UNICASA

Management Report
2018

BOARD OF DIRECTORS

Gelson Luis Rostirolla
Chairman

Alexandre Grendene Bartelle
Vice Chairman

Frank Zietolie
Director

Daniel Ferreira Maia de Freitas
Director

Thiago Costa Jacinto
Independent Director

BOARD

Frank Zietolie
President and Commercial Officer

Kelly Zietolie
Vice President

Gustavo Dall Onder
Financial and Investor Relations Officer

Ivanir Moro
Acountant
CRC/RS-053351/O-7

To the Shareholders,

In compliance with applicable laws and Bylaws of the company, the Management of **Unicasa Indústria de Móveis S.A.** hereby presentes the **Management Report** and the **Financial Statements** prepared according to the *International Financial Reporting Standards* (IFRS) issued by *International Accounting Standards Board* (IASB), the generally accepted accounting principles in Brazil and the rules issued by the *Securities and Exchange Comission of Brazil* (CVM). The Company adopted all the standars, revisions of standards and interpretations issued by IASB and which are effective for the Financial Statements ended on December 31, 2018.

MESSAGE FROM MANAGEMENT

Dear shareholders.

Due to the prevailing economic scenario in Brazil, 2018 was a challenging year. However, we have begun to reap some fruits that we planted in recent years: (i) our stricter criteria for approving storeowners (profile, guarantees, financial capacity, etc.) have already resulted in lower operational risks; and (ii) our network vetting process made us focus our efforts on more important operations that are better aligned with our brand proposition, which translates into a more homogeneous network. These initiatives can already be perceived in our numbers for customer service expenses. In addition, average productivity per store increased across all brands, demonstrating that our storeowners are also reaping the fruits of a more promising market, which registered tepid improvements during 2018.

We have been successfully implementing the NPS® tool. Numerous network improvement actions have already been deployed based on consumer feedback. This metric is being applied in our Excellence Program, which rewards the best stores across the network and establishes guidelines for standardizing the points of sale.

Throughout this year, we increased our investments in the export market. In August, we disclosed a material fact notice about the signing of an agreement with the distributor of a product created specifically for the United States. The Management will work to make this relationship helps open the U.S. market for our products. We closed 2018 with seven Dell Anno dealers (compared to one in 2017) in North America.

Excluding the effects of selling to end consumers (an operation discontinued by the Company) and the change in the social security contribution (INSS) regime, our gross margin improved slightly, demonstrating our resilience during this economically difficult period that involved pressure from suppliers to increase the cost of raw material, as well as our precaution in easing the sales policies.

Regarding operating expenses, we can see the results of our more austere policy in approving dealers. Expenses with consumer service and the allowance for doubtful accounts declined significantly from 2017. Recent one-off closures did not significantly impact the Company's results. Moreover, expenses in general are noticeably lower than in prior periods, thanks to management's efforts to adapt the Company to the more restrictive scenario.

At the end of 2018, the Company's cash balance is 41.1% higher than in the same period the previous year. Cash generation stood at R$12.1 million. The Company has no bank debts.

Lastly, Management believes that the results are still below what is expected from the Company, but is certain that our actions will deliver returns that are adequate for the business risk.

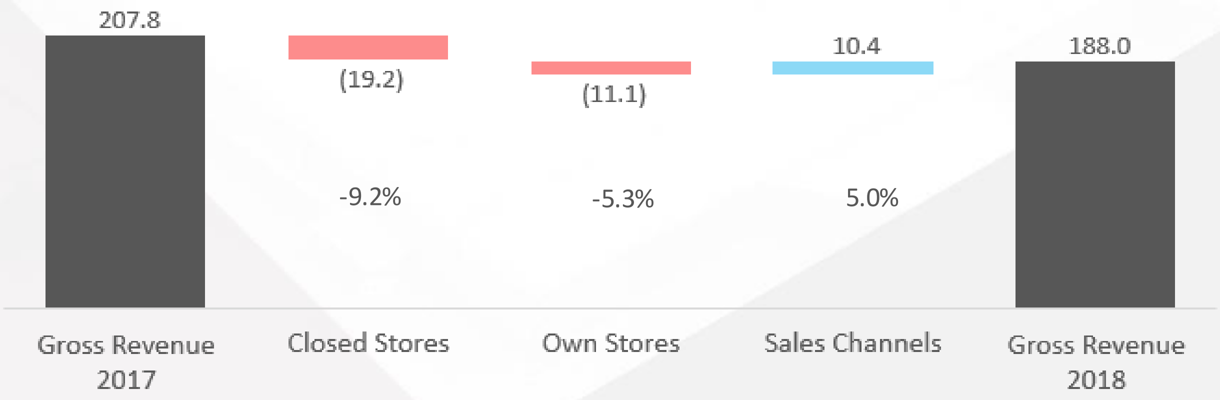
Our big thank you to all our clients, employees, dealers, suppliers and shareholders for the trust placed in our work.

EXECUTIVE SUMMARY

Executive Summary	2017	2018	Δ
Gross Revenue ex-IPI	207,799	187,968	-9.5%
Net Revenue	**157,941**	**149,306**	**-5.5%**
Cost of Goods Sold	(90,931)	(91,161)	+0.3%
Gross Income	**67,010**	**58,145**	**-13.2%**
Gross Margin	***42.4%***	***38.9%***	***-3.5 p.p.***
Selling and Administrative Expenses	(83,281)	(59,847)	-28.1%
Other Revenues and Operating Expenses	1,675	3,099	+85.0%
Operating Income	**(14,596)**	**1,397**	**-109.6%**
Operating Margin	***-9.2%***	***0.9%***	***+10.1 p.p.***
Financial Income (Expenses) Net	4,604	5,172	+12.3%
Operating Income before Income Tax and Social Contribution	**(9,992)**	**6,569**	-165.7%
Income Tax and Social Contribution	3,635	(3,175)	-187.3%
Net Profit	**(6,357)**	**3,394**	-153.4%
Net Margin	***-4.0%***	***2.3%***	***+6.3 p.p.***
EBITDA	(4,107)	10,482	-355.2%
EBITDA Margin	***-2.6%***	***7.0%***	***+9.6 p.p.***

SALES PERFORMANCE

Gross revenue in the year decreased 9.5%. This variation is due to: (i) the reduction in the distribution network, responsible for 9.2% decline; (ii) the shutdown of the own store operation, which accounted for about 5.3% of the decline, partially offset by the decrease in operating expenses arising from this business unit; and (iii) Growth of 5.0% in other sales channels, mainly driven by the performance of the Exports channel, the performance of same-store sales and the maturation of new stores opened in 20-17 and 2018. The following chart presents the evolution of the Gross revenue[(1)]:



[(1)]In millions

Dell Anno and Favorita – Exclusive and Own Stores	2017	2018	Δ
Gross Revenue, ex-IPI	112,662	95,191	-15.5%
Number of Modules Sold (thousand units)	318.2	244.4	-23.2%

New and Casa Brasileira Exclusive Dealers	2017	2018	Δ
Gross Revenue, ex-IPI	52,212	45,705	-12.5%
Number of Modules Sold (thousand units)	265.1	206.4	-22.1%

Multibrands	2017	2018	Δ
Gross Revenue, ex-IPI	23,880	23,338	-2.3%
Number of Modules Sold (thousand units)	141.1	118.8	-15.8%

Unicasa Corporate	2017	2018	Δ
Gross Revenue, ex-IPI	10,505	12,213	+16.3%
Number of Modules Sold (thousand units)	33.5	29.0	-13.4%

Export Market	2017	2018	Δ
Gross Revenue, ex-IPI	6,058	8,332	+37.5%
Number of Modules Sold (thousand units)	26.4	32.5	+23.1%

Consolidated Indicators - Unicasa

Unicasa Indústria de Móveis	2017	2018	Δ
Gross Revenue, ex-IPI	207,799	187,968	-9.5%
Number of Modules Sold (thousand units)	787.3	631.4	-19.8%

SALES AND DISTRIBUTION CHANNELS

Below is the breakdown of our distribution network by brand and channel:

Period	4Q17	1Q18	2Q18	3Q18	4Q18	Δ
Exclusive and Own Stores	**278**	**265**	**249**	**233**	**220**	**(58)**
Dell Anno and Favorita	129	122	115	104	102	(27)
New and Casa Brasileira	149	143	134	129	118	(31)
Multibrand	**597**	**595**	**587**	**566**	**498**	**(99)**
New and Casa Brasileira Multibrand	597	595	587	566	498	(99)

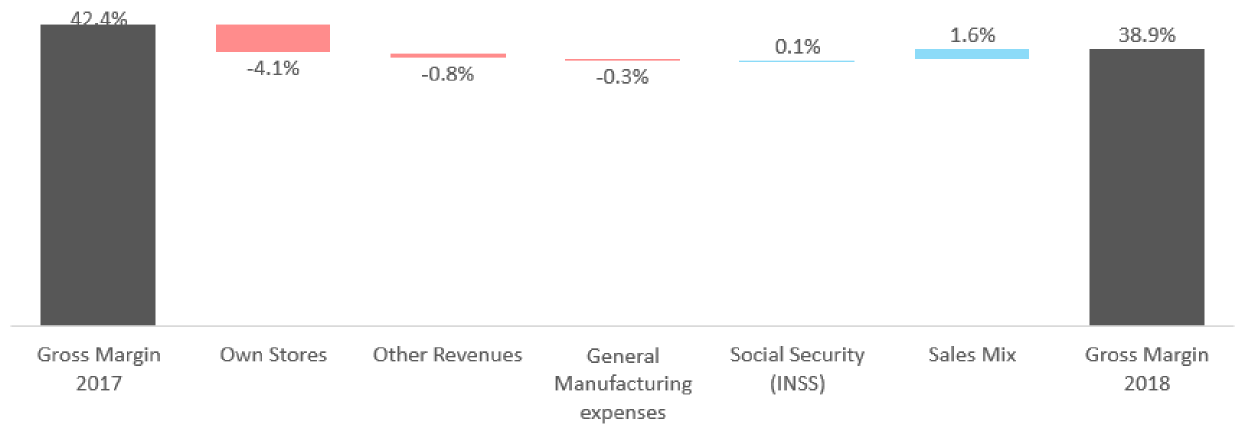
(1) Variation compared to 4Q17.

Average productivity per Dell Anno and Favorita store in 2018 was R$68,700, 10.1% higher than the R$62,400 in 2017, due to the closure of less productive operations. Average productivity in the year per New and Casa Brasileira store in 2018 was R$28,500, 26.9% higher than the R$22,500 in 2017, due to the closure of less productive operations.

FINANCIAL PERFORMANCE

Gross Profit and Gross Margin

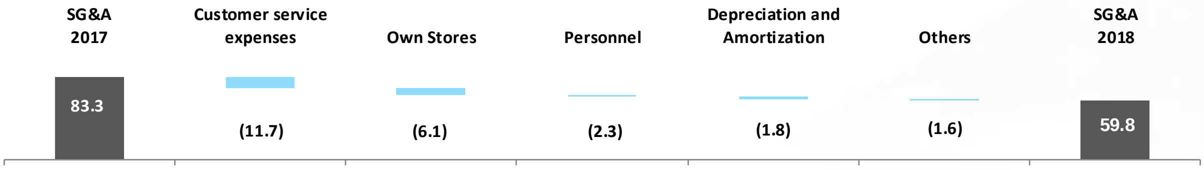
Gross profit in the year was R$58.1 million. Gross margin fell 3.5 p.p., from 42.4% in 2017 to 38.9% in 2018. The decline in margin is a result of three key factors: (i) closure of own stores, for reduction of 4.1 p.p.; (ii) the sale of raw materials of items discontinued during 2018 due to product improvements, for reduction of 0.8 p.p. Many products were altered during the year and the balance of their inventories was sold. This sale does not bring losses to the Company, but the margin is significantly lower than in other sales channel; and, (iii) lower general manufacturing costs dilution base, down 0.3 p.p. In general manufacturing costs, the lower base for dilution of depreciation contributed to the 0.5 p.p. decline and the provision for obsolete inventories to the 0.9 p.p. decline, while lower personnel expenses contributed to the 1.1 p.p. increase in margin. These margin reductions were partially offset by: (i) the change in the social security (INSS) payment method, for an increase of 0.1 p.p., the Company started paying social security contribution based on payroll, as allowed by Federal Law 12,546/2011; and (ii) the improvement in the sales mix, for an increase of 1.6 p.p.



Selling, General and Administrative Expenses (SG&A)

Selling General and Administrative Expenses	2017	2018	Δ
Total	**(83,281)**	**(59,847)**	**-28.1%**
Selling Expenses	**(58,371)**	**(35,679)**	**-38.9%**
% of Net Revenue	37.0%	23.9%	-13.1 p.p.
Administrative Expenses	**(24,910)**	**(24,168)**	**-3.0%**
% of Net Revenue	15.8%	16.2%	+0.4 p.p.
SG&A % of Net Revenue	52.8%	40.1%	-12.7 p.p.

The following chart presents the evolution of Selling, General and Administrative Expenses in 2017 and 2018 [(1)]:



(1)In Million.

Expenses with consumers were R$11.7 million lower. These expenses mainly include expenses with goods, freight and assembly for final consumers who were not served by the closed stores and are being served directly by the factory.

Expenses with own stores declined by R$6.1 million, mainly due to the closure of stores, as disclosed in the 4Q16 earnings release.

Personnel expenses were R$3.2 million lower this year, offset by the R$0.9 million increase due to the change in the INSS payment method. This reduction was due to the adjustment to the Company's structure carried out during 2017 and 2018.

The amortization of points of sale declined R$1.8 million due to the end of the amortization period for one of our points of sale, which ended in May/18.

The decrease in other expenses is mainly a result of the reduction in travel expenses and allowance for doubtful accounts.

Other Operating Income and Expenses

The main variations in this group are nonrecurring effects registered in 2017: (i) one-off recognition of provision for the depreciation of properties held for sale, R$1.6 million; (ii) one-off revenue from sale of banner, R$1,000,000 Nonrecurring effects registered in 2018: (i) reversal of written-off judicial deposits, R$165,000; (ii) recovery of credits written off as uncollectible, R$125,000; REINTEGRA tax credits on exports, R$122,000; and extemporaneous PIS and COFINS credits, R$105,000.

Other Operating Income and Expenses	2017	2018	Δ
Total	**1,675**	**3,099**	**85.0%**
Resultado na venda de ativos mantidos para venda e ativo imobilizado	(2,097)	(102)	-95.1%
Bank Premium	1,632	1,454	-10.9%
Trademark Rights	1,076	200	
Other Operating Income	1,064	1,547	45.4%
% of Net Revenue	**1.1%**	**2.1%**	**1.0 p.p.**

Financial Result

Financial result increased 12,3%, mainly due to the reduction in discounts granted to clients, related to the settlement of contractual negotiations.

Financial Result	2017	2018	Δ
Net Financial Result	**4,604**	**5,172**	**12.3%**
Financial Expenses	**(2,614)**	**(1,295)**	**-50.5%**
IOF charge and bank fees	(338)	(225)	-33.4%
Exchange variation expenses	(346)	(705)	103.8%
Present value adjustment - AVP	(443)	(152)	-65.7%
Other financial expenses	(1,487)	(213)	-85.7%
Financial Income	**7,218**	**6,467**	**-10.4%**
Interest income	1,697	1,549	-8.7%
Discounts	84	204	142.9%
Yield from short-term investments	2,432	1,873	-23.0%
Exchange variation income	462	868	87.9%
Present value adjustment - AVP	1,820	1,337	-26.5%
Other financial income	723	636	-12.0%

EBITDA and EBITDA Margin

EBITDA	2017	2018	Δ
Net Income for the Period	**(6,357)**	**3,394**	**-153.4%**
Income Tax and Social Contribution	(3,635)	3,175	-187.3%
Financial Result	(4,604)	(5,172)	+12.3%
EBIT	**(14,596)**	**1,397**	**-109.6%**
Depreciation and Amortization	10,489	9,085	-13.4%
EBITDA	**(4,107)**	**10,482**	**-355.2%**
EBITDA Margin	***-2.6%***	***7.0%***	***+9.6 p.p.***

Cash flow

This year, the increase in cash generation mainly came from the Company's operational cash flow, combined with less purchase of inputs in the period, since the Company increased inventories in 3Q18 due to the economically more favorable moment for sourcing inputs.

Cash Flow	2017	2018	Δ
Cash Flows from Operating Activities	8,874	20,405	+129.9%
Changes in Assets and Liabilities	(5,392)	(2,863)	-46.9%
Financial Investments	4,779	(12,810)	-368.0%
Cash generated by investment activities	(6,620)	(5,417)	-18.2%
Cash generated by financing activities	-	-	+0.0%
Cash flow (burn)	**1,641**	**(685)**	**-141.7%**
Financial Investments	(4,779)	12,810	-368.0%
Cash flow and Financial Investments	**(3,138)**	**12,125**	**-486.4%**
At the Beginning of the Period	32,611	29,473	-9.6%
At the End of the Period	29,473	41,598	+41.1%
Cash flow and Financial Investments	**(3,138)**	**12,125**	**-486.4%**

Working capital

Working Capital	2017	2018	Δ[1]
Average trade accounts receivable	36,467	35,021	(1,446)
Average term for receipt of sales (days)	*63*	*67*	*4*
Average inventory	22,695	22,361	(334)
Average term for inventory replenishment (days)	*90*	*88*	*(2)*
Average trade accounts payable	5,748	5,087	(661)
Average term for payment of suppliers (days)	*23*	*20*	*(3)*
Average advances from customers	22,699	18,179	(4,520)
Average term for advances from customers (days)	*39*	*35*	*(5)*
Working capital	**30,715**	**34,116**	**3,401**

[1] Last twelve months

The Company's working capital needs increased R$3.4 million in the year, mainly due to the reduction in advances from customers caused by the closure of own stores that had received advances from end consumers.

Net Cash

Net Cash	2017	2018	Δ
Short Term Debt	-	-	n/a
Long Term Debt	-	-	n/a
Gross Debt	**-**	**-**	**n/a**
Cash and Cash Equivalents	29,473	28,788	-2.3%
Financial Investments	-	12,810	n/a
Net Debt/(Cash Surplus)	**(29,473)**	**(41,598)**	**+41.1%**

Return on Invested Capital (ROIC)

Return on Invested Capital (ROIC)	2017	2018	Δ
EBIT (LTM)	(14,596)	1,397	-109.6%
Average of Operating Assets	140,009	134,034	-4.3%
ROIC	**-10.4%**	**1.0%**	**+11.4 p.p.**
Effective IR + CSLL rate (LTM)	36.4%	54.5%	+18.1 p.p.
ROIC, Net	**-6.6%**	**0.5%**	**+7.1 p.p.**

ALLOCATION OF NET INCOME

This year, the income from the period will be used to absorb accumulated losses, as determined by article 189 of Federal Law 6,404/76. Therefore, no interest on equity or dividends will be distributed until all accumulated losses are absorbed.

HUMAN RESOURCES

Unicasa ended 2018 with 401 employees, a 11% reduction from the 2017 headcount of 452 employees.

ADMINISTRATIVE EVENTS

At the 18th Shareholders Meeting held on April 27, 2018, our shareholders decided that the installation of the Audit Board was not necessary, as can be seen in the respective minutes. Therefore, during fiscal year 2018, there is no Audit Board functioning at the Company. An election was also held for the Board of Directors wherein all the directors were reelected. The only change was the position of independent director, which is now held by Mr. Thiago Costa Jacinto. Mr. Daniel Ferreira Maia de Freitas, who held this position in the previous term, now holds the position of director nominated by controlling shareholders, previously held by Mr. Jacinto.

Note that the new Novo Mercado regulations came into force in fiscal year 2018. The key changes resulting from the new regulation will be mandatory starting from the 2021 Annual Shareholders Meeting, namely: at least two independent directors, management appraisal, oversight and control (audit committee and internal audit), additional policy disclosures. Regarding these, the Company will evaluate the impact and how it will comply with all the provisions. Other changes are already part of the regular procedures at the Company. Some rules are now part of the regulations and no longer need to be in the Bylaws of the Company. These changes will be included in the Management Proposal to be submitted to shareholders for review at the next Shareholders Meeting that will deliberate on the Financial Statements for the fiscal year ended December 31, 2018.

ENVIRONMENTAL MANAGEMENT

Proof of the Company's environmental responsibility begins with the selection of the key raw materials used in the furniture production process at Unicasa. For example, MDF (medium density fiberboard) and MDP (medium density particleboard) come from pine and eucalyptus reforestation forests with the FSC (Forest Stewardship Council) certification, which guarantees that the wood is sourced from sustainably managed forests that do not affect the environment. The edges used are another example of the rigorous selection of raw material with lower environmental impact. These are made using acrylonitrile butadiene styrene (ABS) and polypropylene (PP) instead of the polyvinyl chloride (PVC) widely used in the furniture industry. The PVC manufacturing process generates gases that are harmful to the environment, such as dioxins, furans and polychlorinated biphenyls (PCBs) - the so-called greenhouse gases - which, in addition to environmental impacts, also affect people's health. Approximately 86% of the plastic used in the Company's packaging lines are sourced from recycled raw materials and are made using wind energy. Using recycled plastics instead of virgin materials helps to reduce greenhouse gas emissions, as well as the consumption of oil, water and energy, thus helping to reduce plastic waste that would go to landfills.

In keeping with its respect for the environment, the Company invests in state-of-the-art technologies and processes to optimize raw materials and avoid wastefulness by generating less waste. The main issues related to environmental management are detailed below: treatment of wastewater, solid waste, air emissions and compliance with laws.

Treatment of Wastewater

Water use within the site is restricted to restrooms, locker rooms, cafeteria and cleaning activities at the factory. The manufacturing processes do not use water. Even painting operations, which largely use water curtains, are dry and use filters and exhaust, eliminating the generation of industrial wastewater.

Thus, all the water used is treated in the Company's Wastewater Treatment Plant (ETE) through a process known as the extended aeration activated sludge system, with a pollutant removal efficiency of approximately 95%. For over 10 years the Company has been treating all the water it uses. The ETE inaugurated in 2008 has a daily treatment capacity of 100m3. In 2018, the system treated 10,800m3 of water, of which 30% was returned for reuse within the Company in the fire extinguishment system and for flushing toilets. The balance volume was discharged into the public sewage network in accordance with the physical and chemical standards for discharging wastewater as required by environmental laws.

Besides reusing treated wastewater, the Company also partially collects rainwater captured on its roofs. Similarly, this water is used as a fire fighting reservoir and for flushing toilets. Reusing treated wastewater and collecting rainwater, besides being sustainability practices, also result in saving treated water.

In the last 3 years, investments on improvements to the wastewater treatment plant amounted to approximately R$85,000, which included the replacement of tanks, acquisition of equipment and improvements to operational safety.

Solid Waste

The types of waste most generated in Unicasa's production process are MDF and MDP scraps and dust. In 2018, 5,000 tons of such waste were generated, which were sent for reprocessing and also used as fuel in the power generation processes of third parties.

During the period, 30 tons of recyclable material (paper, cardboard, plastics and metals) were also generated, which were sent to external recycling processes. Thus, in relation to the total waste generated, approximately 90% is reprocessed or recycled, returning as raw material for a new production process. Also, 21 tons of non-recyclable waste were generated in 2018, which were sent to coprocessing.

Coprocessing is currently known as one of the best technologies for final disposal of waste that cannot be recycled or reprocessed, in terms of environmental protection and sustainability, as it eliminates the existence of environmental liabilities. This technology enables industrial waste to be used as solid fuel in place of fossil fuel in cement kilns. Coprocessing is one way of minimizing the use of non-renewable fuels and hence is considered a waste disposal process that transforms waste into clean energy.

Unicasa has been using coprocessing for the final disposal of its non-recyclable waste since 2016. Since then, over 30 tons of industrial waste were coprocessed, preventing their disposal in industrial landfills, which have significant long-term environmental impacts and also create environmental liabilities.

Atmospheric Emissions

At Unicasa, all processes that generate dust are treated by exhaust and filtering systems so that these materials are not found in internal areas of the facilities, demonstrating its concern for employees, the neighboring community and the environment. This system collects approximately 3 tons of dust daily, which are then properly disposed of.

Painting equipment, all equipped with cutting-edge international technology, have filtering systems that ensure that no solvent odors exist within the factory and in its surroundings.

Compliance with Legislation

Unicasa is duly registered with the Federal (IBAMA), State (FEPAM) and Municipal (Bento Gonçalves Municipal Environmental Department) environmental agencies. All conditions and restrictions in the licenses are being met and the Company has not received any notice of fine in the last five years.

CAPITAL MARKETS

At the close of fiscal year 2018, Unicasa's market capitalization was R$187.0 million, based on the Company's stock price of R$2.83. In 2018, Unicasa stock registered 22,200 trades, for an average of 90 daily trades, and a financial volume of around R$89.9 million, for an average daily trading volume of R$367,000.

Unicasa's UCAS3 stock is listed in the Novo Mercado segment of the São Paulo Stock Exchange (B3), which consists of companies with the highest corporate governance standards. Unicasa's capital is divided into 66,086,364 shares, with a free float of 44.4%. The book value per share at the end of 2018 was R$2.59.

INDEPENDENT AUDITORS

In compliance with article 2 of CVM Instruction 381/03, the Company informs that BDO RCS Auditores Independentes SS ("BDO") provided only services related to audit of the Financial Statements in 2018, under the following terms:

- Full audit conducted in accordance with Brazilian and international audit standards of the parent company and consolidated financial statements of the Company, prepared in accordance with the accounting practices adopted in Brazil (parent company and consolidated) and with IFRS (consolidated), for the fiscal year ended December 31, 2018, and the review of the Company's Interim Quarterly Financial Information of March 31, June 30, and September 30, 2018, for total fees of R$175,184.64. Date of contract: February 02, 2018.

STATEMENT BY EXECUTIVE OFFICERS

In compliance with Article 25 of CVM Instruction 480, of December 7, 2009, the Executive Board declares that it has reviewed, discussed and agreed with the opinion expressed in the Independent Auditor's Report on the Financial Statements and with the Financial Statements related to the fiscal year ended December 31, 2018.

Commitment clause

The Company, its stockholders, its managers and the members of its Audit Board undertake to resolve by means of arbitration, before the Market Arbitration Chamber, all and any dispute or controversy that may arise between them, relating to our arising from, in particular, the application, validity, efficacy, interpretation, violation, or their effects, of the provisions contained in the Corporate Law, the Company's by-laws, the rules issued by the National Monetary Council, by the Brazilian Central Bank or by the Brazilian Securities Commission, or in the other rules applicable to the functioning of the capital market in general, as well as those contained in the Listing Regulations of the Novo Mercado, the Arbitration Regulations, the Sanctions Regulations and the Novo Mercado participation agreement.

UNICASA INDÚSTRIA DE MÓVEIS S.A.

Independent Auditor’s report

Financial statements
On December 31, 2018

UNICASA INDÚSTRIA DE MÓVEIS S.A.

Financial statements
On December 31, 2018

Table of Contents

A free translation from Portuguese into English of Independent Auditor’s Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Management
Unicasa Indústria de Móveis S.A.
Bento Gonçalves – Rio Grande do Sul

Opinion on financial statements

We have audited the accompanying individual and consolidated financial statements of **Unicasa Indústria de Móveis S.A.** ("Company"), identified as Company and Consolidated, respectively, which comprise the individual and consolidated statements of financial position on December 31, 2018, and the related individual and consolidated statements of operations, comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of **Unicasa Indústria de Móveis S.A.** as at December 31, 2018, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion on financial statements

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities in accordance with those standards are described in the following section entitled "The Auditor's Responsibilities in Relation to the Individual and Consolidated Financial Statement Audit". We are independent of **Unicasa Indústria de Móveis S.A.** and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CPC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

The main audit assumptions are those that, in our professional judgment, were the most significant in our audit of the current year. These issues were treated in the context of audit of the individual and consolidated financial statements as a whole and in the formation of our opinion on the individual and consolidated financial statements, and therefore, we do not express a specific opinion on these issues.

Allowance for loan losses - Parent Company and Subsidiary	Auditor's response on the subject
As described in Note 5 to the individual and consolidated financial statements, the Company recognizes estimated losses with doubtful accounts for trade accounts receivable, considering the following estimates, among others: payment capacity, current and prospective economic scenario, evaluation of delinquency levels and guarantees received, as well as evaluation of renegotiations made, and also involving a significant degree of judgment by the Company's Management. Given the importance of the allowance for loan losses in relation to the total trade accounts receivable, and the significant degree of judgment required from the Company's Management for correct evaluation, we consider this matter relevant for our audit.	Our audit procedures included an assessment of the assumptions adopted by the Management of the Company, including the reasonability of the accounting policy adopted, analysis of the balance of trade accounts receivable by age of maturity, including discussions with the Company's Management regarding the analysis of guarantees received and agreements renegotiated with its main customers and the correct application of the Management's judgment. In addition, we assessed the adequacy of the Company's disclosures on this issue in Note 4 to the individual and consolidated financial statements. As a result of the evidence obtained through the aforementioned procedures, we consider acceptable the recognition and disclosure of estimated loan losses on trade accounts receivable, recognized in the individual and consolidated financial statements at R$ 24,605 thousand and R$ 24,793 thousand, respectively.

Realization of deferred income and social contribution taxes on tax losses and social contribution tax loss carryforwards - Parent Company	Auditor's response on the subject
As described in Note 13 to the individual and consolidated financial statements, the parent company recognizes deferred tax assets on tax losses and social contribution tax loss carryforwards in the amount of R$ 6,138 thousand, whose realization is supported by an estimate of future taxable income based on the business plan and budgets prepared by the Company's Management. Regarding projections of future taxable income, Management took into account assumptions in line with the corporate strategy considering the history of profitability and expected performance. Due to inherent business uncertainties that affect projections of future taxable income and their estimates to determine the recoverability of said deferred taxes and the fact that the Management has to exercise significant judgment in determining the future taxable income, we consider this matter relevant for our audit.	We evaluated the estimated future taxable income based on the business plan and budgets prepared by the Company's Management regarding the application of assumptions used to prepare them. We involved our corporate finance specialists and evaluated the assumptions and methodology used by the Company to calculate and project the future taxable income and compared the assumptions of the Management of the Company. With the involvement of our tax specialists, we assessed the accrued tax loss and the social contribution tax loss carryforwards and compared them with the expected future taxable income, and the amount threshold to be recognized as deferred income and social contribution assets of the Company, as well as the disclosures made in Note 13 to the individual and consolidated financial statements. Based on the evidence obtained through the aforementioned procedures, we consider the measurement and disclosures regarding the deferred income and social contribution tax assets as acceptable in the context of the individual and consolidated financial statements taken together.

Provision for labor, tax and civil risks - Parent Company and Subsidiary	Auditor's response on the subject
As disclosed in Note 14.a to the individual and consolidated financial statements, on December 31, 2018, the Company was a party in judicial and administrative proceedings related to tax, civil and labor disputes originating from the ordinary course of business of the Company. The determination of the provisions and contingent liabilities and other required disclosures, as well as the assessment of the existence of present obligation and probability of disbursement, requires significant judgment by the Company's Management. Due to the complexity and uncertainties related to the legal aspects involved in tax, civil and labor matters, we consider this as one of the main issues for our audit.	Our procedures involved: (i) analysis of the responses to external confirmations requested from the Company's legal counsel; (ii) evaluation of the Company's history of losses in legal and administrative proceedings; and (iii) assessment of the adequacy of the Company's disclosures on this issue in Note 13 to the individual and consolidated financial statements. Based on the evidence obtained from applying the aforementioned audit procedures, we consider the measurement and disclosure of provision for labor, tax and civil risks as acceptable in the context of the individual and consolidated financial statements taken together.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA), for the year ended December 31, 2018, prepared under the responsibility of the Management of **Unicasa Indústria de Móveis S.A.**, and presented as additional information for IFRS purposes, has been subject to audit procedures performed in conjunction with the audit of the **Company's** financial statements. In order to form our opinion, we assessed whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in the Brazilian FASB (CPC) Accounting Pronouncement CPC 9 - Statement of Value Added. In our opinion the statements of value added were properly prepared in all material respects in accordance with the criteria established in that Accounting Pronouncement and are consistent in relation to the individual and consolidated financial statements as a whole.

Audit of amounts corresponding to previous fiscal year

The amounts corresponding to the individual and consolidated financial statements of **UNICASA Indústria de Móveis S.A.** for the fiscal year ended December 31, 2017, presented for comparison purposes, were audited by us and we issued a report on March 15, 2017, without any change.

Other information accompanying the individual and consolidated financial statements and the independent auditor's report

Company Management is responsible for this other information that comprises the management report.

Our opinion on the individual and consolidated financial statements does not include the management report and does not express any form of audit conclusion on that report.

In regard to the audit of the individual and consolidated financial statements, our responsibility is to read the management report and, in doing so, consider whether this report is significantly inconsistent with the financial statements or our knowledge obtained during the audit or otherwise, or whether it appears to be significantly distorted.

If, on the basis of the work performed, we conclude that there is significant inconsistency in management's report, we are required to communicate that fact. We do not have anything to report in this regard.

Responsibilities of Management and of 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 the accounting practices adopted in Brazil, and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls 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 relating to its going concern and using the going concern basis of accounting, unless management either intends to liquidate **Unicasa Indústria de Móveis S.A.** or its subsidiary, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance of Unicasa **Indústria de Móveis S.A.** and its subsidiary are those responsible for overseeing the individual and consolidated financial reporting process.

Auditor’s Responsibilities for the Audit of 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 of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian standards 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 made on the basis of these individual and consolidated 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 greater than that posed by error, as fraud may involve circumvention of internal controls, collusion, forgery, intentional omissions or misrepresentations.

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

- Evaluate the appropriateness of accounting practices used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of the 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 substantial doubt on the ability of **Unicasa Indústria de Móveis S.A.** to continue as a going concern or that of its subsidiary. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or future conditions may cause **Unicasa Indústria de Móveis S.A.** or its subsidiary to cease to continue as a going concern.

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

- Obtain adequate and sufficient audit evidence for entity financial information or business group activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group’s audit and, consequently, for the auditor’s opinion.

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

We also provide those responsible for governance with a statement that we complied with relevant ethical requirements, including the requirements of independence, and communicate all possible relationships or matters that could considerably affect, our independence, including, where applicable, respective safeguards.

Any matters that have been the subject of communication with those responsible for governance, we have determined those that were considered to be most significant in auditing the individual and consolidated financial statements of the current year and that, therefore, constitute the main assurance issues. We describe these issues in our auditor's report, unless law or regulation has outlawed public disclosure of the issue, or when, in extremely rare circumstances, we determine that the issue should not be stated in our report given that the adverse consequences of such a communication may, from a reasonable perspective, outweigh the benefits of communication in the public interest.

Porto Alegre, March 14, 2019.

BDO

BDO RCS Auditores Independentes SS
CRC 2 RS 005519/F

Paulo Sérgio Tufani
Accountant CRC 1 SP 124504/O-9 - S - RS

Statements of financial position
December 31, 2018 and 2017
(In thousands of reais)

		Company		Consolidated	
	Note	2018	2017	2018	2017
Assets					
Current assets					
Cash and cash equivalents	3	**28,664**	29,227	**28,788**	29,473
Financial investments	4	**9,774**	-	**9,774**	-
Trade accounts receivable	5	**28,085**	23,543	**28,485**	23,641
Inventories	6	**21,448**	18,725	**21,563**	19,770
Loans granted	8	**1,803**	1,456	**1,803**	1,456
Taxes recoverable		**875**	4,928	**892**	5,096
Other assets	9	**5,943**	3,728	**7,539**	5,070
Total current assets		**96,592**	81,607	**98,844**	84,506
Noncurrent assets					
Long-term receivables					
Financial investments	4	**3,036**	-	**3,036**	-
Trade accounts receivable	5	**8,326**	11,633	**8,326**	11,633
Loans granted	8	**1,439**	2,606	**1,439**	2,606
Assets held for sale	7	**750**	2,878	**750**	2,878
Deferred income and social contribution taxes	13	**13,063**	16,238	**13,063**	16,238
Judicial deposits	14.b	**2,736**	2,858	**2,830**	2,946
Other assets	9	**794**	827	**1,539**	2,454
		30,144	37,040	**30,983**	38,755
Investments					
In subsidiary	10	**362**	-	**-**	-
Other investments		**20**	31	**20**	31
Property, plant and equipment	11	**78,618**	82,051	**78,663**	82,398
Intangible assets	12	**8,472**	10,672	**8,472**	10,673
		87,472	92,754	**87,155**	93,102
Total noncurrent assets		**117,616**	129,794	**118,138**	131,857
Total assets		**214,208**	211,401	**216,982**	216,363

See accompanying notes to the financial statements.

Statements of financial position
December 31, 2018 and 2017
(In thousands of reais)

	Note	Company		Consolidated	
		2018	2017	2018	2017
Liabilities					
Current					
Trade accounts payable		**2,277**	3,188	**2,299**	3,266
Tax obligations		**1,123**	2,408	**1,179**	2,718
Salaries and social charges		**2,622**	2,338	**2,876**	2,973
Advances from customers		**14,738**	11,709	**16,717**	17,568
Provisions	14.c	**5,485**	8,703	**5,485**	8,703
Provision for capital deficiency at subsidiary	10	**-**	1,920	**-**	-
Other current liabilities	15	**5,228**	3,217	**5,691**	3,217
Total current liabilities		**31,473**	33,483	**34,247**	38,445
Noncurrent liabilities					
Provisions	14.a	**10,954**	9,575	**10,954**	9,575
Tax obligations		**208**	471	**208**	471
Other noncurrent liabilities	15	**307**	-	**307**	-
Total noncurrent liabilities		**11,469**	10,046	**11,469**	10,046
Equity					
Capital	16.a	**187,709**	187,709	**187,709**	187,709
Capital reserve	16.b	**(2,658)**	(2,658)	**(2,658)**	(2,658)
Accumulated losses		**(13,785)**	(17,179)	**(13,785)**	(17,179)
Total equity		**171,266**	167,872	**171,266**	167,872
Total liabilities and equity		**214,208**	211,401	**216,982**	216,363

See accompanying notes to the financial statements.

Statements of operations
Years ended December 31, 2018 and 2017
(In thousands of reais, except for loss per share)

	Note	Company 2018	Company 2017	Consolidated 2018	Consolidated 2017
Sales revenue, net	17	**144,193**	145,457	**149,306**	157,941
Cost of sales	18	**(90,615)**	(89,864)	**(91,161)**	(90,931)
Gross profit		**53,578**	55,593	**58,145**	67,010
Operating income (expenses)					
Selling expenses	18	**(28,410)**	(46,680)	**(35,679)**	(58,371)
Administrative expenses	18	**(24,168)**	(24,910)	**(24,168)**	(24,910)
Other operating revenue	19	**2,926**	3,914	**3,490**	4,921
Other operating expenses		**(391)**	(3,231)	**(391)**	(3,246)
Equity pickup	10	**(2,048)**	1,933	**-**	-
		(52,091)	(68,974)	**(56,748)**	(81,606)
Income (loss) before financial income (expenses)		**1,487**	(13,381)	**1,397**	(14,596)
Financial income					
Financial expenses	20	**(1,277)**	(2,536)	**(1,295)**	(2,614)
Financial income	20	**6,359**	7,118	**6,467**	7,218
		5,082	4,582	**5,172**	4,604
Profit (loss) before income and social contribution taxes		**6,569**	(8,799)	**6,569**	(9,992)
Income and social contribution taxes					
Deferred charges	13	**(3,175)**	2,442	**(3,175)**	3,635
		(3,175)	2,442	**(3,175)**	3,635
Profit (loss) for the year		**3,394**	(6,357)	**3,394**	(6,357)
Basic and diluted profit (loss) per share	16.c	**0.05136**	(0.09619)	**0.05136**	(0.09619)

See accompanying notes to the financial statements.

Statements of comprehensive income
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Profit (loss) for the year	**3,394**	(6,357)	**3,394**	(6,357)
Total comprehensive income for the year	**3,394**	(6,357)	**3,394**	(6,357)

See accompanying notes to the financial statements.

Statements of changes in equity
(In thousands of reais)

	Capital	Capital Reserve	Accumulated losses	Total
Balances as at December 31, 2016	187,709	(2,658)	(10,822)	174,229
Loss for the year	-	-	(6,357)	(6,357)
Balances as at December 31, 2017	187,709	(2,658)	(17,179)	167,872
Net income for the year	**-**	**-**	**3,394**	**3,394**
Balances as at December 31, 2018	**187,709**	**(2,658)**	**(13,785)**	**171,266**

See accompanying notes to the financial statements.

Cash flow statements
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Cash flow from operating activities:				
Profit (loss) before income and social contribution taxes	**6,569**	(8,799)	**6,569**	(9,992)
Adjustment to reconcile net income to cash and cash equivalents:				
Depreciation and amortization	**9,066**	10,399	**9,085**	10,489
Currency variation - Customers	**(91)**	(93)	**(91)**	(93)
Provision for risks - tax, labor, civil and end of business relationship	**2,251**	3,411	**2,251**	3,411
Provision for obsolescence	**353**	53	**353**	53
Allowance for doubtful accounts – Accounts Receivable and Loans Granted	**925**	1,448	**963**	1,550
Provision for losses with sureties	**(1,441)**	-	**(1,441)**	-
Other provisions	**(26)**	16	**437**	(68)
Write-offs of property, plant and equipment and intangible assets, net	**1,981**	1,734	**2,279**	3,524
Equity pickup	**2,048**	(1,933)	**-**	-
	21,635	6,236	**20,405**	8,874
Changes in assets and liabilities				
Trade accounts receivable	**(1,975)**	(1,417)	**(2,315)**	(1,903)
Inventories	**(3,076)**	180	**(2,146)**	1,995
Taxes recoverable	**4,053**	1,614	**4,204**	1,535
Loans granted	**726**	713	**726**	713
Other current and noncurrent assets	**(619)**	(100)	**3**	(2,998)
Noncurrent assets held for sale	**2,128**	8,128	**2,128**	8,128
Trade accounts payable	**(911)**	95	**(967)**	(77)
Advances from customers	**3,029**	(4,307)	**(851)**	(7,928)
Other current and noncurrent liabilities	**(3,010)**	(5,764)	**(3,645)**	(4,857)
Net cash provided by operating activities	**21,980**	5,378	**17,542**	3,482
Cash flow from investing activities:				
Financial investments	**(12,810)**	4,779	**(12,810)**	4,779
Capital increase at subsidiary	**(4,330)**	(500)	**-**	-
Investment write-off	**11**	51	**11**	51
Acquisition of property, plant and equipment	**(4,586)**	(6,255)	**(4,600)**	(6,393)
Acquisition of intangible assets	**(828)**	(278)	**(828)**	(278)
Net cash used in investing activities	**(22,543)**	(2,203)	**(18,227)**	(1,841)
Increase/(decrease) in cash and cash equivalents	**(563)**	3,175	**(685)**	1,641
Statement of changes in cash and cash equivalents:				
At beginning of year	**29,227**	26,052	**29,473**	27,832
At end of year	**28,664**	29,227	**28,788**	29,473
Increase (decrease) in cash and cash equivalents	**(563)**	3,175	**(685)**	1,641

See accompanying notes to the financial statements.

Statements of value added
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Company		Consolidated	
	2018	2017	2018	2017
Revenue from product sale, net of returns and adjustment to present value	**187,583**	196,786	**194,955**	215,199
Other revenues	**(619)**	2,898	**(55)**	3,890
Allowance for doubtful accounts	**(925)**	(1,448)	**(963)**	(1,550)
	186,039	198,236	**193,937**	217,539
Inputs acquired from third parties				
Cost of products and goods sold	**(85,102)**	(85,127)	**(86,281)**	(87,915)
Materials, electricity, third-party services	**(30,745)**	(38,094)	**(33,737)**	(43,103)
Other	**(9,743)**	(21,128)	**(9,949)**	(21,284)
	(125,590)	(144,349)	**(129,967)**	(152,302)
Gross value added	**60,449**	53,887	**63,970**	65,237
Depreciation and amortization	**(9,066)**	(10,399)	**(9,085)**	(10,489)
Gross value added generated by the Company	**51,383**	43,488	**54,885**	54,748
Value added received in transfer				
Equity pickup	**(2,048)**	1,933	**-**	-
Financial income	**6,564**	7,358	**6,678**	7,463
	4,516	9,291	**6,678**	7,463
Total unpaid value added	**55,899**	52,779	**61,563**	62,211
Personnel				
Direct compensation	**16,860**	20,288	**19,396**	24,291
Benefits	**2,826**	3,028	**2,954**	3,293
Unemployment Compensation Fund (FGTS)	**1,708**	2,871	**2,186**	3,273
	21,394	26,187	**24,536**	30,857
Taxes, rates and contributions				
Federal	**19,043**	16,447	**20,156**	17,697
State	**10,354**	12,632	**11,128**	14,640
Municipal	**97**	100	**174**	199
	29,494	29,179	**31,458**	32,536
Debt remuneration				
Rent	**776**	1,444	**1,316**	2,771
Interest	**-**	-	**-**	-
Other	**841**	2,326	**859**	2,404
	1,617	3,770	**2,175**	5,175
Equity remuneration				
Net loss for the year	**3,394**	(6,357)	**3,394**	(6,357)
	3,394	(6,357)	**3,394**	(6,357)
Total value added distributed	**55,899**	52,779	**61,563**	62,211

See accompanying notes to the financial statements.

1. Operations

The corporate purpose of Unicasa Indústria de Móveis S.A. ("Company"), is a corporation with registered office in the city of Bento Gonçalves, state of Rio Grande do Sul, with shares listed on the Novo Mercado segment of "B3 S.A. – Brasil, Bolsa e Balcão" (BM&FBovespa), under ticker UCAS3, since April 27, 2012. Established in 1985, the Company's corporate purpose is to manufacture, sell, import and export products related to the wood, iron and aluminum furniture segment, kitchens, and other articles related to household and commercial furniture.

The Company has resale agreements with agents authorized to explore our brands "Dell Anno", "Favorita", "New", "Casa Brasileira" and "Unicasa Corporate" through exclusive dealers and multibrand stores in Brazil and abroad.

The corporate purpose of Unicasa Comércio de Móveis Ltda. (subsidiary), included in the consolidated financial statements, is the retail sale of customized furniture.

Unicasa North America, LLC (subsidiary), established on November 13, 2018, albeit not operating in 2018, acts as a sales office to prospect the Dell Anno brand and accompany its expansion in North America. Its capital stock is US$200,000.00, subscribed to but not paid up.

The Management of the Company decided to reduce the number of own stores by transferring them to the direct management of authorized independent resellers. In the first quarter of 2018, its last operating reseller was transferred. Two stores were transferred in 2017 and four were transferred in 2016, out of an earlier total of seven own stores. The subsidiary remains open to serve the operation's holdover clients and as a support for clients of the parent company's Unicasa Corporate segment.

2. Summary of significant accounting practices

2.1 Basis of preparation and presentation of financial statements

The individual and consolidated financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which include the provisions of Federal Law 6,404/76, amended by Federal Laws 11,638/07 and 11,941/09, the accounting standards, interpretations and guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved by the Securities and Exchange Commission of Brazil ("CVM"), the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

While preparing these financial statements, the Company's Management followed the same accounting policies and calculation methods as applied to the individual and consolidated financial statements dated December 31, 2017.

The Company's Management understands that all relevant information related to the financial statements is presented herein and corresponds to the information used by the management. Note also that accounting practices considered immaterial were not included in the financial statements.

Approval of the individual and consolidated financial statements

The presentation of these financial statements was approved and authorized at the Board of Directors' Meeting held on March 14, 2019.

2.2 Basis of consolidation

The subsidiary Unicasa Comércio de Móveis Ltda. is fully consolidated from the date of its incorporation. Its financial statements are prepared for the same disclosure fiscal year as that of the parent company using uniform accounting policies. All intra-group balances, revenues and expenses and unrealized profits and losses arising from intercompany transactions are entirely eliminated.

2. Summary of accounting policies--Continued

2.3 Functional currency and translation of balances denominated in foreign currency

The financial statements are presented in Brazilian Real (R$), the Company's functional currency. Transactions using foreign currencies are initially recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the exchange rate on the balance sheet date. All variations are recorded in the statement of income.

2.4 Critical accounting judgements, estimates and premises

The preparation of the financial statements requires the use of certain accounting estimates and judgements by the Company's Management in applying its accounting policies. The settlement of transactions involving these estimates could result in amounts significantly different from those recorded in the financial statements, due to inaccuracies in the process of determining such amounts. The Company regularly revises its estimates and premises in a period not exceeding one year.
Information on critical judgements regarding accounting policies adopted that have effects on the amounts recognized in the individual and consolidated financial statements and the information about uncertainties, premises and estimates are included in the following notes: 4 - Trade accounts receivable, 8 - Loans granted, 13 - Income Tax and Social Contribution, 14 – Provisions and 22 – Financial instruments.
The accounting practices adopted by the Company and its subsidiary are described in the specific notes related to the items presented. Those applicable in general to different aspects of the financial statements and considerations about the use of estimates and judgements are presented in this section.

2.5 Impairment of non-financial assets

The Company's Management periodically revises the carrying amount of the assets for the purpose of evaluating events or changes in the economic, operational or technological circumstances that may indicate deterioration or loss of their recoverable value.
On December 31, 2018 and 2017, no risk factors were detected and, consequently, no provision for impairment of assets was necessary.

2.6 IFRS standards in effect in 2018

2.6.1 IFRS 9/CPC 48 Financial Instruments

The new standard replaces IAS 39/CPC 38 – Financial Instruments. The main changes are: (i) Classification and measurement of financial assets and liabilities; (ii) Impairment (replacement of the "incurred losses" model by a "expected credit losses" model); (iii) Hedge accounting.

2.6.1.1 <u>Classification and measurement of financial assets and liabilities:</u>

CPC 48/IFRS 9 divides the financial assets and liabilities into three categories: Measured at amortized cost, fair value through other comprehensive income and fair value recorded through profit or loss. In order to define the classification of financial instruments, pursuant to the standard, the following factors are considered: business model for managing the financial asset and its contractual cash flow characteristics. The effect of this adoption is shown in the classifications:

2. Summary of accounting policies--Continued

2.6 IFRS standards in effect in 2018--Continued

2.6.1 IFRS 9/CPC 48 Financial Instruments--Continued

2.6.1.1 Classification and measurement of financial assets and liabilities: ----Continued

	Parent Company and Consolidated	
	New classification CPC 48/IFRS 9 – 1/1/2018	**CPC 38/IAS 39 classification – up to 12/31/2017**
Financial assets		
Cash and cash equivalents (Note 3)	**Amortized cost**	Loans and receivables
Financial investments (Note 3)	**Amortized cost**	Loans and receivables
Trade accounts receivable (Note 4)	**Amortized cost**	Loans and receivables
Loans granted (Note 7)	**Amortized cost**	Loans and receivables
Other assets (Note 8)	**Amortized cost**	Loans and receivables
Financial liabilities		
Trade payables	**Amortized cost**	Other financial liabilities
Advances from customers	**Amortized cost**	Other financial liabilities
Other current liabilities	**Amortized cost**	Other financial liabilities

2.6.1.2 "Expected credit losses model" impairment:

IFRS 9/CPC 48 adopts a new model of expected losses that makes the evaluation on a minimum twelve-month basis or for the entire lifetime of the financial asset recording the effects when there are indications of expected credit losses in financial assets, thus replacing the incurred losses model.

The Company already adopted an expanded loss model for its financial assets in which it evaluates their entire lifetime, that is, the entire balance, and recognizes the total loss in balances when applicable according to the risk of non-recovery. The asset maturity date in this model is indicative, but is not the only factor considered for provisioning. In the Company's opinion, the new model of expected losses did not impact the financial statements, since the practice adopted reflects the risks inherent to its business model.

2.6.1.3 Hedge Accounting:

The Company evaluated the new hedge accounting model (IFRS 9/CPC 48) and did not detect impacts on its financial statements. In the fiscal year 2018, the Company had only one foreign exchange hedge contract, whose year-end balance was US$145 at R$4.08 (note 15), with immaterial impact on the financial statements. In fiscal year 2017, it did not have active contracts.

2.6.2 IFRS 15/CPC 47 Revenue from Contracts with Customers

The main purpose is to recognize income taking into account the five criteria, which need to be cumulatively met: (i) identify the contract; (ii) identify the performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price for each performance obligation; and (v) recognize revenue only when the performance of each obligation is satisfied.

In the Company's opinion, the new revenue recognition model does not change the current method for recognizing revenue, given that sales are recognized upon the transfer of control through the delivery of its products – to its exclusive and multibrand dealers – when the performance obligation is satisfied.

2. Summary of accounting policies--Continued

2.6 IFRS standards in effect in 2018--Continued

2.6.2 IFRS 15/CPC 47 Revenue from Contracts with Customers--Continued

IFRS 15/CPC 47 also established new criteria for evaluating contracts, to which the Company identified contracts signed with future obligations for the delivery of products. For this, it recorded its impacts, net of advances, in assets and liabilities on December 31, 2018 (notes 9 and 15). The Management understands that the amount involved for the opening balances is immaterial for the Company's financial statements and hence the comparative financial statements are not being resubmitted.

2.7 IFRS standards in effect as of January 1, 2019

2.7.1 IFRS 16/CPC 06 (R2) Leases

The IASB issued IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosure of leases. Accounting requirements for lessors remain substantially the same compared to the standards currently in effect. However, there are significant changes for lessees in that IFRS 16 specifies a single model by eliminating the distinction between financial and operational leases, which leads to a balance sheet that reflects right-to-use assets and a corresponding financial liability.

During fiscal year 2018, the Company evaluated the potential impacts on its financial statements arising from the first-time adoption of the CPC 06 (R2)/IFRS 16 standard, and identified the existence of lease agreements for IT equipment, recognizing the liabilities assumed as well as their right to use in assets in the amount of R$521.

In the Management's opinion, no pronouncement, interpretation or guideline was issued by CPC or IASB in the fiscal year that had a significant impact on the Company's financial statements.

3. Cash and cash equivalents

	Index	Average weighted rate p.a.	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
Cash and cash equivalents						
Cash and banks			**2,173**	1,211	**2,174**	1,326
Cash equivalents						
CDB	**CDI**	**100.37%**	**24,516**	9,193	**24,516**	9,324
Repo	**CDI**	**40.0%**	**1,200**	18,531	**1,200**	18,531
Automatic investment	**CDI**	**10.0%**	**775**	292	**898**	292
			28,664	29,227	**28,788**	29,473

Cash and cash equivalents do not have restrictions for use, have short-term original maturity, are highly liquid and easily convertible into a known cash amount and are subject to an insignificant risk of change in value.

4. Financial investments

	Index	Average weighted rate p.a.	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
Financial investments						
CDB	**CDI**	**101.61%**	**12,810**	-	**12,810**	-
			12,810	-	**12,810**	_-
Current assets			**9,974**	-	**9,974**	-
Non-current assets			**3,036**	-	**3,036**	-
			12,810	-	**12,810**	-

Financial investments are made in prime banks (among the ten largest institutions in Brazil), whose yield is linked to the Interbank Deposit Certificate (CDI).

5. Trade accounts receivable

	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
Domestic market				
Third parties	**51,867**	52,978	**52,628**	53,872
Related parties (Note 19)	**230**	805	**57**	203
Foreign market				
Third parties	**2,604**	2,154	**2,604**	2,154
Check receivables	**6,672**	6,812	**6,672**	6,895
	61,373	62,749	**61,961**	63,124
(-) Allowance for doubtful accounts	**(24,605)**	(27,187)	**(24,793)**	(27,464)
(-) Present Value Adjustment (PVA)	**(357)**	(386)	**(357)**	(386)
	36,411	35,176	**36,811**	35,274
Current assets	**28,085**	23,543	**28,485**	23,641
Non-current assets	**8,326**	11,633	**8,326**	11,633
	36,411	35,176	**36,811**	35,274

5. Trade accounts receivable—Continued

The amounts classified under non-current assets refer to novation of credits to clients of the chain. In general, such novation has a term of more than one year and the balances are adjusted for inflation, plus interest compatible with market practices.

Days sales outstanding, weighted by the average maturity of invoices, at December 31, 2018 and 2017, were 31 and 23 days, respectively.

The changes in allowance for loan losses are as follows:

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Balance at beginning of year	**(27,187)**	(27,935)	**(27,464)**	(28,836)
Additions	**(1,792)**	(2,782)	**(1,933)**	(3,066)
Recovery / realizations	**961**	2,315	**1,064**	2,497
Write off due to losses	**3,413**	1,215	**3,540**	1,941
Balance at end of year	**(24,605)**	(27,187)	**(24,793)**	(27,464)

At December 31, 2018 and 2017, the breakdown of trade accounts receivable by maturity is as follows:

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Falling due	**31,157**	32,294	**31,695**	32,525
Overdue:				
From 1 to 30 days	**2,142**	2,894	**2,192**	2,893
From 31 to 60 days	**788**	1,036	**788**	1,036
From 61 to 90 days	**582**	1,173	**582**	1,173
From 91 to 180 days	**2,385**	3,368	**2,385**	3,384
Over 181 days	**24,319**	21,984	**24,319**	22,113
	61,373	62,749	**61,961**	63,124

The allowance for loan losses is based on the individual analysis of total trade accounts receivable overdue for more than 90 days, considering the clients' payment capacity, the current and prospective economic scenario, the evaluation of delinquency levels and guarantees received, as well as evaluation of renegotiations made. Specific cases not yet overdue, but with risk of loss in the Management's opinion, is also included in the allowance.

6. Inventories

Inventories are stated at cost or net realizable value, whichever is lower. Costs incurred to take each product to its current location and condition are recorded as follows:

(i) Raw materials – cost of acquisition according to average cost.
(ii) Finished products and products under production – cost of materials and direct labor and proportional portion of indirect general expenses based on the normal operating capacity.

The net realizable value corresponds to the sale price in the normal course of business, less estimated costs for conclusion and sale.

	Parent Company		Consolidated	
	2018	2017	2018	2017
Finished products	**74**	129	**189**	1,303
Products under production	**1,702**	1,827	**1,702**	1,827
Goods for resale	**467**	316	**467**	187
Raw material	**18,043**	15,420	**18,043**	15,420
Advances to suppliers	**341**	100	**341**	100
Sundry materials	**1,601**	1,360	**1,601**	1,360
Provision for obsolescence	**(780)**	(427)	**(780)**	(427)
	21,448	18,725	**21,563**	19,770

Provisions for low inventory turnover or obsolete inventories are constituted when deemed necessary by the Management. The changes in provision for obsolescence are as follows:

	Parent Company and Consolidated	
	2018	2017
Balance at beginning of year	**(427)**	(374)
Additions	**(506)**	(827)
Recoveries / realizations	**153**	774
Balance at end of year	**(780)**	(427)

7. Assets held for sale

At December 31, 2018, assets held for sale totaling R$750 (R$2,878 at December 31, 2017) are largely composed of land, apartments and other real estate received from debt renegotiations with clients and are available for immediate sale. The Company engaged specialized brokers to sell these properties and believes these will materialize over the coming 12 months. Assets are held at their book value, which are lower than their fair values, less selling expenses.

8. Loans granted

	Parent Company and Consolidated	
	2018	**2017**
Loans granted	**4,317**	5,043
(-) Allowance for loan losses	**(1,075)**	(981)
	3,242	4,062
Current assets	**1,803**	1,456
Non-current assets	**1,439**	2,606
	3,242	4,062

These refer to loans granted by the Company to clients to finance the expansion of the network of authorized resellers and exclusive stores, measured at amortized cost method in accordance with contractual terms (fixed rates and payment conditions), net of the allowance for losses. Loans bear average interest of 16.44% p.a. (18.35% in 2017). As guarantee for most operations, the Company has letters of guarantee of partners of stores and first-degree mortgage guarantees.

9. Other assets

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Other current assets:				
Prepaid expenses	**1,992**	1,089	**1,992**	1,089
Advances and prepayments	**354**	729	**399**	837
Sundry debtors (*)	**1,063**	1,530	**1,063**	1,530
Other accounts receivable – sale of own stores (***)	**450**	380	**2,001**	1,614
Other accounts receivable – future sales (**)	**1,169**	-	**1,169**	-
Foreign exchange orders	**915**	-	**915**	-
	5,943	3,728	**7,539**	5,070
Other non-current assets:				
Other accounts receivable – sale of own stores (***)	**782**	814	**1,527**	2,442
Other	**12**	13	**12**	12
	794	827	**1,539**	2,454

(*) Refer mainly to the expenses with cooperative advertising receivable from resellers for marketing campaigns.
(**) Contracts from the Unicasa Corporate segment for future sales
(***) Refer to receivables from third parties for the sale of part of its own stores held by the subsidiary Unicasa Comércio Ltda., as mentioned in Note 1. This transaction is covered by collateral as set forth in the agreements. Receivables are expected as follows:

Year	Parent Company R$	Consolidated R$
2019	**450**	**2,001**
2020	**418**	**1,147**
2021	**331**	**346**
2022	**33**	**34**
Total receivables	**1,232**	**3,528**

10. Investments

The investment in subsidiary is valued based on the equity income method, according to CPC 18 (R2). The main balances of the subsidiary are:

	Unicasa Comércio de Móveis Ltda.	
	2018	**2017**
Current assets	**3,337**	3,675
Non-current assets	**883**	2,063
Liabilities	**2,947**	7,487
Shareholders' equity	**390**	(1,749)
Capital stock	**20,430**	16,100

	Unicasa Comércio de Móveis Ltda.	
	2018	**2017**
Net revenue	**7,755**	19,943
Profit (Loss) for the year – subsidiary	**(2,191)**	1,740
% Ownership interest	**99.99%**	99.99%
Equity income (loss) before eliminations	**(2,191)**	1,740
Effect of unrealized income	**143**	193
Equity income (loss)	**(2,048)**	1,933

The changes in investments in subsidiary are as follows:

	Parent Company	
	2018	**2017**
Investment balance / (unsecured liability) at beginning of year	**(1,920)**	(4,353)
Capital payment – subsidiary	**4,330**	500
Equity income (loss)	**(2,048)**	1,933
Investment balance / (unsecured liability) at end of year	**362**	(1,920)

11. Property, plant and equipment

These are registered at acquisition or construction cost. Depreciation of assets is calculated using the straight-line method at depreciation rates and take into consideration the estimated useful lives of these assets. The depreciation methods, useful lives and residual values are reviewed at the end of the fiscal year and any adjustments are recognized as changes in accounting estimates. Property, plant and equipment are net of PIS/COFINS and ICMS credits and the contra entry is recorded as recoverable taxes. A property, plant and equipment item is written off when sold or when no future economic benefit is expected from its use or sale. Gain or loss from the write-off of an asset, calculated as the difference between net sale value and book value of the asset, is included in the statement of operations for the year in which the asset was written off.

Useful life of assets and the depreciation methods are annually reviewed and prospectively adjusted, as applicable.

Property, plant and equipment is broken down as follows:

11. Property, plant and equipment--Continued

Parent Company

Cost of property, plant and equipment	Land	Buildings	Improvements and facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Construction in progress	Total
Balances at 2016	2,285	21,575	13,100	97,307	2,507	3,683	5,043	145,500
Acquisitions	-	-	174	366	80	102	5,201	5,923
Write-offs	-	-	(103)	(2,798)	(261)	(798)	-	(3,960)
Transfers	-	-	331	6,704	5	762	(7,802)	-
Balances at 2017	2,285	21,575	13,502	101,579	2,331	3,749	2,442	147,463
Acquisitions	**-**	**-**	**4**	**225**	**60**	**18**	**4,279**	**4,586**
Write-offs	**(907)**	**(477)**	**(1,646)**	**(429)**	**(65)**	**(213)**	**-**	**(3,737)**
Transfers	**-**	**64**	**677**	**4,104**	**12**	**3**	**(4,860)**	**-**
Balances at 2018	**1,378**	**21,162**	**12,537**	**105,479**	**2,338**	**3,557**	**1,861**	**148,312**

Accumulated depreciation	Land	Buildings	Improvements and facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Construction in progress	Total
Balances at 2016	-	(6,172)	(4,464)	(48,819)	(1,429)	(2,256)	-	(63,140)
Depreciation	-	(270)	(994)	(3,961)	(153)	(341)	-	(5,719)
Write-off	-	-	105	2,316	245	781	-	3,447
Balances at 2017	-	(6,442)	(5,353)	(50,464)	(1,337)	(1,816)	-	(65,412)
Depreciation	**-**	**(343)**	**(720)**	**(4,379)**	**(152)**	**(444)**	**-**	**(6,038)**
Write-off	**-**	**24**	**1,098**	**380**	**51**	**203**	**-**	**1,756**
Balances at 2018	**-**	**(6,761)**	**(4,975)**	**(54,463)**	**(1,438)**	**(2,057)**	**-**	**(69,694)**

Property, plant and equipment, net								
Balances at 2016	2,285	15,403	8,636	48,488	1,078	1,427	5,043	82,360
Balances at 2017	2,285	15,133	8,149	51,115	994	1,933	2,442	82,051
Balances at 2018	**1,378**	**14,401**	**7,562**	**51,016**	**900**	**1,500**	**1,861**	**78,618**

Consolidated

Cost of property, plant and equipment	Land	Buildings	Improvements and facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Construction in progress	Total
Balances at 2016	2,285	21,575	13,430	97,351	3,003	3,977	5,043	146,664
Acquisitions	-	-	174	366	187	116	5,218	6,061
Write-offs	-	-	(415)	(2,802)	(610)	(960)	-	(4,787)
Transfers	-	-	331	6,704	22	762	(7,819)	-
Balances at 2017	2,285	21,575	13,520	101,619	2,602	3,895	2,442	147,938
Acquisitions	**-**	**-**	**4**	**225**	**63**	**29**	**4,279**	**4,600**
Write-offs	**(907)**	**(477)**	**(1,663)**	**(429)**	**(331)**	**(313)**	**-**	**(4,120)**
Transfers	**-**	**64**	**677**	**4,104**	**12**	**3**	**(4,860)**	**-**
Balances at 2018	**1,378**	**21,162**	**12,538**	**105,519**	**2,346**	**3,614**	**1,861**	**148,418**

Accumulated depreciation	Land	Buildings	Improvements and facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Construction in progress	Total
Balances at 2016	-	(6,172)	(4,666)	(48,856)	(1,588)	(2,368)	-	(63,650)
Depreciation	-	(270)	(1,009)	(3,962)	(194)	(373)	-	(5,808)
Write-off	-	-	320	2,320	401	877	-	3,918
Balances at 2017	-	(6,442)	(5,355)	(50,498)	(1,381)	(1,864)	-	(65,540)
Depreciation	**-**	**(343)**	**(720)**	**(4,381)**	**(157)**	**(455)**	**-**	**(6,056)**
Write-off	**-**	**24**	**1,099**	**380**	**98**	**240**	**-**	**1,841**
Balances at 2018	**-**	**(6,761)**	**(4,976)**	**(54,499)**	**(1,440)**	**(2,079)**	**-**	**(69,755)**

Property, plant and equipment, net								
Balances at 2016	2,285	15,403	8,764	48,495	1,415	1,609	5,043	83,014
Balances at 2017	2,285	15,133	8,165	51,121	1,221	2,031	2,442	82,398
Balances at 2018	**1,378**	**14,401**	**7,562**	**51,020**	**906**	**1,535**	**1,861**	**78,663**
Average useful life – in years	-	67.46	21.02	17.13	14.02	5.00	-	

12. Intangible assets

Intangible assets with a defined life are measured at cost, less amortization accrued over the economic useful life and evaluated for impairment whenever there is indication of loss of economic value of the asset. The amortization period and method for an intangible asset with defined life are reviewed at least at the end of each fiscal year. The amortization of these intangible assets is recognized in the statement of operations.

Parent Company

	Software	Trademarks and patents	Commercial goodwill	Total
Balances at 2016	1,617	56	13,601	15,274
Acquisitions	278	-	-	278
Write-offs (*)	-	-	(200)	(200)
Amortization	(459)	(13)	(4,208)	(4,680)
Balances at 2017	1,436	43	9,193	10,672
Acquisitions	**786**	**42**	**-**	**828**
Amortization	**(560)**	**(18)**	**(2,450)**	**(3,028)**
Balances at 2018	**1,662**	**67**	**6,743**	**8,472**

Consolidated

	Software	Trademarks and patents	Commercial goodwill	Total
Balances at 2016	1,634	56	13,601	15,291
Acquisitions	278	-	-	278
Write-offs (*)	(15)	-	(200)	(215)
Amortization	(460)	(13)	(4,208)	(4,681)
Balances at 2017	1,437	43	9,193	10,673
Acquisitions	**786**	**42**	**-**	**828**
Amortization	**(561)**	**(18)**	**(2,450)**	**(3,029)**
Balances at 2018	**1,662**	**67**	**6,743**	**8,472**
Average useful life in years	**5.00**	**10.00**	**9.11**	

(*) Represents the write-off of commercial goodwill due to closure and sale of own stores, as mentioned in Note 1.

Research and development

Since research and development costs of the Company's new products do not meet the capitalization criteria, they were recognized in Parent Company and Consolidated profit or loss for the year, at December 31, 2018, in the amount of R$1,513 (R$1,269 at December 31, 2017).

13. Income and social contribution taxes

Income and social contribution taxes are calculated based on the tax rate in effect. Current and deferred taxes are recognized in profit or loss for the year.

The recognition of deferred taxes is based on the temporary differences between the book value and the tax value of assets and liabilities, on tax losses calculated and the negative calculation basis for social contribution on income, as their realization is deemed probable as an entry to future taxable income. Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and are related to taxes levied by the same tax authority on the same entity subject to taxation.

13. Income and Social Contribution Taxes--Continued

Deferred income tax and social contribution

The breakdown of deferred income and social contribution taxes is as follows:

	Parent Company				Consolidated			
	Balance sheet		P&L		Balance sheet		P&L	
	2018	2017	2018	2017	2018	2017	2018	2017
On temporary differences:								
Assets								
Allowance for loan losses	**8,731**	9,577	**(846)**	79	**8,731**	9,577	**(846)**	79
Provision for obsolete inventories	**265**	145	**120**	18	**265**	145	**120**	18
Provisions for losses with sureties	**884**	1,374	**(490)**	23	**884**	1,374	**(490)**	23
Provision for labor, tax, civil and termination of commercial relationship risks	**5,589**	6,215	**(626)**	(256)	**5,589**	6,215	**(626)**	(256)
Present value adjustment (AVP)	**151**	201	**(50)**	(27)	**151**	201	**(50)**	(27)
Other provisions and temporary differences	**510**	867	**(357)**	(315)	**510**	867	**(357)**	(315)
	16,130	18,379	**(2,249)**	(478)	**16,130**	18,379	**(2,249)**	(478)
Compensation of negative base of Income Tax/Social Contribution of Subsidiary – PRT – MP no. 766/2017	**-**	-	**-**	-	**-**	-	**-**	1,193
On tax loss carryforwards	**6,138**	6,006	**132**	4,027	**6,138**	6,006	**132**	4,027
	22,268	24,385	**(2,117)**	3,549	**22,268**	24,385	**(2,117)**	4,742
Liabilities								
Tax and corporate depreciation difference	**(9,205)**	(8,147)	**(1,058)**	(1,107)	**(9,205)**	(8,147)	**(1,058)**	(1,107)
Total	**13,063**	16,238	**(3,175)**	2,442	**13,063**	16,238	**(3,175)**	3,635

Management estimates that deferred tax assets arising from temporary differences will be realized as projected contingencies, losses and obligations are realized.

At December 31, 2018, the subsidiary Unicasa Comércio de Móveis Ltda. has balance of R$16,816 related to accumulated balance of income tax and social contribution and R$221 arising from temporary differences for which the corresponding tax assets were not recognized.

Year	**Parent Company and Consolidated**
2019	**9,927**
2020	**3,954**
2021	**2,864**
2022	**1,458**
2023	**1,458**
2024 to 2026	**2,607**
Total – Deferred tax assets	**22,268**

13. Income and Social Contribution Taxes--Continued

Reconciliation of tax expense with official tax rates

The reconciliation of tax expense with the result of the multiplication of taxable income with the local tax rate is as follows:

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Income (Loss) before taxes	**6,569**	(8,799)	**6,569**	(9,992)
Income tax (25%) and social contribution (9%) at nominal rate	**(2,233)**	2,992	**(2,233)**	3,397
Adjustments for presentation of effective rate:				
Equity pickup	**(696)**	657	**-**	-
Non-deductible expenses	**(569)**	(55)	**(569)**	(55)
Constitution/reversal of income tax on non-operational losses– IN RFB 1700/2017, Article 205	**388**	(564)	**388**	(564)
Tax credits of subsidiary not constituted	**-**	-	**(696)**	-
Compensation of negative base of Income Tax/Social Contribution of Subsidiary – PRT – MP no. 766/2017	**-**	-	**-**	1,193
Deferred taxes recognized from previous fiscal years	**-**	(255)	**-**	(255)
Other permanent exclusions/additions	**(65)**	(333)	**(65)**	(81)
Total income and social contribution taxes:	**(3,175)**	2,442	**(3,175)**	3,635
Current income and social contribution tax expense	**-**	-	**-**	-
Deferred income and social contribution taxes related to:				
Recording and reversal of temporary differences	**(3,307)**	(1,585)	**(3,307)**	(1,585)
Recording and reversal in tax loss	**132**	4,027	**132**	5,220
	(3,175)	2,442	**(3,175)**	3,635
Effective rate	**48%**	28%	**48%**	36%

14. Provisions

a) Provision for labor, tax and civil risks

A provision is recognized, in view of a past event, if the Company has a legal or constructive obligation that may be reliably estimated, and it is probable that an economic resource be required to settle the obligation.

The Company is a defendant in certain labor, tax and civil lawsuits. The estimated loss was provisioned based on the opinion of its legal counsel, in an amount considered sufficient by the Management to cover probable losses that may arise from unfavorable court decisions. The provision is broken down as follows:

	Parent Company and Consolidated	
	2018	**2017**
Provision for labor risks	**1,223**	1,212
Provision for tax risks	**828**	937
Provision for civil risks	**8,903**	7,426
	10,954	9,575

Labor – the Company is party to labor lawsuits basically related to overtime and hazard pay, among others.

Tax – the Company is party to tax lawsuits basically related to import tax and INSS.

14. Provisions--Continued

a) Provision for labor, tax and civil risks -- Continued

Civil – the Company is party to civil lawsuits involving store owners and end consumers, in which the Company may be considered jointly and severally liable.

On December 31, 2018, civil, labor and tax lawsuits classified as possible loss totaled R$7,571, R$1,655 and R$2,791, respectively.

The changes in provision for labor, tax and civil risks are as follows:

	Parent Company and Consolidated	
	2018	**2017**
Balance at beginning of year	**9,575**	12,931
Additions	**11,740**	13,665
Recoveries / realizations	**(10,361)**	(17,021)
Balance at end of year	**10,954**	9,575

b) Judicial deposits

The Company maintains judicial deposits linked to several tax, labor and civil lawsuits, as follows:

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Labor judicial deposits	**492**	505	**492**	505
Tax judicial deposits	**536**	536	**536**	536
Civil judicial deposits	**1,708**	1,817	**1,802**	1,905
	2,736	2,858	**2,830**	2,946

c) Provision for termination of commercial relation with resellers

The Company recorded provision to cover obligations assumed on orders taken from consumers that were pending delivery and assembling by resellers. The changes in the provision are as follows:

	Parent and Consolidated	
	2018	**2017**
Balance at beginning of year	**8,703**	6,103
Additions	**872**	6,767
Realizations	**(4,090)**	(4,167)
Balance at end of year	**5,485**	8,703

14. **Provisions**--Continued

d) Contingent asset

In April 2000, the Company filed a Writ of Mandamus at the Federal Court of Rio Grande do Sul (JFRS) to exclude ICMS on sales from the PIS/Cofins calculation base. The case was ruled groundless in all appellate courts and reached an unappealable ruling in April 2006. Subsequently, the Company filed a new Writ of Mandamus at the JFRS based on the ruling by the Federal Supreme Court (STF), in the Extraordinary Appeal 240.785-2, which saw voting for excluding ICMS from the PIS/Cofins calculation base although at the time there was still no decision with general repercussion on the matter. The lawsuit was dismissed without a decision on the merit, in May 2017 as *lis alibi pendens* in connection with the lawsuit judged in April 2006. The company filed an Appeal that is still pending trial.

In September 2018, the Company filed another Writ of Mandamus before the JFRS, this time based on the fact that Federal Law no. 12,973/14 brought new provisions applicable to the matter, requiring the exclusion of ICMS from the PIS/Cofins calculation base only for operations occurring as from 2015, at which time it went into effect for the Company. This lawsuit was dismissed without prejudice, with a claim on the lis pendens of this case in relation to the Writ of Mandamus terminated in May 2017. The Company is taking all applicable measures to revert this decision.
Given the aforementioned facts, there are no effects related to this issue in the Financial Statements. The Company deems the probability of a favorable outcome in this case as remote.

15. Other liabilities

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Other liabilities – current:				
Other provisions	**1,390**	1,352	**1,853**	1,352
Billable contracts (*)	**1,169**	-	**1,169**	-
Leases	**215**	-	**215**	-
Foreign exchange orders	**915**	-	**915**	-
Other liabilities	**1,539**	1,865	**1,539**	1,865
	5,228	3,217	**5,691**	3,217
Other liabilities – non-current:				
Leases	**307**	-	**307**	-
	307	-	**307**	-

(*) On December 31, 2018, the amount of contracts with future performance obligations - Unicasa Corporate – is 1,905, recognized separately under “advances from customers” and “other liabilities – billable contracts”, totaling 736 and 1,169, respectively.

16. Shareholder' equity

a) Capital stock

The capital stock of the Company is R$187,709 at December 31, 2018 and 2017, divided into 66,086,364 registered common shares without par value.

b) Reserves and retained earnings

Capital reserve

Capital reserve is derived from distribution costs, attributed to the Company, of the primary share offering, in the amount of R$4,027 (R$2,658 net of tax effects).

Legal reserve

It is recorded in compliance with the Brazilian Corporation Law and the Bylaws at a ratio of 5% of net income calculated at each fiscal year up to the limit of 20% of capital stock. The net income for fiscal year 2018 was absorbed by accrued losses, so a legal reserve was not recorded.

c) Earnings per share

At December 31, 2018 and 2017, Company's basic and diluted earnings per share were equal, given that there are no potential dilutive shares.

	Parent Company and Consolidated	
	2018	**2017**
Net income / (loss) for the period	**3,394**	(6,357)
Weighted average of shares issued (in thousands)	**66,086**	66,086
Earnings / (loss) per share – basic and diluted (R$)	**0.05136**	(0.09619)

17. Net revenue from sales

Revenue is recognized in profit or loss upon the fulfilment of performance with dealers at the moment determined by the transfer of ownership of the products. Contractual performance obligations with final consumers are the responsibility of resellers. Sales are made at sight, in the form of prepayments or in installments, and are financed with the Company's own funds.

Net revenue from sales are broken down as follows:

	Parent Company		Consolidated	
	2018	2017	2018	2017
Gross revenue from sales	**188,883**	198,310	**196,255**	216,741
IPI on sales	**(8,291)**	(8,943)	**(8,291)**	(8,943)
ICMS tax substitution (ST) on sales	**-**	(1)	**-**	(1)
Gross revenue from sales (-) IPI and ICMS ST on sales	**180,592**	189,366	**187,964**	207,797
ICMS on sales	**(19,649)**	(21,071)	**(20,732)**	(23,944)
Other taxes on sales (PIS/COFINS/CPRB)	**(15,450)**	(21,314)	**(16,626)**	(24,370)
Sales returns	**(261)**	(227)	**(261)**	(245)
Present value adjustment (AVP)	**(1,039)**	(1,297)	**(1,039)**	(1,297)
	144,193	145,457	**149,306**	157,941

18. Expenses by function and nature

	Parent Company		Consolidated	
	2018	2017	2018	2017
Expenses by function				
Cost of goods sold and/or services	**(90,615)**	(89,864)	**(91,161)**	(90,931)
Selling expenses	**(28,410)**	(46,680)	**(35,679)**	(58,371)
Administrative expenses	**(24,168)**	(24,910)	**(24,168)**	(24,910)
	(143,193)	(161,454)	**(151,008)**	(174,212)
Expenses by nature				
Input expenses	**(63,868)**	(64,993)	**(64,436)**	(66,136)
Personnel expenses	**(28,296)**	(30,002)	**(31,381)**	(35,035)
Third-party service expenses	**(14,651)**	(15,889)	**(16,747)**	(19,398)
Expenses with civil lawsuits	**(9,127)**	(13,246)	**(9,226)**	(13,292)
Depreciation and amortization expenses	**(9,066)**	(10,399)	**(9,085)**	(10,489)
Advertising expenses	**(5,252)**	(5,365)	**(5,430)**	(5,721)
Provision expenses	**(2,062)**	(4,928)	**(2,563)**	(4,946)
Travel expenses	**(2,600)**	(3,201)	**(2,713)**	(3,344)
Electric power expenses	**(2,364)**	(2,386)	**(2,393)**	(2,453)
Expenses with commissions	**(974)**	(1,037)	**(974)**	(1,037)
Other expenses	**(4,933)**	(10,008)	**(6,060)**	(12,361)
	(143,193)	(161,454)	**(151,008)**	(174,212)

19. Other operating revenues

	Parent Company		Consolidated	
	2018	2017	2018	2017
Bank premium (*)	**1,454**	1,632	**1,454**	1,632
Exploration right of brands	**200**	1,076	**200**	1,076
Gain from sale of property, plant and equipment	**273**	582	**289**	1,149
Other operating revenues	**999**	624	**1,547**	1,064
Other operating revenues	**2,926**	3,914	**3,490**	4,921

(*) Refers to amounts received from financial institution by volume of financing conducted made the network of stores served by the Company, with the other assets account being the contra entry.

20. Financial income (expense)

	Parent Company		Consolidated	
	2018	2017	2018	2017
Financial expenses				
IOF charge and bank fees	**(209)**	(283)	**(225)**	(338)
Exchange variation expenses	**(705)**	(346)	**(705)**	(346)
Present value adjustment (AVP)	**(152)**	(443)	**(152)**	(443)
Discounts granted	**(102)**	(852)	**(103)**	(859)
Other financial expenses	**(109)**	(612)	**(110)**	(628)
	(1,277)	(2,536)	**(1,295)**	(2,614)
Financial income				
Interest income	**1,440**	1,618	**1,549**	1,697
Yield from short-term investments	**1,877**	2,412	**1,873**	2,432
Exchange variation income	**868**	462	**868**	462
Present value adjustment (AVP)	**1,337**	1,820	**1,337**	1,820
Other financial income	**837**	806	**840**	807
	6,359	7,118	**6,467**	7,218
Net financial result	**5,082**	4,582	**5,172**	4,604

21. Transactions and balances with related parties

During fiscal years 2018 and 2017, the Company conducted the following transactions with related parties:

	Parent Company				Consolidated			
	Current Assets		Sales revenue		Current Assets		Sales revenue	
Accounts receivable from sales:	2018	2017	2018	2017	2018	2017	2018	2017
Unicasa Comércio de Móveis Ltda.	**173**	605	**2,642**	7,459	**-**	-	**-**	-
Even Construtora e Incorporadora S.A.	**57**	200	**1,985**	1,150	**57**	203	**2,078**	1,393
	230	805	**4,627**	8,609	**57**	203	**2,078**	1,393

The transactions involving the Company and its subsidiary Unicasa Comércio de Móveis Ltda. refer to sale of finished products (corporate furniture, modular furniture, among others) for the purpose of resale to end consumers. The transactions are conducted as agreed by the parties under normal market conditions and with average payment term of approximately 60 days.

The Company's majority shareholder has significant influence in the management of Even Construtora e Incorporadora S.A. Operations involving the Company and Even Construtora e Incorporadora S.A. refer to sales of finished products and are conducted as per the terms agreed to by the parties, which do not differ from normal market conditions, with average payment term of approximately 30 days,

There were no guarantees granted or received in relation to any accounts receivable or payable involving related parties. All balances will be settled in domestic currency.

Management Compensation

The Company paid its managers (Statutory Board of Executive Officers, Board of Directors and Audit Board) compensation in the amount of R$993 in the fiscal year of 2018 (R$1,141 in 2017). The Company does not offer to its key personnel compensation benefits in the following categories: (i) post-employment benefits; (ii) long-term benefit; (iii) employment termination benefit; and (iv) share-based compensation.

22. Financial Instruments

The Company determines the classification of its financial assets and liabilities upon their initial recognition in accordance with the business model used to manage the assets and their respective contractual cash flow characteristics, pursuant to CPC 48 / IFRS 9.

The Company's financial instruments measured at their amortized cost are held for the purpose of receiving or payment of contractual cash flows, which consist of principal and interest, recorded at their original value less allowance for losses and present value adjustment when applicable. The financial instruments and their outstanding balances at December 31, 2018 and 2017, are shown below:

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Financial assets				
Cash and cash equivalents (Note 3)	**28,664**	29,227	**28,788**	29,473
Financial investments (Note 3)	**12,810**	-	**12,810**	-
Trade accounts receivable (Note 4)	**36,411**	35,176	**36,811**	35,274
Loans granted (Note 7)	**3,242**	4,062	**3,242**	4,062
Other assets (Note 8)	**6,737**	4,555	**9,078**	7,524
Financial liabilities				
Trade accounts payable	**(2,277)**	(3,188)	**(2,299)**	(3,266)
Advances from clients	**(14,738)**	(11,709)	**(16,717)**	(17,568)
Other current liabilities	**(5,535)**	(3,217)	**(5,998)**	(3,217)
Net financial instruments	**65,314**	54,906	**65,715**	52,282

23. Financial risk management

The Company's operations expose it to financial risks: market risks (including interest and exchange rates and commodity prices), credit and liquidity. The risks of financial instruments are managed through financial positioning strategies and systems to limit exposures, all registered in equity accounts, which are aimed at meeting its operational requirements.

The Company does not have a formal risk policy. The Board of Executive Officers is responsible for monitoring risks, and the Board of Directors follows up in order to mitigate the main risks.

No operations with derivative instruments or any other type of operation for speculative purposes are conducted.

- **Market risk**

  Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to variations in market prices. Market prices encompass three types of risk: interest rate, exchange, and price, which could be of a commodity, among others. Financial instruments affected by market risks include loans receivable and trade accounts payable.

  I. **Interest rate risk**

  Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to variations in market interest rates. The Company's exposure to risk of changes in market interest rates is mainly due to long-term obligations subject to variable interest rates.

  The Company's main exposure is loans receivable. The Company has neither conducted loan operations or their payments, nor registered previous balances in the reporting periods. The Company uses shareholder's equity to finance its operating and investing activities and dividend payment. Thus, this risk is mitigated in the Company's transactions.

23. Financial risk management --Continued

- **Market risk**--Continued

II. Exchange risks

The Company's results are susceptible to variations arising from the effects of exchange rate volatility on foreign currency transactions, mainly in export operations. The Company adjusts its structure of costs and selling prices in order to assimilate exchange oscillations. At December 31, 2018, the Company records accounts receivable from exports equivalent to US$673 (equivalent to US$651 at December 31, 2017).

Sensitivity to exchange rates

In order to verify the sensitivity of indexes of assets and liabilities in foreign currency, with representativeness, two different scenarios were defined to analyze the sensitivity on exchange rate oscillations. This analysis considers depreciation of exchange rate by 25% and 50% over the exchange rate of R$3.87, on December 31, 2018. These scenarios envisage a reduction in accounts receivable (R$2,604) to R$1,953 and R$1,302, respectively, with negative effects on profit before taxation of R$651 and R$1,302. These assumptions were defined based on the Management's expectations for variations in the exchange rate on the maturity dates of respective agreements subject to these risks.

III. Commodity price risk

This risk is related to the possibility of oscillation in prices of raw materials and other inputs used in the production process. Since the Company uses commodities as raw material (MDF and MDP boards), its cost of goods sold may be affected by changes in the prices of these materials. To minimize this risk, the Company permanently monitors price oscillations and, as applicable, builds strategic inventories to maintain its business activities.

- **Credit risk**

This risk arises from the possibility of incurring losses due to delinquency of other parties or financial institutions depositing resources or of financial investments. To mitigate these risks, the Company adopts the practice of analyzing financial and equity conditions of its counterparties, as well as defining credit limits and monitoring permanently their outstanding positions. With regard to financial institutions, the Company only carries out operations with low-risk institutions, as evaluated by its Management. For trade accounts receivable, the Company has not recorded allowance for loan losses yet, as mentioned in Note 4.

23. Financial risk management --Continued

- **Credit risk**--Continued

  Accounts receivable

  Risk of credit to client is managed by the financial department and is subject to specific procedures, controls and policies established by the Company. Credit limits are established for all clients based on internal rating criteria. At December 31, 2018, the Company had 29 clients (29 clients at December 31, 2017), representing 50.07% (50.10% at December 31, 2017) of all receivables due. These clients operate with several stores in Brazil. No client individually represents more than 10% of the sales. The Company has security interest and monitors its exposure.

  The need for a provision for impairment is analyzed every reporting period on an individual basis by clients. Allowance for loan losses is constituted at an amount considered sufficient by Management to cover losses in recovering credits and is based on criteria such as balances of clients with delinquency risk.

  Bank deposits

  Credit risk on balances with banks and financial institutions is considered low and is managed by the financial department and monitored by executive officers. Surplus funds are invested only in prime financial institutions authorized by the Board of Executive Officers, being monitored in order to minimize risk concentration.

- **Liquidity risk**

  Liquidity control is monitored by the Company through the management of its cash flows, to ensure that its funds are available in sufficient amounts to maintain its commitments on schedule. The Company holds balances in financial investments that are redeemable at any moment to cover any gaps between the maturity of its contractual obligations and its cash generation.

  The consolidated financial liability at December 31, 2018 consisted of trade payables, amounting to R$2,299, falling due in up to 90 days. The Company does not have loans and financing facilities contracted and, accordingly, effects of future interest are virtually nonexistent.

23. Financial risk management --Continued

- **Capital stock management**

The Company manages its capital structure and adjusts it considering the changes in economic conditions. The capital structure arises from choosing between shareholders' equity (capital injections and retained earnings) and loan capital to finance its operations. Management adopts as a financing practice the shareholders' equity generated by its operations, and monitors its debt in such a way as to optimize its cash flows and its present value. There were no changes in purposes, policies or processes during the fiscal years ended December 31, 2018 and 2017.

The Company's net debt is shown below

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Trade accounts payable	**2,277**	3,188	**2,299**	3,266
(-) Cash and cash equivalents	**(28,664)**	(29,227)	**(28,788)**	(29,473)
(-) Financial investments	**(12,810)**	-	**(12,810)**	-
Net debt / (Surplus cash)	**(39,197)**	(26,039)	**(39,299)**	(26,207)
Shareholder' equity	**171,266**	167,872	**171,266**	167,872
Shareholders' equity and net debt	**132,069**	141,833	**131,967**	141,665

24. Insurance

The Company has insurance policies that were taken based on guidance from specialists and which take into consideration the type and value of risk involved. The main insurance categories are shown below:

Coverage	Coverage period From	Coverage period To	Currency	Amount insured
Fire, Lightning Strike, Explosion and Implosion	2019	2020	BRL	139,000
Loss of profits	2019	2020	BRL	10,331
General civil liability				
National	2019	2020	BRL	2,000
Foreign products USA	2019	2020	USD	10,000
Foreign products overall	2019	2020	BRL	20,000
Civil liability for management – D&O	2019	2020	BRL	11,500

25. Information by segment

The Company's operations involve the manufacturing and sale of customized furniture. Despite targeting several client segments, the Company's products are not controlled and managed by the Management as independent segments, and the Company's results are managed, monitored and evaluated in an integrated manner as one sole operating segment.

Gross revenue is shown below, broken down by brand and sales channel:

	Consolidated	
	2018	**2017**
Domestic market		
Dell Anno and Favorita - exclusive and own stores	**99,318**	117,217
New and Casa Brasileira – exclusive stores	**47,964**	54,793
New and Casa Brasileira – multibrand	**24,510**	25,073
Unicasa Corporate	**12,823**	11,031
Other revenues	**3,308**	2,569
	187,923	210,683
Export market	**8,332**	6,058
Total gross revenue from sales	**196,255**	216,741