.2)	(739.0)	(568.9)	51.5	(1,256.4)
Gross profit	244.8	97.4	342.2	89.0	(5.5)	425.7
Selling, general and administrative expenses	(163.2)	(103.6)	(266.8)	(57.6)	3.6	(320.8)
Other	7.4	10.5	17.9	(3.1)	(1.4)	13.4
Operating results	89.0	4.3	93.3	28.3	(3.3)	118.3
Financial results	-	-	-	-	(169.7)	(169.7)
Income (loss) before taxes	89.0	4.3	93.3	28.3	(173.0)	(51.4)
Depreciation and amortization	51.7	2.4	54.1	2.5	-	56.6
	09.30.2017					
	South America			North America	Others	Total
	Wholesale	Retail	Total	Wholesale	unallocated	
Net revenues	920.0	182.8	1,102.8	578.0	(55.4)	1,625.4
Cost of goods sold	(684.2)	(89.3)	(773.5)	(481.2)	55.4	(1,199.3)
Gross profit	235.8	93.5	329.3	96.8	-	426.1
Selling, general and administrative expenses	(161.6)	(97.2)	(258.8)	(47.3)	(3.1)	(309.2)
Other	5.1	2.7	7.8	4.9	-	12.7
Operating results	79.3	(1.0)	78.3	54.4	(3.1)	129.6
Financial results	-	-	-	-	(137.1)	(137.1)
Income (loss) before taxes	79.3	(1.0)	78.3	54.4	(140.2)	(7.5)
Depreciation and amortization	50.3	3.0	53.3	2.0	-	55.3

The Company, through the analysis of sales performance, classifies its products under the categories of sales (or product lines) such as: bedding, tabletop and bath, utility bedding, intermediate products, and retail.

Revenue information by category or product lines is as follows:

	Consolidated	
	09.30.2018	09.30.2017
Net revenues (in millions of Reais):		
Bedding, tabletop and bath	736.5	726.8
Utility bedding	563.4	487.0
Intermediate products	192.6	228.8
Retail	189.6	182.8
	-----	-----
	1,682.1	1,625.4
	=====	=====
Volume (in thousands of tons):		
Bedding, tabletop and bath	22.2	23.6
Utility bedding	32.1	32.9
Intermediate products	18.0	21.9
	-----	-----
	72.3	78.4
	=====	=====

The Company has over 10,000 active clients as of September 30, 2018 and only one customer accounts for approximately 10% of sales.

## 25. EXPENSES BY NATURE

The Company presents its consolidated statements of operations by function. The expenses by nature and their classification by function are presented as follows:

By nature:

	Consolidated	
	09.30.2018	09.30.2017
Cost of raw materials, goods and services acquired from third parties	(1,097,728)	(989,995)
Employee benefits	(338,675)	(339,298)
INSS	(31,195)	(32,355)
Depreciation and amortization	(56,582)	(55,263)
Finished goods and work in process inventory variations	25,822	(20,874)
Exchange rate variations on inventories of foreign subsidiaries	(1,639)	-
Other costs and expenses	(77,201)	(70,753)
	-----	-----
Total by nature	(1,577,198)	(1,508,538)
	=====	=====

By function:

	Consolidated	
	09.30.2018	09.30.2017
Cost of goods sold	(1,256,361)	(1,199,330)
Selling expenses	(209,361)	(207,482)
General and administrative expenses	(102,813)	(94,694)
Management fees	(8,663)	(7,032)
	-----	-----
Total by function	(1,577,198)	(1,508,538)
	=====	=====

## 26. NET REVENUES

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

	Consolidated	
	09.30.2018	09.30.2017
OPERATING REVENUES:		
Gross revenues	2,021,624	1,993,978
Sales deductions	(339,575)	(368,553)
	-----	-----
NET REVENUES	1,682,049	1,625,425
	=====	=====

## 27. BASIC AND DILUTED INCOME (LOSS) PER SHARE

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

	09.30.2018	09.30.2017
NET INCOME (LOSS) FOR THE PERIOD	(7,361)	6,267
Weighted-average outstanding common shares	50,000,000	50,000,000
BASIC AND DILUTED INCOME (LOSS) PER SHARE (R\$)	(0.1472)	0.1253
	=====	=====

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

\* \* \* \* \*