Vulcabras Azaleia S.A.

Financial statements as of December 31, 2017

(A free translation of the original report in Portuguese as published in Brazil containing the financial information prepared in accordance with accounting practices adopted in Brazil and IFRS)

KPDS 216431

Contents

MANAGEMENT REPORT 4TH QUARTER OF 2017

Vulcabras Azaleia

azaleia dijean OLYMPIKUS OLK OPANKA Botas Vulcabras

Jundiai, March 6, 2018 - Vulcabras Azaleia S.A. (BM&F BOVESPA: VULC3) announces today its results for the fourth quarter of 2017 (4Q17). The Company's operating and financial information is presented based on consolidated figures and in millions of reais, prepared in accordance with international financial reporting standards (IFRS). The data in this report refers to the performance for the fourth quarter of 2017, compared to the fourth quarter of 2016, unless specified otherwise.

azaleia dijean OPANKA OLYMPIKUS OLK Botas Vulcabras

VULC3 NOVO MERCADO BM&FBOVESPA

Quote VULC3 (12/28/2017):
R$ 9.10 per share
Number of shares:
Common: 245,756,346
Market value:
R$ 2.24 billion

Conference call:
03/07/2018 at 10:00 am
(Brasília time)
Phone - Brazil:
+55 (11) 3193-1001
+55 (11) 2820-4001
Phone - other countries:
USA
+1 646 828-8246
+1 -800-492-3904
UK
+44 20 7442-5653
+0808-234-8680

Contact:
Edivaldo Rogério de Brito
Chief Investor Relations Officer
Telephone:
(11) 4532-1005
email:
dri@vulcabras.com.br
http://vulcabrasazaleiari.com.br/

HIGHLIGHTS

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Net revenue	314.6	307.1	2.4%	1,263.1	1,134.2	11.4%
Gross income	119.7	111.8	7.1%	482.4	392.6	22.9%
Gross margin %	38.0%	36.4%	1.6 p.p.	38.2%	34.6%	3.6 p.p.
Net income	45.4	13.6	233.8%	188.9	35.7	429.1%
Net margin %	14.4%	4.4%	10.0 p.p.	15.0%	3.1%	11.9 p.p.
EBITDA	70.4	56.3	25.0%	296.5	186.5	59.0%
EBITDA Margin %	22.4%	18.3%	4.1 p.p.	23.5%	16.4%	7.1 p.p.

- **Sales (net revenue):** R$ 1,263.1 million in 2017, increase of 11.4% against 2016.
- **Gross Income:** R$ 482.4 million in 2017, increase of 22.9% against 2016.
- **Gross Margin:** 38.2% in 2017, increase of 3.6 p.p. against 2016.
- **Net income for the period:** R$ 188.9 million in 2017, increase of 429.1% against 2016.
- **EBITDA:** R$ 296.5 million in 2017, increase of 59.0% against 2016.

Message from the CEO

2017 numbers consolidate the good results of the company's modernization work started in 2015. After years of hard work, we transformed the company into a brand manager with a highlight to our own brands, which today are our main assets. Olympikus is leader in sales of sports footwear in Brazil[1] and Azaleia is among the most remembered brands in the women segment. In 2017 we resumed our satisfactory level of profitability that allows us a glimpse on future opportunities.

In all, in 2017, Vulcabras Azaleia sold 24.4 million pairs of shoes and apparel, representing a revenue of R$ 1,263.1 million, with a 11.4% growth over 2016. From this revenue, 88.8% were earned in the domestic market.

Reflection of the company's sales strength, EBITDA reached R$ 296.5 million, 59.0% above the R$ 186.5 million in 2016. EBITDA margin grew by 7.1 percentage points, reaching 23.5 %, a leading level in the footwear industry.

The profit, of R$ 188.9 million, is five times higher than the amount achieved in 2016, of R$ 35.7 million.

The company has drastically reduced the net bank debt, due to the improvement in EBITDA generation and to resources from the re-IPO (follow-on), at the end of October.We presented, at the end of 2017, a negative net debt (net cash).

The company also invested in modernization of the factories in 2017, investing R$ 61.7 million, 27.5% more than the R$ 48.4 million in 2016. In 2018, the industrial parks will continue to receive investments, with resources from the public offering.

We have also concluded the renewal of the IRPJ tax incentive on the manufacturing unit of Bahia, with a new validity until December 2026. The IRPJ incentive of the Sergipe unit is in the process of renewal.

In addition to the operating results, the re-IPO conducted in October confirms the changes made by management in recent years, with a focus on brand management, market intelligence and austerity in the processes.The operation reflects the business' soundness and management's commitment to a sustainable growth strategy. The release of the Stock Options plan at the beginning of 2018 also confirms our management's alignment with the company's long-term goals in this new phase of greater interaction with the capital market.

2017 also marked the resumption of the leadership in sales of sports footwear in Brazil led by Olympikus, ahead of global brands, according to a survey from KantarWorldpanel.

This was the seventh year that Olympikus sponsored the International Marathon of Rio de Janeiro. The largest Brazilian sports brand supports and encourages one of the sports that most has been growing in the country.

Azaleia, one of the most beloved brands of the female audience, goes through restructuring and repositioning in the market, the results of which are expected for the coming months.

The work, at Vulcabras Azaleia, is on proceeding with the best operating results of the industry and continuing on the side of the Brazilian consumer with high-tech footwear, fashion information and democratized prices.

Pedro Bartelle

[1] Source: KantarWorldpanel

Institutional

With 65 years of experience in the Brazilian footwear market, Vulcabras Azaleia is a holding company of leading brands and focuses on innovation.

The company operates through three business divisions: sports, comprising the Olympikus and OLK brands, women, with Azaleia , Dijean and Opanka brands, and Vulcabras Boots. There are over 1,000 models developed and more than 15 thousand active employees spread across five sites in Brazil (factories in Horizonte-EC, Itapetinga-BA and Feri Paulo-SE, a development center in Parobé-RS, an administrative center in Jundiaí-SP) and two branches/distribution centers in Peru and Colombia.

One of the main Brazilian footwear companies, it is listed in the New Market, a segment which gathers companies with the highest corporate governance at B3. There was a lot of work to get here and our commitment is to continue with this dynamic, in order to maintain the highest governance standards in all company activities.

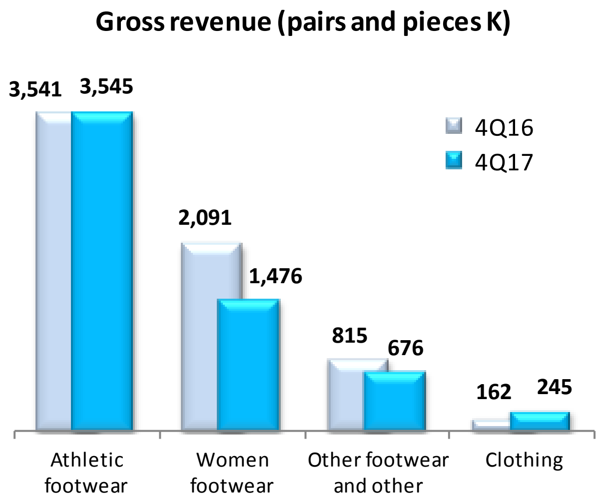
Vulcabras Azaleia does not want to just sell shoes or sporting goods, but fulfill the desire of its customers, whether it be to make the best purchase, with smartchoice products, or through a fashion icon product as well as cutting-edge technology.

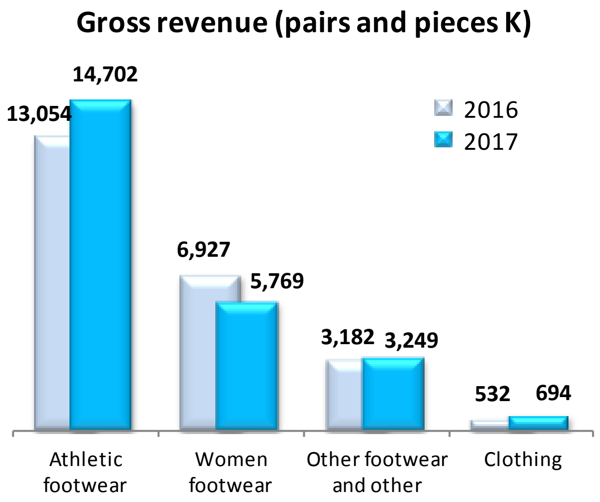
Gross Volume

In 4Q17 the gross volume of our revenues totaled 5.9 million pairs/pieces with a drop of 10.1% compared to the 4Q16 total, 6.6 million pairs/pieces. The variation is due to the reduction of women's footwear for the continuity of the strategic decision, adopted from the third quarter of the year, and the seasonality of sales of other footwear to the foreign market.

In 2017, the gross volume of our revenues totaled 24.4 million pairs/pieces, with growth of 3.0% when compared to the volume of 2016, which was 23.7 million pairs/pieces. The highlight continues to be sports shoes, whose growth obtained was 12.6%, and apparel with 30.5%. The women's footwear had a drop of 16.7%, due to the strategic decision, adopted from the third quarter of the year, to direct the women's production capacity to sports.

Pairs and pieces thousand	4Q17	Share %	4Q16	Share %	Var. % 4Q17/4Q16	2017	Share %	2016	Share %	Var. % 2017/2016
Athletic footwear	3,545	59.7%	3,541	53.6%	0.1%	14,702	60.3%	13,054	55.1%	12.6%
Women footwear	1,476	24.8%	2,091	31.6%	-29.4%	5,769	23.6%	6,927	29.3%	-16.7%
Other footwear and other	676	11.4%	815	12.3%	-17.1%	3,249	13.3%	3,182	13.4%	2.1%
Clothing	245	4.1%	162	2.5%	51.2%	694	2.8%	532	2.2%	30.5%
Total	**5,942**	**100.0%**	**6,609**	**100.0%**	**-10.1%**	**24,414**	**100.0%**	**23,695**	**100.0%**	**3.0%**





Net Revenue

In 4Q17 net revenue reached R$ 314.6 million, increasing 2.4% over R$ $307.1 million in 4Q16.

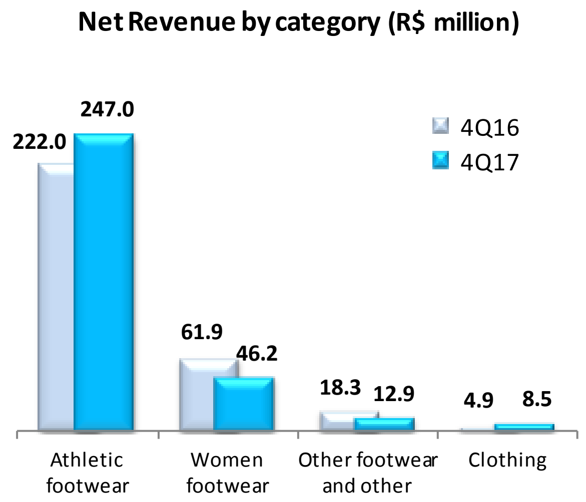
In 2017 net revenue was R$ 1,263.1 million, a result 11.4% higher than in 2016, when revenue was R$ 1,134.2 million.

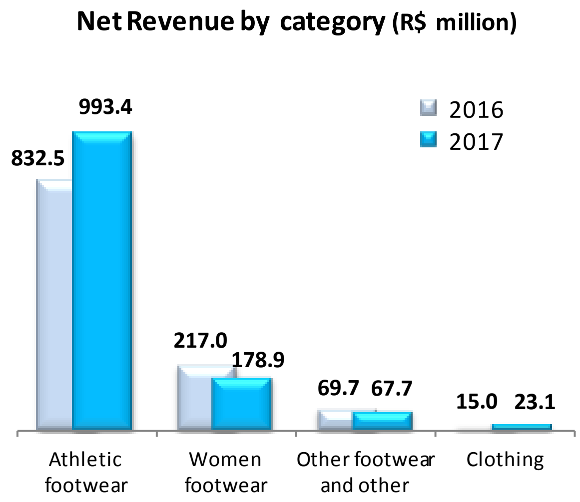
In 4Q17 there was a slowdown in retail sales, with greater intensity in the month of October, which led our customers to review their orders for the month of December, aiming, in this way, to not generate an accumulation of inventories in points of sale.

A good part of the goods was made available to other customers. Due to the low demand, combined with the proximity of Christmas, the collective vacation period at the factories was extended for a week, avoiding the rise of our inventories.

Even in the face of this fact, the net revenue in 4Q17 has risen. The revenue from sports footwear kept its pace of growth, with all the orders fulfilled, and an important presence in the Christmas sales. There was a drop in the women's sector sales, compared to the same period of the previous year, caused by the maintenance of the strategy of transferring the production capacity of women's footwear to sports footwear.

R$ Million	4Q17	Share %	4Q16	Share %	Var. % 4Q17/4Q16	2017	Share %	2016	Share %	Var. % 2017/2016
Athletic footwear	247.0	78.5%	222.0	72.2%	11.3%	993.4	78.6%	832.5	73.4%	19.3%
Women footwear	46.2	14.7%	61.9	20.2%	-25.4%	178.9	14.2%	217.0	19.2%	-17.6%
Other footwear and other	12.9	4.1%	18.3	6.0%	-29.5%	67.7	5.4%	69.7	6.1%	-2.9%
Clothing	8.5	2.7%	4.9	1.6%	73.5%	23.1	1.8%	15.0	1.3%	54.0%
Total Net Revenue	**314.6**	**100.0%**	**307.1**	**100.0%**	**2.4%**	**1,263.1**	**100.0%**	**1,134.2**	**100.0%**	**11.4%**





Net Revenue: Markets

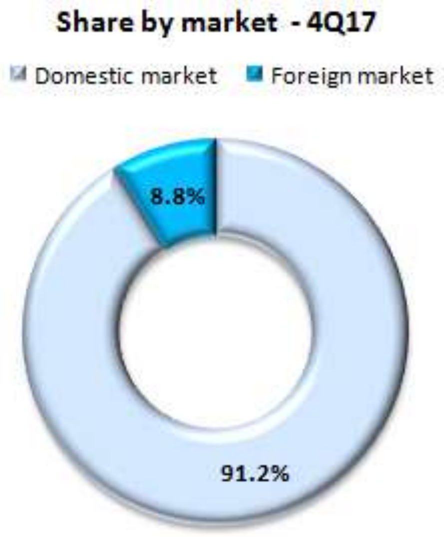
Net revenue in the domestic market totaled R$ 287.0 million in 4Q17, with an increase of 5.2% compared to 4Q16 when net revenue was R$ 272.7 million. In the foreign market, net revenue in 4Q17 was R$ 27.6 million, a drop of 19.8% compared to the R$ 34.4 million recorded in 4Q16.

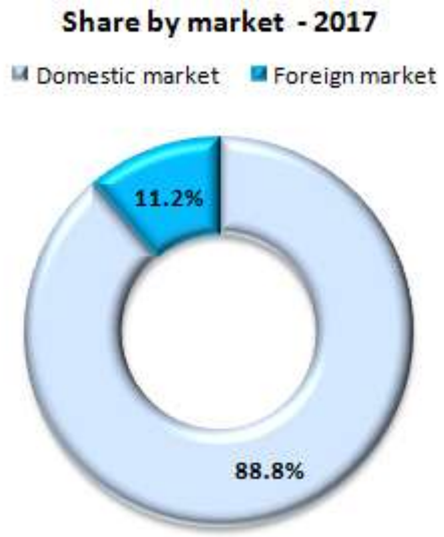
In 2017, the domestic market totaled R$ 1,122.2 million, a 13.5% increase compared to 2016, when net revenue amounted to R$ 988.6 million. In the foreign market, net revenue in 2017 was R$ 140.9 million, 3.2% lower when compared to the R$ 145.6 million obtained in 2016. Part of this decline is justified by the appreciation of Brazilian Real against the American Dollar during 2017.

In direct sales to third parties in the foreign market, there has been a drop in revenue in 4Q17 when compared to the same period of the previous year, a result of a more linear supply during 2017. In 2016 there was a large concentration of revenue in the second half of the year, due to the resumption of business with the Argentinean market through a new local partner. However, as for year to date, there was a growth in total revenues, with a rise in the sale of sports and women footwear and footwear components.

In sales of foreign branches, we continue having trade difficulties mainly in Colombia, due to the economic crisis that the country faces, after an increase in the consumption tax, which occurred in February 2017. We had a drop in revenues in 4Q17 and in year-to-date figures compared to the same period of the previous year.

R$ Million	4Q17	Share %	4Q16	Share %	Var. % 4Q17/4Q16	2017	Share %	2016	Share %	Var. % 2017/2016
Domestic market	287.0	91.2%	272.7	88.8%	5.2%	1,122.2	88.8%	988.6	87.2%	13.5%
Foreign market	27.6	8.8%	34.4	11.2%	-19.8%	140.9	11.2%	145.6	12.8%	-3.2%
Total net revenue	**314.6**	**100.0%**	**307.1**	**100.0%**	**2.4%**	**1,263.1**	**100.0%**	**1,134.2**	**100.0%**	**11.4%**



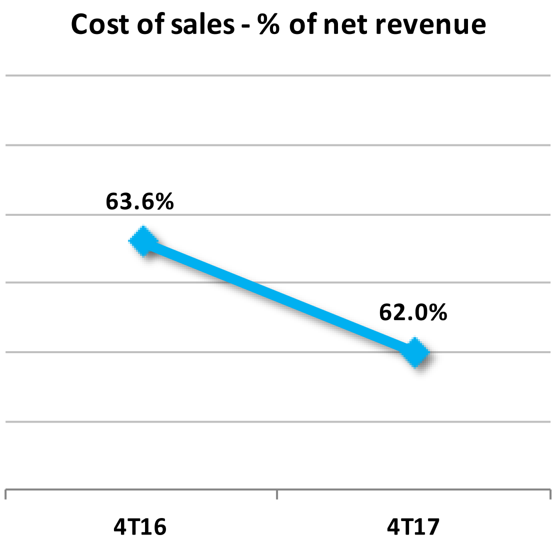


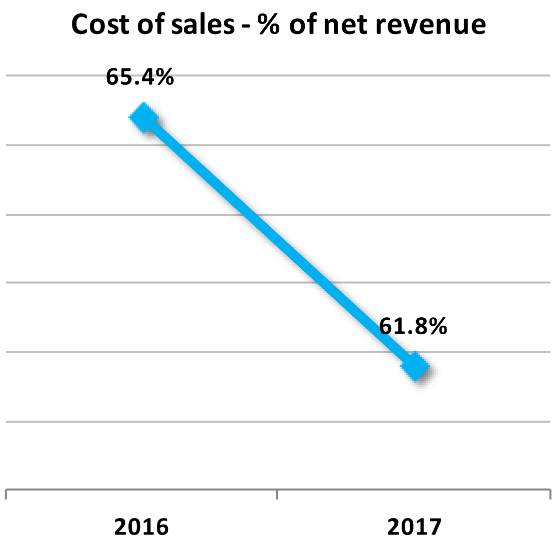
Cost of sales

In 4Q17, as a percentage of net sales revenue, cost of sales represented 62.0% compared to 63.6% in the same period of 2016.

In 2017, as a percentage of net sales revenue, cost of sales represented 61.8% compared to 65.4% in 2016.

In 2017 we operated with a greater utilization of our factories. This has enabled the optimization of productive resources and significant improvement in efficiency, especially in our factories in Bahia and Sergipe.





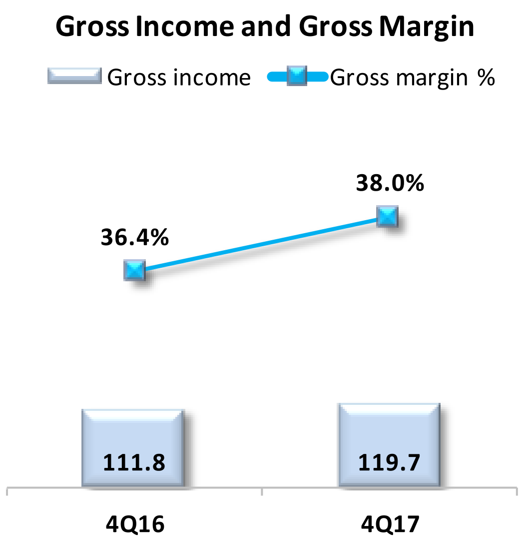
Gross income

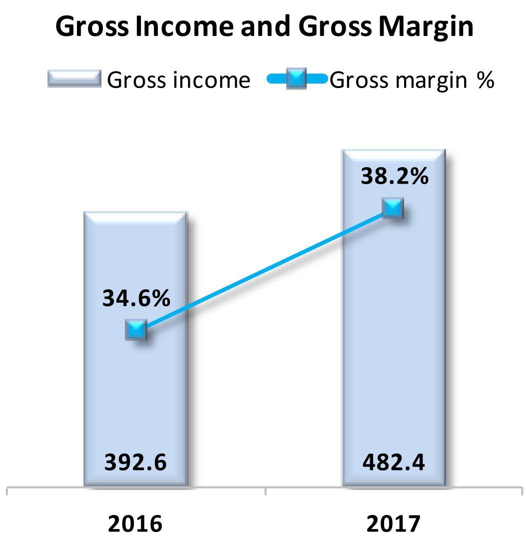
Gross income in 4Q17 amounted to R$ 119.7 million, an increase of 7.1% compared to the R$ 111.8 million recorded in 4Q16. Gross margin was 38.0% in 4Q17, 1.6 p.p. over the 36.4% in 4Q16.

Gross margin in 4Q17 kept its growth trend when compared to the same period of the previous year, however, as it occurs in every end of year, lower production in the month of December, due to the granting of collective vacation, causes an impact on the cost of products manufactured in that month, pulling down the month's and, consequently, the quarter's margin.

In 2017 gross income was R$ 482.4 million, an increase 22.9% over the R$ 392.6 million obtained in 2016. The margin in 2017 was 38.2%, 3.6 p.p. higher than that obtained in 2016, when it was 34.6%.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Gross income	119.7	111.8	7.1%	482.4	392.6	22.9%
Gross margin %	38.0%	36.4%	1.6 p.p.	38.2%	34.6%	3.6 p.p.





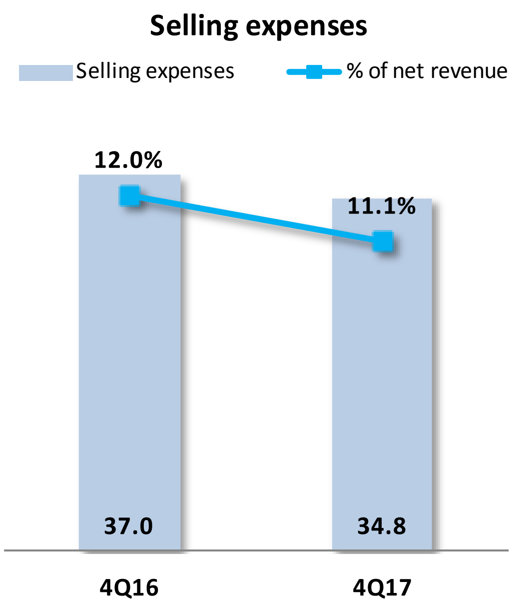
Selling expenses

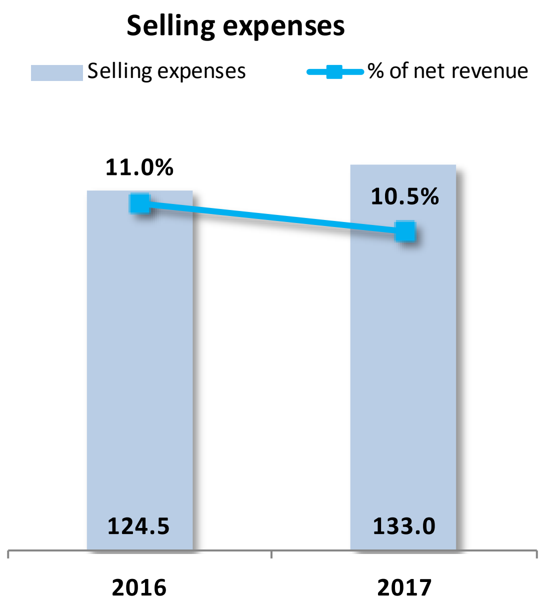
Selling expenses which include expenses on commissions, freight, royalties, personnel, trade discounts, provision for impairment of receivables and other business expenses, decreased by 5.9% in 4Q17, over 4Q16. R$34.8 million were recorded, against R$ 37.0 million in the same period of the previous year.

In 2017, the increase was of 6.8%, rising from R$ 124.5 million in 2016 to R$ 133.0 million in 2017.

The share of selling expenses in net revenue presented a 0.9 p.p. drop when comparing 4Q17 to 4Q16. As for year to date, it presented a decrease of 0.5 p.p., from 11.0% in 2016 to 10.5% in 2017.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Selling expenses	34.8	37.0	-5.9%	133.0	124.5	6.8%
% of net revenue	11.1%	12.0%	-0.9 p.p.	10.5%	11.0%	-0.5 p.p.



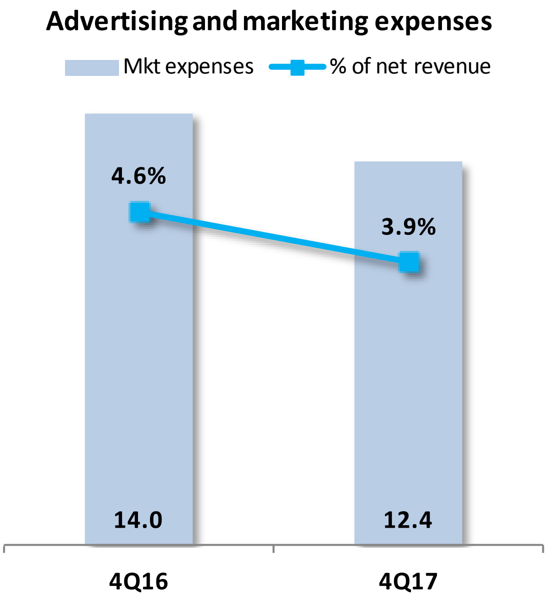


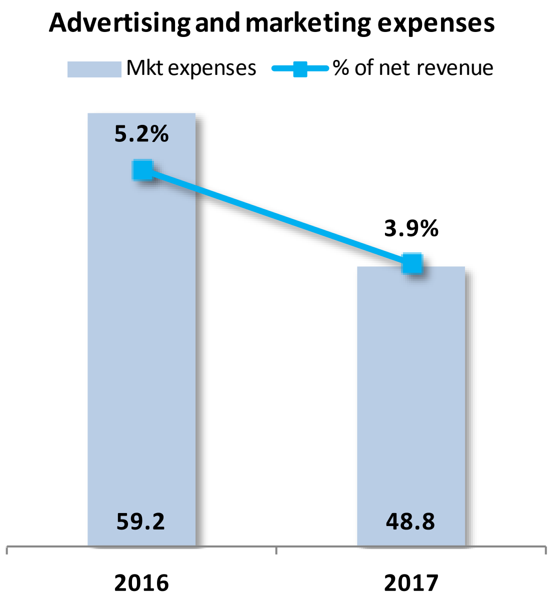
Adverting and marketing expenses

In 4Q17, advertising and marketing expenses amounted to R$ 12.4 million, a decrease of 11.4% over the R$ 14.0 million in 4Q16.

In 2017, expenses totaled R$ 48.8 million, a decrease of 17.6% compared to those of 2016, which amounted to R$ 59.2 million. Although there has been a significant decrease in this line item, the advertising and marketing plan proposed for 2017 was carried out in full. The decrease is due to the non-renewal of the sponsorship agreement with CBV(Brazilian Volleyball Confederation) for 2017.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Advertising and marketing expenses	12.4	14.0	-11.4%	48.8	59.2	-17.6%
% of net revenue	3.9%	4.6%	-0.7 p.p.	3.9%	5.2%	-1.3 p.p.



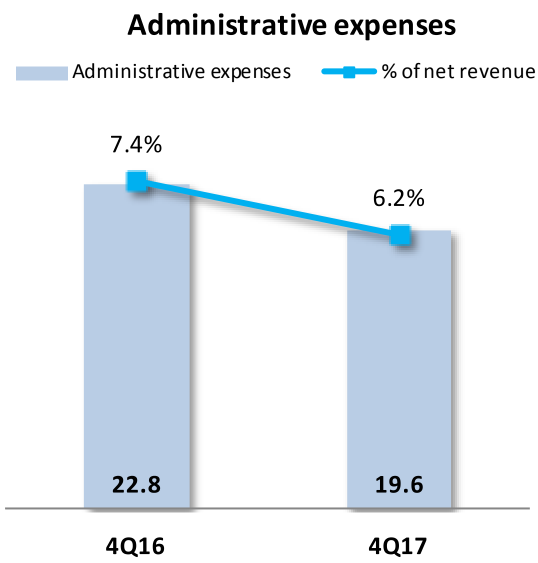


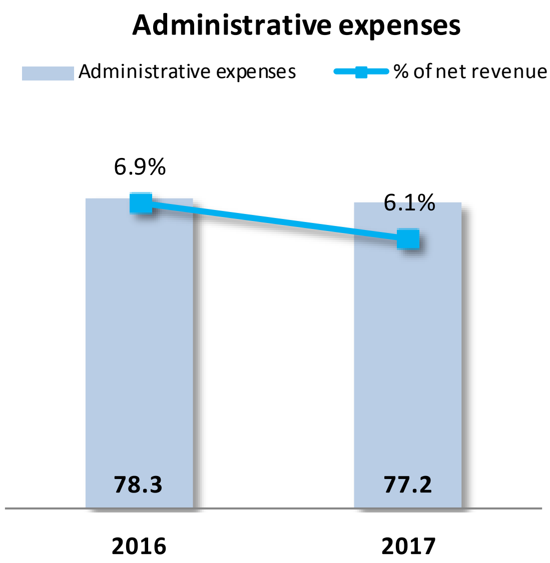
General and administrative expenses

Administrative expenses amounted to R$ 19.6 million in 4Q17, a decrease of 14.0% compared to R$ 22.8 million in 4Q16, in percentage over net revenue there was a 1.2 p.p. decrease, from 7.4% in 4Q16 to 6.2% in 4Q17.

In 2017, as compared to 2016, there was an decrease of 1.4% in general and administrative expenses, from R$ 78.3 million to R$ 77.2 million. When we compare the percentage over net revenue we observe a 0.8 p.p. decrease in participation for the period.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Administrative expenses	19.6	22.8	-14.0%	77.2	78.3	-1.4%
% of net revenue	6.2%	7.4%	-1.2 p.p.	6.1%	6.9%	-0.8 p.p.





Other operating income (expenses), net

In 4Q17, other operating income (expenses), net amounted to an expense of R$ 4.3 million, against an expense of R$ 5.1 million in 4Q16.

In 2017 this resulted in a revenue of R$ 8.5 million, compared to an expense of R$ 13.8 million in 2016, mainly due to the gain on tax credits from the company's adherence to the PRT (Tax Regularization Program) in the second quarter of 2017.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Other operating income (expenses), net	(4.3)	(5.1)	-15.7%	8.5	(13.8)	N/M
% of net revenue	-1.4%	-1.7%	0.3 p.p.	0.7%	-1.2%	1.9 p.p.

Finance income (cost), net

Finance income (cost), net in 4Q17 amounted to a cost of R$ 11.0 million, a decrease of 42.7% when compared to the cost of R$ 19.2 million in 4Q16.

With the net proceeds obtained with the public offering at the end of October, the indebtedness was drastically reduced. The net debt, which at 12/31/2016 was R$ 513.9 million, became a net cash of R$ 11.4 million at 12/31/2017.

This reduction of net financial liability, and reduction of interest rates contributed decisively to the reduction of financial expenses.

Finance cost went from R$ 82.1 million in 2016 to R$ 49.6 million in 2017, a drop of 39.6%.

It is noteworthy that the year-to-date figures contain, within the capital structure, in line item finance income, the discount received on the termination of the JV agreement with Reebok in the amount of R$ 5.1 million.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Finance costs	**(18.1)**	**(33.4)**	**-45.8%**	**(97.3)**	**(131.3)**	**-25.9%**
Capital structure	(5.4)	(23.0)	-76.5%	(39.6)	(86.2)	-54.1%
Operating	(2.3)	(3.5)	-34.3%	(19.6)	(14.1)	39.0%
Exchange differences	(10.4)	(6.9)	50.7%	(38.1)	(31.0)	22.9%
Finance income	**7.1**	**14.2**	**-50.0%**	**47.7**	**49.2**	**-3.0%**
Capital structure	1.5	4.0	-62.5%	9.6	6.4	50.0%
Operating	0.8	0.6	33.3%	3.8	3.0	26.7%
Exchange differences	4.8	9.6	-50.0%	34.3	39.8	-13.8%
Finance income (costs), net	**(11.0)**	**(19.2)**	**-42.7%**	**(49.6)**	**(82.1)**	**-39.6%**

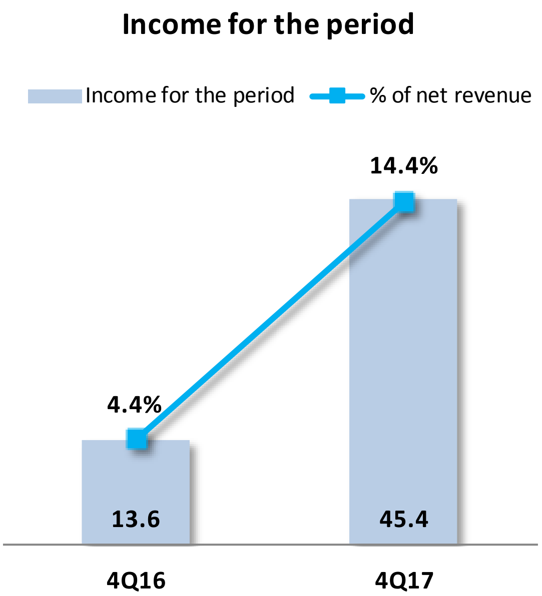
Income for the period

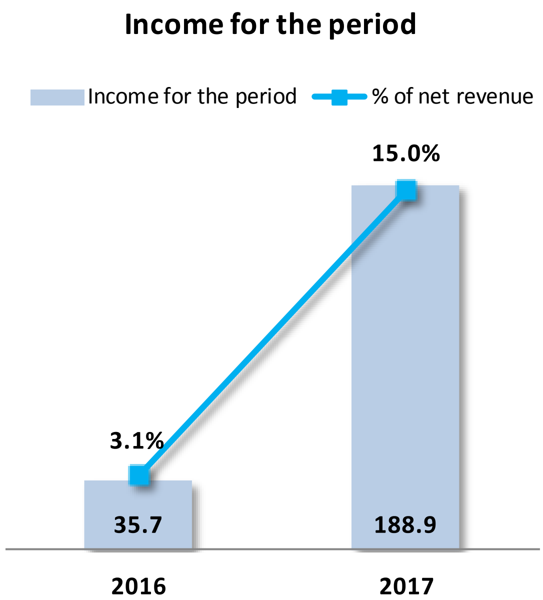
Income for 4T17 amounted to R$ 45.4 million, an increase of 233.8% over the income of R$ 13.6 million in 4Q16. The significant growth in income's nominal value made the net margin jump from 4.4% to 14.4%, an increase of 10.0 p.p.

In 4Q17, a revenue of R$ 7.4 million in share of income (loss) of investees was reported, a growth of 7,300% compared to the revenue of R$ 0.1 million in the same period of 2016. The result is due to the Vulcabras Azalea's increased interest in the investee Pars Participações Ltda., through the acquisition of a selling partner's interest by the three remaining partners. We currently hold an interest of 33.3% in Pars' capital, with each of the other two partners holding the same percentage interest.

In year to date figures, net margin posted an increase of 11.9 p.p., from 3.1% in 2016 to 15.0% in 2017. The constant improvement of this index, in all quarters of 2017, gives the assurance that the management is on the right path, ensuring greater revenue to the company, the end of all activities.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Income for the period	45.4	13.6	233.8%	188.9	35.7	429.1%
% of net revenue	14.4%	4.4%	10.0 p.p.	15.0%	3.1%	11.9 p.p.



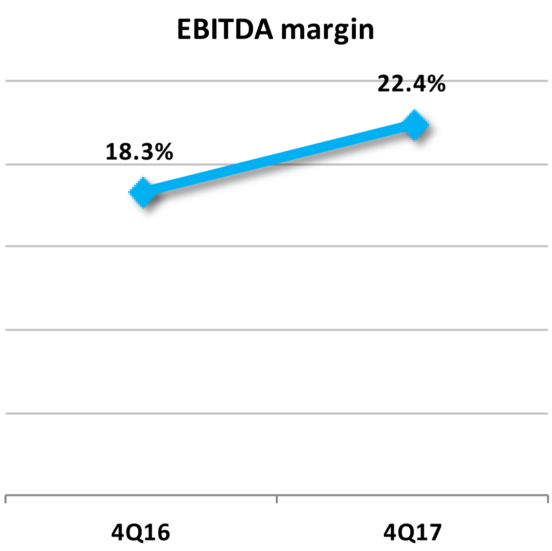


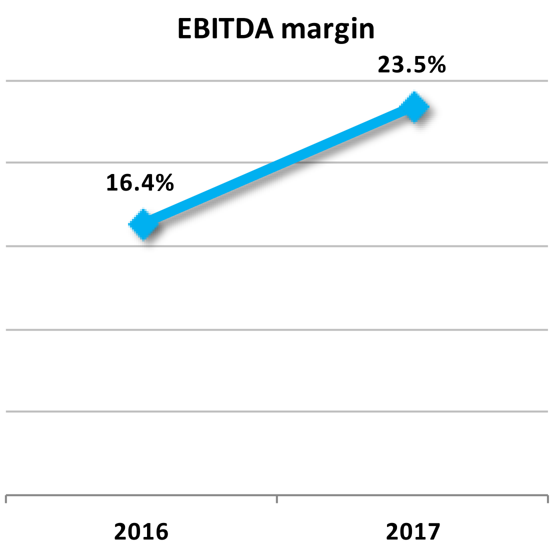
EBITDA (earnings before interest, taxes, depreciation and amortization)

EBITDA's rising trajectory was maintained. In 4Q17, EBITDA amounted to R$ 70.4 million, a 25.0% growth against the R$ 56.3 million obtained in 4Q16. EBITDA margin grew 4.1 p.p., reaching 22.4% in 4Q17, against 18.3% in 4Q16.

In 2017, EBITDA amounted to R$ 296.5 million, an increase 59.0% over the R$ 186.5 million obtained in 2016. EBITDA margin rose by 7.1 p.p., to 23.5% in 2017.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Income for the period	45.4	13.6	233.8%	188.9	35.7	429.1%
(+) Taxes	(0.4)	0.3	-233.3%	2.2	1.1	100.0%
(+) Finance income (costs), net	11.0	19.2	-42.7%	49.6	82.1	-39.6%
(+) Depreciation and amortization	14.4	23.2	-37.9%	55.8	67.6	-17.5%
EBITDA	**70.4**	**56.3**	**25.0%**	**296.5**	**186.5**	**59.0%**
Net revenue	314.6	307.1	2.4%	1,263.1	1,134.2	11.4%
EBITDA margin	**22.4%**	**18.3%**	**4.1 p.p.**	**23.5%**	**16.4%**	**7.1 p.p.**





ROIC — Return on invested capital

The annualized return on invested capital - ROIC - hit 29.9% in 2017, an increase of 16.3 p.p. over the 13.6% obtained in 2016.

NORMAL ROIC	2014	2015	2016	2017
Income (loss) for the period (LTM)	(72.8)	(49.9)	35.7	188.9
(+) Finance income (costs) (LTM)	93.8	98.2	82.1	49.6
NOPAT	**21.0**	**48.2**	**117.8**	**238.5**
Invested Capital				
Borrowings (Current + Non-Current)	719.9	675.4	539.3	94.8
(-) Cash and cash equivalents	(30.6)	(24.7)	(17.1)	(100.5)
(-) Financial Investments (Current + Non-Current)	(11.9)	(10.4)	(8.3)	(5.7)
(+) Related parties	167.2	237.2	255.2	–
(+) Equity	61.0	35.8	51.9	784.6
Invested Capital	905.7	913.3	821.0	773.2
Average invested capital for the period[1]	**900.4**	**909.5**	**867.1**	**797.1**
Annualized ROIC	**2.3%**	**5.3%**	**13.6%**	**29.9%**

(1) Average invested capital for the period and in the same period last year.

(2) ROIC: Last 12 months NOPAT divided by the average invested capital.

The annualized adjusted return on invested capital (ROIC-adjusted[1]) hit 40.7% in 2017, an increase of 22.6 p.p., over the 18.1% obtained in 2016.

ADJUSTED ROIC	2014	2015	2016	2017
Income for the period/year (LTM)	(72.8)	(49.9)	35.7	188.9
(-) Income (loss) from discontinued operations (LTM)	(11.4)	(10.9)	–	–
(+) Finance income (costs), net (LTM)	93.8	98.2	82.1	49.6
(-) Share of income (loss) of investees (LTM)	(1.4)	(1.7)	(2.1)	(8.8)
NOPAT (Adjusted)	**8.1**	**35.7**	**115.7**	**229.7**
Invested Capital				
Borrowings (Current + Noncurrent)	719.9	675.4	539.3	94.8
(-) Cash and cash equivalents	(30.6)	(24.7)	(17.1)	(100.5)
(-) Financial Investments (Current + Noncurrent)	(11.9)	(10.4)	(8.3)	(5.7)
(+) Related parties	167.2	237.2	255.2	–
(-) Goodwill on acquisition	(199.8)	(199.8)	(198.2)	(198.2)
(-) Investment in subsidiary	(26.0)	(27.6)	(29.7)	(40.1)
(+) Equity	61.0	35.8	51.9	784.6
Total Adjusted Invested Capital	**679.8**	**685.8**	**593.1**	**534.9**
Average adjusted invested capital for the period[1]	**675.4**	**682.8**	**639.4**	**564.0**
Adjusted Annualized ROIC[2]	**1.2%**	**5.2%**	**18.1%**	**40.7%**

(1) Average invested capital for the period and in the same period last year.

(2) Adjusted ROIC: Adjusted NOPAT for the last 12 months divided by the average invested capital.

[1] *Adjusted ROIC is a non-accounting measure calculated by dividing Adjusted NOPAT (defined as profit (loss) for the period plus net finance income (cost) minus share of profit (loss) of investees and profit (loss) from discontinued operations), divided by the adjusted average Invested Capital. The Adjusted Invested Capital is defined as the sum of equity and Net Debt (as defined below), minus the goodwill recorded in intangible assets and investments in non-controlled companies.*

Investments - Capex

In 4Q17, R$ 15.7 million were invested in property, plant and equipment, with highlights to the line items of machinery and equipment and industrial facilities, which grew by 44.7% and 66.7%, respectively, compared to the same period of 2016. This is due to the intensification of the industrial facilities modernization project. The molds capex reduction based on the 4Q17 refers to the postponement of the release of the Olympikus collection for 01/2018. In 2016, we released the collection yet in the 4th quarter.

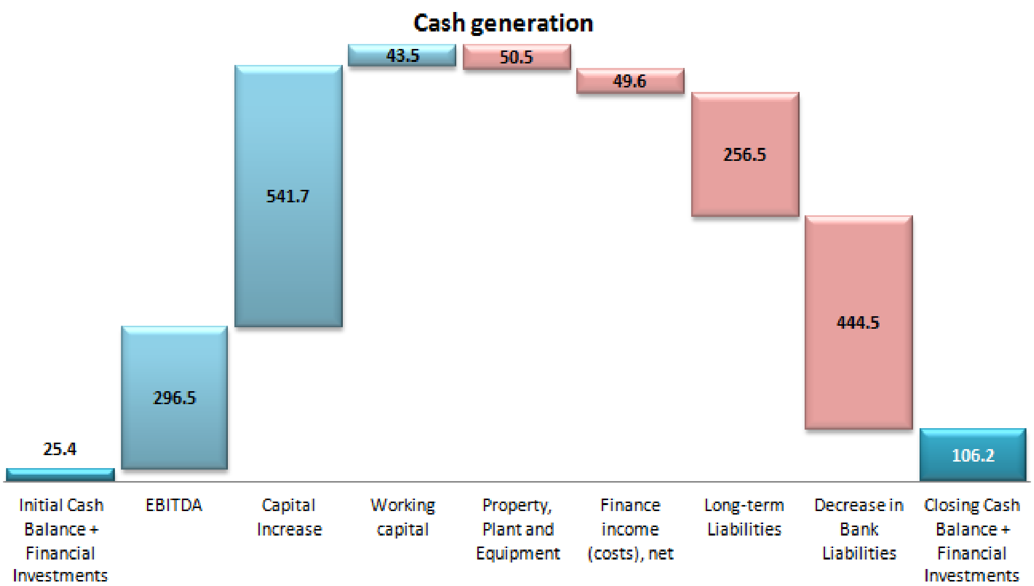
In intangible assets, the 4Q17 results were R$ 0.3 million, a drop of R$ 8.5 million compared to 4Q16 due to the termination of the agreement with CBV.

In year to date figures, investment in property, plant and equipment totaled R$ 61.7 million, 27.5% higher than the R$ 48.4 million invested in 2016.

R$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
Property, plant and equipment	**15.7**	**15.9**	**-1.3%**	**61.7**	**48.4**	**27.5%**
Molds	4.9	7.4	-33.8%	28.0	23.4	19.7%
Machinery and equipment	5.5	3.8	44.7%	17.8	14.6	21.9%
Industrial facilities	3.5	2.1	66.7%	8.2	5.5	49.1%
Others	1.8	2.6	-30.8%	7.7	4.9	57.1%
Intangible assets	**0.3**	**8.9**	**-96.6%**	**0.8**	**9.6**	**-91.7%**
Software	0.2	0.3	-33.3%	0.6	0.8	-25.0%
Assignment of right	0.1	8.6	-98.8%	0.2	8.8	-97.7%
Others	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**16.0**	**24.8**	**-35.5%**	**62.5**	**58.0**	**7.8%**

Cash generation

The operating cash flow in 2017, with EBTIDA of R$ 296.5 million, net capital increase of R$ 541.7 million with the public offering of shares, and the decrease in working capital by R$ 43.5 million allowed to reduce the bank debt by R$ 444.5 million. There was also a decrease of R$ 256.5 in long-term liabilities, mostly comprising loans with the Control Group's shareholders, in the amount of R$ 250.1 million, and net increase in property, plant and equipment by R$ 50.5 million.

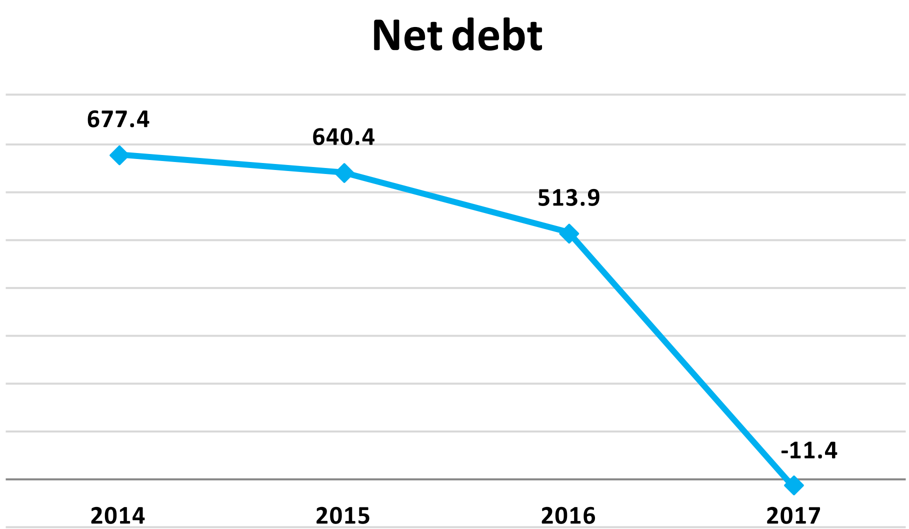


Net debt

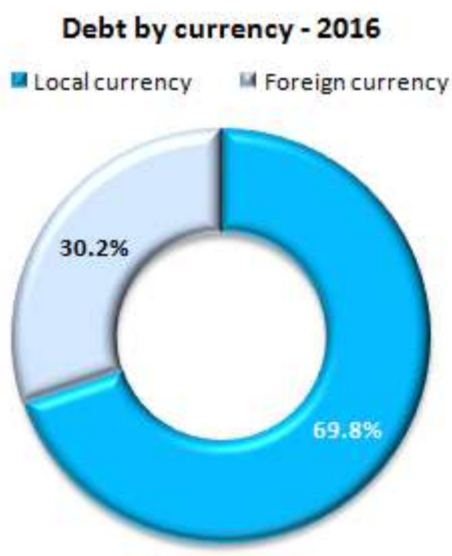
In 2017, net bank debt decreased by R$ 525.3 million.

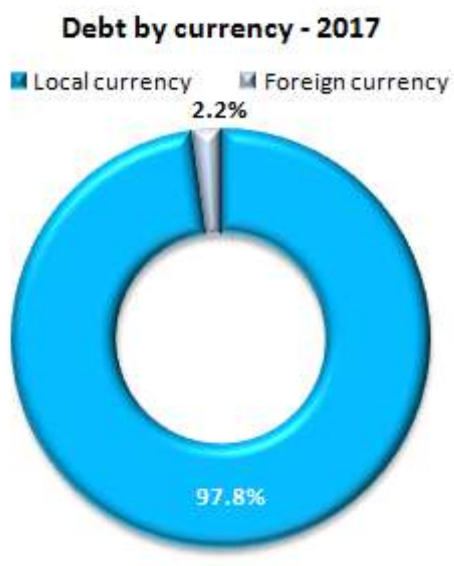
Due to improvement in cash generation and with the net proceeds from the public offering of shares at the end of October in the amount of R$ 541.7 million, debt was drastically reduced. The net debt that at 12/31/2016 was R$ 513.9 million became a net cash of R$ 11.4 million at 12/31/2017.

R$ Million	2014	2015	2016	2017	Var. % 2017/2016
Borrowings and incentive borrowings	719.9	675.5	539.3	94.8	-82.4%
Cash and cash equivalents	30.6	24.7	17.1	100.5	487.7%
Financial investments	11.9	10.4	8.3	5.7	-31.3%
Net debt	**677.4**	**640.4**	**513.9**	**-11.4**	**-102.2%**



R$ Million	2016	2017	Var. % 2017/2016
Local currency	376.6	92.7	-75.4%
Foreign currency	162.7	2.1	-98.7%
Total borrowings and incentive-borrowings	**539.3**	**94.8**	**-82.4%**





Independent Audit and Approval by the Board of Directors

Vulcabras Azaleia informs that “KPMG Auditores Independentes” was appointed on 01/01/2017, to provide independent audit services.

The consolidated quarterly information for 4Q17, notes, and management report were reviewed and approved by the Board of Directors of Vulcabras Azaleia at the meeting held on March 6, 2018.

Statement of financial position - Consolidated

At December 31, 2017 and December 31, 2016

Assets	12/31/2017	12/31/2016	Liabilities and Equity	12/31/2017	12/31/2016
Cash and cash equivalents	100,502	17,094	Trade payables	69,827	66,193
Marketable securities	1,741	6,407	Borrowings	84,474	275,116
Trade receivables, net	326,522	372,592	Taxes payable	5,822	3,031
Inventories	189,524	189,923	Income tax and social contribution payable	-	2,044
Taxes recoverable	10,101	5,573	Tax debt refinancing program - REFIS	128	128
Income tax recoverable	2,528	2,153	Salaries and vacations payable	34,993	28,986
Prepaid expenses	5,961	2,057	Provisions	53,115	45,751
Other receivables	31,151	21,206	Other payables	18,275	19,454
			Dividends payable	-	754
Total Current Assets	**668,030**	**617,005**	**Total Current Liabilities**	**266,634**	**441,457**
Marketable securities	3,920	1,914	Borrowings	10,325	264,152
Taxes recoverable	4,877	5,102	Intercompany loans	-	255,150
Deferred income tax and social contribution	125	399	Provisions	24,370	32,635
Judicial deposits	42,165	39,053	Deferred taxes	3,747	4,206
Other receivables	2,036	20,291	Other payables	30,836	29,206
Prepaid expenses	-	568	**Total Noncurrent Liabilities**	**69,278**	**585,349**
Assets held for sale	194	194			
Investments	40,080	29,733			
Investment property	3,362	3,779			
Property, plant and equipment, net	152,647	157,291			
Intangible assets, net	203,049	203,339			
Total Noncurrent Assets	**452,455**	**461,663**	**Total Liabilities**	**335,912**	**1,026,806**
			Equity		
			Issued capital	1,107,661	565,913
			Revaluation reserves	7,273	8,165
			Carrying value adjustments	(3,045)	(5,065)
			Accumulated losses	(327,571)	(517,377)
			Equity attributable to the owners of the Company	**784,318**	**51,636**
			Noncontrolling interests	**255**	**226**
			Total Equity	**784,573**	**51,862**
Total Assets	**1,120,485**	**1,078,668**	**Total Liabilities and Equity**	**1,120,485**	**1,078,668**

The accompanying notes are an integral part of the quarterly information.
In thousands of Reais.

Statements of income (loss) - Consolidated	2017	2016	4Q17	4Q16
Net revenues	1,263,082	1,134,220	314,633	307,146
Cost of sales	(780,719)	(741,666)	(194,902)	(195,300)
Gross income	**482,363**	**392,554**	**119,731**	**111,846**
Selling expenses	(181,813)	(183,666)	(47,249)	(50,946)
Administrative expenses	(77,153)	(78,271)	(19,597)	(22,765)
Other operating income (expenses), net	8,539	(13,819)	(4,267)	(5,137)
Share of income of investees	8,757	2,112	7,392	123
Income before finance income (costs) and taxes	**240,693**	**118,910**	**56,010**	**33,121**
Finance income	47,743	49,229	7,099	14,174
Finance costs	(97,343)	(131,375)	(18,134)	(33,438)
Finance income (costs), net	**(49,600)**	**(82,146)**	**(11,035)**	**(19,264)**
Income before taxes on income	**191,093**	**36,764**	**44,975**	**13,857**
Current and deferred income tax and social contribution	(2,154)	(1,069)	431	(299)
Income for the period	**188,939**	**35,695**	**45,406**	**13,558**
Income (loss) attributable to:				
Owners of the Company	188,914	35,689	45,402	13,549
Noncontrolling interests	25	6	4	9
Income for the period	**188,939**	**35,695**	**45,406**	**13,558**
Earnings per share				
Earnings per share - basic and diluted	0.96217	0.19267	0.19715	0.07315
Weighted average number of shares	196,340,598	185,230,346	230,288,590	185,230,346

The accompanying notes are an integral part of the quarterly information.

In thousands of Reais, except earnings per share.

Statements of cash flows - indirect method		
At December 31, 2017 and December 31, 2016		
Cash flows from operating activities	**12/31/2017**	**12/31/2016**
Income for the period	188,939	35,695
Adjustments for:		
Depreciation and amortization	55,835	67,645
Impairment of inventories	3,539	6,616
Write-off of tangible and intangible assets	12,036	11,760
Investment income	7,968	2,092
Provisions	15,813	21,168
Share of income (loss) of investees	(8,757)	(2,111)
Provision for impairment of receivables	6,184	8,815
Financial charges and exchange differences recognized in income (loss)	33,327	45,525
Deferred taxes	(185)	839
Noncontrolling interests	(25)	(43)
	314,674	**198,001**
Changes in assets and liabilities		
Financial investments	(5,308)	-
Trade receivables	39,886	13,437
Inventories	(3,140)	37,538
Prepaid expenses	(3,336)	(1,146)
Taxes recoverable	(4,678)	14,944
Other receivables	8,310	(15,121)
Judicial deposits	(3,112)	(3,608)
Trade payables	3,634	3,993
Tax and contribution payable	747	(1,491)
Salaries and vacations payable	6,007	(88)
Tax debt refinancing program - REFIS	-	10,268
Other payables	(1,109)	(26,233)
Provision for contingencies utilized	(16,714)	(17,248)
	21,187	**15,245**
Cash used by operating activities		
Interest paid	(36,225)	(78,297)
	(36,225)	**(78,297)**
Net cash provided by (used in) operating activities	**299,636**	**134,949**
Cash flows from investing activities		
Purchases of property, plant and equipment	(61,712)	(48,373)
Purchases of intangible assets	(809)	(9,615)
Net cash provided by (used in) investing activities	**(62,521)**	**(57,988)**
Cash flows from financing activities	-	-
Borrowings - Principal	70,052	260,890
Repayment of borrowings - Principal	(509,603)	(382,262)
Intercompany loans	-	36,812
Repayment of intercompany loans	(255,150)	-
Dividends	(754)	-
Issue of shares	541,748	-
Net cash (used in) provided by financing activities	**(153,707)**	**(84,560)**
Increase (decrease) in cash and cash equivalents	**83,408**	**(7,599)**
Cash and cash equivalents at the beginning of the period	17,094	24,693
Cash and cash equivalents at the end of the period	100,502	17,094
Increase (decrease) in cash and cash equivalents	**83,408**	**(7,599)**

The accompanying notes are an integral part of the quarterly information.

In thousands of Reais.

Brand Management

Olympikus' fourth quarter, in 2017, brought the new fitness campaign movie to the TV and social media, important trade marketing activations, actions with the public, working with influencers and the brand's consolidation as one of the most beloved by the people from Rio de Janeiro, according to a survey commissioned by O Globo newspaper.

Released in October, the movie represents a new phase of the campaign which debuted in June, with the slogan **"The sport is for you"**.The positioning is intended to cover day to day athletes who seek to exercise from their own motivations, and not just in search of professional performance.

With 15 and 30 seconds, the pieces disclosed three new models of the fitness line: the Cosmos, Flyter and Master 3 tennis shoes. Broadcasted during the football matches of the SportTV channel, YouTube, Instagram and Facebook, they brought the passion to exercise, with the actors Bruno Gagliasso and Giovanna Ewbank and the personal trainer Chico Salgado, Olympikus' Ambassadors (#TimeOlympikus).There were more than 39 million of impacts on social media and 97 million on TV.

Added to this strategy, with the intention of presenting the distinguishing features of the EVASense technology to the fitness public, Olympikus has made special actions in partnership with Smart Fit, the largest network of gyms of Latin America.In the Sao Paulo, Recife, Fortaleza and Rio de Janeiro units, users could experience the softness and comfort of the technology present in the products of the brand, through a unique carpet developed with the technology that was installed in the locker rooms.Exercise equipment like treadmills, stationary bikes and transports also had information on the releases.

Influencers and opinion leaders from sport and fashion from all over the country received Olympikus products, ensuring high spontaneous repercussion on social media.

Trade also remains a priority in the Olympikus' strategy and received several special actions during the campaign.The brand brought physical education professionals to coach sellers, providing technical subsidies on the use of sports materials that impact the lives of consumers.

The goal is to train the sales force about the high level of development of the various Olympikus technologies so that all details arrive in an assertive manner to the consumer, creating even more desire for the product.Tens of thousands of sellers went through the training.Moreover, point of sale materials were distributed throughout Brazil, according to the stores' segmentation and profiling.

The tennis shoes brand that most sells in Brazil is also one of the most beloved of Rio de Janeiro's capital.Again, Olympikus figured among the three most mentioned sporting brands by the locals in the survey for the O Globo newspaper, with the Troiano Branding consulting firm.The result was published in the special "Marcas dos Cariocas", in November.Another result that confirms the Olympikus' strength.

azaleia

Azaleia is changing and some news are already being presented.In November, the sales team met the models of the fall/winter collection and learned the brand strategies for 2018.

With more fashion information, in tune with the global trend, the new collection was featured in a runway to more than 150 people, in November.

The event counted with the participation of Miss Brazil 2016, Raíssa Santana, Azaleia's Ambassador since May 2017.

The release of the high summer collection, on the market since November, counted with a specific strategy for social media.

The models that were already in the stores were featured in posts from the brand's influencers team:Camilla Coelho, Lalá Noleto and Alice Salazar, besides Raíssa Santana.Among the major influencers of the country, combined they add up to more than 10 million followers as audience.

Aligned with the digital strategy, one of the brand's communication pillars, Azaleia also continued its steady work with trade.In order to give prominence to the products at the point of sale and reinforce the strong "natural" trend in the collection, special projects have been developed, such as brand's customized spaces in stores of strategic clients throughout Brazil.

Administration

Members of the Board of Directors	
Pedro Grendene Bartelle	Chairman
André de Camargo Bartelle	1st Vice Chairman
Pedro Bartelle	2nd Vice Chairman
Hector Nunez	Independent Member
Roberto Faldini	Independent Member

Members of the Board of Executive Officers	
Pedro Bartelle	Chief Executive Officer
Edivaldo Rogério de Brito	Chief Administrative, Financial and Investor Relations Officer
Flávio de Carvalho Bento	Chief Industrial Officer
Marco Antonio Sá Martins	Chief Operations Officer - Argentina
Rafael Carqueijo Gouveia	Chief Commercial and Corporate Operations Officer
Luiz Vanderlei Heidrich	Chief Division Officer - Female
Márcio Kremer Callage	Chief Marketing Officer

Awards Won

2009
- ✓ Innovation and Technology Award – IBTec.
- ✓ Modern Consumer Award - "Companies that respect consumers"

2010
- ✓ Top Marketing Award ADVB / RS "Inspiring A New Moment"

2012
- ✓ ReclameAqui Quality Award in Customer Service

2013
- ✓ 23th Edition Top of Mind Award - "Top Olympics” Category
- ✓ “Brazil Protection" Award - Machinery and Equipment Safety Category

2014
- ✓ “Dupont" Award - Cut and Coat Category

2015
- ✓ “Companies that best communicate with journalists" Award - Footwear and Leather Goods category
- ✓ “Contra Relógio” Magazine Award

2016
- ✓ 50 Most Influential Footwear Businessmen / Industry Category - Sports - Pedro Bartelle, from Olympikus
- ✓ “Education SESI SENAI" Award - Fortaleza and Metropolitan Region
- ✓ Best Buy Award – Runners

2017
- ✓ 27th Edition of Top of Mind Award – Amanhã magazine RS - "Women footwear" Category to Azaleia

KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100, Fax +55 (85) 3307-5101
www.kpmg.com.br

Independent auditors' report on the individual and consolidated financial statements

To the shareholders of Vulcabras Azaleia S.A.

Jundiaí - SP

Opinion

We have audited the individual and consolidated financial statements of Vulcabras Azaleia S.A. ("Company"), identified as parent company and consolidated respectively, which comprise the statement of financial position as at December 31, 2017 and the related statements of income, the comprehensive statements of income, the statement of changes in shareholders' equity and statements of cash flows for the year then ended, including significant accounting policies and other explanatory information.

Opinion on individual financial statements

In our opinion, the aforementioned individual financial statements present fairly, in all material respects, the financial position of Vulcabras Azaleia S.A. as of December 31, 2017, and the performance of its operations and cash flows for the financial year then ended, in conformity with accounting practices adopted in Brazil.

Opinion on consolidated financial statements

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vulcabras Azaleia S.A. as of December 31, 2017, and the consolidated performance of its operations and consolidated cash flows for the financial year then ended, in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB.

Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards. Our responsibilities under those standards are further described in the section Auditors' Responsibilities for the Audit of the individual and consolidated financial statements. We are independent of the Company and its subsidiaries in accordance with the ethical requirements set out in the Professional Code of Ethics for Accountants and the Professional Standards issued by the Federal Accounting Council, and we have fulfilled our 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable value of goodwill on business combinations

As discussed in notes 3.10, 16 and 17, the Company reported goodwill of R$ 198,214 on business acquisitions under consolidated intangible assets as at December 31, 2017. The Company performs reduction of the recoverable testing on an annual basis. This is a complex process that involves a high degree of subjectivity, and is based on a number of assumptions including the determination of cash-generating units, discount rates, inflation projections, and growth rate and profitability estimates for the Company's businesses over the coming years. These assumptions may be affected by future market or economic conditions in Brazil, which cannot be precisely estimated. We consider annual impairment tests to be a key audit matter due to the high degree of subjectivity and complexity in the assumptions and calculations involved and the impact that any changes in those assumptions could have on the amounts reported in the individual financial statements, due to the impact on the investments and on the application of the equity method of accounting, and in the consolidated financial statements.

How the matter was addressed in our audit

Our audit procedures included a review, with the assistance of corporate finance experts, of the model used to measure the recoverable amount of goodwill and the assumptions, projections and methods used by the Company, particularly those related to the estimates of future sales, growth and discount rates used in the discounted cash flows and profit margins of the cash-generating unit to which the goodwill was allocated. We also considered the adequacy of the Company’s disclosures about the assumptions used in impairment calculations, particularly those having the most material effect in determining the recoverable amount of goodwill.

Based on the evidence obtained through the procedures summarized above, we consider the balance of intangible assets related to goodwill on business combinations to be acceptable in the context of both the individual financial statements, taking account of the impact on investments and on the application of the equity method of accounting, and the consolidated financial statements taken as a whole, for the year ended December 31, 2017.

Tax Incentives - government grants and Income Tax reduction

As reported in notes 3.5 and 31, the amounts of R$ 122,169 and R$ 14,096 related to ICMS and IRPJ tax incentives were recognized directly in profit or loss in the consolidated financial statements and, in the consolidated financial statements of the parent company, they were recognized by the equity method. These tax incentives are related to (i) Value Added Tax on Sales and Services (ICMS) deriving from a number of incentive programs in the states of Ceará, Bahia, and Sergipe, and (ii) a 75% reduction of corporate income tax (IRPJ) on operations in the states of Ceará, Bahia and Sergipe.

We consider this to be a key matter in our audit of the individual and consolidated financial statements due to the significance of the tax benefit amounts when compared with the results of operations and the requirement for strict conformity to the conditions set out in the relevant tax incentive agreements, including specific clauses on required offsets and on the expiration of the relevant tax incentive programs, as well as due to the relevance of the corporate income tax reporting process.

How the matter was addressed in our audit

Our audit procedures for government grants included, among others, with the assistance of tax experts, to gain an understanding of and test the calculations used to determine the amount of the benefit, a review of the documentation produced in compliance with the conditions on which the tax incentives were granted, a comparison of the amounts of revenue recognized with the relevant supporting documentation, and a review, for reasonableness, of the sales tax and tax benefits recognized under revenue compared with net revenue and sales and service revenue.

Our audit procedures with respect to the reduced corporate income tax incentives included a review to gain an understanding of, and tests relative to, the primary activities involved in determining corporate income tax, a review of the procedures used to determine the applicable rate and tax amounts payable in light of applicable tax regulations, tests on the method of determining operational income, and a comparison of the most material temporary and permanent additions and exclusions made by the Company in the taxable income calculation with the relevant supporting documentation.

We also evaluated the adequacy of the disclosures made in the financial statements.

Based on the evidence obtained through the procedures summarized above, we consider the amounts of the tax incentives recorded in the statement of income to be acceptable in the context of the individual and consolidated financial statements taken as a whole for the year ended December 31, 2017.

Other matters

Audit and review of corresponding figures

The audit of the individual and consolidated financial statements as at December 31, 2016 was conducted under the responsibility of other independent auditors, who issued an unmodified audit report thereon, dated August 18, 2017.

Statements of added value

The individual and consolidated statements of added value (DVA) for the financial year ended December 31, 2017, which are the responsibility of Company Management and are presented as supplementary information under IFRS, were subject to audit procedures conducted in conjunction with the audit of the Company's financial statements. To form our opinion we evaluated whether the statements have been reconciled against the financial statements and accounting records, as applicable, and whether their form and content comply with the criteria set out in CPC Technical Pronouncement 09 - Statements of Added Value. In our opinion, these statements of added value have been adequately prepared, in all material respects, in accordance with this 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 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 the 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 that we have performed, we conclude that there is a material misstatement of this Management Report, then we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with the accounting practices adopted in Brazil and the consolidated financial statements in accordance with the accounting practices adopted in Brazil and international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal 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.

Auditors' responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian auditing standards and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 auditing standards and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

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

Fortaleza, March 6, 2018.

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of financial position as of December 31, 2017 and 2016

(In thousands of Reais)

		Consolidated		Parent company	
Assets	**Note**	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	5	100,502	17,094	369	10
Financial investments	6	1,741	6,407	-	42
Trade receivables	7	326,522	372,592	-	-
Inventory	8	189,524	189,923	-	-
Recoverable taxes	9	10,101	5,573	517	488
Income tax recoverable	10a	2,528	2,153	116	87
Prepaid expenses		5,961	2,057	11	13
Other receivables		31,151	21,206	424	1,557
Total current assets		**668,030**	**617,005**	**1,437**	**2,197**
Financial investments	6	3,920	1,914	2	2
Recoverable taxes	9	4,877	5,102	2,509	2,363
Deferred income and social contribution taxes	10b	125	399	-	-
Judicial deposits	11	42,165	39,053	841	1,022
Loans from related parties		-	-	-	927
Other receivables		2,036	20,291	1,770	2,344
Prepaid expenses		-	568	-	-
Assets held for sale		194	194	-	-
Investments	13	40,080	29,733	781,044	133,451
Investment property	14	3,362	3,779	3,349	3,762
Property, plant and equipment	15	152,647	157,291	171	176
Intangible assets	16	203,049	203,339	111	111
Total noncurrent assets		**452,455**	**461,663**	**789,797**	**144,158**
Total assets		**1,120,485**	**1,078,668**	**791,234**	**146,355**

		Consolidated		Parent company	
Liabilities	**Note**	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Trade accounts payable	18	69,827	66,193	450	520
Loans and financing	19	84,474	275,116	-	-
Taxes payable		5,822	3,031	-	44
Taxes payable - IRPJ and CSLL		-	2,044	212	11
Tax recovery program - REFIS		128	128	-	-
Salaries and vacation payable		34,993	28,986	359	322
Provisions	20	53,115	45,751	566	1,151
Other accounts payable		18,275	19,454	781	159
Dividends proposed		-	754	-	8
Total current liabilities		**266,634**	**441,457** -	**2,368**	**2,215**
Loans and financing	19	10,325	264,152	-	-
Loans to related parties	12	-	255,150	3,295	90,543
Provisions	20	24,370	32,635	1,177	1,786
Taxes deferred on revaluation of PP&E	10b	3,747	4,206	-	-
Provision for devaluation of investments	13	-	-	76	175
Other accounts payable		30,836	29,206	-	-
Total noncurrent liabilities		**69,278**	**585,349**	**4,548**	**92,504**
Shareholders' equity	21				
Share capital		1,107,661	565,913	1,107,661	565,913
Revaluation reserves		7,273	8,165	7,273	8,165
Adjustments to equity evaluation		(3,045)	(5,065)	(3,045)	(5,065)
Accumulated losses		(327,571)	(517,377)	(327,571)	(517,377)
Equity attributable to controlling shareholders		**784,318**	**51,636**	**784,318**	**51,636**
Non-controlling interests		**255**	**226**	**-**	**-**
Total shareholders' equity		**784,573**	**51,862**	**784,318**	**51,636**
Total liabilities		**335,912**	**1,026,806**	**6,916**	**94,719**
Total liabilities and shareholders' equity		**1,120,485**	**1,078,668**	**791,234**	**146,355**

See the accompanying notes to the financial statements.

Vulcabras Azaleia S.A.
(Publicly held company)

Statements of income

December 31, 2017 and 2016

(In thousands of Reais, except for net income per share)

		Consolidated			Parent company	
	Note	12/31/2017	31/12/2016	Note	12/31/2017	31/12/2016
Net sales revenue	22	1,263,082	1,134,220		-	-
Cost of sales	23	(780,719)	(741,666)		-	-
Gross income		**482,363**	**392,554**		**-**	**-**
Sales expenses	24	(181,813)	(183,666)		-	-
Administrative expenses	25	(77,153)	(78,271)	25	(7,504)	(7,206)
Other net operating income (expenses)	26	8,539	(13,819)	26	5,002	2,346
Equity in net income of subsidiaries	13b	8,757	2,112	13b	191,102	40,481
Net income before net financial income and costs and tax		**240,693**	**118,910**		**188,600**	**35,621**
Finance income		47,743	49,229		576	482
Finance cost		(97,343)	(131,375)		(262)	(414)
Net financial income and costs	27	**(49,600)**	**(82,146)**	27	**314**	**68**
Income before tax on net income		**191,093**	**36,764**		**188,914**	**35,689**
Current and deferred income tax and social contribution	10b	(2,154)	(1,069)		-	-
Net income for the year		**188,939**	**35,695**		**188,914**	**35,689**
Income attributable to:						
Controlling shareholders		188,914	35,689		188,914	35,689
Noncontrolling shareholders		25	6		-	-
Net income for the year		**188,939**	**35,695**		**188,914**	**35,689**
Earnings per share						
Basic and diluted income per common share		0.96	0.19			
Weighted average number of shares		196,340,598	185,230,346			

See the accompanying notes to the financial statements.

Vulcabras Azaleia S.A.

(Publicly held company)

Comprehensive statements of income

December 31, 2017 and 2016

(In thousands of Reais)

	Consolidated		Parent company	
	12/31/2017	**31/12/2016**	**12/31/2017**	**31/12/2016**
Net income for the year	188,939	35,695	188,914	35,689
Other comprehensive income - ORA	2,020	(19,543)	2,020	(19,543)
Items that can be subsequently reclassified to profit or loss				
Foreign-exchange differences on translation of offshore operations	1,851	(20,552)	1,851	(20,552)
Available-for-sale financial assets - net change in fair value	169	1,009	169	1,009
Total comprehensive income	190,959	16,152	190,934	16,146
Comprehensive income attributable to:				
Controlling shareholders	190,934	16,146	190,934	16,146
Noncontrolling shareholders	25	6	-	-

See the accompanying notes to the financial statements.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of changes in shareholders' equity (Parent Company and Consolidated)

December 31, 2017 and 2016

(In thousands of Reais)

	Parent company						
	Share capital	**Revaluation reserve reflected in subsidiaries**	**Other comprehensive income**	**Retained earnings (Accumulated losses)**	**Total**	**Minority interest**	**Total shareholders' equity**
Balances as of January 1, 2016	**565,913**	**9,078**	**14,478**	**(553,979)**	**35,490**	**263**	**35,753**
Realisation of revaluation reserve in subsidiary, net of tax	-	(913)	-	913	-	-	-
					-		
Other comprehensive income							
Foreign-exchange differences on translation of offshore operations	-	-	(20,552)	-	(20,552)	(43)	(20,595)
Available-for-sale financial assets - net change in fair value	-	-	1,009	-	1,009	-	1,009
Net income for the year	-	-	-	35,689	35,689	6	35,695
Balances as of December 31, 2016	**565,913**	**8,165**	**(5,065)**	**(517,377)**	**51,636**	**226**	**51,862**
Realisation of revaluation reserve in subsidiary, net of tax	-	(892)	-	892	-	-	-
Increase due to subscription or payment of capital	541,748	-	-	-	541,748	-	541,748
Other comprehensive income							
Foreign-exchange differences on translation of offshore operations	-	-	1,851	-	1,851	29	1,880
Available-for-sale financial assets - net change in fair value	-	-	169	-	169	-	169
Net income for the year	-	-	-	188,914	188,914	-	188,914
Balances as of December 31, 2017	**1,107,661**	**7,273**	**(3,045)**	**(327,571)**	**784,318**	**255**	**784,573**

See the accompanying notes to the financial statements.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of cash flows - Indirect method

December 31, 2017 and 2016

(In thousands of Reais)

	Consolidated		Parent company	
	12/31/2017	**31/12/2016**	**12/31/2017**	**31/12/2016**
Cash flows from operating activities				
Net income for the year	188,939	35,695	188,914	35,689
Adjustments to:				
Depreciation and amortization	55,835	67,645	419	424
Inventory impairment loss	3,539	6,616	-	-
Net value of tangible and intangible assets written off	12,036	11,760	-	-
Earnings on investments	7,968	2,092	42	(35)
Losses on contingencies	15,813	21,168	(543)	810
Equity in net income of subsidiaries	(8,757)	(2,111)	(191,102)	(40,481)
Estimated loss on allowance for doubtful accounts	6,184	8,815	-	-
Financial charges and exchange variance recognised in profit or loss	33,327	45,525	-	8,394
Deferred taxes	(185)	839	-	-
Minority interest	(25)	(43)	-	-
	314,674	**198,001**	**(2,270)**	**4,801**
Changes in:				
Financial investments	(5,308)	-	-	-
Trade receivables	39,886	13,437	-	-
Inventory	(3,140)	37,538	-	-
Prepaid expenses	(3,336)	(1,146)	2	(4)
Recoverable taxes	(4,678)	14,944	(204)	(247)
Other accounts receivable	8,310	(15,121)	1,707	(225)
Judicial deposits	(3,112)	(3,608)	181	(16)
Trade accounts payable	3,634	3,993	(70)	-
Taxes and social contributions	747	(1,491)	157	316
Salaries and vacation payable	6,007	(88)	37	13
Tax recovery program - REFIS	-	10,268	-	(119)
Other accounts payable	(1,109)	(26,233)	622	(88)
Provision for contingencies used	(16,714)	(17,248)	(651)	(86)
Cash provided by (used in) operating activities	**21,187**	**15,245**	**1,781**	**(456)**
Interest paid	(36,225)	(78,297)	-	(575)
	(36,225)	**(78,297)**	**-**	**(575)**
Flow of net cash provided by (used in) operating activities	**299,636**	**134,949**	**(489)**	**3,770**
Cash flows from investment activities				
Acquisitions of property, plant and equipment	(61,712)	(48,373)	-	(6)
Acquisitions of intangible assets	(809)	(9,615)	-	-
Capital increase at subsidiaries	-	-	(453,644)	-
Flow of cash (used in) provided by investment activities	**(62,521)**	**(57,988)**	**(453,644)**	**(6)**
Cash flows from financing activities				
Loans taken - Principal	70,052	260,890	-	-
Payment of loans taken – principal	(509,603)	(382,262)	-	-
Loans with related parties	-	36,812	-	(3,813)
Payment to related parties	(255,150)	-	(87,248)	-
Payment of dividends	(754)	-	(8)	-
Issuance of common shares	541,748	-	541,748	-
Cash flows from financing activities	**(153,707)**	**(84,560)**	**454,492**	**(3,813)**
Increase (decrease) in cash and cash equivalents	**83,408**	**(7,599)**	**359**	**(49)**
Cash and cash equivalents at beginning of year	17,094	24,693	10	59
Cash and cash equivalents at end of year	100,502	17,094	369	10
Increase (decrease) in cash and cash equivalents	**83,408**	**(7,599)**	**359**	**(49)**

See the accompanying notes to the financial statements.

Vulcabras|azaleia S.A.
(Publicly held company)

Statements of added value

December 31, 2017 and 2016

(In thousands of Reais)

	Consolidated		Parent company	
	12/31/2017	31/12/2016	12/31/2017	31/12/2016
Revenue	**1,445,269**	**1,288,824**	**741**	**(195)**
Sales of goods, products and services	1,423,652	1,290,417	-	-
Other income and expenses	26,329	7,203	741	(195)
Allowance for doubtful accounts	(4,712)	(8,796)	-	-
Consumables acquired from third parties	**(556,529)**	**(537,885)**	**(5,757)**	**(3,296)**
Raw materials consumed	(321,491)	(268,608)	-	-
Cost of goods sold and services rendered	(93,969)	(130,472)	-	-
Material, energy, outsourced services and other	(141,002)	(138,614)	(5,757)	(3,296)
Loss/recovery of asset values	(67)	(191)	-	-
Gross added value	**888,740**	**750,939**	**(5,016)**	**(3,491)**
Retentions	**(55,835)**	**(67,198)**	**(419)**	**(422)**
Depreciation, amortization and depletion	(55,835)	(67,198)	(419)	(422)
Added value produced by the Company	**832,905**	**683,741**	**(5,435)**	**(3,913)**
Transferred value added	**68,574**	**56,870**	**199,452**	**44,298**
Equity in income of associates	8,757	2,112	191,102	40,481
Finance income	47,582	49,229	576	482
Other	12,235	5,529	7,774	3,335
Total added value to be distributed	**901,479**	**740,611**	**194,017**	**40,385**
Distribution of added value	**901,479**	**740,611**	**194,017**	**40,385**
Personnel	**428,791**	**401,016**	**3,922**	**3,643**
Direct compensation	298,244	283,306	-	-
Benefits	49,225	49,089	-	-
Government Severance Indemnity Fund for Employees (FGTS)	20,970	19,179	-	-
Sales commission	55,117	42,360	-	-
Executive board fees	5,235	7,082	3,922	3,643
Taxes and contributions	**188,428**	**175,616**	**935**	**646**
Federal	154,720	145,668	935	646
State	33,529	29,752	-	-
Municipal	179	196	-	-
Interest expenses	**95,483**	**128,284**	**246**	**407**
Interest	93,203	124,288	247	407
Rent	2,281	3,996	-	-
Other	(1)		(1)	-
Interest on equity	**188,777**	**35,695**	**188,914**	**35,689**
Interest on shareholders' equity	(162)	-	-	-
Dividends	-	-	-	-
Retained earnings	188,914	35,689	188,914	35,689
Minority interests	25	6	-	-

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of Reais, unless stated otherwise)

1 Reporting entity

Vulcabras Azaleia S.A. ("Company") is a publicly-held company headquartered in Jundiaí - State of São Paulo (SP), Brazil. The manufacturing operations are concentrated in the subsidiaries of the Northeastern units, in the States of Ceará, Bahia and Sergipe. As the ultimate parent company, the Company has also investments in other companies, and is engaged in trading and production in the domestic and foreign markets of apparel and accessories products, particularly sportswear, male, female and professional footwear, through its direct and indirect subsidiaries:

- Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.;
- Vulcabras Distribuidora de Artigos Esportivos Ltda.;
- Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;
- Vulcabras Azaleia Administracíon S.A. (located in Argentina);
- Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. which has the following subsidiaries:

– Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.;
– Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.;

The Company has also the following distributors abroad: Calzados Azaléia Colômbia Ltda., Calzados Azaléia Peru S.A.

The brands managed by the companies include:

- Own brands: Azaléia, Dijean, Olk , Olympikus, Opanka and Vulcabras.

The Company's parent company is Gianpega Negócios e Participações S.A. The ultimate controlling shareholder is Mr. Pedro Grendene Bartelle.

2 Basis of presentation and preparation of the financial statements

2.1 Statement of compliance with IFRS and CPC standards

The individual and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil (BR GAAP) as issued by Brazilian Accounting Pronouncements Committee - CPC and approved by the Brazilian Securities Commission - CVM, and contains all material information specific to the financial statements and that alone, which is consistent with that used by Management.

The individual financial statements of the parent company have been prepared in accordance with accounting practices generally accepted in Brazil (BR GAAP).

The Company has adopted all revised pronouncements and interpretations issued by CPC and IASB and in force as of December 31, 2017.

The Board of Directors authorized the conclusion of these financial statements on March 6, 2018.

2.2 Basis of measurement

The preparation of the individual and consolidated financial statements under IFRS requires the use of certain accounting estimates by Company Management, as described in Note 2.4. The financial statements have been prepared on the historical cost basis, except for the following items recognized in the statements of financial position:

- Nonderivative financial instruments stated at fair value through profit and loss;
- Available-for-sale financial assets measured at fair value through other comprehensive income.

2.3 Functional and presentation currency

The individual and consolidated financial statements are being presented in Brazilian reais, which is the Company's functional currency. All the financial statements presented in reais have been rounded off to the nearest thousand, except where specified otherwise.

2.4 Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

a. Judgments

Information about judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- **Note 13 -** consolidation: determines whether the Company actually holds the control of an investee.

b. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are included in the following notes:

- **Note 8 -** Inventories: recognition of write-downs for inventories without movement.
- **Note 10 b -** Deferred taxes: recognition of deferred tax assets: availability of future taxable profit against which the tax losses can be offset
- **Note 11 -** Judicial deposits: recognition and measurement of judicial deposits; and
- **Note 20 -** Provisions: recognition and measurement of provisions and contingencies: main assumptions regarding the probability and size of outflows

3 Description of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available and that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources to an individual segment and assess the segment's performance. Considering that all decisions are made based on consolidated reports, all services are rendered using a similar manufacturing system, there are no managers responsible for a specific segment and that all decisions related to strategic, financial, purchasing, investment and resource allocation planning are carried out on a consolidated basis, the Company concluded that it only has one reportable segment.

3.2 Translation of foreign-currency balances

The Management of the Company and its subsidiaries defined that the functional currency, for the companies located in Brazil, is the real. The direct subsidiary, Vulcabras Azaleia Administración S.A., translates the currency of its country (functional currency), Argentine peso, into reais. The subsidiary Globalcyr prepares its financial statements in US dollars (functional currency) and translates them into Brazilian reais. The subsidiary Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. has the following direct foreign subsidiaries: Calzados Azaleia de Colômbia Ltda., which translate the currency of each country (functional currency), Colombian peso, respectively, into reais. Calzados Azaléia Peru prepares its financial statements in US dollars (functional currency) and translates them into Brazilian reais. The assets and liabilities of foreign operations are translated to the Real at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Real at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation to the reporting currency are recognized in other comprehensive income and accrued in equity appraisal adjustments in shareholders' equity. Restatement of investment balances arising from exchange variance is recognized in the line item 'equity appraisal adjustments', in the parent company's shareholders' equity. For consolidation purposes, the adjustments arising from the exchange differences in assets and liabilities denominated in foreign currency are recognized in the item 'equity appraisal adjustments', in the consolidated shareholders' equity.

Advances for imports of raw materials, consumables, machinery and equipment in progress, in foreign currency, are translated into the Company's functional currency (real) on the transaction date, that is, on the date that the advances were made. This is due the fact that the advances are considered as prepayments, which will be settled upon the receipt of goods or services and are not refundable. Upon the receipt of the asset for which the advance was made, the Company recognizes the property, plant and equipment or inventory at the cost incurred, if it is related to a production component, against the write-off of the corresponding advance.

3.3 Revenue recognition

Revenue is recognized to the extent it is probable that economic benefits will be generated for the Company and when ownership can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable excluding the amount of any trade discounts, rebates or sales tax. The Company values revenue transactions according to specific criteria to determine whether it is acting as an agent or principal and has concluded it is acting as a principal in all of its revenue contracts. Revenue is not recognized if there are significant uncertainties as to its realization. Income on operations is calculated according to the accrual system for the financial year.

3.4 Taxes

a. *Sales taxes*

Revenue, expense and assets are recognized net of sales tax except:

- When the net amount of the sales taxes, recoverable or payable, are included in the amounts receivable and payable in the statement of financial position.
- Revenues from sales, on the non-cumulative basis, are taxed at the rates of 1.65% and 7.60% for PIS and COFINS, respectively, for ICMS at the rates prevailing in each State, and for social security contribution at the rate of 1.5%.

b. *Income and social contribution taxes*

The income and social contribution taxes, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 thousand for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforwards and negative basis of social contribution limited to 30% of the taxable income.

Deferred income tax and social contribution are recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases. The Company also recognizes the deferred IRPJ and CSLL on tax losses, the offset of which is limited to 30% of the taxable profit for the year. Deferred income tax and social contribution are not recognized, however, if they are generated on the initial recognition of assets and liabilities on transactions that do not affect the tax bases, except for business combinations. Deferred income tax and social contribution are measured based on tax rates (and tax laws) that have been enacted at the end of the reporting period and applicable when the related income tax and social contribution have been realized.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be sufficient taxable profits against which the temporary differences can be utilized and the tax losses can be offset.

Income and social contribution expenses consist of current and deferred income and social contribution taxes. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

3.5 Government grants

Government grants and assistance are recognized when there is a reasonable assurance of compliance with conditions attached to the grants by government agencies. They are recognized as revenue in profit or loss for the year, in order to offset the expense that the government grant or assistance intends to offset.

3.6 Earnings per share

The basic earnings per share are calculated through profit and loss of the year attributable to the controlling and noncontrolling shareholders of the company and the weighted average of the common share free float in the respective year. The diluted earnings per share are calculated according to the aforesaid average of the shares in circulation, adjusted by instruments potentially convertible into shares, with a dilutive effect in the years presented, pursuant to CPC 41.

3.7 Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are carried at historic cost, less depreciation and impairment losses, where applicable.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labor,
- Any other costs to bring the asset to its location and condition necessary so it can be operated as intended by Management.
- The disassembly costs, and the restoration of the site where these assets are located, and
- Loan costs on qualifiable assets.

Other expenditure is capitalized only when there is an increase in the economic benefits to the item of property, plant and equipment. All other expenditure is recognized in the statement of income as an expense when incurred. The assets' residual values and useful lives are measured, and adjusted if appropriate, at the end of each reporting period.

Accordingly, the useful lives of the assets were reviewed at that time. The Company and its subsidiaries have a policy of maintaining the main items of property, plant and equipment until the end of their useful lives.

The cost of property, plant and equipment can include reclassifications from other comprehensive income of qualifiable cash flow hedges for the purchase of fixed assets in foreign currency. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the property, plant and equipment) is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated by the straight-line method in the income statement for the year, based on the useful estimated economic life of each component, at the rates mentioned in Note 15. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

3.8 Investment

Investments in subsidiaries where the Company holds interest in the voting capital or has significant influence and other companies that are part of the same group or that are under common control are accounted for under the equity method of accounting for purposes of the individual financial statements prepared in accordance with Brazilian generally accepted accounting principles (BRGAAP).

Exchange differences on foreign investments are recognized in the item 'equity appraisal adjustments' in shareholders' equity, except when these investments in substance are an extension of the activities of the head office in Brazil, in which case the exchange variance is recognized in profit or loss.

3.9 Investment property

Investment property is the property maintained to generate rental income or capital gains or both, but not for sale in the normal course of business, used in production or to supply products or services or for administrative purposes. Investment property is stated at cost. The cost of an investment property comprises its purchase price and any other directly attributable expenditure.

3.10 Intangible assets

(i) *Goodwill*

The goodwill resulting from the acquisition of subsidiaries is credited to intangible assets.

(ii) *Subsequent measurement*

The goodwill is measured at cost, minus accumulated impairment losses. In relation to the investee recorded by the equity income method, the book value of the goodwill is included in the book value of the investment, and an impairment loss in this investment is not allocated to any asset, including goodwill, comprising the book value of the investee recorded by the equity income method.

(iii) *Amortization*

The useful life of intangible assets is evaluated as finite or indefinite. The cost of intangible assets acquired under a business combination denotes the fair value at the acquisition date.

Intangible assets which have no defined useful life are not amortized and their recoverable value is tested for impairment annually. Intangible assets with finite useful lives are amortized over their useful lives.

The estimated useful lives are reviewed at the end of each year. The amortization expense of intangible assets with finite useful lives is recognized in the statements of income (loss), in expenses consistent with the functionality of the intangible asset.

3.11 Non-financial assets (Impairment)

In compliance with CPC 01 (R1), the Company assesses the impairment of long-lived assets, mainly property, plant and equipment and intangible assets, at the end of each reporting period. If such signs are detected, the Company should estimate the recoverable value of the asset. The recoverable value of an asset is the higher of: (a) its fair value less costs to sell and (b) its value in use. The value in use is equal to the discounted cash flows (before tax) deriving from the continuous use of the asset until the end of its useful life.

Regardless of whether there are signs of impairment, balances of goodwill resulting from business combinations and intangible assets with an indefinite useful are tested for impairment at least once a year.

When the residual carrying amount of the asset exceeds its recoverable value, the Company shall recognize impairment for this asset. Impairment is recorded in profit or loss for the year.

Except in relation to the reduction to the goodwill, the reversal of losses recognized previously is permitted Reversal in these circumstances is limited to the depreciated balance which the asset presents at the reversal date, if the reduction has not been registered

3.12 Inventories

Inventories are valued based on the historic cost of acquisition and production, or by the net realizable value, whichever is lower. The cost of inventories is assigned using the weighted average cost criteria and includes all costs of acquisition and processing, as well as other costs incurred in bringing them to their existing locations and conditions. For finished manufactured goods and manufactured goods in progress, the inventory includes the general manufacturing expenses based on normal production capacity. Net realizable value is the estimated sales price in the normal course of business, minus completion costs and estimated selling expenses. Losses for slow-moving or obsolete items are estimated as and when deemed necessary by management.

3.13 Financial instruments

(i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s documented risk management or investment strategy. After initial recognition, the transaction costs are recognized in the income statement as and when incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

(ii) Instruments held to maturity

These financial assets are classified as held to maturity in the event the Company has the intention and the ability to hold them until maturity. Investments held to maturity are initially recognized at their fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

Trade accounts receivable is stated at realization value, where overseas accounts receivable is restated based on the exchange rates in force at the reporting date.

An impairment of receivables was estimated in an amount considered sufficient by Management for the receivables whose collection is considered doubtful and for discounts for prompt payment. The criteria for recognition of the allowance for impairment of receivables considers the analysis of the credit risks for customers that have debts past due for more than 90 days, disregarding those with court or out-of-court agreements or with guarantees.

The information on the aging of trade receivables and current and past-due amounts is disclosed in Note 7.

(iv) Cash and cash equivalents

Cash and cash equivalents include cash, current accounts and short-term investments redeemable within 90 days of the investment date and with an insignificant risk of impairment. Short-term investments included in cash equivalents are mostly classified under "financial assets at fair value through profit or loss” (Note 5). The investments are valued at cost, plus interest through the reporting date, and marked-to-market, where the gain or loss is recorded in profit or loss for the year.

(v) Available-for-sale financial assets

Available-for-sale financial assets are nonderivative instruments designated as available for sale or which are not classified in any of the previous categories. Financial assets available-for-sale are initially recorded at fair value plus any directly attributable transaction costs. After initial recognition, they are measured at fair value and changes, other than impairment losses and foreign exchange differences on available-for-sale debt instruments, are recognized in other comprehensive income and stated in shareholders' equity. When an investment is derecognized, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss.

The Company's investments in equity instruments and certain debt securities are classified as available-for-sale financial assets.

(vi) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated All other financial liabilities (including liabilities designated at fair value through profit and loss) are initially recognized on the transaction date on which the Company became party to the contractual provisions of the instrument. Financial liabilities are written off when their contractual obligations are withdrawn, canceled or expire.

The Company classifies its nonderivative financial liabilities under other financial liabilities. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company has the following non-derivative financial liabilities: loans, financing, overdrafts, trade payables and other accounts payable.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included, when applicable, as a component of cash and cash equivalents for the statement of cash flows.

(vii) Share capital

Common shares
Common shares are classified as shareholders' equity. Additional costs directly attributable to the issuance of shares and stock options are recognized as a deduction from the shareholders' equity, net of tax.

Dividends
The minimum mandatory dividends established in the bylaws are recognized as current liabilities.

3.14 Critical accounting policies, estimates and judgments used in the preparation of the individual and consolidated financial statements

The preparation of the financial statements requires judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on the experiences from prior years and several other factors that are considered to be reasonable considering the facts and circumstances. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised. The estimates and assumptions that represent a risk of causing a material adjustment to the amounts of assets and liabilities for the next year are as follows:

a. Deferred taxes

The amount of the deferred income tax asset is reviewed at the end of each reporting period and reduced by the amount that it is no longer realizable through estimated future taxable profits. The amounts recorded involve considerable Management's judgment. Future taxable income may be higher or lower than the estimates used when determining the requirement to record and the amount to be recorded of the deferred tax asset or liability.

b. Asset impairment testing

Financial assets and non-financial assets, such as property, plant and equipment and intangible assets are tested for impairment at least annually, when there are indications of impairment. The recoverable value of goodwill and intangible assets with undefined useful lives is tested for impairment annually, regardless of whether there are indications of loss in value or not.

c. Provisions

Under CPC 25 a provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation which can be estimated reliably. If the time value of money is material, the provisions are discounted using a rate that reflects, when appropriate, the specific risks for the liability. When the discount is made, the increase in the provision due to passage of time is recognized as a finance cost.

3.15 Determination of fair value

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

The market value of the property is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction. The fair value of items of property, plant and equipment, investment property, assets held for sale is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2**: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3**: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3.16 Statements of added value

The Company prepared individual statements of added value (DVA) in accordance with CPC 09, which are presented as an integral part of the financial statements in BRGAAP applicable to publicly held companies. The consolidated statement of value added is not required by the international financial reporting standards issued by IASB and is being presented as supplementary information.

3.17 New standards, amendments and interpretations of standards

The standards, amendments and interpretations of standards issued but not adopted by the issuance of the Company's financial statements are shown below. The Company intends to adopt these standards when they come into force.

a. CPC 47 / IFRS 15 — Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including CPC 30 (IAS 18) Revenue, CPC 17 (IAS 11) Construction Contracts and CPC 30 Interpretation A (IFRIC 13) Customer Loyalty Programs.

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

The Company has a commercial agreement with certain clients that provides special discounts, which are recorded at the time of revenue recognition as "selling expenses" and from 2018 will be charged to "sales revenue".

The Company estimates a negative impact on net revenue of between R$ 700 and R$ 800.

b. CPC 48 / IFRS 9 - Financial Instruments

This pronouncement addresses the classification, measurement and recognition of financial assets and liabilities, and the measurement of expected credit losses for contractual and financial assets, in addition to a substantially-reformed approach to hedge accounting. IFRS 9 was issued in complete form in July 2014 and will replace IAS 39 (for which the related standard in Brazil is CPC 38: Financial Instruments: Recognition and Measurement (IAS 39)). CPC 48 (issued in December 2016 and approved by the CVM on the same date), which is the equivalent standard of IFRS 9 in Brazil, requires the classification of financial assets into three categories: measured at fair value through profit or loss (VJR), fair value through other comprehensive income (VJORA) and measured at amortized cost. The standard is applicable from January 01, 2018.

The classification of financial assets is determined upon initial recognition and the classification base depends on the entity's business model for the management of financial assets and the contractual characteristics of the cash flow from such financial assets. In relation to financial liabilities, the standard maintains most of the requirements established by CPC 38, where the main change is for financial liabilities in which the entity adopted the fair value option, where the portion of change in fair value due to the entity's own credit risk is recorded in other comprehensive income instead of the statement of income.

CP 48 also replaces the 'incurred loss' model in CPC 38 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The actual impact of adopting CPC 48 on the Company's financial statements in 2018 is not known and cannot be reliably estimated as of December 31, 2017 because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. However, the Company's preliminary assessment estimates the following potential impacts of adopting CPC 48 based on its position as of December 31, 2017:

- The new financial asset classification requirements will not have a significant impact on the classifications currently used under CPC 38;
- The Company did not designate nor does it intend to designate financial assets as VJR, meaning there is no expected impact on the classification of financial liabilities in accordance with the requirements of CPC 48.

There will be no impacts in 2018 on the loss of doubtful accounts recognized previously in accordance with CPC 38. The Company prepares the methodology for defining trade accounts receivable impairment in accordance with CPC 48.

There are no other standards and interpretations issued but not yet adopted which in Management's opinion could have a material impact on the net income or shareholders' equity reported by the Company.

c. IFRS 16 - Leases

IFRS 16 replaces the guidance in IAS 17 (CPC 06 - R1) Leases: The new standards introduces a single, accounting model and required the lessee to recognize a right-of-use asset and liability for all leases lasting more than 12 months, unless the underlying asset is of low value.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is only permitted for financial statements prepared in accordance with IFRS. The Company does not expect to early adopt the standard in 2018.

The Company expects the adoption will not impact its financial statements. Furthermore, to date, the impacts of adopting this new pronouncement have not been completed, meaning such effects cannot be disclosed.

4 Consolidated financial information

The consolidated financial statements include the information of the Company and the following direct and indirect subsidiaries, with the following percentage interests at the reporting date:

	% Direct interest		**% Indirect interest**		**% Total interest**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	99.99	99.99	-	-	99.99	99.99
Vulcabras Distribuidora de Artigos Esportivos Ltda.	2.00	2.00	98.00	98.00	100.00	100.00
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;	-	-	100.00	100.00	100.00	100.00
Vulcabras Azaleia Administración S.A.	3.96	3.96	96.04	96.04	100.00	100.00
Globalcyr S.A.	1.55	1.55	98.45	98.45	100.00	100.00
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	-	-	100.00	100.00	100.00	100.00
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	-	-	100.00	100.00	100.00	100.00
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	100.00	100.00	100.00	100.00
Calzados Azaleia de Colombia Ltda.	-	-	100.00	100.00	100.00	100.00
Calzados Azaleia Peru S.A.	-	-	99.11	99.11	99.11	99.11

The accounting policies have been consistently applied in all the consolidated companies and are consistent with those used in the previous year.

There is no difference between the consolidated equity and income (loss) attributable to the owners of the Company in its consolidated financial statements and the equity and income (loss) of the Parent company it its individual financial statements.

a. Main characteristics of the subsidiaries included in the consolidation

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. is the company responsible for the manufacture and development of Olympikus brand shoes. It started its activities with headquarters in the city of Horizonte, State of Ceará, engaged in the production, sale, import and export in general of shoes and sport gear.

Vulcabras Distribuidora de Artigos Esportivos Ltda.
Vulcabras Distribuidora de Artigos Esportivos Ltda. is responsible for the sale and distribution of shoes and apparel under the Olympikus brand. It started its activities on June 14, 2006, with headquarters in the city of Horizonte, State of Ceará.

Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda., was incorporated on September 1, 2010, with headquarters in the city of Itapetinga, State of Bahia. It is engaged in sale and distribution of shoes and apparel under the brands Olympikus, Olk, Azaleia, Dijean, Opanka and Vulcabras. It started its activities in the third quarter of 2011.

Vulcabras Azaleia Administración S.A.
Vulcabras Azaleia Administracíon S.A. was incorporated in December 2015. It has no operational activity.

Globalcyr S.A.
Globalcyr S.A. is currently dormant.

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. is a Brazilian shoes manufacturer, located in the city of Parobé, State of Rio Grande do Sul, primarily engaged in the manufacture, sale, import and export of shoes, apparel and accessories, items of leather, leather-related, plastic or similar materials, and the manufacture of components for its own use or sale to third parties.

Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A is a Brazilian shoes manufacturer, primarily engaged in the manufacture, sale, import and export of shoes and sport gear, under the brands Olympikus, Olk, Azaléia, Dijean, Opanka and Botas. Incorporated on August 3, 1995, with headquarters in the city of Itapetinga, State of Bahia.

Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. is a Brazilian shoes manufacturer, primarily engaged in the manufacture, sale, import and export of shoes and sport gear, under the brands Azaléia and Dijean. Established on October 8, 1992, initially in the city of Novo Hamburgo, State of Rio Grande do Sul, begun to operate in the city of Frei Paulo, State of Sergipe, on February 6, 2003.

Calzados Azaleia Peru S.A.

Calzados Azaleia Peru S.A. is responsible for the import and sale of shoes and sport gear under the brands Olympikus, Olk, Azaleia, Dijean and Opanka in the Peruvian market. Acquired at the end of 1998, it started the activities of import and sale under the Company's brands in 1999.

Calzados Azaleia de Colômbia Ltda.

Calzados Azaleia de Colômbia Ltda. is responsible for the import and sale of shoes and sport gear under the brands Olympikus, Olk, Azaleia, Dijean and Opanka in the Colombian market. Started in that country in 1999 as an office, and begun to import and sell under the Vulcabras Azaleia S.A. brands in 2000.

b. Description of main consolidation procedures

- Elimination of intercompany asset and liability account balances
- Elimination of interests in capital, reserves and losses for the years of subsidiaries;
- Elimination of intercompany income and expense balances arising from intercompany transactions. Losses between the companies that indicate an impairment of assets are not eliminated in the consolidation.
- Elimination of tax charges on unearned income presented as deferred tax in the consolidated balance sheet;
- Identification of minority interests in the consolidated financial statements;

5 Cash and cash equivalents

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash and banks - checking account	751	2,546	32	10
CDB Cash flow	19,620	12,651	337	-
Debentures/securities held under repurchase agreements	4,452	1,897	-	-
Investment fund	74,166	-	-	-
Cash and cash equivalents overseas	1,513	-	-	-
	100,502	**17,094**	**369**	**10**

Cash and cash equivalents are subject to yield at floating rates, based on the Interbank Deposit Certificate (CDI).

Financial investments accruing interest on the bank account balance (CDB Cash Flow) are made according to the availability of bank balance and the redemptions occur according to the Company's immediate cash requirements.

These financial investments refer exclusively to Bank Deposit Certificates (CDBs) at fixed rates, bearing interest equivalent to the Interbank Deposit Certificate (CDI), with yield of 10% and are available for immediate trading for use in the Company's operations. We highlight that these investments have daily liquidity, regardless their maturity, and possibility of immediate redemption without loss of their yield. These short-term investments were accordingly classified as cash equivalents in cash flow statements.

The debentures held under repurchase agreements are fixed-income investments in which the bank sells a security of its issuance in its custody and undertakes to buy it back at any time for a percentage (%) of the CDI rate agreed when the investment is made.

The investment funds are operations traded according to the daily price rate

6 Financial investments

	Consolidated		**Parent company**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Financial investments in Brazil:				
CDB Pós Fixado	2,244	4,746	2	44
Capitalization bonds	1,723	1,713	-	-
Available-for-sale securities - shares	1,694	1,862	-	-
	5,661	**8,321**	**2**	**44**
Current	1,741	6,407	-	42
Noncurrent	3,920	1,914	2	2

Available-for-sale securities denote investments in shares and units of interest of investment funds, available for sale and measured at fair value, with effects on other comprehensive income. Units of interest of investment funds were made available by the respective managers and reflect the market value of these financial assets. Shares were valued according to Bovespa's quotation, at the end of the reporting period.

The subsidiaries have the intent and ability to hold CDBs to maturities, and for this reason they were classified as financial assets held-to-maturity. The balance of CDBs at fixed rate in 2017 is linked to guarantees and therefore does not have daily liquidity and yielded rates ranging from 90% to 99% p.a. of the Interbank Deposit Certificate (CDI).

7 Trade accounts receivable

a. Breakdown of balances

	Consolidated	
	12/31/2017	**12/31/2016**
Accounts receivable		
Domestic:		
Trade receivables	322,540	345,364
Foreign:		
Receivables	34,330	51,392
Subtotal trade receivables	356,870	396,756
Estimated allowances for doubtful accounts	(30,348)	(24,164)
Total accounts receivable from customers, net	326,522	372,592

b. By maturity

	Consolidated	
	12/31/2017	**12/31/2016**
Neither past due nor impaired		
1 to 30 days	134,996	64,957
31 to 60 days	91,791	82,909
61 to 90 days	47,129	115,292
Past due more than 90 days	37,507	83,163
	311,423	346,321
Overdue		
1 to 30 days	12,540	22,340
31 to 60 days	920	2,649
61 to 90 days	942	1,282
Past due more than 90 days	31,045	24,164
	45,447	50,435
	356,870	396,756

The Company understands that the amount that better represents its maximum exposure to credit risk for the year ended December 31, 2017 is R$ 30,348 (R$ 24,164 at December 31, 2016), which represents the criteria mentioned in item (c) below.

Criteria for measuring impairment

The criteria adopted for measuring the impairment of receivables was based on invoices past due for over 90 days, and on the individual assessment of each customer's balance, since this impairment must be made to cover estimated losses on the collection of receivables, in amounts considered sufficient.

The criteria used to make the estimated allowances for doubtful accounts is the same for the portfolio of domestic and overseas clients.

c. Change in provision (impairment)

The changes in the allowance for doubtful accounts in the years ended December 31, 2017 and December 31, 2016 were as follows:

	Consolidated	
	12/31/2017	**12/31/2016**
Opening balance	(24,164)	(15,349)
Provision supplement	(17,245)	(16,954)
Recovery of provisions	11,061	8,139
Closing balance	(30,348)	(24,164)

d. Portfolio concentration

	Consolidated			
	12/31/2017		12/31/2016	
Trade receivables (unrelated parties)				
Top client	15,453	4%	34,882	8%
Top 2 to 11 clients	73,058	21%	89,052	23%
Top 12 to 50 clients	50,850	14%	58,664	15%
Other receivables (a)	217,509	61%	214,158	54%
Total client portfolio	356,870	100%	396,756	100%

(a) At 12/31/2016 part of the balance (R$ 45,166) presented in "Other receivables" was previously recorded as "Related parties". The Company opted for this reclassification as it believed this amount no longer entailed related parties, but rather transactions with third parties.

In compliance with CVM Resolution 564 issued December 17, 2008, which approved CPC 12, the Company conducted studies to calculate present value adjustments of its current and noncurrent assets Considering a DSO for these receivables of approximately 60 days as of December 31, 2017 (64 days at December 31, 2016), the effects of present value adjustments were considered immaterial and, therefore, were not recognized in income (loss), as occurred with current trade payables.

The Company's exposure to credit and currency risks and losses due to impairment of trade accounts receivable and other accounts can be seen in Note 29.

8 Inventory

	Consolidated	
	12/31/2017	12/31/2016
Finished goods	77,404	81,712
Goods in process	18,829	16,864
Raw materials	72,891	69,195
Packaging and store room materials	18,833	16,626
Goods in transit	211	2,916
Imports in transit	1,356	2,610
	189,524	189,923

a. Criteria for measuring the provision (impairment)

The subsidiaries, based on a historical analysis and estimate of losses, set up an allowance for the impairment of the recoverable values of the inventories. An allowance was set up for 100% of the raw materials and work in progress inventories without movement for over 180 days. All items of the finished goods inventory were valued and an allowance was set up for potential losses due to the perspectives of sale of each of them, with an allowance for 100% of the items that presented negative contribution margin. At December 31, 2017, the provision for losses on finished goods is R$ 3,099 (R$ 1,655 at December 31, 2016), the provision for losses on raw materials is R$ 7,395 (R$ 7,524 at December 31, 2016) and the provision for losses on goods in process is R$ 7,650 (R$ 5,426 at December 31, 2016).

The value of raw materials, labor and production overheads used in the composition of the costs of goods sold is R$ 707,089 at December 31, 2017 (R$ 644,650 at December 31, 2016).

b. Change in provision (impairment)

The movements in the impairment of inventories in the years ended December 31, 2017 and December 31, 2016 were as follows:

	Consolidated	
	12/31/2017	**12/31/2016**
Opening balance	(14,605)	(7,988)
Additions in the year	(3,038)	(6,617)
Provision supplement	(501)	-
Closing balance	(18,144)	(14,605)

9 Recoverable taxes

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
ICMS	4,295	2,853	20	20
IPI	1,622	1,313	-	-
PIS/COFINS	1,308	931	-	-
Tax credits in other countries	-	204	-	-
FINSOCIAL	3,063	2,918	2,509	2,363
Reintegra	515	254	-	-
Other (*)	4,175	2,202	497	468
	14,978	**10,675**	**3,026**	**2,851**
Current	10,101	5,573	517	488
Noncurrent	4,877	5,102	2,509	2,363

(*) The Company, through its subsidiaries, joined the Tax Regularization Program - PRT. See note 10.c for further details

10 Income and social contribution taxes

a. Prepaid income tax

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Prepaid income tax	2,528	2,153	116	87
	2,528	**2,153**	**116**	**87**

b. Deferred income and social contribution taxes

	Consolidated	
	12/31/2017	12/31/2016
Temporary differences in the year		
Revaluation of property, plant and equipment	(3,747)	(4,206)
Deferred income tax - foreign subsidiary	125	399
Deferred income and social contribution taxes on temporary differences	**(3,622)**	**(3,807)**
Total deferred income tax and social contribution assets	125	399
Total deferred income tax and social contribution liabilities	(3,747)	(4,206)

The subsidiaries in Brazil have deferred tax liabilities on revaluation of property, plant and equipment of R$ 3,747 and deferred tax assets of foreign subsidiary of R$ 125.

The deferred and current income and social contribution taxes are recorded in consolidated profit or loss, As shown below, the rates used to calculate tax were 34% in the domestic market and 3% in the overseas market:

	Consolidated	
	12/31/2017	12/31/2016
Current income and social contribution taxes	(1,902)	(828)
Deferred income and social contribution taxes	(252)	(241)
	(2,154)	(1,069)

c. Tax loss carry forwards

The Company and its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. e Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. and Vulcabras Distribuidora de Artigos Esportivos Ltda., have significant tax incentives that considerably reduce their capacity to offset any deferred income tax credits. Management is constantly monitoring the renewal of tax incentives. As at December 31, 2017 and December 31, 2016, the parent company and its subsidiaries had tax losses to be utilized for offset, related to the following base amounts:

	12/31/2017							
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras|azaléia S.A**	**Total**
Tax loss carryforwards at 12/31/2017	345,552	611,288	124,633	74,691	259,256	19,997	144,480	1,579,897
Negative basis of social contribution at 12/31/2017	1,154,741	624,811	125,080	74,691	292,436	19,997	146,595	2,438,351

	12/31/2016							
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras|azaléia S.A**	**Total**
Tax loss carryforwards at 12/31/2016	449,430	620,386	124,111	63,432	225,269	16,027	141,614	1,640,269
Negative basis of social contribution at 12/31/2016	1,196,038	631,747	124,209	63,432	258,056	16,027	143,729	2,433,238

Income tax losses and the negative basis for social contribution tax may be offset against a maximum of 30% of annual taxable income earned from 1995 onwards, with no statutory limitation period.

d. Reconciliation of the effective tax rate

	Consolidated	
	IRPJ / CSLL	
	2017	2016
Profit before income and social contribution taxes	191,093	36,764
Combined income and social contribution tax rate	34%	34%
Expected income and social contribution tax expense at the statutory rate	(64,972)	(12,500)
Adjustments to demonstrate effective rate	48,722	13,569
IRPJ tax reduction incentive (operating profit) (*)	14,096	-
Income and social contribution taxes	2,154	1,069
Effective rate	1.1%	2.9%
Current taxes	(1,902)	-
Deferred taxes - overseas	(252)	(1,069)

(*) See description of the tax benefits in note 31

11 Judicial deposits

The Company and its subsidiaries have judicial deposits related to civil, labor and tax lawsuits (note 20), as shown below:

	Consolidated		Parent company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Judicial deposits				
Civil	222	205	122	122
Labor	32,884	30,138	615	802
Tax claims	9,059	8,710	104	98
Total	**42,165**	**39,053**	**841**	**1,022**

Labor

Labor lawsuits refer mainly to overtime, night shift premium, vacations, salary equalization, and occupational illness.

Labor judicial deposits refer mostly to amounts deposited in connection with lawsuits and are related to extraordinary appeals, motions to review, security deposits and online pledges for part of the ongoing labor lawsuits.

Civil

Civil lawsuits refer mostly to compensation for property damages and pain and suffering, mainly in the cases of (i) occupational accidents; or (ii) caused by products with manufacturing defects. Civil judicial deposits are related to these lawsuits, made to guarantee the discussion of the amounts claimed.

Tax claims

Tax judicial deposits are related to lawsuits in which the companies of Vulcabras Azaleia are parties, involving mainly the following taxes: IRPJ, COFINS and PIS.

12 Loans with related parties

The main balances of assets and liabilities as of December 31, 2017 and December 31, 2016, as well as the transactions that influenced the income for the years, related to related-party transactions, derive from transactions between the Company and its managers and subsidiaries in Argentina, Colombia, Brazil and Peru.

The Company and its parent companies' loan agreements are restated for inflation based on the DI-CETIP rate.

a. Parent company and ultimate parent company

The Company's parent company is Gianpega Negócios e Participações S.A. The ultimate controlling shareholder is Mr. Pedro Grendene Bartelle.

b. Transactions with parent company

The transactions between the parent company and its subsidiary, which are eliminated for consolidation purposes, were carried out under conditions and terms agreed between the parties, as follows:

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.

	12/31/2017	**12/31/2016**
Liabilities		
Loans from subsidiaries	3,295	1,543
Related parties		
Loans from parent companies	-	89,000
Total	3,295	90,543

The balance of Company loans with the controlling shareholders as of December 31, 2017 is zero. The initially contracted amount was R$ 89,000 and was settled in October 2017 (R$ 89,000 as of December 31, 2016).

c. Transactions between subsidiaries

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and subsidiaries

The subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. carries out transactions with its subsidiaries involving purchase and sale transactions and loans to cover temporary cash requirements, which are subject to charges based the CDI variation, and are comprised as follows:

	Subsidiary Vulcabras Azaleia CE and its subsidiaries			
	Vulcabras Azaleia RS Consolidated	**Vulcabras Distribuidora**	**12/31/2017**	**12/31/2016**
Assets				
Accounts receivable	-	-	-	3,471
Other accounts receivable	1,246	-	1,246	877
	Vulcabras Azaleia BA		**12/31/2017**	**12/31/2016**
Liabilities				
Accounts payable	-	-	-	8,740
Other debits	-	-	-	2
Loans payable	-	-	-	3,165
	Vulcabras Azaleia RS		**12/31/2017**	**12/31/2016**
Profit or loss				
Net financial income (expenses)	(248)	-	(248)	619

Related parties	**Main nature of the transactions**
Vulcabras Azaleia RS	Purchase and sale of shoes and apparel and accessories, loans and advance for future capital increase

As of December 31, 2017 Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. had settled all of its loan operations from its parent companies. The contract's opening balance was R$ 166,150. (R$ 166,150 as of December 31, 2016).

d. Transfer pricing

The Company and its subsidiaries perform an annual assessment of the transfer pricing, mainly in transactions between the Brazilian subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda., with the subsidiaries Calzados Azaleia Colômbia Ltda. and Calzados Azaleia Peru S.A., located in Colombia and Peru, respectively.

e. Management compensation

The Company's Board of Directors, at the Annual General Meeting held on April 28, 2017, set the overall global management compensation at up to R$ 9,471, which will be apportioned after approval by the Board of Directors. In the financial year ended December 31, 2017, the Company paid R$ 5,235 as management compensation (R$ 7,025 at December 31, 2016).

The Company's officers have no loans, advances or other transactions than their normal services with the Company.

At December 31, 2017 and 2016, the Company did not pay to its key management personnel compensation in the following categories: a) long-term benefits; b) employment termination benefits; c) post-employment benefits; and d) share-based compensation.

13 Investments

a. Balance breakdown

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Permanent equity interests				
Subsidiaries	-	-	780,968	80,342
Associated companies	40,080	29,624	-	-
Capital increase in subsidiaries	-	109	-	52,935
Total	40,080	29,733	780,968	133,277

The subsidiary Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. holds a 33% equity interest in the associate PARS Participações Ltda., which in turn holds 100% of Brisa Indústria de Tecidos Tecnológicos S.A. Considering that the Company only has significant influence, this investment is not consolidated in the financial statements, in compliance with CPC 36 (R3).

b. Changes in the investments

	Consolidated		Parent company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Opening balances	29,733	27,622	133,277	120,732
Equity in net income of subsidiary (*)	8,757	2,112	191,102	40,481
Foreign-exchange differences on translation of offshore operations	-	-	1,851	(20,552)
Available-for-sale financial assets - net change in fair value	-	-	169	1,009
Increase in interest in investee (Pars)	1,590	-	454,569	-
Realization of advance for future capital increase	-	(1)	-	(8,393)
Closing balances	40,080	29,733	780,968	133,277

(*) Includes the amount related to equity income resulting from exchange variance of its foreign subsidiaries, recognized directly in the parent company's shareholders' equity, thus not affecting the equity income recognized in profit or loss.

c. Information on direct interests - Parent company

	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.		Vulcabras Distribuidora de Artigos Esportivos Ltda.		Vulcabras Azaleia Administración S.A.		Globalcyr S.A.		Total	
	12/31/17	12/31/16	12/31/17	12/31/16	12/31/17	12/31/16	12/31/17	12/31/16	12/31/17	12/31/16
Total assets	974,646	960,653	19,316	42,295	930	15,063	20	73	-	-
Total assets	193,930	827,807	3,249	12,018	692	17,560	4,920	4,996	-	-
Share capital	1,363,597	856,092	69,945	10,000	2,715	2,715	1,056	1,056	-	-
Net revenue	785,544	740,976	20,426	13,560	-	179	-	-	-	-
Net Income for the Year	191,011	40,985	(10,547)	(5,514)	2,727	(10,700)	(86)	(105)	-	-
Number of shares held (in lots of one thousand)	247,178	247,178	200	200	1,983	1,983	10	10	-	-
Shareholders' equity	780,716	132,846	16,067	30,277	238	(2,497)	(4,900)	(4,923)	-	-
Interest in the capital at year-end - %	100.00%	100.00%	2.00%	2.00%	3.96%	3.96%	1.54%	1.54%	-	-
Permanent equity interests in subsidiaries	780,714	79,911	321	606	9	-	-	-	781,044	80,516
Accrued for loss on investment	-	-	-	-	-	(99)	(76)	(76)	(76)	(175)
Advance for future capital increase	-	52,935	-	-	-	-		-	-	52,935
Equity in income of associates	191,011	40,985	(13)	(110)	108	(392)	(1)	(2)	190,905	40,481

d. Information on indirect interests

At December 31, 2017 and December 31, 2016, the Company has indirect interests in the companies listed below, through its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A:

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.

12/31/2017	Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	Vulcabras Distribuidora de Artigos Esportivos Ltda.	Globalcyr S.A	Vulcabras Azaleia Administración S.A.
Total assets	301,888	19,316	20	930
Total assets	56,273	3,249	4,920	692
Share capital	480,299	69,945	1,056	2,715
Shareholders' equity	245,616	16,067	(4,900)	238
Net revenue	1,403	20,426	-	-
Net income for the year	45,610	(10,547)	(86)	2,727
Equity interest	100.00%	98.00%	98.45%	96.04%

12/31/2016	Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.	Vulcabras Distribuidora de Artigos Esportivos Ltda.	Globalcyr S.A	Vulcabras Azaleia Administracíon S.A.
Total assets	258,379	42,295	73	15,063
Total assets	137,651	12,018	4,996	17,560
Share capital	234,669	10,000	1,056	2,715
Shareholders' equity	120,728	30,277	(4,923)	(2,497)
Net revenue	1,231	13,560	-	179
Net income for the year	(2,753)	(5,514)	(105)	(10,700)
Equity interest	100.00%	98.00%	98.45%	96.04%

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.

12/31/2017	Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (=)	Calzados Azaleia de Colômbia Ltda.	Calzados Azaleia Peru S.A.
Total assets	276,040	69,564	10,652	11,531	32,613
Total assets	60,928	46,415	7,405	10,139	4,664
Share capital	459,929	90,074	25,207	841	1,072
Shareholders' equity	215,112	23,149	3,247	1,392	27,950
Net revenue	373,909	83,516	18,069	13,824	57,865
Net income for the year	57,339	1,587	(4,343)	(858)	2,557
Equity interest	99.99%	100.00%	99.99%	100.00%	99.11%

12/31/2016	Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (=)	Vulcabras| azaléia Sporting Goods Índia Private Limited(*)	Calzados Azaleia de Colômbia Ltda.	Azaleia U.S.A. Inc.	Calzados Azaleia Peru S.A.
Total assets	262,955	68,020	8,525	3	8,994	4,979	29,786
Total assets	104,270	89,353	17,966	17	8,309	17	4,865
Share capital	476,121	14,750	10	5,788	841	18,845	1,072
Shareholders' equity	158,685	(21,334)	(9,441)	(14)	684	4,962	24,921
Net revenue	298,200	76,103	18,988	-	16,539	-	63,756
Net income for the year	818	(5,028)	(5,550)	(7)	(1,393)	(72)	676
Equity interest	99.99%	100.00%	99.99%	100.00%	100.00%	100.00%	99.11%

(*) Indirect interest.

14 Property for investment

a. Account breakdown

	Consolidated		Parent company	
	12/31/2017	**12/31/201**	**12/31/2017**	**12/31/2016**
Property	10,625	10,62	10,574	10,574
Depreciation (*)	(7,262)	(6,846	(7,225)	(6,812)
Grand Total	3,362	3,77	3,349	3,762

(*) Depreciation is calculated by the straight-line method at an average annual rate of 4%, and charged to administrative expenses.

b. Change in the cost

	Consolidated		
	Balance at 12/31/2016	**Additions**	**Balance at 12/31/2017**
Property	10,625	-	10,625
Total	10,625	-	10,625

c. Change in amortization

	Consolidated		
	Balance at 12/31/2016	**Additions**	**Balance at 12/31/2017**
Property	(6,846)	(416)	(7,262)
Total	(6,846)	(416)	(7,262)

The Company has a property primarily used for rental in Jundiaí - São Paulo, occupying 40,994.00 m² of built-up and common area, with the respective plot of land occupying 111,547.06 m² classified as investment property. The property is appraised by the cost method and its market value has been determined by expert firms to be R$ 75,000.

In the financial year ended December 31, 2017 the property earned rental revenue of R$ 4,106 (R$ 3,336 in 2016) - Note 26, recorded under other net operating revenue - Rental income. Articles four, seven and eight of the rental agreement stipulate obligations to maintain and repair the property's structure by the Company, where this amount is prorated proportionally to the rented area. The tenants are responsible for the costs deriving from maintenance and wear and tear. The Company did not make structural changes to the property in the financial years ended December 31, 2017 and 2016.

The Company's assets are recorded at the cost of acquisition, formation or construction, and depreciation is calculated by the straight-line method at the rates described in the tables. The Company's assets are tested at least annually for impairment if there are indications of impairment.

15 Property, plant and equipment

a. Account breakdown

		Consolidated			
	Average depreciation rate % p.a.	12/31/2017			12/31/2016
		Cost	Depreciation	Net	Net
December 31, 2017					
Buildings	2 to 4	125,911	(76,336)	49,575	53,245
Machinery and equipment	10	319,134	(268,617)	50,517	55,434
Molds	100	204,841	(191,632)	13,209	13,557
Furniture and fixtures	10 to 20	25,919	(20,950)	4,969	5,157
Vehicles	20	1,994	(1,742)	252	241
Computer equipment	20 to 25	22,136	(19,380)	2,756	2,265
Land	-	3,490	-	3,490	4,106
Works in progress	-	410	-	410	6,520
Industrial facilities	10	65791	(42,540)	23,251	14,312
Improvements to rented property	10 to 20	89	(89)	-	-
Imports in transit	-	2,849	-	2,849	-
Improvements to leased property	-	2,092	(2,043)	49	-
Other	10 to 20	2,066	(746)	1,320	2,454
		776,722	**(624,075)**	**152,647**	**157,291**

b. Change in the cost

		Consolidated			
December 31, 2017	**12/31/2016**	**12/31/2017**			
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Closing balance**
Buildings	125,872	39	-	-	125,911
Machinery and equipment	325,236	8,992	(21,053)	5,959	319,134
Molds	189,181	28,039	(12,379)	-	204,841
Furniture and fixtures	24,847	909	(65)	228	25,919
Vehicles	1,972	109	(87)	-	1,994
Computer equipment	21,088	1,210	(162)	-	22,136
Land	4,106	35	(651)	-	3,490
Works in progress	6,520	5,081	(7,223)	(3,968)	410
Industrial facilities	48,579	8,247	(354)	9,319	65,791
Improvements to rented property	89	-	-	-	89
Imports in transit	-	8,782	-	(5,933)	2,849
Improvements to leased property	7,697	-	-	(5,605)	2,092
Other	1,971	269	(174)	-	2,066
	757,158	**61,712**	**(42,148)**	**-**	**776,722**

		Consolidated			
December 31, 2016	**2015**	**2016**			
	Opening balance	**Additions**	**Write-offs**	**Exchange Variance**	**Closing balance**
Buildings	128,069	18	(1,441)	(774)	125,872
Machinery and equipment	331,720	9,740	(16,224)	-	325,236
Molds (a)	265,589	23,442	(99,850)	-	189,181
Furniture and fixtures	24,940	848	(563)	(378)	24,847
Vehicles	1,955	68	(15)	(36)	1,972
Computer equipment	21,192	640	(365)	(379)	21,088
Land	3,798	308	-	-	4,106
Works in progress	3,914	2,797	(192)	1	6,520
Industrial facilities	43,661	5,515	(597)	-	48,579
Improvements to rented property	89	-	-	-	89
Imports in transit	-	4,814	(4,814)	-	-
Improvements to leased property	7,697	-	-	-	7,697
Other	2,156	184	-	(369)	1,971
	834,780	**48,374**	**(124,061)**	**(1,935)**	**757,158**

(a) R$ 99,850 denotes the write-off of completely depreciated items during the period in the mold category.

c. Change in depreciation

		Consolidated			
December 31, 2017	**12/31/2016**	**12/31/2017**			
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Closing balance**
Buildings	(72,627)	(3,709)	-	-	(76,336)
Machinery and equipment	(269,802)	(18,075)	19,260	-	(268,617)
Molds	(175,624)	(26,532)	10,524	-	(191,632)
Furniture and fixtures	(19,690)	(1,318)	58	-	(20,950)
Vehicles	(1,731)	(95)	84	-	(1,742)
Computer equipment	(18,823)	(666)	109	-	(19,380)
Industrial facilities	(34,267)	(3,537)	-	(4,736)	(42,540)
Improvements to rented property	(89)	-	-	-	(89)
Improvements to leased property	(6,508)	(271)	-	4,736	(2,043)
Other	(706)	(161)	121	-	(746)
	(599,867)	**(54,364)**	**30,156**	**-**	**(624,075)**

		Consolidated			
December 31, 2016	**2015**	**2016**			
	Opening balance	**Additions**	**Write-offs**	**Exchange Variance**	**Closing balance**
Buildings	(69,136)	(4,071)	498	82	(72,627)
Machinery and equipment	(264,249)	(19,207)	13,654	-	(269,802)
Molds	(250,622)	(23,772)	98,770	-	(175,624)
Furniture and fixtures	(18,641)	(1,423)	269	105	(19,690)
Vehicles	(1,681)	(81)	15	16	(1,731)
Computer equipment	(18,451)	(850)	302	176	(18,823)
Industrial facilities	(31,798)	(2,898)	429	-	(34,267)
Improvements to rented property	(89)	-	-	-	(89)
Improvements to leased property	(6,508)	-	-	-	(6,508)
Other	(290)	(530)	-	114	(706)
	(661,465)	**(52,832)**	**113,937**	**493**	**(599,867)**

Interest on loans and financings was not capitalized in the cost of property, plant and equipment in progress since the main contracts are related to acquisitions of machinery and equipment immediately placed in service.

At December 31, 2017, the Company has balances of assets pledged as collateral of borrowings related to: buildings of R$ 52,582 (R$ 52,700 at December 31, 2016) and machinery and equipment of R$ 23,186 (R$ 23,186 at December 31, 2016).

The Company and its subsidiaries have a policy of maintaining the main items of property, plant and equipment until the end of their useful lives. The assets' useful lives was reviewed on December 31, 2017, but no adjustments were deemed necessary.

In the financial year ended December 31, 2017 the Company did not find evidence of factors demonstrating impairment of its property, plant and equipment in accordance with CPC Pronouncement 01 - Asset Impairment. For further details see note 17.

16 Intangible assets

a. Account breakdown

		Consolidated		Parent company	
	Term of useful life	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Definite-lived					
Software	10 years	29,746	29,248	785	785
Assignment of rights	Contractual term	544	88,061	-	-
Accumulated amortization - Software	10 years	(27,256)	(26,254	(785)	(785)
Accumulated amortization - Assignment of rights	Contractual term	(357)	(88,061	-	-
Total		2,677	2,994	-	-
Indefinite-lived					
Patents and trademarks	Indefinite	2,158	2,131	111	111
Goodwill (d)	-	198,214	198,214	-	-
Total		200,372	200,345	111	111
Grand Total		203,049	203,339	111	111

The monthly amortization of intangible assets is recognized against Company income (loss) in the cost of sales (Industrial software) and selling expenses (Assignment of rights).

b. Change in the cost

December 31, 2017				Consolidated		
	Terms of useful life	Amortization methods	Balance at 12/31/2016	Additions	Write-offs	Balance at 12/31/2017
Definite-lived						
Software	10 years	Straight-line	29,248	588	(90)	29,746
Assignment of rights (a)	Contract term	Straight-line	88,061	194	(87,711)	544
Indefinite-lived						
Patents and trademarks	Not defined	-	2,131	27	-	2,158
Goodwill	-	-	198,214	-	-	198,214
Total			317,654	809	(87,801)	230,662

December 31, 2016				Consolidated			
	Useful lives	Amortization methods	Balance at 12/31/2015	Additions	Write-offs	Exchange Variance	Balance at 12/31/2016
Definite-lived							
Software	10 years	Straight-line	28,538	802	(2)	(90)	29,248
Assignment of rights	Contract term	Straight-line	79,351	8,778	-	(68)	88,061
Indefinite-lived							
Patents and trademarks	Not defined	-	2,097	34	-	-	2,131
Goodwill	-	-	199,848	-	(1,634)	-	198,214
Total			309,834	9,614	(1,636)	(158)	317,654

(a) The amount of R$ 87,711 denotes write-offs of intangible assignment rights under contracts with the club contracts previously signed with Vulcabras and now no longer in effect. These contracts were entirely amortized during the period.

c. Change in amortization

December 31, 2017

				Consolidated			
	Useful lives	**Amortization methods**	**Balance at 12/31/2016**	**Additions**	**Write-offs**	**Transf**	**Balance at 12/31/2017**
Definite-lived							
Software	10 years	Straight-line	(26,254)	(726)	43	(319)	(27,256)
Assignment of rights	Contract term	Straight-line	(88,061)	(329)	87,714	319	(357)
Total			(114,315)	(1,055)	87,757	-	(27,613)

December 31, 2016

				Consolidated			
	Useful lives	**Amortization methods**	**Balance at 12/31/2015**	**Additions**	**Write-offs**	**Transf**	**Balance at 12/31/2016**
Definite-lived							
Software	10 years	Straight-line	(25,814)	(450)	1	9	(26,254)
Assignment of rights	Contract term	Straight-line	(74,147)	(13,914)	-	-	(88,061)
Total			(99,961)	(14,364)	1	9	(114,315)

d. Goodwill on business combination

The balances of goodwill on acquisition of equity interests, recognized in subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., are supported by reports issued by independent experts and are based on expected future profitability of the business acquired; in 2009, goodwill balances ceased to be amortized since these are assets with indefinite useful lives, as established by CVM Resolution No. 553/08 and CPC 01 (R1), and are annually tested for impairment, as described in Note 17.

e. Research and development

In the financial year ended December 31, 2017, the Company recognized R$ 31,925 (R$ 30,741 at December 31, 2016) in profit or loss under “costs of goods sold”, related to research and development expenses.

17 Assessment of impairment of tangible and intangible assets

a. Tangible and intangible assets with finite useful lives

Management reviews the net carrying amount of tangible and intangible assets annually in order to evaluate events or changes in economic, operating or technological circumstances that could indicate impairment or loss of their recoverable value.

For FY 2017, an impairment test of tangible and intangible assets with finite useful lives was carried out by means of calculation of the value in use based on cash projections from financial budgets approved by the senior management.

The Company performs annual impairment tests on its tangible and intangible assets.

b. Goodwill paid on expected future profitability

The balance of goodwill on acquisitions of equity interests is based on expected future profitability of the acquired business and amounts to R$ 198,214 as of December 31, 2017 (R$ 198,214 as of December 31, 2016).

The Company annually tests the recoverable amounts of its intangible assets with indefinite useful lives, which comprise mainly licenses and goodwill based on expected future profitability, arising from business combinations, using the concept of value in use, through the discounted cash flow models.

The goodwill arising from the acquisition of investment will have its recoverable amount tested annually, at the cash generating unit level.

c. Main assumptions used in the impairment test of tangible and intangible assets

For the purposes of impairment test of tangible and intangible assets, Vulcabras Azaleia S.A. was considered as a single cash-generating unit.

The Company conducted an impairment test of tangible and intangible assets in 2017 by means of calculating the value in use based on cash projections from financial budgets approved by the senior management.

The future cash flows were discounted based on the rate that represents the cost of capital. Consistent with the economic valuation techniques, the value in use calculation is made for a ten-year period, and from then on it considers the perpetuity of the assumptions, based on the ability to continue business for an indeterminate period of time.

For discounting the future cash flows, the real rate used was 7.7275%. p.a.

The calculation of the value in use considered the following assumptions:

Revenues

The sales volume and price were projected on a real basis (without inflation) based on the Company's estimates and result in aggregate compound growth (CAGR) of 3.46% p.a. between 2017 and 2026.

Cost

The cost of sales was projected based on the Company's estimates.

After defining the sales projection, the production requirement distribution was projected according to the installed capacity and the efficiency level to be obtained in each plant.

Other manufacturing overheads were based on the budget approved by the senior management for the indirect costs center.

Expenses

Variable selling expenses were projected based on historical percentages of the gross operating revenue.

The general and administrative and selling expenses were based on the expenses budgeted and approved by the senior management for the cost center.

We protected financial expenses for the next ten years basically consisting of service tariffs and fees. We closed FY 2017 with financial debt near to zero, and intend to maintain it this way over the next ten years.

Net income and Free Cash Flow Generation
Net Income resulting from the application of the above assumptions grows with a compounded growth rate (CAGR) of 7.57% p.a. between the period from 2018 to 2027.

Free Cash Flow Generation is then calculated using projections of investments and changes in working capital. For perpetuity, the growth rate used is zero.

18 Trade accounts payable

a. Account breakdown

	Consolidated		Parent Company - BRGAAP	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Trade payables				
Domestic				
Other	63,602	58,107	450	520
Foreign				
Other	6,225	8,086	-	-
	69,827	66,193	450	520

b. By maturity

	Consolidated	
	12/31/2017	**12/31/2016**
Neither past due nor impaired		
1 to 30 days	56,905	44,668
31 to 60 days	9,891	14,706
61 to 90 days	2,668	6,553
Past due more than 90 days	172	9
	69,636	65,936
Overdue		
1 to 30 days	190	202
31 to 60 days	1	54
61 to 90 days	-	1
	191	257
	69,827	66,193

c. Portfolio concentration

	Consolidated			
	12/31/2017		12/31/2016	
Trade payables (unrelated parties)				
Top supplier	6,857	10%	7,638	12%
Top 2 to 11 suppliers	13,300	19%	18,773	28%
Top 12 to 50 suppliers	12,558	18%	14,957	23%
Other trade payables	37,112	53%	24,825	37%
Total suppliers (unrelated parties)	69,827	100%	66,193	100%

In compliance with CVM Resolution 564 issued December 17, 2008, which approved CPC 12, the Company conducted studies to calculate present value adjustments of its current liabilities. Considering a DPO for these liabilities of approximately 37 days as of December 31, 2017 (43 days at December 31, 2016), the effects of present value adjustments were considered immaterial and, therefore, were not recognized in income (loss), as occurred with current assets and noncurrent assets.

19 Loans and financing

a. Account breakdown

		Consolidated	
	Interest rate	**12/31/2017**	**12/31/2016**
Local Currency			
Property, plant and equipment/ tax incentive	Fixed rate from 4.0% to 7.5% p.a.; TJLP + 5.0% p.a. (equalization TJLP - 0.25% p.a.)	21,490	38,234
Working capital	CDI + 4.28% p.a. / TJLP + 4.61% p.a.	-	55,952
Export financing			
CCE - Export credit note	CDI + 2.11% p.a.	-	199,438
NCE - Export credit note	CDI + 1.47% to 2.38% p.a.	71,235	82,973
		92,725	**376,597**
Foreign Currency			
Working capital	28.25% to 32.43% p.a	-	1,969
Working capital	2.95% p.a.	-	101,336
Export financing			
ACC - Advances on export contracts	7.25% to 8.60% p.a.	-	16,248
PPE - Import prepayment	6.59% p.a.	-	19,998
Import financing			
FINIMP - Import financing	7.16% to 7.26% p.a	2,074	23,120
		2,074	**162,671**
Total loans and financing		**94,799**	**539,268**
Current		84,474	275,116
Noncurrent		10,325	264,152

At December 31, 2017 and 2016 the installment payments under the primary loans and financing agreements were as follows:

	12/31/2017		12/31/2016	
Maturity	**Amount**	**%**	**Amount**	**%**
Current	**84,474**	**89%**	**275,116**	**51%**
2017	-	0%	275,116	51%
2018	84,474	89%	129,673	24%
2019	9,567	10%	134,479	25%
2020	758	1%	-	-
Noncurrent	**10,325**	**11%**	**264,152**	**49%**
Total	**94,799**	**100%**	**539,268**	**100%**

b. Changes in balances of loans and financing are as follows:

	12/31/2017	12/31/2016
Opening balances	**539,268**	**675,459**
Inflows	70,052	260,889
Charges	30,827	77,829
Monetary and exchange variance	480	(14,351)
Monetary and exchange variance Argentina	-	(10,262)
Amortization of principal	(509,603)	(371,999)
Interest payments	(36,225)	(78,297)
Closing balances	**94,799**	**539,268**

c. Sureties and guarantees

As guarantee of financing, promissory notes, liens on the financed assets, pledges, trade notes and mortgage of the industrial building of Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. were offered.

d. Covenants

Some borrowings have covenants that require the Company to demonstrate through document and physical evidences, the purchases of property, plant and equipment, volume of exports made and objectives achieved in R&D. These covenants are monitored and have been fully complied with within the deadlines defined in the agreements.

The Company and its subsidiaries are not aware of any facts or circumstances that would indicate a situation of non-compliance or that might cause non-compliance with covenants.

e. Reconciliation of equity changes against cash flows deriving from financing activities

	Liabilities			Equity	
	Loans and financing	Dividends proposed	Loans with related parties	Share capital	Total
Balance as of January 1, 2017	**539,268**	**754**	**255,150**	**565,913**	**1,361,085**
Change in financing cash flow					
Loans secured - Principal	70,052	-	-	-	70,052
Loans with related parties	-	-	(255,150)	-	(255,150)
Dividend payments	-	(754)	-		(754)
Share issuance	-	-	-	541,748	541,748
Repayment of loans secured - principal	(509,603)	-	-	-	(509,603)
Total changes in financing cash flows	**(439,551)**	**(754)**	**(255,150)**	**541,748**	**(153,707)**
Other changes related to liabilities					
Interest paid	(36,225)	-	-	-	(36,225)
Financial charges recognized in profit or loss	31,307	-	-	-	31,307
Total other changes related to liabilities	(4,918)	-	-	-	(4,918)
Balance as of December 31, 2017	**94,799**	**-**	**-**	**1,107,661**	**1,202,460**

20 Provisions

The Company and its subsidiaries are parties to judicial and administrative proceedings in various courts and government agencies, arising from the normal course of operations, including tax, labor, civil and other proceedings.

Based on information from its legal advisers, Management recognizes provisions in accordance with the procedures established by CVM Directive 489/05 and CPC 25, which state a provision should be recognized when: (i) the entity has a present obligation deriving from a past event; (ii) an outflow of proceeds will probably be required to settle the obligation; and (iii) the obligation amount can be estimated with sufficient certainty. If any of these conditions are not met a provision should not be made, and it might be necessary to disclose a contingent liability.

Based on previous experience with regards to amounts claimed, an analysis of pending claims is made to record provisions for amounts considered sufficient to cover possible losses from the current actions, classifying them as current and non-current as follows:

a. Breakdown of balances

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Provision for judicial and administrative proceedings				
Civil	19,649	20,235	615	648
Labour	48,119	48,281	1,023	2,017
Tax	9,717	9,870	105	272
Total	77,485	78,386	1,743	2,937
Current	53,115	45,751	566	1,151
Noncurrent	24,370	32,635	1,177	1,786

b. Labor claims (Consolidated)

Refer mainly to claims for severance payment, overtime, salary differences, health hazard premium, hazardous duty premium, vacation, FGTS (Severance Pay Fund) and prior notice.

c. Civil claims (Consolidated)

Refers to compensation for property damages and pain and suffering and compensation for representatives.

The effects on the provision for indemnities are charged to “selling expenses” in profit or loss.

d. Tax claims (Consolidated)

Related to lawsuits in which the companies of Companhia Vulcabras Azaleia are parties, involving mainly the following taxes: IRPJ, COFINS and PIS.

e. Changes in the lawsuits

December 31, 2017		**Consolidated**		
	12/31/2016	**12/31/2017**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	20,235	678	(1,264)	19,649
Labour	48,281	15,112	(15,274)	48,119
Tax	9,870	23	(176)	9,717
Total	78,386	15,813	(16,714)	77,485

December 31, 2017		**Parent company**		
	12/31/2016	**12/31/2017**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	648	9	(42)	615
Labour	2,017	(476)	(518)	1,023
Tax	272	(76)	(91)	105
Total	2,937	(543)	(651)	1,743

December 31, 2016		**Consolidated**		
	12/31/2015	**12/31/2016**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	1,738	459	(179)	2,018
Labour	46,841	18,586	(17,146)	48,281
Tax	8,369	1,425	76	9,870
Compensation payouts	17,518	699	-	18,217
Total	74,466	21,169	(17,249)	78,386

December 31, 2016		**Parent company**		
	12/31/2015	**12/31/2016**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	776	(95)	(33)	648
Labour	1,500	1,057	(540)	2,017
Tax	427	(152)	(3)	272
Total	2,703	810	(576)	2,937

Contingencies

Based on the opinion of its legal advisers, Management believes that the resolution of the matters listed below will not have a material adverse effect on its financial situation.

At December 31, 2017 and December 31, 2016, the breakdown of the amounts under litigation at various court levels, rated as a possible defeat was as follows:

	Consolidated	
	12/31/2017	**12/31/2016**
Contingencies		
Civil	1,922	2,249
Labour	54,101	57,713
Tax	121,371	112,986
Total	177,394	172,948

21 Shareholders' Equity (Parent company)

a. Share capital

At December 31, 2017, the subscribed and paid-in capital is R$ 1,140,910 (R$ 565,913 in 2016) represented by 245,756,346 (185,230,346 in 2016) registered common shares, without par value, held as follows:

In October 2017 the Company's share capital rose by R$ 574,997, arising from the sale of shares. The cost consumed on the share issuance was R$ 33,249 resulting in a net effect of R$ 541,748. The net breakdown is as follows:

Change in net share capital:

Net capital at 12/31/2016	**565,913**
Share issuance	574,997
Stock issuance cost	(33,249)
Net capital at 12/31/2017	**1,107,661**

On March 16, 2016, the reverse stock split of all the 740,921,384 book-entry common shares, without par value, issued by the Company, was approved at 4-for-1, four common shares for one common share, without change in the capital amount, in accordance with Article 12 of Law 6404/76.

The purpose of the reverse split of the Company shares is the compliance by the Company, as required in Official Letter 3171/2015 - SAE sent by BM&FBovespa to the Company on 10/22/2015, with the new provisions of the Issuers' Listing and Admission to Securities Trading Regulations and the Issuers' Manual of BM&F Bovespa, effective beginning on 8/18/2014, which require the maintenance on the organized markets by BM&FBovespa of shares with quotations above R$1.00 (one real) per share.

By way of a board of directors resolution, the company is authorized to raise the share capital up to the limit of R$ 2,000,000, for which no amendment to the bylaws is required.

b. Reserves

Revaluation reserve

Set up as a result of the revaluations of items of property, plant and equipment of its subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., based on a valuation report prepared by independent appraisers The corresponding income and social contribution taxes are classified in the non-current liabilities. The balance of the revaluation reserve as of December 31, 2017 is R$ 7,273 (R$ 8,165 as of December 31, 2016).

The revaluation reserve is being realized by depreciating or writing off the reevaluated assets from the retained earnings, net of tax charges. As permitted by Law 11638/07, Management elected to maintain the revaluation reserves until their full realization.

c. Equity appraisal adjustments

The reserve for equity appraisal adjustments includes: (i) net cumulative changes in the fair value of available-for-sale financial assets until the investments are derecognized or impaired; and (ii) accumulated translation adjustments included all foreign-currency differences deriving from the translation of financial statements for foreign operations. The balance of the equity appraisal adjustment as of December 31, 2017 is R$ 3,045 (R$ 5,065 as of December 31, 2016).

d. Dividends

Under article 45 of its bylaws, the Company determines that interim and intermediate dividends and interest on shareholders' equity established in this Article can be included in the minimum mandatory dividend.

The company did not pay out dividends as of December 31, 2017 and 2016 based on art. 189 of Law 6404/1976 as subsequently reviewed by Law 11638/2007.

Prior to any profit sharing, any accrued losses and the provision for income tax shall be deducted from the earnings for the period.

The Company determined net income for the financial year ended December 31, 2017, although it still holds a balance of accumulated losses to be amortized.

22 Operating revenue

See below the reconciliation between the gross revenue for tax purposes and the revenue recorded in the income statement for the year.

	Consolidated	
	12/31/2017	12/31/2016
Gross operating revenue		
Sale and resale of goods		
Domestic	1,334,845	1,180,086
Overseas	139,598	148,505
Services rendered	4,194	2,086
	1,478,637	1,330,677
Deductions		
Sales and services taxes		
Returns and deductions	(164,759)	(158,271)
	(50,796)	(38,186)
	(215,555)	(196,457)
Net operating revenue		
Total	**1,263,082**	**1,134,220**

23 Cost of sales

	Consolidated	
	12/31/2017	12/31/2016
Raw materials	(305,031)	(290,222)
Labor	(215,988)	(196,958)
Indirect cost	(186,070)	(176,529)
Resale	(73,630)	(77,957)
	(780,719)	**(741,666)**

24 Sales expenses

	Consolidated	
	12/31/2017	12/31/2016
Commission	(51,789)	(42,359)
Commercial discount	(3,328)	-
Carriage	(45,231)	(42,525)
PECLD	(4,720)	(8,833)
Advertising	(48,760)	(59,215)
Royalties	(34)	(74)
Personnel expenses	(14,076)	(15,122)
Fixed expenses	(11,288)	(12,936)
Semi-variable expenses	(2,587)	(2,602)
	(181,813)	(183,666)

25 Administrative expenses

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Personnel expenses	(46,134)	(45,148)	(3,926)	(3643)
Outsourced services	(11,123)	(9,514)	(2,479)	(1,980)
Travel and accommodation	(1,207)	(1,037)	(1)	-
Rent	1,744	(431)	3,669	3,030
Security	(2,134)	(1,784)	(722)	(354)
Litigation and tax	(1,679)	(1,504)	(575)	(453)
IT and telecommunications	(4,042)	(3,639)	(1)	-
Energy, water and sanitation	(3,079)	(3,451)	(2,347)	(2,823)
Maintenance, cleaning and environment.	(2,929)	(2,415)	(264)	(141)
Depreciation	(2,790)	(2,951)	-	(442)
Other	(3,780)	(6,397)	(858)	(400)
	(77,153)	(78,271)	(7,504)	(7,206)

26 Other net operating income (expenses)

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Rental income (*)	4,378	3,469	4,106	3,336
Provision for contingencies	(15,268)	(19,308)	633	(411)
Sale of scrap	1,765	1,746	-	-
Gain/Loss on sale of fixed assets	(401)	2,008	-	-
PRT - Tax Regularization Program (*)	16,997	-	-	-
Other	1,068	(1,734)	263	(579)
	8,539	(13,819)	5,002	2,346

(*) For further information see Note 10.c

27 Finance income (costs)

	Consolidated		Parent company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finance expenses				
Capital structure				
Interest	(31,522)	(81,159)	(193)	(151)
IOF	(751)	(1,380)	(3)	(2)
Other (*)	(7,388)	(3,705)	(14)	(206)
	(39,661)	(86,244)	(210)	(359)
Operating				
Banks fees	(7,380)	(7,829)	(7)	(3)
Prompt payment discount	(3,095)	(5,106)	-	-
Discounts awarded	(9,074)	(1,231)	-	-
	(19,549)	(14,166)	(7)	(3)
Exchange differences	(38,133)	(30,965)	(45)	(52)
	(97,343)	(131,375)	(262)	(414)
Finance income				
Capital structure				
Investment yield	7,968	908	104	3
Monetary restatement	308	5,462	-	98
Other	1,406	-	95	-
	9,682	6,370	199	101
Operating				
Interest	3,738	2,636	365	362
Discounts obtained	52	424	3	3
	3,790	3,060	368	365
Exchange differences	34,271	39,799	9	16
	47,743	49,229	576	482
Finance income	**(49,600)**	**(82,146)**	**314**	**68**

(*) Most of the balance of other denotes commission on loans and financing.

28 Earnings per share

The calculation of basic earnings per share is made by dividing the profit for the year, attributed to the holders of common shares of the Company, by the number of common shares free float at the end of the year.

Diluted earnings per share are calculated by dividing the profit for the period attributable to holders of the Company’s common shares by the weighted average number of common shares that would be issued on the conversion of all potentially dilutive shares into their respective shares.

At December 31, 2017 and December 31, 2016, the Company does not have preferred shares issued and potential shares outstanding that could affect the dilution of the earnings per share in accordance with CPC 41.

The table below presents the calculation of the basic and diluted earnings per share.

	Consolidated Number of common shares	
	12/31/2017	**12/31/2016**
Net income attributable to shareholders	188,914	35,689
Weighted average number of shares outstanding during the year	196,340,598	185,230,346
Basic and diluted earnings per thousand shares - R$	0.96	0.19

29 Financial instruments and risk management

The Company’s main financial assets and liabilities refer to cash and cash equivalents, trade receivables, trade payables and loans and financing.

Financial risks framework and management

The Company manages financial risks through financial position strategies and internal exposure limit controls. There were no changes in these controls during the reporting years.

The Company is exposed to the following risks posed by its financial instruments:

- Credit risk
- Market risk
- Interest rate risk
- Liquidity risk

The management of these instruments is done through operating strategies and internal controls aimed at liquidity, profitability and security. The control policy consists of permanent monitoring of contractual terms and conditions in comparison with existing market conditions.

The Company’s risk management policies were established to identify and analyze the risks to which the Company is exposed, to define risk limits and appropriate controls to monitor the risks and the compliance with the limits imposed. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities

The assessments of financial instruments and risk management are explained below:

Credit risk

The Company and its subsidiaries are exposed to the credit risk entailing the possibility of not receiving trade accounts receivable or credits from financial institutions.

The Company's exposure to credit risk is primarily influenced by each client's individual characteristics. However, the Company and its subsidiary’s sales policies are governed by the credit policies determined by Management, and are aimed at minimizing any losses resulting from default by its clients. This objective is achieved by management through the judicious selection of the client portfolio, which takes into consideration their capacity to pay (credit analysis) and diversification of its sales (risk spread) (Note 7a).

The Company and its subsidiaries also have a provision for estimated doubtful accounts amounting to R$ 30,348 at December 31, 2017 (R$ 24,164 at December 31, 2016), representing 8.44% of the outstanding trade receivables (6.1% at December 31, 2016), to cover the credit risk (Note 7a).

The Company operates in the financial market through first tier credit institutions, Government Banks or Government Development Agencies, resulting in a low credit risk with financial institutions.

Currency risk

Price risk

Considering the price risk on exports, which represent 6.14% of its subsidiaries' revenues at December 31, 2017 (7.12% at December 31, 2016), any volatility of the exchange rate represents, in fact, a price risk that can impair the results planned by Management.

The Company does not use specific financial instruments to mitigate the price risks. However, for the balance of assets and liabilities subject to the foreign currency risk, the Company attempts to make a natural hedge policy to protect against exchange variance.

Sensitivity analysis

The Company and its subsidiaries' income is susceptible to variations due to the volatility of the exchange rate on assets and liabilities denominated in foreign currencies, mainly the US dollar, which gained 1.50% against the Brazilian currency in the year ended December 31, 2017 compared with the previous quote at December 31, 2016.

As a strategy to prevent and reduce the effects of foreign exchange exposure, the Company attempts to maintain a natural hedge. Management does not enter into financial instruments to eliminate its exposure to foreign exchange risks, which are as follows:

	Consolidated	
US dollar (USD thousand)	**12/31/2017**	**12/31/2016**
Foreign-currency assets (a)	15,515	18,651
Foreign-currency liabilities (b)	(2,502)	(52,394)
Surplus determined (a-b)	13,013	(33,743)

For compliance with CVM Resolution No. 550 of October 17, 2008, given the foreign currency risk exposure, the Company presents below three scenarios for the dollar fluctuation and the respective future results that would be generated, namely: (i) probable scenario adopted by the Company and its subsidiaries: dollar at R$ 3.3080 at December 31, 2017; (ii) possible scenario: considers an increase and decrease of 25% on the dollar exchange rate, to R$ 4.1350 and 2.4810, respectively; and (iii) remote scenario: considers an increase and decrease of 50% on the dollar exchange rate, to R$ 4.9620 and 1.6540, respectively.

Sensitivity Analysis of the foreign exchange risk - effect on income (loss) at December 31, 2017

Transaction	Risk	Probable scenario	Possible scenario	Remote Scenario
	US$ 13,013 thousand	Exchange rate of 3.3080	Exchange rate of 2.4810	Exchange rate of 1.6540
Finance expense	USD devaluation	-	(10,762)	(21,524)

Interest rate risk

Sensitivity analysis

For compliance with CVM Resolution No. 550 of October 17, 2008, given the exposure to the risk of changes in the indexes used in short-term investments and loans, the Company presents below scenarios for the changes in rates and the respective future results that would be generated, namely: (i) probable scenario adopted by the Company and its subsidiaries, with a DI-CETIP rate of 6.89% p.a. and TJLP at the rate of 7.00% p.a.; (ii) possible scenario, including an increase (in the case of loans) or decrease (in the case of investments) of 25% on the DI-CETIP and TJPL rates; (iii) remote scenario, including an increase (in the case of loans) and decrease (in the case of investments) of 50% on the DI-CETIP and TJPL rates;

We present below the movements in the rates at December 31, 2017, according to the scenarios shown above:

Consolidated	
12/31/2017	
Loans in TJLP	2,918
CDI loans	71,235
Investments in CDI	100,413

Operation	Risk	Probable Scenario	Possible Scenario - 25%	Remote Scenario - 50%
		TJLP at 7.00%	TJLP at 8.75%	TJLP at 10.50%
Loans in TJLP	Increase of TJLP	R$ 0	R$ 51	R$ 102
		CDI at 6.89%	CDI at 8.61%	DI at 10.34%
CDI loans	Increase in CDI	R$ 0	R$ 1,225	R$ 2,458
		CDI at 6.89%	CDI at 5.17%	DI at 3.45%
Investments in CDI	CDI decrease	R$ 0	-R$ 1,727	-R$ 3,454

Liquidity risk

The Company monitors its funds liquidity risk through cash monetary policies to avoid a mismatch between accounts receivable and accounts payable. The Company also maintains balances in short-term investments with daily liquidity that can be redeemed immediately, to cover any mismatches between the date its contractual obligations mature and its cash generation.

The scheduled payments of the long-term portions of the loans and financing are presented in Note 19.

Breakdown of balances

The estimated realization values of the financial assets and liabilities of the Company and its subsidiaries were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. As a result, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable values.

The management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates contracted versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risky assets on a speculative basis.

In compliance with CVM Instruction 475/08, the accounting balances and the fair value of the financial instruments included in the statements of financial position at December 31, 2017 and December 31, 2016 are shown below:

		Consolidated			
		12/31/2017		**12/31/2016**	
Description	**Classification**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents		100,502	100,502	17,094	17,094
Short-term investments	Available-for-sale securities	5,661	3,938	8,321	8,321
Accounts receivable	Loans and receivables	326,522	326,522	372,592	372,592
Other accounts receivable	Loans and receivables	33,187	33,187	41,497	41,497
Loans and financing:					
Local currency	Other financial liabilities	92,725	92,725	376,597	376,597
Foreign currency	Other financial liabilities	2,074	2,074	162,671	162,671
Trade payables	Other financial liabilities	69,827	69,827	66,193	66,193
Related parties - liabilities	Other financial liabilities	-	-	255,150	255,150
Fair value hierarchy					

	12/31/2017		12/31/2016	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Short-term investments	3,938	-	17,094	539,268
Loans and financing	-	94,799	-	-
Related parties - liabilities	-	-	-	255,150

(a) **Level 1 -** Quoted prices (unadjusted) in active markets for identical assets or liabilities

(b) **Level 2 -** Different inputs, except for traded prices in active markets included in Level 1 that are observable for the assets and liabilities, directly (as prices) or indirectly (derived from prices), and

(c) **Level 3 -** Inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

Criteria, assumptions and limitations used in the calculation of fair value

Short-term investments
The fair value of financial investments was calculated based on the market quotations of these securities, which are stable considering the rates and maturities of the investments. The financial investments have yields based on a percentage of the DI-CETIP and are restated at December 31, 2017.

Accounts receivable
Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company and its subsidiaries are responsible, less the taxes withheld, which are considered tax credits. The provision for impairment of receivables was recognized in an amount considered sufficient by Management to cover any losses on the realization of receivables.

Loans and financing
Loans and financing calculated at December 31, 2017 are measured at amortized cost using the effective interest method, and are recorded at their contractual values. We currently found interest rates applicable to these instruments identical to the contracts that were signed, given the objective of the financing, time frames and guarantees submitted.

Therefore, Management considers that there are no significant differences between the carrying amounts and the fair values of these loans and financing.

Trade accounts payable
Trade payables derive directly from the Company’s commercial operations, are stated at their original values, subject to exchange and monetary restatement, when applicable, through the reporting date.

Limitations
The fair value of the instruments was estimated at the reporting date, based on “relevant market information”. Changes in the assumptions may significantly affect the estimates presented.

Capital management
The objective of the Company´s capital management is to ensure that it maintains its strong credit rating with the financial institutions and its excellent capital ratio, in order to support the Company´s business and maximize value for its shareholders.

In its net debt structure the Company includes: loans and financing less cash, cash equivalents and short-term investments.

	Consolidated	
	12/31/2017	**12/31/2016**
Loans and financing and subsidized financing	94,799	539,268
Cash and cash equivalents	(100,502)	(17,094)
Short-term investments	(5,661)	(8,321)
Net debt	**(11,364)**	**513,853**
Shareholders' equity	**784,573**	**51,862**

30 Insurance coverage

It is the policy of the Company and its subsidiaries to take out insurance coverage for the assets subject to risk at amounts considered sufficient to cover any incidents, considering the nature of their activity.

The risk assumptions adopted do not comprise a financial statements audit, and were not therefore examined by our independent auditors.

The insurance coverage amounts at December 31, 2017 are summarized as follows:

Corporate insurance in reais		
Item	**Risk covered**	**Coverage**
Property	Fire, Windstorm, Electrical Damage, Machinery Breakage, Theft, Flooding, Electronic Equipment.	110,000
Lost earnings	Fixed expenses (P.I. 3 months)	60,000
D&O	General civil liability of directors and officers	20,000
General CL	General civil liability	2,000
Light vehicles	Property damages, bodily injury and pain and suffering to third parties	23,800
Heavy vehicles	Property damages, bodily injury and pain and suffering to third parties	8,100
International transportation - Import	Limit per shipment - Goods/Raw materials	4,752
	Total corporate insurance	**228,652**

31 Subsidies and government assistance

Federal Incentives

- **IRPJ reduction** -Refer to the right to 75% reduction of the Income Tax and Surtax, calculated based on the operating profit in accordance with article 1 of the Provisional Act 2199-14 of August 24, 2001, as per the criteria established and also in compliance with the tax incentives regulation. Are considered as onerous conditions met the projects for total modernization currently in areas of the Northeast Development Agency - SUDENE. The beneficiaries of the incentive of 75% reduction of the income tax are the projects located in the states of Ceará, Bahia and Sergipe.

State tax incentives

PROVIN - CE

For footwear:

- **PROVIN** - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 99% of the ICMS levied on company manufacturing of footwear. On the amount of each installment of the benefit, 1% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, adjusted by TJLP.

For apparel and accessories:

- **PROVIN** - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 75% of the ICMS levied on company manufacturing of clothing. On the amount of each installment of the benefit, 25% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, adjusted by TJLP.

Additional incentives

In addition to PROVIN shoes and apparel and accessories, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces that do not have similar item in the State of Ceará, as well as the difference of rates on purchases of capital goods.

PROBAHIA- BA

- **PROBAHIA -** Refers to the development program for the State of Bahia, aiming at diversifying and stimulating the transformation of the industrial processes in the state. The incentive is the deferral of ICMS on the total debits calculated on the shipment of goods, where a presumed credit of 99% of the amount due is calculated. Its payment consists in 1% of the debit balance that should be paid in the month subsequent to the ICMS calculation.

Additional incentives

In addition to PROBAHIA, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces, as well as the difference of rates on purchases of capital goods.

PSDI - SE

- **PSDI** - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 75% of the ICMS levied on the company manufacturing and a 15-year grace period for the payment of the remaining 25%, without inflation adjustment.

Additional incentives

In addition to PSDI, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces, as well as the difference of rates on purchases of capital goods.

	Statement of Government Grants		
Subsidiary	**State tax incentives**	**%**	**Maturity terms**
CE	Provin Footwear	99%	Aug/2021
CE	Provin Clothing	99%	Jun/2022
BA	Probahia	99%	Dec/2027
SE	PSDI	75%	Jun/2029

	Statement of government grants		
Subsidiary	**Federal incentive**	**%**	**Maturity Term**
CE	Decrease in IRPJ	75%	Dec/2025
BA	Decrease in IRPJ	75%	Dec/2026
SE	Decrease in IRPJ	75%	Dec/2017 (in the process of being renewed)

a. *Consolidated*

The amount of State and Federal tax incentives, related to ICMS and IRPJ, respectively, are recognized in the Company's income (loss) through the calculation of share of profit (loss) of investees.

Considering that these incentives were recognized directly in profit (loss) of subsidiaries, as a consequence, they were recognized in the Company's profit (loss) through the calculation of share of profit (loss) of investees, whose effects are shown below:

ICMS			**Equity in net income of subsidiaries at parent company**	
Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**12/31/2017**	**12/31/2016**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	72,266	99.99	72,259	70,096
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	46,186	100.00	46,186	35,148
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	3,717	100.00	3,717	3,248
	122,169		122,162	108,492

IRPJ			**Equity in net income of subsidiaries at parent company**	
Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**12/31/2017**	**12/31/2016 (*)**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	12,633	99.99	12,633	-
Vulcabras Azaleia BA, Calçados e Artigo Esportivos S.A	1,463	100.00	1,463	
Total incentive	**14,096**		**14,096**	-

(*) In 2016, the Company by means of its internal tax controls, did not recognize the Federal tax incentive related to IRPJ since there was not debit for such tax.

32 Product and geographic area information

The information of gross sales in the domestic and foreign markets, by region, was prepared based on the country of origin of the revenue, that is, based on the sales made by its subsidiaries in Brazil and through foreign subsidiaries, and are as follows:

	12/31/2017	**12/31/2016**
Net sales revenue		
Athletic footwear	993,409	832,523
Women's footwear	178,882	217,012
Other footwear and others	67,667	69,708
Clothing	23,124	14,977
	1,263,082	1,134,220
Domestic sales	1,122,236	988,565
Overseas	140,846	145,655
	1,263,082	1,134,220

The noncurrent assets of each geographic region are shown below:

	Consolidated	
	12/31/2017	**12/31/2016**
Noncurrent assets in the domestic and foreign markets from:		
Brazil	444,479	448,033
Other countries	7,976	13,630
Total	452,455	461,663

* * *

Members of the Board of Directors

Pedro Grendene Bartelle - Chairman
André de Camargo Bartelle -1st Deputy Chairman
Pedro Bartelle - 2nd Deputy Chairman
Hector Nunez - Director
Roberto Faldini - Independent Director

Members of the Executive Board

Pedro Grendene Bartelle - Chief Executive Officer
Edivaldo Rogério de Brito - Chief Administrative and Financial Officer
Flávio de Carvalho Bento - Industrial Officer
Marco Antonio Sá Martins - Operations Officer - Argentina
Rafael Carqueijo Gouveia - Commercial and Corporate Operations Officer
Luiz Vanderlei Heidrich - Chief Female Division Officer
Márcio Kremer Callage - Marketing Officer

Investor Relations Officer

Edivaldo Rogério de Brito

Professional in charge

Manoel Damião da Silveira Neto
Accountant CRC 1RJ052266/O-2 “S”-SP