

# EARNINGS REPORT

## 4Q18



**São Paulo, March 29, 2019** – Smart Fit, the leader in the fitness sector in Latin America, announces the results for the fourth quarter (4Q18) and for the year of 2018. Comparisons are to the same period of 2017 (4Q17 and 2017), except where otherwise indicated.

## 2018 HIGHLIGHTS

- Acquisition of control of operations in Mexico, Colombia and Chile
- Clubs: 631 clubs (+32.6%), with the opening of 155 units in the last 12 months and 43 units in 4Q18. Presence in 7 countries, with 36.8% of clubs in international markets.
- Members: 2,021 thousand members (+34.0%), of which 1,609 thousand (+37.8%) in corporate-owned units
- Revenue: R\$ 1,160 million, up 55.6% compared to 2017
- EBITDA<sup>a</sup>: R\$ 284.4 million, up 58.5% with EBITDA margin of 24.3% (+0.4 pp)
- Operating cash generation of R\$ 237.4 million, up 22.7 % compared to 2017

<b>4Q18 HIGHLIGHTS</b> (R\$ million)	<b>4Q18</b>	<b>4Q17</b>	<b>Variation</b>	<b>2018</b>	<b>2017</b>	<b>Variation</b>
Clubs	631	476	+32.6%			
Members (end of period)	2,021	1,509	+34.0%			
Net Revenue	379.1	201.6	+88.1%	1,160.0	745.6	+55.6%
EBITDA before revaluation of investment	77.3	51.4	+50.5%	282.4	178.2	+58.5%
EBITDA Margin before revaluation of investment	20.4%	25.5%	-5.1 pp	24.3%	23.9%	+0.4 pp
Operating cash generation	82.6	57.9	+42.5%	237.4	193.4	+22.7%

(a) EBITDA before investment revaluation; (b) "EBITDA before investment revaluation" excludes a gain of R\$ 407.0 million with revaluation of the existing investment in the Mexico and Colombia operations due to the acquisition of control, respectively, in 4Q18 and 2Q18.

## MESSAGE FROM MANAGEMENT

Smart Fit had another year of strong financial and operational growth in 2018, consolidating its position as the undisputed leader in the fitness market in Latin America and introducing innovations in its service offerings. Company delivered the combination of a large increase in revenue with higher profitability, and a high growth of number of clubs with maintenance of high member satisfaction, with the Net Promoter Score reaching the value of 62 (59% above the average of fitness industry in the United States).

In order to achieve greater operational and strategic alignment and to strengthen its capital structure, the Company acquired during 2018 the control of its main international operations: Mexico (4Q18) and Colombia (2Q18), which were joint ventures with local partners; and Chile (1Q18), which was a franchised operation. The acquisitions were done mostly through exchanges of the stakes in local operations for shares of the Company, with low impact on cash.

The Company maintained an accelerated expansion of its network, with a 33% increase in the number of clubs. Smart Fit pursued its cluster strategy, with the objective to further consolidate a network with wide capillarity in a given region, and in parallel entered in new regions to increase market penetration. Smart Fit continued to advance in cities where the brand already had a relevant presence, with 16 new clubs in São Paulo, 12 in Mexico City and 11 in Bogota; it accelerated growth in cities where it started operating in the last 2 years, with seven new clubs in Curitiba and six in Lima; and it opened its first clubs in 49 cities, increasing its potential for future growth by starting the development of new clusters, with a highlight to new operations in cities over 500 thousand people like Quito (Ecuador), Arequipa (Peru), Uberlândia (Brazil) and Saltillo (Mexico).

Capex for new clubs was financed with the relevant cash position at the end of 2017, complemented with debt issued through 2018 and an equity investment of R\$ 100 million raised in 2Q18, which kept the balance of Company's capital structure and allowed capturing a larger portion of its growth opportunities.

The Company continues to innovate its services in order to keep its offer aligned with the needs of its members and to continue offering a superior value proposition to the market. In 2018, Company consolidated its new product offering at Smart Fit, which incorporates structured group training (Shape and Box), dance and gym classes. The new concept broadened the target audience of the brand, with greater appeal for women, improved member satisfaction and

increased the per-hour service capacity of the units. Smart Fit implemented a new access control system, which provides members with simpler and more reliable entrance to all units in the network, using turnstiles developed specifically for Smart Fit. Additionally, Smart Fit introduced an updated design for its new clubs, with improvements to the store facade, lighting systems and visual communication. At Bio Ritmo, Company consolidated the concept of “several clubs within the same club”, which offers a variety of programs and experiences within the same space. In this sense, it launched in 2018 a new studio, the Vidya Body & Mind, with different types of Yoga classes in a differentiated space.

We updated the vision of the Smart Fit member's digital journey, with focus on offering personalized interactions based on individual behaviors observed at the clubs, and are developing new applications in line with this vision. Smart Fit Coach guides the workouts at the gym, preparing customized training programs for each member according to their profile and goals, and using artificial intelligence based on more than 1,500 training sessions created by our team of physical educators. We will monitor the members’ evaluation of the digital journey, to guide the continuous improvement of their experience.

With innovations in existing and new brands, the Company strengthens its position as a fitness platform in Latin America, consolidating its leadership in all relevant countries and segments of the market.

We continue to seek the development of our team and our collaborative culture. Smart Fit University, an online education platform for the development of our team in Latin America, offers training programs in Portuguese and in Spanish to improve the leadership skills of club managers, the customer service during workouts, and the customer assistance at the reception, with content developed jointly by the Education and Operations teams. The platform also provides orientation on products in Smart Fit (e.g. Shape, HIIT) and Bio Ritmo (e.g. Race, Burn). Training material can be accessed via mobile phone, with progress monitored based on courses completed and online assessments, and certifications in different specialties can be obtained upon completion of the training programs.

Smart Fit continued to be the most admired brand in fitness, with the recognition from key media channels in Brazil. The awards won by the brand include prizes from leading Brazilian magazines and newspapers like *Veja São Paulo* (São Paulo), *Folha de São Paulo* (São Paulo), *O Globo* (Rio de Janeiro), *Jornal de Brasília* (Brasília) and *Claudia* (women’s magazine).

For a stronger alignment between our collaborative culture and team compensation, Smart Fit launched a long-term incentive plan (stock option), which benefits the Company's main executives.

The 2018 initiatives strengthened Smart Fit’s position to continue its accelerated growth trajectory, excellence in customer service and continuous innovation in the Latin American fitness market.

## PRESENTATION OF RESULTS

The Company has corporate-owned clubs in Brazil, Chile, Colombia, Peru, Mexico, and franchised operations in Ecuador and the Dominican Republic. The Company acquired control of its operations in Chile (1Q18), Colombia (2Q18) and Mexico (4Q18) during 2018, and their financial results were consolidated starting from the date of acquisition. The consolidation in the Statement of Profit and Loss for each period of 2018 is detailed below:

Operation	Recognition in the Consolidated Statement of Profit and Loss			
	1Q18	2Q18	3Q18	4Q18
Brazil	Consolidated	Consolidated	Consolidated	Consolidated
Peru	Consolidated	Consolidated	Consolidated	Consolidated
Chile	Royalties for use of brand <sup>a</sup>	Consolidated <sup>c</sup>	Consolidated	Consolidated
Colombia	Equity method <sup>b</sup>	Equity method	Consolidated <sup>c</sup>	Consolidated
Mexico	Equity method <sup>b</sup>	Equity method	Equity method	Consolidated <sup>c</sup>
Ecuador Dominican Republic	Royalties for use of brand	Royalties for use of brand	Royalties for use of brand	Royalties for use of brand

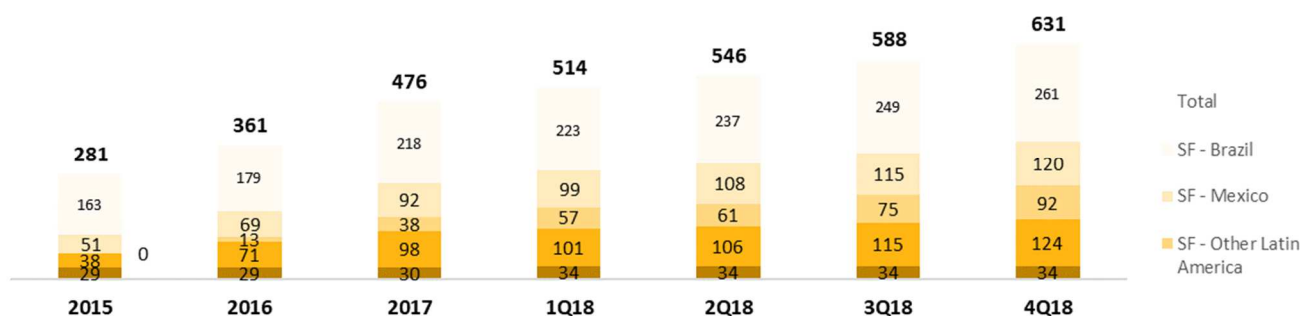
(a) Operation in the period was franchised; (b) Operation in the period was a joint venture, with shared control with local partners; (c) Consolidation of Chile as from Mar/18, Colombia as from Jun/18 and Mexico as from Nov/18.

For better understanding of its business, the Company presents in this report:

- Operational information: combined data of the entire network, including the international franchises and franchises in Brazil.
- Financial information: consolidated data of the controlled operations. For net revenue and EBITDA, we present a segment analysis that includes the operations in Mexico and Colombia for the years of 2017 and 2018, considered on the basis of 100% of their results, including the period prior to the acquisition.

## OPERATIONAL HIGHLIGHTS

### Number of Clubs



Units	End of the Period					Growth			Variation 4Q18 vs. 4Q17
	4Q17	1Q18	3Q17	3Q18	4Q18	4Q18 vs. 3Q18	2017	2018	
<b>Clubs</b>	<b>476</b>	<b>514</b>	<b>546</b>	<b>588</b>	<b>631</b>	<b>43</b>	<b>115</b>	<b>155</b>	<b>+32.6%</b>
<b>By Type</b>									
Company owned	374	409	436	469	503	34	88	129	+34.5%
Franchises	102	105	110	119	128	9	27	26	+25.5%
<b>By Brand</b>									
Smart Fit	446	480	512	554	597	43	114	151	+33.9%
Company owned	348	379	406	439	473	34	87	125	+35.9%
Brazil	218	223	237	249	261	12	39	43	+19.7%
Mexico	92	99	108	115	120	5	23	28	+30.4%
Other Lat. Am.	38	57	61	75	92	17	25	54	+142%
Franchises	98	101	106	115	124	9	27	26	+26.5%
Brazil	78	89	93	102	108	6	23	30	+38.5%
Mexico	-	-	-	-	1	1	-	1	n/a
Other Lat. Am.	20	12	13	13	15	2	4	(5)	(25.0%)
Bio Ritmo and O2	30	34	34	34	34	-	1	4	+13.3%
Company owned	26	30	30	30	30	-	1	4	+15.4%
Franchises	4	4	4	4	4	-	-	-	+0.0%
<b>By region</b>									
Brazil	326	342	360	381	399	18	63	73	+22.4%
Mexico	92	99	108	115	121	6	23	29	+31.5%
Other Lat. Am.	58	73	78	92	111	19	29	53	+91.4%
<b>Microgyms</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>5</b>	<b>+500%</b>
Brazil	1	2	2	3	4	1	1	3	+300%
Other Lat. Am.	-	1	1	1	2	1	-	2	n/a

(a) The region "Other Latin America" includes for corporate-owned operations Chile, Colombia and Peru, and for Franchises Ecuador and Dominican Republic; (b) In the acquisition of the operation in Chile in 1Q18, 10 Smart Fit – Franchises became Smart Fit – Company owned and 4 units O2 Company owned were incorporated into the group.

**Members**

Members ('000)	End of the Period					Variation 4Q18 vs. 4Q17
	4Q17	1Q18	2Q18	3Q18	4Q18	
<b>Total</b>	<b>1,509</b>	<b>1,685</b>	<b>1,772</b>	<b>1,975</b>	<b>2,021</b>	<b>+34.0%</b>
<b>By Type</b>						
Company owned	1,167	1,344	1,415	1,573	1,609	+37.8%
Franchises	341	341	357	402	412	+20.8%
<b>By Brand</b>						
<b>Smart Fit</b>	<b>1,456</b>	<b>1,624</b>	<b>1,712</b>	<b>1,914</b>	<b>1,961</b>	<b>+34.7%</b>
Company owned	1,120	1,289	1,360	1,518	1,555	+38.8%
Brazil	742	801	810	871	893	+20.3%
Mexico	258	294	347	386	376	+45.6%
Other Latin America	120	195	203	261	286	+138.9%
Franchises	335	335	352	396	406	+21.2%
<b>Bio Ritmo and O2</b>	<b>53</b>	<b>61</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>+13.3%</b>
<b>By region</b>						
Brazil	1,047	1,144	1,167	1,271	1,301	+24.2%
Mexico	258	294	347	386	378	+46.4%
Other Latin America	203	248	258	318	342	+68.3%

(a) Microgyms sell mainly individual classes; the recurring member base is not relevant for this operation; (b) The "Other Latin America" region includes for Company Owned operations Chile, Colombia and Peru, and for Franchises Ecuador and Dominican Republic; (c) In the acquisition of the operation in Chile in 1Q18, 10 Smart Fit – Franchises became Smart Fit – Company Owned and 4 units O2 Company Owned were incorporated into the group.

The Company maintained its accelerated growth history in 2018, with a 32.6% increase in the gym network and a 34.0% increase in the member base compared to that at the end of 2017.

We reached a total of 631 clubs, with acceleration of the number of openings to 155 units in the year (vs. 115 openings in 2017) and 43 openings in 4Q18 (vs. 39 openings in 4Q17), driven by the maturation of the expansion process implemented in each region, and by the growth in the number of clusters in which the Company operates. The number of members surpassed the mark of 2.0 million, with an increase of 512 thousand members compared to the end of 4Q17.

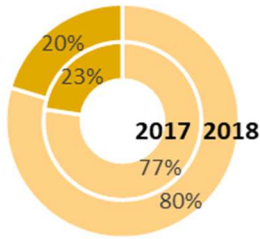
The company owned clubs reached 503, an increase of 34.5%, with 34 units opened in 4Q18 and 129 units in 2018, impacted by the acquisition of the Chilean operation in 2Q18, in which 10 Smart Fit franchised units became company owned, and 4 O2 units were incorporated into the group. Member base of company owned clubs reached 1.6 million, up 37.8%, in line with the growth of company owned units.

Franchises reached 128 units and 412 thousand members, representing 20.4% of the group's total members, up 25.5% and 20.8% respectively over 4Q17. In 2018 we opened the first franchised units in Ecuador and Mexico. Similar to Brazil, the franchise operation in Mexico has the objective to complement the network of company owned clubs and to accelerate growth in the country through the presence in a greater number of locations.

Given the strong demand for Smart Fit's value proposition, growth was consistent across all regions, with more gym openings than in 2017. The operation in Brazil opened 73 units (vs. 63 openings in 2017) and added 254 thousand members to its base, reaching a total of 399 units (+22.4% vs. 2017) and 1.3 million members (+24.2%) at the end of 2018. Mexico opened 29 clubs (vs. 23 openings in 2017), and reached 121 clubs (+31.5%) and 378 thousand members (+46.4%). The "Other Latin America" region had the highest growth in the network, ending 2018 with 111 clubs (+91.4%) and 342 thousand members (+68.3%), opening 53 clubs in the year (vs. 29 openings in 2017), impacted by the Company's acquisition of control of operations in Colombia and Chile, which allowed the acceleration of investment in new clubs in these countries. The share of international operations (Mexico and Other Latin America) in the group continued to grow, in line with Smart Fit's strategy to seek leadership in all relevant markets in the region. At the end of 2018, they accounted for 36.8% of the clubs (+5.3pp) and 35.7% of the member base (+5.1pp vs. 4Q17).

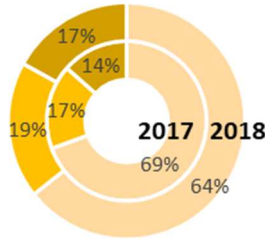
**Distribution of members - 4Q18 vs. 4Q17**  
 (total members: 2,201 thousand and 1,509 thousand)

Type



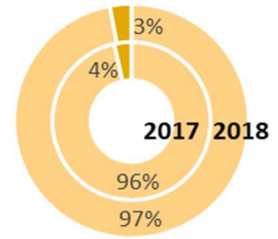
■ Company owned ■ Franchises

Region



■ Brazil ■ Mexico ■ Other Lat.Am.

Brand



■ Smart Fit ■ Bio Ritmo and O2

	2018	2017
Company Owned	1,609	1,167
Franchises	412	341

	2018	2017
Brazil	1,301	1,047
Mexico	378	258
Other Lat.Am.	342	203

	2018	2017
Smart Fit	1,961	1,456
Bio Ritmo / O2	60	53

As a result of the accelerated and continuous growth, Smartfit is the 5<sup>th</sup> largest in the world in terms of company owned units and the 8<sup>th</sup> largest in number of members, according to the 2018 global ranking published by the International Health, Racquet and Sportsclub Association (IHRSA), the global association for the fitness industry.

**KEY FINANCIAL INDICATORS  
STATEMENT OF PROFIT AND LOSS**

Key financial indicators (R\$ million)	4Q18	4Q17	Variation	2018	2017	Variation
Gross Revenue	413.6	229.1	+80.5%	1,290.3	850.5	+51.7%
Net Revenue	379.1	201.6	+88.1%	1,160.0	745.6	+55.6%
Cash cost of services	(200.4)	(111.1)	+80.3%	(628.1)	(412.9)	+52.1%
Cash gross profit	178.7	90.4	+97.6%	532.0	332.7	+59.9%
Cost of opening new units	(9.7)	(7.6)	+28.2%	(27.1)	(23.6)	+14.7%
Cash gross profit before cost of opening new units	188.4	98.0	+92.2%	559.0	356.3	+56.9%
<i>Cash gross margin before cost of opening new units</i>	<i>49.7%</i>	<i>48.6%</i>	<i>+1.1 pp</i>	<i>48.2%</i>	<i>47.8%</i>	<i>+0.4 pp</i>
SG&A	(103.9)	(42.4)	+145%	(261.6)	(168.4)	+55.3%
<i>% of Net Revenue</i>	<i>27.4%</i>	<i>21.0%</i>	<i>+6.4 pp</i>	<i>22.6%</i>	<i>22.6%</i>	<i>-0.0 pp</i>
Marketing and selling expenses	(25.7)	(12.4)	+106.7%	(72.9)	(58.2)	+25.3%
<i>% of Net Revenue</i>	<i>6.8%</i>	<i>6.2%</i>	<i>+0.6 pp</i>	<i>6.3%</i>	<i>7.8%</i>	<i>-1.5 pp</i>
General and administrative expenses	(49.1)	(29.0)	+68.9%	(144.6)	(98.1)	+47.4%
<i>% of Net Revenue</i>	<i>12.9%</i>	<i>14.4%</i>	<i>-1.5 pp</i>	<i>12.5%</i>	<i>13.2%</i>	<i>-0.7 pp</i>
Expenses of opening new units	(1.1)	(1.9)	-41.5%	(8.6)	(6.6)	+30.4%
Other operating income (expenses)	(28.1)	1.0	n/a	(35.6)	(5.6)	+535%
Revaluation of investment	237.1			407.0		
Equity profit (loss)	2.6	3.3	-21.9%	12.1	13.9	-13.3%
EBITDA	314.4	51.4	+512%	689.4	178.2	+287%
EBITDA before revaluation of investment	77.3	51.4	+50.5%	282.4	178.2	+58.5%
<i>EBITDA Margin before revaluation of investment</i>	<i>20.4%</i>	<i>25.5%</i>	<i>-5.1 pp</i>	<i>24.3%</i>	<i>23.9%</i>	<i>+0.4 pp</i>
EBITDA before revaluation of investment and expenses of opening new units	106.7	60.9	+75.2%	336.5	208.4	+61.5%
<i>EBITDA Margin before revaluation of investment and expenses of opening new units</i>	<i>28.1%</i>	<i>30.2%</i>	<i>-2.1 pp</i>	<i>29.0%</i>	<i>27.9%</i>	<i>+1.1 pp</i>
Depreciation and amortization	62.1	30.5	+103%	184.2	119.2	+54.6%
Net income (loss)	216.4	(0.1)	n/a	357.0	(11.6)	n/a

(a) "Cash cost of services" and "General and administrative expenses" exclude depreciation; (b) "Cash gross profit before cost of opening new units" excludes depreciation and cost of opening new units; (c) "Selling expenses" exclude expenses of opening new units; (d) "Revaluation of investment" is the gain on the revaluation of the existing 50% ownership stake in Mexico (performed in 4Q18) and 50% in Colombia (performed in 2Q18), due to the acquisition of control of these operations, made in accordance with the accounting standards; (e) "Other operating income (expenses)" and "EBITDA before revaluation of investment" exclude gain on the revaluation of investment in Mexico and Colombia; (f) "EBITDA before revaluation of investment and expenses of opening new units" excludes gain on revaluation of investment in Mexico and Colombia and cost/expenses of opening new units.

**GROSS AND NET REVENUE**
**Revenue split**

<b>Net Revenue</b> (R\$ million)	<b>4Q18</b>	<b>4Q17</b>	<b>Variation</b>	<b>2018</b>	<b>2017</b>	<b>Variation</b>	<b>Interest</b>	
							<b>2018</b>	<b>2017</b>
Gross Revenue	<b>413.6</b>	<b>229.1</b>	<b>+80.5%</b>	<b>1,290.3</b>	<b>850.5</b>	<b>+51.7%</b>	<b>100%</b>	<b>100.0%</b>
Monthly fees	354.4	196.1	+80.7%	1,124.9	744.3	+51.1%	87.2%	87.5%
Annual fees	33.1	17.8	+86.2%	94.6	63.4	+49.0%	7.3%	7.5%
Enrollment fees	11.8	5.6	+110.0%	25.7	16.2	+58.9%	2.0%	1.9%
Other	14.4	9.6	+49.4%	45.1	26.5	+70.0%	3.5%	3.1%
Taxes and deductions	(34.5)	(27.6)	+25.3%	(130.3)	(105.0)	+24.2%		
<b>Net Revenue</b>	<b>379.1</b>	<b>201.6</b>	<b>+88.1%</b>	<b>1,160.0</b>	<b>745.6</b>	<b>+55.6%</b>		

Net revenue in 4Q18 was R\$379.1 million, up 88.1%, impacted by acquisition of control of the operations in Mexico, Colombia and Chile. Excluding this effect, revenue was up 25.6%, mainly due to (i) growth of 21.6% in the number of members in company owned clubs in Brazil and Peru operations (controlled by the Company in the two periods); and (ii) increase in the average ticket.

Net revenue in 2018 was R\$1,160.0 million, up 55.6%, impacted by the acquisition of the operations in Mexico (4Q18), Colombia (2Q18) and Chile (1Q18). Excluding this effect, revenue was up 27.7%, driven mainly by (i) growth of 21.6% in the number of members in company owned clubs; (ii) growth of R\$ 17.1 million (+64.5%) in "Other" revenue; and (iii) increase in the average ticket.

"Other" revenue increased by R\$ 18.6 million and reached 3.5% of total gross revenue, mainly due to the increase of R\$ 10.6 million in royalties due to the higher number of members in franchised clubs and franchise fees of new units.

**Revenue by Brand and Region**

<b>Net Revenue</b> (R\$ million)	<b>4Q18</b>	<b>4Q17</b>	<b>Variation</b>	<b>2018</b>	<b>2017</b>	<b>Variation</b>
Smart Fit	363.9	228.0	+59.6%	1,272.6	836.5	+52.1%
Brazil	202.0	157.6	+28.1%	759.2	598.1	+26.9%
Mexico	86.7	45.5	+90.8%	296.2	179.3	+65.2%
Other Latin America	75.3	24.9	+201.9%	217.2	59.1	+267.8%
Bio Ritmo and O2	39.3	28.6	+37.7%	147.2	112.9	+30.4%
Other	9.9	6.3	+56.2%	32.6	19.3	+68.6%
<b>Subtotal</b>	<b>413.1</b>	<b>262.9</b>	<b>+57.2%</b>	<b>1,452.4</b>	<b>968.7</b>	<b>+49.9%</b>
Elimination	(34.1)	(61.3)	-44.5%	(292.4)	(223.1)	+31.1%
<b>Total</b>	<b>379.1</b>	<b>201.6</b>	<b>+88.1%</b>	<b>1,160.0</b>	<b>745.6</b>	<b>+55.6%</b>
International revenue						
Before elimination	41.8%	26.8%	+15.0 pp	35.8%	23.8%	+12.0 pp
After elimination	36.5%	4.5%	+32.1 pp	14.5%	1.1%	+13.4 pp

(a) "Other Latin America" only considers company-owned operations in the region (Peru, Colombia, Chile starting from 2Q18); (b) "Other" includes royalties received from franchises in Brazil and international franchises; (c) "Elimination" is the exclusion of results of joint ventures (Mexico and Colombia) in the periods prior to the acquisition of their control, which are not consolidated in the financial statements.

For a better understanding of the business, we present revenue from the combination of all of our own operations (in Brazil, Mexico, Colombia, Chile (starting from 2Q18) and Peru), by brand and region. To get to consolidated revenue, the revenues from operations whose control was acquired in 2018 are eliminated from the "Subtotal", according to the period that these operations began to be consolidated (Mexico starting from Nov/18; Colombia starting from Jul/18 and Chile starting from Apr/18).

Total revenue from the group's operations, before the elimination, reached R\$413.1 million in 4Q18, up 57.2% compared to 4Q17, impacted by the opening of company owned units, and also the acquisition of operations in Chile (which were franchised), and the increase in franchises. Excluding the acquisition in Chile, total revenue of the group increased by 46.0%, mainly due to the increase in the number of members in company owned units. In 2018, the total

revenue from operations was R\$ 1,452.4 million, an increase of 49.9%. Excluding the effects of the acquisition in Chile, the growth was of 41.9%, and the increase in the number of members in company owned clubs, of 32.0%.

At Smart Fit, total revenue increased in 2018 by 52.1% (46.5% excluding the effect of the acquisition of Chile operation). The increase in revenue was relevant in all regions, with a growth of 26.9% in Brazil, 65.2% in Mexico and 268% in Other Latin America. In this region, revenue was driven by the acceleration in the opening of units in Colombia and Peru and the acquisition of the operation in Chile which, together, generated increase in the number of members by 139%.

Bio Ritmo and O2 had revenue increase of 30.4% in 2018. Excluding the effects of the acquisition of O2 (Chile), the increase in the period was 2.9%. Net revenue from the "Other" segment grew by 68.6%, impacted mainly by higher royalties from franchises.

Revenue from international operations totaled R\$172.6 million in 4Q18, accounting for 41.8% of revenue before the elimination, up 15pp compared to 4Q17, in line with the Company's strategy to consolidate its leadership in Latin America.

## GROSS PROFIT

<b>Gross Profit</b> (R\$ million)	<b>4Q18</b>	<b>4Q17</b>	<b>Variation</b>	<b>2018</b>	<b>2017</b>	<b>Variation</b>
Gross profit	117.9	61.8	+90.9%	352.6	215.7	+63.5%
<i>% of Net Revenue</i>	<i>31.1%</i>	<i>30.6%</i>	<i>+0.5 pp</i>	<i>30.4%</i>	<i>28.9%</i>	<i>+1.5 pp</i>
(-) Depreciation	(60.8)	(28.7)	+112.0%	(179.3)	(117.0)	+53.3%
Cash gross profit	178.7	90.4	+97.6%	532.0	332.7	+59.9%
<i>Cash gross margin</i>	<i>47.1%</i>	<i>44.9%</i>	<i>+2.3 pp</i>	<i>45.9%</i>	<i>44.6%</i>	<i>+1.2 pp</i>
(-) Cost of opening new units	(9.7)	(7.6)	+28.2%	(27.1)	(23.6)	+14.7%
Cash gross profit before cost of opening new units	188.4	98.0	+92.2%	559.0	356.3	+56.9%
<i>Cash gross margin before opening of new units</i>	<i>49.7%</i>	<i>48.6%</i>	<i>+1.1 pp</i>	<i>48.2%</i>	<i>47.8%</i>	<i>+0.4 pp</i>

(a) "Cash gross profit" excludes depreciation and amortization; (b) "Cash gross profit before cost of opening new units" excludes depreciation, amortization and cost of opening new units.

Cash gross profit in 4Q18 was R\$178.7 million, up 97.6% compared to 4Q17, and margin of 47.1% (+2.3 % versus 4Q17), impacted by the acquisition of control of Mexico, Colombia and Chile operations Excluding this effect, cash gross profit rose 25.7%, with gross margin remaining at 44.9%.

For 2018, cash gross profit was R\$532.0 million, up 59.9% compared to 4Q17, and margin of 45.9% (+1.2 % compared to 2017). Excluding the effect of acquisitions of international operations, cash gross profit increased by 26.2%, with a margin of 44.1%. The margin was reduced by 0.5 pp, impacted by the initial maturation phase of operation in Peru.

## SELLING AND ADMINISTRATIVE EXPENSES

Marketing and selling expenses were R\$ 25.7 million in 4Q18, or 6.8% of net revenue, a variation of 107% due to the effect of acquisitions of international operations. For 2018, the percentage was 6.3% of net revenue, with a reduction of 1.5 % versus 2017, returning to the historical level of these expenses and reflecting the digital marketing strategy focused on sales performance.

General and administrative expenses were R\$49.1 million, with a 68.9% variation compared to 4Q17, due to the effect of acquisitions of international operations. In 2018, general and administrative expenses accounted for 12.5% of net revenue, an improvement of 0.7pp compared to 2017, due to the operational leverage of the corporate structure. General and administrative expenses were also impacted by the stock option plan (R\$ 2.5 million) in 2018.

Other operating expenses were R\$35.6 million in 2018, an increase of R\$ 30.0 million versus 2017, impacted by (i) exceptional expenses related to the acquisition of international operations and preparation for IPO of R\$ 16.8 million; (ii) write-off of property, plant and equipment in discontinued projects of R\$ 4.1 million; (iii) accounting adjustments with no cash effect of R\$ 3.3 million. Excluding these factors, other operating expenses grew in line with the increase in net revenue.

## EBITDA

### EBITDA Conciliation

EBITDA Conciliation (R\$ million)	4Q18	4Q17	Variation	2018	2017	Variation
Profit (loss) for the period	216.4	(0.1)	n/a	357.0	(11.6)	n/a
(-) Income tax	8.3	2.7	+208%	27.2	6.7	+305%
(-) Finance income (cost)	27.7	18.3	+51%	121.0	63.9	+89.5%
(-) Depreciation	62.1	30.5	+103.5%	184.2	119.2	+54.6%
EBITDA	314.4	51.4	+512.0%	689.4	178.2	+287%
Revaluation of investment	(237.1)			(407.0)		
EBITDA before revaluation of investment	77.3	51.4	+50.5%	282.4	178.2	+58.5%
<i>EBITDA margin before revaluation of investment</i>	<i>20.4%</i>	<i>25.5%</i>	<i>-5.1 pp</i>	<i>24.3%</i>	<i>23.9%</i>	<i>+0.4 pp</i>
(-) Exceptional expenses	(16.8)			(16.8)		
EBITDA before revaluation of investment and exceptional expenses	94.2	51.4	+83.3%	299.3	178.2	+67.9%
<i>EBITDA margin before revaluation of investment and exceptional expenses</i>	<i>24.8%</i>	<i>25.5%</i>	<i>-0.6 pp</i>	<i>25.8%</i>	<i>23.9%</i>	<i>+1.9 pp</i>
(-) Costs and expenses with opening new units	10.9	9.5	+14.2%	35.6	30.2	+18.1%
Adjusted EBITDA	105.0	60.9	+72.5%	334.9	208.4	+60.7%
<i>Adjusted EBITDA Margin</i>	<i>27.7%</i>	<i>30.2%</i>	<i>(2.5) pp</i>	<i>28.9%</i>	<i>27.9%</i>	<i>0.9 pp</i>

(a) "Revaluation of investment" is the gain on revaluation of the existing 50% ownership interest in Mexico (performed in 2Q18) and 50% in Colombia (performed in 2Q19), due to the acquisition of control of these operations, made in accordance with the accounting standards; (b) "Costs and expenses with the opening of new units" are the costs of a new gym, incurred up to the month of its opening, plus selling expenses directly related to the unit's inauguration, incurred until the 2nd month after its opening.

EBITDA before revaluation of investment for 4Q18 was R\$ 77.3 million, an increase of 50.5% compared to the same period of 2017, with a margin of 20.4%. EBITDA in the period was impacted by (i) acquisition of operations in Mexico, Colombia and Chile; and (ii) exceptional expenses related to the acquisition of international operations and IPO preparation (R\$ 16.8 million).

EBITDA excluding the revaluation of investment reached R\$ 282.4 million in 2018, an increase of 58.5%, with a margin of 24.3%, mainly impacted by the 55.6% increase in revenue. Excluding the exceptional expenses related to the acquisition of international operations and IPO preparation, the margin would be 25.8% (+ 1.9 % versus 2017).

**EBITDA by Region**

<b>EBITDA</b> (R\$ million)	<b>2018</b>	Revaluation of investment	Exceptional expenses	<b>2018 Adjusted</b>	<b>2017</b>	<b>Variation</b> 2018 adjusted vs. 2017
Brazil	597.0	(407.0)	16.8	206.8	167.9	+23.2%
Mexico	106.7			106.7	63.8	+67.2%
Other Latin America	84.7			84.7	12.2	+594.0%
<b>Subtotal</b>	<b>788.3</b>	<b>(407.0)</b>	<b>16.8</b>	<b>398.1</b>	<b>243.9</b>	<b>+63.3%</b>
Elimination	(98.9)	0.0	0.0	(98.9)	(65.7)	+50.5%
<b>Total</b>	<b>689.4</b>	<b>(407.0)</b>	<b>16.8</b>	<b>299.3</b>	<b>178.2</b>	<b>+67.9%</b>

(A) "Other Latin America" only considers own operations in the region (Peru, Colombia, Chile as from 2Q18); (b) "Elimination" is the exclusion of results of joint ventures (Mexico and Colombia) in the periods prior to the acquisition of their control, that are not consolidated in the financial statements.

For a better understanding of the business, we present EBITDA from the combination of all of our own operations (in Brazil, Mexico, Colombia, Chile as from 2Q18 and Peru), by region. In order to compose the consolidated EBITDA, EBITDA from operations in which control was acquired in 2018 are eliminated from the subtotal, according to the period when these operations began to be consolidated (Mexico from Nov/18; Colombia from the end of 2Q18 and Chile from the end of 1Q18).

The total EBITDA of the Group's operations, before elimination and excluding the revaluation of investment and exceptional expenses, reached R\$ 398.1 million, a 63.3% increase compared to 2017, mainly due to the opening of company owned units and the acquisition of the operation in Chile.

**NET INCOME**

The Company's net income in 2018 totaled R\$ 357.0 million, compared to a loss of R\$ 11.6 million in 2017. This amount is impacted by the revaluation of investments of R\$ 407.0 million.

**OPERATING CASH GENERATION**

<b>Cash flow</b> (R\$ million)	<b>4Q18</b>	<b>4Q17</b>	<b>Variation</b>	<b>2018</b>	<b>2017</b>	<b>Variation</b>
Profit before income tax	224.7	2.6	n/a	384.2	(4.9)	n/a
Revaluation of investment – Mexico and Colombia	(237.1)			(407.0)		
Depreciation and amortization	62.1	30.5	+103%	184.2	119.2	+54.6%
Accrued interest	46.1	25.4	+81.2%	136.9	76.5	+79.0%
Other	(6.6)	(0.9)	+659%	5.5	6.7	-17.9%
Working capital variation	(14.8)	4.0	n/a	(58.9)	8.9	n/a
Cash generated by operating activities	74.3	61.6	+21%	244.9	206.4	+18.6%
Interest paid	(19.4)	(18.1)	+7.1%	(105.9)	(66.7)	+58.6%
Income tax paid	8.2	(3.6)	n/a	(7.5)	(12.9)	-42.2%
Net cash generated by operating activities	63.1	39.8	+58.6%	131.5	126.7	+3.8%
<b>Operating cash generation before interest</b>	<b>82.6</b>	<b>57.9</b>	<b>+42.5%</b>	<b>237.4</b>	<b>193.4</b>	<b>+22.7%</b>

(a) "Revaluation of investment – Mexico and Colombia" is the gain on revaluation of the existing 50% ownership interest in Mexico and Colombia, due to the acquisition of control of these operations, made in accordance with the accounting standards.

Operating cash generation in 2018 was R\$ 237.4 million, up 22.7% compared to 2017, impacted by the increase in EBITDA before revaluation of investment by R\$ 104.2 million, partially offset by the working capital variation of R\$ (67.8) million.

**CAPEX**

Capex (R\$ million)	4Q18	4Q17	Variation	2018	2017	Variation
Total	197.9	82.5	1409%	538.4	269.7	99.6%
Expansion	145.5	64.4	126%	410.0	203.3	102%
Maintenance	43.7	14.1	210%	98.0	44.0	123%
Innovation projects	7.5	2.6	188%	25.4	18.1	40.0%
Corporate	1.2	1.4	-12.0%	5.0	4.2	18.6%

Capex in 2018 reached R\$ 538.4 million, up 99.6% compared to 2017, chiefly due to the increase of 102% in Expansion, to R\$ 410.0 million. This figure was impacted by the acceleration of the openings of company owned clubs (129 in 2018 versus 88 in 2017), and by the acquisition of control of international operations.

Maintenance capex for 2018, excluding the effects of the acquisition of international operations, accounted for 7.6% of gross revenue (6.5% in 2017). Analyzing the two-year period, the figure is in line with the Company's strategy of keeping its clubs in optimal operating condition, and aligned with international references.

**CASH AND DEBT**

Cash and debt (R\$ million)	4Q18	3Q18	2Q18	1Q18	4Q17
Cash and cash equivalents	666.8	677.4	586.6	491.9	807.7
Debt	1,809.0	1,456.9	1,200.1	1,047.7	1,237.0
Short term	380.8	191.5	192.9	253.9	383.5
Long term	1,428.2	1,265.4	1,007.2	793.7	853.5
Net Debt	1,142.2	779.5	613.4	555.7	429.2
Net Debt / EBITDA LTM	1.45x	1.51x	1.43x	2.74x	2.43x

(a) in this table, "Net debt" is defined as short and long term loans and financing, less cash and cash equivalents; (b) the "Net Debt / EBITDA" ratio uses the definition of net debt and EBITDA of the Company's debentures, which includes the pro forma result of the operations acquired during the period.

At the end of 2018, the Company had R\$ 666.8 million in cash, and the net debt / EBITDA ratio reached 1.45x at the end of the year. Both are in line with the Company's Liquidity Policy, which requires that a cash position compatible with its short-term financial commitments and with its planned capex be maintained.

The Company seeks to align the debt maturity profile with its operating cash generation, and debt is issued in local currency in each country where it operates. The long-term debt ratio grew to 79% of the total debt (compared to 69% in 2017). At the end of 4Q18, the maturity schedule of the debt was:

Debt (R\$ million)	2019	2020	2021	2022	2023+	Total
Total	380.8	592.1	683.9	140.6	11.6	1,809.0
Brazil	276.2	430.6	499.7	32.5	-	1,239.0
Mexico	73.1	73.8	60.2	40.9	1.1	249.1
Other Latin America	31.5	87.7	124.0	67.3	10.5	320.9

(A) "Other Latin America" includes financial indebtedness in Chile, Colombia and Peru.

The Company complied with the financial covenants of all of its financial agreements at December 31, 2018.

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

**Smartfit Escola de  
Ginástica e Dança S.A.  
and Subsidiaries**

Individual and Consolidated  
Financial Statements  
For the Year Ended  
December 31, 2018  
and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

## INDEPENDENT AUDITOR'S REPORT ON THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Management of  
Smartfit Escola de Ginástica e Dança S.A.

### **Opinion**

We have audited the accompanying individual and consolidated financial statements of Smartfit Escola de Ginástica e Dança S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 Smartfit Escola de Ginástica e Dança S.A. as at December 31, 2018, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

### **Basis for Opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements* section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Key Audit Matters**

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

## *Business combination*

As disclosed in Note 13 to the consolidated financial statements, the Company made acquisitions and recognized goodwill, as well as gain on remeasurement of equity interests derived from business combinations, when applicable, arising from the acquisition of shareholding control in Latamfit Chile SpA, Latamfit, S.L. and Corporación Sport City, S.A. de C.V.. The effects of these acquisitions on the individual financial statements are described in Note 11. Due to the materiality of the goodwill and gain on remeasurement, as well as the judgment inherent in the process of determining the acquisition of assets and liabilities at fair value in the business combination process, and the impact that any changes in such assumptions could have on the amounts recognized in the financial statements, we consider this a key audit matter.

For purposes of auditing procedures, we used our experts in the review and evaluation of the assumptions and methodologies used by the Company in the preparation of studies that support the analyses of the recoverable amount of the goodwill recognized during the year, especially those used in the preparation of cash flow projections. We also evaluated the reasonableness of the mathematical calculations and the adequacy of the disclosures made by the Company.

Based on the evidence obtained through the procedures described above, we consider that the assessment of the recoverable amount of the goodwill and gains on remeasurement of equity interests is acceptable in the context of the financial statements taken as a whole.

## **Other Matters**

### *Statements of value added*

The individual and consolidated statements of value added for the year ended December 31, 2018, prepared under the responsibility of Company's Management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

## **Other Information Accompanying the Individual and Consolidated Financial Statements and the Independent Auditor's Report**

Management is responsible for the other information. The other information comprises the Management Report.

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

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

## **Responsibilities of Management for the Individual and Consolidated Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report; However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the individual and consolidated financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide to those charged with governance a statement that we have complied with the relevant ethical requirements, including independence requirements, and communicate all relationships or matters that could considerably affect our independence, including, when applicable, the related safeguards.

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

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 29, 2019

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Roberto Torres dos Santos  
Engagement Partner

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

BALANCE SHEETS AS AT DECEMBER 31, 2018 AND 2017

(In thousands of Brazilian reais - R\$)

ASSETS	Nota Notes	Parent		Consolidated		LIABILITIES AND EQUITY	Notes	Parent		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017			12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	5	499.468	747.260	666.780	807.730	Trade payables	14	28.127	29.583	100.304	53.754
Financial investments	6	25.414	-	25.414	-	Borrowings and debentures	15	263.284	339.649	380.835	383.481
Trade receivables	7	55.689	39.734	105.553	77.671	Salaries, accruals and social contributions	16	14.551	11.318	29.499	21.620
Recoverable taxes	8	14.920	9.369	34.689	26.198	Taxes payable	17	10.229	8.284	23.468	18.838
Prepaid expenses		1.794	2.499	4.540	4.215	Provision for income tax and social contribution	28.b)	1	1	10.234	2.397
Other receivables	9	8.275	8.260	57.431	19.150	Taxes in installments	18	80	5.778	808	10.121
Total current assets		<u>605.560</u>	<u>807.122</u>	<u>894.407</u>	<u>934.964</u>	Other payables	19	92.745	25.245	125.470	37.512
<b>NONCURRENT ASSETS</b>						<b>NONCURRENT LIABILITIES</b>					
Recoverable taxes	8	-	-	25.561	4.055	Payables to shareholders	20	113.070	-	113.574	-
Other receivables	9	-	-	16.719	204	Deferred revenue	21	36.448	24.965	81.951	59.273
Financial investments in restricted cash	6	11.489	-	16.495	-	Related parties	10	15.687	12.391	301	1.015
Deferred income tax and social contribution	28.c)	-	5.216	23.046	7.944	Operating lease - lease of gyms	27	<u>15.110</u>	<u>10.105</u>	<u>28.680</u>	<u>19.255</u>
Related parties	10	127.881	55.428	2.057	6.010	Total current liabilities		<u>589.332</u>	<u>467.319</u>	<u>895.124</u>	<u>607.266</u>
Escrow deposits		1.097	719	1.369	2.967	<b>NONCURRENT LIABILITIES</b>					
Investments in subsidiaries	11	1.645.428	390.732	-	139.745	Borrowings and debentures	15	931.568	805.801	1.428.166	853.492
Other investments		-	-	-	42	Taxes in installments	18	321	185	6.770	7.754
Property and equipment	12	507.486	372.704	1.722.565	713.243	Other payables	19	21.878	1.152	23.116	1.152
Intangible assets	13	<u>96.945</u>	<u>94.379</u>	<u>1.146.683</u>	<u>136.153</u>	Payables to shareholders	20	263.628	52.934	263.628	52.934
Total noncurrent assets		<u>2.390.326</u>	<u>919.178</u>	<u>2.954.495</u>	<u>1.010.363</u>	Deferred revenue	21	1.761	2.087	1.761	2.087
						Provision for civil, tax and labor risks					
						22					
						2.922					
						2.457					
						6.692					
						Deferred income tax and social contribution					
						28.c)					
						3.746					
						3.727					
						17.119					
						5.513					
						Total noncurrent liabilities					
						28.c)					
						1.225.824					
						868.343					
						1.747.252					
						926.120					
						<b>EQUITY</b>					
						23					
						Share capital					
						374.111					
						226.163					
						374.111					
						226.163					
						Capital reserve					
						685.909					
						222.008					
						685.909					
						222.008					
						Transactions with shareholders					
						(116.978)					
						(21.276)					
						(116.978)					
						(21.276)					
						Legal reserve					
						16.103					
						16.103					
						Earnings reserve					
						226.409					
						226.409					
						Accumulated losses					
						-					
						(29.472)					
						-					
						(29.472)					
						Other comprehensive income					
						(4.824)					
						(6.785)					
						(4.824)					
						(6.785)					
						Equity attributable to owners of the Company					
						1.180.730					
						390.638					
						1.180.730					
						390.638					
						Noncontrolling interests					
						-					
						-					
						25.796					
						21.303					
						Total equity					
						1.180.730					
						390.638					
						1.206.526					
						411.941					
<b>TOTAL ASSETS</b>						<b>TOTAL LIABILITIES AND EQUITY</b>					
						2.995.886					
						1.726.300					
						3.848.902					
						1.945.327					

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

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

STATEMENT OF PROFIT AND LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In thousands of Brazilian reais - R\$, except per share data)

	Notes	Parent		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
NET OPERATING REVENUE	24	448.544	345.875	1.160.033	745.563
COST OF SERVICES RENDERED	25	(343.193)	(253.709)	(807.386)	(529.856)
GROSS PROFIT		<u>105.351</u>	<u>92.166</u>	<u>352.647</u>	<u>215.707</u>
OPERATING INCOME (EXPENSES)					
Selling expenses	25	(30.619)	(24.069)	(81.472)	(64.767)
General and administrative expenses	25	(71.166)	(63.878)	(149.483)	(100.262)
Share of profit (loss) of investees	11	25.409	20.345	12.078	13.925
Other operating income (expenses), net	25	<u>407.171</u>	<u>6.594</u>	<u>371.431</u>	<u>(5.600)</u>
		330.795	(61.008)	152.554	(156.704)
PROFIT BEFORE FINANCE INCOME (COSTS)		<u>436.146</u>	<u>31.158</u>	<u>505.201</u>	<u>59.003</u>
FINANCE INCOME (COSTS)	26				
Finance income		36.583	26.006	33.848	31.486
Finance costs		<u>(122.416)</u>	<u>(77.174)</u>	<u>(154.871)</u>	<u>(95.352)</u>
		(85.833)	(51.168)	(121.023)	(63.866)
PROFIT (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		350.313	(20.010)	384.178	(4.863)
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	28.a)	-	-	(18.984)	(14.657)
Deferred	28.a)	1.216	5.171	(8.238)	7.931
PROFIT (LOSS) FOR THE YEAR		<u>351.529</u>	<u>(14.839)</u>	<u>356.956</u>	<u>(11.589)</u>
ATTRIBUTABLE TO					
Owners of the Company				351.529	(14.839)
Noncontrolling interests				<u>5.427</u>	<u>3.250</u>
				<u>356.956</u>	<u>(11.589)</u>
EARNINGS (LOSS) PER SHARE - R\$					
Basic	29	21,9113	(1,0157)		
Diluted	29	<u>21,3530</u>	<u>(1,0157)</u>		

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

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In thousands of Brazilian reais - R\$)

	Notes	Parent		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
PROFIT (LOSS) FOR THE YEAR		351.529	(14.839)	356.956	(11.589)
Other comprehensive income:					
Items to be subsequently reclassified to the statement of profit and loss:					
Gains and losses on translation of financial statements of foreign operations	11	1.961	11.046	1.961	11.046
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>353.490</u>	<u>(3.793)</u>	<u>358.917</u>	<u>(543)</u>
ATTRIBUTABLE TO					
Owners of the Company				353.490	(3.793)
Noncontrolling interests				<u>5.427</u>	<u>3.250</u>
				<u>358.917</u>	<u>(543)</u>

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

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In thousands of Brazilian reais - R\$)

	Share capital		Capital reserve	Equity instruments	Legal reserve	Earnings reserve	Transactions with shareholders	Retained earnings (accumulated losses)	Other comprehensive income	Attributable to owners of the Company	Noncontrolling interests	Total equity
	Subscribed	Unpaid										
BALANCES AS AT DECEMBER 31, 2016	247.763	-	222.008	-	-	-	(15.430)	(18.247)	(17.831)	418.263	25.038	443.301
Profit (loss) for the year	-	-	-	-	-	-	-	(14.839)	-	(14.839)	3.250	(11.589)
Other comprehensive income - exchange differences on foreign investments	11	-	-	-	-	-	-	-	11.046	11.046	188	11.234
Total comprehensive income for the year	247.763	-	222.008	-	-	-	(15.430)	(33.086)	(6.785)	414.470	28.476	442.946
Capital reduction - EGM held on September 1	23.a)	(21.600)	-	-	-	-	-	-	-	(21.600)	-	(21.600)
Other transactions with noncontrolling interests		-	-	-	-	-	(5.846)	3.614	-	(2.232)	(6.756)	(8.988)
Payment of dividends	23.b)	-	-	-	-	-	-	-	-	-	(2.564)	(2.564)
Capital increase in investees by noncontrolling interests		-	-	-	-	-	-	-	-	-	2.147	2.147
BALANCES AS AT DECEMBER 31, 2017	226.163	-	222.008	-	-	-	(21.276)	(29.472)	(6.785)	390.638	21.303	411.941
Profit for the year		-	-	-	-	322.057	-	29.472	-	351.529	5.427	356.956
Other comprehensive income - exchange differences on foreign investments	11	-	-	-	-	-	-	-	1.961	1.961	391	2.352
Total comprehensive income for the year	226.163	-	222.008	-	-	322.057	(21.276)	-	(4.824)	744.128	27.121	771.249
Capital increase and reserves arising from the acquisition of Latamfit Chile	23.a)	53.105	53.105	68.890	-	-	-	-	-	175.100	-	175.100
Capital increase and reserves arising from the acquisition of Latamfit	23.a)	93.165	-	17.090	-	-	-	-	-	110.255	-	110.255
Capital increase and reserves arising from the acquisition of CSC	23.a)	1.678	291.909	50.680	-	-	-	-	-	344.267	-	344.267
Issue of preferred shares AK and K	23.c)	492	(492)	-	-	-	-	-	-	-	-	-
Recognition of legal reserve		-	-	-	16.103	(16.103)	-	-	-	-	-	-
Share-based payment plan	30	-	2.454	-	-	-	-	-	-	2.454	-	2.454
Minimum contractual payment arising from the Company's stock option	11.a.ii)	-	-	(20.227)	-	-	-	-	-	(20.227)	-	(20.227)
Assignment of shares of subsidiaries	23.c)	-	-	-	-	-	(95.452)	-	-	(95.452)	-	(95.452)
Other transactions with noncontrolling interests		-	-	-	-	-	(250)	-	-	(250)	247	(3)
Payment of dividends	23.b)	-	-	-	-	(79.545)	-	-	-	(79.545)	(1.572)	(81.117)
BALANCES AS AT DECEMBER 31, 2018	374.603	(492)	569.476	116.433	16.103	226.409	(116.978)	-	(4.824)	1.180.730	25.796	1.206.526

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

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In thousands of Brazilian reais - R\$)

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/12/2018	12/31/2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (Loss) before income tax and social contribution	350.313	(20.010)	384.178	(4.863)
Adjustments to reconcile profit (loss) before income tax and social contribution to net cash generated by (used in) operating activities:				
Gain on remeasurement of equity interest (note 10.2.a and 10.2.c)	(406.982)	-	(406.982)	-
Exchange differences on acquisitions payable	(8.407)	-	(8.407)	-
Share-based payment plan	2.454	-	2.454	-
Depreciation and amortization	80.315	63.550	184.206	119.182
Allowance for (reversal of) doubtful debts	(24)	-	1.301	(92)
Loss on other receivables	-	1.948	384	4.097
Share of profit (loss) of investees	(25.409)	(20.345)	(12.078)	(13.925)
Write-off of intangible assets and property and equipment	14.682	7.645	25.194	20.577
Accrued interest on borrowings and debentures	109.686	63.449	120.550	72.303
Interest on loan agreements	(5.951)	(1.166)	227	(1.753)
Reversal of adjustment for inflation on tax in installments due to tax incentive of the Brazilian F	-	-	-	(4.883)
Other accrued interest	5.543	(2.315)	5.234	4.664
Accrued interest on payables to shareholders	10.897	1.252	10.897	1.252
Provision for civil, tax and labor risks	462	1.411	(3.635)	913
Reversal of interest and fine due to enrollment in tax installment payment program	-	(1.900)	-	-
Other provisions	637	-	278	-
Changes in operating assets and liabilities:				
Trade receivables	(10.077)	(607)	(26.632)	5.126
Recoverable taxes	(3.870)	3.916	(10.064)	(3.232)
Prepaid expenses	749	(891)	1.109	(618)
Other receivables	3.180	736	(21.483)	878
Escrow deposits	(375)	(408)	1.598	(1.147)
Trade payables	(9.683)	14.820	(5.648)	21.226
Salaries, accruals and social contributions	1.921	2.660	2.971	4.302
Taxes payable	2.817	962	(7.005)	3.032
Operating lease - lease of gyms	4.823	3.751	6.309	7.240
Other payables	2.268	(4.674)	1.707	(26.805)
Deferred revenue	11.156	3.169	7.129	(371)
Dividends received from subsidiaries	6.175	880	-	-
Payment of taxes in installments	(6.295)	(204)	(8.934)	(717)
Cash generated by operating activities	<u>131.005</u>	<u>117.629</u>	<u>244.858</u>	<u>206.386</u>
Interest paid on borrowings and debentures	(101.409)	(57.289)	(105.851)	(66.726)
Income tax and social contribution paid	(20)	-	(7.474)	(12.939)
Net cash generated by operating activities	<u>29.576</u>	<u>60.340</u>	<u>131.533</u>	<u>126.721</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	(197.368)	(127.937)	(515.063)	(269.705)
Additions to intangible assets	(6.826)	(968)	(33.708)	(5.570)
Addition of cash due to mergers	22.438	-	-	-
Addition of cash due to acquisitions of companies	-	-	28.698	-
Third-party loans	3.028	(2.286)	(2.407)	(2.206)
Financial investments in restricted cash	(36.903)	-	(41.909)	-
Acquisition of subsidiary, net of cash received	(5.000)	-	-	(20.953)
Capital increase in subsidiary and joint venture	-	(78.366)	-	(12.867)
Related parties	(80.626)	(18.226)	(5.035)	(641)
Net cash used in investing activities	<u>(301.257)</u>	<u>(227.783)</u>	<u>(569.424)</u>	<u>(311.942)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of borrowings and costs	(339.573)	(48.168)	(415.978)	(78.277)
Issue of debentures, net of payment of borrowing costs	-	-	-	688.931
Borrowings	380.000	787.647	625.067	157.301
Third-party loans	-	977	-	977
Capital increase by noncontrolling interests	-	-	-	2.147
Related-party transactions	(94.327)	4.502	-	4.907
Payables to shareholders	100.913	-	100.281	-
Payment related to capital reduction	(21.600)	(16.408)	(21.600)	(16.408)
Dividends paid to noncontrolling interests	(1.524)	-	(1.572)	(1.549)
Net cash generated by financing activities	<u>23.889</u>	<u>728.550</u>	<u>286.198</u>	<u>758.029</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(247.792)</u>	<u>561.107</u>	<u>(151.693)</u>	<u>572.808</u>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>				
Opening balance	747.260	186.153	807.730	232.903
Closing balance	499.468	747.260	677.353	807.730
Exchange differences on cash and cash equivalents	-	-	21.316	2.019
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(247.792)</u>	<u>561.107</u>	<u>(151.693)</u>	<u>572.808</u>

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

SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

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

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>WEALTH CREATED</b>				
Service revenue	511.184	394.051	1.300.362	850.518
Allowance for doubtful debts, net of reversals	24	-	(1.609)	(92)
Allowance for loss on other receivables	-	-	(1.160)	-
Other operating income	<u>407.183</u>	<u>12</u>	<u>408.403</u>	<u>7.424</u>
	918.391	394.063	1.705.996	857.850
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>				
Cost of sales and services	(86.280)	(65.225)	(189.512)	(127.135)
Materials, electric power, outside services and others	(65.093)	(46.094)	(184.682)	(115.871)
Advertising materials, marketing, promotion funds and others related to sales	(30.643)	(24.069)	(79.871)	(64.676)
	<u>736.375</u>	<u>258.675</u>	<u>1.251.931</u>	<u>550.168</u>
<b>RETENTIONS</b>				
Depreciation and amortization	(80.315)	(63.550)	(184.205)	(119.182)
	<u>656.060</u>	<u>195.125</u>	<u>1.067.726</u>	<u>430.986</u>
<b>WEALTH RECEIVED IN TRANSFER</b>				
Share of profit (loss) of investees	25.409	20.345	12.078	13.925
Finance income	<u>36.583</u>	<u>26.006</u>	<u>33.848</u>	<u>31.486</u>
	61.992	46.351	45.926	45.411
	<u>718.052</u>	<u>241.476</u>	<u>1.113.652</u>	<u>476.397</u>
<b>WEALTH DISTRIBUTED</b>				
<b>Personnel:</b>				
Salaries and wages	77.557	59.635	185.223	117.588
Benefits	10.750	4.188	29.166	21.271
FGTS (Severance Pay Fund)	6.601	5.449	12.735	10.086
<b>Taxes, fees and contributions:</b>				
Federal	41.873	29.077	127.267	78.764
State	3	27	821	1.170
Municipal	15.496	11.730	35.513	28.135
<b>Lenders and lessors:</b>				
Interest	122.984	77.220	155.905	95.448
Rents	91.259	68.989	210.066	135.524
<b>Shareholders:</b>				
Dividends	81.117	-	81.117	-
Profit (loss) for the year	270.412	(14.839)	271.984	(14.839)
Share of noncontrolling interests in profit (loss) for the year	-	-	3.855	3.250
	<u>718.052</u>	<u>241.476</u>	<u>1.113.652</u>	<u>476.397</u>

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

## SMARTFIT ESCOLA DE GINÁSTICA E DANÇA S.A. AND SUBSIDIARIES

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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#### 1. GENERAL INFORMATION

Smartfit Escola de Ginástica e Dança S.A. ("Company" or "Smartfit"), formerly named Smartfit Escola de Ginástica e Dança Ltda., is a Brazilian publicly-held company whose shares are not yet traded in the market, headquartered at Av. Paulista, 1294, 2º andar, Bela Vista, São Paulo, and is the holding of the Group of gyms that hold the "Bio Ritmo" and "Smart Fit" brands, having as shareholders the members of the Corona Family, Investment Funds managed by Pátria Investimentos Ltda. ("Pátria Funds") and other investors.

The Group, through the Company and its subsidiaries, is primarily engaged in operating gym chains in Latin America, under own management or franchised, and companies of other fitness-related businesses. Currently, the Company operates its brands in Brazil, Mexico, Peru, Colombia and Chile, and through franchises in Dominican Republic and Ecuador. The Company is controlled by members of the Corona family and by investment funds managed by Pátria Investimentos Ltda..

As at December 31, 2018, the Company has a negative net working capital position in the consolidated in the amount of R\$ 717, mainly due to liabilities that were recorded in connection with the acquisition of control of the Colombia operations (Note 11.a. (iii)). It should be noted that in current liabilities there are recorded amounts of deferred revenue in the consolidated in the amount of R\$ 81,951, which are not related to future cash disbursement. Therefore, if this amount is disregarded from the analysis, the net working capital in the consolidated would be positive in the amount of R\$ 81,234.

In addition, the acquisitions of Colombia and Mexico operations had a positive effect on profit or loss in the amount of R\$ 406,982, since these were business combinations carried out in stages, this impact on the Company's profit or loss generated an accounting profit in the year ended December 31, 2018, and in accordance with the legislation in force, mandatory minimum dividends were accrued, pursuant to the bylaws (Note 2.2i), causing a significant impact on the net working capital position.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### 2.1 Preparation and presentation of the financial statements

###### a) Statement of compliance

The individual and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards - IFRS, issued by the International Accounting Standards Board - IASB, and the accounting practices adopted in Brazil.

The accounting practices adopted in Brazil comprise those prescribed by the Brazilian corporate law and the technical pronouncements, guidance and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM).

All relevant information in the financial statements, and only this information, is being disclosed and corresponds to the information used in managing the Company's activities.

b) Basis of preparation

The individual and consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at their fair values, as described in the accounting policies below.

c) Functional currency

The financial statements are being presented in thousands of Brazilian reais (R\$), which is the Company's functional currency. The functional currency of foreign subsidiaries is the local currency of each jurisdiction in which they operate, the currency in Mexico is the Mexican pesos; in Colombia the Colombian pesos ("COP"); in Peru the Peruvian sol; in Chile the Chilean pesos ("CLP"); in Argentina the Argentinian pesos ("ARS"); and in Spain the Colombian pesos (referring to Latamfit, S.L., which owns the gyms operation that operate under the Smartfit brand in Colombia, through Sport City S.A.S.).

d) Business continuity

Based on its current operating and investment plans, Management believes that the balance and generation of operating cash, plus the possibility of raising funds with third parties, support the eventual need for funds.

The Company's capital structure consists of financial liabilities with financial institutions and debentures (Note 15), trade payables (Note 19), payables to shareholders (Note 20), cash and cash equivalents (Note 5) and equity (Note 23).

Management reviews its ability to settle liabilities and timely monitors the average term of receivables and payables, taking the necessary actions to maintain them at levels considered adequate for financial management purposes.

e) Approval of the financial statements

The individual and consolidated financial statements for the year ended December 31, 2018 were concluded and authorized for issue by the Company's officers on March 29, 2019.

f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its direct and indirect subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities.

In the individual financial statements, the financial information on subsidiaries is accounted for under the equity method, adjusted to conform its accounting practices to those established by the Company. Direct and indirect subsidiaries and joint ventures are:

	Equity interest - %			
	Direct	Indirect	Direct	Indirect
	12/31/2018	12/31/2018	12/31/2017	12/31/2017
<b>Brazilian subsidiaries:</b>				
Academia de Ginástica e Dança Biocerro Ltda.	-	50.00	-	50.00
Academia Espaço II Ltda. (d)	-	-	-	70.60
ADV Esporte e Saúde Ltda.	70.60	-	70.60	-
Arnaut & Arnaut Ginástica e Condicionamento Físico Ltda.	72.23	-	72.23	-
Smartdom Academia de Ginástica Ltda. (a)	10.00	90.00	-	-
ASNSmart Academia de Ginástica Ltda.	-	60.01	-	60.01
Bio Ritmo Franqueadora Ltda.	-	99.99	-	99.99
Biooema Escola de Natação e Ginástica Ltda. (d)	-	-	99.99	0.01
Bioflora Academia Ltda. (j)	-	-	-	99.99
Biopauli Compra, Venda e Administração de Bens Ltda.	100.00	-	100.00	-
Biosanta Academia Ltda.	14.02	56.02	14.02	56.02
Bioequip Locação de Equipamentos Ltda. (c)	-	-	99.99	-
Escola de Dança e Ginástica Biotambo Ltda. (c)	-	-	100.00	-
Racebootcamp Academia de Ginástica Ltda.	2.06	97.94	2.06	97.94
Escola de Ginástica e Dança Bio Plaza Ltda.	-	67.50	-	67.50
Escola de Ginástica e Dança Biobanco Ltda. (c)	-	-	100.00	-
Escola de Ginástica e Dança Biomidra Ltda. (i)	-	-	99.94	0.06
Escola de Ginástica e Dança Biopateo Ltda. (c)	-	-	87.57	12.43
Escola de Ginástica e Dança Centrale Ltda. (Note 23.c)	66.92	-	57.95	-
Escola de Natação e Ginástica Biomorum Ltda.	99.99	-	99.99	-
Escola de Natação e Ginástica Bioswim Ltda.	99.99	-	99.99	-
M2 – Academia de Ginástica Ltda.	50.00	-	50.00	-
Rio Quatro Academia Ltda. (i)	-	-	100.00	-
RN Sport Academia de Atividades Físicas Ltda. (i)	-	-	100.00	-
Smart Rio Academia de Ginástica Ltda. (h) and 23.c)	100.00	-	67.50	-
Smartfin Cobranças Ltda.	99.99	-	99.99	-
Smartrfe Escola de Ginástica e Dança Ltda. (g) and 23.c)	100.00	-	90.00	-
Smartnit Academia de Ginástica Ltda.	48.72	51.28	48.72	51.28
Smartmng Academia de Ginástica Ltda.	99.99	-	99.99	-
Escola de Ginástica e Dança XV Sports Ltda. (b), (i) and 23.c)	-	-	57.95	-
Smartcbl Academia de Ginástica S.A.	60.00	-	60.00	-
Personow Serviços e Promoção de Cobranças Ltda. (e)	-	-	99.00	1.00
Total Pass Participações Ltda.	84.98	15.02	84.98	15.02
Smartvcr Academia de Ginástica Ltda.	50.00	-	50.00	-
<b>Latin American subsidiaries:</b>				
Latamfit Chile SpA. (Note 11.a)(ii)(f)	99.99	-	-	-
Latamfit, S.L. – Spain (Note 11.a)(iii)	100.00	-	50.00	-
Sport City S.A.S. – Colombia (Note 11.a)(iii)	-	100.00	-	50.00
Smartfit S.A.S. – Argentina (Note 11.b)	100.00	-	-	-
Smartfit Peru S.A.C. (Note 11.a)(i)	90.00	-	90.00	-
Profit Corp S.A.C. (“Gold’s Gym”)	-	90.00	-	90.00
Corporación Sport City S.A. de C.V. (“CSC”) – Mexico (Note 11.iv)	100.00	-	-	-
Latamgym S.A.P.I. de C.V. – Mexico	50.00	50.00	50.00	-
Servicios Deportivos para Latinoamérica S.A. de C.V. – Mexico	50.00	50.00	50.00	-

(a) Incorporated in March 2018.

(b) In September 2018, the Company completed the acquisition of all shares of subsidiary XV Sports. Accordingly, the Company’s interest in this subsidiary increased from 57.95% to 99.99%;

(c) On August 31, 2018, the following companies were merged:

- Bioequip Locação de Equipamentos Ltda. was fully merged into its parent company Smartfit, and the noncontrolling interest of 0.01% was transferred to the parent company Smartfit as part of the merger process;
- Escola de Dança e Ginástica Biotambo Ltda. was fully merged into its parent company Smartfit;
- Escola de Ginástica e Dança Biobanco Ltda. was fully merged into its parent company Smartfit;
- Smartfit, as the parent company of Escola de Ginástica e Dança Biopateo Ltda. (“Biopateo”), assigned its interest of 87.57% to its subsidiary Escola de Natação e Ginástica Bioswim Ltda., which in turn fully merged Biopateo.

(d) On September 30, 2018, the following companies were merged:

- Academia Espaço II Ltda. was fully merged into its parent company ADV Esporte e Saúde Ltda.;
- Smartfit transferred the 99.99% controlling interest in Biooema Escola de Natação e Ginástica Ltda. (“Biooema”) to its subsidiary Escola de Natação e Ginástica Bioswim Ltda., which in turn fully merged Biooema.

- (e) On September 18, 2018, the dissolution of the articles of organization of Personow Serviços e Promoção de Cobranças Ltda. was signed, and its assets and liabilities were assumed by the parent company Smartfit.
- (f) On September 28, 2018, the corporate name of Inversione O Dos S.A. was changed to Latamfit Chile SpA.
- (g) On October 3, 2018, the Company completed the acquisition of all shares of subsidiary Smartrfe. Accordingly, the Company's interest in this subsidiary increased from 90.00% to 100.00%.
- (h) On November 14, 2018, the Company completed the acquisition of all shares of subsidiary Smart Rio. Accordingly, the Company's interest in this subsidiary increased from 67.50% to 100.00% (Note 23.c).
- (i) On November 30, 2018, the following companies were merged:
  - Rio Quatro gym was fully merged into its parent company Smartfit.
  - XV Sports gym was fully merged into its parent company Smartfit.
  - RN Sport gym was fully merged into its parent company Smartfit.
  - Smartfit transferred the 99.94% controlling interest in Escola de Ginástica e Dança Biomidra Ltda. ("Biomidra") to its subsidiary Escola de Nataç o e Gin stica Bioswim Ltda., which in turn fully merged Biomidra.
- (j) On December 18, 2018, the dissolution of the articles of organization of Bioflora Academia Ltda. was signed, and its assets and liabilities were assumed by the parent company Bioswin.

On December 31, 2018, all joint ventures became subsidiaries of the Company, as mentioned in Note 11.a. The subsidiaries and are engaged in the following activities:

- Escola de Nataç o e Gin stica Bioswim Ltda. ("Bioswim"): engaged in the development of swimming, gymnastics, bodybuilding, physiotherapy, dance, water and indoor sports, fitness and other physical fitness activities, as well as nutrition services and the organization and promotion of sports events, and has the following direct and indirect subsidiaries:
- Racebootcamp Academia de Gin stica Ltda. ("Racebootcamp"), Escola de Gin stica e Dança Bio Plaza Ltda. ("Bio Plaza"), Escola de Gin stica e Dança Biopateo Ltda. ("Biopateo"), Biosanta Academia Ltda. ("Biosanta"), Academia de Gin stica e Dança Biocerro Ltda. ("Biocerro") and Bioflora Academia Ltda. ("Bioflora"), engaged in operations similar to those of their parent company.
- ADV Esporte e Sa de Ltda. ("SmartAdv") - engaged in fitness, dance, physiotherapy, and nutrition activities, as well as the organization and promotion of sports events, and holds direct interest in the subsidiary ASNSmart Academia de Gin stica Ltda. ("ASN") and Academia Espaço II Ltda. ("Espaço II").
- SmartRFE Escola de Gin stica e Dança Ltda. ("Smartrfe"), Smart Rio Academia de Gin stica Ltda. ("Smart Rio"), Smartnit Academia de Gin stica Ltda. ("Smartnit"), Escola de Nataç o e Gin stica Biomorum Ltda. ("Biomorum"), Arnaut & Arnaut Gin stica e Condicionamento F sico Ltda. ("Arnaut"), Escola de Gin stica e Dança Centrale Ltda. ("Centrale"), SmartMNG Academia de Gin stica Ltda. ("SmartMNG"), Smartvcr Academia de Gin stica Ltda. ("Smartvcr"), Smartcbl Academia de Gin stica S.A. ("Smartcbl") and M2 - Academia de Gin stica Ltda. ("M2") - engaged in fitness, dance, physiotherapy, and nutrition activities, as well as the organization and promotion of sports events.
- Total Pass Participa es Ltda. ("Totalpass") - engaged in representation and/or intermediation of online sales of products and services offered by its parent company.
- Corporaci n Sport City S.A. de C.V. ("CSC") - The subsidiary is a holding company located in Mexico with the specific corporate purpose of participating as investor in other companies.

- Latamgym S.A.P.I. de C.V. ("Latamgym") - a subsidiary, with a 50% direct interest held by the Company and a 50% indirect interest held through Grupo Sport City, S.A. de C.V., located in Mexico, engaged in operating gyms in Mexico.
- Servicios Desportivos para Latinoamérica S.A. de C.V. ("SDL") - a subsidiary, with a 50% direct interest held by the Company and a 50% indirect interest held through Grupo Sport City, S.A., located in Mexico, engaged in the management of individuals or legal entities related to business administration and consulting.
- Latamfit Chile SpA. - subsidiary located in Chile engaged in operating gyms in that country.
- Latamfit S.L. ("Latamfit") - subsidiary located in Spain engaged in operating gyms in Colombia.
- Smartfit Peru S.A.C. ("Smartfit Peru") and Profit Corp S.A.C. (Gold's Gym") - engaged in fitness, dance, physiotherapy, and nutrition activities, as well as the organization and promotion of sports events. Subsidiary located in Peru, with a 90% interest.
- Smartfin Cobranças Ltda. ("Smartfin") - engaged in the provision of out-of-court collection services in general, and customer master file data services.
- Bio Ritmo Franqueadora Ltda. ("Franchiser") - engaged in the management of nonfinancial intangible assets, comprising the sale and licensing of franchises and the provision of support to such franchises.
- Biopauli Compra, Venda e Administração de Bens Ltda. ("Biopauli") - engaged in the purchase, sale, and lease of own properties.

The consolidated financial statements comprise the profit or loss of direct and indirect subsidiaries for the year ended December 31, 2018, for which the following procedures were applied:

- Elimination of the rights, obligations, revenues, costs and expenses arising from businesses between the companies included in the consolidation.
- Elimination of the parent's investment against the subsidiaries' equity.
- Identification of the noncontrolling interests in the profit or loss of the consolidated subsidiaries and in the consolidated balance sheet within equity, separately from the equity attributable to owners of the Company.

#### g) Mergers

During 2018, in order to streamline its corporate structure, the Parent merged the net assets of Biotambo, Biobanco, Bioequip, RN Sports, XV Sports and Rioquatro. Based on the financial statements of the merged companies, the following net assets were merged:

	<u>12/31/2018</u>
Assets:	
Cash and cash equivalents	22,438
Related parties - assets	3,905
Recoverable taxes	844
Property and equipment	18,675
Other receivables	<u>3,856</u>
Total merged assets	49,717
Liabilities:	
Related parties - liabilities	6,314
Other payables	<u>7,821</u>
Total merged liabilities	14,135
Net assets merged	<u><u>35,582</u></u>

During 2018 the companies Biopateo, Biomoema and Biomidra were also merged into subsidiary Bioswim. The company Espaço II was merged into subsidiary ADV.

## 2.2 Summary of significant accounting practices

### a) Revenue recognition

Revenues from services provided are recognized on an accrual basis in accordance with the fulfillment of the contractual obligations to customers. Revenues from services provided have the following origin:

- The amounts related to fitness activities are billed and recognized monthly according to the terms established in the service agreements, including the membership, annual fees, maintenance and monthly fees.
- The amounts related to sponsorship of events are contractually determined and recognized as the event to which they refer is held.
- The amounts related to lease of sports supplies and equipment are billed monthly according to the agreements established between the parties.
- The amounts related to royalties and franchise licensing are billed according to the agreements established between the parties.

The deferred revenue from services provided is calculated based on the students' agreement and recognized in profit or loss at the fair value, by reference to the stage of completion of the service established in the agreement and is fully recognized when the service is completed and/or the obligation to provide the service is extinguished.

### b) Foreign currency

#### (i) Foreign currency-denominated transactions and balances

Foreign currency transactions are translated into the functional currency of the Company and each of its subsidiaries using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into reais using the exchange rates prevailing at the end of the reporting period. Foreign exchange gains and losses resulting from the settlement of these transactions and the translation of monetary assets and liabilities denominated in foreign currency are recognized in profit or loss, as finance income (costs).

## (ii) Presentation of financial statements

For purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated using the exchange rates prevailing at the end of the year. The results are translated at the average exchange rates for the period, unless the rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction will be used. The exchange variations arising from these transactions are recognized in other comprehensive income and accumulated in a separate component in equity.

In the specific case of new investments in Argentina (Note 11.b), the Company assessed that the effects of changes in foreign exchange rates and translation of financial statements established by CPC 02 in the case of investments in countries with high inflation rates would not have material effects on the balances presented in these financial statements since at December 31, 2018 there was no operational unit in Argentina.

## c) Segment reporting

Segment information is presented consistently with the internal report provided to the chief operating decision maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments is the Chief Executive Officer, responsible also for making the Company's strategic decisions.

## d) Statement of value added

The Company prepared the individual and consolidated statements of value added (DVA) in conformity with technical pronouncement CPC 09 - Statement of Value Added, which are presented as required by the Brazilian corporate law, as part of its individual and consolidated financial statements since it is not a statement provided for or required under the IFRS.

## e) Financial instruments

Financial assets and financial liabilities are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets recognized by the Company are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

The Company's financial assets are classified and measured as: (i) at amortized cost and (ii) at fair value through profit or loss ("FVTPL"):

(i) Amortized cost

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Fair value through profit or loss:

Financial assets that do not meet the aforementioned amortized cost measurement criteria are measured at fair value through profit or loss. These financial assets are measured at fair value at the end of each reporting period and gains or losses arising from changes in the fair value are recorded on the accrual basis in the statement of profit and loss under "Finance income" and "Finance costs", respectively.

Financial liabilities

Financial liabilities are classified as follows:

(i) Fair value through profit or loss

These comprise liabilities held for trading measured at fair value, with the resulting gains or losses recognized directly in profit or loss.

(ii) Financial liabilities at amortized cost

These comprise liabilities measured using the effective interest method, including borrowings, with the allocation of the effective interest incurred over the respective agreement term.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Company derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

(f) Debt or equity instrument

(i) Classification as debt or equity instrument

Debt and equity instruments issued by the Company are classified as either financial liabilities or equity, according the nature of the contractual arrangement and the definitions of financial liability and equity instrument.

(ii) Equity instruments

An equity instrument is any contract that evidences residual interest in the assets of an entity, after deducting all of its liabilities. Equity instruments issued by the Group are recognized when all proceeds are received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized and directly deducted from equity. No gain or loss is recognized in profit or loss arising from the purchase, sale, issue or cancelation of the Company's own equity instruments.

(g) Current assets

- Cash and cash equivalents

These comprise cash on hand and in banks and short-term investments readily convertible into a known amount of cash and subject to an insignificant risk of change in value. Short-term investments are carried at cost plus yield accrued through the end of each reporting period, which does not exceed their market or realizable value.

- Trade receivables

Trade receivables are recognized at the original invoice amounts, which approximates the amortized cost method, less an allowance for doubtful debts (expected credit losses) which is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

- Recoverable taxes

Recoverable taxes are carried in the balance sheet at the known or estimated amounts, adjusted through the end of each reporting period, when applicable.

- Other current assets

Other current assets are carried in the balance sheet at the known or estimated amounts, adjusted through the end of each reporting period, when applicable. The balances of assets do not exceed their respective realizable values.

(h) Noncurrent assets

- Investments

Subsidiary

A subsidiary is a company over which the Company holds the rights that assure it, on an ongoing basis, the majority vote in corporate resolutions and the power to elect most of the managers. The investment in subsidiary is accounted for under the equity method of accounting.

For changes in equity interest that result in loss of control, the remaining interest in the former subsidiary is recognized at its fair value on the date in which the control was lost and, subsequently, this investment and any amounts payable to or receivable from the former subsidiary are recognized in accordance with the relevant technical pronouncements and guidance and interpretations of the CPC and the applicable IFRS, and a gain or loss associated to the loss of control attributable to the former parent company is recognized.

#### Joint venture

A joint venture is a joint arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

The Company recognized its interest in the joint venture, in the consolidated financial statements, using the equity method.

Gains and losses on translation of financial statements of foreign operations are classified in line item "Other comprehensive income", directly in equity.

- Property and equipment and intangible assets

Stated at cost of acquisition, formation or construction, less accumulated depreciation and amortization less, where appropriate, a provision for impairment. Depreciation and amortization are calculated under the straight-line method, at rates that take into consideration the economic useful lives of assets. The facilities and improvements in the Company's and its subsidiaries' leased units are depreciated over the lease term or the economic useful lives of the assets.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or for a shorter period, where applicable, under the terms of the respective lease agreement.

- Impairment testing of property and equipment

At the end of each reporting period, the Company reviews the carrying amount of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized in profit or loss.

- Business combination and goodwill

At the acquisition date, the acquisition cost is considered by the purchase price, which includes the fair value of the assets and liabilities assumed or incurred and any cost related to contingent or deferred additional payment. Transaction costs are recognized in profit or loss, when incurred. The acquisition cost is allocated to the assets acquired, liabilities and contingent liabilities assumed based on their fair values, including assets and liabilities that were not previously recognized in the balance sheet of the acquired entity, for example, intangible assets such as trademarks and bargain purchase agreements.

Goodwill is generated when the acquisition cost is higher than the value of the identifiable net assets measured at fair value. On the other hand, the goodwill is the difference between the fair value of the identifiable net assets and their respective carrying amounts. The final amounts of the business combination are measured within one year from the acquisition date.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration agreement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value (i.e., the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss.

(i) Current and noncurrent liabilities

- Borrowings

Borrowings are initially recognized at fair value when amounts are received, net of transaction costs, where appropriate, and subsequently measured at amortized cost using the effective interest method, corresponding to cost, plus charges, interest, inflation adjustment and exchange differences contractually established, incurred through the end of each reporting period.

- Lease

The definition of a lease agreement is based on the nature of the agreement on the inception date, that is, if the fulfillment of the agreement is contingent on the use of one or more specific assets or if the agreement transfers a right to use the asset. The leases can be classified as:

- Finance leases: leases in which the Company assumes the risks and rewards of ownership are classified as finance leases, recognized in property and equipment and subject to depreciation calculated based on the estimated useful lives of the underlying assets.

- Operating leases: the lease agreements related to the Company's commercial units are classified as operating leases, cancelable and noncancelable, when there is no transfer of the risks and rewards of ownership associated with the leased asset, whose costs are recognized in profit or loss as "Operating expenses".

- Provision for civil, tax and labor risks

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The provision for risks is adjusted through the end of each reporting period for the probable loss amount, considering their nature and based on the opinion of the Company' and its subsidiaries' legal counsel. For reporting purposes, the bases for and nature of the provision for civil, tax and labor risks are described in Note 22.

(j) Other assets and liabilities – current and noncurrent

These are carried at cost written down to their realizable values (assets) and known or estimated amounts (liabilities), plus interest, inflation adjustments and charges, where appropriate.

(k) Income tax and social contribution – current and deferred

The provisions for corporate income tax (IRPJ) and social contribution on net income (CSLL) are calculated pursuant to prevailing Brazilian tax legislation based on the accounting profit adjusted by additions of nondeductible expenses and deductions of nontaxable income, and for temporary differences deferred taxes are recognized. Deferred taxes are recognized based on temporary differences or tax losses when there is reasonable certainty that they will be recoverable.

For indirect subsidiaries ASN, Biopauli, Bioequip, Smartfin, Bioflora, Franqueadora, Centrale and Biocerro, the IRPJ and CSLL tax bases are determined according to criteria established by prevailing tax legislation using the deemed profit regime, for the other subsidiaries the actual profit regime is used.

And for international subsidiaries, taxes are calculated in accordance with local tax laws and deferred taxes are also accounted for based on temporary differences as provisions and on tax losses for the Companies which as in Brazil have reasonable certainty of their recovery.

(l) Dividends

The payment of dividends to the Company's shareholders is recognized as a liability at the end of the reporting period based on the mandatory minimum dividends defined in the bylaws. Any amounts that exceed the minimum amount are recognized only at the date in which such additional dividends are approved by the Company's management or shareholders.

(m) Other comprehensive income

The Company recognizes directly in equity the gains and losses on the translation of financial statements of foreign operations.

(n) Earnings per share

The Company presents two methods for calculation of earnings per share: (i) basic; and (ii) diluted. Basic earnings per share are calculated based on the weighted average number of shares outstanding during the year, except shares issued for payment of dividends and treasury shares. Diluted earnings per share take into consideration the weighted average number of shares outstanding during the year and the equity instruments issued by the Company that may possibly dilute the interest of its shareholders in future years, such as stock options which are included in the calculation when their settlement have a dilutive impact on the earnings per share.

(o) Share-based payment

Share-based equity-settled payments are measured at the fair value of the equity instruments at the grant date. Fair value excludes the effect of non-market vesting conditions. The details regarding the determination of the fair value are described in Note 30, and the fair value determined at the grant date is recognized using the straight-line method as an expense during the vesting period.

(p) New and revised standards and interpretations

Amendments to IFRS and new interpretations effective as from the current year

In the current year, the Company applied the new amendments to IFRSs and CPCs issued by the IASB and CPC, which are mandatorily effective for periods beginning on or after January 1, 2018. The adoption of these new and revised IFRSs did not have material effect on the reported and/or disclosed amounts for the current and prior years.

CPC 48 - Financial Instruments

CPC 48 - Financial Instruments, approved by CVM on 11/4/2016, is equivalent to IFRS 9 and has its mandatory application as of 1/1/2018. The scope of this accounting standard encompasses substantially the following aspects: (a) Recognition and derecognition of financial assets and liabilities;

(b) Classification; (c) Measurement; (d) Hedge accounting.

The main changes brought by the new standard are focused on the following matters:

(i) Classification and measurement of financial assets and financial liabilities;

(ii) Impairment of financial assets;

(iii) *Hedge accounting.*

(i) Classification and measurement of financial assets and financial liabilities

The main measurement categories by IFRS 9 are: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The categories of former CPC 38 (IAS 39), held-to-maturity, loans and receivables and available-for-sale were removed. The determination of these categories should be made based on both the entity's business model, for the management of the financial asset, and the contractual cash flow characteristics of the financial asset.

Based on the new criteria, all instruments held by the Company which were classified as loans and receivables are now classified as amortized cost, since the Company's objective is to hold them to maturity and collect the contractual cash flows from these transactions.

(ii) Impairment of financial assets

CPC 48 requires the Company to recognize the expected credit losses on all its debt instruments, borrowings and trade receivables based on 12 months or lifetime. The new standard determines that the criterion used be the expected loss. Consequently, the Company will now estimate losses on each portfolio considering their history, and also on external indicators applicable to each of them.

The Company assessed the impacts of implementing such standard and, given the characteristics of its financial instruments, which have short-term maturities and comprise mostly receivables from credit card companies that, at December 31, 2018 totaled R\$ 50,652 (R\$ 34,307 at December 31, 2017) regardless of the approaches set out in the standard, the estimated default rates are very close to the rates of incurred losses mainly because the Company makes the collections on a recurring basis through credit card.

The recurring collection reduces the risk of losses, and in the event of non-payment by students, their access to the units is blocked and re-established only when they settle the amounts pending payment. In this operating model the Company does not record an account receivable (and its revenue) for default students.

The contractual arrangements with its customers contain clauses protecting against possible defaults, which considerably mitigate the risk of losses.

Losses relating to royalties receivable from franchisees are measured based on each franchisee's estimate and risk rating.

(iii) Hedge accounting

The amendments presented refer to the possibility of hedge of risk of financial and non-financial items, in addition to changes in hedge documentation. As at December 31, 2018, the Company does not have any derivative contract.

### CPC 47 (IFRS 15) - Revenue from Contracts with Customers

CPC 47 (IFRS 15) establishes 5 stages model for entities to use in accounting for revenues from contracts with customers. In accordance with CPC 47, revenue must be recognized by an amount which reflects the consideration a Company expects to be entitled in exchange for fulfillment of the contractual obligations in relation to the services rendered to its customers.

The Company's main revenues arise from membership fees, annual fees, maintenance and monthly fees, as well as royalties from its franchises.

During 2018, the Company performed an assessment of the five stages of the new revenue recognition model and did not identify significant changes or impacts on the current recognition of these revenues, since they are recognized on an accrual basis and upon the satisfaction of the performance obligations identified in their contracts with customers.

Revenues from royalties are recognized monthly according to the agreement established with the franchisees and the initial fee at the time of franchise opening is recognized at once, together with the initial costs that the Company incurs to assist the franchisees with the entire project and standardization of services to the standard established by the Smartfit group.

The other revenues, which are much less relevant to the Company, were included in this analysis and are substantially in accordance with CPC 47.

### 3. NEW AND REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

#### CPC 06 (IFRS 16) - Leases

IFRS 16 / CPC 06 (R2)) is effective for years beginning on or after January 1, 2019, and aims to unify the lease accounting model, requiring lessees to recognize the liabilities assumed as a balancing item to the related assets corresponding to its right of use for all lease agreements. IFRS 16 replaces the guidance in IAS 17 and related interpretations.

Interest on lease liabilities and the amortization of the asset are recognized in the statement of profit and loss according to the respective useful life.

The Company substantially uses, in its operation, properties leased from third parties related to its units and administrative properties. Therefore, Management expects material impacts on the Company's financial statements as from the adoption of IFRS 16. The Company has worked closely with a specialized advisory firm for the analyses and activities involving relevant judgment, such as system implementation, assumptions about the determination of reasonably certain contracting deadlines, and methodology for calculating discount rates. Up to the date of the disclosure of these financial statements, the Company had not completed the calculation of the effects related to the application of this pronouncement in a manner that could be reasonably estimated.

The Company will opt for the simplified retrospective approach as from January 1, 2019. The financial statements for 2018 will not be restated.

### IFRIC 23 - Uncertainty Over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to: (i) Determine whether uncertain tax positions are assessed separately or as a group; and (ii) Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Entities can apply the interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Company's management does not expect the adoption of such amendments in the future to have impacts on the consolidated financial statements.

### CPC 00 – Conceptual Framework (Revision)

The Conceptual Framework brings the following new features: definitions of assets and liabilities; recognition, derecognition, measurement, presentation and disclosure criteria for balance sheet and profit or loss items. These changes are effective for annual reporting periods beginning on or after January 1, 2020, and the possible impacts are being evaluated.

## 4. KEY SOURCES OF JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires Management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The actual results may differ significantly from these estimates.

The information on uncertainties in assumptions and estimates that have a significant risk of causing a material adjustment in the next year is related mainly to the following aspects: recognition of provision for tax, civil, labor risks, useful life of property and equipment items and recovery of assets, which, although reflecting the best estimate of the Company's and its subsidiaries' management, related to the probability of future events, may present variations in relation to actual data and amounts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future periods affected.

a) Impairment of assets

When there is indication that property and equipment items might be impaired, based on financial and economic factors taking into consideration the maturity of investments, their carrying amounts are annually reviewed through a detailed study of each Cash Generating Unit ("CGU"), by calculating the discounted future cash flows and using a discount rate to calculate the present value, to ensure the recording of a provision for impairment in the statement of profit or loss for the analyzed year.

b) Losses on trade receivables

The Company's business model with recurring collection reduces the risk of losses and, in case of non-payment by the students, the access to the units is blocked, and is reinstated only in the discharge of the amounts pending payment. With this operating model, the Company does not record an account receivable (and its revenue) for the students while they do not regularize the plan and return to using the gym. For this reason, the amounts provisioned for expected losses in the allowance for doubtful debts are immaterial, since they refer to the annual plans sold at the Bio Ritmo gyms in Brazil, O2 in Chile and Gold's Gym in Peru.

c) Provision for civil, tax and labor risks

The provision for lawsuits that represent probable losses is reliably estimated. The assessment of the likelihood of loss is based on the opinion of the Company's legal counsel.

d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimate of the value in use. The value in use calculation requires Management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

e) Fair value of the financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. Data for these methods are based on market data, when possible; however, when this is not feasible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the data used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of the financial instruments.

f) Fair value of assets acquired

The Company recognizes the fair value of certain assets acquired supported by reports prepared by independent appraisers. Management, based on its experience in acquisition transactions, assesses the appropriateness of the determined amounts. However, these assessments take into consideration a certain level of judgment.

## 5. CASH AND CASH EQUIVALENTS

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash and banks	4,169	2,922	91,196	30,903
Short-term investments	495,299	744,338	575,584	776,827
Total	<u>499,468</u>	<u>747,260</u>	<u>666,780</u>	<u>807,730</u>

Short-term investments refer to Bank Certificates of Deposit (CDBs) and repurchase agreements yielding the weighted average rate of 94.64% of the Interbank Certificate of Deposit (CDI) (77.25% in 2017) and managed by independent financial institutions, the main banks are Banco Itaú S.A. and Banco Santander S.A., in addition to short-term investments by the subsidiary Latamfit Chile with an average rate of 5.89% p.a., Smartfit Peru with an average rate of 3.05% p.a., and Latamgym Mexico of 6.4% p.a.. Short-term investments are highly liquid, immediately convertible into a known amount of cash and subject to an insignificant risk of change in value, with the ability and possibility to be redeemed in the short term with the issuer itself.

## 6. SHORT-TERM INVESTMENTS

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
CDB (a)	25,414	-	25,414	-
Investments in restricted cash (b)	10,906	-	15,912	-
Others	583	-	583	-
Total	<u>36,903</u>	<u>-</u>	<u>41,909</u>	<u>-</u>
Current assets	25,414	-	25,414	-
Noncurrent assets	11,489	-	16,495	-
Total	<u>36,903</u>	<u>-</u>	<u>41,909</u>	<u>-</u>

a) Short-term investments are represented by CDBs, yielding average rates of 102% with maturity in March 2019, and do not have pre-established conditions for early redemption.

b) Investments in restricted cash are related to guarantees pledged for borrowings, which should be held to the final maturity of the agreements (July 2022).

## 7. TRADE RECEIVABLES

Trade receivables correspond to receivables from the sale of the gym plans, which are received by credit and debit cards and are substantially distributed to the following operators: Rede 38% (37% in 2017), American Express 0% (3% in 2017) and Cielo 59% (60% in 2017).

The balance of annuity fees receivable is due to the recognition of the annuity amounts that are received in the months of March for Smart plan students and in October of each year for Black plan students.

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Credit and debit cards	23,943	15,763	50,652	34,307
Annual fees receivable	30,080	22,955	49,191	38,931
Checks receivable	-	-	216	-
Membership fees receivable	2,084	1,016	6,903	4,541
	<u>56,107</u>	<u>39,734</u>	<u>106,962</u>	<u>77,779</u>
Allowance for doubtful debts	(418)	-	(1,409)	(108)
Total	<u>55,689</u>	<u>39,734</u>	<u>105,553</u>	<u>77,671</u>

Aging list:

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Current:				
Up to 30 days	25,708	16,486	54,876	34,545
From 31 to 60 days	8	101	166	674
From 61 to 90 days	9,970	7,877	16,410	13,359
From 91 to 180 days	17	133	163	439
From 181 to 360 days	19,095	15,078	31,324	25,572
Past due:				
Up to 30 days	257	25	793	534
From 31 to 60 days	188	23	538	334
From 61 to 90 days	103	7	313	1,016
From 91 to 180 days	343	4	970	1,296
From 181 to 360 days	413	-	1,322	10
More than 361 days	5	-	87	-
Total	<u>56,107</u>	<u>39,734</u>	<u>106,962</u>	<u>77,779</u>

## 8. TAXES RECOVERABLE

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Income)	11,335	3,669	26,010	16,645
COFINS (Tax on revenue)	2,282	1,867	3,836	3,179
ISS (Service Tax)	791	564	1,660	1,319
PIS (Tax on revenue)	494	406	913	700
IRRF (Withholding Income Tax)	-	2,818	14	3,181
General Sales Tax – GST	-	-	25,562	4,055
Other taxes	18	45	2,257	1,174
Total	<u>14,920</u>	<u>9,369</u>	<u>60,250</u>	<u>30,253</u>
Current	14,920	9,369	34,689	26,198
Noncurrent	-	-	25,561	4,055
Total	<u>14,920</u>	<u>9,369</u>	<u>60,250</u>	<u>30,253</u>

## 9. OTHER RECEIVABLES

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Advances to suppliers	40	1,016	15,294	4,043
Receivables from employees	518	319	890	645
Uniforms inventory	-	-	4,877	2,708
Loans to third parties	2,586	5,614	10,385	5,614
Franchises, fees and other products	4,906	1,138	10,818	4,961
Collateral deposits (a)	-	-	25,043	204
Others (b)	225	173	6,843	1,179
<b>Total</b>	<b>8,275</b>	<b>8,260</b>	<b>74,150</b>	<b>19,354</b>
Current	8,275	8,260	57,431	19,150
Noncurrent	-	-	16,719	204
<b>Total</b>	<b>8,275</b>	<b>8,260</b>	<b>74,150</b>	<b>19,354</b>

(a) Balance related to security deposits for lease contracts in Mexico and Peru. In Brazil, the types of guarantee most used are the surety letters or the use of another company of the group as guarantor of the contract.

(b) As at June 30, 2018, the subsidiary Latamfit Chile recognized as other receivables the amount of R\$ 5,036 related to reimbursement of taxes due to the final and unappealable decision in a tax litigation, which was received in January 2019.

## 10. RELATED PARTIES

## a) Balances

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Noncurrent assets:				
Direct and indirect subsidiaries:				
Biomorum	60	60	-	-
Smart Rio	59,923	27,178	-	-
ADV Esportes	11,451	1,457	-	-
Biotambo	-	305	-	-
Arnaut	2,234	959	-	-
XV Sports	-	727	-	-
Biocerro	1,973	552	-	-
RN Sport	-	50	-	-
Bioemoema	-	200	-	-
Smartrfe	26,311	10,797	-	-
Bio Plaza	2,087	461	-	-
Centrale	2	712	-	-
Bioswim	1,761	497	-	-
M2	583	635	-	-
Asnsmart	2,720	153	-	-
Biosanta	1,804	182	-	-
Smartcbl	1,613	-	-	-
Smartvcr	2,948	2,755	-	-
Smartdom	7,631	-	-	-
SmartMNG	1,509	-	-	-
Smartnit	96	201	-	-
Interest on capital	2,382	4,390	-	-
Others	54	89	-	-

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Other related parties:				
Individuals	739	3,068	2,057	6,010
Total	<u>127,881</u>	<u>55,428</u>	<u>2,057</u>	<u>6,010</u>
Current liabilities:				
Direct and indirect subsidiaries:				
Bioswim	2,943	3,033	-	-
Centrale	122	1,115	-	-
Biotambo	-	52	-	-
Bio Plaza	56	27	-	-
ADV Esportes	16	5	-	-
Biomidra	-	68	-	-
Racebootcamp	21	-	-	-
Biomorum	63	34	-	-
Smart Rio	9,871	7,567	-	-
Biomoea	-	11	-	-
Interest on capital	1,333	-	301	-
Others	125	479	-	-
Other related parties:				
Individuals	1,137	-	-	1,015
Total	<u>15,687</u>	<u>12,391</u>	<u>301</u>	<u>1,015</u>
Income (expenses):				
Administrative services	<u>27,986</u>	<u>24,795</u>	<u>-</u>	<u>-</u>

## b) Nature of the related parties

The Company, its subsidiaries and related parties carry out certain transactions among them, related to the Company's financial, commercial and operating aspects. The balances related to these operations by nature as at December 31, 2018 are as follows:

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<u>Noncurrent assets</u>				
Trading transactions (i)	34,968	13,992	-	4
Interest on capital	2,382	4,390	-	-
Loan agreements (ii)	<u>90,531</u>	<u>37,046</u>	<u>2,057</u>	<u>6,006</u>
Total	<u>127,881</u>	<u>55,428</u>	<u>2,057</u>	<u>6,010</u>
	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<u>Noncurrent liabilities</u>				
Trading transactions (i)	5,018	3,323	-	-
Interest on capital	1,333	-	301	1,015
Loan agreements (iii)	<u>9,336</u>	<u>9,068</u>	<u>-</u>	<u>-</u>
Total	<u>15,687</u>	<u>12,391</u>	<u>301</u>	<u>1,015</u>

- (i) The commercial transactions are mainly represented by the amount resulting from an apportionment of administrative expenses centralized in the Parent.
- (ii) The loans of the Parent, as creditor of its subsidiaries and others, are subject to CDI variation plus 3.6% to 4.8% p.a. and have indefinite maturities.
- (iii) The loans of the Parent, as debtor of its subsidiaries, are subject to CDI variation plus 2.2% p.a. and have indefinite maturities.

c) Other related-party transactions

The Company has a property lease agreement with one of its shareholders signed in 2015, for which a payment of R\$ 2,495 was made for the purpose of assigning the right to use said property, recorded in intangible assets.

The Company has two property lease agreements with a company controlled by noncontrolling interests of a subsidiary. The agreements were signed in 2009 and 2011, and the lease expense recognized in profit or loss in 2018 was R\$ 1,155 (R\$ 1,206 in 2017).

d) Compensation of key management personnel

On April 30, 2018, by means of the Annual General Meeting ("AGM"), the limit of the annual global compensation of the Company's officers of R\$ 8,017 was approved for the year ended December 31, 2018.

The compensation of the Company's and its subsidiaries' officers at December 31, 2018 was R\$ 7,288 (R\$ 4,826 at December 31, 2017), recognized in line item "General and administrative expenses" in the statement of profit and loss, as management fees, bonuses and stock options plans. There are no post-employment benefits.

## 11. INVESTMENTS

a) Acquisitions

(i) Profit Corp S.A.

The subsidiary Smartfit Peru S.A.C. signed a purchase and sale agreement for 100% of the shares with Profit Corp S.A. ("Gold's Gym"), which holds gyms in Peru, with the purpose of increasing the presence of the Smart Fit brand in that country. On September 4, 2017, after the conditions precedent were fulfilled, the purchase was concluded for US\$ 8,000,000 (equivalent to R\$ 28,481), and until this date, US\$ 7,000,000 has been paid and US\$ 1,000,000 will be paid in up to 6 years, according to the share purchase and sale agreement.

The table below summarizes the consideration paid and the amounts of assets acquired and liabilities assumed recognized on the date of acquisition, as well as the fair value at the acquisition date:

Recognized amounts of identifiable assets acquired and liabilities assumed

<u>Assets</u>	
Cash and cash equivalents	4,302
Trade receivables	1,797
Other receivables	1,539
Property and equipment and intangible assets	<u>15,793</u>
Total - assets	<u><u>23,431</u></u>
<u>Liabilities</u>	
Trade payables	8,603
Taxes payable	587
Deferred revenue	11,761
Others	898
Total - liabilities	<u><u>21,849</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed

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Net assets acquired	1,582
Purchase price - consideration	28,481
Surplus price allocated to:	
Customer list	1,094
Goodwill based on expected future profitability	25,805
Surplus price paid	<u>26,899</u>

For the acquisition of Gold's Gym, the Company completed the fair value measurement of assets and liabilities and allocated the customer list and the trademark.

(ii) Latamfit Chile SpA.

As part of its strategy of expansion in Latin America, the Company signed a purchase and sale agreement for 99.998% of the shares with Latamfit Chile SpA. ("Latamfit Chile"), which operates gyms in Chile.

On March 27, 2018, the transaction was concluded through the exchange of Company shares for Latamfit Chile shares, which were measured at fair value based on an estimate made by the Company, supported by an expert report.

The fair value of R\$ 180,100 (CLP 34,014,301,779) was calculated according to the methodology of discounted cash flows of the acquiree, according to item 33 of technical pronouncement CPC 15, being partially settled in cash R\$ 5,000 (CLP 909,091,500), and the remaining balance of R\$ 175,100 was recorded in equity as follows: (i) increase in capital and goodwill reserve by Latamfit Chile shareholders by R\$ 106,210 (CLP 20,059,183,742); and (ii) constitution of equity instrument arising from business combination of R\$ 68,890 (CLP 13,010,800,941).

The fair value calculated according to the cash flows methodology of the acquiree is classified as level 3 of the fair value hierarchy. The fair value estimates considered the following assumptions: (i) the projected period was from January 2018 to December 2027; (ii) the projected average annual growth is 4.0%; (iii) Average EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) margin of 32.7% of net revenue based on the projection for 2018. The fair values of the cash flows were discounted by the Weighted Average Cost of Capital (WACC) of 11.84%.

Goodwill is not expected to be deductible for income tax purposes. The table below summarizes the consideration paid and the amounts of assets acquired and liabilities assumed recognized on the date of acquisition, as well as the fair value at the acquisition date:

Consideration transferred

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Cash	5,000
Contingent consideration (*)	11,037
Company's equity instruments (Note 23.a)	175,100
Total	<u>191,137</u>

Recognized amounts of identifiable assets acquired and liabilities assumed

<u>Assets</u>	
Cash and cash equivalents	4,298
Trade receivables	1,361
Other receivables	10,508
Deferred income tax and social contribution	6,855
Property and equipment	56,989
Intangible Assets	1,907
Total - assets	<u>81,918</u>
<u>Liabilities</u>	
Borrowings	35,247
Trade payables	4,836
Operating lease - lease of gyms	1,588
Trade payables	901
Taxes payable	3,433
Services payable to related parties	520
Other liabilities	9,689
Total - liabilities	<u>56,214</u>
Net assets acquired	<u>25,704</u>
<u>Purchase price</u>	
Company's interests	191,137
Non-controlling interests	93
Allocated preliminarily to:	
Customer list	7,780
Trademarks	4,949
Goodwill based on expected future profitability	157,032
Deferred income tax and social contribution on allocated portion	(4,328)
Surplus price paid (preliminary)	<u>165,433</u>

(\*) The shareholders agreement dated March 27, 2018 with the former shareholders of Latamfit Chile provides for the additional payment of R\$ 11,037, which corresponds to R\$ 11,183 as at December 31, 2018, as payment contingent to the outcome of certain lawsuits in the name of the acquiree originated before the acquisition date, and also a fine in the event of non-exercise of a call option, as explained below in the approximate amount of R\$ 23,249, the two amounts are recorded in other payables (Note 20).

For the acquisition of Latamfit Chile, until the reporting date, the Company had not yet completed the final fair value measurement of assets and liabilities. Accordingly, the Company recognized the provisional amounts and allocated R\$ 7,780 to customer list, which will be amortized over three years, and R\$ 4,949 to trademark. However, the Company does not expect material effects on its financial statements as a result of this allocation.

In connection with this acquisition, the Company entered into a call option agreement with the shareholders of Latamfit Chile, which establishes three hypotheses for the acquisition of shares by the Company, namely:

- (1) First call option: In the event that the Company does not carry out an initial public offering of shares until March 1, 2023 and the former shareholders of Latamfit Chile request the conversion of the preferred shares held by them to common shares until September 1, 2022, the Company will have the right to purchase all the shares issued by it and held by the former shareholders of Latamfit Chile, with the price being measured through the quotient of 8.75 of the Company's own EBITDA multiples, less net debt, by the number of shares outstanding on the date of exercise.
- (2) Second call option: The Company will have the right to acquire, on one or more occasions, for a period of 5 years from the date of acquisition of Latamfit Chile, the amount of up to 161 Class AH preferred shares and 88,839 Class H preferred shares issued by it and held by the former shareholders of Latamfit Chile, if Latamfit Chile fails to perform any indemnity obligation established in the purchase agreement, and the number of shares will be limited to the amount of indemnity owed by Latamfit Chile in such cases, the price being based on the share value established in the agreement.
- (3) Third call option: The Company will have the right to acquire all but not less than 303 Class AH preferred shares and 167,953 Class H preferred shares issued by it and held by the former shareholders of Latamfit Chile, as well as the rights related to them, from the date of entering into the Option Agreement to January 31, 2019, for a price of US\$ 9,200,000. If the Company does not exercise the option on said date, it must pay a penalty of US\$ 6,000,000.

Therefore, considering the above options, the Company recognized a liability in the minimum amount of R\$ 20,227 equivalent to the US\$ 6,000,000 mentioned above, whose amount as at December 31, 2018 is R\$ 23,249. See Note 19.

(iii) Latamfit, S.L.

As part of its expansion strategy in Latin America, the Company signed a purchase and sale agreement for 27.09% of the shares with Latamfit, this being an additional interest to the 50% already held. With this transaction, the Company holds control of Latamfit, which operates gyms under the Smartfit brand in Colombia, through Sport City S.A.S..

On June 29, 2018, the transaction was concluded through the exchange of Company shares for Latamfit shares, which were measured at fair value based on an estimate made by the Company, supported by an expert report. The fair value in the amount of R\$ 464,271 was calculated for the totality of Latamfit according to discounted cash flow methodology, in accordance with item 33 of Technical Pronouncement CPC 15.

In relation to the acquired portion of 27.09%, the consideration transferred was agreed as follows: (i) exchange of shares in the amount of R\$ 93,165; (ii) constitution of an equity instrument resulting arising from business combination in the amount of R\$ 17,090; (iii) a variable portion based on performance of the Colombian business in the estimated amount of R\$ 41,631, which was recorded in liabilities in accounts payable, being paid if Latamfit reaches a minimum EBITDA and opening of a stipulated number of units until December 2018, considering that the commercial conditions will be fulfilled, based on the projection of results of the activity in Colombia. This amount will be paid in 2 installments, the first in April 2019 and the second in January 2020.

In the purchase and sale agreement entered into on June 29, 2018, there is also a call option by the Company of the remaining 22.91% of Latamfit's shares for

COP 61,642,986,583, when a qualifying liquidity event takes place or on August 31, 2019. If the Company does not exercise this call option, the other party has a put option that may be exercised five days after the Company's exercise term for the sale of the 22.91% for the same amount of COP 61,642,986,583, equivalent to R\$ 68,616 on the transaction date.

Evaluating the transaction as a whole, there is the intention and a high probability of the Company exercising the call option and acquiring the remaining shares in the event of a qualifying liquidity event or on August 31, 2019. Based on Technical Pronouncement CPC 15 and to better reflect the economic condition of this business combination, the Company recorded 100% of Latamfit as an investment and recorded in its liabilities the amount payable for the call option.

The fair value calculated according to the cash flows methodology of the acquiree is classified as level 3 of the fair value hierarchy. The fair value estimates considered the following assumptions: (i) projected period from June 2018 to June 2028; (ii) average projected annual growth of 13.3% in the first 5 years and 3.7% in the remaining 5 years due to the strong expansion plan of the first 3 years and 3.7% in perpetuity; (iii) Average EBITDA margin of 35.2% of net revenue. The fair values of the cash flows were discounted by the Weighted Average Cost of Capital (WACC) of 12.63%.

As the Company already held 50% of Latamfit's shares, this transaction is a business combination carried out in stages and, in accordance with Technical Pronouncement CPC 15, in this case, the current interest should be revalued at fair value, generating a gain of R\$ 169,908 for the profit or loss of the period.

Goodwill is not expected to be deductible for income tax purposes. The table below summarizes the consideration paid and the amounts of assets acquired and liabilities assumed recognized on the date of acquisition, as well as the fair value at the acquisition date:

Consideration transferred

Preferred shares issued by the Company (Note 23.a)	93,165
Financial instrument arising from business combination	17,090
Variable consideration through "performance"	46,796
Call option of the remaining 22.91% of the shares	75,084
Consideration transferred	<u>232,136</u>
Fair value of the prior equity interest (50%)	<u>232,136</u>
Preliminary fair value calculated for the entire Latamfit	<u><u>464,271</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed

	<u>Total</u>
Assets:	
Cash and cash equivalents	1,910
Trade receivables	518
Other receivables	4,419
Property and equipment	172,173
Intangible Assets	1,393
Total - assets	<u>180,413</u>
Liabilities:	
Borrowings	63,395
Trade payables	9,843
Taxes payable	5,376
Other liabilities	2,753
Total - liabilities	<u>81,367</u>
Preliminary value of the net assets acquired	99,046
Preliminary fair value calculated for the entire Latamfit	464,271
Allocated preliminarily to:	
Customer list	6,090
Goodwill based on expected future profitability	361,206
Deferred income tax and social contribution on allocated portion	(2,071)
Surplus price paid (preliminary)	<u>365,225</u>

For the acquisition of Latamfit, until the reporting date, the Company had not yet completed the final fair value measurement of assets and liabilities. Accordingly, the Company recognized the provisional amounts, with the determination of goodwill mentioned above, which will be reassessed in the measurement period. However, the Company does not expect material effects on its financial statements as a result of this allocation.

(iv) Corporación Sport City, S.A. de C.V.

As part of its strategy of expansion in Latin America, the Company concluded on October 24, 2018 the purchase and sale agreement for 100% of the shares of CSC, Corporación Sport City, S.A. de C.V. which in turn holds 50% of Latamgym and SDL. With the completion of this operation, the Company holds the control of Latamgym and of SDL, which operates gyms under the Smartfit brand in Mexico.

The acquisition was negotiated for the payment to be made through exchange of Company shares for CSC shares, which were measured at fair value based on an estimate made by the Company, supported by an expert report. The fair value in the amount of R\$ 688,534 was calculated for the totality of the Company according to the discounted cash flow methodology, in accordance with item 33 of Technical Pronouncement CPC 15, since SDL only provides services to Latamgym, its profit or loss is included in Latamgym's operation and CSC is a non-operating holding company.

In relation to the acquired portion of 50%, the consideration transferred was agreed as follows: (i) exchange of shares in the amount of R\$ 293,587; (ii) constitution of an equity instrument resulting arising from business combination in the amount of R\$ 50,680;

The fair value calculated according to the cash flows methodology of the acquiree is classified as level 3 of the fair value hierarchy. The fair value estimates considered the following assumptions: (i) projected period from July 2018 to June 2028; (ii) projected average annual growth of 9.4% in the first 5 years and 4% in the remaining 5 years due to the strong expansion plan of the first 3 years and 4% in perpetuity; (iii) Average EBITDA margin of 34.5% of net revenue. The fair values of the cash flows were discounted by the Weighted Average Cost of Capital (WACC) of 14.17%.

As the Company already held 50% of the shares of Latamgym and SDL operating companies, and with the acquisition of CSL, it becomes the parent company of these companies, this transaction is a business combination carried out in stages and, in accordance with Technical Pronouncement CPC 15, in this case, the current equity interest should be remeasured at fair value, which generated a gain of R\$ 237,074 in profit or loss for the period.

As part of the shareholders' agreement, the Company issued a put option that grants to GM an option to sell to the Company all of its own shares, which becomes exercisable if there is no qualified IPO, within 15 months after the conclusion of this shareholders' agreement on October 24, 2018. The qualified IPO is defined as the public offering of shares on the B3 (B3 S.A. - Brasil, Bolsa, Balcão) or SEC (Securities Exchange Commission). The Company has the choice to pay this option by returning the shares of the subsidiary CSC to the Martí Group, or by paying a multiple number of EBITDA already stipulated in this same agreement.

The table below summarizes the consideration paid and the amounts of assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the same date:

<u>Consideration transferred</u>	
Preferred shares issued by the Company (Note 23.a)	293,587
Financial instrument arising from business combination	<u>50,680</u>
Consideration transferred	344,267
Fair value of the prior equity interest (50%)	<u>344,267</u>
Preliminary fair value calculated for the entire Latamfit	<u>688,534</u>
<u>Recognized amounts of identifiable assets acquired and liabilities assumed</u>	<u>Total</u>
Assets:	
Cash and cash equivalents	22,490
Trade receivables	1,005
Other receivables	57,913
Property and equipment	<u>432,819</u>
Total - assets	<u>514,227</u>
Liabilities:	
Borrowings	235,710
Trade payables	12,990
Other liabilities	<u>40,392</u>
Total - liabilities	<u>289,092</u>
Preliminary value of the net assets acquired	225,135

Recognized amounts of identifiable assets acquired and liabilities assumed	Total
Preliminary fair value calculated for the entire Latamgym	688,534
Allocated preliminarily to:	
Customer list	15,284
Goodwill based on expected future profitability	453,312
Deferred income tax and social contribution on allocated portion	<u>(5,197)</u>
Surplus price paid (preliminary)	<u>463,399</u>

For the acquisition of Latamgym and SDL, until the reporting date, the Company had not yet completed the fair value measurement of assets and liabilities. Accordingly, the Company recognized the provisional amounts, with the determination of goodwill, which will be reassessed in the measurement period. However, the Company does not expect material effects on its financial statements as a result of this allocation.

(v) Acquisition of shares from noncontrolling interests

The variations in equity interests are presented in Note 2 2.1 f).

b) New investments

In connection with the strategy of growth in Latin America, Smartfit SAS was established in Argentina on March 21, 2018. According to the Annual and Extraordinary General Meeting held on April 23, 2018, the capital increase in this subsidiary was authorized by the Company's Board of Directors, in the total amount of up to US\$ 3,000,000, which will be paid in up to the first quarter of 2019.

At December 31, 2018, Smartfit SAS has the share capital of R\$ 7,508 and expenses of R\$ 1,869. Argentina has had high inflation rates, with a significant increase in May 2018, resulting in inflation rates above 100% accumulated in the three-year period. It is also understood that other qualitative indicators of hyperinflation are present in Argentina, but at different levels.

In view of this fact, it is necessary to evaluate the potential effects on the financial statements or interim financial information of entities that determined the Argentine Pesos (ARS) as functional currency, as well as on the financial statements or interim financial information used for share of profit (loss) and/or consolidation purposes by entities that have investments in subsidiaries, joint ventures and associates with the Argentine Pesos (ARS) as functional currency.

In the case of Smartfit SAS, considering that it was established on March 21, 2018, and it is still in the preoperating phase, the Company assessed that the effects of changes in foreign exchange rates and translation of financial statements established by CPC 02 in the case of investments in countries with high inflation rates would not have material effects on the balances presented..

## c) Breakdown

Parent - 12/31/2018						
	Equity (equity deficit)	Profit (loss) for the year	Equity interest -%	Investment balance	Share of profit (loss) of investees	Other comprehens ive income
CSC	117,774	2,442	100.00	117,774	2,442	7,907
Latamgym	234,717	4,652	50.00	117,359	183	8,015
SDL	605	221	50.00	303	11,928	40
Latamfit	98,768	12,188	100.00	98,768	14,135	(2,697)
Peru	85,349	(10,391)	90.00	76,814	(9,352)	1,757
Latamfit Chile	38,340	7,677	99.998	38,339	7,677	3,515
Smartfit Argentina SAS	4,792	(1,869)	100.00	4,792	(1,869)	(847)
Bioswim	102,355	(11,725)	99.999	102,354	(11,725)	-
Centrale	1,993	434	66.92	1,334	290	-
Biomorum	6,990	(2,419)	99.998	6,990	(2,419)	-
Racebootcamp	7,898	(5,952)	2.06	163	(123)	-
Arnaut	(227)	131	72.23	(164)	95	-
Biosanta	1,027	(74)	14.02	144	(10)	-
ADV	44,092	9,438	70.60	31,129	6,663	-
Smart Rio	17,672	5,363	100.00	17,672	3,181	-
Smartfin	2,798	640	99.999	2,798	640	-
Biopauli	7,398	896	100.00	7,398	896	-
Smartnit	15,377	1,564	48.72	7,492	762	-
SmartMNG	38,602	2,099	99.99	38,598	2,099	-
SmartRFE	(3,141)	(2,343)	100.00	(3,141)	(2,141)	-
M2	5,000	679	50.00	2,500	340	-
Totalpass	(97)	(483)	84.98	(82)	(410)	-
Smartvcr	1,273	537	50.00	637	269	-
Smartcbl	(207)	(184)	60.00	(124)	(110)	-
Smartdom	(2,520)	(2,520)	10.00	(255)	(252)	-
				<u>669,592</u>	<u>23,189</u>	<u>17,690</u>
Share of profit (loss) of merged companies (*)					2,220	
Amortization of customer list				(2,490)	-	-
OCI - exchange differences on surplus price				(15,731)	-	-
Surplus price on acquisitions – Latamfit Chile – 11).a).(ii)				165,433	-	2,584
Surplus price on acquisitions – Latamfit – 11.a).(iii)				365,225	-	(34,862)
Surplus price on acquisitions – CSC – 11).a).(iv)				463,399	-	16,549
Total				<u>1,645,428</u>	<u>25,409</u>	<u>1,961</u>

(\*) As per mergers mentioned in Note 2 2.1 g)

Parent - 12/31/2017						
	Equity (equity deficit)	Profit (loss) for the year	Equity interest -%	Investment balance	Share of profit (loss) of investees	Other comprehens ive income
Latamgym and SDL	179,449	25,042	50.00	89,725	12,521	4,551
Latamfit	78,859	2,809	50.00	39,430	1,404	4,390
Total joint ventures				<u>129,155</u>	<u>13,925</u>	<u>8,941</u>
Peru	29,771	(7,832)	90.00	26,794	(7,049)	2,019
Bioswim	78,502	5,593	99.99	78,502	5,593	-
Centrale	2,908	1,558	57.95	1,685	903	-
Biomorum	7,310	(600)	99.99	7,310	(600)	-
Racebootcamp	1,150	(819)	2.06	24	(17)	-
Arnaut	85	648	72.23	61	469	-
Biotambo	196	(34)	100.00	196	(34)	-
Biopateo	2,536	336	87.57	2,220	294	-
Biobanco	12,092	2,608	100.00	12,092	2,608	-
Biosanta	1,101	424	14.02	154	59	-
ADV	33,146	5,920	70.60	23,401	4,180	-
Smart Rio	12,478	2,116	67.50	8,423	1,428	-
Smartfin	2,184	(188)	99.99	2,184	(188)	-
Biomidra	7,143	220	99.94	7,139	220	-
Biopauli	6,574	552	100.00	6,574	552	-
RN Sport	9,523	409	99.99	9,523	409	-
Bioequip	6,902	1,242	99.99	6,902	1,242	-
Smartnit	13,951	821	48.72	6,797	400	-
Bioemoema	6,436	696	99.99	6,435	696	-
XV Sports	93	(148)	57.95	54	(86)	-
SmartMNG	35,475	(2,483)	99.99	35,471	(2,483)	-
SmartRFE	(799)	(2,514)	90.00	(719)	(2,263)	-
Rio Quatro	7,003	811	100.00	7,003	811	-
Personow	4	(2)	99.00	4	(2)	-
M2	4,321	(7)	50.00	2,161	(3)	-
Totalpass	286	(380)	84.98	243	(323)	-

Parent - 12/31/2017						
	Equity (equity deficit)	Profit (loss) for the year	Equity interest -%	Investment balance	Share of profit (loss) of investees	Other comprehen sive income
Smartvcr	736	(764)	50.00	368	(382)	-
Smartcbl	(23)	(23)	60.00	(14)	(14)	-
Total				<u>380,142</u>	<u>20,345</u>	<u>10,960</u>
Surplus price on acquisition of Latamfit (i)				10,590		86
				<u>390,732</u>	<u>20,345</u>	<u>11,046</u>

Consolidated - 12/31/2017						
	Equity	Profit for the period	Equity interest - %	Investment balance	Share of profit (loss) of investees	Other comprehensive income
Latamgym and SDL	179,449	25,042	50.00	89,725	12,521	4,551
Latamfit	78,859	2,809	50.00	39,430	1,404	4,390
Surplus price on acquisition of Latamfit (i)				10,590	-	86
Total				<u>139,745</u>	<u>13,925</u>	<u>9,027</u>

- (i) Goodwill generated on the subscription of 50% of the shares of Latamfit on December 21, 2015. The Company's contribution for payment of this subscription was completed on March 31, 2017, thus the goodwill on the transaction was recognized on that date.

As a result of the acquisitions presented in Note 11.a) there is no balance to be disclosed as joint ventures for 2018.

d) Variations in investments in subsidiaries and joint ventures:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Opening balance	390,732	312,527
Capital increase in subsidiaries and joint ventures (i)	94,367	73,907
Capital return/reduction	(1,524)	(16,200)
Sale of subsidiary (ii)	-	(3,923)
Acquisition of subsidiary Latamfit (iii)	232,136	-
Investment gain on acquisition of subsidiary Latamfit (iii)	169,908	-
Acquisition of subsidiary Latamfit Chile (iv)	191,137	-
Acquisition of subsidiary CSC (v)	344,267	-
Investment gain on acquisition of subsidiary CSC (v)	237,074	-
Acquisition of subsidiary Smart Rio (vi)	6,237	-
Derecognition of investment due to merger (vii)	(36,793)	-
Share of profit (loss) of investees	25,409	20,345
Dividends paid or received	(6,175)	(5,271)
Gain on translation of foreign investees	1,961	11,046
Amortization of customer list	(2,490)	-
Others	(818)	(1,699)
Total	<u>1,645,428</u>	<u>390,732</u>

- (i) Capital increase in subsidiaries Smartfit Peru, Smartfit Argentina, Latamfit Chile, Bioswin, Biomorum, Centrale, Racebootcamp, ADV, SmartfitMNG and Totalpass.

(ii) On February 22, 2017, Smartber was sold to the former partners of Biomoema. The amount receivable was settled with obligations recorded under trade payables amounting to R\$ 3,923.

(iii) As detailed in Note 11.a.iii).

(iv) As detailed in Note 11.a.ii).

- (v) As detailed in Note 11.a.iv).
- (vi) As detailed in Notes 2.f) and 23.c).
- (vii) Due to the mergers mentioned in Note 2 2.1 g), the Company assigned its interests in subsidiaries Biopateo, Biomoema and Biomidra to its subsidiary Bioswim, which became the holder of a 100% interest in the merged companies, for the year ended December 31, 2018. In addition, in the same year the Company merged Biotambo, Biobanco, RN Sports, Bioequip, XV Sports and Rio 4, and dissolved Personow, resulting in a write-off of net assets of R\$ 38,575 in the investment.

Variations in investments in subsidiaries Latamgym, SDL and Latamfit were as follows:

	Consolidated - 12/31/2018			
	Latamgym	SDL	Latamfit	Total
Opening balance	89,439	286	50,020	139,745
Share of profit (loss) of investees	9,583	72	2,423	12,078
Gain on translation of foreign investees	7,977	(118)	9,785	17,644
Effect of the acquisition of control of Latamfit and CSC	(106,999)	(240)	(62,228)	(169,467)
At December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Consolidated - 12/31/2017			
	Latamgym	SDL	Latamfit	Total
Opening balance	72,558	95	31,273	103,926
Contribution in joint venture	-	-	12,867	12,867
Share of profit (loss) of investees	12,335	186	1,404	13,925
Gain on translation of foreign investees	4,546	5	4,476	9,027
At December 31, 2017	<u>89,439</u>	<u>286</u>	<u>50,020</u>	<u>139,745</u>

As on June 29, 2018, the acquisition of control of Latamfit was completed, and on October 24, 2018, the acquisition of control of Latamgym and SDL was completed through the acquisition of control of CSC, its balances of these investments are being presented through their acquisition dates.

## 12. PROPERTY AND EQUIPMENT

a) Below are the balance and variations in the Parent's property and equipment for the year ended December 31, 2018:

	Annual average depreciation rate %	Cost	Accumulated depreciation	Additions	Mergers	Write-offs (i)	Transfers	Depreciation	Net
		12/31/2017	12/31/2017	(ii)					12/31/2018
Facilities	10	10,568	(4,708)	-	-	(147)	(5,202)	(511)	-
Leasehold improvements	18	303,650	(134,028)	31,593	7,203	(74)	74,231	(46,838)	235,737
Machinery and equipment	10	150,871	(31,595)	28,740	8,477	(5,492)	38,974	(18,046)	171,929
Furniture and fixtures	10	33,760	(8,683)	2,366	1,848	(194)	6,425	(3,941)	31,581
IT equipment	20	6,598	(1,802)	2,428	301	(187)	1,898	(1,531)	7,705
Vehicles	20	117	(6)	-	-	-	-	(23)	88
Other property and equipment	15	23,668	(3,627)	5,331	-	(1,164)	7,908	(2,640)	29,476
Property and equipment in progress	-	27,921	-	133,861	846	(7,424)	(124,234)	-	30,970
<b>Total</b>		<b>557,153</b>	<b>(184,449)</b>	<b>204,319</b>	<b>18,675</b>	<b>(14,682)</b>	<b>-</b>	<b>(73,530)</b>	<b>507,486</b>

	Annual average depreciation rate %	Cost	Accumulated depreciation	Additions	Write-offs (i)	Transfers	Depreciation	Net
		12/31/2016	12/31/2016					12/31/2017
Facilities	10	10,569	(3,424)	-	32	(276)	(1,041)	5,860
Leasehold improvements	18	233,861	(95,457)	23,460	(406)	47,139	(38,975)	169,622
Machinery and equipment	10	120,605	(20,485)	15,402	(5,705)	22,888	(13,429)	119,276
Furniture and fixtures	10	27,596	(5,617)	1,273	107	4,941	(3,223)	25,077
IT equipment	20	3,817	(1,126)	1,475	(180)	1,736	(926)	4,796
Vehicles	20	-	-	117	-	-	(6)	111
Other property and equipment	15	16,378	(2,286)	2,380	(293)	5,566	(1,704)	20,041
Property and equipment in progress	-	25,460	-	85,622	(1,167)	(81,994)	-	27,921
<b>Total</b>		<b>438,286</b>	<b>(128,395)</b>	<b>129,729</b>	<b>(7,612)</b>	<b>-</b>	<b>(59,304)</b>	<b>372,704</b>

(i) Disposals refer mainly to sale of equipment to related parties.

(ii) Amounts relating to the acquisition of Peru net assets, as mentioned in Note 11.a)(i).

b) Below are the balance and variations in the consolidated property and equipment for the year ended December 31, 2018:

	Annual average	Accumulated		Additions	Acquisitions Latamfit			Exchange differences	Transfers	Depreciation	Net
	depreciation	Cost	depreciation		Chile Latamfit		Other (ii)				value
	rate %	12/31/2017	12/31/2017		(iii)	Write-offs (i)	Colombia and Mexico				12/31/2018
Buildings	4	22,388	(8,229)	-	(117)	-	616	1,542	(1,294)	14,906	
Facilities	9	30,917	(13,817)	16,983	(191)	257,141	19,845	(523)	(6,595)	303,760	
Leasehold improvements	15	546,249	(241,631)	127,854	(340)	115,142	(6,604)	115,468	(91,037)	565,101	
Machinery and equipment	10	305,054	(71,021)	107,404	(10,894)	191,252	2,561	56,842	(49,535)	531,663	
Furniture and fixtures	11	62,195	(17,572)	7,186	(4,129)	38,153	1,909	11,058	(9,908)	88,892	
IT equipment	20	16,862	(6,055)	9,385	(829)	18,382	(263)	2,706	(6,233)	33,955	
Vehicles	20	660	(401)	-	-	-	-	-	(65)	194	
Other property and equipment	15	42,454	(8,999)	8,836	(2,329)	84	(1)	11,565	(5,668)	45,942	
Property and equipment in progress	-	54,189	-	248,922	(5,449)	16,258	1,055	(191,931)	-	123,044	
Advance for acquisition of property and equipment	-	-	-	11,845	-	11,044	(1,054)	(6,727)	-	15,108	
<b>Total cost</b>		<b>1,080,968</b>	<b>(367,725)</b>	<b>538,415</b>	<b>(24,278)</b>	<b>647,456</b>	<b>18,064</b>	<b>-</b>	<b>(170,335)</b>	<b>1,722,565</b>	

	Annual average	Accumulated		Additions	Write-offs	Other (ii)	Exchange differences	Transfers	Depreciation	Net
	depreciation	Cost	depreciation							value
	rate %	12/31/2016	12/31/2016							12/31/2017
Buildings	4	14,779	(5,018)	478	-	8,832	248	4,842	(1,170)	22,991
Facilities	10	20,720	(7,582)	1,970	(175)	-	242	3,873	(1,948)	17,100
Leasehold improvements	18	411,591	(172,292)	53,182	(640)	501	263	81,409	(68,895)	305,119
Machinery and equipment	10	231,112	(43,631)	37,476	(13,956)	5,230	344	35,232	(27,489)	224,318
Furniture and fixtures	10	49,337	(10,611)	3,290	66	310	27	8,687	(6,173)	44,933
IT equipment	20	10,479	(3,902)	4,179	(357)	67	5	2,880	(2,477)	10,874
Vehicles	20	440	(236)	117	(2)	5	2	(1)	(61)	264
Other property and equipment	15	28,325	(5,897)	6,141	(218)	-	-	8,874	(3,770)	33,455
Property and equipment in progress	-	46,315	-	158,827	(5,202)	-	45	(145,796)	-	54,189
<b>Total cost</b>		<b>813,098</b>	<b>(249,169)</b>	<b>265,660</b>	<b>(20,484)</b>	<b>14,945</b>	<b>1,176</b>	<b>-</b>	<b>(111,983)</b>	<b>713,243</b>

(i) Disposals refer mainly to sale of equipment to related parties.

(ii) Amounts relating to the acquisition of Peru net assets, as mentioned in Note 11.a)(i).

(iii) The additions to property and equipment are related to the opening of new units, given the Company's accelerated expansion plan in Latin America.

The analyses of indicators that the assets may not be recoverable are carried out annually, as described in Note 4. In 2018 and 2017, the Company did not identify factors that would require the recognition of a provision for impairment of its assets.

At December 31, 2018, there was no change in the expected useful lives as compared with the depreciation rates used in the prior year.

Assets pledged as collateral

As at December 31, 2018, the Company had assets pledged as collateral for finance leases, as shown in Note 15.

## 13. INTANGIBLE ASSETS

a) Below are the balance and variations in the Parent's intangible assets for the year ended December 31, 2018:

	Annual average amortization rate %	Cost 12/31/2017	Accumulate d amortizatio n 12/31/2017	Additio ns	Mergers	Amortizatio n	Net value 12/31/2018
Goodwill - Bio Ritmo	-	72,378	-	-	-	-	72,378
Goodwill - Smart Fit	-	2,069	-	-	-	-	2,069
Assignment of right of use	10	28,556	(18,460)	4,841	-	(3,751)	11,186
Software	20	2,052	(694)	1,985	35	(544)	2,834
Customer list	-	3,992	(3,992)	-	-	-	-
Trademarks and patents	-	8,478	-	-	-	-	8,478
Total cost		<u>117,525</u>	<u>(23,146)</u>	<u>6,826</u>	<u>35</u>	<u>(4,295)</u>	<u>96,945</u>

	Annual average amortization rate %	Cost 12/31/2016	Accumulate d amortizatio n 12/31/2016	Additio ns	Write- offs	Amortizatio n	Net value 12/31/2017
Goodwill - Bio Ritmo	-	72,378	-	-	-	-	72,378
Goodwill - Smart Fit	-	1,907	-	162	-	-	2,069
Assignment of right of use	10	28,406	(14,508)	151	-	(3,953)	10,096
Software	20	1,269	(402)	818	(34)	(293)	1,358
Customer list	-	3,992	(3,992)	-	-	-	-
Trademarks and patents	-	8,478	-	-	-	-	8,478
Total cost		<u>116,430</u>	<u>(18,902)</u>	<u>1,131</u>	<u>(34)</u>	<u>(4,246)</u>	<u>94,379</u>



Impairment of goodwill

Assets are tested for impairment annually and irrespective of the existence of indication of impairment.

The recoverable amount of the segments is determined based on a value in use calculation which uses cash flow projections based on the financial budget approved by Management and a discount rate of 11% p.a..

Cash flow projections for a 7-year period, such as sales growth, costs, expenses, fixed investments and working capital investments, are based on the annual budget approved by Management and made by the smallest CGU that are the units.

The key assumptions used in the cash flow projections are as follows:

- Revenues: projected from 2019 to 2025 in line with the units' growth history considering the growth of the number of students according to maturity of the units.
- Operating costs and expenses: projected based on past performance and estimated revenue growth.
- Fixed investments: fixed investment projections are intended to recover the depreciation of the operating fixed assets base.
- Working capital investments: projected based on past performance and estimated revenue growth.

Cash flows beyond the 5-year period have been extrapolated using a steady 3.8% p.a. growth rate which corresponds to the projected inflation rate. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the segment's total carrying amount to exceed its total recoverable amount.

Based on the analyses performed, no provision for impairment of goodwill was required.

Impairment testing of intangible assets with definite useful lives

Intangible assets with definite useful lives, mainly the "assignment of right of use", were allocated to CGUs, which were submitted to asset impairment testing through the discounted cash flow at December 31, 2018, and no provision for impairment was required.

In the year ended December 31, 2018, there was no change in the expected useful lives as compared with the amortization rates used in the prior year.

## 14. TRADE PAYABLES

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Acquisition of property and equipment	6,951	-	23,352	-
Cost of debentures issued	-	5,922	-	5,922
Consulting and outside services	12,325	7,865	38,781	19,271
Inputs	2,175	1,534	3,056	2,758
Products and consumables	6,073	13,481	25,409	22,449
Others	603	781	9,706	3,354
	<u>28,127</u>	<u>29,583</u>	<u>100,304</u>	<u>53,754</u>

## 15. BORROWINGS AND DEBENTURES

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Debentures (d)	713,149	803,520	714,191	817,062
Cost of debentures issued	(6,732)	(9,970)	(6,743)	(10,116)
Promissory notes (c)	207,847	150,497	207,847	150,497
Cost of promissory notes issued	(1,123)	-	(1,123)	
Working capital (a)	267,529	187,852	707,904	245,823
Finance lease (b)	14,182	13,551	186,925	33,707
Total	<u>1,194,852</u>	<u>1,145,450</u>	<u>1,809,001</u>	<u>1,236,973</u>
Current liabilities	263,284	339,649	380,835	383,481
Noncurrent liabilities	931,568	805,801	1,428,166	853,492
Total	<u>1,194,852</u>	<u>1,145,450</u>	<u>1,809,001</u>	<u>1,236,973</u>

- (a) In Brazil this refers to borrowings for working capital purposes, with average charges of 2.92% p.a. plus 100% of the CDI, with maturity in July 2022, in addition to borrowings obtained in subsidiary Latamgym, with rate of "TIIE" (Tasa de Interés Interbancaria de Equilibrio) + 2.8% p.a., indirect subsidiary Sport City, with charges of 5% plus rate of IBR (Indicador Bancario de Referencia), or between 3.70% and 5% p.a. plus rate of DTF (Depósitos a Término Fijo), Latamfit Chile, with fixed charges between 6.87% and 8.70% p.a., and Smartfit Peru, with fixed charges between 10.10% and 11.10% p.a..
- (b) The finance lease agreements were entered into with the Lage Landen bank for the acquisition of equipment for the Company's and its subsidiaries' units. The agreements are for up to 57 months, with average charges between 2.64% and 3.48% p.a. plus 100% of the CDI and maturities until November 2021 and are collateralized by the leased assets, and the agreements in indirect subsidiaries Sport City, with charges between 4.90% and 5.35% p.a. plus IBR rate, or 5.09% p.a. plus DTF rate and Latamgym with charges between 8% and 16% p.a..
- (c) On July 12, 2018 the Company issued 80 promissory notes, in two series, in the total amount of R\$ 200,000, the first series in the amount of R\$ 150,000 adjusted to CDI + 2.00% and maturity on December 8, 2020, and the second series in the amount of R\$ 50,000 adjusted to CDI + 2.45% and maturity on June 8, 2021.
- (d) Simple debentures and Promissory notes
- (i) The Extraordinary General Meeting (EGM) of the subsidiary Smart Rio, held on January 30, 2014, approved the first issue of simple, nonconvertible, unsecured debentures, with additional collateral and unsecured guarantee, in a single series, amounting to R\$ 50,000, for public distribution with restrict placement efforts, pursuant to CVM Instruction 476/09, with the intermediation of Banco Votorantim S.A., targeted to qualified investors. The deposit of 5,000 debentures of the 1st issue of simple debentures was confirmed on February 1, 2014, not convertible into shares, in a single series, issued by Smart Rio, with the code CETIP SMRR11. Expenses and commissions for subscription of debentures amounted to R\$ 674. We emphasize that there is no renegotiation clause. The features and terms and conditions of the issue of debentures are as follows:

Description	1 <sup>st</sup> issue
Issuer	Smart Rio Academia de Ginástica S.A.
Security	Debenture under firm distribution warranty, pursuant to CVM Instruction 476/09.
Issue amount	R\$ 50,000
Allocation of proceeds	Working capital improvement of Smart Rio and opening of new units of the Smart Fit segment.
Type	Unsecured
Series	Single series
Collaterals	Unsecured guarantee (surety through Smart Rio and the Company) and collateral (credit card receivables).
Placement scheme	Firm warranty totaling R\$ 50,000.
Nominal par value	R\$ 10,000.00 (ten thousand reais)
Issue date	February 1, 2014
Term	Five years as of the issue date, maturing on February 1, 2019.
Repayment method	Beginning on the 12th month of the issue date, including, in monthly consecutive installments, commencing on March 1, 2015.
Yield	100% of the cumulative variance of the average daily rates of one-day Interbank Deposits - DI (extra-group overnight DI), calculated and released daily by CETIP S.A. - Balcão Organizado de Ativos e Derivativos, plus spread of 2.20% p.a.
Yield payment	On a monthly basis, on the 1st business day of the month, commencing on March 1, 2014.

- (ii) (ii) The Extraordinary General Meeting (EGM) held on February 20, 2014, approved the first issue of simple, nonconvertible, unsecured debentures, with additional collateral and unsecured guarantee, in a single series, amounting to R\$ 150,000, for public distribution with restrict placement efforts, pursuant to CVM Instruction 476/09, with the intermediation of Banco Votorantim S.A., targeted to qualified investors. On February 26, 2014, the deposit of 150 simple nonconvertible debentures of the first issue was confirmed, totaling R\$ 150,000, in single series, issued by the Company, under code CETIP SBIO11. Expenses and commissions for subscription of debentures amounted to R\$ 2,608. We emphasize that there is no renegotiation clause. The features and terms and conditions of the issue of debentures are as follows:

Description	1 <sup>st</sup> issue
Issuer	Smartbio Academia de Ginástica e Dança S.A.
Security	Debenture under firm distribution warranty, pursuant to CVM Instruction 476/09.
Issue amount	R\$ 150,000
Allocation of proceeds	Improve Smartbio's working capital and settle Smartbio borrowings from Banco Itaú BBA S.A..
Type	Unsecured
Series	Single series
Collaterals	Unsecured guarantee (surety through Smart Rio and the Company) and collateral (Smart Rio credit card receivables and the Company).
Placement scheme	Firm warranty totaling R\$ 150,000.
Nominal par value	R\$ 1.000,00 (one thousand reais)
Issue date	February 26, 2014
Term	Five years as of the issue date, maturing on February 26, 2019.

Description	1 <sup>st</sup> issue
Repayment method	In four annual equal installments, each corresponding to 25% of the total issue, commencing on February 26, 2016.
Yield	100% of the cumulative variance of the average daily rates of one-day Interbank Deposits - DI (extra-group overnight DI), calculated and released daily by CETIP S.A. - Balcão Organizado de Ativos e Derivativos, plus spread of 1.80% p.a..
Yield payment	Semiannually, as of the issue date, in August and February, commencing on August 26, 2014.

- (iii) The Extraordinary General Meeting (EGM) held on October 18, 2016, approved the second issue of simple, nonconvertible, unsecured debentures, with additional collateral and unsecured guarantee, in a single series, amounting to R\$ 180,000, for public distribution with restrict placement efforts, pursuant to CVM Instruction 476/09, with the intermediation of Itaú Unibanco S.A., targeted to qualified investors. On November 18, 2016, the deposit of 180 simple nonconvertible debentures of the first issue was confirmed, totaling R\$ 180,000, in single series, issued by the Company, under code CETIP SBIO12. Expenses and commissions for subscription of debentures amounted to R\$ 4,099. We emphasize that there is no renegotiation clause. The features and terms and conditions of the issue of debentures are as follows:

Description	2 <sup>nd</sup> issue
Issuer	Smartfit Escola de Ginástica e Dança S.A.
Security	Debenture under firm distribution warranty, pursuant to CVM Instruction 476/09.
Issue amount	R\$ 180,000
Allocation of proceeds	Prepayment of the 1st issue of the Company's debentures, repayment of borrowings from banks Santander (Brasil) S.A. and Votoranrim S.A. and working capital improvement of the Issuer.
Type	Unsecured
Series	Single series
Collaterals	Unsecured guarantee (surety through Smart Rio Academia de Ginástica S.A.)
Placement scheme	Firm warranty totaling R\$ 150,000.
Nominal par value	R\$ 1.000,00 (one thousand reais)
Issue date	November 11, 2016
Term	Four years as of the issue date, maturing on November 11, 2020.
Repayment method	In 11 quarterly and equal installments, with the first one falling due on the 18th month from the issue date, on May 11, 2018.
Yield	100% of the cumulative variance of the average daily rates of one-day Interbank Deposits - DI (extra-group overnight DI), calculated and released daily by CETIP S.A. - Balcão Organizado de Ativos e Derivativos, plus spread of 3.95% p.a..
Yield payment	Quarterly, as of the issue date, on day 11 of February, May, August and November, commencing on February 11, 2017.

- (iv) The Extraordinary General Meeting (EGM) held on November 21, 2017, approved the third issue of simple, nonconvertible, unsecured shares, with additional collateral and unsecured guarantee, in a single series, amounting to R\$ 100,000, for public distribution with restrict placement efforts, pursuant to CVM Instruction 476/09, with the intermediation of Itaú Unibanco S.A., targeted to qualified investors. On December 15, 2017, the deposit of 54,000 simple nonconvertible debentures of the 3<sup>rd</sup> issue was confirmed, totaling R\$ 540,000, in first and second series, issued by the Company, under codes CETIP SMFT13 and SMFT23. Expenses and commissions for subscription of debentures amounted to R\$ 5,995. We emphasize that there is no renegotiation clause.

Description	3 <sup>rd</sup> issue
Issuer	Smartfit Escola de Ginástica e Dança S.A.
Security	Debenture under firm distribution warranty, pursuant to CVM Instruction 476/09.
Issue amount	R\$ 100,000
Allocation of proceeds	Payment of the Company's promissory note, settlement of borrowing from bank Caixa Econômica Federal and working capital improvement of the Issuer.
Type	Unsecured
Series	Single series
Collaterals	Unsecured guarantee (surety through Smart Rio Academia de Ginástica S.A.)
Placement scheme	Firm warranty totaling R\$ 100,000.
Nominal par value	R\$ 10,000.00 (ten thousand reais)
Issue date	December 15, 2017
Term	Two years as of the issue date, maturing on December 15, 2019.
Repayment method	One single installment plus proportional interest on December 15, 2019 and seven installments of quarterly interest, the 1st installment is due on March 15, 2018.
Yield	100% of the cumulative variance of the average daily rates of one-day Interbank Deposits - DI (extra-group overnight DI), calculated and released daily by CETIP S.A. - Balcão Organizado de Ativos e Derivativos, plus spread of 1.60% p.a..
Yield payment	Quarterly, as of the issue date, on day 15 of March, June, September, December of 2018 and 2019.

Description	3 <sup>rd</sup> issue
Issuer	Smartfit Escola de Ginástica e Dança S.A.
Security	Debenture under firm distribution warranty, pursuant to CVM Instruction 476/09.
Issue amount	R\$ 440,000
Allocation of proceeds	Payment of the Company's promissory note, settlement of borrowing from bank Caixa Econômica Federal and working capital improvement of the Issuer.
Type	Unsecured
Series	Single series
Collaterals	Unsecured guarantee (surety through Smart Rio Academia de Ginástica S.A.)
Placement scheme	Firm warranty totaling R\$ 440,000.
Nominal par value	R\$ 10,000.00 (ten thousand reais)
Issue date	December 15, 2017
Term	Four years as of the issue date, maturing on December 15, 2021.

Description	3 <sup>rd</sup> issue
Repayment method	In five quarterly installments plus proportional interest as from December 15, 2020 and 11 installments of quarterly interest, the 1st installment is due on March 15, 2018.
Yield	100% of the cumulative variance of the average daily rates of one-day Interbank Deposits - DI (extra-group overnight DI), calculated and released daily by CETIP S.A. - Balcão Organizado de Ativos e Derivativos, plus spread of 3.00% p.a..
Yield payment	Quarterly, as of the issue date, on day 15 of March, June, September, December 2018 to 2021.

#### Variations in borrowings

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Opening balance	1,145,450	405,733	1,236,973	469,363
Latamfit Chile net assets (i)	-	-	35,247	-
Latamfit net assets (ii)	-	-	63,395	-
CSC Mexico net assets (iii)	-	-	231,424	-
Borrowings (iv)	380,000	781,725	625,067	840,310
Mergers	742	-	-	-
Accrued interest	109,686	63,449	120,550	72,303
Principal paid	(339,573)	(48,168)	(415,978)	(78,277)
Interest paid	(101,409)	(57,289)	(105,851)	(66,726)
Exchange differences	-	-	19,288	-
Contract cancellation	(44)	-	(1,114)	-
Closing balance	<u>1,194,852</u>	<u>1,145,450</u>	<u>1,809,001</u>	<u>1,236,973</u>

- (i) Amounts relating to the acquisition of Latamfit Chile net assets, as mentioned in Note 11.a)(ii).
- (ii) Amounts relating to the acquisition of Latamfit net assets, as mentioned in Note 11.a)(iii).
- (iii) Amounts relating to the acquisition of CSC net assets, as mentioned in Note 11.a)(iv).
- (iv) Working capital borrowings in the amount of R\$ 180,000 in the Parent and R\$ 421,742 in consolidated, promissory notes of R\$ 200,000 in the Parent and consolidated, and finance lease of R\$ 3,321 in the consolidated.

#### Covenants

The Company is required to comply with covenants laid down in certain working capital agreements and simple debentures issued by the Company and its subsidiaries, which require annual measurement of net debt-to-EBITDA ratio of the last 12 months that cannot exceed 2.50 on annual closures, and in the specific case of debentures and promissory notes this indicator is also measured quarterly and cannot exceed 3 in the quarters.

For these agreements, the Company was fully compliant as at December 31, 2018.

In addition to the financial ratios, the Company made an analysis as at December 31, 2018 since it was also complying with the operating covenants, the main non-compliance were the allocation of funds raised, disclosure of financial statements, as well as non-compliance with pecuniary obligations of the debts issued, among others.

#### 16. SALARIES, ACCRUALS AND SOCIAL CONTRIBUTIONS

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Salaries payable	4,279	2,715	9,426	5,278
Severance Pay Fund (FGTS)	709	440	1,593	834
National Institute of Social Security (INSS)	1,658	1,336	4,461	2,752
Accrued vacation pay and related taxes	7,849	6,750	13,166	12,693
Others	56	77	853	63
Total	<u>14,551</u>	<u>11,318</u>	<u>29,499</u>	<u>21,620</u>

#### 17. TAXES PAYABLE

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
COFINS (Tax on Revenue)	3,538	3,049	6,633	6,274
PIS (Tax on revenue)	693	646	1,302	1,322
ISS (Service Tax)	2,642	2,185	4,721	6,238
Taxes withheld on services taken	2,197	1,514	4,551	2,868
Income tax on remittances abroad	-	-	2,745	-
IPTU (Municipal property tax)	214	223	237	330
Others	945	667	3,279	1,806
Total	<u>10,229</u>	<u>8,284</u>	<u>23,468</u>	<u>18,838</u>

#### 18. TAXES IN INSTALLMENTS

	Parent	Consolidated
At December 31, 2017	5,963	17,875
Addition due to mergers	967	-
(-) Payments	(57)	(1,015)
(-) Balance adjustment - PERT (RFB incentive)	(177)	(396)
(+) Recoverable taxes	-	48
(-) Offset (deferred tax assets) - PERT (RFB incentive)	(6,295)	(8,934)
At December 31, 2018	<u>401</u>	<u>7,578</u>
Current liabilities	80	808
Noncurrent liabilities	321	6,770
Total	<u>401</u>	<u>7,578</u>

In August 2017 the Company opted for the payment in installments of overdue federal taxes of prior years, for which the consolidation by the Brazilian Federal Revenue Office ("RFB") is estimated for December 2018.

Payment in installments of Federal taxes (Law No. 13,496/17) – the Special Tax Regularization Program – PERT, established by Law No. 13,496/17, published on May 31, 2017, established the differential installment for the payment of federal tax and social security debts, matured until April 30, 2017, which granted several benefits to its opting parties, such as the reduction of fines, interest, possibility to utilize credits calculated based on accumulated tax losses of the Company and also of its subsidiaries, until December 31, 2015, for the settlement of such amounts, with terms of up to 175 months for the payment of the consolidated balance.

## 19. OTHER PAYABLES

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Assignment of right of use	1,352	1,512	2,402	1,512
Capital reduction	-	21,600	-	22,770
Acquisition of Gold's Gym (a)	-	-	3,856	3,237
Consideration and call option arising from transactions with exchange of Latamfit shares (b)	110,247	-	110,247	-
Loans to third parties	2,598	3,239	2,598	3,239
Other payables	426	46	29,483	7,906
<b>Total</b>	<b>114,623</b>	<b>26,397</b>	<b>148,586</b>	<b>38,664</b>
Current liabilities	92,745	25,245	125,470	37,512
Noncurrent liabilities	21,878	1,152	23,116	1,152
<b>Total</b>	<b>114,623</b>	<b>26,397</b>	<b>148,586</b>	<b>38,664</b>

(a) In August 2017, Gold's Gym was acquired by the subsidiary Smartfit Peru (as described in Note 11.a)(i), and the balance will be paid in up to 6 years, starting in January 2019.

(b) See Note 11.a)(iii).

## 20. PAYABLES TO SHAREHOLDERS

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Invesfit Holdings S.A. (a)	54,951	52,934	54,951	52,934
Novastar Investment Pte. Ltd. (b)	110,839	-	110,839	-
Minimum contractual payment from Latamfit Chile call option (c)	23,249	-	23,249	-
Contingent consideration (d)	11,183	-	11,183	-
Consideration related to acquisition of Smart Rio (e)	96,495	-	96,495	-
Dividends payable	79,549	-	79,549	-
Capital reduction payable	432	-	936	-
<b>Total</b>	<b>376,698</b>	<b>52,934</b>	<b>377,202</b>	<b>52,934</b>
Current liabilities	113,070	-	113,574	-
Noncurrent liabilities	263,628	52,934	263,628	52,934
<b>Total</b>	<b>376,698</b>	<b>52,934</b>	<b>377,202</b>	<b>52,934</b>

- (a) The Extraordinary General Meeting of shareholders held on July 10, 2014 approved the entry of the investor Invesfit Holdings S.A., with the creation of 805 class A shares and 445,184 class B shares, contributing a total amount of R\$ 43,000 recognized in the Company's noncurrent liabilities since the investor may require full redemption in the event a public offering is not undertaken within five years from the contribution date, adjusted for inflation based on the variance of the IPCA (Extended National Consumer Price Index) from the contribution date to the redemption date, which should be notified in writing to the Company. The inflation-adjusted balance at December 31, 2018 is R\$ 54,951 (R\$ 52,934 at December 31, 2017).
- (b) On May 11, 2018, the Company entered into a share subscription agreement with Novastar Investment Pte. Ltd., affiliate of GIC Special Investments Pte. Ltd. ("GIC"). Under this agreement, GIC made an investment in the Company in the total amount of R\$ 100,000 with the subscription of 602 class AI preferred shares, and 332,731 class I preferred shares, all without voting rights, issued by the Company, according to the EGM signed on the same date.
- The number of shares received by GIC will be adjusted, without additional cost, if there is a liquidity event or if the Company does not carry out an initial public offering within 24 months from signing the agreement. The Company will have an option to redeem 100% of class AI and I shares issued to GIC if it fails to make an initial public offering within 24 months of signing the agreement. Due to these characteristics, the investment was accounted for as a liability based on CPC 39 (IAS 32).
- (c) Due to the third call option mentioned in Note 11.a)(ii), which allows the Company to repurchase its own shares, the Company recorded R\$ 23,134 (US\$ 6,000,000), which may be settled in accordance with conditions mentioned above.
- (d) See Note 11.a)(ii).
- (e) See Note 23.

## 21. DEFERRED REVENUE

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Gym plans and others (a)	6,526	299	21,987	16,974
Membership fee (b)	3,198	2,927	9,229	4,765
Annual fee (b)	26,399	21,412	50,409	37,208
Others (c)	2,086	2,414	2,087	2,413
Total	<u>38,209</u>	<u>27,052</u>	<u>83,712</u>	<u>61,360</u>
Current	36,448	24,965	81,951	59,273
Noncurrent	1,761	2,087	1,761	2,087
Total	<u>38,209</u>	<u>27,052</u>	<u>83,712</u>	<u>61,360</u>

The balances recognized as deferred revenue derive from:

- (a) Agreements entered into with gym students, under plans contracted directly by the customers.
- (b) Membership fees are revenues arising from the student entry into the unit. Annual fees are recognized and charged in the months of March and October, according to the type of plan acquired. The revenue is deferred and recognized in profit or loss as from the entry of the student.

- (c) Refer to amounts received from shopping malls to fund the necessary constructions for the operation of certain gyms. These are recognized over the agreement terms as from the opening of the unit.

The sales revenue, leveraged by the gym plans, is recognized in this line item as the service is provided, on an accrual basis.

The Company monitors the rate of cancelation of services billed but not provided and concluded that the amount of refund to students is immaterial.

## 22. PROVISION FOR CIVIL, TAX AND LABOR RISKS

The Company and its subsidiaries were parties to certain labor and civil lawsuits for which the likelihood of loss was considered probable by its legal counsel and a provision of R\$ 2,922 was recognized in Parent (R\$ 2,457 at December 31, 2017), and R\$ 6,692 in Consolidated (R\$ 3,188 at December 31, 2017).

	Parent			
	Civil	Labor	Tax	Total
At December 31, 2017	1,701	756	-	2,457
Additions and/or increases	-	493	16	509
Write-offs and/or reversals	(44)	-	-	(44)
At December 31, 2018	<u>1,657</u>	<u>1,249</u>	<u>16</u>	<u>2,922</u>

	Consolidated			
	Civil	Labor	Tax	Total
At December 31, 2017	1,820	1,368	-	3,188
Additions and/or increases	2,882	1,119	19	4,020
Write-offs and/or reversals	(131)	(385)	-	(516)
At December 31, 2018	<u>4,571</u>	<u>2,102</u>	<u>19</u>	<u>6,692</u>

The Company's management did not consider necessary to recognize a provision for losses on ongoing civil, labor and tax lawsuits in the amount of R\$ 13,698 (R\$ 21,585 at December 31, 2017) in Consolidated, since the likelihood of loss is considered possible by its legal counsel.

The nature of the main lawsuits by category is detailed below:

- Labor lawsuits: Consist basically of claims filed by employees related to amounts not included in the severance calculation and payment.
- Civil lawsuits: These are mainly related to indemnity lawsuits related to pain and suffering and property damage, related to challenges of contractual clauses and commercial conditions in the Company's service agreements. In addition, certain ongoing lawsuits against the Company challenge significant elements of its business model, such as the price structure of its plans and the collection predominantly through electronic means.
- Tax lawsuits: Consist mainly of judicial and administrative proceedings related to taxes, mostly related to the IRPJ and CSLL calculation base.

## 23. EQUITY

## a) Share capital

As at December 31, 2018, the Company's fully subscribed capital is R\$ 374,111, divided into 11,057,992 common shares and 7,313,964 class A, AB, AC, AE, AF, AG, AH, AI, AK, AJ, B, C, E, F, G, H, I, K and J preferred shares, all of them registered and with no par value, held as follows by the shareholders:

	Number of shares	Ownership interest - %
Common shares	11,057,992	60.19
Preferred shares:		
Class A	20,000	0.11
Class AB	805	0.01
Class AC	1,311	0.01
Class AE	2,752	0.01
Class AF	1,402	0.01
Class AG	104	0.00
Class AH	1,369	0.01
Class AI	602	0.00
Class AK	1,791	0.01
Class AJ	3,028	0.02
Class B	445,184	2.42
Class C	724,715	3.94
Class E	1,522,710	8.29
Class F	775,316	4.22
Class G	57,847	0.31
Class H	757,276	4.12
Class I	332,731	1.81
Class K	990,408	5.39
Class J	<u>1,674,613</u>	<u>9.12</u>
Total	<u>18,371,956</u>	<u>100.00</u>

At the EGM held on September 1, 2017, the Company's capital reduction by R\$ 21,600 was approved, since it exceeded its corporate purpose, without cancelation of shares, and approved by the creditors, paid until December 31, 2018.

As described in Note 11.a)(ii), on March 27, 2018, the Company acquired the operation of gyms in Chile, through exchange of shares of the Company for the shares of Latamfit Chile, which were measured at fair value in the total amount of R\$ 175,100, being attributed to equity (i) R\$ 53,105 to increase the Company's share capital, with the issue of 757,276 class H preferred shares and 1,369 class AH preferred shares, with no voting rights and convertible into common shares in the proportion of 1 to 1 in liquidity events; (ii) R\$ 53,105 allocated to the capital reserve; and (iii) R\$ 68,890 arising from the fair value measurement of the purchase price, recorded as equity instrument arising from business combination in equity.

On June 29, 2018, the acquisition of control of Latamfit was completed, in which part of the consideration was made based on the exchange of shares generating a capital increase, approved at a Board of Directors' meeting on the same date, through the issue of 902 class AK preferred shares and 498,720 class K preferred shares with par value of R\$ 93,165 and a fair value effect of the purchase price, accounted for as equity instrument arising from business combination in the amount of R\$ 17,090, totaling R\$ 110,255.

On October 24, 2018, the acquisition of control of CSC, Corporación Sport City, S.A. de C.V. was completed, in which part of the consideration was made based on the exchange of shares of the Company for the shares of CSC, the consideration related to this exchange of shares was recorded as capital in the amount of R\$ 291,909 and capital reserve in the total amount of R\$ 1,678, and an equity instrument arising from business combination in the amount of R\$ 50,680.

On November 14, 2018, the acquisition of Smart Rio was completed, through the issue of 491,688 class K preferred shares and 889 class AK preferred shares, which will be paid in full by the partners through the credit for the sale of equity interest to the Company, recorded in other payables and that at the time of the capital contribution will be reclassified to share capital.

b) Dividends

All the class A, AB, AC, AE, AF, AG, AH, AI, AK, AJ, B, C, E, F, G, H, I, K and J preferred shares, entitle their holders to receive:

(i) Priority dividends equivalent to:

- a) 25% of the profit for the year calculated based on the financial information for the fiscal years 2015 and 2016; or
- b) the amount determined by the shareholders at the AGM that approves the financial information for these years, if it exceeds the amount previously mentioned, limited to up to 99% of the profit for the year calculated based on this financial information.
- c) 25% of the profit for the year calculated based on the financial information for each for the fiscal years subsequent to 2017.

(ii) Receipt of dividends corresponding to the remaining balance of the profit for the year, after the payment of priority dividends, as indicated in the prior items, on the same basis as to the other shareholders.

At December 31, 2018, the Company recorded in its liabilities the amount of R\$ 86,845 related to the constitution of dividends payable. At December 31, 2017, there was no profit calculation, therefore, no dividends were paid, and the subsidiaries that recorded profit distributed dividends in the total amount of R\$ 1,572 (R\$ 19,267 at December 31, 2017) and R\$ 4,603 of interest on capital (R\$ 5,585 at December 31, 2017).

c) Transaction with noncontrolling interest

In January 2017, the Company acquired 8,893 shares of its subsidiary Arnaut & Arnauty from noncontrolling interests for R\$ 2,050, which was fully paid by the Company. The Company increased its stake from 50% to 72.2%, generating an effect of R\$ 1,970 of total variation in the Company's equity against the noncontrolling interest.

In August 2017, the Company partially acquired 133,224 shares of noncontrolling shareholders of subsidiaries Biopateo and Biotambo for R\$4,717, which was fully paid by the Company. The Company increased its stake in Biopateo from 43.57% to 55.57% and in Biotambo from 96.35% to 100%.

On March 20, 2018, a capital increase in subsidiary ADV Esporte e Saúde Ltda. in the amount of R\$ 1,911 was made, which was subscribed using dividend distribution, and the amount from the noncontrolling interest was R\$ 562.

On April 20, 2018, the Company entered into an agreement with the noncontrolling interests of its subsidiary Centrale to execute a pledge with a loan agreement settlement, in exchange for 200,979 participation quotas in this company, thus the Company's interest in the subsidiary Centrale increased from 57.95% to 66.92%, which had an impact on equity of R\$ 2,512.

On September 18, 2018, the Company completed the acquisition of all shares of subsidiary XV Sports. Accordingly, the Company's interest in this subsidiary increased from 57.85% to 99.99%, which had an impact on equity of R\$ 1,259, which was subsequently merged by the Parent, as mentioned in Note 2 2.1 g).

On October 4, 2018, the Company completed the acquisition of all shares of subsidiary Smartrfe. Accordingly, the Company's interest in this subsidiary increased from 90% to 100%, which had an impact on equity of R\$ 1,482.

On November 14, 2018, the acquisition of Smart Rio was completed, through the issue of 491,688 class K preferred shares and 889 class AK preferred shares. Accordingly, the Company's interest in this subsidiary increased from 67.5% to 100%, which had an impact on equity of R\$ 90,199, in investments in subsidiaries and joint ventures of R\$ 6,237, and a future consideration recorded in other payables in the amount of R\$ 96,495.

d) Legal reserve

Set up at the rate of 5% of the profit for the year, after absorption of accumulated losses, and until it reaches 20% of the capital.

e) Capital reserve and earnings reserve

The Company recognized a capital reserve to enable a possible redemption of preferred shares, under conditions set forth in each of the class of shares. The earnings reserves was created in 2018, after absorbing the accumulated losses as a result of the profit for the fiscal year in 2018.

f) Comprehensive income

Refer to gains and losses arising from the translation of financial statements of foreign subsidiaries and joint ventures.

## 24. NET OPERATING REVENUE

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Gross operating revenue:				
Revenue from services provided:				
Gym plans (a)	452,339	348,633	1,130,384	744,335
Annual fees	46,899	36,377	96,890	63,440
Adhesions	8,697	7,608	26,296	16,203
Lease and sublease of space	1,462	1,273	2,946	2,154
Royalties and franchising	-	-	29,869	19,229
Others	1,788	159	13,977	5,158
Taxes on revenue	(62,641)	(48,175)	(140,329)	(104,956)
<b>Total</b>	<b>448,544</b>	<b>345,875</b>	<b>1,160,033</b>	<b>745,563</b>

- (a) Of the balance of revenue from gym plans in 2018, R\$ 186,756 refers to revenues from foreign companies in which the Company started holding the control in 2018, as detailed in Note 11.

## 25. INFORMATION ON THE NATURE OF EXPENSES

The Company presented the statement of profit or loss using a classification of expenses based on their function. The information on the nature of these expenses recognized in the statement of profit or loss is as follows:

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cost of services rendered:				
Personnel and related taxes	(69,553)	(45,678)	(197,468)	(128,281)
Lease of real estate and common area maintenance fees	(84,130)	(64,009)	(201,701)	(130,542)
Depreciation and amortization, net of PIS and COFINS	(73,179)	(58,058)	(166,709)	(106,605)
Utilities	(42,456)	(29,583)	(94,903)	(63,836)
Maintenance	(18,671)	(12,220)	(41,976)	(25,762)
Operational support services	(36,604)	(29,029)	(68,122)	(44,796)
Opening of new units	(15,698)	(12,529)	(27,088)	(23,614)
Other expenses	(2,902)	(2,603)	(9,419)	(6,420)
<b>Total</b>	<b>(343,193)</b>	<b>(253,709)</b>	<b>(807,386)</b>	<b>(529,856)</b>
Selling, general and administrative expenses and other operating income (expenses), net:				
Personnel and related taxes	(41,226)	(36,144)	(66,565)	(48,235)
Lease of real estate and common area maintenance fees	(2,789)	(2,328)	(6,891)	(3,832)
Media and commercials	(23,075)	(16,847)	(57,018)	(48,046)
Utilities	(1,109)	(605)	(4,369)	(1,294)
Credit card management fee	(4,622)	(4,186)	(14,294)	(10,074)
Depreciation and amortization, net of PIS and COFINS	(218)	(14)	(4,900)	(2,185)
Operational support services	(17,958)	(20,568)	(47,116)	(34,442)
Opening of new units	(2,946)	(3,036)	(8,551)	(6,555)
Gain on remeasurement of equity interest (*)	406,982	-	406,982	-
Other operating income (expenses), net (**)	(7,653)	2,375	(56,802)	(15,966)
<b>Total</b>	<b>305,386</b>	<b>(81,353)</b>	<b>140,476</b>	<b>(170,629)</b>
<b>Grand total</b>	<b>(37,807)</b>	<b>(335,062)</b>	<b>(666,910)</b>	<b>(700,485)</b>

- (\*) Result arising from the acquisition of control of Latamfit in the amount of R\$ 169,908 and CSC in the amount of R\$ 237,074, due to the remeasurement of the equity interest by the Company in accordance with technical pronouncement CPC 15.

- (\*\*) The balance of 'other operating income (expenses), net' at December 31, 2018 includes the amount of R\$ 16,834 (R\$ 0 in 2017) related to non-recurring expenses incurred on the attempt to carry out the IPO and the costs with the acquisitions (M&A) occurred during 2018.

## 26. FINANCE INCOME (COSTS)

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Finance income:				
Income from financial investments	31,254	14,290	32,728	16,826
Other finance income	5,329	11,716	1,120	14,660
Finance costs:				
Interest on borrowings	(109,686)	(61,593)	(120,550)	(69,282)
Interest on payables to shareholders	(10,838)	-	(10,838)	-
Interest and exchange losses	4,560	(9,628)	(8,172)	(12,653)
Tax on financial transactions (IOF)	(893)	(1,759)	(4,913)	(3,100)
Bank fees	(4,299)	(2,361)	(6,581)	(5,067)
Other finance costs	(1,260)	(1,833)	(3,817)	(5,250)
Total	<u>(85,833)</u>	<u>(51,168)</u>	<u>(121,023)</u>	<u>(63,866)</u>

## 27. OPERATING LEASE - LEASE OF GYMS

## a) Operating lease

As at December 31, 2018, the Company and its subsidiaries had lease agreements with third parties. Management analyzed these agreements and concluded that they qualify as operating leases. Some lease agreements establish variable lease expense, contingent on sales, or a minimum amount adjusted annually based on several inflation indexes, with lease terms of five to ten years, subject to renewal.

## (i) Fixed payments

<u>Maturity</u>	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Less than one year	99,783	66,702	174,585	124,524
From 1 to 5 years	382,432	243,944	651,117	441,825
Over 5 years	109,483	40,514	185,627	102,167
Total	<u>591,698</u>	<u>351,160</u>	<u>1,011,329</u>	<u>668,516</u>

## (ii) Lease expenses

	Parent		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Contingent and non-contingent payments considered as expenses during the year.	<u>90,293</u>	<u>68,317</u>	<u>195,792</u>	<u>134,215</u>

As at December 31, 2018, the balance of the line item "Operating lease – lease of gyms" is R\$ 15,110 in Parent (R\$ 10,105 at December 31, 2017) and R\$ 28,680 in Consolidated (R\$ 19,255 at December 31, 2017).

b) Finance lease

The commitments and obligations related to equipment lease agreements are as follows:

(i) Minimum future payments

Finance lease liabilities	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Less than one year	6,575	4,319	54,170	10,454
From 1 to 5 years	8,449	10,356	134,651	26,052
Total	<u>15,024</u>	<u>14,675</u>	<u>188,821</u>	<u>36,506</u>

(ii) Finance lease liabilities:

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Gross contractual amount	15,025	14,675	188,821	36,506
Future financing charges	(841)	(1,124)	(1,897)	(2,799)
Current contractual amount	<u>14,184</u>	<u>13,551</u>	<u>186,924</u>	<u>33,707</u>

## 28. INCOME TAX AND SOCIAL CONTRIBUTION

a) Reconciliation of effective income tax and social contribution expense:

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Profit (loss) before IRPJ and CSLL	350,314	(20,010)	384,178	(4,863)
Statutory rate	34%	34%	34%	34%
Expected income tax and social contribution expense (income)	(119,107)	6,803	(130,620)	1,653
Effect of IRPJ and CSLL on permanent differences:				
Share of profit (loss) of investees	8,639	6,917	4,107	4,735
Gain on remeasurement of equity interest (*)	138,374	-	138,374	-
Other permanent differences	(3,388)	(7)	(8,096)	(1,715)
Temporary differences (unrecognized deferred tax)	(15,987)	(1,287)	(16,940)	(1,777)
Reversal of balances of companies with negative tax base (Actual Profit)	(8,531)	(12,427)	(20,421)	(19,089)
Adjustment of companies taxed on the Presumed Profit	-	-	4,561	2,633
Taxes calculated in foreign subsidiaries	-	-	10,991	-
Income tax and social contribution loss	1,216	5,172	(8,238)	7,904
Offset of income tax and social contribution losses in profit or loss for the year	-	-	3,260	(1,071)
Others	-	-	(4,200)	-
Total	<u>1,216</u>	<u>5,171</u>	<u>(27,222)</u>	<u>(6,726)</u>
Income tax and social contribution in profit or loss for the year/period				
Current	-	-	(18,984)	(14,657)
Deferred	1,216	5,171	(8,238)	7,931
Total	<u>1,216</u>	<u>5,171</u>	<u>(27,222)</u>	<u>(6,726)</u>

(\*) The gain on remeasurement of equity interest arising from the acquisition of control of Latamfit and CSC, as described in Notes 11.a)(iii) and 11.a)(iv), is not subject to taxation, and will be considered as a permanent deduction for income tax calculation purposes!

b) Reconciliation of the IRPJ and CSLL payable

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at January 1	1	3,802	2,397	19,929
Mergers	1,101	-	-	-
Current IRPJ and CSLL expense	-	-	17,492	14,657
Taxes calculated in foreign subsidiaries	-	-	1,513	-
Net assets from the acquisition of subsidiaries	-	-	8,077	-
Inflation	-	57	-	2,100
Taxes in installments (i)	-	(3,858)	-	(17,040)
Offset of prior years	(1,081)	-	(11,771)	(4,310)
Prepayments and payment	(20)	-	(7,474)	(12,939)
Total	<u>1</u>	<u>1</u>	<u>10,234</u>	<u>2,397</u>

(i) Reclassification of balance of taxes payable to taxes in installments - PERT - shown in Note 18.

c) Deferred income tax and social contribution

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Income tax and social contribution losses - deferred (i)	-	5,216	-	7,944
Temporary differences Latamfit Chile, Latamfit and CSC	-	-	23,046	-
Total assets	<u>-</u>	<u>5,216</u>	<u>23,046</u>	<u>7,944</u>
Allocation of trademark (ii)	2,883	2,883	4,746	2,883
Allocation of customer list (ii)	-	-	9,912	-
Income tax - Gold's Gym net assets	-	-	1,598	1,786
Appreciation of property and equipment	863	844	863	844
Total liabilities	<u>3,746</u>	<u>3,727</u>	<u>17,119</u>	<u>5,513</u>

(i) At December 31, 2017, the Company set up deferred income tax and social contribution asset, for utilization in the taxes in installments

of federal taxes PERT – Special Tax Regularization Program, established by Provisional Measure No. 783/17, as mentioned in Note 18. The balance was offset after the homologation of the tax installment payment by the RFB in December 2018.

As shown in notes 11.a)(ii), 11.a)(iii) and 11.a)(iv).

d) Deferred income tax and social contribution – not recognized

The Company is in process of corporate and operational restructuring; accordingly, no deferred income tax and social contribution was set up as a result of the Company's temporary differences and income tax and social contribution losses, except for the PERT described above. These tax credits will be recognized when the business plan, individualized by Company's legal entity, is formalized and approved. The amounts recognized as assets refer to operations in Mexico and Chile on temporary differences.

As at December 31, 2018, the balances of income tax and social contribution losses amounted to R\$ 165,848 (R\$ 85,941 in 2017), for companies in Brazil, these tax losses can be carried forward indefinitely, limited to 30% of the adjusted annual profit for tax purposes in accordance with prevailing tax legislation and temporary differences, and is being controlled in the Taxable Income Control Register (LALUR).

## 29. EARNINGS PER SHARE

The Company calculates earnings per share by dividing the profit for the year, related to each class of shares, by the weighted average number of the related class of shares outstanding during the period.

The equity instruments that will be or can be settled in Company shares are included in the calculation only when their settlement have diluting impact on the earnings per share.

Class A, AB, AC, AE, AF, AG, AH, AI, AJ and AK preferred shares do not entitle their holders to vote in the resolutions of the General Meetings of Shareholders. All class A preferred shares entitle their holders to payment of dividends, and common shares entitle their holders to one vote in the resolutions of the General Meetings of Shareholders. Class B preferred shares do not entitle their holders to vote in the resolutions of the General Meetings of Shareholders and entitle to priority in capital reimbursement, without premium, in the event of Company liquidation or dissolution, or also, can be converted into common shares until July 10, 2019.

Class C, E, F, G, H, I, J and K preferred shares do not entitle their holders to vote in the resolutions of the General Meetings of Shareholders and entitle to priority in capital reimbursement, without premium, in the event of Company liquidation or dissolution, or also, can be converted into common shares.

The minimum contractual payment resulting from the Company's share call option described in Note 11.a)(ii) represents a fine for non-exercise of the call option, and therefore, this transaction was not considered for the diluted calculation of the shares.

The table below presents the calculation of profit for the year available to holders of common and preferred shares and the weighted average number of common and preferred shares outstanding used to calculate basic and diluted earnings per share in each period presented:

	12/31/2018			
	Preferred A, AB, AC, AE, AF, AG, AH, AI, AJ, AK	Preferred B, C, E, F, G, H, I, J and K	Common shares	Total
<u>Basic numerator:</u>				
Profit for the period attributable to owners of the Company used to calculate total basic earnings per share				351,529
<u>Basic denominator:</u>				
Available shares	33,164	7,280,800	11,057,992	18,371,956
Weighted average number of available shares	28,961	4,956,293	11,057,992	16,043,246
Basic earnings per share – R\$				<u>21.9113</u>

	12/31/2018			
	Preferred A, AB, AC, AE, AF, AG, AH, AI, AJ, AK	Preferred B, C, E, F, G, H, I, J and K	Common shares	Total
<u>Diluted numerator:</u>				
Profit for the period attributable to owners of the Company used to calculate total diluted earnings per share				351,529
<u>Diluted denominator:</u>				
Available shares	33,164	7,280,800	11,057,992	18,371,956
Weighted average number of available shares	28,961	4,956,293	11,057,992	16,043,246
Share options (Note 30)	-	-	419,487	419,487
Diluted weighted average number of available shares	28,961	4,956,293	11,477,479	16,462,733
Diluted earnings per share – R\$				<u>21.3530</u>

	12/31/2017			
	Preferred A, AB, AC, AE, AF and AG	Preferred B, C, E, F and G	Common shares	Total
<u>Basic and diluted numerator:</u>				
Loss for the period attributable to owners of the Company used to calculate total basic and diluted loss per share				(14,839)
<u>Basic and diluted denominator:</u>				
Available shares	26,374	3,525,772	11,057,992	14,610,138
Weighted average number of available shares	26,374	3,525,772	11,057,992	14,610,138
Basic and diluted loss per share – R\$				<u>(1.0157)</u>

### 30. SHARE-BASED PAYMENT

On March 2, 2018, the Company approved, pursuant to the Minutes of the EGM, the creation of the Share Option Plan, with the purpose of stimulating the expansion, success and achievement of the Company's social objectives, align the interests of the shareholders with those of the Beneficiaries and encourage the generation of sustainable results.

The vesting period of the Options held by each Participant will take place after the vesting periods established in the Share Option Agreement and the occurrence of a liquidity event, in the case of an IPO or sale of Company's shares to an acquirer. Until the vesting and the liquidity event occurs, the Options will be designated as "Non-Exercisable Options" and, after their occurrence, "Exercisable Options".

Variations in options granted during the year ended December 31, 2018 were as follows:

	Number of options outstanding		Average exercise price
	Plan 1	Plan 2	
Options granted	331,062	88,425	139.86
Exercised	-	-	-
Forfeited	-	-	-
Balance of options	<u>331,062</u>	<u>88,425</u>	<u>139.86</u>

There are no differences between the plans other than the vesting periods, as shown in the table below. The options are measured using the Black-Scholes pricing model. The table below shows the details of the variations in options, together with the variables used to measure the options granted. The exercise price is adjusted by the IPCA, beginning on January 1, 2017. As at December 31, 2018, the assumptions used to calculate the fair value of options granted were the following:

	<u>Plan 1</u>		<u>Plan 2</u>	
Grant date	7/1/2018		7/1/2018	
Number of shares granted	331,062		88,425	
Vesting	10/31/2018	33%	12/31/2018	25%
	12/31/2018	33%	12/31/2019	25%
	12/31/2019	33%	12/31/2020	50%
Exercise price on the grant date - R\$	139.86		139.86	
Risk free interest rate	4.4%		4.4%	
Expected dividend yield	0.9%		0.9%	
Volatility of shares in the market	33.1%		33.1%	
Option fair value on the grant date - R\$	10.76		13.78	

The expected volatility was calculated based on companies from the same sector with shares traded in the United States and Europe, given that the Company does not trade its shares in the securities market and since there are no listed companies from the same sector in Brazil.

As at December 31, 2018, the amount recognized in profit or loss, in accordance with CPC 10, was R\$ 2,454 against capital reserve, and the expense is recognized on a straight-line basis by plan and number of options linked to each vesting period.

### 31. FINANCIAL INSTRUMENTS

#### a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders and to maintain an adequate capital structure to reduce the cost of capital.

The Company's capital structure consists of financial liabilities with financial institutions, debentures and promissory notes (Note 15), trade payables (Note 14), other payables (Note 19), payables to shareholders (Note 20), cash and cash equivalents (Note 5), and equity (Note 23).

Management reviews the Company's capital structure and its ability to settle liabilities on a periodic basis and timely monitors the average term of receivables and payables, taking the necessary actions to maintain them at levels considered adequate for financial management purposes.

## b) Categories of financial instruments

	Parent		Consolidated	
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Financial assets:				
Amortized cost:				
Cash and cash equivalents	499,468	747,260	666,780	807,730
Financial investments and restricted cash	36,903	-	41,909	-
Escrow deposits	1,097	719	1,369	2,967
Related parties	127,881	55,428	2,057	6,010
Trade receivables	55,689	39,734	105,553	77,671
Other receivables	8,275	8,260	74,150	19,354
Total	<u>729,313</u>	<u>851,401</u>	<u>891,818</u>	<u>913,732</u>
Financial liabilities:				
Amortized cost:				
Borrowings	1,194,852	1,145,450	1,809,002	1,236,973
Taxes in installments	401	5,963	7,578	17,875
Other payables	114,624	26,397	148,587	38,664
Payables to shareholders	376,697	52,934	377,201	52,934
Related parties	15,687	12,391	301	1,015
Trade payables	28,127	29,583	100,304	53,754
Total	<u>1,730,388</u>	<u>1,272,718</u>	<u>2,442,973</u>	<u>1,401,215</u>

The balance of "Borrowings" is adjusted for inflation based on market indexes (CDI), contractual rates (Note 15) and variable interest according to market conditions and, therefore, the fair value is R\$ 1,243,570.

## c) Financial risks

The Company's activities are exposed to some financial risks, such as credit risk and liquidity risk.

Risk management is carried out by the Company's Management in accordance with the policies approved by the Board of Executive Officers. The Company's Treasury department identifies, measures and hedges it against possible financial risks in cooperation with the Company's operating units.

## d) Market risk - interest rate

The Company raises borrowings in local currency with the financial institutions, at fixed and floating interest rates, among which there is the Interbank Deposit Certificate (CDI), to cover the cash requirements for investment and customer financing. Concurrently, the Company makes short-term investments linked to CDI, aiming at partially offsetting the impacts arising from financial charges on borrowings. The Company and its subsidiaries do not have swap or hedging derivative contracts to hedge against this risk.

## e) Fair value of the financial instruments

The Company adopts the following methodology to determine and disclose the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 which are directly (such as prices) or indirectly (price derived) observable for assets or liabilities. Borrowings are classified in this level.
- Level 3: inputs, for the asset or liability that are not based on observable market inputs (unobservable inputs).

Based on the financial instruments category, there are no financial assets and liabilities at fair value.

During the years ended December 31, 2018 and 2017, the Company and its subsidiaries did not have derivative financial instruments and/or transactions involving embedded derivatives.

The Company performed a sensitivity analysis of the financial instruments exposed to interest rate risk, and adopted the following assumptions:

- Identify the market risks that can result in material losses to the Company.
- Outline a probable risk scenario (scenario I). For the probable scenario, the annual interest rate for the next 12 months was weighted at 6.8% based on the CDI curve obtained from B3 S.A., weighted average of 9.3% from IBR and DTF from the Central Bank of Colombia and 2.78% on TAB 30 obtained from the Association of Banks and Financial Institutions of Chile.
- Outline two additional scenarios with stresses of at least 25% and 50% in the risk variable considered (Scenarios II and scenario III, respectively).
- Present the impact of the outlined scenarios on the fair value of the financial instruments.

The assets and liabilities subject to interest rate risks are shown below, recalculated as per the previously outlined scenarios as at December 31, 2018:

Operations	Rate	Risk	Consolidated	Amounts in R\$		
			Balance as at 12/31/2018	Scenario I	Scenario II	Scenario III
Short-term investments	96.6% (*) of CDI	CDI increase	671,606	40,800	51,000	61,200
Debentures	100% of CDI + 2.5% (*)	CDI increase	(707,448)	(64,921)	(81,151)	(97,381)
Working capital - Brazil	100% of CDI + 3.9% (*)	CDI increase	(296,862)	(31,060)	(38,825)	(46,591)
Working capital - Latamfit	IBR   DTF + 5% to 9.21%	Increase in IBR	(24,471)	(2,277)	(2,846)	(3,415)
Working capital - Mexico	TIIE + 2.8%	DTF / Fixed rate	(163,613)	(18,645)	(23,306)	(27,967)
Promissory notes	100% of CDI + 2.2% (*)	CDI increase	(206,724)	(18,164)	(22,706)	(27,247)
Finance lease Lease - Latamfit	100% of CDI + 3.1% (*)	CDI increase	(22,997)	(2,236)	(2,795)	(3,354)
	DTF/IBR + 3.7% to 5.25%	Increase in IBR/DTF	(73,489)	(6,838)	(8,547)	(10,257)
		Net impact		<u>(103,341)</u>	<u>(129,176)</u>	<u>(155,012)</u>

(\*) Average rate.

## f) Foreign exchange risk

The Company and its Brazilian subsidiaries are exposed to foreign exchange risks because they have transactions in foreign currency. The Company is exposed to foreign exchange risk on its investments in foreign subsidiaries and joint ventures, mainly in its operations in Chile, Colombia, Peru and Mexico. Management believes that these are long-term investments and monitors the operational return on these investments and any short-term currency fluctuations will not have immediate financial impacts for the Company. In addition, Management does not use derivative instruments or swap agreements to hedge against this risk.

The subsidiary in Peru has balances payable in US dollars related to the acquisition mentioned in Note 11.a)(i) and borrowings; therefore, it is exposed to exchange rate risk. In the probable scenario, to measure the estimated net impact for the next 12 months arising from the foreign exchange risk, the exchange rate was set at R\$3.80 based on the position disclosed by the Central Bank of Brazil. The dollar was projected with a 25% and 50% increase in the risk variation considered (scenarios II and III, respectively), for the other currencies a safe source of future projection was not found, we consider scenario I with the rates at December 31, 2018.

Operations	Risk	Consolidated	Amounts in R\$		
		Balance at 12/31/2018	Scenario I	Scenario II	Scenario III
Call option payable Latamfit Chile	Dollar increase	(23,249)	-	(5,251)	(10,951)
Contingent consideration Latamfit Chile	CLP increase	(9,506)	-	(2,376)	(4,753)
Contingent consideration Latamfit Chile	UF Chile increase	(1,677)	-	(419)	(839)
Consideration for the exchange of shares - Latamfit	COP increase	(110,247)	-	(27,562)	(55,123)
Payable - Smartfit Peru	Dollar increase	(3,874)	-	(876)	(1,826)
Financial investment in foreign currency - Smartfit	Dollar increase	583	-	106	244
		<u>Net impact</u>	<u>-</u>	<u>(36,378)</u>	<u>(73,248)</u>

## g) Credit risk management

The Company's, its direct and indirect subsidiaries' and its joint ventures' operations comprise the provision of services related to physical fitness activities. Services are legally supported by agreements and other legal instruments that may be required. The Company and its subsidiaries are exposed to credit risk for cash and cash equivalents held with financial institutions and for the position of receivables generated in trading transactions.

For the balances of cash and cash equivalents, in order to minimize the credit risk, the Company adopts policies that restrict the bank relationship in financial institutions validated and approved by the Board of Directors. This policy also establishes monetary limits and risk concentration, which are regularly updated.

For the balances of trade receivables, the credit risk is mitigated by the fact that a large part of the Company's and its subsidiaries' sales are made using as means of payment the credit card, and are substantially securitized with the credit card companies, whose maximum exposure is the amount disclosed in Note 7.

## h) Liquidity risk management

Management monitors the ongoing forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

Because of the dynamics of its business, the Company and its subsidiaries maintain borrowing flexibility by maintaining bank credit lines with some financial institutions.

The table below shows the maturity of the financial liabilities contracted (consolidated):

Operation	12/31/2018			Total
	Up to 1 year	Up to 2 years	From 1 to 5 years	
Trade payables	100,308	-	-	100,308
Trade payables	146,283	2,301	-	148,584
Payables to shareholders	113,573	97,838	165,791	377,202
Borrowings, debentures and promissory notes	380,835	440,990	987,176	1,809,001

Operation	12/31/2017			Total
	Up to 1 year	Up to 2 years	From 2 to 5 years	
Trade payables	53,754	-	-	53,754
Other payables	37,512	1,152	-	38,664
Payables to shareholders	-	-	52,934	52,934
Borrowings and debentures	405,294	308,084	572,225	1,285,603

## i) Guarantees provided

	12/31/2018	12/31/2017
Guarantees provided:		
Letters of guarantee	60,708	119,511

Guarantees provided by the Company and its subsidiaries under letters of guarantee issued by independent financial institutions as guarantee of payment of lease agreements and sundry payables

## 32. SEGMENT INFORMATION

Management analyzes its operations based on three different business segments: "Premium", which offers a greater variety and a more customized service offer; "Low cost", with a service offering focused on the core business and with more affordable prices; and Others, which includes other businesses related to fitness. Management also analyzes its businesses based on a geographic segmentation, considering three markets: Brazil, Mexico and Other Latin America, which in 2017 included operations in Peru and Colombia, and in 2018 also included operations in Chile and Argentina.

In the "Premium segment", the company operates only in Brazil with the "Bio Ritmo" brand and from the first quarter of 2018 also in Chile with the brand "O2". In the "Low Cost" segment, the company operates in all geographic areas with the "Smart Fit" brand.

Management monitors separately the operating results of its business units in order to make decisions about resource allocation and assessment of performance. Operating segments are disclosed consistently with the internal report provided to the chief operating decision maker, identified as the Chief Executive Officer.

.....The operations in Mexico and Other Latin America, although not being consolidated into the Company's financial statements for 2017 and part of 2018, prior to the acquisitions mentioned in Note 11, are being disclosed in their totality to represent the total group's profit or loss and disregarded in the elimination column to return the consolidated result.

The Company calculates the results of the segments using the accounting practices adopted in Brazil and the IFRS; among other factors, the gross profit of each segment. The Company often reviews the calculation of each segment's gross profit, as established by information regularly reviewed by the chief operating decision-maker (Chief Executive Officer). The assets and liabilities by segment are not being presented, in line with CPC 22, since this information is not regularly presented to the chief decision maker.

Year ended December 31, 2018	Brazil			Mexico	Others Latin America		Subtotal	Eliminatio n	Consolida d
	Smart Fit	Bio Ritmo	Others	Smart Fit	Smart Fit	Others			
Net operating revenue	759,165	116,167	32,580	296,231	217,234	31,032	1,452,409	(292,376)	1,160,033
Cost of services rendered	(546,967)	(88,644)	(9,691)	(193,680)	(140,872)	(18,301)	(998,155)	190,769	(807,386)
Gross profit	<u>212,198</u>	<u>27,523</u>	<u>22,889</u>	<u>102,551</u>	<u>76,362</u>	<u>12,731</u>	<u>454,254</u>	<u>(101,607)</u>	<u>352,647</u>
Operating income (expenses)									
Selling expenses			(66,876)	(23,080)	(13,461)	-	(103,417)	21,945	(81,472)
General and administrative expenses			(113,822)	(20,172)	(34,288)	-	(168,282)	18,799	(149,483)
Share of profit (loss) of investees			-	-	-	-	-	12,078	12,078
Other operating income (expenses), net			369,666	(371)	2,136	-	371,431	-	371,431
Profit before finance income (costs)			<u>451,578</u>	<u>58,928</u>	<u>30,749</u>	<u>12,731</u>	<u>553,986</u>	<u>(48,785)</u>	<u>505,201</u>
<u>Other segment information</u>									
Costs with depreciation and amortization	(120,853)	(15,579)	(5,282)	(47,500)	(38,810)	(1,203)	(229,227)	49,921	(179,306)
Expenses with depreciation and amortization	(371)	-	(3,293)	(243)	(1,177)	-	(5,084)	184	(4,900)
<u>Total expenses on the opening of new units</u>	<u>(22,602)</u>	<u>(1,209)</u>	<u>(2,389)</u>	<u>(8,802)</u>	<u>(8,618)</u>	<u>(326)</u>	<u>(43,946)</u>	<u>8,307</u>	<u>(35,639)</u>
Costs on the opening of new units	(17,961)	(1,129)	(1,108)	(3,991)	(6,882)	(198)	(31,269)	4,181	(27,088)
Expenses on the opening of new units	(4,641)	(80)	(1,281)	(4,811)	(1,736)	(128)	(12,677)	4,126	(8,551)

Smartfit Escola de Ginástica e Dança S.A.

Year ended December 31, 2017	Brazil			Mexico	Others Latin America		Subtotal	Eliminatio n	Consolidate d
	Smart Fit	Bio Ritmo	Others	Smart Fit	Smart Fit	Others			
Net operating revenue	598,105	112,881	19,320	179,286	59,061	-	968,653	(223,090)	745,563
Cost of services rendered	(425,694)	(85,796)	(5,755)	(114,456)	(44,593)	-	(676,294)	146,438	(529,856)
Gross profit	<u>172,411</u>	<u>27,085</u>	<u>13,565</u>	<u>64,830</u>	<u>14,468</u>	-	<u>292,359</u>	<u>(76,652)</u>	<u>215,707</u>
Operating income (expenses)									
Selling expenses			(62,999)	(13,590)	(4,370)	-	(80,959)	16,192	(64,767)
General and administrative expenses			(92,516)	(13,908)	(11,360)	-	(117,784)	17,522	(100,262)
Share of profit (loss) of investees			-	-	-	-	-	13,925	13,925
Other operating income (expenses), net			(7,103)	-	1,382	-	(5,721)	121	(5,600)
Profit (loss) before finance income (costs)			<u>50,443</u>	<u>37,332</u>	<u>120</u>	-	<u>87,895</u>	<u>(28,892)</u>	<u>59,003</u>
<u>Other segment information</u>									
Costs with depreciation and amortization	(99,573)	(14,898)	(780)	(26,465)	(12,080)	-	(153,796)	36,799	(116,997)
Expenses with depreciation and amortization	-	-	(2,185)	-	-	-	(2,185)	-	(2,185)
<u>Total expenses on the opening of new units</u>	<u>(26,433)</u>	<u>(1,004)</u>	<u>(894)</u>	<u>(5,047)</u>	<u>(2,753)</u>	-	<u>(36,131)</u>	<u>5,962</u>	<u>(30,169)</u>
Costs on the opening of new units	(20,525)	(690)	(561)	(2,752)	(2,657)	-	(27,185)	3,570	(23,615)
Expenses on the opening of new units	(5,908)	(314)	(333)	(2,295)	(96)	-	(8,946)	2,391	(6,555)

## 33. INSURANCE COVERAGE

The policy adopted by the Company and its direct and indirect subsidiaries considers mainly the concentration of risks and their materiality, taking into consideration the nature of their activities and the advice of their insurance brokers. The insurance coverage as at December 31, 2018 is as follows:

	<u>Parent</u>	<u>Consolidate d</u>
Basic asset coverage	13,257	2,837,168
Loss of profits - gross profit	-	737,375

## 34. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Non-cash variations for the year are as follows:

	<u>Parent</u>		<u>Consolidated</u>	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Purchases of property and equipment payable	6,951	-	23,352	200
Smartber acquisition	-	3,928	-	3,928
Adjustment of exchange rate translation on investees abroad	35,513	-	35,513	-
Gain on acquisition of interest in subsidiaries	(406,982)	-	(406,982)	-
<u>Acquisition of Latamfit Chile</u>				
Trade receivables	-	-	1,361	-
Other assets	-	-	6,204	-
Deferred income tax	-	-	6,855	-
Property and equipment	-	-	56,989	-
Intangible assets	-	-	1,907	-
Borrowings	-	-	(35,247)	-
Trade payables	-	-	(4,836)	-
Operating lease - lease of gyms	-	-	(1,588)	-
Other payables	-	-	(901)	-
Taxes payable	-	-	(3,433)	-
Services payable to related parties	-	-	(520)	-
Other liabilities	-	-	(9,689)	-
Surplus price paid (preliminary)	(169,737)	-	(169,737)	-
Capital increase and capital reserves	175,100	-	175,100	-
Minimum contractual payment from Latamfit Chile call option	24,019	-	24,019	-
Contingent payment	11,037	-	11,037	-
<u>Latamfit acquisition</u>				
Trade receivables	-	-	518	-
Other assets	-	-	4,419	-
Property and equipment	-	-	172,173	-
Intangible assets	-	-	1,393	-
Trade payables	-	-	(9,843)	-
Borrowings	-	-	(63,395)	-
Taxes payable	-	-	(5,376)	-
Other liabilities	-	-	(2,753)	-
Surplus price paid (preliminary)	(365,255)	-	(365,255)	-
Capital increase and capital reserves	110,255	-	110,255	-

	Parent		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<u>Acquisition of CSC</u>				
Trade receivables	-	-	994	-
Recoverable taxes	-	-	9,217	-
Other receivables	-	-	20,591	-
Deferred taxes	-	-	15,993	-
Investments	-	-	52,402	-
Other assets	-	-	1,163	-
Property and equipment	-	-	418,294	-
Trade payables	-	-	(12,754)	-
Borrowings	-	-	(231,424)	-
Taxes payable	-	-	(20,108)	-
Deferred revenue	-	-	(12,185)	-
Other liabilities	-	-	(7,786)	-
Surplus price paid (preliminary)	(463,399)	-	(463,399)	-
Capital increase and capital reserves	50,680	-	50,680	-
<u>Effect of merges</u>				
Trade receivables	5,854	-	-	-
Recoverable taxes	1,681	-	-	-
Other assets	4,255	-	-	-
Investments	(38,575)	-	-	-
Property and equipment	18,674	-	-	-
Intangible assets	35	-	-	-
Trade payables	(1,276)	-	-	-
Borrowings	(742)	-	-	-
Other liabilities	(11,444)	-	-	-

### 35. EVENTS AFTER THE REPORTING PERIOD

#### Call Option

On January 8, 2019, the Board of Directors approved the exercise of the call option provided for in the Call Option Agreement entered into on March 27, 2018 between the Company and its shareholders, the terms of which were approved at the Company's EGM held on March 27, 2018 ("Call Option"), related to the acquisition of subsidiary Latamfit Chile.

The Company will pay for the exercise of the Call Option the total amount of US\$ 9,200,000.00 and the acquired shares will be held by the Company in treasury.

#### Debentures

In February 2019, two debenture agreements were settled on their due dates, on 2/1/2019 the debenture issued by the subsidiary SmartRio (Note 15.d.(i)) and on 2/26/2019 the first debenture issued by Company on 4/20/2014 (Note 15.d.(ii)).