



## MANAGEMENT REPORT 4<sup>TH</sup> QUARTER OF 2017



Vulcabras Azaleia

azaleia dijean



OLYMPIKUS

OLK

OPANKA



Botas

Vulcabras



Jundiaí, 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**

**OLK**


**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)

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## HIGHLIGHTS

R\$ Million	4Q17	4Q16	Var. % 4 Q 17 / 4 Q 16	2017	2016	Var. % 2017/2016
<b>Net revenue</b>	314.6	307.1	2.4%	1,263.1	1,134.2	11.4%
<b>Gross income</b>	119.7	111.8	7.1%	482.4	392.6	22.9%
<b>Gross margin %</b>	38.0%	36.4%	1.6 p.p.	38.2%	34.6%	3.6 p.p.
<b>Net income</b>	45.4	13.6	233.8%	188.9	35.7	429.1%
<b>Net margin %</b>	14.4%	4.4%	10.0 p.p.	15.0%	3.1%	11.9 p.p.
<b>EBITDA</b>	70.4	56.3	25.0%	296.5	186.5	59.0%
<b>EBITDA Margin %</b>	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

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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<sup>1</sup> 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

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<sup>1</sup> 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.

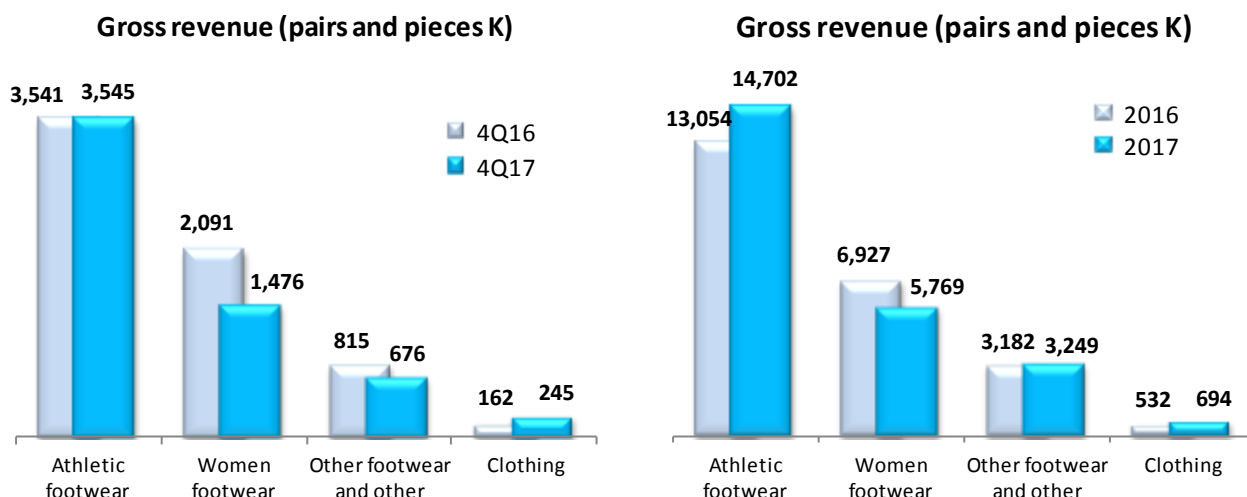
## Gross Volume

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





### Net Revenue

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

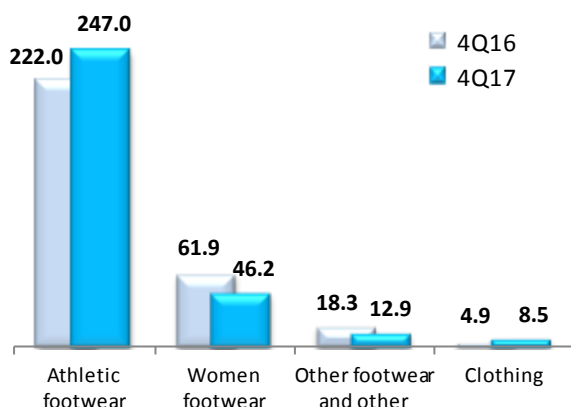
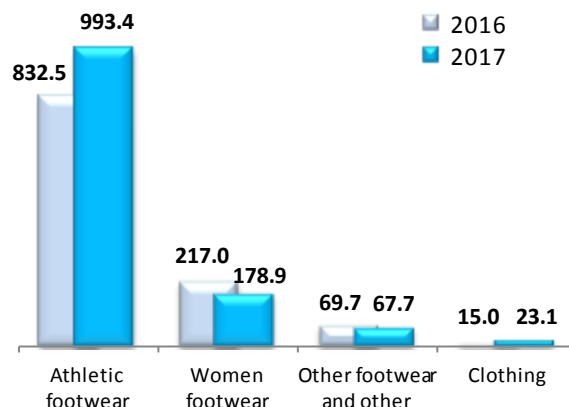
In 2017 net revenue was R\$ 1,263.1 million, a result 11.4% higher than in 2016, when revenue was R\$ 1,134.2 million.

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

**Net Revenue by category (R\$ million)**

**Net Revenue by category (R\$ million)**


### 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.

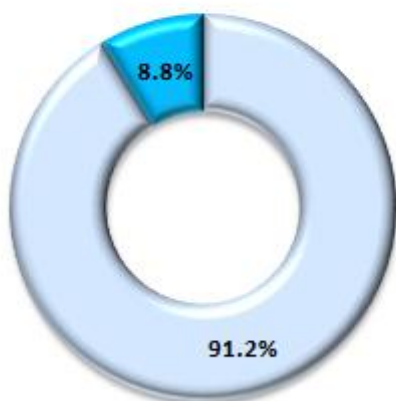
In direct sales to third parties in the foreign market, there has been a drop in revenue in 4Q17 when compared to the same period of the previous year, a result of a more linear supply during 2017. In 2016 there was a large concentration of revenue in the second half of the year, due to the resumption 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.

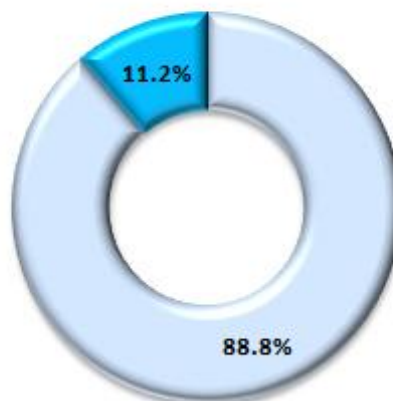
R\$ Million	4Q17	Share %	4Q16	Share %	Var. % 4Q17/4Q16	2017	Share %	2016	Share %	Var. % 2017/2016
<b>Domestic market</b>	287.0	91.2%	272.7	88.8%	5.2%	1,122.2	88.8%	988.6	87.2%	13.5%
<b>Foreign market</b>	27.6	8.8%	34.4	11.2%	-19.8%	140.9	11.2%	145.6	12.8%	-3.2%
<b>Total net revenue</b>	<b>314.6</b>	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

**Share by market - 4Q17**

■ Domestic market ■ Foreign market


**Share by market - 2017**

■ Domestic market ■ Foreign market

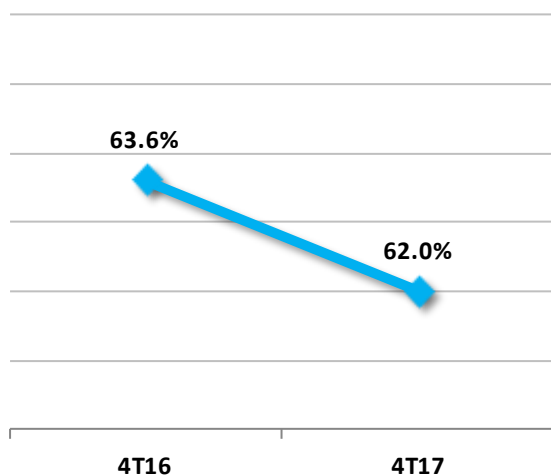
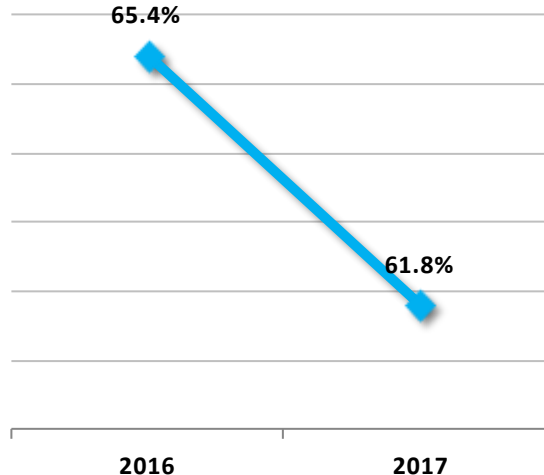


### Cost of sales

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.

**Cost of sales - % of net revenue**

**Cost of sales - % of net revenue**


### 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.

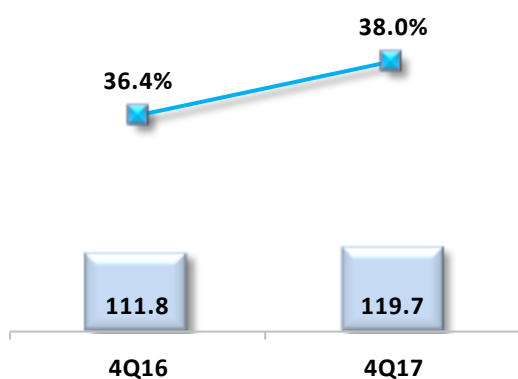
Gross margin in 4Q17 kept its growth trend when compared to the same period of the previous year, however, as it occurs in every end of year, lower production in the month of December, due to the granting of collective vacation, causes an impact on the cost of products manufactured in that month, pulling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

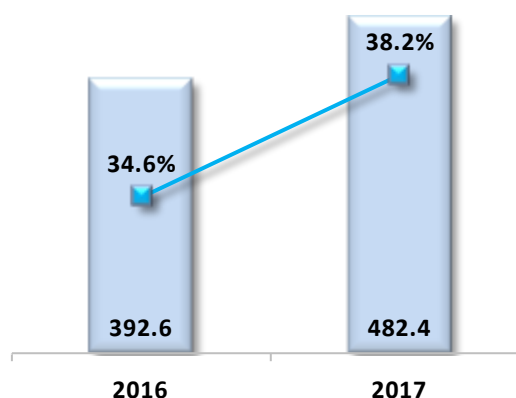
#### Gross Income and Gross Margin

 Gross income
  Gross margin %



#### Gross Income and Gross Margin

 Gross income
  Gross margin %



### 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.

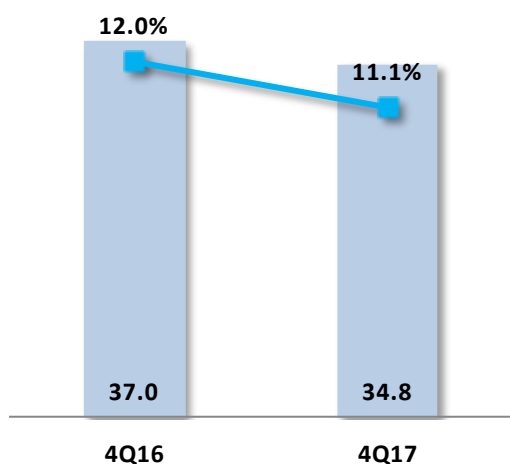


The share of selling expenses in net revenue presented a 0.9 p.p. drop when comparing 4Q17 to 4Q16. As for year to date, it presented a decrease of 0.5 p.p., from 11.0% in 2016 to 10.5% in 2017.

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

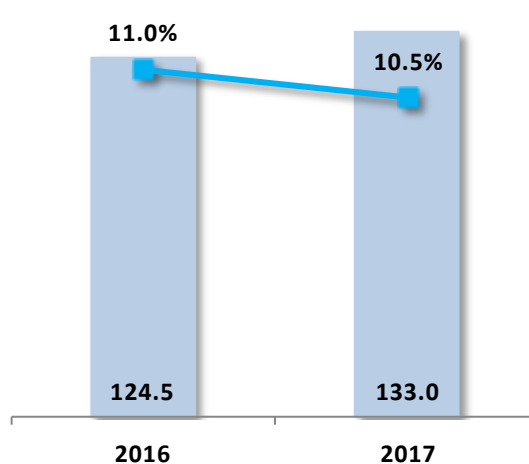
### Selling expenses

■ Selling expenses ■ % of net revenue



### Selling expenses

■ Selling expenses ■ % of net revenue

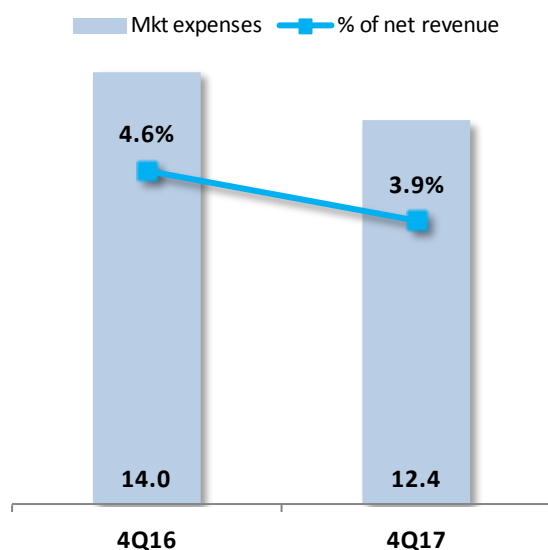
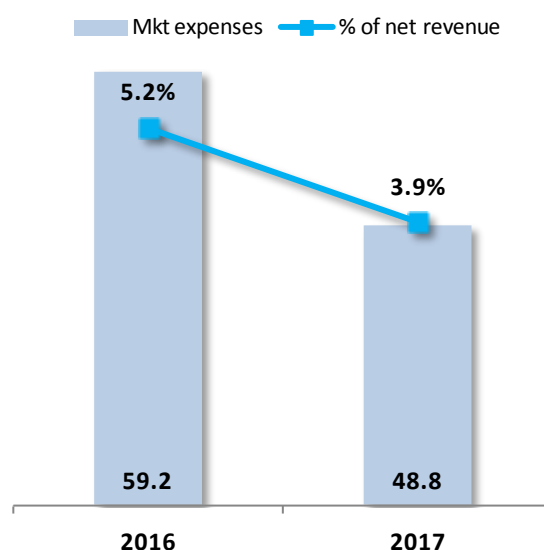


### Advertising and marketing expenses

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.

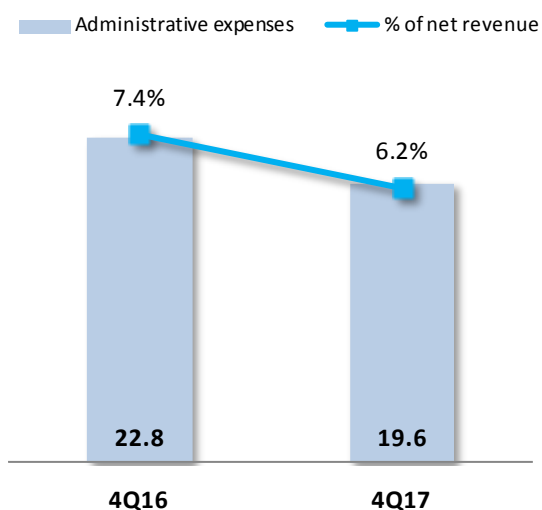
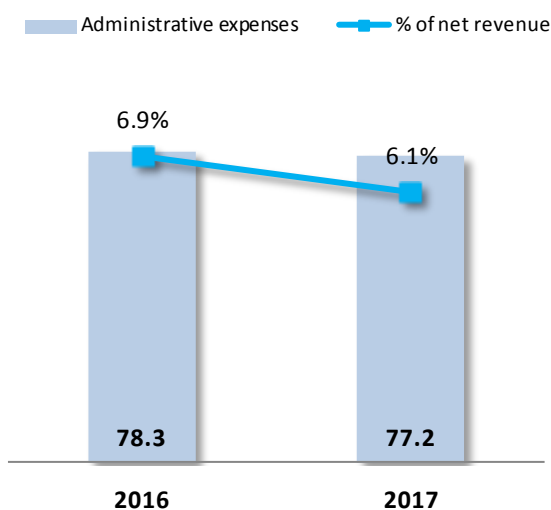
R\$ Million	4Q17	4Q16	Var. % 4Q17 / 4Q16	2017	2016	Var. % 2017/2016
<b>Advertising and marketing expenses</b>	12.4	14.0	-11.4%	48.8	59.2	-17.6%
<b>% of net revenue</b>	3.9%	4.6%	-0.7 p.p.	3.9%	5.2%	-1.3 p.p.

**Advertising and marketing expenses**

**Advertising and marketing expenses**

**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
<b>Administrative expenses</b>	19.6	22.8	-14.0%	77.2	78.3	-1.4%
<b>% of net revenue</b>	6.2%	7.4%	-1.2 p.p.	6.1%	6.9%	-0.8 p.p.

**Administrative expenses**

**Administrative expenses**


### 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
<b>Other operating income (expenses), net</b>	(4.3)	(5.1)	-15.7%	8.5	(13.8)	N/M
<b>% of net revenue</b>	-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
<b>Finance costs</b>	<b>(18.1)</b>	<b>(33.4)</b>	<b>-45.8%</b>	<b>(97.3)</b>	<b>(131.3)</b>	<b>-25.9%</b>
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%
<b>Finance income</b>	<b>7.1</b>	<b>14.2</b>	<b>-50.0%</b>	<b>47.7</b>	<b>49.2</b>	<b>-3.0%</b>
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%
<b>Finance income (costs), net</b>	<b>(11.0)</b>	<b>(19.2)</b>	<b>-42.7%</b>	<b>(49.6)</b>	<b>(82.1)</b>	<b>-39.6%</b>

### 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.

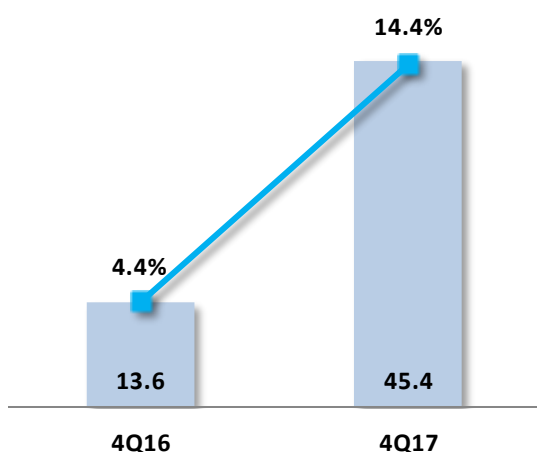
In 4Q17, a revenue of R\$ 7.4 million in share of income (loss) of investees was reported, a growth of 7,300% compared to the revenue of R\$ 0.1 million in the same period of 2016. The result is due to the Vulcabras Azaleia's increased interest in the investee Pars Participações Ltda., through the acquisition 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
<b>Income for the period</b>	45.4	13.6	233.8%	188.9	35.7	429.1%
<b>% of net revenue</b>	14.4%	4.4%	10.0 p.p.	15.0%	3.1%	11.9 p.p.

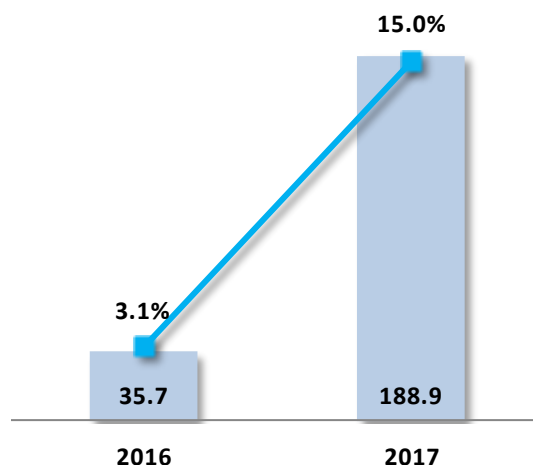
### Income for the period

Income for the period % of net revenue



### Income for the period

Income for the period % of net revenue

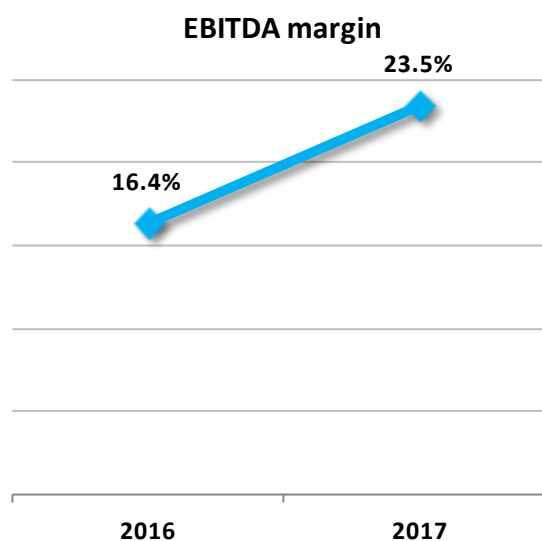
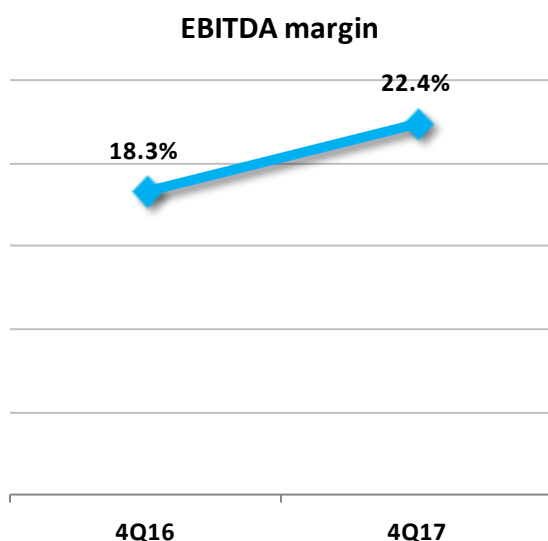


**EBITDA (earnings before interest, taxes, depreciation and amortization)**

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%
<b>EBITDA</b>	<b>70.4</b>	<b>56.3</b>	<b>25.0%</b>	<b>296.5</b>	<b>186.5</b>	<b>59.0%</b>
Net revenue	314.6	307.1	2.4%	1,263.1	1,134.2	11.4%
<b>EBITDA margin</b>	<b>22.4%</b>	<b>18.3%</b>	<b>4.1 p.p.</b>	<b>23.5%</b>	<b>16.4%</b>	<b>7.1 p.p.</b>





## 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.

<b>NORMAL ROIC</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
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
<b>NOPAT</b>	<b>21.0</b>	<b>48.2</b>	<b>117.8</b>	<b>238.5</b>
<b>Invested Capital</b>				
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
<b>Invested Capital</b>	<b>905.7</b>	<b>913.3</b>	<b>821.0</b>	<b>773.2</b>
<b>Average invested capital for the period<sup>1</sup></b>	<b>900.4</b>	<b>909.5</b>	<b>867.1</b>	<b>797.1</b>
<b>Annualized ROIC</b>	<b>2.3%</b>	<b>5.3%</b>	<b>13.6%</b>	<b>29.9%</b>

(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<sup>2</sup>) hit 40.7% in 2017, an increase of 22.6 p.p., over the 18.1% obtained in 2016.

<b>ADJUSTED ROIC</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
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)
<b>NOPAT (Adjusted)</b>	<b>8.1</b>	<b>35.7</b>	<b>115.7</b>	<b>229.7</b>
<b>Invested Capital</b>				
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
<b>Total Adjusted Invested Capital</b>	<b>679.8</b>	<b>685.8</b>	<b>593.1</b>	<b>534.9</b>
<b>Average adjusted invested capital for the period<sup>1</sup></b>	<b>675.4</b>	<b>682.8</b>	<b>639.4</b>	<b>564.0</b>
<b>Adjusted Annualized ROIC<sup>2</sup></b>	<b>1.2%</b>	<b>5.2%</b>	<b>18.1%</b>	<b>40.7%</b>

(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.

<sup>2</sup> 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.

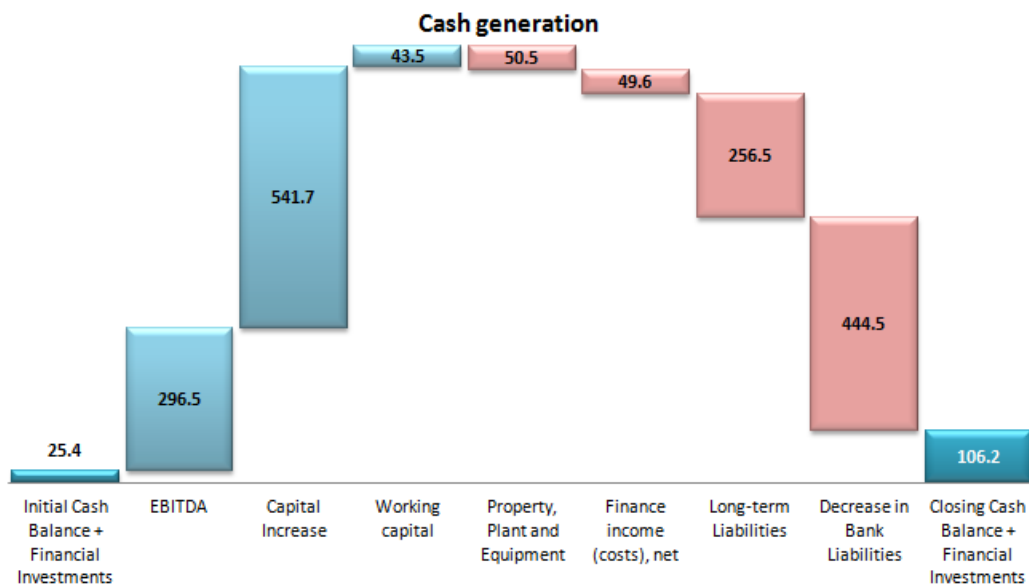
In intangible assets, the 4Q17 results were R\$ 0.3 million, a drop of R\$ 8.5 million compared to 4Q16 due to the termination of the agreement with CBV.

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
<b>Property, plant and equipment</b>	<b>15.7</b>	<b>15.9</b>	<b>-1.3%</b>	<b>61.7</b>	<b>48.4</b>	<b>27.5%</b>
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%
<b>Intangible assets</b>	<b>0.3</b>	<b>8.9</b>	<b>-96.6%</b>	<b>0.8</b>	<b>9.6</b>	<b>-91.7%</b>
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%
<b>Total</b>	<b>16.0</b>	<b>24.8</b>	<b>-35.5%</b>	<b>62.5</b>	<b>58.0</b>	<b>7.8%</b>

## 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.



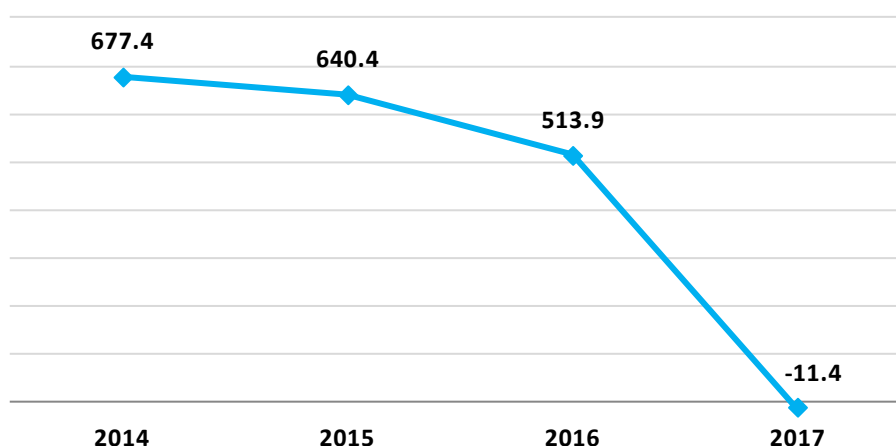
## Net debt

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

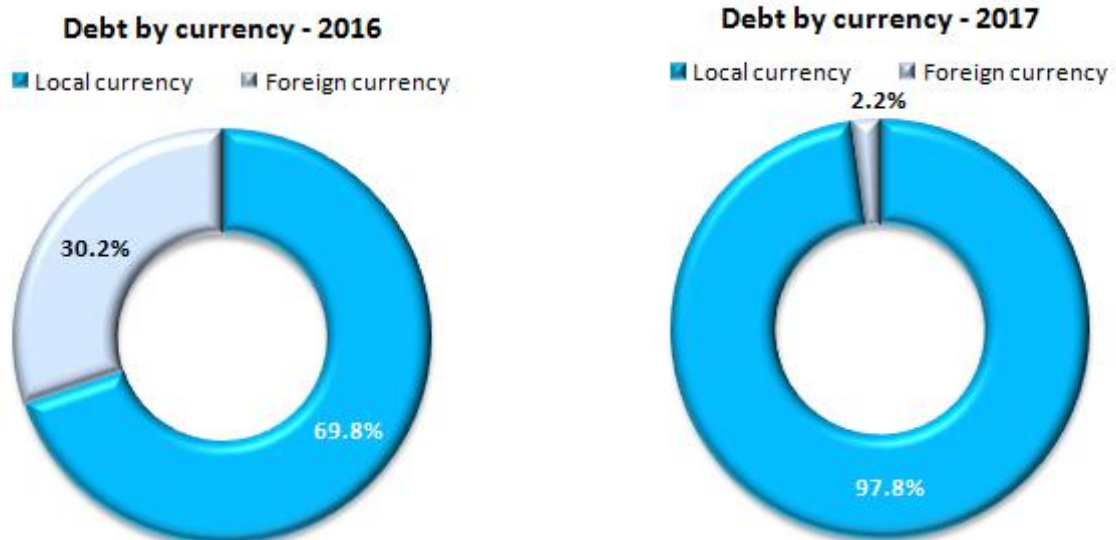
Due to improvement in cash generation and with the net proceeds from the public offering of shares at the end of October in the amount of R\$ 541.7 million, debt was drastically reduced. The net debt that at 12/31/2016 was R\$ 513.9 million became a net cash of R\$ 11.4 million at 12/31/2017.

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

## Net debt



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



#### 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.

<b>Statement of financial position - Consolidated</b>					
<i>At December 31, 2017 and December 31, 2016</i>					
<b>Assets</b>	<b>12/31/2017</b>	<b>12/31/2016</b>	<b>Liabilities and Equity</b>	<b>12/31/2017</b>	<b>12/31/2016</b>
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
<b>Total Current Assets</b>	<b>668,030</b>	<b>617,005</b>	<b>Total Current Liabilities</b>	<b>266,634</b>	<b>441,457</b>
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	<b>Total Noncurrent Liabilities</b>	<b>69,278</b>	<b>585,349</b>
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			
<b>Total Noncurrent Assets</b>	<b>452,455</b>	<b>461,663</b>	<b>Total Liabilities</b>	<b>335,912</b>	<b>1,026,806</b>
			<b>Equity</b>		
			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)
			<b>Equity attributable to the owners of the Company</b>	<b>784,318</b>	<b>51,636</b>
			<b>Noncontrolling interests</b>	<b>255</b>	<b>226</b>
			<b>Total Equity</b>	<b>784,573</b>	<b>51,862</b>
<b>Total Assets</b>	<b>1,120,485</b>	<b>1,078,668</b>	<b>Total Liabilities and Equity</b>	<b>1,120,485</b>	<b>1,078,668</b>

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



Statements of income (loss) - Consolidated	2017	2016	4Q17	4Q16
<b>Net revenues</b>	1,263,082	1,134,220	314,633	307,146
Cost of sales	(780,719)	(741,666)	(194,902)	(195,300)
<b>Gross income</b>	<b>482,363</b>	<b>392,554</b>	<b>119,731</b>	<b>111,846</b>
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
<b>Income before finance income (costs) and taxes</b>	<b>240,693</b>	<b>118,910</b>	<b>56,010</b>	<b>33,121</b>
Finance income	47,743	49,229	7,099	14,174
Finance costs	(97,343)	(131,375)	(18,134)	(33,438)
<b>Finance income (costs), net</b>	<b>(49,600)</b>	<b>(82,146)</b>	<b>(11,035)</b>	<b>(19,264)</b>
<b>Income before taxes on income</b>	<b>191,093</b>	<b>36,764</b>	<b>44,975</b>	<b>13,857</b>
Current and deferred income tax and social contribution	(2,154)	(1,069)	431	(299)
<b>Income for the period</b>	<b>188,939</b>	<b>35,695</b>	<b>45,406</b>	<b>13,558</b>
<b>Income (loss) attributable to:</b>				
Owners of the Company	188,914	35,689	45,402	13,549
Noncontrolling interests	25	6	4	9
<b>Income for the period</b>	<b>188,939</b>	<b>35,695</b>	<b>45,406</b>	<b>13,558</b>
<b>Earnings per share</b>				
Earnings per share - basic and diluted	0.96217	0.19267	0.19715	0.07315
<b>Weighted average number of shares</b>	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.*

<b>Statements of cash flows - indirect method</b>		
<i>At December 31, 2017 and December 31, 2016</i>		
<b>Cash flows from operating activities</b>	<b>12/31/2017</b>	<b>12/31/2016</b>
<b>Income for the period</b>	188,939	35,695
<b>Adjustments for:</b>		
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)
	<b>314,674</b>	<b>198,001</b>
<b>Changes in assets and liabilities</b>		
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)
	<b>21,187</b>	<b>15,245</b>
<b>Cash used by operating activities</b>		
Interest paid	(36,225)	(78,297)
	<b>(36,225)</b>	<b>(78,297)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>299,636</b>	<b>134,949</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(61,712)	(48,373)
Purchases of intangible assets	(809)	(9,615)
<b>Net cash provided by (used in) investing activities</b>	<b>(62,521)</b>	<b>(57,988)</b>
<b>Cash flows from financing activities</b>		
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	-
<b>Net cash (used in) provided by financing activities</b>	<b>(153,707)</b>	<b>(84,560)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>83,408</b>	<b>(7,599)</b>
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
<b>Increase (decrease) in cash and cash equivalents</b>	<b>83,408</b>	<b>(7,599)</b>

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

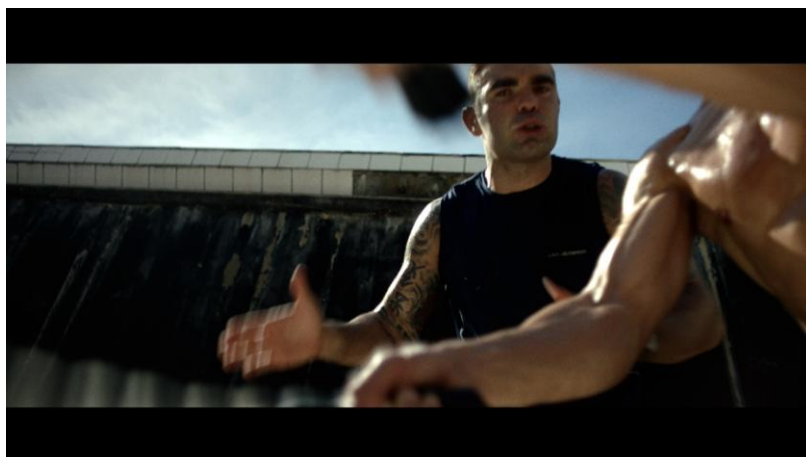
*In thousands of Reals.*

## Brand Management

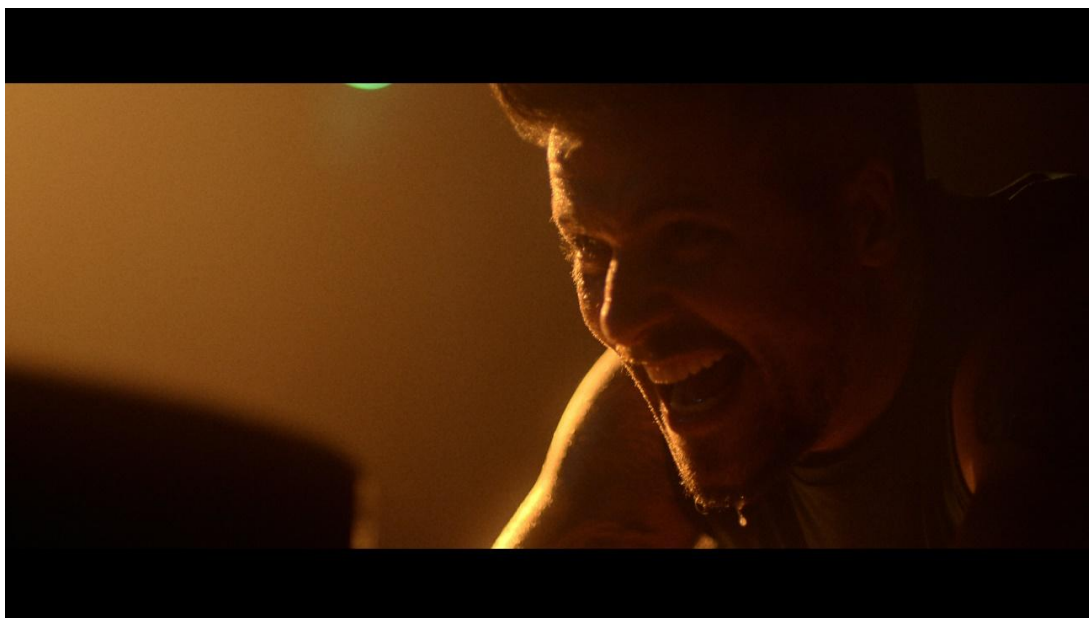


Olympikus' fourth quarter, in 2017, brought the new fitness campaign movie to the TV and social media, important trade marketing activations, actions with the public, working with influencers and the brand's consolidation as one of the most beloved by the people from Rio de Janeiro, according to a survey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



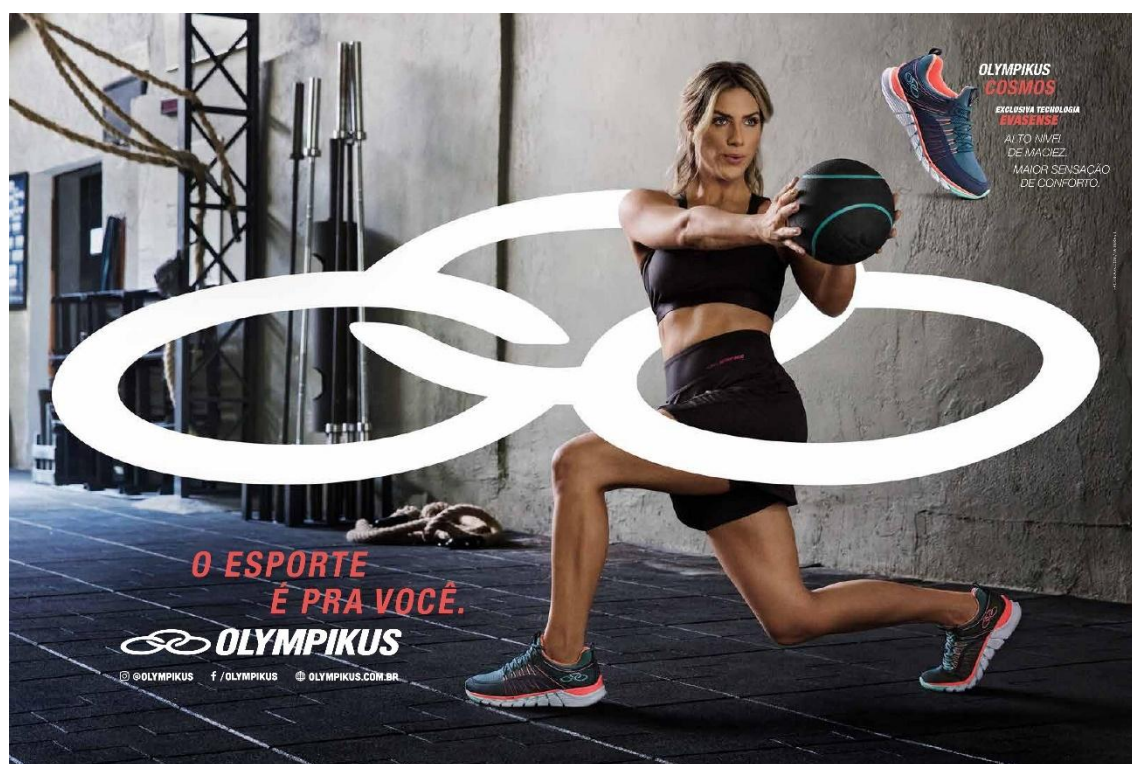
Added to this strategy, with the intention of presenting the distinguishing features of the EVASense technology to the fitness public, Olympikus has made special actions in partnership with Smart Fit, the largest network of gyms of Latin America. In the Sao Paulo, Recife, Fortaleza and Rio de Janeiro 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

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### 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

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<b>2009</b>	✓	Innovation and Technology Award – IBTec.
	✓	Modern Consumer Award - "Companies that respect consumers"
<b>2010</b>	✓	Top Marketing Award ADVB / RS "Inspiring A New Moment"
<b>2012</b>	✓	ReclameAqui Quality Award in Customer Service
<b>2013</b>	✓	23th Edition Top of Mind Award - "Top Olympics" Category
	✓	"Brazil Protection" Award - Machinery and Equipment Safety Category
<b>2014</b>	✓	"Dupont" Award - Cut and Coat Category
<b>2015</b>	✓	"Companies that best communicate with journalists" Award - Footwear and Leather Goods category
	✓	"Contra Relógio" Magazine Award
<b>2016</b>	✓	50 Most Influential Footwear Businessmen / Industry Category - Sports - Pedro Bartelle, from Olympikus
	✓	"Education SESI SENAI" Award - Fortaleza and Metropolitan Region
	✓	Best Buy Award – Runners
<b>2017</b>	✓	27th Edition of Top of Mind Award – Amanhã magazine RS - "Women footwear" Category to Azaleia