Vulcabras Azaleia S.A.

Interim financial statements as of March 31, 2018

(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 203400

Contents

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Vulcabras Azaleia

EARNINGS RELEASE 1ST QUARTER OF 2018

Jundiaí, May 8th of 2018 – Vulcabras Azaleia S.A. (B3: VULC3) announces today its results for the fist quarter of 2018 (1Q18). 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 first quarter of 2018, compared to the first quarter of 2017, unless specified otherwise.

VULC3
NOVO MERCADO
BM&FBOVESPA

Quotes VULC3 (03/29/2018):
R$ 9.79 per share

Number of Shares:
Common: 245,756,346

Market Value:
R$ 2.41 billion

Conference Call:
05/09/2018 at 10:00 am
(Brasília time)

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Highlights

R$ Million	1Q18	1Q17	Var. % 1Q18 / 1Q17
Net Revenue	292.0	295.9	-1.3%
Gross Income	100.4	108.3	-7.3%
Gross Margin %	34.4%	36.6%	-2.2 p.p.
Net Income	33.4	26.1	28.0%
Net Margin %	11.4%	8.8%	2.6 p.p.
EBITDA	49.8	58.0	-14.1%
EBITDA Margin %	17.1%	19.6%	-2.5 p.p.

- **Sales (ROL):** R$ 292.0 million in 1Q18, decrease of 1.3% against 1Q17.
- **Gross Income:** R$ 100.4 million in 1Q18, decrease of 7.3% against the same quarter of 2017.
- **Gross Margin:** 34.4% in 1Q18, decrease of 2.2% against 1Q17.
- **Net Income:** R$ 33.4 million in the first quarter of this year, increase of 28.0% against 1Q17.
- **EBITDA:** R$ 49.8 million in 1Q18, decrease of 14.1% against 1Q17.

Message from Management

The first quarter of 2018 signaled a weakening of the growth trend that we observed in 2017. At the moment, market expectation in the improvement of the consumption of the apparel and footwear segment seems to have been postponed. In spite of this, we have been able to work with growths in the lines of sports footwear and apparel, keeping the great importance of Olympikus brand in the Brazilian market, our main business.

The female sector still presented results below our expectation, although based on internal parameters, since we can already see improvements for the next quarter, such as the formation of the orders portfolio and improvement of profitability. The revenues from this sector are still affected by the transfer of the production capacity to the sports sector, carried out at the end of 2Q17.

In the other footwear business line, there was a decrease caused by the reduction of Opanka sliders. Our strategy is to migrate the sale of these products to Olympikus sliders brand, with higher rates and better margins.

In the foreign market, there has been a drop in revenue in comparison with 1Q17 when there was a great concentration of shipments to the Argentinean market, something that should be better distributed during 2018.

Our gross margin has suffered a drop that we believe to be timely and that should be reverted to last year's levels. The main factors responsible for the impact on gross margin were: (i) vacations granted at the end of last year, (ii) a smaller number of working days in comparison with 1Q17, (iii) lower margins on the female sector, which has also worked with discounts and (iv) postponement of the release of the new Olympikus collection. We do not expect to suffer the impacts of these same factors in the coming quarters, and with that we should return to more satisfactory margins.

Due to the effects above and the efficient expenditure management, we have achieved an EBITDA of R$ 49.8 million, lower than that presented in the last year. Despite this, we posted a significant Cash Generation, managing to maintain our ROIC level and also reached a great reduction of Finance Costs, resulting in a Net Income of R$ 33.4 million, higher than in the same period of the previous year.

The Net Bank Debt was reversed to a positive net cash balance of R$ 65.7 million.

We have also concluded the renewal of the IRPJ tax incentives on the manufacturing unit of Sergipe, with a new validity until December 2027.

The factories modernization plan follows at an accelerated pace. In the first quarter of this year, we have invested R$ 27.0 million in purchases of property, plant and equipment, with highlight for machinery and equipment.

With the new management in our marketing area, there was an intensification in the Olympikus' communication in the digital environment, bringing a segmentation of messages to different consumers. Instead of working with a single campaign, representing a few products, we focus on bringing more customized messages to different audiences, leading to each consumer a specific campaign with the product that best fits their profile, bringing greater return to our marketing expenses. However, we still had a great performance in traditional media. We close the sponsorship deal of the SporTV channels' 5 seconds countdown for the broadcast 64 matches of the World's greatest soccer event. This way, Olympikus will be widely represented in the year's sporting event's greatest coverage.

In spite of facing with a start of the year weaker than expected, we believe in the great potential of our brands and the growth of the markets where we operate. With these guidelines in mind, Vulcabras Azaleia follows firmly in order to achieve great results in 2018 and thus generate value for its investors and continue alongside the Brazilian consumer with high technology footwear.

Pedro Bartelle

Institutional

Vulcabras Azaleia knows what is the footwear that people like. It is not just the over six decades of activity that lead to this knowledge, but its continuous search for the new.

During this period, the company established itself as one of the largest footwear industries of the country and became manager of leading brands in their segments, such as **Olympikus**, champion in sales of tennis shoes in Brazil, and the **Azaleia**, one of the most remembered brands when the subject is female footwear.

Added to them are the feminine lines **Dijean** and **Opanka**, the **OLK** sports line, and Vulcabras Boots.

The success is due to a business model that carries in its DNA the expertise to make high quality and comfort footwear and the permanent concern to reshape its processes.

This expertise began in July 1952, with the establishment of Companhia Industrial Brasileira de Calçados Vulcanizados S.A., in São Paulo. Manufacturer of leather shoes with vulcanized rubber soles, one of its first icons was Vulcabras 752, which had this name in reference to the month and year of the company's foundation.

Vulcabras Azaleia's business model also ensures significant competitiveness, which results in better services to customers. The company dominates all stages, from research to production, and from marketing to the sale to retailers.

The shoes produced by the company are in the shops of more than 12 thousand clients in Brazil and in more than 20 countries, with special attention to South America. The customer can also find Olympikus and Azalea in their online channels.

There are more than 800 new models per year, designed in the largest center of technology and development of footwear in Latin America, located in Parobé-RS.

The products are produced in three modern factories in the Northeast, in Horizonte-CE, Itapetinga, BA and Frei Paulo-SE. The company's administrative center operates in Jundiaí-SP. These five units in Brazil directly employ 15,000 workers. There are also two branches and distribution centers in Peru and Colombia.

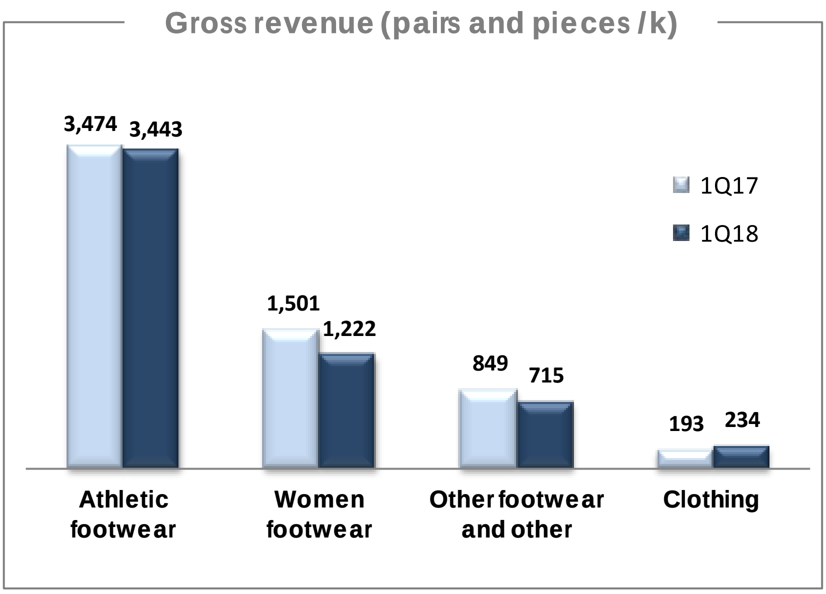
Vulcabras Azaleia not only dominates the processes but also knows how to transform itself.

With these values in tune with its day-to-day operations, the company works on a strategy of portfolio diversification and expansion of base in South America. Its focus is on sustainability and business perpetuity, seeking constant innovation through its brands.

Gross Volume

In 1Q18 gross volume totaled 5.6 million pairs /pieces with a drop of 6.7% compared to the 1Q17 total (6.0 million pairs/pieces). This variation is chiefly due to: (i) the increase in sports footwear, protective boots and apparel in the domestic market, (ii) the continuation of the strategic decision to reduce the production of female footwear, adopted as from the third quarter of 2017, (iii) reduction of the Opanka sliders in the domestic market and, (iv) a generalized reduction in the foreign market sales.

Pairs and pieces (thousand)	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
Athletic footwear	3,443	61.3%	3,474	57.8%	-0.9%
Women footwear	1,222	21.8%	1,501	24.9%	-18.6%
Other footwear and other	715	12.7%	849	14.1%	-15.8%
Clothing	234	4.2%	193	3.2%	21.2%
Total	**5,614**	**100.0%**	**6,017**	**100.0%**	**-6.7%**



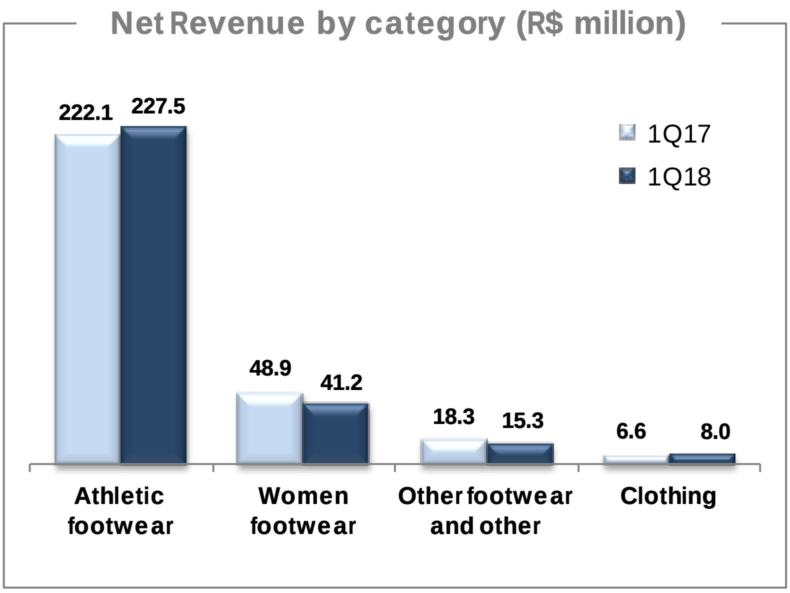
Net Revenue

In 1Q18 net revenue reached R$ 292.0 million, decreasing 1.3% over the R$295.9 million in 1Q17.

In 1Q18 we continued to detect the deceleration in retail sales and, as a consequence, lesser shopkeepers' appetite to buy new products.

The revenue from sports footwear kept its upward trend, presenting significant growth in the domestic market, but was significantly impacted by the drop in the foreign market. 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. In the *Other footwear and others* category, the reduction refers to the drop in sales of Opanka sliders, partially offset by the increase in the professional boots category. Revenues from apparel and accessories significantly expanded.

R$ Million	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
Athletic footwear	227.5	77.9%	222.1	75.1%	2.4%
Women footwear	41.2	14.1%	48.9	16.5%	-15.7%
Other footwear and other	15.3	5.3%	18.3	6.2%	-16.4%
Clothing	8.0	2.7%	6.6	2.2%	21.2%
Total Net Revenue	**292.0**	**100.0%**	**295.9**	**100.0%**	**-1.3%**



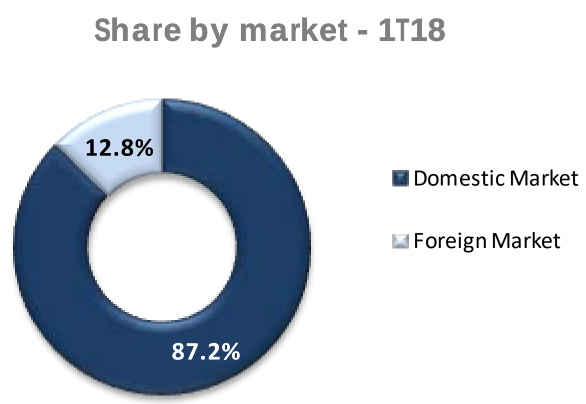
Net Revenue: Markets

Net revenue in the domestic market totaled R$ 254.7 million in 1Q18, with an increase of 1.3% compared to 1Q17 when net revenue was R$ 251.4 million. In the foreign market, net revenue in 1Q18 was$ 37.3 million, a drop of 16.2% compared to the R$ 44.5 million recorded in 1Q17.

In direct sales to third parties in the foreign market, revenues fell in 1Q18 compared to the same period of the previous year, chiefly due to the fact that in 1Q17 there was a resumption of business with the Argentinean market and it still had a high concentration of shipments. For 2018, the goal is for shipments to be more distributed among quarters, which can already be observed in this first quarter of the year and reflected in a drop compared to the previous year.

In sales of foreign branches, we presented a growth in revenue in 1Q18 compared to the same period of the previous year. Although there has been growth, we are still experiencing trade difficulties in the two countries where we maintain our branches. In Peru, political problems resulted in the fall of the President of the Republic due to corruption scandals, which greatly affected consumption. In Colombia, the increase in consumption tax occurred in 2017 still causes negative effects.

R$ Million	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
Domestic Market	254.7	87.2%	251.4	85.0%	1.3%
Foreign Market	37.3	12.8%	44.5	15.0%	-16.2%
Total Net Revenue	**292.0**	**100.0%**	**295.9**	**100.0%**	**-1.3%**

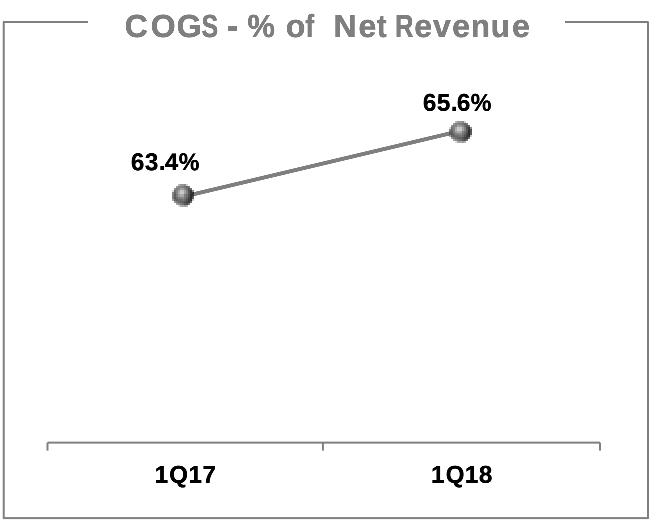


Cost of goods sold (COGS)

In 1Q18, as a percentage of net sales revenue, cost of goods sold represented 65.6% compared to 63.4% in the same period of 2017.

Due to the perception of a lower demand since the fourth quarter of 2017, at the turn of the year 2017 to 2018, collective vacations were granted in all the productive units, unlike what happened in the year 2016 to 2017, when the demand was heated and we were operating in full swing. Such a measure is salutary for good business performance throughout 2018, its adoption avoided the increase in inventory levels, which would be sold out in the following quarters. However, with a lower production in the months of December and January, the cost of goods produced was impacted by the apportionment of the factories' fixed expenses and consequently caused the increase of the unit costs of these goods sold in the first months of 2018.

Moreover, in 1Q18 we had two less production days compared to 1Q17, which also impacted on the increase in unit production costs since all costs, except raw material, are allocated by apportionment. As there was a smaller production volume, the unit cost increased.

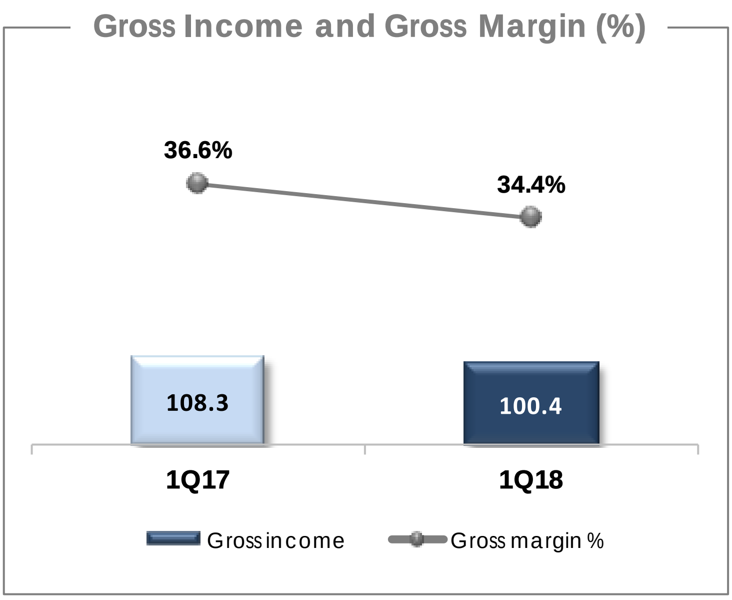


Gross Income

Gross income in 1Q18 amounted to R$ 100.4 million, a reduction of 7.3% compared to the R$ 108.3 million recorded in 1Q17. Gross margin was 34.4% in 1Q18, 2.2 p.p. down the 36.6% presented in 1Q17.

Gross margin in 1Q18 was affected by the following components: (i) granting of vacations between December and January as set forth in the COGS topic; (ii) postponement of the release of the new Olympikus footwear collection, which caused the new products to arrive at the point of sale in the second half of March, thus generating some difficulties in sales; (iii) low profitability in the women's footwear, which continues its restructuring process.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Gross income	100.4	108.3	-7.3%
Gross margin %	34.4%	36.6%	-2.2 p.p.



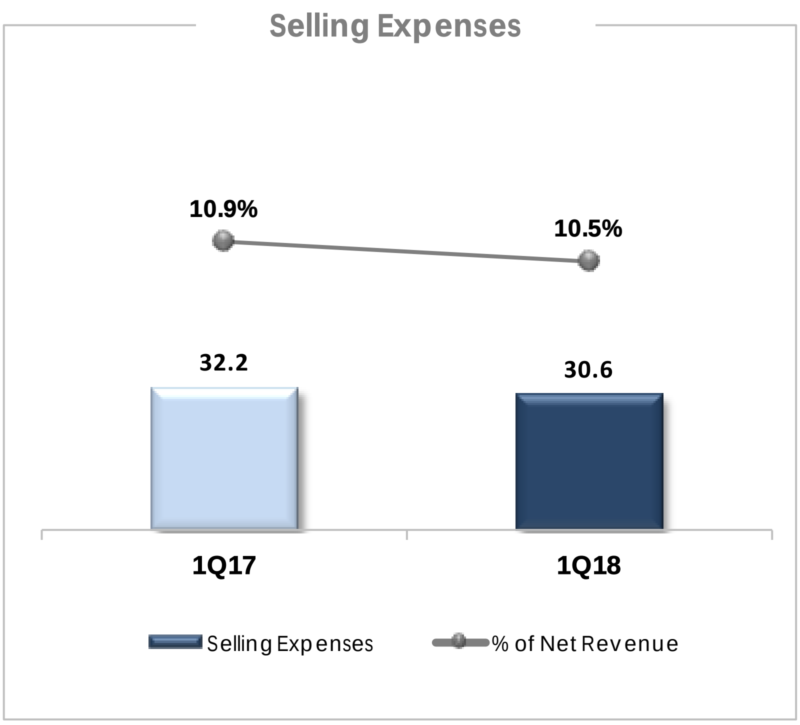
Selling Expenses [1]

Selling expenses, which include expenses on commissions, freight, royalties, personnel, trade discounts, provision for impairment of receivables and other business expenses, decreased by 5.0% in 1Q18, over 1Q17. R$ 30.6 million were recorded, against R$ 32.2 million in the same period of the previous year.

The share of selling expenses in net revenue decreased by 0.4 p.p. when comparing 1Q18 to 1Q17, from 10.9% in 1Q17 to 10.5% in 1Q18.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Selling Expenses [1]	30.6	32.2	-5.0%
% of Net Revenue	10.5%	10.9%	-0.4 p.p.

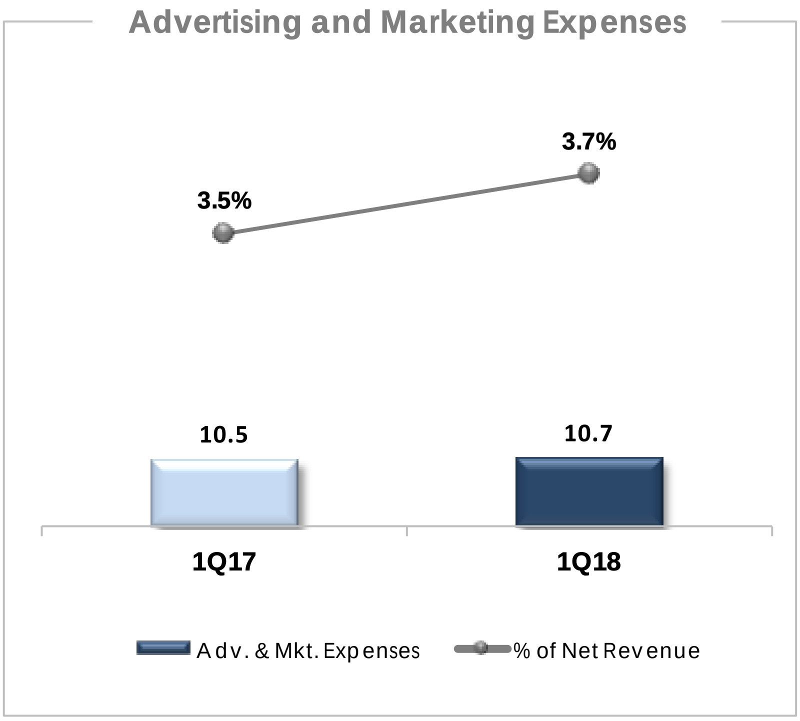
(1) Selling Expenses ex- Advertising and Marketing Expenses



Advertising and Marketing Expenses

In 1Q18, advertising and marketing expenses amounted to R$ 10.7 million, an increase of 1.9% over the R$ 10.5 million in 1Q17.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Advertising and Marketing Expenses	10.7	10.5	1.9%
% of Net Revenue	3.7%	3.5%	0.2 p.p.



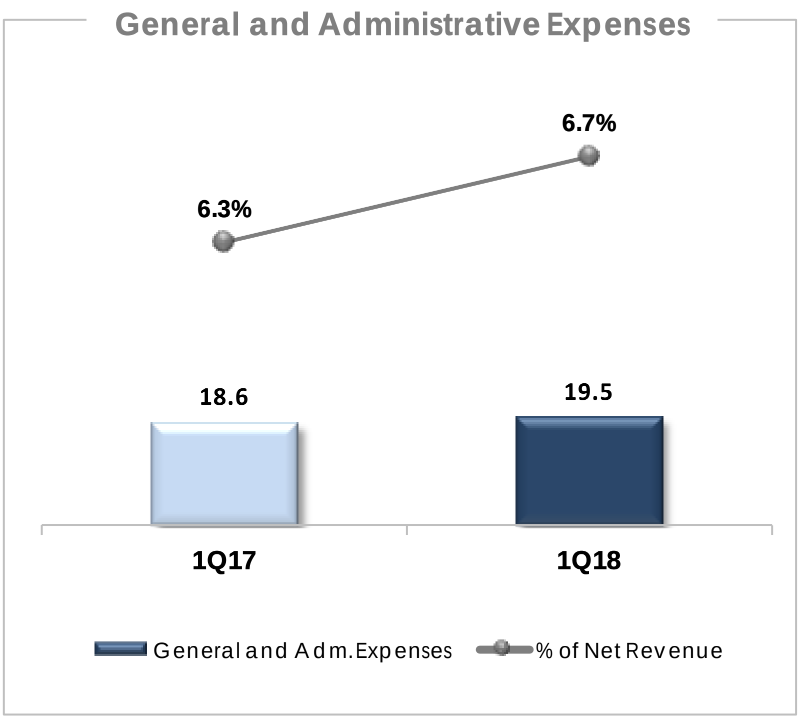
The communication strategy of both brands: For 2018, Olympikus and Azaleia will focus on the online medium, where today there are more than 152 million connected Brazilians consuming various contents throughout the entire day. Brands are working on the power of segmentation allowed by the digital. That is, instead of having a campaign focused on a single product, it will be possible to target different messages to different audiences. The goal is to be able to show the right product to the right person.

In order to be present at the the World's greatest soccer event, we have sponsored the 5 seconds countdown of the SporTV channels for the broadcast of all games. This way, Olympikus will be widely represented in the largest coverage of the sporting event of the year.

General and Administrative Expenses

General and administrative expenses amounted to R$ 19.5 million in 1Q18, an increase of 4.8% compared to R$ 18.6 million in 1Q17. In percentage of net revenue there was an increase of 0.4 p.p., from 6.3% in 1Q17 to 6.7% in 1Q18. As most of the expenses that comprise this group are tied to inflation indexes, the nominal growth is due to this correction.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
General and Administrative Expenses	19.5	18.6	4.8%
% of Net Revenue	6.7%	6.3%	0.4 p.p.



Other Operating Income (Expenses)

In 1Q18, other operating income (expenses), net amounted to an expense of R$ 3.6 million, against an expense of R$ 2.8 million in 1Q17. This increase is due to the higher volume of new provisions for contingencies in the first quarter of 2018 due to the movement of labor lawsuits. Despite the increase in the quarter, the expectation is that the annual amount of the provision for contingencies will be close to the previous year.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Other Operating Income (Expenses)	-3.6	-2.8	28.6%
% of Net Revenue	-1.2%	-0.9%	-0.3 p.p.

Net Financial Income

Net Financial Income in 1Q18 amounted to a cost of R$ 2.2 million, a decrease of 87.8% when compared to the cost of R$ 18.0 million in 1Q17.

The reduction of debt and the drop in the SELIC rate contributed to a sharp reduction in finance costs.

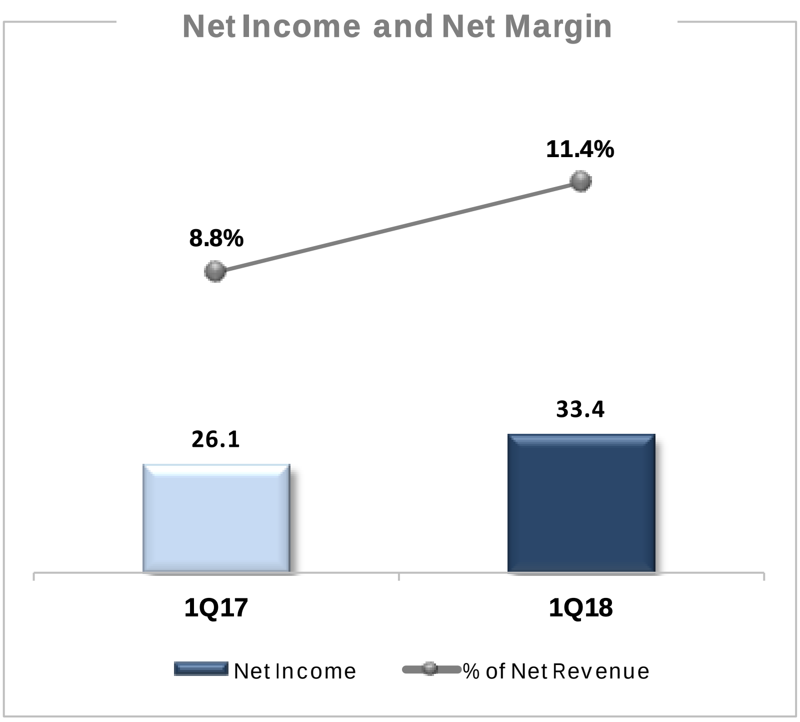
R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Financial Costs	**-7.0**	**-37.1**	**-81.1%**
Capital structure	-2.2	-15.4	-85.7%
Operating	-2.4	-11.9	-79.8%
Exchange differences	-2.4	-9.8	-75.5%
Financial Income	**4.8**	**19.1**	**-74.9%**
Capital structure	2.0	1.1	81.8%
Operating	0.3	1.0	-70.0%
Exchange differences	2.5	17.0	-85.3%
Net Financial Income	**-2.2**	**-18.0**	**-87.8%**

Net Income

Income for 1Q18 amounted to R$ 33.4 million, an increase of 28.0% over the income of R$ 26.1 million in 1Q17. Net margin went from 8.8% to 11.4%, an increase of 2.6 p.p..

Despite the decrease in the gross margin, the good performance in controlling operating expenses and the reduction in finance costs allowed the expansion of the income for the quarter and consequently of the net margin.

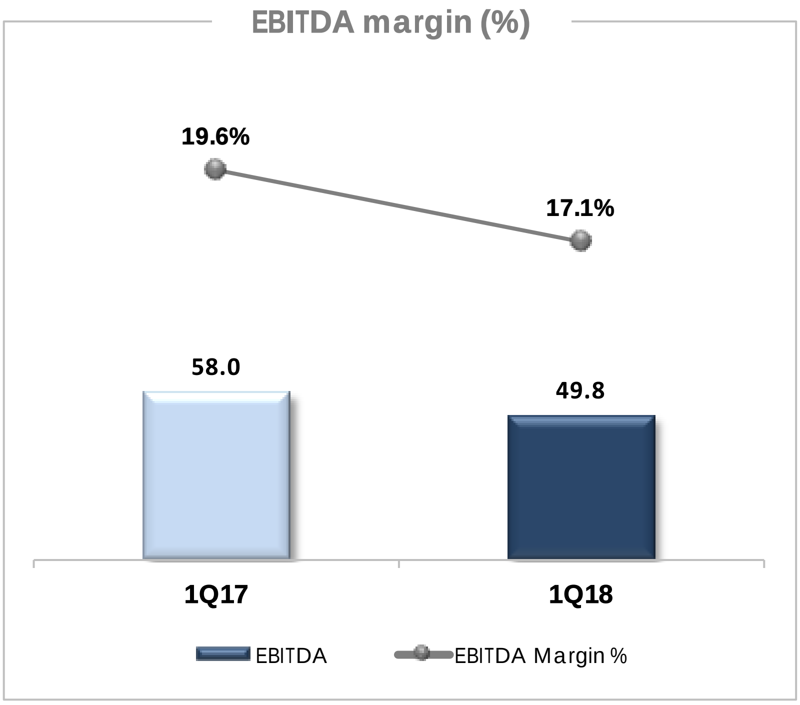
R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Net Income	33.4	26.1	28.0%
% of Net Revenue	11.4%	8.8%	2.6 p.p.



EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

In 1Q18, EBITDA amounted to R$ 49.8 million, a decrease of 14.1% against the R$ 58.0 million obtained in 1Q17. EBITDA margin dropped by 2.5 p.p., reaching 17.1% in 1Q18, against 19.6% from 1Q17.

R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Net Income	33.4	26.1	28.0%
(+) Taxes	0.5	0.7	-28.6%
(+) Net Financial Income	2.2	18.0	-87.8%
(+) Depreciation and amortization	13.7	13.2	3.8%
EBITDA	**49.8**	**58.0**	**-14.1%**
Net Revenue	292.0	295.9	-1.3%
EBITDA Margin %	**17.1%**	**19.6%**	**-2.5 p.p.**



ROIC – Return on Invested Capital

The annualized return on invested capital - ROIC - reached 30.1% in 1Q18 - LTM (last twelve months ended 03/31/2018), an increase of 0.2 p.p., over the 29.9% obtained at 12/31/2017.

NORMAL ROIC	2015	2016	2017	1Q18 (LTM)
Net Income (Loss) for the period (LTM)	(49.9)	35.7	188.9	196.2
(+) Net Financial Income (LTM)	98.2	82.1	49.6	33.7
NOPAT	**48.3**	**117.8**	**238.5**	**229.9**
Invested Capital				
Loans and Financing	675.4	539.3	94.8	90.9
(-) Cash and cash equivalents	(24.7)	(17.1)	(100.5)	(150.7)
(-) Financial Investments	(10.4)	(8.3)	(5.7)	(6.0)
(+) Related Parties	237.2	255.2	–	–
(+) Equity	35.8	51.9	784.6	818.4
Invested Capital	**913.3**	**821.0**	**773.2**	**752.6**
Average invested capital for the period [2]	**909.5**	**867.2**	**797.1**	**762.9**
Annualized ROIC [3]	**5.3%**	**13.6%**	**29.9%**	**30.1%**

The annualized adjusted return on invested capital (ROIC – adjusted[1]) reached 42.2% in 1Q18 - LTM (last twelve months ended 03/31/2018), an increase of 1.5 p.p., over the 40.7% obtained at 12/31/2017. [1]

ADJUSTED ROIC [1]	2015	2016	2017	1Q18 (LTM)
Net Income (Loss) for the period (LTM)	(49.9)	35.7	188.9	196.2
(-) Income (loss) from discontinued operations (LTM)	(10.9)	–	–	–
(+) Net Financial Income (LTM)	98.2	82.1	49.6	33.7
(-) Equity Results (LTM)	(1.7)	(2.1)	(8.8)	(8.5)
NOPAT (Adjusted)	**35.7**	**115.7**	**229.7**	**221.4**
Invested Capital				
Loans and Financing	675.4	539.3	94.8	90.9
(-) Cash and cash equivalents	(24.7)	(17.1)	(100.5)	(150.7)
(-) Financial Investments	(10.4)	(8.3)	(5.7)	(6.0)
(+) Related Parties	237.2	255.2	–	–
(-) Goodwill on acquisition	(199.8)	(198.2)	(198.2)	(198.2)
(-) Investment in subsidiary	(27.6)	(29.7)	(40.1)	(40.3)
(+) Equity	35.8	51.9	784.6	818.4
Total Adjusted Invested Capital	**685.9**	**593.1**	**534.9**	**514.1**
Average adjusted invested capital for the period [2]	**682.8**	**639.5**	**564.0**	**524.5**
Adjusted Annualized ROIC [3]	**5.2%**	**18.1%**	**40.7%**	**42.2%**

[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)t 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.*

[2] *Average invested capital at the end of this period and at the end of the previous year.*

[3] *ROIC: Last 12 months adjusted NOPAT divided by the average invested capital.*

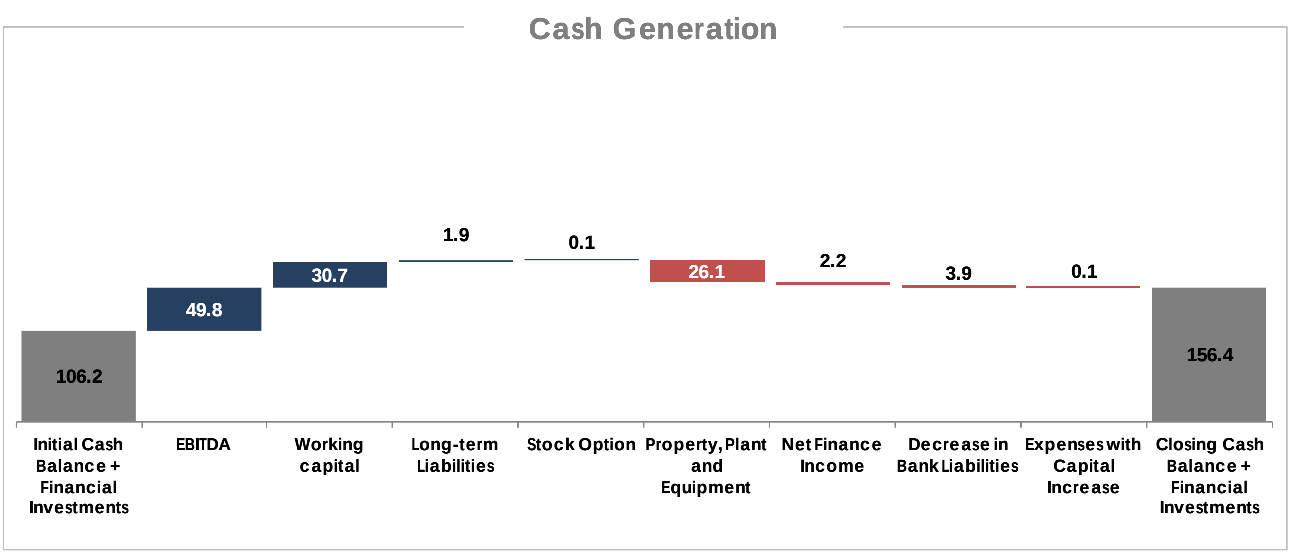
Capex – Capital Expenditure

In 1Q18, R$ 27.0 million were invested in property, plant and equipment, an increase of 67.7% over the R$ 16.1 million in 1Q17. The highlight was in the Machinery and Equipment line item which grew 230% due to the intensification of the industrial plants modernization project. The addition of Capex in Molds in 1Q18, refers to the decision to postpone the release of the Olympikus collection. Intangible assets in 1Q18 amounted to R$ 0.9 million, an increase of R$ 0.6 million in relation to the same period of the previous year.

R$ Million	Additions		
	1Q18	1Q17	Var. % 1Q18/1Q17
Property, plant and equipment	**27.0**	**16.1**	**67.7%**
Molds	10.7	6.9	55.1%
Machinery and equipment	9.9	3.0	230.0%
Industrial facilities	3.8	3.9	-2.6%
Others	2.6	2.3	13.0%
Intangible assets	**0.9**	**0.3**	**200.0%**
Software	0.9	0.2	350.0%
Assignment of right	0.0	0.1	-100.0%
Others	0.0	0.0	0.0%
Total	**27.9**	**16.4**	**70.1%**

Cash Generation

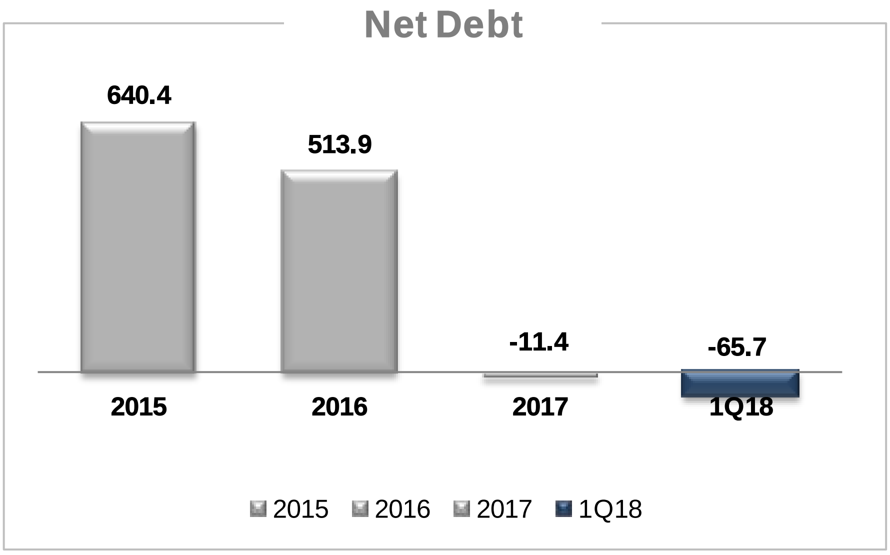
Cash generation in 1Q18 was R$ 50.2 million, chiefly due to the EBITDA of R$ 49.8 million and a working capital reduction of R$ 30.7 million, mainly applied to the net increase in property, plant and equipment of R$ 26.1 million.



Net Debt

In 1Q18, due to the maintenance of the cash generation trend, we increased the net cash balance. Net cash, that at 12/31/2017 was R$ 11.4 million, increased to R$ 65.7 million at 03/31/2018, an increase of R$ 54.3 million.

R$ Million	2015	2016	2017	1Q18 (LTM)	Var. % 1Q18/1Q17
Loans and Financing	675.5	539.3	94.8	90.9	-4.1%
Cash and cash equivalents	24.7	17.1	100.5	150.7	50.0%
Financial investments	10.4	8.3	5.7	5.9	3.5%
Net Debt	**640.4**	**513.9**	**(11.4)**	**(65.7)**	**476.3%**



R$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Local currency	90.9	92.7	-1.9%
Foreign currency	–	2.1	n/a
Total Loans and Financing	**90.9**	**94.8**	**-4.1%**

Brands Management

From a year at the top of sales in Brazil, Olympikus prepared for an even stronger 2018. In addition to opening the calendar year with a new collection, the brand invested in activations alongside trade, emphasized digital communication and reinforced sponsorships, making for a dynamic first quarter.

In January, the releases for the first half of the year were presented, with new models in the fitness, running, cross training, active, lev life, kids and sportswear categories. Among the highlights is RIO 6, official shoes of the Rio Marathon, an event that counts with Olympikus as the official sports brand since 2011.

For its tradition and challenges' excellence, this is one of the most desired events in the category's world calendar. The Rio de Janeiro's shoreline, which is one of the most beautiful scenery in the world for street racing, adds to these aspects. The next edition will be on June 2 and 3, with a forecast of 37,000 runners on the marathon, half marathon (of which Olympikus has the naming rights) and family run, of 6 km and 10 km. With different distances, the brand will be in contact with a varied profile of athletes.

With regard to the communication strategy for 2018, the product emerges as the hero of activations. Focusing on the online media, where today there are more than 152 million connected Brazilians consuming different contents throughout the day, the brand will work on the power of segmentation allowed by the digital. That is, instead of having a campaign focused on a single product, it will be possible to target different messages to different audiences. The goal is to be able to show the right product to the right person.

In addition to a strong online communication, the strategy is integrated with actions directed to the point of sale. Within this front, Olympikus brought training to salespeople and special materials to expand the qualified exposure of the products in the stores.

The trade actions have the aim to offer information on the technologies available in the models for each activity, helping the purchase decision. It is no wonder that Olympikus is recognized as the best choice, for delivering high quality coupled with a democratic price.

The year really began at full speed. Olympikus has renewed its sponsorship of the Pretto Triathlon team, whose members have completed marathons and half marathons with their high performance models in competitions not only in Brazil but also in other countries.

The biggest sports brand in Brazil also went to the tracks with the Cimed team, which debuted in Stock Car's 2018 season in March in Interlagos, São Paulo. At the time, Cacá Bueno received Felipe Massa as guest for the traditional doubles race. The brand was stamped on the pilots' overalls and on the car.

azaleia

Azaleia is on the move and the first quarter has already brought news that point to others that will continue the brand's renewal sequence. In March, the fall-winter collection and a new phase in digital communication were released, preparing the way for a greater presence in the online channels.

With themes that express attitude and femininity, the new products bring worldwide trends, translated into shapes and highlights and specific tones of the season.

They are fashionists models that come to democratize fashion and accompany the Brazilian woman from work to happy hour. All in a very Azaleian way: with lightness and comfort, thanks to its technology.

All these attributes are in the brand's new communication, which premiered simultaneously to the collection. Totally focused on digital media, the campaign emphasizes the fashion that is used on the streets.

Through the project, ambassadors Grazi Massafera, Camila Coelho and Raíssa Santana reached out to the consumers with their own fashion choices, showing how to use the Azaleia models in everyday life. The proposal is to offer a fashion content that is practical and of easy access to all women, inspired by the trio.

Periodically, the brand's social networks will have news on topics such as “Azaleia of the Day” and the “Choices of the Month” of each ambassador. All this aligned with the brand's plans to be increasingly digital.

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 1Q18, notes and management report were reviewed and approved by the Board of Directors of Vulcabras Azaléia at the meeting held on May 8, 2018.

Balance Sheet

BALANCE SHEET (CONSOLIDATED)

In thousands of Reais

ASSETS	03/31/2018	12/31/2017	LIABILITIES	03/31/2018	12/31/2017
Cash and cash equivalents	150,681	100,502	Trade accounts payable	89,817	69,827
Short-term Investments	1,854	1,741	Loans and financing	83,044	84,474
Trade receivables	335,253	326,522	Taxes payable	12,001	5,822
Inventories	187,460	189,524	Taxes payable - IRPJ e CSLL	0	0
Recoverable taxes	9,552	10,101	Tax Recovery Program - REFIS	128	128
Income tax recoverable	2,851	2,528	Salaries and vacation payable	36,474	34,993
Prepaid expenses	5,885	5,961	Provisions	52,932	53,115
Other receivables	18,767	31,151	Other accounts payable	15,617	18,275
			Dividends proposed	0	0
CURRENT ASSETS	**712,303**	**668,030**	**CURRENT LIABILITIES**	**290,013**	**266,634**
Long-term Investments	4,016	3,920			
Recoverable taxes	4,791	4,877			
Deferred income tax and social contribution	120	125			
Judicial deposits	41,814	42,165			
Loans from related parties	0	0			
Other receivables	2,259	2,036			
Prepaid expenses	0	0	Loans and financing	7,873	10,325
Assets held for sale	194	194	Related-party loans	0	0
Capital expenditures	40,284	40,080	Provisions	25,422	24,370
Investment property	3,258	3,362	Taxes deferred on revaluation of PP&E	3,634	3,747
Property, plant and equipment	164,572	152,647	Provision for devaluation of investments	0	0
Intangible assets	203,704	203,049	Other accounts payable	31,959	30,836
NONCURRENT ASSETS	**465,012**	**452,455**	**NONCURRENT LIABILITIES**	**68,888**	**69,278**
			LIABILITIES	**358,901**	**335,912**
			Share Capital	1,107,555	1,107,661
			Revaluation reserves	7,055	7,273
			Capital reserve	134	0
			Equity appraisal adjustments	-2,655	-3,045
			Accumulated losses	-293,932	-327,571
			Equity attributable to controlling shareholders	**818,157**	**784,318**
			Non-controlling interests	**257**	**255**
			SHAREHOLDERS' EQUITY	**818,414**	**784,573**
TOTAL ASSETS	**1,177,315**	**1,120,485**	**TOTAL LIABILITIES PLUS SHAREHOLDERS' EQUITY**	**1,177,315**	**1,120,485**

See the accompanying notes to the quarterly information.

Income Statement

INCOME STATEMENT	1Q18	1Q17	VAR (%)
In thousands of Reais, except for earnings per share.			
Net sales revenue	**291,984**	**295,883**	**-1.3%**
Cost of sales	-191,575	-187,576	2.1%
Gross Profit	**100,409**	**108,307**	**-7.3%**
Sales expenses	-41,347	-42,693	-3.2%
Administratives expenses	-19,505	-18,557	5.1%
Others net operating income (expenses)	-3,637	-2,757	31.9%
Equity in net income of subsidiares	204	433	-52.9%
Net income before net financial income and cost and tax	**36,124**	**44,733**	**-19.2%**
Finance Income	4,785	19,116	-75.0%
Finance Expenses	-6,940	-37,126	-81.3%
Net Financial Income and costs	**-2,155**	**-18,010**	**-88.0%**
Income before tax on net income	**33,969**	**26,723**	**27.1%**
Current and deferred income tax and social contribution	-547	-653	-16.2%
Net Income	**33,422**	**26,070**	**28.2%**
Income attributable to			
Controlling Shareholders	33,421	26,062	
Noncontrolling Shareholders	1	8	
Net Income	**33,422**	**26,070**	
Earnings per share			
Basic and diluted income per common share	0.13600	0.14074	
Number of shares at period-end	245,756,346	185,230,346	

See the accompanying notes to the quarterly information.

Cash Flow Statement

CASH FLOW STATEMENT (INDIRECT METHOD)	1Q18	1Q17
In thousands of Reais		
Cash flows from operating activities		
Net Income for the year	**33,422**	**26,070**
Adjustments to:		
Depreciation and amortization	13,673	13,248
Inventory imparment loss	-226	431
Net value of tangible and intangible assets written off	1,741	5,016
Earnings on investments	-1,623	-587
Losses on contingencies	4,797	3,817
Equity in net income of subsidiares	-204	-433
Granting shares	134	0
Estimated loss on allowance for doubtful accounts	660	2,868
Financial charges and exchange variance recognised in profit or loss	1,983	8,524
Deferred taxes	-108	118
Minority interest	-1	-8
	54,248	**59,064**
Changes in active and liabilities:		
Short-term Investments	1,414	0
Trade Receivables	-9,391	22,217
Inventory	2,290	3,210
Prepaid expenses	76	-803
Recoverable taxes	312	-1,400
Other acount receivable	12,161	11,600
Judicial deposits	351	-1,789
Trade accounts payable	19,990	12,713
Taxes and social contributions	6,179	8,842
Salaries and vacation payable	1,481	8,677
Other accounts payable	-1,533	-2,358
Provisions for contingencies used	-3,928	-3,726
	29,402	**57,183**
Cash produced by operating activities		
Interest paid	-276	-9,753
	-276	**-9,753**
Flow of net cash provided by (used in) operating activities	**83,374**	**106,494**
Cash Flow from financing activities		
Acquisitions of property, plant and equipment	-27,015	-16,079
Acquisitions of intangible assets	-875	-308
Short-term Investments	0	803
Gain or loss in conversion of investments	0	-717
Net cash flows used in investing activities	**-27,890**	**-16,301**
Cash flows from financing activities		
Loans secured - Principal	98	122
Repayment of loans secured - Principal	-5,297	-83,259
Realization of share issuance expense	-106	0
Cash flows from financing activities	**-5,305**	**-83,137**
Increase (decrease) in cash and cash equivalents	**50,179**	**7,056**
Cash and cash equivalents at beginning of year	100,502	17,094
Cash and cash equivalents at end of year	150,681	24,150
Increase (decrease) in cash and cash equivalents	**50,179**	**7,056**

See the accompanying notes to the quarterly information.

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
Rafael Carqueijo Gouveia	Chief Commercial and Corporate Operations Officer
Luiz Vanderlei Heidrich	Chief Division Officer - Female
Márcio Kremer Callage	Chief Marketing Officer

Members of the Audit Committee

Benedito Alfredo Baddini Blanc	Member
Carlos Gardel José de Souza	Member
Marcello Joaquim Pacheco	Member

KPMG Auditores Independentes
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www.kpmg.com.br

Report on the quarterly information review - ITR

Shareholders, Directors and Officers of
Vulcabras Azaleia S.A.
Jundiaí - SP

Introduction
We have reviewed the interim, individual and consolidated financial statements of the company Vulcabras Azaleia S.A. (“Company”), contained in the Quarterly Information Form - IRT for the quarter ended March 31, 2018, consisting of the statement of financial position as of March 31, 2018 and the related statements of income, the comprehensive statements of income for the three-month periods then ended, the statement of changes in shareholders’ equity and statements of cash flows for the three-month period then ended, in addition to the notes to the financial statements.

Company Management is responsible for the preparation of the interim financial statements in accordance with CPC 21 (R1) Interim Financial Reporting and IAS 34 – *Interim Financial Reporting*, issued by the *International Accounting Standards Board* - IASB and for the presentation of this information in due accordance with the standards issued by the Brazilian Securities Commission that apply to the preparation of Quarterly Information - ITR. Our responsibility is to express an opinion on the interim financial statements based on our review.

Scope of review
We conducted our review in accordance with Brazilian and international standards on reviews of interim information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily to the management responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially smaller in scope than an audit conducted in accordance with audit standards, and we cannot therefore provide assurance that we have discovered all the significant matters that could have been identified by an audit. Accordingly, we do not express an audit opinion.

Conclusion about the interim information
Based on our review we are not aware of any facts that lead us to believe the individual and consolidated interim financial information included in the aforesaid quarterly information has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 issued by IASB applicable to the preparation of Quarterly Information -

ITR, presented in a manner consistent with the requirements set forth by the Brazilian Securities Commission - CVM.

Other Matters - Statements of added value

The individual and consolidated interim accounting information relating to added value (DVA) for the three-month period ended March 31, 2018, which are the responsibility of Company Management and are presented as supplementary information for the purpose of IAS 34, was subject to review procedures conducted in conjunction with the review of the Company's quarterly Information - ITR. To form our conclusion we evaluated whether these statements have been reconciled against the interim accounting information 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. Our review did not detect any facts that lead us to believe the aforesaid statements of added value were not prepared, in all material respects, in accordance with the individual and consolidated interim financial statements accounting information taken as a whole.

Fortaleza, May 8, 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of financial position

March 31, 2018 and 2017

(In thousands of Reais)

		Consolidated		Parent company	
Asset	**Note**	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Cash and cash equivalents	5	150.681	100.502	72	369
Short-term investments	6	1.854	1.741	-	-
Trade receivables	7	335.253	326.522	-	-
Inventories	8	187.460	189.524	-	-
Recoverable taxes	9	9.552	10.101	518	517
Income tax recoverable	10a	2.851	2.528	117	116
Prepaid expenses		5.885	5.961	7	11
Other receivables		18.767	31.151	433	424
Total Current Assets		**712.303**	**668.030**	**1.147**	**1.437**
Short-term investments	6	4.016	3.920	2	2
Recoverable taxes	9	4.791	4.877	2.517	2.509
Deferred income and social contribution taxes	10b	120	125	-	-
Judicial deposits	11	41.814	42.165	930	841
Other receivables		2.259	2.036	1.751	1.770
Assets held for sale		194	194	-	-
Capital expenditure	13	40.284	40.080	818.651	781.044
Investment property	14	3.258	3.362	3.246	3.349
Property, plant and equipment	15	164.572	152.647	169	171
Intangible assets	16	203.704	203.049	111	111
Total Noncurrent Assets		**465.012**	**452.455**	**827.377**	**789.797**
Total Assets		**1.177.315**	**1.120.485**	**828.524**	**791.234**

		Consolidated		Parent company	
Liabilities	**Note**	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Trade accounts payable	18	89.817	69.827	386	450
Loans and financing	19	83.044	84.474	-	-
Taxes payable		12.001	5.822	76	-
Taxes payables - IRPJ and CSLL		-	-	-	212
Tax Recovery Program - REFIS		128	128	-	-
Salaries and vacation payable		36.474	34.993	383	359
Provisions	20	52.932	53.115	511	566
Other accounts payable		15.617	18.275	254	781
Total Current Liabilities		**290.013**	**266.634**	**1.610**	**2.368**
Loans and financing	19	7.873	10.325	-	-
Related-party loans	12	-	-	6.094	3.295
Provisions	20	25.422	24.370	2.586	1.177
Taxes deferred on revaluation of PP&E	10b	3.634	3.747	-	-
Provision for devaluation of investments	13	-	-	77	76
Other accounts payable		31.959	30.836	-	-
Total noncurrent liabilities		**68.888**	**69.278**	**8.757**	**4.548**
Shareholders' equity					
Share capital	21	1.107.555	1.107.661	1.107.555	1.107.661
Revaluation reserves	21	7.055	7.273	7.055	7.273
Capital reserves		134	-	134	-
Equity appraisal adjustments	21	(2.655)	(3.045)	(2.655)	(3.045)
Accumulated losses		(293.932)	(327.571)	(293.932)	(327.571)
Equity attributable to controlling shareholders		**818.157**	**784.318**	**818.157**	**784.318**
Non-controlling interests		**257**	**255**	**-**	**-**
Total shareholders' equity		**818.414**	**784.573**	**818.157**	**784.318**
Total Liabilities		**358.902**	**335.912**	**10.367**	**6.916**
Total Liabilities plus Shareholders' equity		**1.177.315**	**1.120.485**	**828.524**	**791.234**

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of income

March 31, 2018 and 2017

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

		Consolidated			Parent company	
	Note	**3/31/2018**	**12/31/2017**	**Note**	**3/31/2018**	**12/31/2017**
Net sales revenue	22	291.984	295.883		-	-
Cost of sales	23	(191.575)	(187.576)		-	-
Gross profit		**100.409**	**108.307**		**-**	**-**
Sales expenses	24	(41.347)	(42.693)		-	-
Administrative expenses	25	(19.505)	(18.557)	24	(3.417)	(2.159)
Other net operating income (expenses)	26	(3.637)	(2.757)	25	(311)	1.710
Equity in net income of subsidiaries	13b	204	433	13b	37.216	26.351
Net income before net financial income and costs and tax		**36.124**	**44.733**		**33.488**	**25.902**
Finance income		4.785	19.116		17	242
Finance expenses		(6.940)	(37.126)		(84)	(82)
Net financial income and costs	27	**(2.155)**	**(18.010)**	26	**(67)**	**160**
Income before tax on net income		**33.969**	**26.723**		**33.421**	**26.062**
Current and deferred income tax and social contributions	10b	(547)	(653)		-	-
Net income for the year		**33.422**	**26.070**		**33.421**	**26.062**
Income attributable to:						
Controlling shareholders		33.421	26.062		33.421	26.062
Noncontrolling shareholders		1	8		-	-
Net income for the year		**33.422**	**26.070**		**33.421**	**26.062**
Earnings per share						
Basic and diluted income per common share		0,1360	0,14070			
Number of shares at period-end		245.756.346	185.230.346			

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of comprehensive income

March 31, 2018 and 2017

(In thousands of Reais)

	Consolidated		Parent company	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Net income for the year	33.422	26.070	33.421	26.062
Other comprehensive income - ORA	390	(717)	390	(717)
Items that can be subsequently reclassified to profit or loss				
Foreign-exchange differences on translation of offshore	454	(717)	454	(717)
Available-for-sale financial assets - net change in fair	(64)	-	(64)	-
Total comprehensive income	33.812	25.353	33.811	25.345
Comprehensive income attributable to:				
Controlling shareholders	33.811	25.345	33.811	25.345
Noncontrolling shareholders	1	8	-	-

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

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

March 31, 2018 and 2017

(In thousands of Reais)

	Parent company							
	Share capital	**Revaluation reserve reflected in subsidiaries**	**Capital reserve**	**Other comprehensive income**	**Retained earnings (Accumulated losses)**	**Total**	**Noncontrolling interest**	**Total shareholders ' equity**
Balances as of January 1, 2017	**565.913**	**8.166**	**-**	**(5.065)**	**(517.377)**	**51.637**	**226**	**51.863**
Realization of revaluation reserve in subsidiary, net of tax	-	(226)	-	-	226	-	-	-
Other comprehensive income								
Foreign-exchange differences on translation of offshore operations	-	-	-	(717)	-	(717)	1	(716)
Net income for the period	-	-	-	-	26.062	26.062	-	26.062
Balances as of March 31, 2017	**565.913**	**7.940**	**-**	**(5.782)**	**(491.089)**	**76.982**	**227**	**77.209**
Balances as of January 1, 2018	**1.107.661**	**7.273**	**-**	**(3.045)**	**(327.571)**	**784.318**	**255**	**784.573**
Realization of revaluation reserve in subsidiary, net of tax	-	(218)	-	-	218	-	-	-
Realization of share issuance expenses	(106)					(106)		(106)
Granting shares	-	-	134	-	-	134	-	134
Other comprehensive income								
Foreign-exchange differences on translation of offshore operations	-	-	-	454	-	454	2	456
Available-for-sale financial assets - net change in fair value	-	-	-	(64)	-	(64)	-	(64)
Net income for the period	-	-	-	-	33.421	33.421	-	33.421
Balances as of March 31, 2018	**1.107.555**	**7.055**	**134**	**(2.655)**	**(293.932)**	**818.157**	**257**	**818.414**

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.
(Publicly held company)

Statements of cash flows - Indirect method

Em 31 de março de 2018 e 2017

(In thousands of reais)

	Consolidated		Parent Company	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Cash flows from operating activities				
Net income for the year	33.422	26.070	33.421	26.062
Adjustments to:				
Depreciation and amortization	13.673	13.248	105	104
Inventory impairment loss	(226)	431	-	-
Net value of tangible and intangible assets written off	1.741	5.016	-	-
Earnings on investments	(1.623)	(587)	-	(658)
Losses on contingencies	4.797	3.817	1.410	(501)
Equity in net income of subsidiaries	(204)	(433)	(37.216)	(26.351)
Granting shares	134	-	134	-
Estimated loss on allowance for doubtful accounts	660	2.868	-	-
Financial charges and exchange variance recognized in profit or loss.	1.983	8.524	-	717
Deferred taxes	(108)	118	-	-
Minority interest	(1)	(8)	-	-
	54.248	**59.064**	**(2.146)**	**(627)**
			-	
Changes in assets and liabilities				
Short-term investments	1.414	-	-	-
Trade receivables	(9.391)	22.217	-	-
Inventory	2.290	3.210	-	-
Prepaid expenses	76	(803)	4	3
Recoverable taxes	312	(1.400)	(10)	(57)
Other accounts receivable	12.161	11.600	10	1.271
Judicial deposits	351	(1.789)	(89)	(20)
Trade accounts payable	19.990	12.713	(64)	(255)
Taxes and social contributions	6.179	8.842	(136)	40
Salaries and vacation payable	1.481	8.677	24	-
Other accounts payable	(1.533)	(2.358)	(527)	(38)
Provision for contingencies used	(3.928)	(3.726)	(56)	(22)
	29.402	**57.183**	**(844)**	**922**
Cash produced by operating activities				
Interest paid	(276)	(9.753)	-	-
	(276)	**(9.753)**	**-**	**-**
	-		-	
Flow of net cash provided by (used in) operating activities	**83.374**	**106.494**	**(2.990)**	**295**
	-		-	
Cash flows from investment activities				
Acquisitions of property, plant and equipment	(27.015)	(16.079)	-	-
Acquisitions of intangible assets	(875)	(308)	-	-
Short-term investments	-	803	-	700
Gain and loss on translation of investments	-	(717)	-	(717)
Net cash flows used in investing activities	**(27.890)**	**(16.301)**	**-**	**(17)**
	-	-	-	
Cash flows from financing activities				
Loans secured - Principal	98	122	-	-
Repayment of loans secured – principal	(5.297)	(83.259)	-	-
Loan repayments - related parties	-	-	2.799	433
Realization of share issuance expense	(106)	-	(106)	-
Cash flows from financing activities	**(5.305)**	**(83.137)**	**2.693**	**433**
	-		-	
Increase (decrease) in cash and cash equivalents	**50.179**	**7.056**	**(297)**	**711**
			-	
Cash and cash equivalents at beginning of period	100.502	17.094	369	10
Cash and cash equivalents at end of period	150.681	24.150	72	721
Increase (decrease) in cash and cash equivalents	**50.179**	**7.056**	**(297)**	**711**

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of added value

March 31, 2018 and 2017

(In thousands of reais)

	Consolidated		Parent company	
	3/31/2018	12/31/2017	31/03/2018	12/31/2017
Revenue	**331.817**	**335.592**	**197**	**362**
Sales of goods, products and services	331.261	335.931	-	-
Other income and expenses	1.197	1.324	197	362
Allowance for doubtful accounts	(641)	(1.663)	-	-
Consumables acquired from third parties	**(140.130)**	**(131.550)**	**(3.304)**	**(508)**
Raw materials consumed	(80.488)	(73.862)	-	-
Cost of goods sold and services rendered	(24.454)	(24.976)	-	-
Materials, energy, outsourced services and other	(35.163)	(32.693)	(3.304)	(508)
Loss/recovery of asset values	(25)	(19)	-	-
Gross added value	**191.687**	**204.042**	**(3.107)**	**(146)**
Retentions	**(13.673)**	**(13.248)**	**(105)**	**(104)**
Depreciation, amortization and depletion	(13.673)	(13.248)	(105)	(104)
Added value produced by the Company	**178.014**	**190.794**	**(3.212)**	**(250)**
Transferred value added	**6.259**	**20.687**	**38.087**	**27.575**
Equity in income of subsidiaries	204	433	37.216	26.351
Finance income	4.785	19.116	18	242
Other	1.270	1.138	853	982
Total added value to be distributed	**184.273**	**211.481**	**34.875**	**27.325**
Distribution of added value	**184.273**	**211.481**	**34.875**	**27.325**
Personnel	**100.623**	**102.921**	**1.149**	**966**
Direct compensation	67.247	70.405	-	-
Benefits	11.872	12.215	-	-
Government Severance Indemnity Fund for Employees (FGTS)	4.641	5.031	-	-
Sales commission	12.761	11.852	-	-
Executive Board fees	4.102	3.418	1.149	966
Taxes and contributions	**43.035**	**45.197**	**232**	**217**
Federal	34.986	37.746	232	217
State	7.857	7.412	-	-
Municipal	192	39	-	-
Third-party capital remuneration	**7.193**	**37.293**	**73**	**80**
Interest	6.655	36.696	73	79
Rent	540	596	-	-
Other	(2)	1	-	1
Interest on equity	**33.422**	**26.070**	**33.421**	**26.062**
Retained earnings	33.421	26.062	33.421	26.062
Minority interests	1	8	-	-

See the accompanying notes to the quarterly information.

Notes to the interim 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.

2 Basis of and preparation of the financial statements

2.1 Statement of compliance with IFRS and CPC standards

The individual and consolidated quarterly information has been prepared based on CPC 21 - R1 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 March 31, 2018 and December 31, 2017.

The Board of Directors authorized the conclusion of these quarterly statements on May 8, 2018.

2.2 Basis of measurement

The preparation of the individual and consolidated quarterly information under IFRS and BR GAAP 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 quarterly information is being presented in Brazilian reais, which is the Company's functional currency. All quarterly information presented in reais has been rounded off to the nearest thousand, except where specified otherwise.

2.4 Use of judgments and estimates

Preparing the financial statements requires Management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported values of assets, liabilities, revenue 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 Group 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 income which tax losses can be offset against
- **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

This individual and consolidated quarterly information has been prepared in accordance with principles, practices and criteria consistent with those adopted in the preparation of the financial statements for the last financial year, the financial statements as of December 31, 2017, except for the changes to the significant accounting policies disclosed in item 3.2 of this report.

3.1 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.

3.2 Changes in significant accounting policies

Except as described below, the accounting policies applied to these interim financial statements are the same as those applied to the Group's consolidated financial statements in the financial year ended December 31, 2017. The changes in the accounting policies should also be reflected in the Group's consolidated financial statements for the financial year ended December 31, 2018.

The Group initially adopted CPC 47 / IFRS 15 — Revenue from Contracts with Customers and CPC 48 / IFRS 9 - Financial Instruments on January 1, 2018. A series of other new standards are effective from January 1, 2018, but will not have a material effect on the Group's financial statements.

The effect of the initial application of these standards is primarily attributed to:

– the recognition of special discounts when recognizing the sale as a decrease to sales revenue (see item a);
– a decrease in the value of commercial expenses (see item a).

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.
The Group adopted CPC 47 / IFRS 15 with the effect of the initial adoption of the standard recognized at the initial application date (i.e. January 01, 2018).
The information presented for 2017 was not therefore re-presented and was therefore presented as reported previously in accordance with CPC 30 / IAS 18, CPC 17 / IAS 11 and related interpretations.

The table below summarizes the impact of the transition to CPC 47 / IFRS 15 on the income statement as of January 1, 2018.

For the three-month period ended March 31, 2018

In thousands of reais	Note	As reported	Adjustments	Amounts without adopting CPC 47 / IFRS 15
Gross Operating Revenue	22	342,053	-	342,053
Deductions	22	(50,069)	760	(49,309)
Costs	23	(191,575)	-	(191,575)
Gross Profit		**100,409**	**760**	**101,169**
Sales expenses	24	(41,347)	(760)	(42,107)
Administrative expenses	25	(19,505)	-	(19,505)
Other net operating income (expenses)	26	(3,637)	-	(3,637)
Equity in net income of subsidiaries	13b	204	-	204
Net financial income and costs	27	(2,155)	-	(2,155)
Income before tax on net income		**33,969**	**-**	**33,969**
Current and deferred income tax and social contributions		(547)	-	(547)
Net income for the year		**33,422**	**-**	**33,422**

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 currently charged at the time of revenue recognition to "selling expenses".

b. CPC 48 / IFRS 9 Financial Instruments

CPC 48 / IFRS 9 set out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces CPC 38 / IAS 39 Financial Instruments: Recognition and Measurement.

In respect of adopting CPC 48 in its position at March 31, 2018, the Company estimated that:

- The new financial asset classification requirements did 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; and
- There were no impacts as of March 31, 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.

The financial instruments are measured at amortized cost or fair value and classified into one of three categories:

1. Financial instruments at amortized cost
2. Financial instruments at fair value through comprehensive profit or loss, and
3. Financial instruments at fair value through profit or loss.

Subsequent measurement

They are subsequently valued at each reporting date. in accordance with the rules established for each classification of financial assets and liabilities.

b.1) Financial assets Classified into the categories below according to the purpose for which they were acquired or issued:

a) Financial assets at amortized cost: are measured in a business model which aims to receive contractual cash flows where its contractual terms originate cash flows that are exclusively payments and interest on the principal.

b) Financial assets at fair value through other comprehensive income: measured in a business model whose objective is affected by both the receipt of contractual cash flows and the sale of financial assets.

c) Financial assets at fair value through profit or loss: any financial assets not classified in one of the two categories above should be measured and recognized at fair value through profit or loss. Financial assets held for trading and managed based on fair value are also included in this category.

b.2) Financial liabilities

The entity shall classify all financial liabilities as measured at amortized cost, except for: (a) financial liabilities at fair value through profit or loss (b) financial liabilities arising when the transfer of the financial asset does not qualify for derecognition or when the ongoing involvement approach applies, (c) financial guarantee contract, (d) commitments to award a loan with below-market-rate interest, (e) the contingent payment recognized by the buyer in a business combination to which CPC 15 should apply.

The Company assessed the classification of its financial instruments on January 01, 2018 and reclassified them as required by IFRS 9/CPC 48, as follows:

	Consolidated				
	12/31/2017 – IAS 39/ CPC 38				1/1/2018 - IFRS 9/CPC 48
	Loans and receivables	Securities at fair value through profit or loss	Securities held until maturity	Amortized cost	Amortized cost
Financial assets					
Cash and cash equivalents	150,681	-	-	-	**150,681**
Short-term investments	-	4,147	1,723	-	**5,870**
Trade accounts receivable	336,879	-	-	-	**336,879**
Other accounts receivable	21,026	-	-	-	**21,026**
Financial liabilities					
Loans and financing	-	-	-	90,917	**90,917**
Trade payables	-	-	-	89,817	**89,817**

3.3 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. A Company intends to adopt these standards when they come into force.

a. 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 quarterly information

The consolidated interim quarterly information includes 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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	99.99	99.99	-	-	99.99	99.99
Vulcabras Distribuidora de Artigos Esportivos Ltda.	0.27	2.00	99.73	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 Administracíon 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.	-	-	99.99	100.00	99.99	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 period.

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 Administracíon 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 period 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	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Cash and banks - checking account	835	751	32	32
CDB Cash flow	14,153	19,620	40	337
Debentures/securities held under repurchase agreements	-	4,452	-	-
Investment fund	133,514	74,166	-	-
Cash and cash equivalents overseas	2,179	1,513	-	-
	150,681	**100,502**	**72**	**369**

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. The portfolio of the CDB I FIQ RF CP Fund administered by BTG Pactual essentially consists of financial treasury bills and securities issued by private finance institutions such as Banco do Brasil, Banco Bradesco, Itaú Unibanco, Caixa Econômica Federal, HSBC Brasil and Banco Santander S.A.

The fixed-income fund yields according to the performance of indexes used as references for the financial market, such as the SELIC or CDI rates. This fund's average yield lies at around 98% of the CDI rate and has daily liquidity.
The investment funds are operations traded according to the daily price rate.

6 Short-term investments

	Consolidated		**Parent company**	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Short-term investments in Brazil:				
Floating CDB	2,389	2,244	2	2
Capitalization bonds	1,723	1,723	-	-
Financial asset at amortized cost - Shares	1,758	1,694	-	-
	5,870	**5,661**	**2**	**2**
Current	1,854	1,741	-	-
Noncurrent	4,016	3,920	2	2

Financial assets at amortized cost denote investments in shares of investment funds, available for sale and measured at amortized cost, with effects on profit or loss. 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 at amortized cost. The balance of CDBs at fixed rate in 2018 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	
	3/31/2018	**12/31/2017**
Accounts receivable		
Domestic:		
Trade receivables	322,818	322,540
Foreign:		
Receivables	43,443	34,330
Subtotal trade receivables	366,261	356,870
Estimated allowances for doubtful accounts	(31,008)	(30,348)
Total accounts receivable from customers, net	335,253	326,522

b. By maturity

	Consolidated	
	3/31/2018	**12/31/2017**
Neither past due nor impaired		
1 to 30 days	93,960	134,996
31 to 60 days	86,351	91,791
61 to 90 days	80,282	47,129
Past due more than 90 days	62,201	37,507
	322,794	311,423
Overdue		
1 to 30 days	5,639	12,540
31 to 60 days	4,589	920
61 to 90 days	1,040	942
Past due more than 90 days	32,199	31,045
	43,467	45,447
	366,261	356,870

The Company understands that the amount that better represents its maximum exposure to credit risk for the period ended March 31, 2018 is R$ (31,008) (R$ 30,348 at December 31, 2017), which represents the criteria mentioned in item (c) below.

c. 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 allowance for doubtful accounts is the same for the portfolio of domestic and overseas clients.

d. Change in provision (impairment)

The movements in the allowance for doubtful accounts in the period ended March 31, 2018 and December 31, 2017 were as follows:

	Consolidated	
	3/31/2018	**12/31/2017**
Opening balance	(30,348)	(24,164)
Provision supplement	(1,944)	(17,245)
Recovery of provisions	1,284	11,061
Closing balance	(31,008)	(30,348)

e. Portfolio concentration

	Consolidated			
	3/31/2018		12/31/2017	
Trade receivables (unrelated parties)				
Top client	16,605	5%	15,453	4%
Top 2 to 11 clients	67,270	18%	73,058	21%
Top 12 to 50 clients	49,835	14%	50,850	14%
Other clients	232,551	63%	217,509	61%
Total client portfolio	366,261	100%	356,870	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 and noncurrent assets Considering a DSO for these receivables of approximately 73 days as of March 31, 2018 (60 days at December 31, 2017), 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	
	3/31/2018	**12/31/2017**
Finished goods	76,251	77,404
Goods in process	15,086	18,829
Raw materials	74,997	72,891
Packaging and store room materials	18,853	18,833
Goods in transit	470	211
Imports in transit	1,803	1,356
	187,460	189,524

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 March 31, 2018, the provision for losses on finished goods is R$ 2,967 (R$ 3,099 at December 31, 2017), the provision for losses on raw materials is R$ 7,335 (R$ 7,395 at December 31, 2017) and the provision for losses on goods in process is R$ 7,616 (R$ 7,650 at December 31, 2017).

The value of raw materials, labor and production overheads used in the composition of the costs of goods sold is R$ 172,844 at March 31, 2018 (R$ 170,892 at March 31, 2017).

b. Change in provision (impairment)

The movements in the impairment of inventories in the periods ended March 31, 2018 and December 31, 2017 were as follows:

	Consolidated	
	3/31/2018	**12/31/2017**
Opening balance	(18,144)	(14,605)
Additions in the period	(58)	(3,038)
Reversal of provision	284	(501)
Closing balance	(17,918)	(18,144)

9 Recoverable taxes

	Consolidated		Parent company	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
ICMS	5,322	4,295	20	20
IPI	991	1,622	-	-
PIS/COFINS	1,210	1,308	-	-
Tax credits in other countries	94	-	-	-
FINSOCIAL	3,072	3,063	2,517	2,509
Reintegra	1,013	515	0	-
Other (*)	2,641	4,175	498	497
	14,343	**14,978**	**3,035**	**3,026**
Current	9,552	10,101	518	517
Noncurrent	4,791	4,877	2,517	2,509

(*) 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	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Prepaid income tax	2,851	2,528	117	116
	2,851	**2,528**	**117**	**116**

b. Deferred income and social contribution taxes

	Consolidated	
	3/31/2018	**12/31/2017**
Temporary differences in the year		
Revaluation of property, plant and equipment	(3,634)	(3,747)
Deferred income tax - foreign subsidiary	120	125
Deferred income and social contribution taxes on temporary differences	**(3,514)**	**(3,622)**
Total deferred income tax and social contribution assets	120	125
Total deferred income tax and social contribution liabilities	(3,634)	(3,747)

The subsidiaries in Brazil have deferred tax liabilities on revaluation of property, plant and equipment of R$ 3,634 and deferred tax assets of foreign subsidiary of R$ 120.

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	
	3/31/2018	**3/31/2017**
Current income and social contribution taxes	(547)	(378)
Deferred income and social contribution taxes	-	(275)
	(547)	(653)

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 March 31, 2018 and December 31, 2017, the parent company and its subsidiaries had tax losses to be utilized for offset, related to the following base amounts:

	03/31/2018							
	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.**	**Distributor de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia S.A.**	**Total**
Tax loss carryforwards at 3/31/2018	344,151	611,387	124,800	74,274	261,663	20,587	146,630	1,583,492
Negative basis of social contribution at 3/31/2018	1,156,540	624,910	125,246	74,274	294,843	20,587	148,744	2,445,144

	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.**	**Distributor de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia 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

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	
	3/31/2018	3/31/2017
Profit before income and social contribution taxes	33,969	26,723
Combined income and social contribution tax rate	34%	34%
Expected income and social contribution tax expense at the statutory rate	(11,549)	(9,086)
Adjustments to demonstrate effective rate	10,671	8127
IRPJ tax reduction incentive (operating profit) (*)	331	306
Income and social contribution taxes	547	653
Effective rate	1.6%	2.4%
Current taxes	(547)	(378)
Deferred taxes - overseas	-	(275)

(*) 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	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Judicial deposits				
Civil	420	222	193	122
Labor	32,267	32,884	631	615
Tax claims	9,127	9,059	106	104
Total	**41,814**	**42,165**	**930**	**841**

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

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

12 Related-party loans

The main balances of assets and liabilities as of March 31, 2018 and December 31, 2017, as well as the transactions that influenced the income for the periods, 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.

	3/31/2018	**12/31/2017**
Liabilities		
Loans from subsidiaries	6,094	3,295
Total	**6,094**	**3,295**

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**	**3/31/2018**	**12/31/2017**
Assets				
Other accounts receivable	4,532	-	4,532	1,246
	Vulcabras Azaleia BA		**3/31/2018**	**12/31/2017**
Liabilities				
Other debits	5	1,803	1,808	-
	Vulcabras Azaleia RS		**3/31/2018**	**3/31/2017**
Profit or loss				
Net financial income (expenses)	90	-	90	(248)

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

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 25, 2018, set the overall global management compensation at up to R$ 9,471. In the period ended March 31, 2018, the Company paid R$ 4,102 as management compensation (R$ 3,418 at March 31, 2017).

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

At March 31, 2018 and December 31, 2017, 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**	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Permanent equity interests				
Subsidiaries	-	-	818,574	780,968
Associated companies	40,284	40,080	-	-
Total	40,284	40,080	818,574	780,968

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	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Opening balances	40,080	29,733	780,968	133,277
Equity in net income of subsidiary (*)	204	8,757	37,216	191,102
Foreign-exchange differences on translation of offshore operations	-	-	454	1,851
Available-for-sale financial assets - net change in fair value	-	-	(64)	169
Increase in interest in investee (Pars)	-	1,590	-	454,569
Realization of advance for future capital increase	-	-	-	-
Closing balances	40,284	40,080	818,574	780,968

(*) 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 Administracíon S.A.		Globalcyr S.A.		Total	
	3/31/18	**12/31/17**	**3/31/18**	**12/31/17**	**3/31/18**	**12/31/17**	**3/31/18**	**12/31/17**	**3/31/18**	**12/31/17**
Total assets	1,029,639	974,646	25,226	19,316	1,222	930	1	20	-	-
Total assets	211,037	193,930	7,165	3,249	1,014	692	4,958	4,920	-	-
Share capital	1,363,597	1,363,597	69,945	69,945	2715	2,715	1056	1,056	-	-
Net revenue	173,194	785,544	7,871	20,426	-	-	-	-	-	-
Net income in the period	37,495	191,011	304	(10,547)	(12)	2,727	(34)	(86)	-	-
Number of shares held (in lots of one thousand)	247,178	247,178	200	200	1,983	1,983	10	10	-	-
Shareholders' equity	818,602	780,716	18,061	16,067	208	238	(4,957)	(4,900)	-	-
Interest in the capital at period-end - %	99.99%	100.00%	0.27%	2.00%	3.96%	3.96%	1.55%	1.54%	-	-
Permanent equity interests in subsidiaries	818,599	780,714	44	321	8	9	-	-	818,651	781,044
Provision for liability on investment loss		-	-	-	-	-	(77)	(76)	(77)	(76)
Advance for future capital increase		-	-	-	-	-			-	-
Equity in income of associates	37,495	191,011	1	(13)	(0)	108	(1)	(1)	37,495	190,905

d. Information on indirect interests

At March 31, 2018 and December 31, 2017, 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.

3/31/2018	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	308,650	25,226	1	1,222
Total assets	46,474	7,165	4,958	1,014
Share capital	480,299	69,945	1,056	2,715
Shareholders' equity	262,176	18,061	(4,957)	208
Net revenue	-	7,871	-	-
Net income in the period	10,790	304	(34)	(12)
Equity interest	100.00%	99.73%	98.45%	96.04%

12/31/2017	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	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 in the period	45,610	(10,547)	(86)	2,727
Equity interest	100.00%	98.00%	98.45%	96.04%

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

3/31/2018	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	284,967	70,189	10,589	11,582	31,527
Total assets	57,658	44,943	7,362	9,707	3,412
Share capital	459,929	90,074	25,207	841	1,072
Shareholders' equity	227,309	25,246	3,227	1,875	28,115
Net revenue	95,046	19,753	4,462	3,464	13,792
Net income in the period	12,207	(231)	(894)	361	30
Equity interest	99.99%	100.00%	100.00%	100.00%	99.11%

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 in the period	57,339	1,587	(4,343)	(858)	2,557
Equity interest	99.99%	100.00%	99.99%	100.00%	99.11%

(*) Indirect interest.

14 Property for investment

e. Account breakdown

	Consolidated		Parent company	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Property	10,624	10,625	10,575	10,574
Depreciation (*)	(7,366)	(7,262)	(7,329)	(7,225)
Grand Total	3,258	3,362	3,246	3,349

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

f. Change in the cost

	Consolidated		
	Balance at 12/31/2017	**Additions**	**Balance at 3/31/2018**
Property	10,624	-	10,624
Total	10,624	-	10,624

g. Change in amortization

	Consolidated		
	Balance at 12/31/2017	**Additions**	**Balance at 3/31/2018**
Property	(7,262)	(104)	(7,366)
Total	(7,262)	(104)	(7,366)

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 March 31, 2018 the property earned rental revenue of R$ 1,044 (R$ 983 in 2017) - 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

March 31, 2018

		Consolidated			
	Average depreciation rate % p.a.	**3/31/2018**			**12/31/2017**
		Cost	**Depreciation**	**Net**	**Net**
Buildings	2 to 4	125,950	(77,262)	48,688	49,575
Machinery and equipment	10	325,584	(271,090)	54,494	50,517
Molds	100	208,628	(194,002)	14,626	13,209
Furniture and fixtures	10 to 20	26,114	(21,217)	4,897	4,969
Vehicles	20	2,081	(1,765)	316	252
Computer equipment	20 to 25	23,029	(19,588)	3,441	2,756
Land	-	3,490	-	3,490	3,490
Works in progress	-	524	-	524	410
Industrial facilities	10	69,638	(43,612)	26,026	23,251
Improvements to rented property	10 to 20	89	(89)	-	-
Imports in transit	-	6,703	-	6,703	2,849
Improvements to leased property	-	2,092	(2,053)	39	49
Other	10 to 20	2,125	(797)	1,328	1,320
		796,047	**(631,475)**	**164,572**	**152,647**

b. Change in the cost

		Consolidated			
March 31, 2018	**12/31/2017**	**3/31/2018**			
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Closing balance**
Buildings	125,911	39	-	-	125,950
Machinery and equipment	319,134	1,721	(2,170)	6,899	325,584
Molds	204,841	10,660	(4,322)	(2,551)	208,628
Furniture and fixtures	25,919	278	(83)	-	26,114
Vehicles	1,994	87	-	-	2,081
Computer equipment	22,136	905	(12)	-	23,029
Land	3,490	-	-	-	3,490
Works in progress	410	1,217	(1,103)	-	524
Industrial facilities	65,791	3,847	-	-	69,638
Improvements to rented property	89	-	-	-	89
Imports in transit	2,849	8,202	-	(4,348)	6,703
Improvements to leased property	2,092	-	-	-	2,092
Other	2,066	59	-	-	2,125
	776,722	**27,015**	**(7,690)**	**-**	**796,047**

		Consolidated			
	2016	**2017**			
December 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**

c. Change in depreciation

March 31, 2018	12/31/2017	Consolidated 3/31/2018			
	Opening balance	Additions	Write-offs	Transfer	Closing balance
Buildings	(76,336)	(919)	(7)	-	(77,262)
Machinery and equipment	(268,617)	(4,418)	1,945	-	(271,090)
Molds	(191,632)	(6,352)	3,982	-	(194,002)
Furniture and fixtures	(20,950)	(327)	60	-	(21,217)
Vehicles	(1,742)	(20)	(3)	-	(1,765)
Computer equipment	(19,380)	(195)	(13)	-	(19,588)
Industrial facilities	(42,540)	(1,072)	-	-	(43,612)
Improvements to rented property	(89)	-	-	-	(89)
Improvements to leased property	(2,043)	(10)	-	-	(2,053)
Other	(746)	(43)	(8)	-	(797)
	(624,075)	**(13,356)**	**5,956**	**-**	**(631,475)**

December 31, 2017	2016	Consolidated 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)**

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 March 31, 2018, the Company has balances of assets pledged as collateral of borrowings related to: buildings of R$ 52,700 (R$ 52,700 at December 31, 2017) and machinery and equipment of R$ 23,186 (R$ 23,186 at December 31, 2017).

The useful lives of the assets were reviewed at December 31, 2017. 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.

16 Intangible assets

a. Account breakdown

		Consolidated		Parent company	
	Term of useful life	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Definite-lived					
Software	10 years	30,608	29,746	785	785
Assignment of rights	Contractual term	545	544	-	-
Accumulated amortization - Software	10 years	(27,447)	(27,256)	(785)	(785)
Accumulated amortization - Assignment of rights	Contractual term	(385)	(357)	-	-
Total		3,321	2,677	-	-
Indefinite-lived					
Patents and trademarks	Indefinite	2,169	2,158	111	111
Goodwill (d)	-	198,214	198,214	-	-
Total		200,383	200,372	111	111
Grand Total		203,704	203,049	111	111

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

b. Change in the cost

March 31, 2018				Consolidated		
	Terms of useful life	**Amortization methods**	**Balance at 12/31/2017**	**Additions**	**Write-offs**	**Balance at 3/31/2018**
Definite-lived						
Software	10 years	Straight-line	29,746	862	-	30,608
Assignment of rights	Contract term	Straight-line	544	2	(1)	545
Indefinite-lived						
Patents and trademarks	Not defined	-	2,158	11	-	2,169
Goodwill	-	-	198,214	-	-	198,214
Total			230,662	875	(1)	231,536

March 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	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

c. Change in amortization

March 31, 2018				**Consolidated**			
	Terms of useful life	**Amortization methods**	**Balance at 12/31/2017**	**Additions**	**Write-offs**	**Transfers**	**Balance at 3/31/2018**
Definite-lived							
Software	10 years	Straight-line	(27,256)	(188)	(3)	-	(27,447)
Assignment of rights	Contract term	Straight-line	(357)	(25)	(3)	-	(385)
Total			(27,613)	(213)	(6)	-	(27,832)

December 31, 2017				**Consolidated**			
	Terms of useful life	**Amortization methods**	**Balance at 12/31/2016**	**Additions**	**Write-offs**	**Transfers**	**Balance at 12/31/2017**
Definite-lived							
Software	10 years	Straight-line	(26,254)	(450)	43	(319)	(27,256)
Assignment of rights	Contract term	Straight-line	(88,061)	(13,914)	87,714	319	(357)
Total			(114,315)	(14,364)	87,757	-	(27,613)

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 16.

e. Research and development

In the period ended March 31, 2018, the Company recognized R$ 9,331 (R$ 4,151 at March 31, 2017) 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 at March 31, 2018.

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 rate used was 9.5254%.

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

Revenue

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 3.1% 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.

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 23.9% between the period from 2017 to 2026.

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	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
Trade payables				
Domestic				
Other	80,833	63,602	386	450
Foreign				
Other	8,984	6,225	-	-
	89,817	69,827	386	450

b. By maturity

	Consolidated	
	3/31/2018	**12/31/2017**
Neither past due nor impaired		
1 to 30 days	62,160	56,905
31 to 60 days	21,535	9,891
61 to 90 days	5,981	2,668
Past due more than 90 days	-	172
	89,676	69,636
Overdue		
1 to 30 days	24	190
31 to 60 days	2	1
61 to 90 days	-	-
Past due more than 90 days	115	-
	141	191
	89,817	69,827

c. Portfolio concentration

	Consolidated			
	3/31/2018		12/31/2017	
Trade payables (unrelated parties)				
Top supplier	9,913	11%	6,857	10%
Top 2 to 11 suppliers	16,254	18%	13,300	19%
Top 12 to 50 suppliers	16,439	18%	12,558	18%
Other trade payables	47,211	53%	37,112	53%
Total suppliers (unrelated parties)	89,817	100%	69,827	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 March 31, 2018 (37 days at December 31, 2017), 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	**3/31/2018**	**12/31/2017**
Local Currency			
Property, plant and equipment/ Tax incentive	Fixed Rate of 4.0% to 7.5% p.a.	18,328	21,490
NCE - Export Credit Note	CDI + 1.2% p.a	72,589	71,235
		90,917	**92,725**
Foreign Currency			
Import financing			
FINIMP - Import Financing	7.26% p.a.	-	2,074
			2,074
Total loans and financing		**90,917**	**94,799**
Current		83,044	84,474
Noncurrent		7,873	10,325

At March 31, 2018 and December 31, 2017 the installment payments under the primary loans and financing agreements were as follows:

	3/31/2018		12/31/2017	
Maturity	**Amount**	**%**	**Amount**	**%**
Current	**83,044**	**91%**	**84,474**	**89%**
2018	80,532	89%	-	0%
2019	9,516	10%	84,474	89%
2020	770	1%	9,567	10%
2021	99	0%	758	1%
Noncurrent	**7,873**	**9%**	**10,325**	**11%**
Total	**90,917**	**100%**	**94,799**	**100%**

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

	3/31/2018	12/31/2017
Opening balances	**94,799**	**539,268**
Inflows	98	70,052
Charges	1,611	30,827
Monetary and exchange variance	(18)	480
Monetary and exchange variance Argentina	-	-
Amortization of principal	(5,297)	(509,603)
Interest payments	(276)	(36,225)
Closing balances	**90,917**	**94,799**

c. Sureties and guarantees

As guarantee of financing, promissory notes, statutory lien and pledge on machinery and equipment, pledges on 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 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	**Capital share**	**Total**
Balance at January 1, 2018	**94,799**	**1,107,661**	**1,202,460**
Change in financing cash flow			
Loans secured - Principal	98	-	98
Loans with related parties			
Dividend payments			
Share issuance			
Repayment of loans secured – principal	(5,297)	-	(5,297)
Total changes in financing cash flows	**(5,199)**	**-**	**(5,199)**
Other changes related to liabilities			
Interest paid	(276)	-	(276)
Financial charges recognized in profit or loss	1,593	-	1,593
Total other changes related to liabilities	1,317	-	1,317
Balance at March 31, 2018	**90,917**	**1,107,661**	**1,198,578**

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	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Provision for judicial and administrative proceedings				
Civil	19,784	19,649	565	615
Labor	48,779	48,119	2,426	1,023
Tax	9,791	9,717	106	105
Total	78,354	77,485	3,097	1,743
Current	52,932	53,115	511	566
Noncurrent	25,422	24,370	2,586	1,177

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)

Refer to compensation for property damages and pain and suffering.

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 Vulcabras Azaleia group are parties, involving mainly the following taxes: IRPJ, COFINS and PIS.

e. Changes in the lawsuits

March 31, 2018		Consolidated		
	12/31/2017	3/31/2018		
Nature	Opening balance	Additions	Use	Closing balance
Civil	19,649	214	(79)	19,784
Labor	48,119	4,510	(3,850)	48,779
Tax	9,717	73	1	9,791
Total	77,485	4,797	(3,928)	78,354

March 31, 2018		Parent company		
	12/31/2017	3/31/2018		
Nature	Opening balance	Additions	Use	Closing balance
Civil	615	5	-55	565
Labor	1023	1,405	-2	2,426
Tax	105	-	1	106
Total	1,743	1,410	-56	3,097

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
Labor	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
Labor	2,017	(476)	(518)	1023
Tax	272	(76)	(91)	105
Total	2,937	(543)	(651)	1,743

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 March 31, 2018 and December 31, 2017, the breakdown of the amounts under litigation at various court levels, rated as a possible defeat was as follows:

	Consolidated	
	3/31/2018	**12/31/2017**
Contingencies		
Civil	1,976	1,922
Labor	50,160	54,101
Tax	121,956	121,371
Total	174,092	177,394

21 Shareholders' Equity (Parent company)

a. Share capital

At March 31, 2018, the subscribed and paid-in capital is R$ 1,140,910 (R$ 1,140,910 in 2017) represented by 245,756,346 (245,756,346 in 2017) registered common shares, without par value, held as follows:

In March 2018 the Company's share capital did not rise as a result of the sale of shares. The cost consumed on the share issuance was R$ 33,355 resulting in a net effect of R$ 541,642. The net breakdown is as follows:

Change in net share capital:

Net capital at 12/31/2017	**1,107,661**
Stock issuance cost	(106)
Net capital at 3/31/2018	**1,107,555**

On March 16, 2017, 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 March 31, 2018 is R$ 7,055 (R$ 7,273 as of December 31, 2017).

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. Capital reserve

Stock Option

Plan Approval
On January 16, 2018 the Board of Directors approved the first granting of options under the Stock Options Contract. The total options awarded on this date amounted to 835,000 (eight hundred and thirty-five thousand) options, with a unit strike price of R$ 9.50 (nine reais and fifty cents), distributed amongst the elected beneficiaries.

Description of the plan
To participate in the program the administrator or employee should acquire shares from the Company in fixed terms by using their own funds or funds resulting exclusively from annual bonuses awarded in accordance with the compensation policy in force. In exchange for acquiring the shares, the Company enters or will enter into a Stock Call Option Instrument with each recipient, by which for each share acquired the Company awards stock call options within a previously defined limits and conditions. The values of the stock options are determined and recorded in accordance with the criteria established in CVM Resolution 650/10 - Share-based payments (CPC 10 (R1)).

Plan features

2018 Plan	1st Grant
Date Granted	16/Jan/18
Number of options granted	835,000
Vesting Period	3 years
Maturity for exercising	31/Mar/21
Strike Price	R$ 9.50
Beneficiaries (employees)	24

The market value of each stock option is estimated at the granting data using the “Black-Scholes” share pricing model, which makes the following assumptions: the price when granted, the strike price, the grace period, the volatility of the share price, percentage of dividends distributed and the risk-free rate.

<u>Option Plan Expense</u>

The amortization amounts recorded as an expense in the financial statements and charged to the Company's equity since the granting date through March 31, 2018 are shown below:

Plan	Strike Price	Date Granted	Accumulated Expense 3/31/2018
2018	R$ 9.50	16/Jan/18	R$ 133,859
		Total	**R$ 133,859**

d. 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 March 31, 2018 is R$ 2,655 (R$ 3,045 as of December 31, 2017).

22 Operating revenue

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

	Consolidated	
	3/31/2018	**3/31/2017**
Gross operating revenue		
Sale and resale of goods		
Domestic	304,436	304,466
Overseas	37,217	44,409
Services rendered	400	95
	342,053	348,970
Deductions		
Sales and services taxes	(38,916)	(40,137)
Returns and deductions	(11,153)	(12,950)
	(50,069)	(53,087)
Net operating revenue	**291,984**	**295,883**

23 Cost of sales

	Consolidated	
	3/31/2018	**3/31/2017**
Raw materials	69,357	71,066
Temporary labor	52,043	53,766
Indirect cost	51,444	46,060
Resale	18,731	16,684
	191,575	**187,576**

24 Sales expenses

	Consolidated	
	3/31/2018	**3/31/2017**
Commission	(12,000)	(11,852)
Carriage	(11,102)	(11,521)
PECLD	(639)	(1,663)
Advertising	(10,742)	(10,455)
Royalties	-	(35)
Personnel expenses	(3,366)	(3,554)
Fixed expenses	(2,853)	(2,847)
Semi-variable expenses	(645)	(766)
	(41,347)	(42,693)

25 Administrative expenses

	Consolidated		Parent company	
	3/31/2018	**3/31/2017**	**3/31/2018**	**3/31/2017**
Personnel expenses	(11,014)	(10,595)	(1,286)	(967)
Outsourced services	(3,335)	(2,802)	(1,292)	(632)
Rent	(729)	201	(191)	664
Travel and accommodation	(270)	(192)	-	-
Safety and security	(367)	(338)	(29)	(16)
Litigation and tax	(471)	(730)	(141)	(110)
IT and telecommunications	(765)	(745)	-	(1)
Energy, water and sanitation	(238)	(792)	(51)	(602)
Maintenance, cleaning and environment.	(595)	(720)	(16)	(29)
Other	(1,721)	(1,844)	(411)	(466)
	(19,505)	(18,557)	(3,417)	(2,159)

26 Other net operating income (expenses)

	Consolidated		Parent company	
	3/31/2018	**3/31/2017**	**3/31/2018**	**3/31/2017**
Rental income	1,116	1,050	1,044	983
Provision for contingencies	(4,773)	(3,611)	(1,410)	501
Sale of scrap	426	220	-	-
Net income on sale of fixed assets	98	166	-	-
Other	(504)	(582)	55	226
	(3,637)	(2,757)	(311)	1,710

27 Finance income

	Consolidated		Parent company	
	3/31/2018	**3/31/2017**	**3/31/2018**	**3/31/2017**
Finance expenses				
Capital structure				
Interest	(1,538)	(13,011)	(71)	(46)
IOF	(63)	(322)	(9)	(1)
Other	(612)	(2,018)	(2)	(3)
	(2,213)	(15,351)	(82)	(50)
Operating				
Banks fees	(1,699)	(2,060)	(1)	(2)
Prompt payment discount	(672)	(964)	-	-
Discounts awarded	(20)	(8,966)	-	-
	(2,391)	(11,990)	(1)	(2)
Exchange differences	(2,336)	(9,785)	(1)	(30)
	(6,940)	(37,126)	(84)	(82)
Finance income				
Capital structure				
Investment yield	1,623	587	-	1
Monetary restatement	397	546	6	21
	2,020	1,133	6	22
Operating				
Interest	271	902	11	211
Discounts obtained	23	117	-	3
	294	1,019	11	214
Exchange differences	2,471	16,964	-	6
	4,785	19,116	17	242
Finance income	**(2,155)**	**(18,010)**	**(67)**	**160**

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 weighted average number of common shares free float during 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 March 31, 2018 and March 31, 2017, 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	
	3/31/2018	**3/31/2017**
Net income attributable to shareholders	33,421	26,062
Weighted average number of shares outstanding during the period	245,756,346	185,230,346
Basic and diluted earnings per thousand shares - R$	0.14	0.14

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 aims at controlling the risks through the assessment of the several risks, considering the counterparties' credit risks, monitoring the level of assets compared to financial liabilities. There were no changes in these controls during the reporting periods.

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 Company's risk management policies were established in order to detect and analyze risks facing the Company and to establish appropriate risk controls and limits in addition to monitoring the risks and ensuring compliance with the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities

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 financials institutions.

The Company and its subsidiaries’ risk management adopts the following practices: (i) analyzing credits awarded to clients and establishing sales limits. There are no clients individually accounting for more than 4.5% of the Company's total accounts receivable as of March 31, 2018 and December 31, 2017. and (ii) careful selection of financial institutions, rated as tier-one institutions (largest asset management banks in Brazil), State banks or government development agencies, meaning that the credit risk posed by the financial institutions is extremely low and diversifying financial instruments used to invest the company’s funds, which are invested in a basket of indexes consisting of the CDI rate, fixed rates or rates restated for inflation.

Currency risk

Price risk

Considering the price risk on exports, which represent 7.12% of its subsidiaries’ revenues at March 31, 2018 (6.14% at December 31, 2017), 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, the Company tries to make a natural hedge by maintaining restricted assets with foreign exchange risk.

Sensitivity analysis

The Company and its subsidiaries’ income is susceptible to insignificant variations due to the volatility of the exchange rate on liabilities denominated in foreign currencies, mainly the US dollar, which gained 0.48% against the Brazilian currency in the year ended March 31, 2018 compared with the previous quote at December 31, 2017.

As a hedging strategy to reduce the effects of exchange rate fluctuations, Management tries to make a natural hedge by maintaining restricted assets, also subject to exchange fluctuations. Management does not enter into financial instruments to eliminate its exposure to foreign exchange risks, which are as follows:

	Consolidated	
US dollar (USD thousand)	**3/31/2018**	**12/31/2017**
Foreign-currency assets (a)	16,201	15,515
Foreign-currency liabilities (b)	(2,703)	(2,502)
Surplus determined (a-b)	13,498	13,013

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:

1. probable scenario adopted by the Company and its subsidiaries: dollar at R$ 3.3238 at March 31, 2018;

2. possible scenario: as determined by CVM resolution, the scenario considers an increase and decrease of 25% on the dollar exchange rate, to R$ 4.1548 and R$ 2.4929, respectively; and

3. remote scenario: as determined by CVM resolution, the scenario considers an increase or decrease of 50% on the dollar exchange rate, to R$ 4.9857 and R$ 1.6619, respectively.

Sensitivity Analysis of the foreign exchange risk - effect on income (loss) at March 31, 2018

Transaction	**Risk**	**Probable scenario**	**Possible scenario**	**Remote Scenario**
	US$ 13,498 thousand	Exchange rate of 3.3238	Exchange rate of 2.4929	Exchange rate of 1.6619
Finance income	USD devaluation	-	(11,216)	(22,432)

Interest rate risk

Sensitivity analysis

The Company’s and its subsidiaries’ results are exposed to fluctuations, not significant, due to the effects of the volatility of the DI-CETIP rate on the financial investments and borrowings linked to this rate, and the TJPL on part of the borrowings linked to this rate.

	Consolidated
	3/31/2018
Assets in CDI	149,874
Liabilities in CDI	72,589
Liabilities in TJPL	2,210

For compliance with CVM Resolution No. 550 of October 17, 2008, given the foreign currency risk exposure, the Company presents below 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, with a DI-CETIP rate of 6.39% p.a. and TJLP at the rate of 6.75% p.a.; (ii) possible scenario, considering an increase (in the case of loans) or decrease (in the case of investments) of 25% on the DI-CETIP rates, changing respectively to 7.99% p.a. and 4.79%; and considering an increase of 25% in the TJPL, with the rate rising to 8.44% p.a. (iii) remote scenario, considering an increase (in the case of loans) or decrease (in the case of investments) of 50% on the DI-CETIP rates, changing to 9.59% p.a. and 3.20%; and increase in TJPL to 10.13% p.a.

We present below the movements in the rates at March 31, 2018, according to the scenarios shown above:

Transaction	**Risk**	**Probable Scenario**	**Possible Scenario**	**Remote Scenario**
Loans in TJLP	2,210	TJLP at 6.75%	TJLP at 8.44% 37	TJLP at 10.13% 75
Loans in DI	72,589	DI at 6.39%	DI at 7.99% 1,161	DI at 9.59% 2,323
Investments in DI	149,874	DI at 6.39%	DI at 4.79% (2,398)	DI at 3.20% (4,781)

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 below:

	3/31/2018	
Maturity	**Amount**	%
2018	81,273	88%
2019	9,807	11%
2020	808	1%
2021	100	0%
Total	**91,989**	**100%**

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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			
		3/31/2018		12/31/2017	
Description	**Classification**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	150,681	150,681	100,502	100,502
Short-term investments	Financial assets at amortized cost	5,870	5,730	5,661	3,938
Accounts receivable	Financial assets at amortized cost	335,253	335,253	326,522	326,522
Other accounts receivable	Financial assets at amortized cost	21,026	21,026	33,187	33,187
Loans and financing:					
Local currency	Financial liabilities at amortized cost	90,917	90,917	92,725	92,725
Foreign currency	Financial liabilities at amortized cost	-	-	2,074	2,074
Trade payables	Financial liabilities at amortized cost	89,817	89,817	69,827	69,827

Fair value hierarchy

	3/31/2018		12/31/2017	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Short-term investments	5,730	-	3,938	-
Loans and financing	-	90,917	-	94,799

(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 March 31, 2018.

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 March 31, 2018 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	
	3/31/2018	**12/31/2017**
Loans and financing and subsidized financing	90,917	94,799
Cash and cash equivalents	(150,681)	(100,502)
Short-term investments	(5,870)	(5,661)
Net debt	**(65,634)**	**(11,364)**
Shareholders' equity	**818,484**	**784,573**

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 March 31, 2018 are summarized as follows:

Corporate insurance in reais

Subject matter	Risk covered	Coverage
Balance sheet	Fire, Windstorm, Electrical Damage, Machinery Breakage, Theft, Flooding, Electronic Equipment.	110,000
Lost earnings	Fixed expenses (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

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 -** 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 -** 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 Term**
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/2027

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

Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**Equity in net income of subsidiaries at parent company**	
			3/31/2018	**3/31/2017**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	14,335	99.99	14,334	16,345
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	11,566	100.00	11,566	10,198
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	721	100.00	721	852
	26,622		26,621	27,395

IRPJ

Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**Equity in net income of subsidiaries at parent company**	
			3/31/2018	**3/31/2017**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	331	99.99	331	306
Vulcabras Azaleia BA, Calçados e Artigo Esportivos S.A	-	100.00	-	-
	331		331	306

In the third quarter of 2017, 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:

	3/31/2018	**3/31/2017**
Net sales revenue		
Athletic footwear	227,518	222,124
Women's footwear	41,173	48,776
Other footwear and others	15,318	18,338
Clothing	7,975	6,645
	291,984	295,883
Domestic sales	254,727	251,414
Overseas	37,257	44,469
	291,984	295,883

The noncurrent assets of each geographic region are shown below:

	Consolidated	
	3/31/2018	**12/31/2017**
Noncurrent assets in the domestic and foreign markets from:		
Brazil	456,874	444,479
Other countries	8,139	7,976
Total	465,013	452,455

*   *   *

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
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