Cia. Hering

Financial Statements December, 31, 2019, Perfomance Report and Audit Committee Report Summary.

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

KPMG Auditores Independentes

MESSAGE FROM MANAGEMENT

The Transformation is a Journey

2019 was a milestone in our history. We started an important cultural transformation by strengthening our entrepreneurial spirit and starting to challenge the status quo. We created the favorable conditions to empower our talents and started the path towards building a new legacy in the history of the Company.

We experimented a new way of doing, deepening our consumer knowledge and expanding the use of data in decision making. We created a model of experimentation and speed that has been revealing new growth levels and leave us confident and enthusiastic in the search to ensure relevance and perpetuity to our business.

We have become an Omnichannel Company providing a unique journey to the customer. We innovated in business formats, started product customization and piloted a one stop shop that brought ease of purchase and a complete experience without friction to our consumer. We invest in awareness and increase our brand awareness.

We redefine roles, evolve the way we think about our most relevant channel, the Multibrand, in order to maximize its resources and improve our service to current customers.

We revisited our values, brought new people, advanced in our digital transformation, planted with the absolute conviction that we evolved in a culture of taking more risks, we had the courage and boldness to test and to correct the route and to learn from mistakes.

In this journey strongly supported by people, brands and technology, we reiterate our convictions:

1. A new way to do it!
Data driven with experimentation, speed and scale. Empowering our talents!

2. The Product is Sovereign
Design, quality and price to guarantee a smart choice

3. Here is Retail!
Industry spin off to legitimize "make or buy" generating value and not cost

4. *The right offer, at the right time*
Push and pull implementation and mass customization

5. One Stop Shop
Ease of purchase and complete experience without friction

6. *True Omni*
Unique and all-in journey in the logistics and payment revolution

7. More and more together with the Consumer
Innovation in business formats and go-to-market strategy.

In 2020, Cia. Hering will complete 140 years with a new mentality, clear ambition, abundance of ideas and all the resources needed to build a legacy, through people with the capacity to dream, experiment and achieve.

CONSOLIDATED HIGHLIGHTS

R$ Thousand	2019	2018	VAR. 2019 | 2018
Gross Revenue	**1,815,626**	**1,806,814**	**0.5%**
Domestic Market	1,773,491	1,757,183	0.9%
Foreign Market	42,135	49,631	-15.1%
Net Revenue	**1,549,159**	**1,539,568**	**0.6%**
Gross Profit	**678,640**	**655,988**	**3.5%**
Gross Margin	*43.8%*	*42.6%*	120 b.p.
Net Income	**214,702**	**239,514**	**-10.4%**
Net Margin	*13.9%*	*15.6%*	-170 b.p.
EBITDA	**264,657**	**259,557**	**2.0%**
EBITDA Margin	*17.1%*	*16.9%*	20 b.p.
ROIC (a)	**19.5%**	**22.0%**	-250 b.p.
SSS[1]	**2.3%**	**5.3%**	**-300 b.p.**

(a) Last 12 months.

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

Values in the above table include the effects of IFRS16

SALES PERFORMANCE

Gross Revenue - R$ Thousand	2019	2018	VAR. 2019 | 2018
Gross Revenue	**1,815,626**	**1,806,814**	**0.5%**
Domestic Market	1,773,491	1,757,183	0.9%
Foreign Market	42,135	49,631	-15.1%
Domestic Market Gross Revenue	**1,773,491**	**1,757,183**	**0.9%**
Hering	1,348,686	1,319,306	2.2%
Hering Kids	237,154	230,231	3.0%
PUC	87,916	105,437	-16.6%
Dzarm	75,973	73,241	3.7%
Others[1]	23,762	28,968	-18.0%

Domestic Market Share	2019	2018	VAR. 2019 | 2018
Multibrand	704,840	736,794	-4.3%
Franchise	627,075	619,514	1.2%
Owned Stores	365,829	344,580	6.2%
Webstore	69,996	48,950	43.0%
Others[1]	5,751	7,345	-21.7%
Total	**1,773,491**	**1,757,183**	**0.9%**
Multibrand	39.7%	41.9%	-220 b.p.
Frachise	35.4%	35.3%	10 b.p.
Owned Stores	20.6%	19.6%	100 b.p.
Webstore	3.9%	2.8%	110 b.p.
Others[1]	0.4%	0.4%	0 b.p.
Total	**100.0%**	**100.0%**	**-**

[1] It considers the sale of second line items and leftovers.

In 2019, gross revenue totaled R$ 1.8 billion, a 0.5% increase versus the same period last year, with positive performance in all channels, except for the multibrand channel. The Company presented sales growth in the first 9 months of the year and a decrease in 4Q19, exclusively attributed to the performance of December, which represents approximately 60% of sales in the period.

Throughout 2019 we continued to evolve in the process of updating the Hering brand with new and effective initiatives in product, store and communication, maintaining a consistent connection with consumers. Some of these successful initiatives over the course of the year and for most of the quarter, did not translate into an effective proposal for the Christmas sales period, especially in the gift-giving agenda. After analysis and diagnosis, the Company is implementing adjustments in the short-term strategy, especially for Christmas 2020.

Same-store sales (SSS) reached 2.3%, versus 2018. It is important to highlight that the network has shown growth in this indicator in the last 7 quarters[1], reiterating efforts to build a sustainable growth cycle.

Own Stores
Own stores sales totaled R$ 365.8 million, a 6.2% growth versus 2018, driven by the number of check outs resumption and higher sales productivity.

Franchises
Sales for franchises (sell-in) totaled R$ 627.1 million, 1.2% higher versus 2018. Despite the net closing of stores in the year, the growth is influenced by store productivity increase. It stands out the preservation of the network sustainability and the dimensioning of the inventory levels versus the sales made to the final consumer, where the franchisees carried out a balanced supply in the showroom period with the possibility of placing fewer orders through reposition.

Multibrand
Sales of the multibrand channel declined by 4.3% in the year, notably due to the lower average order and number of customers decline. Despite the still challenging short term, the Company remains confident in its strategy to recover sales through the new management model and differentiated value proposal, with actions that include customer base rationalization, strengthening the relationship with more relevant customers, in addition to expanding the list of initiatives for better brand activation at the point of sale and gaining share-of-wallet.

Webstores
E-commerce sales totaled R$ 70.0 million, a 43.0% growth over the same period last year. This performance is mainly related to the consistency of investments in marketing that contribute to flow increase on the platforms and better promotional dynamics. As a way to improve the shopping experience and usability of the pages, the Company continued to evolve in search engines, in addition to technology advances to interact with consumers through the use of Artificial Intelligence. Additionally, in 4Q19, the new website launch of the Hering and Hering Kids brands

[1] Except for 2Q18.

stands out, allowing an integrated consumer journey, a better shopping experience on digital platforms, among other advances. The channel's share increased by 110 bp, reaching 3.9% of the Company's total revenue.

Foreign market

The foreign market decreased by 15.1% due to the decline in sales in Uruguay and a slight recovery in Paraguay. It's worth mentioning the increased local competitiveness in these markets and a reduced flow in the malls. The foreign market represents 2.3% of the Company's revenue.

DISTRIBUTION NETWORK

The Company ended the year with 741 stores, of which 721 in Brazil and 20 in the foreign market. During the year, 52 stores were opened and 73 units were closed. Noteworthy the opening of 3 new Espaço Hering in addition to 7 new Hering Basic Shop. The Company also opened its first large store (~ 600 sq meter) at Park Shopping São Caetano in São Paulo, with the strategy of diversifying store formats, facilitating consumer choices and providing better experiences for the public. The so-called Mega Store is a One Stop Shop model, which bring together the Hering, Hering Kids, Hering POP, Hering Intimates and Hering Pets lines and was designed to simplify the consumption journey. The store will serve as a hub for distributing web orders in the region, in addition to having all Omnichannel modalities and digital experience, such as smart lockers for order picking via QR code, mobile checkout in 100% of the sales team and t-shirt customization platform.

Following the chain's reorganization process, Hering Kids reduced 5 stores, while PUC closed 22 points of sale. DZARM, which is still undergoing maturation of its mono-brand distribution channel, closed 1 store in 2019.

It is also worth noting that throughout the year the implementation pace of the new refurbishment model in the Hering chain was intensified, resulting in 101 stores remodeled in 2019. The new model has contributed to improve the stores productivity through better product exposure, focus on visual merchandising and better shopping experience.

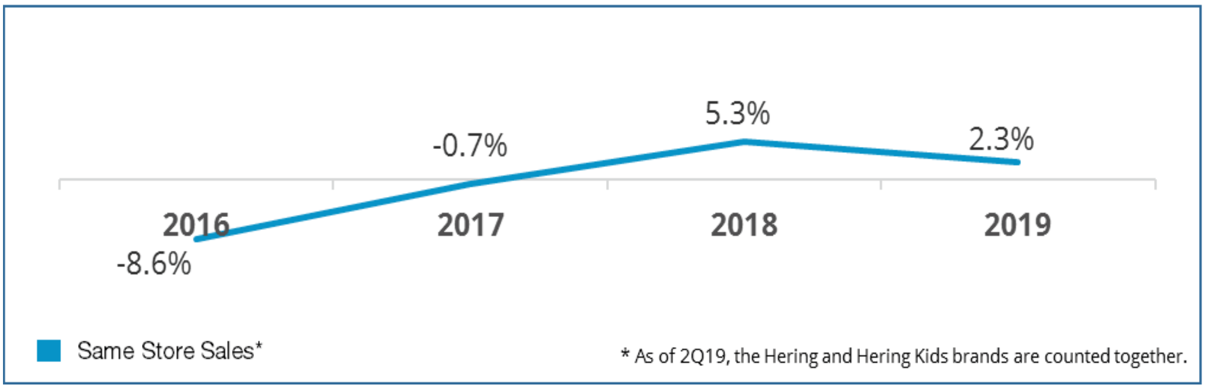
HERING NETWORK[2]

In 2019, Hering network sales totaled R$ 1.5 billion, 0.2% below the previous year, influenced by the 1.5% reduction in the sales area and the consequent drop in the number of check outs (-3.0%). Despite this result, the increase in the average ticket (+2.9%) stands out.

The stores operated by the Company totaled R$ 287.1 million, an increase of 5.5%, explained by the growth in the number of check outs (+3.7%) and a higher average ticket (+1.7%). The performance of franchises, on the other hand, was impacted by the reduction in the sales area (-2.6%) and a consequent reduction in the number of check outs, despite the increase in the average ticket.

The stores operation in 2019 had a better quality of supply, active management at points of sale, greater assertiveness of the collection and intensification of marketing campaigns focused on strengthening the attributes of the brand. These initiatives contributed to the growth of 5.4% in the network's revenue/m² in 2019, despite the underperforming Christmas sales.

Same Store Sales, which consider comparable stores opened at least 13 months ago, from the Hering Store and Hering Kids network, including the share of online sales, grew 2.3%, driven by the productivity growth in stores.



[2] Given the consolidation of the management of the Hering and Hering Kids brands, which from 2Q19 were managed within the same business unit, the data was unified.

ECONOMIC AND FINANCIAL PERFORMANCE

R$ Thousand	2019	Part. (%)	2018	Part. (%)	VAR. 2019 | 2018
Gross Revenue	**1,815,626**	**117.2%**	**1,806,814**	**117.4%**	**0.5%**
Sales Deduction	(266,467)	-17.2%	(267,246)	-17.4%	-0.3%
Net Revenue	**1,549,159**	**100.0%**	**1,539,568**	**100.0%**	**0.6%**
Cost of Goods Sold	(874,631)	-56.5%	(888,720)	-57.7%	-1.6%
AVP (Adjustment to Present Value)	18,514	1.2%	17,098	1.1%	8.3%
Subvention for Expenditure	19,824	1.3%	19,453	1.3%	1.9%
Depreciation and Amortization	(34,226)	-2.2%	(31,411)	-2.0%	9.0%
Gross Profit	**678,640**	**43.8%**	**655,988**	**42.6%**	**3.5%**
Operating Expenses	(502,407)	-32.4%	(458,029)	-29.8%	9.7%
Selling Expenses	(359,579)	-23.2%	(353,649)	-23.0%	1.7%
Loss due to non-recoverability of assets	(12,197)	-0.8%	(8,524)	-0.6%	43.1%
Administrative and General Exp. and Management Remuneration	(61,161)	-3.9%	(58,162)	-3.8%	5.2%
Depreciation and Amortization	(54,198)	-3.5%	(30,187)	-2.0%	79.5%
Profit Sharing	-	-	(783)	-0.1%	-100.0%
Other Operating Income (Expenses), net	(15,272)	-1.0%	(6,724)	-0.4%	127.1%
Operating Income Before Financial Results	**176,233**	**11.4%**	**197,959**	**12.9%**	**-11.0%**
Financial income	68,450	4.4%	71,572	4.6%	-4.4%
Financial expenses	(35,756)	-2.3%	(34,368)	-2.2%	4.0%
Total Financial Income	32,694	2.1%	37,204	2.4%	-12.1%
Operating Income Before Interest in Subsidiaries	**208,927**	**13.5%**	**235,163**	**15.3%**	**-11.2%**
Income and Social Contribution Taxes - Current	(3,120)	-0.2%	1,241	0.1%	-351.4%
Income and Social Contribution Taxes - Deferred	8,895	0.6%	3,110	0.2%	186.0%
Net Income for the Period	**214,702**	**13.9%**	**239,514**	**15.6%**	**-10.4%**
Controlling shareholders	214,702	13.9%	239,514	15.6%	-10.4%
Basic earnings per share - R$					
Controlling shareholders	1.3271		1.4812		-10.4%
EBITDA	**264,657**	**17.1%**	**259,557**	**16.9%**	**2.0%**

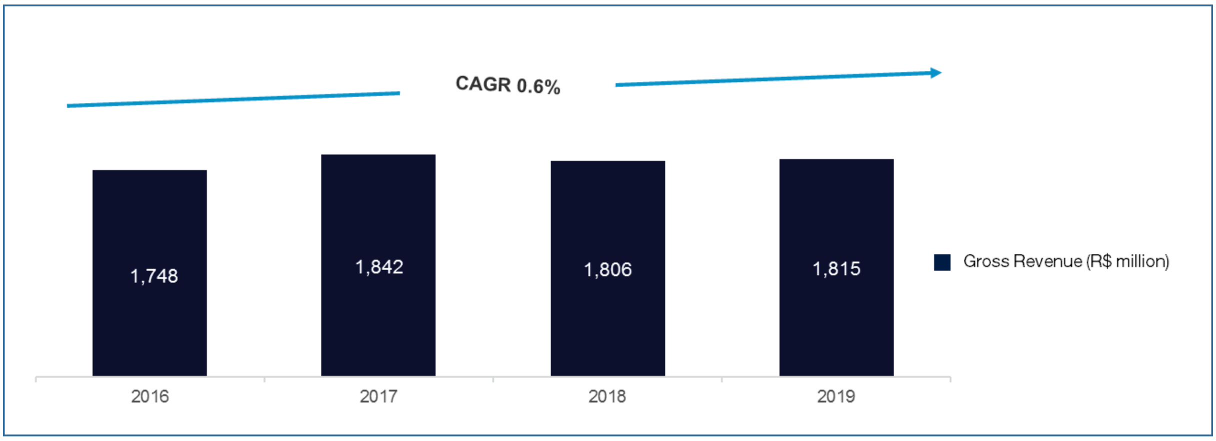
Values in the above table include the effects of IFRS16.

RECONCILIATION TABLE TO THE IFRS16 ON THE INCOME STATEMENT

R$ Thousand	2019 Reported	IFRS16 Adjustments	2019 Pró-Forma
Net Revenue	**1,549,159**	**-**	**1,549,159**
Cost of Goods Sold	(874,631)	(3,433)	(878,064)
Depreciation and Amortization in cost	(34,226)	3,130	(31,096)
Selling Expenses	(359,579)	(23,337)	(382,916)
G&A and Management Remuneration	(61,161)	(1,388)	(62,549)
Depreciation and Amortization in expenses	(54,198)	21,937	(32,261)
Financial Income	32,694	4,828	37,522
Others Expenses / Costs and Taxes winthout IFRS 16 impact	16,644	-	16,644
Net Income	**214,702**	**1,737**	**216,439**
EBITDA	**264,657**	**(28,158)**	**236,499**

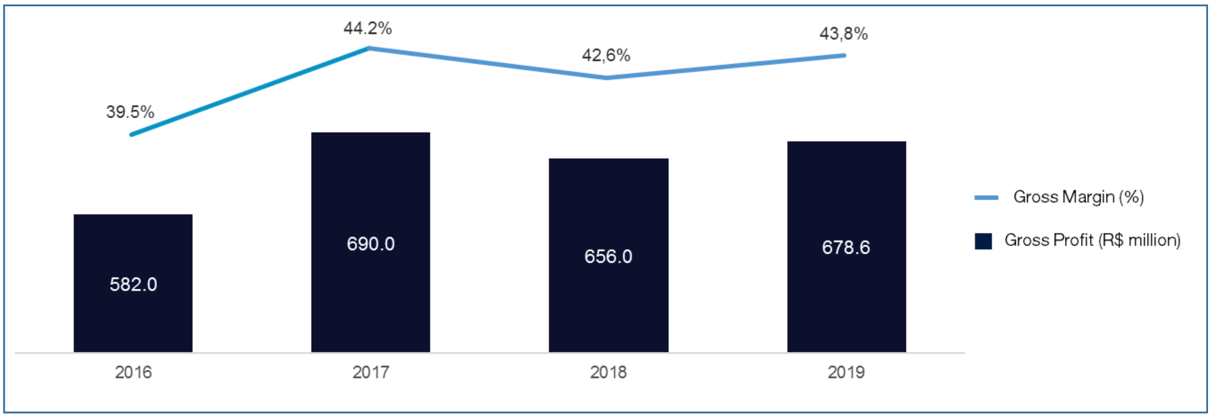
GROSS REVENUE

Gross revenue reached R$ 1.8 billion in 2019, an increase of 0.5% versus the same period last year, explained by the positive performance of all channels, with the exception of the multibrand channel. Regarding the brands, the positive performance of all brands stands out, despite the negative performance of the PUC related to its repositioning and stores closing.



GROSS PROFIT AND GROSS MARGIN

The Company's gross profit reached R$ 678.6 million in 2019, 3.5% higher than 2018. The gross margin reached 43.8%, an expansion of 120 bp related to an improve in the manufacturing productivity, better sales mix, with greater share of sell out sales (own stores and webstores) and operational leverage for fixed cost management.



OPERATIONAL EXPENSES

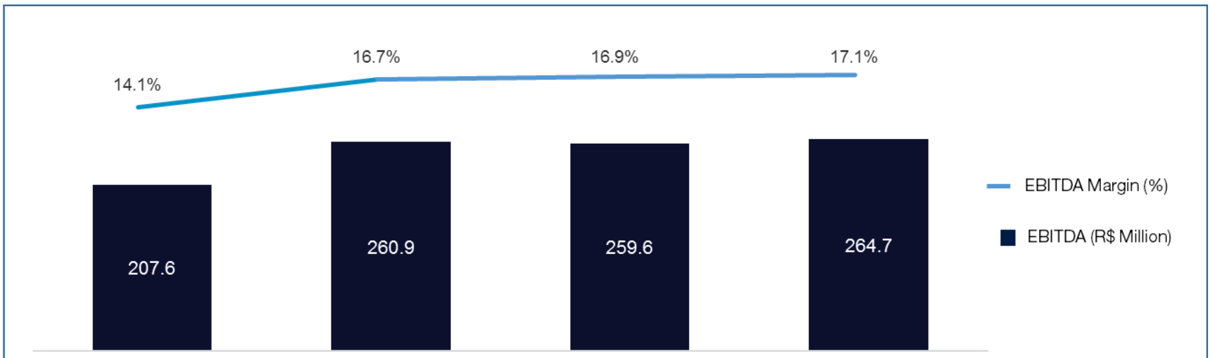
In 2019, expenses reached R$ 502.4 million, a 9.7% increase versus 2018, impacted notably by the greater investments in marketing, which totaled R$ 80.0 million (versus R$ 57.6 million in 2018) and store expenses mainly due to the higher achievement of premiums.

In addition, it stands out the non-recurring expenses related to indemnities for organizational restructuring and manufacturing plants closure in the amount of R$ 20.0 million (versus R$ 12.4 million in 2018), which were more than offset by tax credits of R$ 31.0 million (versus R$ 29.4 million in 2018). Excluding these non-recurring effects, expenses for the year would total R$ 513.4 million, an increase of 8.1% versus 2018.

EBITDA AND EBITDA MARGIN

EBITDA for the year reached R$ 264.7 million, 2.0% higher than 2018 with 17.1% of margin, expanding 20 bp. This increase refers to sales growth combined with gross margin expansion, as previously mentioned.

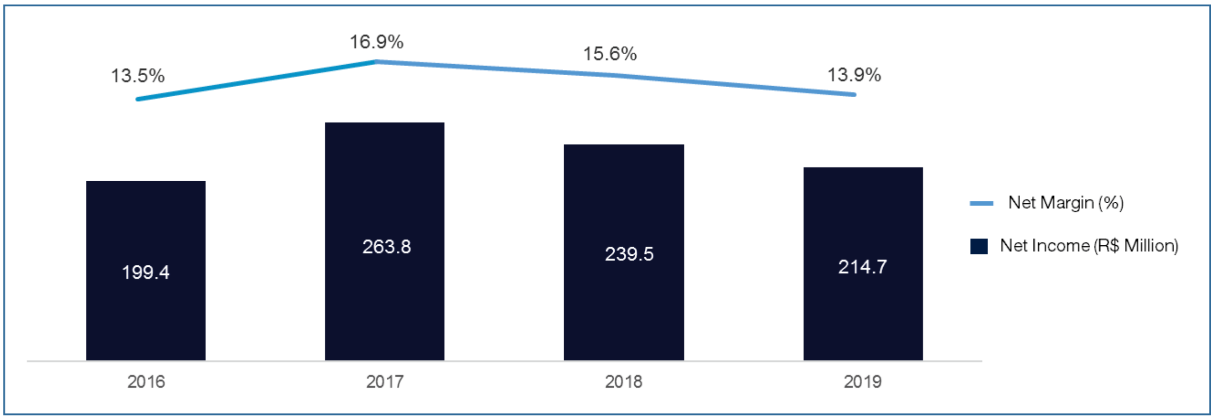
Excluding the impact of IFRS16 (see reconciliation table), EBITDA would total R$ 236.5 million, a 8.9% decrease, reaching 15.3% of EBITDA margin, accounting a 160 bp decrease.



Reconciliation of EBITDA - R$ thousand	2019	2018	VAR. 2019 | 2018
Net Income	214,702	239,514	-10.4%
(+) Income and Social Contribution Tax	(5,775)	(4,351)	32.7%
(-) Net Financial Income	(32,694)	(37,204)	-12.1%
(+) Depreciation and Amortization	88,424	61,598	43.6%
(=) EBITDA	**264,657**	**259,557**	**2.0%**
EBITDA Margin	17.1%	16.9%	20 b.p.

NET PROFIT AND NET MARGIN

In 2019, net income reached R$ 214.7 million, a decline of 10.4% versus 2018 and a margin of 13.9%, a decrease of 170 bp explained by the operating result worsening. Excluding the impact of IFRS16 (see reconciliation table), the net income for the year would total R$ 216.4 million, a 9.6% decline, reaching 14.0% of net margin with a drop of 160 bp.



INVESTMENTS

Investments in 2019 totaled R$ 64.7 million, an increase of 30.4%, notably related to greater investments in industry, with the acquisition of machinery and expansion and adaptation of the structure of plants and stores, after acquisitions, refurbishments and installation of new points of sale.

Investments (R$ Thousands)	2019	2018	VAR. 2019 | 2018
Industrial Plant	27,646	21,411	29.1%
IT	17,803	18,225	-2.3%
Stores	18,931	9,388	101.7%
Others	304	597	-49.1%
Total	64,684	49,621	30.4%

CASH FLOW

In 2019, cash generation was R$ 175.5 million, a decrease of R$ 123.4 million, as a result of greater investment in working capital, notably in inventories and suppliers, due to a term extension program with strategic suppliers carried out throughout 2018.

Cash Flow - Consolidated (R$ thousand)	2019	2018	VAR. 2019 | 2018
EBITDA	**264,657**	**259,557**	**5,100**
No cash items	26,721	16,664	10,057
Lease Effect	(28,158)	-	(28,158)
AVP (Adjustment to Present Value) - Clients and Suppliers	15,092	21,112	(6,020)
Current Income tax and Social Contribution	(3,120)	1,241	(4,361)
Working Capital Capex	**(35,036)**	**49,890**	**(84,926)**
Accounts receivable from clients	3,275	(13,655)	16,930
Inventories	(5,683)	31,114	(36,797)
Accounts payable to suppliers	(20,901)	80,737	(101,638)
Taxes payable	3,570	(6,430)	10,000
Franchisee Financing - Refurbishment plan	(2,635)	1,273	(3,908)
Others	(12,662)	(43,149)	30,487
CapEx	**(64,684)**	**(49,621)**	**(15,063)**
Free Cash Flow	**175,471**	**298,843**	**(123,372)**

SHAREHOLDERS REMUNERATION

The payout for the 2019 year totaled R$ 131.2 million, representing a 61.1% payout ratio of the Company's net income.

Payout Proposal	R$ million	R$ per share[1]	Approved in	Record date	Paid in
Interest on capital	23.0	0.1423	03/27/2019	04/04/2019	04/24/2019
Interest on capital	20.5	0.1268	05/08/2019	06/16/2019	07/05/2019
Dividends	50.0	0.3088	07/31/2019	08/07/2019	09/05/2019
Interest on capital	19.5	0.1200	09/23/2019	09/26/2019	10/23/2019
Interest on capital	18.2	0.1120	12/11/2019	12/16/2019	12/30/2019
Already paid	**131.2**	**0.8099**			
Net Income - Attributable to shareholders	214.7				
Payout ratio	**61.11%**				

[1] Value per share net of treasury shares - when applicable.

BUYBACK PROGRAM

There were no shares repurchased in 2019. The program that authorized the acquisition of up to 1.5 million shares, corresponding to 1.20% of the total free float, ended on 02/05/2020. At a Board of Directors' Meeting held on 02/05/2020, the Board approved a new Buyback program that authorizes the acquisition of up to 1.4 million shares, corresponding to 1.17% of the total free float, effective until 02/05/2021.

EMPLOYEES

In 2019, we carried out a project to review the corporate culture in order to accelerate our organizational transformation process. We started from a historical analysis, since the Company's origin and we complemented this socio-historical analysis with the spirit of the time and the demands of the moment, consolidating a narrative for this new Cia. Hering's cycle.

From it, we defined 5 main values: make it happen, passion for the cause, generate value, build together and entrepreneurial spirit. In this process, we also rethought our organizational purpose: "Make choices easier, make life easier" becomes the purpose that moves us. We trained the entire leadership of the Company in these pillars of value, we disseminated the culture attributes to all employees, we incorporated values as criteria and evaluation variables. This means that our employees will also have their performance measured in relation to the behaviors that reinforce our culture. We ended the year with 5,353 active employees.

CAPITAL BUDGET

The Company presents in the table below, the capital budget for the fiscal year of 2020, according to the Normative Instruction 480/09, published by CVM on December 07, 2009.

Capital budget (R$ Thousands)	2020	2019	VAR. 2020 | 2019
Industrial Plant	8,331	21,528	-61.3%
IT	32,907	17,803	84.8%
Stores	31,171	18,931	64.7%
Others	2,176	6,118	-64.4%
Logistics	3,322	304	992.8%
Total	77,907	64,684	20.4%

INDEPENDENT AUDITORS

Cia. Hering policy with its independent auditors in relation to services not related to external auditing is based on principles that preserve the independence of the auditors. These principles are based on the fact that the auditor should not assess his/her own work, nor carry out managerial functions or even advocate for its customer. During the period ended on December 31, 2019, the Company's independent auditors were not hired for other services beyond the examination of the financial statements of the period.

ARBITRATION CLAUSE

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

AUDIT COMMITTEE REPORT SUMMARY

YEAR ENDED DECEMBER 31, 2019

The Statutory Audit Committee ("Committee") of Cia. Hering ("Company") established on April 29, 2019 per current legislation, is an advisory body and is linked to the Board of Directors.

The Committee's duties are established in its By-Laws, which provides (among others) for the supervision of the internal control and risk management systems, the activities of the Internal Audit and the Independent Auditors, as well as the quality and integrity of the company's financial statements.

THE COMMITTEE'S ACTIVITIES

In 2019, after being created, the Committee held five ordinary meetings, in particular the one that analyzed and assessed the financial statements for the year ended December 31, 2019. In addition to the ordinary meetings, the Committee also held three extraordinary meetings with the Board of Directors to discuss and assess issues related to the Company's management, proposed by the Executive Board.

During this period, the Committee's Coordinator held complementary meetings with company officers and those responsible for Internal Audit and for processing and preparing the financial statements in order to obtain an understanding of the Company's operations and results.

On a quarterly basis, the Committee reported to the Board of Directors on the results of the activities carried out in the period.

The activities carried out by the Committee in the fulfillment of its duties were as follows:

a) Independent Audit – The Committee discussed the audit plan presented for 2019, as well as the audit approach, the examinations and procedures performed and the results attained, as related to the quarterly and annual financial statements for 2019, analyzed and discussed the main weaknesses and recommendations for improvement indicated in the report on internal controls, as well as the respective action plans of the internal areas to resolve issues;
b) Internal Audit – The Committee analyzed the structure of the Internal Audit department, the plan in development for the 2019 audit engagements, and the planning for 2020;
c) Risk Management and Internal Controls/Compliance – The Committee analyzed the process of reviewing and updating the risk matrix, the internal control system, and Compliance-related activities;
d) Main lawsuits – The committee became aware of the main lawsuits, presented by the Legal department, and of the assessment of the Company's respective legal advisors on the forecast of the outcome of the actions, as well as the internal controls maintained to monitor the lawsuits;
e) Code of conduct and complaints Channel – The Committee became aware of the activities carried out by the company's Conduct Committee and the reports registered via the Ethics Channel, as well as several investigations carried out and the measures adopted by the Management; a link was made available to members of the Committee to directly access the Complaints channel and be able to follow the nature, the handling of complaints, and the measures taken.

CONCLUSIONS

Based on the activities developed in the period and the information received from Management and those responsible for the areas of risk management, internal controls, compliance, internal audit and the independent auditors, the Committee believes that:

a) The system of internal controls, risk management and compliance are appropriate to the size and complexities of the company's operations;
b) The structure and engagements carried out by the internal audit are satisfactory;
c) The services provided by the independent auditors are suitable to the Company needs;
d) The accounting practices adopted by the company are in accordance with those adopted in Brazil (BRGAAP) and international standards (IFRS).

ANNUAL FINANCIAL STATEMENTS FOR 2019

The Committee members, in performing their legal duties and responsibilities, as provided for in the Committee By-Laws, reviewed and analyzed the financial statements, accompanied by the respective Management Report and the Independent Auditor's Report, referring to the year ended December 31, 2019, recommend to the Company's Board of Directors to approve said statements.

São Paulo, March 04, 2020

Audit Committee

Walter Lorio - Committee Coordinator

Fabio Colletti Barbosa - Board Member and Committee Member

Patrick Charles Morin Junior - Board Member and Committee Member

Cia. Hering

(Publicly-held company)

Financial statements

December 31, 2019 and 2018

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KPMG Auditores Independentes
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Independent Auditor's Report in the Individual and Consolidated Financial Statements

(A free translation of the original report in Portuguese)

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

Opinion
We have audited the individual and consolidated financial statements of Cia Hering ("the Company"), respectively referred to as Parent Company and Consolidated, which comprise the balance sheet as at December 31, 2019 and the respectively income statement and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Cia Hering as at December 31, 2019, and of its individual and consolidated financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion
We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of deferred tax assets	
See Notes 3.r and 11 of individual and consolidated financial statements	
Key audit matter	**How our audit addressed this matter**
In its financial statements (individual and consolidated), the Company reports deferred tax assets related to tax losses, negative bases of social contribution, and temporary differences, whose recovery is supported by a technical study prepared by Management, and that consider future estimates of generation of taxable income. The preparation of this technical study involves uncertainties relating to assumptions and estimates, such as: revenue growth and profit margins increase in the macroeconomic scenario, considering the current and expected growth in the market segment. Due to uncertainties relayed to assumptions in the process of determining future estimates for generation of taxable income, and to the fact that any material change in these assumptions may result in a material adjustment in balances of assets of individual and consolidated financial statements as a whole, we consider this matter material for our audit.	With the support of our corporate finance specialists, we analyzed the projections of future profits made by the Company, as well as the economic and financial evaluations that underpinned the expectation of revenue growth, income margin and profitability of the parent company contained in these projections. We compared the expected result for generation of future taxable income with the amount limit recorded as deferred tax asset and the consistency with disclosures made in the financial statements. Also, we obtained evidence of approval of the technical study of recoverability of deferred tax assets by the Company's governing bodies. As a result of above-summarized procedures, we consider that deferred tax assets and related disclosures are acceptable in the context of individual and consolidated financial statements taken as a whole.

Provisions, contingent assets and liabilities – tax, labor and civil	
See Notes 3.l and 19 of individual and consolidated financial statements	
Key audit matter	**How our audit addressed this matter**
The Company is party to lawsuits and administrative processes in course before courts and governmental agencies, derived from the normal course of its business, mainly related to use of tax credits and also labor and civil matters. The recognition of assets or liabilities stemming from lawsuits or from decision making with regard to the use of tax credits, requires judgment by the Company and its legal advisors, mainly because there is relevant complexity in Brazilian legislation, antagonistic positions of competent authorities and agencies, and different interpretations on the same topic that may be equally valid. Due to the use of significant judgments regarding the recognition of assets and liabilities arising from lawsuits, and in making decisions about the use of tax credits, or the possibility of changes in external conditions, including the position of tax, labor and tax authorities, plus the fact that these changes may significantly impact the disclosures and amounts recognized in the individual and consolidated financial statements, we consider this matter to be significant for our audit.	With the support of our legal and tax specialists, our audit procedures included, among others, the evaluation of the criteria and judgments used by the Company to classify the risk of loss or success of lawsuits, including those involving tax credits, to be recorded in the financial statements We assessed the criteria and judgments used to classify the risk of loss or success of administrative and lawsuits, including an assessment of the use of tax credits, based on external confirmations received from the Company's internal and external legal advisors and on Brazilian case law and legal opinions, where applicable. We also evaluated of disclosures in notes consider all relevant aspects. As a result of above-summarized procedures, we consider that book records of provisions and tax credits, as well as related disclosures are acceptable in the context of individual and consolidated financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2019, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report
Management is responsible for the other information comprising the management report.

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide to those charged with governance a statement that we have fulfilled the material ethical requirements, including the applicable independence requirements, and reported all the possible relationships or issues that could considerably affect our independence, including, when applicable, the respective disclaimers.

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

Joinville, March 4, 2020

KPMG Auditores Independentes
CRC SC-000071/F-8
Original report in Portuguese signed by
Cristiano Jardim Seguecio
Accountant CRC SP-244525/O-9 T-RS

CIA. HERING

BALANCE SHEETS
DECEMBER 31, 2019 AND DECEMBER 31, 2018
(In thousands of Brazilian Reais - R$)

Assets	Note	Parent company 2019	Parent company 2018	Consolidated 2019	Consolidated 2018
Current assets					
Cash and cash equivalents	5	364,423	319,417	364,824	320,540
Trade accounts receivable	7	441,479	459,052	441,508	459,074
Inventories	9	322,824	320,142	322,824	320,142
Recoverable taxes	10	63,233	77,128	63,239	77,134
Other accounts receivable	8	17,348	10,767	17,348	10,767
Derivative financial Instruments	23.e	1,419	-	1,419	-
Prepaid expenses		2,453	1,665	2,453	1,665
		1,213,179	1,188,171	1,213,615	1,189,322
Noncurrent assets					
Interest-earning bank deposits	6	5,064	4,830	5,064	4,830
Recoverable taxes	10	27,399	16,271	27,399	16,271
Deferred taxes	11	59,041	49,977	59,041	49,977
Trade accounts receivable	7	10,876	8,782	10,876	8,782
Other accounts receivable	8	28,391	17,923	28,391	17,923
Investments in subsidiaries	12	2,448	3,013	-	-
Property, plant and equipment	13	298,511	305,695	298,511	305,695
Intangible assets	14	92,973	111,329	92,973	111,329
Right of use	15	75,903	-	75,903	-
		600,606	517,820	598,158	514,807
		1,813,785	1,705,991	1,811,773	1,704,129

Liabilities	Note	Parent company 2019	Parent company 2018	Consolidated 2019	Consolidated 2018
Current liabilities					
Trade accounts payable	22	187,008	207,909	187,008	207,909
Payroll and related taxes	16	36,337	42,584	36,337	42,584
Taxes in installments		369	976	500	976
Income and social contribution taxes		136	7	136	63
Taxes payable	17	24,690	20,081	24,694	20,092
Provisions for contingencies	19	2,420	2,420	2,420	2,420
Other provisions	19	29,384	32,262	29,384	32,262
Tax incentive obligations	18	3	172	3	172
Interest on equity and dividends payable	24.e	807	40,726	807	40,726
Related parties	20	2,219	2,014	-	-
Derivative financial Instruments	23.e	-	170	-	170
Other accounts payable		17,135	17,499	17,135	17,499
Leases	15	26,779	-	26,779	-
		327,287	366,820	325,203	364,873
Noncurrent liabilities					
Taxes in installments		1,161	1,550	1,233	1,550
Provisions for contingencies	19	12,708	14,309	12,708	14,309
Other provisions	19	104	104	104	104
Employee Benefits	21	5,769	2,499	5,769	2,499
Tax incentive obligations	18	490	633	490	633
Other accounts payable		1,165	-	1,165	85
Leases	15	38,704	-	38,704	-
		60,101	19,095	60,173	19,180
Shareholders' equity	24				
Capital		381,166	369,618	381,166	369,618
Capital reserve		41,480	35,982	41,480	35,982
Treasury shares		(1,551)	(6,372)	(1,551)	(6,372)
Earnings reserve		998,325	914,694	998,325	914,694
Valuation adjustments to equity		6,017	6,786	6,017	6,786
Other comprehensive income		960	(632)	960	(632)
Controlling shareholders		1,426,397	1,320,076	1,426,397	1,320,076
		1,813,785	1,705,991	1,811,773	1,704,129

The notes are an integral part of the financial statements.

CIA. HERING

INCOME STATEMENTS
YEARS ENDED IN DECEMBER 31, 2019 AND 2018
(In thousands of Brazilian Reais - R$)

		Parent company		Consolidated	
	Note	2019	2018	2019	2018
Net operating revenue	26	1,549,159	1,537,300	1,549,159	1,539,568
Cost of goods sold	27	(870,519)	(883,580)	(870,519)	(883,580)
Gross profit		678,640	653,720	678,640	655,988
Operating income (expenses)					
Selling expenses	28	(359,579)	(353,649)	(359,579)	(353,649)
Impairment of accounts receivable	23.a(ii)	(12,197)	(8,524)	(12,197)	(8,524)
Administrative and general expenses	29	(51,778)	(49,137)	(51,971)	(49,211)
Management remuneration	20	(8,802)	(8,943)	(9,190)	(8,951)
Depreciation and amortization		(54,198)	(30,187)	(54,198)	(30,187)
Profit sharing	19	-	(783)	-	(783)
Other net operating income (expenses)	30	(15,250)	(5,287)	(15,272)	(6,724)
Net income before financial results, equity and taxes		176,836	197,210	176,233	197,959
Financial income	31	68,381	71,450	68,450	71,572
Financial expenses	31	(35,835)	(34,550)	(35,756)	(34,368)
Net financial income (expenses)		32,546	36,900	32,694	37,204
Equity in income	12	(455)	816	-	-
Net income before income and social contribution taxes		208,927	234,926	208,927	235,163
Income and contribution taxes - current	32	(3,120)	1,478	(3,120)	1,241
Income and contribution taxes - deferred	32	8,895	3,110	8,895	3,110
Net income for the year		214,702	239,514	214,702	239,514
Allocated to:					
Controlling shareholders		214,702	239,514	214,702	239,514
Earnings per share - R$					
Basic earnings per share	33			1.32710	1.48120
Diluted earnings per share	33			1.30252	1.44760

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED IN DECEMBER 31, 2019 AND 2018
(In thousands of Brazilian Reais - R$)

		Parent company		Consolidated	
	Note	2019	2018	2019	2018
Net income for the year		214,702	239,514	214,702	239,514
Other comprehensive income					
Items that will not be reclassified to profit to the income statement:					
Employees benefits - Private pension plan net of taxes	21	(1,923)	(568)	(1,923)	(568)
		(1,923)	(568)	(1,923)	(568)
Items that can be subsequently reclassified to the income statement:					
Fair value of financial instruments of cash flow hedge net of taxes	23	1,592	(632)	1,592	(632)
		1,592	(632)	1,592	(632)
Comprehensive income		214,371	238,314	214,371	238,314
Total comprehensive income allocated to:					
Controlling shareholders		214,371	238,314	214,371	238,314

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
December 31, 2019 AND 2018
(In thousands of Brazilian Reais - R$)

	Parent Company and Consolidated								
			Profit reserves					Equity valuation adjustment	
	Capital	Capital reserve	Tax incentives	Legal reserve	Profit retention	Treasury shares	Accumulated profit	Other comprehensive income	Total equity
Balances at December 31, 2017	369,618	30,815	703,633	51,462	70,363	-	-	7,021	1,232,912
Actuarial adjustment employee benefits - pension and health plan	-	-	-	-	-	-	-	(568)	(568)
Actuarial gains and losses transfer	-	-	-	-	-	-	(568)	568	-
Stock option plan	-	5,167	-	-	-	-	-	-	5,167
Treasury shares acquired	-	-	-	-	-	(7,080)	-	-	(7,080)
Treasury shares sold	-	-	-	-	27	708	-	-	735
Realization of indexation of PP&E	-	-	-	-	-	-	235	(235)	-
Adjustment financial instruments (outstanding) - hedge accounting	-	-	-	-	-	-	-	(632)	(632)
Net income for the period	-	-	-	-	-	-	239,514	-	239,514
Destinations:	-	-	-	-	-		-	-	-
Legal reserve	-	-	-	5,094	-	-	(5,094)	-	-
Tax incentives reserve	-	-	137,628	-	-	-	(137,628)	-	-
Dividends and interest on shareholders' equity	-	-	-	-	-	-	(69,986)	-	(69,986)
Interest on shareholders' equity	-	-	-	-	-	-	(79,986)	-	(79,986)
Use of profit retention reserve for payment of dividends and interest on shareholders' equity	-	-	-	-	(53,513)	-	53,513	-	-
Balances at December 31, 2018	369,618	35,982	841,261	56,556	16,877	(6,372)	-	6,154	1,320,076
Actuarial adjustment employee benefits - pension and health plan (note 21)	-	-	-	-	-	-	(1,923)	-	(1,923)
Stock option plan (note 25)	-	5,498	-	-	-	-	-	-	5,498
Treasury shares sold (note 24.b)	-	-	-	-	1,571	4,821	-	-	6,392
Realization of indexation of PP&E	-	-	-	-	-	-	769	(769)	-
Adjustment financial instruments - hedge accounting (note 23.e)	-	-	-	-	-	-	-	1,592	1,592
Capital Increase with Tax Incentives Reserves	330	-	(330)	-	-	-	-	-	-
Capital Increase with Stock Option exercise (note 25)	11,218	-	-	-	-	-	-	-	11,218
Net income for the year	-	-	-	-	-	-	214,702	-	214,702
Destinations:	-	-	-	-	-	-	-	-	-
Legal reserve (note 24.d)	-	-	-	3,403	-	-	(3,403)	-	-
Tax incentives reserve (note 24.d)	-	-	146,648	-	-	-	(146,648)	-	-
Dividends and interest on shareholders' equity (note 24.e)	-	-	(49,992)	-	-	-	-	-	(49,992)
Interest on shareholders' equity (note 24.e)	-	-	-	-	-	-	(81,166)	-	(81,166)
Use of profit retention reserve for payment of dividends and interest on shareholders' equity (note 24)	-	-	-	-	(17,669)	-	17,669	-	-
Balances at December 31, 2019	381,166	41,480	937,587	59,959	779	(1,551)	-	6,977	1,426,397

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF CASH FLOWS

YEARS ENDED IN DECEMBER 31, 2019 AND 2018

(In thousands of Brazilian Reais - R$)

		Parent company		Consolidated	
	Note	2019	2018	2019	2018
Cash flows from operating activities					
Net income for the year		214,702	239,514	214,702	239,514
Adjustments to reconcile net income to net cash generated by operating activities:					
Net deferred income and social contribution taxes	32	(8,895)	(3,110)	(8,895)	(3,110)
Monetary, exchange rate and interest variations	15	4,828	2,140	4,828	2,140
Depreciation and amortization	13/14 / 15	56,956	61,598	56,956	61,598
Depreciation and amortization - Leases	15	31,468	-	31,468	-
Provision for doubtful accounts	23	12,197	8,524	12,197	8,524
Write-off of fixed assets	13/14	(170)	1,572	(170)	1,572
Income from write-off of lease and trade fund	15	94	-	94	-
Stock option plan	25	5,498	5,167	5,498	5,167
(Reversal) net of formation of provision for adjustment to realizable value	9	3,001	(1,721)	3,001	(1,721)
(Reversal) net of formation of provisions for contingencies	19	5,744	2,870	5,744	2,870
Employee benefits	21	357	252	357	252
Equity in (loss) income of subsidiaries	12	455	(816)	-	-
Changes in assets and liabilities					
Trade accounts receivable		3,282	(13,930)	3,275	(13,655)
Inventories		(5,683)	31,114	(5,683)	31,114
Recoverable taxes		5,209	(31,315)	5,209	(31,316)
Other assets		(6,994)	2,575	(6,994)	2,576
Accounts payable to suppliers		(20,901)	80,737	(20,901)	80,737
Accounts payable and provisions		(13,427)	(13,123)	(13,512)	(13,136)
Income and social contribution taxes		129	992	73	972
Income and social contribution taxes paid		-	(992)	-	(992)
Taxes payable		3,301	(6,392)	3,497	(6,410)
Dividends received	12	510	548	-	-
Interest paid on loans	15	(4,828)	(3,820)	(4,828)	(3,820)
Net cash provided by operating activities		286,833	362,384	285,916	362,876
Cash flows from investing activities					
Purchase of investments	12	(400)	-	-	-
Purchase of property, plant and equipment	13	(48,663)	(33,341)	(48,663)	(33,341)
Purchase of intangible assets	14	(10,961)	(16,280)	(10,961)	(16,280)
Purchase of rights use assets	15	(5,060)	-	(5,060)	-
Net cash used in investing activities		(65,084)	(49,621)	(64,684)	(49,621)
Cash flows from financing activities					
Capital increase	25	11,218	-	11,218	-
Interest earning bank deposits		(234)	407	(234)	407
Interest on equity and dividends		(171,077)	(109,986)	(171,077)	(109,986)
Payment of principal and interest - Lease	15	(23,247)	-	(23,247)	-
Repayments of loans		-	(25,612)	-	(25,612)
Acquisition of treasury shares	24.b	-	(7,080)	-	(7,080)
Disposal of treasury shares for the stock option plan	24.b	6,392	735	6,392	735
Related parties		205	307	-	-
Net cash used in financing activities		(176,743)	(141,229)	(176,948)	(141,536)
Increase (decrease) in cash and cash equivalents		45,006	171,534	44,284	171,719
Demonstration of the increase (decrease) in cash and cash equivalents					
At the beginning of the year		319,417	147,883	320,540	148,821
At the end of the year		364,423	319,417	364,824	320,540
		45,006	171,534	44,284	171,719

The notes are an integral part of the financial statements.

CIA. HERING

STATEMENT OF ADDED VALUE
YEARS ENDED IN DECEMBER 31, 2019 AND 2018
(In thousands of Brazilian Reais - R$)

	Parent company		Consolidated	
	2019	2018	2019	2018
Revenues				
Products sold (gross revenue)	1,815,626	1,804,410	1,815,626	1,806,814
Provision for doubtful accounts	(12,197)	(8,524)	(12,197)	(8,524)
	1,803,429	1,795,886	1,803,429	1,798,290
Inputs acquired from third parties (including ICMS and IPI)				
Raw materials consumed	(315,426)	(304,014)	(315,426)	(304,150)
Costs of goods sold	(267,909)	(289,373)	(267,909)	(289,373)
Materials, power, third-party services and other operating expenses	(455,553)	(442,048)	(456,052)	(443,620)
	(1,038,888)	(1,035,435)	(1,039,387)	(1,037,143)
Retentions				
Depreciation and amortization	(88,424)	(61,598)	(88,424)	(61,598)
Net added value created by the Company	676,117	698,853	675,618	699,549
Value added received in transfer				
Equity in income (loss) of subsidiaries	(455)	816	-	-
Financial income	68,381	71,450	68,450	71,572
Rent	24	156	24	156
	67,950	72,422	68,474	71,728
Total added value to be distributed	744,067	771,275	744,092	771,277
Distribution of added value				
Employees				
Direct compensation	237,818	211,642	237,818	211,642
Benefits	26,803	25,683	26,803	25,683
Severance Fund (FGTS)	15,070	15,466	15,070	15,466
	279,691	252,791	279,691	252,791
Taxes				
Federal	139,156	142,471	139,156	142,709
State	47,488	50,066	47,488	50,066
Municipal	2,051	2,122	2,051	2,122
	188,695	194,659	188,695	194,897
Financiers				
Interest	4,828	2,140	4,828	2,140
Rent	26,976	54,023	26,976	54,023
Others	29,175	28,148	29,200	27,912
	60,979	84,311	61,004	84,075
Equity capital				
Interest on shareholder's equity	81,166	79,986	81,166	79,986
Dividends	-	69,986	-	69,986
Retained earnings	133,536	89,542	133,536	89,542
	214,702	239,514	214,702	239,514
Total added value distributed	744,067	771,275	744,092	771,277

The notes are an integral part of the financial statements.

1 General information

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

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

2 Preparation basis

(a) Statement of compliance

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

This financial statement is presented in thousands of Reais and were authorized for conclusion by Management on March 04, 2020.

All relevant information specific to the financial information, and only such information, is being evidenced, and corresponds to the information used in management.

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

(b) Measurement basis

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

(c) Functional currency and reporting currency

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

(d) Use of estimates and judgments

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

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

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

Note 11 – Realization of deferred income tax
Note 13 – Useful life of fixed assets
Note 19 – Provision for risk and other provisions
Note 15 – Classification and recording of lease agreements
Note 23 – Risk management and financial instruments

3 Significant accounting policies

(a) Consolidation basis

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

		Participation (%)	
	País	**2019**	**2018**
HRG Comércio do Vestuário e Intermediação de Serviços Financeiros Ltda.	Brasil	99.99	99.99
Hering Internacional SAFI	Uruguai	100.00	100.00

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

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

- The Company includes in its consolidation all subsidiaries in which the parent company, directly or indirectly, has significant influence to ensure its shareholders permanent and predominant power to elect the majority of directors.

- All intra-group balances, and unrealized income, expenses, gains and losses arising from intragroup transactions are eliminated in full.

- Removal of portions of the results, retained earnings or losses and the cost of inventories or non-current assets that match results, not yet achieved, of business between the companies.

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

(b) Foreign currency

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

(c) Financial instruments

(i) Non-derivative financial assets

Recognition and measurement

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

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

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

The financial assets held by the Company as of December 31, 2019 are classified as follows:

Amortized cost

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

(ii) Non-derivative financial liabilities

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

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

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

(iii) Derivative financial liabilities

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

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

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

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

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

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

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

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

Note 23 includes more detailed information on derivative financial instruments.

(d) Cash and cash equivalents

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

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

(e) Trade accounts receivable

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

(f) Inventories

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

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

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

(i) Recognition and measurement

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

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

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

(ii) Depreciation

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

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

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

Description	**Average useful life (years)**
Buildings and improvements	31.26
Facilities and production equipament	10.04
Furniture and fixtures	6.21
Computer and peripherals	4.67
Vehicles	4.53
Leasehold improvements	7.27

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

(iii) Subsequent costs

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

(h) Intangible assets

(i) Recognition and measurement

The Company has brands and patents and software recognized as intangible assets. The value of trademarks and patents refers to the registration of the Company's trademarks with national entities and competent international institutions, which are amortized according to the validity period of the records. The value software, refers to software acquired from third parties and generated internally that is amortized for the useful life defined in the appraisal report. All have defined useful lives and are measured at cost, less accumulated amortization and impairment losses accumulated.

(ii) Amortization

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

The useful estimated lives are as follows:

Description	Average useful life (years)
Trademarks and patents	10.00
Software licenses	8.48

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

(iii) Subsequent expenditures

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

(i) Impairment

(i) Financial assets

Financial assets are valued at initial recognition based on a study of expected losses (when applicable) and when there is evidence of an impairment loss. Any asset will have a loss in its recoverable amount if objective evidence indicates that a loss event occurred after the initial recognition such asset, and that such loss event has had a negative effect on projected future cash flows that can be estimated in a reliable way.

The objective evidence that financial assets lost value can include the non-payment or delay in payment by the debtor, the restructuring of the amount due the company under condition that the company would not consider other transactions or indications that the debtor or issuer will enter bankruptcy proceedings.

Provisions for losses on trade accounts receivable are measured at an amount equal to the expected credit loss for the entire life of instrument.

An impairment with respect to a financial asset measured at amortized cost is calculated as the difference between the book and present value of estimated future cash flows discounted at the original effective interest rate of asset. Losses are recognized in the result and reflected in an account of a provision against receivables. The interest on the assets that lost value continue to be recognized through the discount reversal. When a subsequent event indicates reversal of loss of value, the reduction in the loss of value is reversed and recorded in the income (loss).

(ii) Non-financial assets

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

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

(j) rights to use assets and leases

The Company adopted CPC 06 (R2) / IFRS 16 - Leases starting on January 01, 2019. The effects stemming from the adoption of this pronouncement are presented in Note 3.v.

(i) Leasing

The new accounting policy, applicable starting on January 01, 2019, introduces a single model of accounting for leases on the balance sheet for lessees, where – at the inception of the contract – the Company assesses whether the contract is, or contains, a lease.

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

A lessee recognizes a right of use asset, which represents its right to use the leased asset, and a lease liability, which represents its obligation to make lease payments.

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

The lease liability is initially measured at the present value of the payments yet to be made, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, by the incremental loan rate.

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

Operating lease agreements are recognized as an expense over the lease period.

(ii) Trade Fund

The trade fund refers to the registration of the commercial points of the own stores which are amortized over the term of the contracts. The trade fund amortization is calculated on cost and is recognized in the income statement based on the linear method in relation to the useful life estimated, from the date they are available for use. The useful life of the trade fund is estimated at 5 years, being reviewed at each year-end and adjusted if necessary.

(k) Employee benefits

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

(i) Defined benefit plans

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

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

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

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

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

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

(ii) Other long-term benefits to employees

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

(iii) Short-term benefits to employees

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

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

(iv) Stock options plan transactions

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

(l) Provisions

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

(m) Adjustment to present value

Fixed purchase and sale transactions in installments were brought to present value on transactions date, based on deadlines and at the rate of 0.57% p.m. and 0.60% p.m., respectively. These rates represent SELIC rate for the period in purchase transactions and discount rate in early payment of sale transactions. No assumptions were made that took into account credit risk factors or other risks, because the Company uses a simplified model and because of the operations' characteristics. The average days sales outstanding is 85 days and the average days payable outstanding is 68 days.

The adjustment to present value of purchases is recorded to trade payables and charged to financial income/loss, over the duration of the term in the case of trade payables. The adjustment to present value of credit sales is charged to trade receivables and the realization thereof is recorded under financial income/loss over the duration of the term.

(n) Capital

(i) Common Shares

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

(ii) Treasury Shares

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

(o) Operating income - Sale of goods

The Company has the practice of recognizing its revenues, taking into account the assessment of the following steps: (i) Identify the contract with the customer; (ii) Identify performance obligations in the contract; (iii) Determine the price of the transactions; (iv) Allocating the price of the transaction to the performance obligations; (v) Recognize revenue when performance obligations are met.

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

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

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

(p) Government grants and assistance

Government grants and assistance are recognized when there is reasonable assurance that the terms and conditions set forth by the granting governments have been fulfilled and are calculated and recorded in accordance with the contracts, agreements and legislation applicable to each incentive, as described in note18. The effects on income are recorded on the accrual basis of accounting, where gains are recorded in the group of sales deductions (taxes levied) and cost of goods sold, against current liabilities.

(q) Financial income and expenses

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

Financial expenses include interest expenses on borrowings, financial charges on taxes and adjustment to present value. These interest expenses and revenue are recognized in profit or loss. The Company also has an expense from foreign exchange, which is also accounted for directly in profit or loss.

Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are accounted for in profit or loss using the effective interest rate method.

During the period of December 31, 2019, there was no capitalization of interest on loans.

(r) Income and social contribution taxes

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

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

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

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

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

(s) Income per share

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

(t) Segment information

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

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

(u) Statement of Added Value

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

(v) Changes in key accounting policies

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

CPC 06 (R2), in connection with IFRS 16, introduced new rules for leases, requiring lessees to begin recognizing the liability for future payments and the right to use the leased asset for practically all lease contracts; however, optional exemptions were created for short-term, low-value leases.

The Company applied CPC 06 (R2)/IFRS 16 starting January 01, 2019, using the modified retrospective approach; therefore, the comparative information has not been republished and continues to be reported according to the previous standard.

The Company applied the practical expedient with respect to the definition of the lease contract in the transition. This means that CPC 06 (R2)/IFRS 16 was used for all contracts entered into prior to January 01, 2019 that were identified as leases according to CPC 06 (R1)/IAS 17 and ICPC 03/IFRIC 4.

This standard impacted the recording of leasing and operational leasing operations for company-owned stores, distribution centers and administrative buildings, being recognized as follows: (i) for the right to use the object of the leases, an asset; (ii) for the payments established in the contracts, brought to present value, a liability; (iii) expenses on depreciation/amortization of assets; and (iv) financial expenses on interest on the lease liability. The Company previously recognized a straight-line operating lease expense during the lease term.

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

Impact on the Consolidated Balance Sheet

December 31, 2019 (In thousands of Brazilian Reais - R$)	According Introduced	settings	Ref.	Values without the adoption of CPC 06 / IFRS 16
Assets				
Current assets	**1,213,615**	**-**		**1,213,615**
Noncurrent assets	**598,158**	**(63,746)**		**534,412**
Other	429,282	-		429,282
Intangible assets	92,973	12,157	(a)	105,130
Right of use	75,903	(75,903)	(a)/(b)	-
Total Assets	**1,811,773**	**(63,746)**		**1,748,027**
Liabilities				
Current liabilities	**325,203**	**(26,779)**		**298,424**
Other	298,424	-		298,424
Leases	26,779	(26,779)	(b)	-
Noncurrent liabilities	**60,173**	**(38,704)**		**21,469**
Others	21,469	-		21,469
Leases	38,704	(38,704)	(b)	-
Shareholders' equity	**1,426,397**	**1,737**		**1,428,134**
Other	1,294,015	-		1,294,015
Accumulated income	132,382	1,737	(c)	134,119
Total Liabilities	**1,811,773**	**(63,746)**		**1,748,027**

Impact on the Consolidated Income Statement

01/01/2019 à 12/31/2019 (In thousands of Brazilian Reais - R$)	According Introduced	settings	Ref.	Values without the adoption of CPC 06 / IFRS 16
Net operating revenue	1,549,159	-		1,549,159
Cost of goods sold	(870,519)	(303)		(870,822)
Operating income (expenses)	(448,209)	(24,725)		(472,934)
Depreciation and amortization	(54,198)	21,937		(32,261)
Net financial income	32,694	4,828		37,522
Income and contribution taxes	5,775	-		5,775
Net income for the period	**214,702**	**1,737**	**(c)**	**216,439**

Impact on the Statement of Cash Flows

01/01/2019 à 12/31/2019 (In thousands of Brazilian Reais - R$)	According Introduced	settings	Values without the adoption of CPC 06 / IFRS 16
Cash flows from operating activities			
Net income for the period	214,702	1,737	216,439
Depreciation and amortization	88,424	(25,067)	63,357
Others	22,655	(4,745)	17,910
Changes in assets and liabilities	(39,865)	-	(39,865)
Net cash provided by operating activities	**285,916**	**(28,075)**	**257,841**
Net cash used in investing activities	**(64,684)**	-	**(64,684)**
Cash flows from financing activities			
Other	(153,701)	-	(153,701)
Payment of principal and interest - Lease	(23,247)	28,075	4,828
Net cash used in financing activities	**(176,948)**	**28,075**	**(148,873)**
Increase (decrease) in cash and cash equivalents	**44,284**		**44,284**
At the beginning of the year	320,540		320,540
At the end of the year	364,824		364,824
Increase (decrease) in cash and cash equivalents	**44,284**		**44,284**

(a) Refers to the reclassification of the Intangible Trade Fund to the Right to Use Assets.
(b) Refers to the recognition of leasehold assets and lease liabilities of lease agreements defined as leases in accordance with IFRS 16 / CPC 06 (R2). Explanatory note 15.
(c) The adjustment refers to the impact on net income of the adoption of the new standard that changes the accounting method of lease contracts classified as lease. Previously, the minimum contractual amount of rent was recorded as an expense and as of January 1, 2019 recorded as assets and liabilities adjusted to present value. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under depreciation and amortization, and the value of the liability is adjusted by the interest incurred and the amount recorded under the heading of financial expenses. The variable amount referring to the lease contracts, remain recorded as operating expense.

4 Determination of the fair value

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

(i) Trade accounts receivable and other credits

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

(ii) Non-derivative financial assets and liabilities

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

(iii) Derivative financial assets and liabilities

Foreign exchange futures contracts are measured at fair value.

(iv) Share-based plan, liquidated in shares

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

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

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

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

5 Cash and cash equivalents

	Parent company		Consolidated	
Current assets	**2019**	**2018**	**2019**	**2018**
Cash and banks	25,317	34,639	25,718	35,762
Cash and banks/foreign currency	3,258	6,546	3,258	6,546
Financial investments:				
Fixed Income – Bank Deposit Certificate CDB	335,848	278,232	335,848	278,232
	364,423	319,417	364,824	320,540

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

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

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

6 Interest-earning bank deposits restricted

The Company maintains in its own bank account, the amount of R$ 5,064 (R$ 4,830 on December 31, 2018) of investments in Bank Deposit Certificates (CDB), earning interests from 99.00% of CDI, which will be held until maturity, are related to the Hering-Prev Benefit Plan, to tackle the resulting deficit existing in the plan existing in the plan, as determined by the legislation.

7 Trade accounts receivable

	Parent company		Consolidated	
Current	**2019**	**2018**	**2019**	**2018**
Domestic market	454,788	470,638	454,817	470,660
Foreign market	16,523	15,232	16,523	15,232
	471,311	485,870	471,340	485,892
Adjustments to present value	(5,542)	(6,225)	(5,542)	(6,225)
Expected credit losses	(24,290)	(20,593)	(24,290)	(20,593)
	(29,832)	(26,818)	(29,832)	(26,818)
	441,479	459,052	441,508	459,074
Non Current				
Domestic market	10,876	8,782	10,876	8,782
	452,355	467,834	452,384	467,856

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

	Parent company and consolidated	
	2019	**2018**
Balance at beginning of period	(6,225)	(6,412)
Additions	(33,768)	(36,057)
Write-offs	34,451	36,244
Balance at end of period	(5,542)	(6,225)

The adjustment to present value will be realized according to the accounts receivable maturity date, which is 85 days on average.

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

8 Other accounts receivable

Current	Parent company and Consolidated	
	2019	2018
Advance to domestic suppliers	28	372
Advance to employees	3,023	3,591
Trade accounts receivable refurbishment plan Franchisee	6,091	6,668
Accounts receivable sale of fixed assets (a)	5,556	-
Other	2,650	136
	17,348	10,767

Noncurrent	Parent company and Consolidated	
	2019	2018
Fomentar	838	838
Judicial deposits - tributaries	8,131	2,596
Judicial deposits - Labor and Civil	11,602	12,538
Accounts receivable sale of fixed assets (a)	5,400	-
Other	2,420	1,951
	28,391	17,923

(a) The most relevant values of this line, in the short and long term, refer to sales of Encano units Ibirama and Rodeio / SC, whose part of the amount was received in October and November 2019 and the remaining balance in 30 months without future monetary updates.

9 Inventories

	Parent company and Consolidated	
	2019	2018
Finished goods	137,743	123,745
Resale goods	64,677	69,662
Work in process	64,064	65,586
Inventories held by third parties	17,610	17,333
Raw materials	43,425	30,999
Imports in transit	11,763	26,274
Provision for adjustment to realizable value	(16,458)	(13,457)
	322,824	320,142

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

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

	Parent company and consolidated	
	2019	2018
Balance at beginning of period	(13,457)	(15,178)
Constitution of provision	(14,962)	(6,628)
Reversal of provision by sale	11,961	8,349
Balance at end of period	(16,458)	(13,457)

No inventories have been pledged as collateral.

10 Recoverable taxes

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

	Parent Company		Consolidated	
Current	**2019**	**2018**	**2019**	**2018**
IPI	1,086	430	1,086	430
ICMS to recover (State VAT) (a)	40,241	40,392	40,241	40,392
ICMS to recover (PP&E)	1,924	1,722	1,924	1,722
IRPJ and CSLL to offset (b)	4,817	18,599	4,817	18,599
INSS to recover (c)	4,391	6,592	4,391	6,592
Withholding Income Tax (IRRF) to offset	3,657	2,571	3,657	2,571
PIS and COFINS to recover (d)	4,069	5,034	4,069	5,034
PIS and COFINS with fixed assets	532	-	532	-
Other	2,516	1,788	2,522	1,794
	63,233	77,128	63,239	77,134

	Parent Company and Consolidated	
Noncurrent	**2019**	**2018**
IPTU (e)	2,424	2,424
ICMS to recover (State VAT) (a)	12,973	5,853
ICMS to recover (PP&E)	3,519	3,517
Withholding Income Tax (IRRF) to offset	395	1,343
PIS and COFINS with fixed assets	4,778	-
Other	3,310	3,134
	27,399	16,271

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

(b) IRPJ and CSLL to offset – The Company paid IRPJ and CSLL with based on the balance sheet of suspension and reduction in 2017 and 2018. Prepayments higher than the value calculated in the year. The amounts collected in the period were reverted to this item for purposes of compensation with income tax and social contribution due in future periods of calculation. Amounts to be determined, referring to the base period 2017, were consumed in 2019.

(c) INSS to recover - The Company carried out a credit check for the social security contribution that was improperly collected on the discounted amounts of payrolls as transportation vouchers and meal vouchers from June 2013 to July 2018 and FAP overpaid in April 2014 until December 2015. In 2019, a new complementary credit of R$ 10,777 was recognized, of which R$ 8,320 of principal and R$ 2,457 of monetary restatement. In 2019, the amount of R$ 8,210 was used to offset the credits raised. The balance of R$ 4,391 will be offset against INSS debits from future periods.

(d) PIS and COFINS recoverable – The Company conducted a PIS and COFINS credit survey in 2019, in the amount of R$ 24,286, referring to essential expenses not previously credited, part of this offset credit in the period.

(e) Property tax (IPTU) - In 2006, the Company recorded a credit in connection with IPTU tax after winning a common lawsuit in connection with the unconstitutional requirement of a progressive IPTU tax for the period from 1999 to 2003, definitely judged on October 9, 2006. The balance adjusted for inflation until December 31, 2019 amounted to R$ 2,424, a sum that awaits in the line of court payment sentences at the town hall in favor of the Company.

11 Deferred taxes

(a) Breakdown

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

	Parent company and Consolidated	
Assets	**2019**	**2018**
Tax Losses and Negative Basis	31,256	23,140
Adjustments to present value - clients and suppliers	1,127	1,072
Provision for contingencies	5,143	5,688
Impairment of accounts receivable	8,259	7,002
Provision for administrative expenses	1,278	1,953
Profit sharing provision - PPR	24	24
Provision for commercial expenses	2,887	2,823
Provision for variable selling expenses	5,381	5,600
Provision for slow moving inventories	4,741	4,235
Actuarial liabilities employee benefits	1,961	850
Exchange gains and losses (net)	190	201
Other temporary differences	727	781
Total assets	62,974	53,369
Liabilities		
Taxes on indexation of PP&E	(3,101)	(3,496)
Taxes on hedge accounting	(495)	326
Other temporary differences	(337)	(222)
Total liabilities	(3,933)	(3,392)
Total Net	59,041	49,977

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

The tax credit registration is supported by the future business plan prepared by the Company's Management, which were approved by the Board of Directors at a meeting held on December 12, 2019. The plan demonstrates that the Company will determine taxable income in future years, in amounts considered sufficient by Management to realize such amounts. In order to prepare projections of future taxable income, the Company uses assumptions in line with its corporate strategies, such as revenue growth and profit margins increase in the macroeconomic scenario, considering current and past performance and expected growth in the market for performance. Under this business plan, such credits will be realized up to the year 2024.

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

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

2020	22,324
2021	19,787
2022	11,282
2023	4,990
2024 so on	4,591
	62,974

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

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

	Parent company and Consolidated						
Assets	**2017**	**Recognized in the income statement**	**Recognized in other comprehen-sive results**	**2018**	**Recognized in the income statement**	**Recognized in other comprehen-sive results**	**2019**
Tax Losses and Negative Basis	11,957	11,183	-	23,140	8,116	-	31,256
APV - Clients and Suppliers	1,813	(741)	-	1,072	55	-	1,127
Actuarial liabilities employee benefits	472	86	292	850	121	990	1,961
Temporary provisions	35,396	(7,290)	-	28,106	334	-	28,440
Exchange gains and losses (net)	310	(109)	-	201	(11)	-	190
	49,948	3,129	292	53,369	8,615	990	62,974
Liabilities							
Taxes on indexation of PP&E	(3,616)	120	-	(3,496)	395	-	(3,101)
Taxes on hedge accounting	-	-	326	326	-	(821)	(495)
Other temporary differences	(83)	(139)	-	(222)	(115)	-	(337)
	(3,699)	(19)	326	(3,392)	280	(821)	(3,933)
Total net	46,249	3,110	618	49,977	8,895	169	59,041

12 Investments in subsidiaries

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

	HRG Com. Vest. Interm. de Serviços Finan. Ltda.	Hering Internac. S.A – SAFI	2019	2018
Current and noncurrent assets total	594	2,060	2,654	3,164
Current and noncurrent liabilities total	206	-	206	151
Shareholders' equity	388	2,060	2,448	3,013
Net income for the year	-	-	-	2,268
Result for the year	(506)	(35)	(541)	524
Interest in capital (%)	99.99%	100.00%		
Balance at the beginning of the year	1,000	2,013	3,013	2,745
Capital increased	400	-	400	-
Dividends	(510)	-	(510)	(548)
Equity in subsidiaries	(502)	47	(455)	816
Equity method investment	388	2,060	2,448	3,013

13 Property, plant and equipment

(a) Changes in cost and in depreciation

	Parent Company and Consolidated								
	2017	Additions	Transfer	Write-off	2018	Additions	*Transfer	Write-off	2019
Cost:									
Buildings and improvements	127,305	30	91	(31)	127,395	30	760	(11,691)	116,494
Facilities and prod. equipament	253,277	7,059	17,154	(6,658)	270,832	17,903	12,398	(17,583)	283,550
Furniture and fixtures	41,444	3,207	26	(799)	43,878	2,500	54	(3,811)	42,621
Computer and peripherals	44,548	4,230	148	(689)	48,237	4,299	300	(2,847)	49,989
Vehicles	2,614	230	-	(411)	2,433	111	-	(595)	1,949
Leasehold improvements	65,022	15	5,751	(283)	70,505	256	2,958	(1,576)	72,143
Lands	29,011	30	-	(46)	28,995	-	-	(1,357)	27,638
Construction in progress	22,690	18,540	(23,170)	(848)	17,212	23,564	(18,912)	(202)	21,662
	585,911	33,341	-	(9,765)	609,487	48,663	(2,442)	(39,662)	616,046
Depreciation:									
Buildings and improvements	(36,364)	(4,055)	-	21	(40,398)	(4,019)	-	4,964	(39,453)
Facilities and prod. equipament	(138,914)	(18,041)	-	6,169	(150,786)	(18,451)	-	14,959	(154,278)
Furniture and fixtures	(26,316)	(4,764)	-	724	(30,356)	(4,493)	-	3,046	(31,803)
Computer and peripherals	(33,448)	(5,174)	-	679	(37,943)	(5,030)	-	2,745	(40,228)
Vehicles	(2,069)	(198)	-	354	(1,913)	(208)	-	561	(1,560)
Leasehold improvements	(33,348)	(9,294)	-	246	(42,396)	(9,113)	-	1,296	(50,213)
	(270,459)	(41,526)	-	8,193	(303,792)	(41,314)	-	27,571	(317,535)
Net:									
Buildings and improvements	90,941	(4,025)	91	(10)	86,997	(3,989)	760	(6,727)	77,041
Facilities and prod. equipament	114,363	(10,982)	17,154	(489)	120,046	(548)	12,398	(2,624)	129,272
Furniture and fixtures	15,128	(1,557)	26	(75)	13,522	(1,993)	54	(765)	10,818
Computer and peripherals	11,100	(944)	148	(10)	10,294	(731)	300	(102)	9,761
Vehicles	545	32	-	(57)	520	(97)	-	(34)	389
Leasehold improvements	31,674	(9,279)	5,751	(37)	28,109	(8,857)	2,958	(280)	21,930
Lands	29,011	30	-	(46)	28,995	-	-	(1,357)	27,638
Construction in progress	22,690	18,540	(23,170)	(848)	17,212	23,564	(18,912)	(202)	21,662
	315,452	(8,185)	-	(1,572)	305,695	7,349	(2,442)	(12,091)	298,511

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

(b) Useful life review

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

(c) Assets pledged as collateral and pledge

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

(d) Impairment of assets

The recoverable value of fixed assets is analyzed, at least, once a year, and for the period ended December 31, 2019, Management did not find the need for formation of provision for the recoverable value of the asset.

14 Intangible assets

(a) Changes in cost and in amortization

	Parent Company and Consolidated								
	2017	Additions	Transfer	Write-off	2018	Additions	*Transfer	Write-off	2019
Cost:									
Trademarks and patents	2,952	-	-	-	2,952	-	-	-	2,952
Right to use properties	65,224	301	-	(794)	64,731	-	(64,731)	-	-
Software	131,656	3,625	5,165	(92)	140,354	638	23,422	(259)	164,155
Intangible assets in progress software	12,930	12,354	(5,165)	-	20,119	10,323	(23,422)	-	7,020
	212,762	16,280	-	(886)	228,156	10,961	(64,731)	(259)	174,127
Amortization:									
Trademarks and patents	(2,542)	(94)	-	-	(2,636)	(84)	-	-	(2,720)
Right to use properties	(44,556)	(7,294)	-	794	(51,056)	-	51,056	-	-
Software	(50,543)	(12,684)	-	92	(63,135)	(15,558)	-	259	(78,434)
	(97,641)	(20,072)	-	886	(116,827)	(15,642)	51,056	259	(81,154)
Net:									
Trademarks and patents	410	(94)	-	-	316	(84)	-	-	232
Right to use properties	20,668	(6,993)	-	-	13,675	-	(13,675)	-	-
Software	81,113	(9,059)	5,165	-	77,219	(14,920)	23,422	-	85,721
Intangible assets in progress software	12,930	12,354	(5,165)	-	20,119	10,323	(23,422)	-	7,020
	115,121	(3,792)	-	-	111,329	(4,681)	(13,675)	-	92,973

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

(b) Useful life review

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

(c) Impairment of intangible assets

Intangible assets are tested for impairment at least on an annual basis. For the period ended December 31, 2019, recording a provision for impairment loss on intangible assets was not deemed necessary by Management.

15 Right to use assets and leasing

(a) Right to use assets

In the initial adoption, the measurement of the right-of-use asset corresponds to the initial value of the lease liability. Depreciation is calculated using the straight-line method, according to the term of the contracts.

(i) Composition and movement

	Parent Company and Consolidated				
	Averege term (years)	**01/01/19**	**Additions**	**Write-off**	**2019**
Cost:					
Store		64,176	13,983	(6,751)	71,408
Distribution center		5,154	750	-	5,904
Buildings		5,307	4,706	-	10,013
Trade fund		64,731	5,060	(2,194)	67,597
		139,368	24,499	(8,945)	154,922
Depreciation:					
Store	2 to 5	-	(20,650)	1,488	(19,162)
Distribution center	2	-	(2,993)	-	(2,993)
Buildings	5	-	(1,424)	-	(1,424)
Trade fund	5	(51,056)	(6,401)	2,017	(55,440)
		(51,056)	(31,468)	3,505	(79,019)
Net:					
Store		64,176	(6,667)	(5,263)	52,246
Distribution center		5,154	(2,243)	-	2,911
Buildings		5,307	3,282	-	8,589
Trade fund		13,675	(1,341)	(177)	12,157
		88,312	(6,969)	(5,440)	75,903

The Right to use assets is tested for impairment at least on an annual basis. For the period ended December 31, 2019, recording a provision for impairment loss on intangible assets was not deemed necessary by Management.

(b) Leasing

As of December 31, 2019, the Company had 73 lease agreements (75 on December 31, 2018) for its commercial, industrial and administrative units, which were classified as operating leases. Some of these contracts provide for a variable lease expense, applied on sales, the amount of which remains recorded according to the reporting period of the expense.

For contracts that were within the scope of the standard, we considered – as a component of lease liabilities – the amount of future fixed rent payments (net of taxes), discounted at a nominal interest rate.

Upon initial adoption of IFRS 16/CPC 06 (R2), the weighted average discount rate used was 7.5% p.a.

(i) Composition and movement

	Parent Company and Consolidated					
	01/01/19	Additions	Payment of principal and interest	Interest	Write-off	2019
Store	64,176	13,983	(23,552)	4,218	(5,346)	53,479
Distribution center	5,153	750	(1,738)	319	-	4,484
Buildings	5,308	4,706	(2,785)	291	-	7,520
	74,637	19,439	(28,075)	4,828	(5,346)	65,483
					Current liabilities	26,779
					Noncurrent liabilities	38,704

(ii) Realization estimate

	Leases	Interest	Present value of Leases
2.020	30,391	(3,819)	26,572
2.021	19,851	(2,205)	17,646
2.022	14,392	(1,055)	13,337
2023 so on	8,222	(294)	7,928
Net December 31, 2019	**72,856**	**(7,373)**	**65,483**

(iii) Additional Information

To measure the lease liability, the Company adopted the nominal interest rate. For disclosure purposes, according to CVM Circular Letter 01/2020, we measured the value of the lease liability using nominal flow versus nominal rate. The difference between the calculation method for accounting (real flow versus nominal rate) and the form imposed by the CVM for disclosure (nominal flow versus nominal rate) is considered by the Company to be immaterial. On December 31, 2019, using the real cash flows as a basis, the value of the Company's lease liabilities would be R$ 72,257.

Upon initial adoption of IFRS 16 / CPC 06 R (2), the Company understood that the value used to measure the lease liability should be net of taxes (PIS and COFINS). In view of CVM's statement, where it mentions that the value considered for calculation must be gross, the Company surveyed the amounts and considered the difference immaterial.

16 Payroll and related taxes

	Parent Company and Consolidated	
	2019	**2018**
Payroll	8,003	9,372
Vacation	14,532	17,344
INSS	9,621	10,966
FGTS	2,857	3,129
Others	1,324	1,773
	36,337	42,584

17 Taxes payable

	Parent company		**Consolidated**	
Current	**2019**	**2018**	**2019**	**2018**
ICMS on sales (VAT)	10,712	12,626	10,712	12,626
PIS and COFINS	9,262	3,051	9,262	3,051
Withholding Income Tax (IRRF)	2,776	2,585	2,776	2,585
Goiás Protege Fund	1,297	1,315	1,297	1,315
Others	643	504	647	515
	24,690	20,081	24,694	20,092

18 Tax incentives

The Company has the tax incentives described below, for which we present the following amounts recorded in the income statement in the period.

	Parent company and Consolidated			
	Deductions		Costs of goods or services sold	
	2019	2018	2019	2018
Crédito outorgado Lei do Vestuário (GO) (a)	105,433	101,277	15,918	15,438
Crédito outorgado Atacadista (GO) (b)	1,356	1,519	173	246
Produzir (c)	5,262	-	-	-
PROADI - RN (d)	-	-	855	2,931
PROEDI - RN (e)	-	-	1,920	-
TTD - Tratamento Tributário Diferenciado (SC) (f)	10,165	11,307	958	838
Crédito Presumido Internet (SC) (g)	4,608	4,071	-	-
	126,824	118,174	19,824	19,453

(a) Crédito outorgado Lei do Vestuário (GO), which grants garment manufacturers and their wholesale establishments a presumed credit of 12% on the value of interstate operations (sales and transfers) and 10% on the value of operations in the state of Goiás, with articles manufactured by the establishment itself, whether intended for industrialization or intended to be marketed. Such credit is conditional upon the prohibition of the use of ICMS tax credits on incoming raw materials and inputs consumed in the production process, as well as contribution to the Goiás State Social Protection Fund (PROTEGE GOIÁS) in the amount of 15% applied on the difference between the amount of tax calculated by applying full taxation and the amount calculated by using tax benefit. This incentive is valid through December 31, 2032, as established by Supplementary Law.

(b) Crédito outorgado Atacadista (GO), grants wholesale establishments a presumed credit of 3% on the value of interstate transactions (sales and transfers) of goods acquired for resale, destined for commercialization or industrialization. Such credit is conditional on the contribution to the Social Protection Fund of the State of Goiás - PROTEGE GOIÁS, in the amount of 15% applied on the difference between the amount of tax calculated with the application of full taxation and that calculated using tax benefit. Said incentive is valid until December 31, 2022, as established by Complementary Law.

(c) Programa de Desenvolvimento Industrial de Goiás (PRODUZIR), aimed at strengthening working capital for the implementation of the unit located in the municipality of São Luís from Montes Belos-GO. The portion to be released is used by deducting the ICMS payment due in the month, of which 2% of the tax to be collected related to the incentive activities is paid and 98% constitute the benefit amount. From each released installment, two contributions are made to the PROTEGE Fund, a contribution of 4% established by the concession contract of the incentive and another introduced by Decree 9433/19 in regressive rates, being from April 2019 until September 2019 fixed at 15%, and from October 2019 reducing 1% per month until March 2020. As of April 2020, according to Law 20.677 of December 26, 2019, the fixed rate of 15%, for an indefinite period. In addition to Protege, the anticipation fee FUNPRODUZIR, with a rate of 5% on the benefit amount. The main obligations of the Company for the use of the benefit comprise investments in its unit industrial and the payment of its labor, social security and tax obligations, which are being properly fulfilled. For the benefit of the benefit, the Company offered property, plant and equipment as mortgage guarantees, whose book value on December 31, 2019 is R$ 1,103, comprising for Cia. Hering properties. Said incentive has an expiration date until December 31, 2032, as established by Complementary Law.

(d) Programa de Apoio ao Desenvolvimento Industrial do Rio Grande do Norte (PROADI), earmarked to comprise the current assets of the unit located in the municipality of Parnamirim. Under this agreement, the incentive period is 360 months, beginning in October 2001 and ending in 2031. Financing charges consist of interest of 3% per annum and correction for inflation according to changes in the Reference Rate ("TR"). There is no limit-value in this benefit. The amount of the released portion corresponds to seventy-five percent (75%) of the ICMS due in the month, and 1% of this released amount is fully settled with a grace period of 60 days. The amount used as of December 31, 2019 was R$ 855 (R$ 2,931 as of December 31, 2018) and is recorded in P/L for the year, under the heading of Costs. As the main obligation for enjoyment of the benefit, the Company must maintain on-time payment of all its labor-, social security- and tax-related obligations. All obligations are being properly met by the Company. This program was terminated in July 2019, and in August 2019, the Rio Grande do Norte Industrial Development Stimulus Program (PROEDI) went into effect.

(e) Programa de Estímulo ao Desenvolvimento Industrial do Rio Grande do Norte (PROEDI), starting August 2019 when PROADI was extinguished, the Company started using the PROEDI benefit, which consists of a presumed ICMS credit of 77% through June 30, 2032. In return for the use of this benefit, the Company will contribute 0.5% to the State Fund for Scientific and Technological Development (FUNDET), and 2.5% to the Rio Grande do Norte Commercial and Industrial Development Fund (FDCI). As the main obligation for enjoyment of the benefit, the Company must maintain on-time payment of all its labor, social security and tax related obligations. All obligations are being properly met by the Company.

(f) TTD - Tratamento Tributário Diferenciado (SC), for operations (sales and transfers) with imported articles intended for resale, which grants presumed ICMS credit of 3% of the value of interstate operations, 3% of the value of internal operations destined to companies with "normal" ICMS calculation regime in which is 4% ICMS is indicated, and 13.4% of the value of the internal operations destined to companies operating under the "Simples Nacional" regime, in which 17% ICMS is indicated. Such credit is conditional upon the prohibition of the use of ICMS credits by incoming goods, as well as the contribution of 0.4% on the value of sales attained by the benefit, to the Social Development Fund (FUNDOSOCIAL) and to the Higher Education Maintenance and Development Support Fund. Other obligations include the on-time payment of taxes and specific controls on the transactions of imported and resold goods, for purposes of proving the credit used. The aforementioned incentive is valid through December 31, 2025, as established by Supplementary Law.

(g) Crédito presumido internet (SC), which grants on direct interstate sales to end consumers made over the internet – a presumed ICMS credit of 10% on operations that indicate 12% ICMS; of 5% on operations that indicate 7% ICMS; and of 3% ICMS for operations that indicate 4% ICMS. Such credit is subject to the prohibition of the use of ICMS credits from the incoming goods, as well as to the contribution of 0.4% on the value of sales achieved by the benefit to the Social Development Fund (FUNDOSOCIAL). The aforementioned incentive is valid through December 31, 2022, as established by Supplementary Law.

The Company's tax incentives are characterized as subsidies for investment, and are recognized in the accrual month and recorded directly on the income statement under the heading of Deductions From Revenue or Cost Of Goods Sold, as a counterpart entry to the liability in ICMS Payable. Because they are characterized as an investment grant, the incentives are excluded from the calculation basis of Income Tax and Social Contribution, resulting in a reduction of R$ 49,861 (R$ 46,794 on December 31, 2018), as shown in Note 32b.

At the end of the fiscal year, the Company records the amounts received as investment grant of tax incentives in the "Tax Incentive Reserve" account, per article 195-A of Brazil's Corporation Law (Note 24.d).

19 Provisions for contingencies liabilities, contingent assets and other provisions

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

- Contingent liabilities considered as probable losses

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

	Parent company and Consolidated			
	Current		Noncurrent	
Provision for contingencies:	2019	2018	2019	2018
Labor (a)	2,420	2,420	7,018	7,042
Tax (b)	-	-	2,737	2,576
Civil (c)	-	-	2,953	4,691
	2,420	2,420	12,708	14,309
Other provisions:				
Selling expenses (d)	24,431	24,865	-	-
Administrative expenses (e)	4,882	7,326	104	104
Accrued profit sharing - PPR(f)	71	71	-	-
	29,384	32,262	104	104
Total	31,804	34,682	12,812	14,413

(a) Labor - consist mainly of requests from representatives and employees that recognize a possible employment relationship with the Company and occupational accident compensation. There are also lawsuits claiming hazard pay to which some employees from the production units are allegedly entitled and occupational accident compensation and subsidiary with the Company. There are judicial deposits on these proceedings in the amount of R$ 11,574 (R$ 9,794 on December 31, 2018).

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

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

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

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

(f) Provision for profit sharing - the company grants all employees bonuses related to the profit sharing plan, which is linked to the achievement of specific objectives, based on the achievement of individual and corporate goals, established and agreed upon at the beginning of each year. As of December 31, 2018 and 2019, there was no provision due to the Company's result not being sufficient to achieve the goals set.

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

	Parent company and Consolidated								
	2017	**Additions**	**Reversal**	**Realization**	**2018**	**Additions**	**Reversal**	**Realization**	**2019**
Provision for risks									
Labor	9,558	2,051	(152)	(1,995)	9,462	4,837	-	(4,861)	9,438
Tax	2,770	89	(283)	-	2,576	172	(11)	-	2,737
Civil	4,316	1,347	(182)	(790)	4,691	746	-	(2,484)	2,953
	16,644	3,487	(617)	(2,785)	16,729	5,755	(11)	(7,345)	15,128
Other provisions									
Selling expenses	21,532	153,268	-	(149,935)	24,865	131,599	-	(132,033)	24,431
Administrative expenses	6,366	73,883	-	(72,819)	7,430	87,133	-	(89,577)	4,986
Accrued profit sharing - PPR	25,168	783	-	(25,880)	71	9,141	(9,141)	-	71
	53,066	227,934	-	(248,634)	32,366	227,873	(9,141)	(221,610)	29,488
Total	69,710	231,421	(617)	(251,419)	49,095	233,628	(9,152)	(228,955)	44,616

- Contingent liabilities considered as possible loss

No accounting provisions were recorded for the amounts of risks considered possible losses by the legal counsel of the Company, in conformity with accounting practices. These contingencies are spread out in tax, labor and civil lawsuits, which totals R$ 491,605 on December 31, 2019 (R$ 393,531 on December 31, 2018).

(i) Tax

With regard to possible tax contingencies, the Company is in litigation at the federal administrative level in relation to disallowances of credit and/or non-approvals tax offsets for IPI, PIS, COFINS, IRPJ and CSLL, the amount of which (corrected for inflation) is R$ 61,208 (R$ 59,233 on December 31, 2018) and tax violation notices regarding CIDE, IRRF, PIS, COFINS, IRPJ, CSLL and Social Security contributions, the amount of which (corrected for inflation) is R$ 211,666 (R$ 227,253 on December 31, 2018) . It is also in litigation at the state administrative level against the State of Goiás, relating to ICMS Tax Assessment Notices, and restated amount corresponds to R$ 27,553 (R$ 14,626 on December 31, 2018).

(ii) Civil

Concerning civil contingencies, the Company started a lawsuit against Banco Santos' Bankruptcy Estate claiming a declaration of total release of its debts with Banco Santos. Whereas, Banco Santos' Bankruptcy Estate started four lawsuits against Cia. Hering involving Credit Limit Contracts and BNDES-Exim Financing Agreement. Two of the lawsuits claims the revocation of Letters of Debt Release related to these transactions and the third lawsuit claim the execution of BNDES-Exim Financing Agreement. The execution lawsuit alleges that obligation assumed under said Financing Agreement was not settled. The executed amount at the time the lawsuit was started totaled R$ 50,003. The Company filed an appeal against the execution and, as collateral, obtained a letter of guarantee in the amount of R$ 65,006 from Itaú BBA, whose replacement was requested in a petition filed on June, 25, 2018, in order for it to correspond to the updated amount of the debt, plus the 30% required by law, according to a court decision. The new bank guarantee was contracted with Banco Santander on June 04, 2018, in the amount of R$ 152,321. The fourth lawsuit claims the payment by the Company of a debt arising from the alleged default in fulfilling the obligations under Credit Limit Contract, whose amount charged at the time the lawsuit was started, the involved amount totaled R$ 26,916. In summary, the total amount claimed by Banco Santos' Bankruptcy Estate, adjusted for inflation until December 31, 2019, totaled R$ 213,698 (R$ 156,488 as of December 31, 2018). The amount assessed as remote loss by the Company is R$ 135,971 (R$ 124,651 as of December 31, 2018) and as possible loss, R$ 77,727 (R$ 31,837 as of December 31, 2018).

(iii) Labor

With regard to labor contingencies, the Company is listed as a Defendant in a Public Civil Action proposed by the Public Labor Ministry in the State of Goiás regarding alleged irregularities in the model of the company's faction contract. The Public Labor Ministry intends, among other recognition of the employment relationship between the Company and all current and futures contracted through factions; responsibility of the Company in relation to the amounts labor contracts arising from these contracts; the company's obligation not to do consisting of refraining from using or hiring employees by means of a faction contract; alternatively that the configuration of industrial economic group be recognized between the Company and all factions that provide services to the company, recognizing the joint and several liability of the company for the fulfillment of all the rights and social charges resulting from the employment contracts entered into by the suppliers and the condemnation of the Company to the payment of compensation for moral damages collective in the amount of R$ 36,833. he Company filed a defense in the present lawsuit informing, in short, that there are no irregularities in the hiring of the factions mentioned by the Public Ministry of Labor, as well as requesting the dismissal of the demand. Currently, the process awaits the witnesses' eighths that will be heard through a precatory letter in the Labor Courts of Blumenau/SC, Rio do Sul/SC, Anápolis/GO and Goiás/GO. According to the lawyer responsible for representing the Company in the action in question, the likelihood of loss is considered possible in the total amount of R$ 19,000.

- Contingent tax Assets

(i) PIS and COFINS credit

The Company has two lawsuits seeking to recognize its right to exclude the ICMS tax from the PIS and COFINS calculation basis, covering the periods of cumulative and non-cumulative calculation of the aforementioned contributions, as well as authorization to offset amounts unduly paid.

The first lawsuit, covering the period in which the ICMS comprised the calculation basis of PIS and COFINS contributions in the cumulative regime, is awaiting the court order from the vice-president of the regional federal court (TRF4) regarding the Federal Government's motions for review vis-à-vis the inadmissibility of the Special Appeal and disallowance of the Extraordinary Appeal. For the present process, the Company is still reviewing documents and making calculations to determine the respective credits; at this time it considers the disclosure of any estimate of value impracticable.

In the second lawsuit, covering the period in which the ICMS comprised the calculation basis of PIS and COFINS contributions under the non-cumulative regime, extending to the current period, the Company has already obtained a decision for injunctive relief from the regional federal court (TRF4) ensuring its right to exclude ICMS tax from the PIS and COFINS calculation basis in a period immediately subsequent to the decision handed down by the Supreme Federal Court (STF) on March 15, 2017, with effects already applied to P/L from that time forward. This case is at an advanced stage with the Supreme Court of Justice (STJ), and the Justice-Rapporteur has already issued a monocratic decision denying continuation of the Federal Government’s Special Appeal, awaiting only the definition of the Panel in view of the Internal Appeal filed by the Federal Government against the monocratic decision. For the present process, the Company has a preliminary review of documents and calculations that indicate an estimate of credits in amounts corrected for inflation up to December 31, 2019 on the order of R$ 278 thousand.

Due to the non-occurrence of final judgment (res judicata) in any of the Company's lawsuits, as well as the STF's lack of definition regarding the issue raised in the Federal Government's leading case issue concerning the modulation of the effects of that decision and the method of calculating the credit, the estimated amounts may substantially change.

(ii) IPI credit

The Company was handed a final and unappealable judicial decision in the proceedings of case 0000927-93.1994.4.01.3400, which recognized its right to IPI premium credit, derived from export operations from January 24, 1989 to October 5, 1990, currently in the stage of fulfillment of the sentence, in which the amounts (*quantum debeatur*) to be received by the Company will be defined. The probability of success in the opinion of the lawyers representing the case is classified as 'probable' and the amount of the credit, corrected for inflation until December 31, 2019, is estimated at R$ 178,000, which may change due to the fact that there has not yet been a final decision at the sentence fulfillment phase.

20 Related parties

Transactions involving intercompany loans and management compensation are as follows:

(a) Key Personnel from management

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

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

	Parent Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Management remuneration	8,802	8,943	9,190	8,951
Short-term benefits	1,355	1,430	1,355	1,430
Others (INSS)	1,760	1,790	1,760	1,790
Stock options payments	4,236	3,601	4,236	3,601
	16,153	15,764	16,541	15,772

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

(b) Other related-party transactions

Transactions refer to loan agreements with Subsidiaries, whose balance as of December 31, 2019 was R$ 2,219 (R$ 2,014 as of December 31, 2018). The term of validity of these contracts is indeterminate.

On May 25, 2011 Cia. Hering began operating with a representation office in the city of Nanjing in China. This office has as its object the quality inspection of products imported, as well as the prospection of new suppliers. As of December 31, 2019, the amount spent with this operation was of R$ 3,565 (R$ 3,766 on December 31, 2018), recognized in the income statement in the group costs.

In 2019, there were some loan operations for franchise reforms related to some Directors of the Company that totaled the amount of R$ 1,144 (in 2018 there were no loans). As of December 31, 2019 and December 31, 2018, there were no balances of loans and grants receivable.

(c) Sales to related parties

The Company performed commercial transactions (sales) with franchises related to some of its Directors. On December 31, 2019, these transactions totaled R$ 44,511 (R$ 30,516 on December 31, 2018), of which, R$ 9,072 is recorded under Trade accounts receivable on December 31, 2019 (R$ 6,275 on December 31, 2018). It is provided personal aval from the related companies' owners, in the amount of R$ 5,976 on December 31, 2019 (R$ 5,246 on December 31, 2018), to guarantee the Company's receivables. The transactions with these related parties are held under the same usual terms and conditions applicable to the other franchisees of the Company.

21 Employee benefits

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

Private pension plan

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

The defined benefit plan gives taxpaying employees the right to receive lifetime monthly income (with or without a 5-year guaranteed period). This option was open only to those employees enrolled in the plan and eligible for the life retirement benefit until October 2018, when the Previc Plan amendment was approved, limiting the defined benefit to a portion of employees. In December 31, 2019 was 19 people (22 as of December 31, 2018). Non-contributory employees are guaranteed the amount corresponding to up to three salaries paid in a single installment, was of 5,693 as of December 31, 2019 (5,550 as of December 31, 2018).

The number of contributors to the private pension plan (defined contribution) as at December 31, 2019 was 272 people (251 at December 31, 2018), contributing R$ 1,026 in the period (R$ 975 in the previous period) and the sponsor contributed the same amount.

The Company had its last actuarial valuation calculated on December 31, 2019, whose effects are shown below:

(a) Balances of the pension plan – Defined Benefit

	Parent company and Consolidated	
	Pension Plan	
	2019	2018
Present value of actuarial obligations with coverage	(48,546)	(40,782)
Fair value of the plan assets	42,777	38,283
Deficit	(5,769)	(2,499)

The change in the defined benefit plan for the year ended December 31, 2019 was the recognition of R$ 357 (R$ 252 on December 31, 2018) in the income statement and R$ 2,913 (R$ 860 as of December 31, 2018) in other comprehensive income, the counterpart of which was liability for employee benefits.

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

	Parent company and Consolidated	
	Pension Plan	
	2019	**2018**
Defined benefit obligations as of January 1	40,782	38,406
Current service costs and interest	130	131
Interest on actuarial obligation	3,687	3,610
Actuarial (gains) losses recognized in other comprehensive income	6,950	1,595
Benefits paid in the year	(3,003)	(2,960)
Defined benefit obligations as of December 31	48,546	40,782

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

	Parent company and Consolidated	
	Pension Plan	
	2019	**2018**
Fair value of plan assets as of January 1	38,283	37,019
Expected return on plan assets	3,460	3,489
Actuarial (losses) gains on the plan's assets	3,774	503
Contributions from sponsor	263	232
Benefits paid by the plan	(3,003)	(2,960)
Fair value of plan assets as of December 31	42,777	38,283

The plan's assets are represented by quotas of participation in funds. On December 31, 2019, the sum of equity Instruments was R$ 42,777, whose expected return for the following fiscal year is R$ 3,255. The assessment of expected return performed by the Management is based on historical trends and market analyst projections for the asset during the life of the respective obligation.

(d) Actuarial gains and losses recognized in other comprehensive income

	Parent company and Consolidated	
	Pension Plan	
	2019	2018
Amount accrued as of January 1	2,045	1,185
Actuarial (gain) losses recognised	2,913	860
Amount accrued as of December 31	4,958	2,045

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

(e) Components of the projected expenses / (income) of the plan

	Parent company and Consolidated	
	Pension Plan	
	2020	2019
Gross current service cost (with interest)	157	130
Interest on actuarial obligation	3,694	3,687
Expected yield of the assets	(3,255)	(3,460)
	596	357

The Company expects to contribute R$ 378 defined benefit plans during 2020.

(f) History of experience adjustments

	Parent company and Consolidated				
Pension Plan	2019	2018	2017	2016	2015
Present value of actuarial obligations	(48,546)	(40,782)	(38,406)	(33,706)	(27,117)
Fair value of the plan assets	42,777	38,283	37,019	33,552	27,927
Effect of asset ceiling	-	-	-	-	(810)
(Deficit) surplus for the covered plans	(5,769)	(2,499)	(1,387)	(154)	-
Adjustment for experience in plan liabilities	(6,950)	(1,595)	(3,708)	(5,733)	(4,337)
Adjustment for experience in plan assets	3,774	503	2,258	4,321	4,071

(g) Actuarial assumptions

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

	Parent company and consolidated	
	Pension Plan	
(i) Weighted average of the hypotheses used to determine the actuarial obligation and the expense/(income) to be recognized	**2019**	**2018**
Nominal discount rate	7.61%	9.56%
Nominal salary adjustment rate	5.81%	5.81%
Estimated inflation rate	4.40%	4.40%
Nominal discount rate (revenue/expense)	7.61%	9.93%
Post-retirement mortality table	AT-2000 Softened in 10%	AT-2000 Softened in 10%
(ii) Assumed life expectations on retirement at age 65		
Retiring today (member age 65)	20.4	20.4
Retiring in 25 years (member age 40 today)	20.4	20.4

Assumptions about future mortality are based on published statistics and mortality tables. At The tables used were: (i) Mortality table AT-2000 Smoothed by 10%, (ii) Entry table in Disability Álvaro Vindas reduced by 85% and (iii) Table of Mortality for Invalids RRB-44 (MI). The age of entry into retirement considered is 55 years, and that 100% retire in the 1st early retirement eligibility.

(h) Sensitivity analysis

The following tables present the sensitivity analysis for December 31, 2019 that demonstrate the effect on the present value of the defined benefit obligations arising from the variation of half a percentage point of the discount rate and the variation of the expectation of survival of the participants in 1 year, an increase of R$ 2,282 and a reduction of R$ 2,502 in the discount rate, an increase of R$ 1,393 and a reduction of R$ 764 in the mortality table:

	Pension Plan		
		Project Scenarios	
	Baseline	**0.5% increase**	**0.5% decrease**
Impacts on pensions plan obligations			
Discount rate	48,546	46,264	51,045
Inflation rate	48,546	48,546	48,546
Mortality table (+1 -1)	48,546	49,939	47,782
Weighted average of the defined benefit obligation (in years)	9.84	9.63	10.04

22 Trade accounts payable

	Parent Company e consolidated	
	2019	**2018**
Accounts payable to internal suppliers	96,495	98,510
Accounts payable to external suppliers	25,374	40,674
Payor Risk (i)	67,365	71,796
Adjustments to present value	(2,226)	(3,071)
	187,008	207,909

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

23 Risk management and financial instruments

(a) Risk management

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

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

The values of the asset and liability financial instruments contained in the financial information for the period ended December 31, 2019 were determined in accordance with the criteria and the accounting practices disclosed in specific notes.

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

- Credit risk

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

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

The Company also accounts for expected credit losses, in the amount of R$ 24,290 (R$ 20,593 on December 31, 2018), which represents 5.04% of the balance of the accounts receivable (R$ 4.16% on December 31, 2018), to counter credit risk.

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

(i) Credit risk exposure

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

	Consolidated	
	2019	**2018**
Cash and cash equivalents	364,824	320,540
Interest-earning bank deposits	5,064	4,830
Trade accounts receivable	482,216	494,674
Other receivables	45,739	28,690

(ii) Impairment losses

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

	Consolidated	
Accounts receivable	**2019**	**2018**
Current	435,054	448,292
Past-due:		
0 to 30 days	7,134	8,828
31 to 90 days	5,393	7,680
91 to 180 days	6,313	7,039
181 to 360 days	6,315	10,164
Over 360 days	22,007	12,671
	482,216	494,674

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

	Consolidated	
	2019	**2018**
Balance at beginning of period	(20,593)	(18,207)
Additions	(12,197)	(8,524)
Write-offs	8,500	6,138
Balance at end of period	(24,290)	(20,593)

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

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

(iii) Guarantees

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

- Liquidity risk

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

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

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

As of December 31, 2019 the Company's cash equivalents have immediate liquidity and are considered to manage liquidity risk.

The following table shows the expected maturity for the financial assets and liabilities contracted by the Company, and the values shown include the estimated principal and interest levied on the operations, calculated utilizing rates prevailing on December 31, 2019:

		Consolidated						
	Average interest rate	Until 1 month	1 to 3 months	4 to 12 months	1 to 2 years	2 to 3 years	Over to 3 years	Total
Cash and cash equivalents	-	364,824	-	-	-	-	-	364,824
Trade accounts receivable and others	0.60%	74,170	332,831	59,780	6,430	1,901	162	475,274
Leases	0.60%	(2,672)	(7,960)	(19,758)	(34,243)	(8,223)	-	(72,856)
Suppliers and other payables	0.57%	(96,270)	(76,946)	(31,988)	(2,214)	(56)	(60)	(207,534)
		340,052	247,925	8,034	(30,027)	(6,378)	102	559,708

- **Market risk**

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

(i) Interest rate risk

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

The Company has the following financial instruments:

	Consolidated	
	2019	2018
Financial instruments - Variable rate	335,848	278,232
Financial instruments - Fixed rate	5,064	4,830
	340,912	283,062

(ii) Exchange rate risk

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

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

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

	Consolidated	
	2019	**2018**
Cash in foreign currency (note 5)	3,258	6,546
Trade accounts receivable (note 7)	16,523	15,232
Accounts payable to suppliers	(25,152)	(40,133)
Derivative financial instruments	44,331	71,490
	38,960	53,135

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

As of December 31, 2019, the Company held USD 22,697 (USD 23,611 and EUR 949 on December 31, 2018) in letters of credit related the imports contracted with suppliers.

(iii) Operating risk

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

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

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

(iv) Other pricing risks

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

(b) Financial instruments – fair value

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

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

	Consolidated			
	2019		2018	
	Book value	Fair value	Book value	Fair value
Amortized cost:				
Cash and cash equivalents	364,824	364,824	320,540	320,540
Interest-earning bank deposits	5,064	5,064	4,830	4,830
Trade accounts receivable and other receivables	469,732	469,732	478,623	478,623
Suppliers and other payables	(205,308)	(205,308)	(225,493)	(225,493)
Leases	(65,483)	(65,483)	-	-
Derivative financial instruments assigned at fair value through income	(36)	(36)	787	787
Derivative financial instruments assigned to hedge accounting relationships	1,455	1,455	(957)	(957)

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

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

- Interest-earnings bank deposits – The values informed in the balance sheet are similar to the fair value due to the remuneration rates being based on the fluctuation of the CDI.

- Trade accounts receivables, other accounts receivable, suppliers and other accounts payable – Occur directly from the operations of the Company and subsidiaries, recorded as amortized costs and are recorded by their original value, deducted of provision for losses as applicable and adjustment at fair value when applicable. The accounting value is approximate to the fair value given the short-term settlement of these transactions.

- Borrowings and financing – Are classified as financial liabilities not measured at fair value and are recorded by the amortized cost method in accordance with the contractual conditions. This definition was adopted because the values are not held for trading that in accordance with understanding of the Management reflects the most relevant accounting information. The fair value of these transactions are similar to its book values, due to being financial instruments whose rates are similar to the market rates and having specific characteristics.

- Derivatives - foreign exchange futures are measured based on foreign exchange rates and yield curves obtained based on quotations and for the same maturities of the contracts.

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

(c) Capital management

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

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

As of December 31, 2019, the amount of cash and cash equivalents was R$ 364,824 (R$ 320,540 of December 31, 2018) and there were no loan and financing balances.

(d) Sensitivity analysis

(i) Interest rate variation sensitivy analysis

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

As at December 31, 2019, Management considered the annualized rate for the reference period as the probable scenario. The income from financial investments and loan expensed was projected for the next 12 months.

			Consolidated					
Description	Amount R$	Risk	Probable		Possible		Remote	
			%	Gain (Loss)	%	Gain (Loss)	%	Gain (Loss)
Financial investments (*)	340,912	Low CDI	5.94	-	4.46	(5,063)	2.97	(10,125)

**Balance at December 31, 2019 applied to the CDB and repurchase operations classified in cash and cash equivalents and noncurrent subject to the CDI.*

(ii) Exchange rate variation sensitivity analysis

The Company has assets and liabilities linked to foreign currency in the balance sheet as at December 31, 2019 and adopted, for sensitivity analysis purposes, the market rate in effect during the preparation of this financial information as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

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

Operation	Amount	Notional Amount	Consolidated				
			Probable	Possible		Remote	
	2019	2019	Rate	Rate	Gain	Rate	Gain
	R$	USD	USD	USD	(Loss)	USD	(Loss)
Cash in foreign currency	3,258	-	4.0301	5.0376	815	6.0452	1,629
Trade accounts receivable	16,523	-	4.0301	5.0376	4,131	6.0452	8,262
Accounts payable to suppliers	(25,152)	-	4.0301	5.0376	(6,288)	6.0452	(12,576)
Derivative financial instruments	44,331	11,000	4.0301	5.0376	11,083	6.0452	22,166
Exchange rate gain (loss) net	38,960	11,000			9,741		19,481

In addition to the sensitivity analysis required by CVM Instruction 475/08, the Company evaluates its financial instruments considering their possible effects on profit or loss and equity on relation to the risks assessed by on the financial information reporting date, as suggested by CPC 40 and IFRS 7. Based on the equity position outstanding as at December 31, 2019, these effects are estimated to approximate the values mentioned in the “Probable” column, in the table above.

(e) Derivative financial instruments

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

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

On December 31, 2019, derivative operations (NDF - Non Deliverable Forward) maintained by the Company designated for "hedge accounting" were contracted, in the following amounts and conditions:

					Recognized in		
Contract date	Maturity date	Hedged amount US$'000	Average target quotation	Open Fair Value	Other comprehensive income	Operating Income	Financial Income
07/12/2019	01/02/2020	1,000	3.7912	239	181	48	10
07/12/2019	02/03/2020	3,800	3.7989	846	940	303	(397)
07/12/2019	03/02/2020	1,700	3.8075	370	370	-	-
10/24/2019	04/01/2020	3,000	4.0419	(25)	(25)	-	-
10/24/2019	05/04/2020	1,500	4.0455	(11)	(11)	-	-
		11,000		1,419	1,455	351	(387)

The settlements of NDF's operations in the period ended December 31, 2019 added up to a Notional of USD 23,450 (whose goods were sold), generating a loss that represented a loss of R$ 147 for the Company, of which R$ 1,212 (expense R$ 1,223 in 2019 and income R$ 11 in 2018) was recognized as loss on Operating Income and R$ 1,065 (income of R$ 289 in 2019 and income of R$ 776 in 2018) recognized as net financial income.

24 Shareholders' equity and reserves

(a) Capital

The authorized share capital comprises 350,000,000 common shares, with no par value, and the subscribed and paid-in capital as of December 31, 2019 consisted of 162,533,937 common shares (including the 107,425 shares held in treasury) held by the following shareholders (interests over 5%):

	2019		2018	
Atmos Capital Gestão de Recursos Ltda	16,211,835	10.0%	16,217,782	10.0%
Investimento e Participação INPASA S/A	11,964,724	7.4%	11,964,724	7.4%
Ivo Hering	11,768,370	7.2%	11,768,370	7.3%
Verde Asset	8,217,325	5.0%	-	-
Velt Partners	-	-	8,868,000	5.5%
Dynamo Administração de Recursos Ltda	-	-	9,317,300	5.8%
Somerset Capital Management	-	-	8,191,813	5.1%
Coronation Fund Managers Ltd. (*)	-	-	8,052,473	5.0%
Others	114,371,683	70.4%	87,463,172	53.9%
	162,533,937	100%	161,843,634	100%

(*) Manager headquartered in South Africa

On May 17, 2019, 271,873 shares were issued, totaling R$ 4,439, and on August 30, 2019, 418,430 shares were issued, totaling R$ 6,779, to cover the Company's Stock Option Plan.

(b) Shares in Treasury

On August 1, 2017, the Company's Board of Directors approved the creation of a New Repurchase Program of Common Shares Issued by the Company (Program 2018 - 2019), for permanence in treasury and subsequent sale and / or cancellation and / or to face the “Plan of Option to Purchase Company Shares”, limited to 5,000,000 (five million) common shares Company, whose closing period was February 1, 2019. Of the shares acquired in this program, whose balance on December 31, 2018 was 440,675 shares, deducting the shares exercised in 2019 as shown in the table below, the amount remaining in treasury on December 31, 2019 107,425.

Date	Stock Options Program	Amount	Sale of shares		Cost Stock Options		gain
			Unitary	Total	Unitary	Total	
03/15/2019	9º and 10º	184,376	15.47	2,850	14.48	2,670	180
06/06/2019	10º	32,376	16.10	521	14.48	469	52
08/08/2019	10º	93,586	28.17	2,637	14.44	1,351	1,286
09/11/2019	10º	22,912	16.72	384	14.44	331	53
		333,250		**6,392**		**4,821**	**1,571**

(c) Capital reserve

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

(d) Earnings reserves

- **Legal reserve**

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

Net income for the year	214,702
(-) Profit reserve - tax incentives	(146,648)
Base value of calculation	68,054
Legal reserve 5%	(3,403)

- **Profit retention**

Refers to the remaining amount of net income for the year, after the recognition of legal reserve, tax incentive reserve, proposal for dividend distribution and interest on shareholders’ equity, created for the realization of investments, expansion and reinforcement of working capital. In 2018 and 2019 part of the Profit Retention Reserve was used to pay dividends and interest on shareholders' equity.

- **Other profit reserves**

Tax incentives

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

	2019	2018
Lei do Vestuário - GO	681,803	560,452
Pró-Emprego - SC (i)	59,264	87,084
Proadi - RN (i)	69,234	90,551
Proedi - RN	1,920	-
Fomentar - GO	31,750	31,750
Tax (IRPJ) Operating Profit	29,526	29,526
Créd. Presumido Importados/Internet - SC	46,361	30,630
Produzir - GO	11,824	6,562
Crédito Atacadista - GO	5,899	4,370
Reinvestment income tax reduction	6	336
	937,587	841,261

(i) On July 31, 2019, the Board of Directors approved the payment of dividends in the amount of R$ 49,992, being paid with the balance of tax incentive reserves composed of the Pró-Emprego - SC benefit and Proadi – RN.

(e) Remuneration to shareholders

Dividends

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

Interest on equity

The Company calculates interest on capital according to the option provided for in Law No. 9,249 / 95.

Net income for the year	214,702
(-) Profit reserve - tax incentives	(146,648)
Base value of calculation	68,054
Legal reserve 5%	(3,403)
Base value of calculation	64,651
Mandatory minimum dividends (25%) - paid during the year	16,163
Dividends and Interest on shareholders` equity deliberated by the Board of directors	65,003
	81,166

The company used part of the profit retention reserve balance to cover the additional dividends and interest on equity decided in 2019.

Dividends and interest on equity were distributed as shown below:

Earnings	Total value	Number of shares on the date	Amount per share (R$)	Approved in	Paid in
Interest on shareholders' equity	22,994	161,587,335	0.1423	03/27/2019	04/24/2019
Interest on shareholders' equity	20,487	161,587,335	0.1268	05/08/2019	07/05/2019
Interest on shareholders' equity	19,493	162,426,512	0.1200	09/23/2019	10/23/2019
Interest on shareholders' equity	18,192	162,426,512	0.1120	12/11/2019	12/30/2019
	81,166				
Dividends (i)	49,992	161,891,584	0.3088	07/31/2019	09/05/2019
	131,158				

(i) Dividends paid in 2019 with a reserve for tax incentives.

(f) Equity evaluation adjustment

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

25 Stock option plan

On at December 31, 2019 the Company had two outstanding Stock Option Purchase Plan, one of which was approved at the Ordinary and Extraordinary General Meeting held on April 10, 2008 (Plan 2008) and a new Stock Option Purchase Plan approved at the Ordinary and Extraordinary General Meeting held on December 04, 2017 (Plan 2017). The approval of the programs of granting of shares under each plan is carried out by the Company's Board of Directors. The approval by the Board of Directors, the number of shares granted by program and the exercise price per share is disclosed below:

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

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

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

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

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

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

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

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

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

(**) Risk free interest rate

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

The periods analyzed were:

	Stock Option Purchase Plan								
	Plan 2008						Plan 2017		
	5th	6th	7th	8th	9th	10th	1st	2nd	3nd
Starting date	05/09/11	09/30/10	08/31/10	11/23/11	07/29/08	05/26/09	03/15/10	12/08/10	08/03/11
End date	05/08/12	05/21/13	07/25/13	05/21/14	07/29/15	05/24/16	12/04/17	08/31/18	05/03/19

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

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

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

If all the options available were exercised on December 31, 2019, the current shareholders' capital would be diluted by 0.72% (1.24% on December 31, 2018).

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Avaliable options at the beginning of the year	2,003,224	28.51	2,702,010	28.39
Exercised options (note 24.a/b)	(656,808)	15.55	(48,125)	15.29
Cancelled options	(178,800)	68.86	(650,661)	33.26
Avaliable options at the end of the year	1,167,616	31.40	2,003,224	28.51
Exercisable options at the end of the year	992,648	34.05	1,351,761	34.81

In the period ended December 31, 2019, the Company recognized in the income statement the amount of R$ 1,454 (R$ 2,683 on December 31, 2018) referring to the fair value of the plan.

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

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

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

Considering the hypothesis that all options that were available were exercised as of December 31, 2019, the dilution of capital of current shareholders would be 1.22% (1.08% December 31,2018).

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Avaliable options at the beginning of the year	1,749,797	19.99	701,541	26.50
Granted options	594,903	29.73	1,181,229	16.16
Exercised options	(366,745)	20.18	-	-
Cancelled options	(88,040)	24.51	(132,973)	27.49
Avaliable options at the end of the year	1,889,915	23.73	1,749,797	19.99
Exercisable options at the end of the year	360,594	24.20	142,136	27.49

In the period ended December 31, 2019, the Company recognized in the income statement the amount of R$ 4,044 (R$ 2,484 on December 31, 2018) referring to the fair value of the plan.

26 Revenue

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

	Parent company		Consolidated	
	2019	2018	2019	2018
Domestic market	1,434,645	1,420,492	1,434,645	1,422,896
Own stores	396,124	376,218	396,124	376,218
Foreing market	42,135	49,631	42,135	49,631
Royalties	18,171	17,478	18,171	17,478
Returns	(75,449)	(59,409)	(75,449)	(59,409)
Gross revenue	1,815,626	1,804,410	1,815,626	1,806,814
Adjustments to present value - Revenue	(33,768)	(36,057)	(33,768)	(36,057)
Rebates and IBCC (Instituto Brasileiro de Controle do Câncer)	(3,224)	(2,337)	(3,224)	(2,337)
Sales tax	(229,475)	(228,716)	(229,475)	(228,852)
Deductions	(266,467)	(267,110)	(266,467)	(267,246)
Net revenue	1,549,159	1,537,300	1,549,159	1,539,568

27 Costs of goods or services sold

	Parent company and Consolidated	
	2019	2018
Raw material and Resale goods	491,525	502,014
Salaries, charges and benefits	151,377	168,032
Depreciation	34,226	31,410
Outsource labor	148,892	135,281
Energy	10,736	11,836
Other Costs	33,763	35,007
	870,519	883,580

28 Selling expenses

	Parent company and consolidated	
	2019	2018
Sales commissions expenses	51,822	53,637
Sales freight expenses	43,228	42,928
Personnel expenses	99,073	90,696
Advertising and promotions expense	80,025	57,612
Property rental expenses (i)	23,281	46,347
Expenses with samples and product development	18,660	17,944
Traveling expenses	9,864	11,769
Expenses for third-party services	11,631	15,790
Other expenses	21,995	16,926
	359,579	353,649

(i) As from January 1, 2019, the lease contracts classified in accordance with IFRS 16 / CPC 06 (R2) were accounted for in the right of use and lease liabilities. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under "Depreciation and Amortization". The lease agreements, not classified as lease, remain recorded under “with real estate leasing”.

29 Administrative and general expenses

	Parent Company		Consolidated	
	2019	2018	2019	2018
Personnel expenses	31,691	30,398	31,691	30,398
Expenses for third-party services	8,148	7,545	8,148	7,545
Institutional advertising expense	1,484	1,545	1,484	1,545
Expenses with donations	18	411	18	411
Expenses for information technology service	3,818	3,278	3,818	3,278
Traveling expenses	1,566	1,233	1,566	1,233
Property rental expenses (i)	1,067	2,035	1,067	2,035
Other expenses	3,986	2,692	4,179	2,766
	51,778	49,137	51,971	49,211

(i) As from January 1, 2019, the lease contracts classified in accordance with IFRS 16 / CPC 06 (R2) were accounted for in the right of use and lease liabilities. Monthly, the value of the asset is depreciated according to the contractual term and the amount recorded under "Depreciation and Amortization”. The lease agreements, not classified as lease, remain recorded under “with real estate leasing”.

30 Other net operating (expenses) and income

	Parent Company		Consolidated	
Other operating income	2019	2018	2019	2018
Tax credit (i)	31,733	29,406	31,733	29,406
Claims received	590	1,083	590	1,083
Revenue from sale of PP&E and intangible assets	4,527	23	4,527	23
Compulsory Loan	-	118	-	118
Assignment of financial services	-	4,500	-	4,500
Others	2,569	3,337	2,569	3,337
	39,419	38,467	39,419	38,467
Other operating expenses				
Formation and reversals of labor and civil provisions	(5,407)	(3,976)	(5,407)	(3,976)
Stock option plan	(5,498)	(5,167)	(5,498)	(5,167)
Actuarial evaluation of pension plans	(357)	(252)	(357)	(252)
Labor indemnities	(11,845)	(9,787)	(11,845)	(9,787)
Goiás Protege Fund	(15,019)	(16,815)	(15,019)	(16,815)
Representatives indemnities	(8,165)	(2,614)	(8,165)	(2,614)
Professional services	(2,082)	(1,996)	(2,082)	(1,996)
Retirement Incentive Plan	(990)	-	(990)	-
Others	(5,306)	(3,147)	(5,328)	(4,584)
	(54,669)	(43,754)	(54,691)	(45,191)
Other net operaing (expenses) and income	(15,250)	(5,287)	(15,272)	(6,724)

(i) The balance of tax credits is composed mainly of R$ 23,202 (net of R$ 1,084 of expenses) of Pis and Cofins, R$ 7,842 (net of R $ 478 of expenses) of INSS, R$ 738 (net of R$ 71 in expenses of reintegra) and R$ 27 in Siscomex credits.

31 Net financial result

	Parent Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Financial income				
Interest on financial operations	18,841	15,176	18,841	15,176
Interest on taxes recovered	1,008	1,079	1,008	1,079
Adjustment to present value	34,451	36,244	34,451	36,244
Interest received and renegotiated	8,681	6,444	8,681	6,444
Other income	5,192	9,117	5,261	9,185
Derivative income	-	1,201	-	1,201
Exchange variation - others	-	-	-	54
Exchange variation - motion account	-	66	-	66
Exchange variation - accounts receivable	208	2,123	208	2,123
	68,381	71,450	68,450	71,572
Financial expenses				
Interest on financial operations	-	(2,139)	-	(2,139)
Financial charges on taxes	(128)	(490)	(128)	(490)
Adjustment to present value	(19,359)	(15,132)	(19,359)	(15,132)
Provision for risks update	(560)	(626)	(560)	(626)
Derivative expenses	(98)	-	(98)	-
Interest lease (note 15)	(4,828)	-	(4,828)	-
Bank fees and commissions	(4,825)	(4,994)	(4,825)	(4,994)
Other expenses	(2,326)	(3,175)	(2,329)	(3,231)
Exchange variation - others	(88)	(238)	(6)	-
Exchange variation - motion account	(255)	-	(255)	-
Exchange variation - accounts payable	(3,368)	(7,756)	(3,368)	(7,756)
	(35,835)	(34,550)	(35,756)	(34,368)
Net financial result	32,546	36,900	32,694	37,204

32 Income and social contribution taxes

(a) Breakdown of income tax and of social contribution

	Parent company		Consolidated	
	2019	2018	2019	2018
Current taxes:				
Social contribution	(612)	218	(612)	149
Income tax	(2,508)	1,260	(2,508)	1,092
	(3,120)	1,478	(3,120)	1,241
Deferred taxes:				
Social contribution	2,423	355	2,423	355
Income tax	6,472	2,755	6,472	2,755
	8,895	3,110	8,895	3,110

(b) Reconciliation at the effective rate

	Parent company		Consolidated	
	2019	2018	2019	2018
Net profit before income and social contribution taxes	208,927	234,926	208,927	235,163
Current rate:	34%	34%	34%	34%
Estimated expense according to the current rate	(71,035)	(79,875)	(71,035)	(79,955)
Tax impact on permanent additions and exclusions :				
Investment subsidy (Note 18)	49,861	46,794	49,861	46,794
Interest on shareholder's capital (Note 24e)	27,596	27,196	27,596	27,196
Options Maturada - Stock Options 2018	-	1,753	-	1,753
Options Maturada - Stock Options and Health Plan	-	10,189	-	10,189
Other permanents (additions) exclusions	(647)	(1,469)	(647)	(1,626)
Income and social contribution taxes	5,775	4,588	5,775	4,351
Income and social contribution taxes - current	(3,120)	1,478	(3,120)	1,241
Income and social contribution taxes - deferred	8,895	3,110	8,895	3,110
Effective rate	(3%)	(2%)	(3%)	(2%)

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

	Parent company and Consolidated	
	2019	**2018**
Constitution on temporary additions	395	(8,084)
Reversal on temporary exclusions	(11)	(109)
Constitution on tax losses and negative bases	8,116	11,183
Realization of the monetary correction of the asset	395	120
	8,895	3,110

33 Earnings per share

(a) Basic earnings per share

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

	Consolidated	
	2019	**2018**
Profit attributable to the Company's shareholders	214,702	239,514
Weighted average number of common shares - thousands	162,159	161,844
Weighted average number of common treasury shares - thousands	(381)	(147)
	161,778	161,697
Basic earnings per share - R$	1.3271	1.4812

(b) Diluted earnings per share

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

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

	Consolidated	
	2019	**2018**
Profit attributable to the Company's shareholders	214,702	239,514
Weighted average number of common shares - thousands	161,778	161,697
Share purchase option adjustment - thousands	3,058	3,753
Weighted average number of common shares (diluted) - thousands	164,836	165,450
Basic earnings per share - R$	1.3025	1.4476

34 Operating segments

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

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

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

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

	Consolidated	
Trademarks	**2019**	**2018**
Hering	1,348,686	1,319,306
Hering Kids	237,154	230,231
PUC	87,916	105,437
DZARM.	75,973	73,241
*Others	23,762	28,968
Gross revenue domestic market	1,773,491	1,757,183
Gross revenue foreign market	42,135	49,631
Total gross revenue	1,815,626	1,806,814

	Consolidated	
Channel	**2019**	**2018**
Retail	704,840	736,794
Franchise	627,075	619,514
Own stores	365,829	344,580
Webstore	69,996	48,950
*Others	5,751	7,345
Gross revenue domestic market	1,773,491	1,757,183
Gross revenue foreign market	42,135	49,631
Total gross revenue	1,815,626	1,806,814

* Considers the sale of second line items and leftovers

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

	Consolidated	
	2019	**2018**
Gross revenue domestic market	1,773,491	1,757,183
Gross revenue foreign market	42,135	49,631
Gross revenue	1,815,626	1,806,814
Deductions	(266,467)	(267,246)
Net revenue	1,549,159	1,539,568

Foreign revenue is not recorded separately by geographical area, as it represents only 2.72% of total net revenue as of December 31, 2019 (3.22% on December 31, 2018) (Company and consolidated balances).

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

35 Insurance

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

As at December 31, 2019, operating risk insurance coverage was comprised of R$ 181,128 for material damage, R$ 186,744 for loss of profit and R$ 57,000 for civil liability.

Declaration of Directors

In accordance with CVM Instruction 480/09, the Board states that reviewed, discussed and agreed with the view expressed in the independent auditors' report and the financial statement for the year ended December 31, 2019.

EXECUTIVE BOARD

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

BOARD OF DIRECTORS

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

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