Vulcabras Azaleia S.A.

Interim financial statements as of June 30, 2018

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

KPDS 235881

Contents

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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 - ITR for the quarter ended June 30, 2018, consisting of the statement of financial position as of June 30, 2018 and the related statements of income, the comprehensive statements of income for the three- and six-month periods then ended, the statement of changes in shareholders' equity and statements of cash flows for the six-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 six-month period ended June 30, 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, August 13, 2018

KPMG Auditores Independentes
CRC SP-014428/O-6 S-CE
Original report in Portuguese signed by
João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Vulcabras Azaleia S.A.
(Publicly held company)

Statements of financial position June 30, 2018 and december 31, 2017

(In thousands of Reais)

		Consolidated		Parent Company	
Assets	**Note**	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**
Cash and cash equivalents	5	40.844	100.502	32	369
Short-term investments	6	1.703	1.741	-	-
Trade receivables	7	358.173	326.522	-	-
Inventories	8	197.405	189.524	-	-
Recoverable taxes	9	9.597	10.101	527	517
Income tax recoverable	10a	3.360	2.528	119	116
Prepaid expenses		7.519	5.961	4	11
Other receivables		16.599	31.151	433	424
Total current assets		**635.200**	**668.030**	**1.115**	**1.437**
Short-term investments	6	1.200	3.920	2	2
Recoverable taxes	9	4.839	4.877	2.563	2.509
Deferred income and social contribution taxes	10b	110	125	-	-
Judicial deposits	11	43.261	42.165	944	841
Other receivables		2.076	2.036	1.585	1.770
Assets held for sale		194	194	-	-
Capital expenditure	13	40.372	40.080	855.693	781.044
Investment property	14	3.154	3.362	3.142	3.349
Property, plant and equipment	15	179.092	152.647	168	171
Intangible assets	16	203.868	203.049	111	111
Total noncurrent assets		**478.166**	**452.455**	**864.208**	**789.797**
Total Assets		**1.113.366**	**1.120.485**	**865.323**	**791.234**

		Consolidated		Parent Company	
Liabilities	**Note**	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**
Trade accounts payable	18	63.061	69.827	72	450
Loans and financing	19	7.354	84.474	-	-
Taxes payable		10.140	5.822	118	-
Indirect taxes - IRPJ and CSLL		-	-	-	212
Tax Recovery Program - REFIS		128	128	-	-
Salaries and vacation payable		40.433	34.993	407	359
Provisions	20	54.753	53.115	479	566
Other accounts payable		18.840	18.275	288	781
Total current liabilities		**194.709**	**266.634**	**1.364**	**2.368**
Loans and financing	19	4.796	10.325	-	-
Related-party loans	12	-	-	7.598	3.295
Provisions	20	23.710	24.370	2.173	1.177
Taxes deferred on revaluation of PP&E	10b	3.522	3.747	-	-
Provision for devaluation of investments	13	-	-	89	76
Other accounts payable		32.229	30.836	-	-
Total noncurrent liabilities		**64.257**	**69.278**	**9.860**	**4.548**
Equity					
Capital	21	1.106.926	1.107.661	1.106.926	1.107.661
Revaluation reserves	21	6.837	7.273	6.837	7.273
Capital reserves	21	303	-	303	-
Asset and liability valuation adjustments	21	704	(3.045)	704	(3.045)
Accumulated losses		(260.671)	(327.571)	(260.671)	(327.571)
Equity attributable to controlling shareholders		**854.099**	**784.318**	**854.099**	**784.318**
Non-controlling interests		**301**	**255**	**-**	**-**
Total shareholders' equity		**854.400**	**784.573**	**854.099**	**784.318**
Total liabilities		**258.966**	**335.912**	**11.224**	**6.916**
Total Liabilities plus shareholders' equity		**1.113.366**	**1.120.485**	**865.323**	**791.234**

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of income

June 30, 2018 and 2017

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

		Consolidated		Consolidated			Parent Company		Parent Company	
	Note	6/30/2018	30/06/2017	4/1/2018 to 6/30/2018	4/1/2017 to 6/30/2017	Note	6/30/2018	30/06/2017	4/1/2018 to 6/30/2018	4/1/2017 to 6/30/2017
Net sales revenue	22	572.812	604.517	280.828	308.634		-	-	-	-
Cost of sales	23	(375.770)	(377.540)	(184.195)	(189.964)		-	-	-	-
Gross profit		**197.042**	**226.977**	**96.633**	**118.670**		**-**	**-**	**-**	**-**
Sales expenses	24	(86.179)	(88.988)	(44.832)	(46.295)		-	-	-	-
Administrative expenses	25	(38.512)	(37.740)	(19.007)	(19.183)	25	(5.867)	(3.907)	(2.450)	(1.748)
Other net operating income (expenses)	26	(6.235)	13.611	(2.598)	16.368	26	1.667	3.412	1.978	1.702
Share of profit (loss) of equity-accounted investees	13b	292	829	88	396	13b	70.887	77.840	33.671	51.489
Net income before net financial income and costs and tax		**66.408**	**114.689**	**30.284**	**69.956**		**66.687**	**77.345**	**33.199**	**51.443**
Financial income		13.006	25.163	8.221	6.047		104	366	87	124
Financial expense		(12.145)	(61.321)	(5.205)	(24.195)		(327)	(133)	(243)	(51)
Net financial income and expenses	27	**861**	**(36.158)**	**3.016**	**(18.148)**	27	**(223)**	**233**	**(156)**	**73**
Income before tax on net income		**67.269**	**78.531**	**33.300**	**51.808**		**66.464**	**77.578**	**33.043**	**51.516**
Current and deferred income tax and social contributions	10b	(801)	(939)	(254)	(286)		-	-	-	-
Net income for the year		**66.468**	**77.592**	**33.046**	**51.522**		**66.464**	**77.578**	**33.043**	**51.516**
Income attributable to:										
Owners of the Company		66.464	77.578	33.043	51.516		66.464	77.578	33.043	51.516
Non-controlling interests		4	14	3	6		-	-	-	-
Net income		**66.468**	**77.592**	**33.046**	**51.522**		**66.464**	**77.578**	**33.043**	**51.516**
Earnings (loss) per share										
Basic and diluted income per common share		0,27045	0,41882	-	-					
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

June 30, 2018 and 2017

(In thousands of Reais)

	Consolidated		Consolidated		Parent Company		Parent Company	
	6/30/2018	**30/06/2017**	**4/1/2018 to 6/30/2018**	**4/1/2017 to 6/30/2017**	**6/30/2018**	**30/06/2017**	**4/1/2018 to 6/30/2018**	**4/1/2017 to 6/30/2017**
Profit or loss for the year	66.468	77.592	33.046	51.522	66.464	77.578	33.043	51.516
Other comprehensive income - OCI	3.749	164	3.359	881	3.749	164	3.359	881
Items that may be reclassified subsequently to profit or loss								
Foreign operations - foreign currency translation differences	3.203	719	2.749	1.195	3.203	719	2.749	1.195
Available-for-sale financial assets - net change in fair value	546	(555)	610	(314)	546	(555)	610	(314)
Total comprehensive income	70.217	77.756	36.405	52.403	70.213	77.742	36.402	52.397
Comprehensive income attributable to:								
Owners of the Company	70.213	77.742	36.402	52.397	70.213	77.742	36.402	52.397
Non-controlling interests	4	14	3	6	-	-	-	-

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)

June 30, 2018 and 2017

(In thousands of Reais)

	Parent Company							
	Share capital	Revaluation reserve reflected in subsidiaries	Capital Reserve	OCI	Retained earnings (Accumulated losses)	Total	NCI	Total 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	-	(450)	-	-	450	-	-	-
Other comprehensive income								
Foreign operations - foreign currency translation differences	-	-	-	719	-	719	17	736
Available-for-sale financial assets - net change in fair value				(555)		(555)	-	(555)
Net income for the period	-	-	-	-	77.578	77.578	-	77.578
Balances as of June 30, 2017	**565.913**	**7.716**	**-**	**(4.901)**	**(439.349)**	**129.379**	**243**	**129.622**
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	-	(436)	-	-	436	-	-	-
Realization of share issuance expenses	(735)					(735)		(735)
Granting shares	-	-	303	-	-	303	-	303
Other comprehensive income								
Foreign operations - foreign currency translation differences	-	-	-	3.203	-	3.203	46	3.249
Available-for-sale financial assets - net change in fair value	-	-		546	-	546	-	546
Net income for the period	-	-	-	-	66.464	66.464	-	66.464
Balances as of June 30, 2018	**1.106.926**	**6.837**	**303**	**704**	**(260.671)**	**854.099**	**301**	**854.400**

See the accompanying notes to the quarterly information.

Vulcabras Azaleia S.A.

(Publicly held company)

Statements of cash flows - Indirect method

June 30, 2018 and 2017

(In thousands of Reais)

	Consolidated		Parent Company	
	6/30/2018	**30/06/2017**	**6/30/2018**	**30/06/2017**
Cash flows from operating activities				
Net income for the year	66.464	77.578	66.464	77.578
Adjustments for:				
Depreciation and amortization	27.634	27.256	210	502
Inventory impairment loss	(1.142)	(2.058)	-	-
Net value of tangible and intangible assets written off	1.528	8.321	-	142
Earnings on investments	(3.032)	(1.365)	-	(1.057)
Losses on contingencies	7.845	7.735	972	(886)
Share of profit (loss) of equity-accounted investees	(292)	(829)	(70.887)	(77.840)
Granting shares	303	-	303	-
Estimated loss on allowance for doubtful accounts	1.556	3.803	-	-
Exchange variance	-	-	-	(164)
Financial charges and exchange variance recognized in profit or loss.	5.723	25.875	-	164
Deferred taxes	(210)	43	-	-
Partial investment write-off (investee)	-	1.426	-	-
	106.377	**147.785**	**(2.938)**	**(1.561)**
Changes in assets and liabilities				
Short-term investments	5.790	1.805	-	700
Trade receivables	(33.207)	(9.654)	-	-
Inventories	(6.739)	1.233	-	-
Prepaid expenses	(1.558)	(1.826)	7	9
Recoverable taxes	(290)	(24.807)	(67)	(104)
Other accounts receivable	14.512	15.202	176	1.641
Judicial deposits	(1.096)	(149)	(103)	15
Trade payables	(6.766)	15.652	(378)	(468)
Taxes and social contributions	4.318	4.000	(94)	7
Salaries and vacation payable	5.440	16.020	48	-
Other accounts payable	2.004	6.763	(493)	(46)
Provision for contingencies used	(6.867)	(9.513)	(63)	(161)
	(24.459)	**14.726**	**(967)**	**1.593**
Cash produced by operating activities				
Interest paid	(3.222)	(22.964)	-	-
	(3.222)	**(22.964)**	**-**	**-**
Flow of net cash provided by (used in) operating activities	**78.696**	**139.547**	**(3.905)**	**32**
Cash flows from investing activities				
Acquisitions of property, plant and equipment	(53.810)	(26.188)	-	-
Acquisitions of intangible assets	(1.183)	(435)	-	(435)
Gain and loss on translation of investments	(1.225)	-	-	-
Net cash flows (used in) investing activities	**(56.218)**	**(26.623)**	**-**	**(435)**
Cash flows from financing activities				
Loans secured - Principal	249	64.537	-	-
Repayment of loans secured – principal	(81.650)	(157.825)	-	-
Receipt (Payment) of related-party loans	-	(5.000)	4.303	423
Realization of share issuance expense	(735)	-	(735)	-
Net cash flows (used in) financing activities	**(82.136)**	**(98.288)**	**3.568**	**423**
Increase (decrease) in cash and cash equivalents	**(59.658)**	**14.636**	**(337)**	**20**
Cash and cash equivalents at beginning of period	100.502	17.094	369	10
Cash and cash equivalents at end of period	40.844	31.730	32	30
Increase (decrease) in cash and cash equivalents	**(59.658)**	**14.636**	**(337)**	**20**

See the accompanying notes to the quarterly information.

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

Statements of value added

June 30, 2018 and 2017

(In thousands of Reais)

	Consolidated		Parent Company	
	6/30/2018	**30/06/2017**	**6/30/2018**	**30/06/2017**
Revenue	**651.537**	**703.725**	**844**	**670**
Sales of merchandise, goods and services	650.590	684.383	-	-
Other income and expenses	2.453	21.941	844	670
Allowance for doubtful accounts	(1.506)	(2.599)	-	-
Consumables acquired from third parties	**(268.136)**	**(265.518)**	**(4.096)**	**(558)**
Raw materials consumed	(82.471)	(153.167)	-	-
Cost of goods, merchandise and services sold	(113.036)	(43.271)	-	-
Materials, energy, third-party services and others	(72.586)	(69.041)	(4.096)	(558)
Loss/recovery of asset values	(43)	(39)	-	-
Gross added value	**383.401**	**438.207**	**(3.252)**	**112**
Retentions	**(27.634)**	**(27.256)**	**(209)**	**(209)**
Depreciation, amortization and depletion	(27.634)	(27.256)	(209)	(209)
Added value produced by the Company	**355.767**	**410.951**	**(3.461)**	**(97)**
Transferred value added	**16.563**	**29.073**	**73.090**	**80.219**
Share of profit (loss) of equity-accounted investees	292	829	70.887	77.840
Finance revenue	13.006	25.163	104	366
Other	3.265	3.081	2.099	2.013
Total added value to be distributed	**372.330**	**440.024**	**69.629**	**80.122**
Distribution of value added	**372.330**	**440.024**	**69.629**	**80.122**
Personnel	**207.802**	**210.798**	**2.346**	**1.932**
Direct compensation	144.282	148.037	-	-
Benefits	23.927	24.651	-	-
Government Severance Indemnity Fund for Employees (FGTS)	10.940	10.215	-	-
Sales commission and commercial discount	24.253	24.252	-	-
Executive Board fees	4.400	3.643	2.346	1.932
Taxes, fees and contributions	**87.597**	**90.953**	**504**	**482**
Federal	69.295	75.457	504	482
State	17.983	15.397	-	-
Municipal	319	99	-	-
Return on debt capital	**10.463**	**60.681**	**314**	**130**
Interest	9.410	59.441	314	129
Rent	1.053	1.240	-	-
Other	-	-	-	1
Return on equity capital	**66.468**	**77.592**	**66.465**	**77.578**
Retained earnings	66.464	77.578	66.465	77.578
Minority interests	4	14	-	-

See the accompanying notes to the quarterly information.

Notes to the interim financial statements

(In thousands of Reais, unless stated otherwise)

1 Operations

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 preparation and presentation 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 June 30, 2018 and December 31, 2017.

The Board of Directors authorized the conclusion of these quarterly statements on August 13, 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

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

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

a. Judgments

Information about judgments made in applying accounting policies that have the most significant effects 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 charges: 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 value added

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 six-month period ended June 30, 2018

In thousands of reais	**Note**	**As reported**	**Adjustments**	**Amounts without adopting CPC 47 / IFRS 15**
Revenues	22	674,273	-	674,273
Deductions	22	(101,461)	1,513	(99,948)
Costs	23	(375,770)	-	(375,770)
Gross income		**197,042**	**1,513**	**198,555**
Sales expenses	24	(86,179)	(1,428)	(87,607)
Administrative expenses	25	(38,512)	-	(38,512)
Other net operating income (expenses)	26	(6,235)	-	(6,235)
Share of profit (loss) of equity-accounted investees	13b	292	-	292
Net financial income and costs	27	861	(85)	776
Income before tax on net income		**67,269**	**-**	**67,269**
Current and deferred income tax and social contributions		(801)	-	(801)
Net income for the year		**66,468**	**-**	**66,468**

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 June 30, 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 June 30, 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.

b.1 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.2 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.3 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	40,844	-	-	-	**40,844**
Short-term investments	-	1,180	1,723	-	**2,903**
Trade receivables	358,173	-	-	-	**358,173**
Other accounts receivable	18,675	-	-	-	**18,675**
Financial liabilities					
Loans and borrowings	-	-	-	12,150	**12,150**
Trade payables	-	-	-	61,155	**61,155**

3.3 New standards, amendments and interpretations of standards

The standards, changes and interpretations of standards issued but not yet adopted by the issuance of the Company's financial statements are shown below. 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

	% Direct interest		% Indirect interest		% Total interest	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
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	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Cash and banks - checking account	645	751	25	32
Floating CDB (Invest Fácil)	1,832	-	7	-
Floating CDB	16,766	19,620	-	337
Debentures	5,505	4,452	-	-
Investment fund	10,346	74,166	-	-
Cash and cash equivalents overseas	5,750	1,513	-	-
	40,844	**100,502**	**32**	**369**

Cash and banks - checking account consist of bank deposits that do not yield interest.

Short-term investments classified as cash equivalents consist of short term investments, with daily liquidity, which can be redeemed at any time regardless of maturity, without forfeiting any of the yield.

Financial investments accruing interest on the bank account balance (Invest Fácil) are made automatically according to the availability of bank balance and the redemptions occur according to the Company's immediate cash requirements. The yield is 10% of the CDI rate (Interbank Deposit Certificate).

Floating CDBs (Interbank Deposit Certificates) yield 98.0% to 98.5% of the CDI rate and investments in Debentures (Securities subject to repurchase agreements) are very short-term investments with redemption of less than 30 days and yield 50% of the CDI rate.

Investments in fixed-income investment funds yield an average 100% of the CDI rate. The funds' portfolio consists of financial treasury bills and securities of tier-one financial institutions.

6 Short-term investments

	Consolidated		Parent Company	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Short-term investments in Brazil:				
Floating CDB	33	2,244	2	2
Capitalization bonds	1,723	1,723	-	-
Financial assets - investment funds in stocks	1,147	1,694	-	-
	2,903	**5,661**	**2**	**2**
Current	1,703	1,741	-	-
Non-current	1,200	3,920	2	2

Floating CDBs do not have daily liquidity and yield 99.0% of the Interbank Deposit Certificate rate (CDI).

Investments in capitalization bonds underlie guarantees for financing contracts and will be held through maturity.

Investments in investment fund quotas are available for sale and valued at market price, without affecting profit or loss. Shares were valued according to Bovespa's quotation, at the end of the reporting period.

7 Trade accounts receivable

a. Breakdown of balances

	Consolidated	
	6/30/2018	**12/31/2017**
Accounts receivable		
Domestic:		
Trade receivables	341,331	322,540
Foreign:		
Receivables	48,746	34,330
Subtotal trade receivables	390,077	356,870
Estimated allowances for doubtful accounts	(31,904)	(30,348)
Total accounts receivable from customers, net	358,173	326,522

b. By maturity

	Consolidated	
	6/30/2018	**12/31/2017**
Neither past due nor impaired		
1 to 30 days	122,045	134,996
31 to 60 days	77,378	91,791
61 to 90 days	62,797	47,129
Past due more than 90 days	76,532	37,507
	338,752	311,423
Overdue		
1 to 30 days	13,095	12,540
31 to 60 days	3,993	920
61 to 90 days	906	942
Past due more than 90 days	33,331	31,045
	51,325	45,447
	390,077	356,870

The Company understands that the amount that better represents its maximum exposure to credit risk for the period ended June 30, 2018 is R$ 31,904 (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 June 30, 2018 and December 31, 2017 were as follows:

	Consolidated	
	6/30/2018	**12/31/2017**
Opening balance	(30,348)	(24,164)
Provision supplement	(4,811)	(17,245)
Recovery of provisions	3,255	11,061
Closing balance	(31,904)	(30,348)

e. Portfolio concentration

	Consolidated			
	6/30/2018		**12/31/2017**	
Trade receivables (unrelated parties)				
Top client	23,556	6%	15,453	4%
Top 2 to 11 clients	91,611	24%	73,058	21%
Top 12 to 50 clients	55,333	14%	50,850	14%
Other clients	219,577	56%	217,509	61%
Total client portfolio	390,077	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 June 30, 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 Inventories

	Consolidated	
	6/30/2018	**12/31/2017**
Finished goods	84,657	77,404
Work in progress	17,861	18,829
Raw materials	73,178	72,891
Packaging and store room materials	20,101	18,833
Goods in transit	151	211
Imports in transit	1,457	1,356
	197,405	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 June 30, 2018, the provision for losses on finished goods is R$ 2,391 (R$ 3,099 at December 31, 2017), the provision for losses on raw materials is R$ 7,233 (R$ 7,395 at December 31, 2017) and the provision for losses on goods in process is R$ 7,378 (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$ 336,585 at June 30, 2018 (R$ 333,135 at June 30, 2017).

b. Change in provision (impairment)

The movements in the impairment of inventories in the periods ended June 30, 2018 and December 31, 2017 were as follows:

	Consolidated	
	6/30/2018	**12/31/2017**
Opening balance	(18,144)	(14,605)
Additions in the period	(681)	(3,038)
Reversal of provision	1,823	(501)
Closing balance	(17,002)	(18,144)

9 Recoverable taxes

	Consolidated		Parent Company	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
ICMS	5,366	4,295	20	20
IPI	629	1,622	-	-
PIS/COFINS	1,229	1,308	-	-
FINSOCIAL	3,118	3,063	2,563	2,509
Reintegra	670	515	-	-
Other(*)	3,424	4,175	507	497
	14,436	**14,978**	**3,090**	**3,026**
Current	9,597	10,101	527	517
Non-current	4,839	4,877	2,563	2,509

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

10 Income tax and social contribution

a. Prepaid income tax

	Consolidated		Parent Company	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
ʾrepaid income tax	3,360	2,528	119	116
	3,360	**2,528**	**119**	**116**

b. Deferred income and social contribution taxes

	Consolidated	
	6/30/2018	**12/31/2017**
Temporary differences in the year		
Revaluation of property, plant and equipment	(3,522)	(3,747)
Deferred income tax - foreign subsidiary	110	125
Deferred income and social contribution taxes on temporary differences	**(3,412)**	**(3,622)**
Total deferred income tax and social contribution assets	110	125
Total deferred income tax and social contribution liabilities	(3,522)	(3,747)

The subsidiaries in Brazil have deferred tax liabilities on revaluation of property, plant and equipment of R$ 3,522 and deferred tax assets of foreign subsidiary of R$ 110.

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	
	6/30/2018	**6/30/2017**
Current income and social contribution taxes	(801)	(659)
Deferred income and social contribution taxes	-	(280)
	(801)	(939)

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 June 30, 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:

	6/30/2018							
	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 6/30/2018	401,209	618,882	126,436	74,772	243,428	21,837	147,661	1,634,225
Negative basis of social contribution at 6/30/2018	1,171,194	630,243	126,534	74,772	276,215	21,837	149,776	2,450,571

	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	
	6/30/2018	**6/30/2017**
Profit before income and social contribution taxes	67,269	78,531
Profit before income and social contribution taxes at the rate of 34%	22,871	26,700
Nondeductible expenses	970	945
Reintegra	(245)	(361)
State Tax Incentive - ICMS	(17,298)	(19,424)
Technological Innovation Incentive - R&D	(4,167)	-
Exchange rate effects	(614)	364
Other	(716)	(7,285)
	(22,070)	(25,762)
IR and CS expenses for the year	801	939
Effective rate	1.19%	1.20%

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**	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Judicial deposits				
Civil	859	222	193	122
Labor	33,166	32,884	644	615
Tax claims	9,236	9,059	107	104
Total	**43,261**	**42,165**	**944**	**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 June 30, 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	**Vulcabras Azaleia Administracion**	**6/30/2018**	**12/31/2017**
Asset				
Other subsidiary credits	-	11	11	14
Liabilities				
Loans from subsidiaries	7,598	-	7,598	3,295
Net income				
Finance income	179	(1)	178	191
Total	**7,777**	**10**	**7,787**	**3,500**

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:

	Vulcabras Azaleia RS	Vulcabras Azaleia Administración	Calzados Azaleia Colombia	Vulcabras Azaleia S.A.	Vulcabras Distribuidora	Vulcabras Azaleia BA	Vulcabras Azaleia SE	Distribuidora Cruzeiro do Sul	6/30/2018	12/31/2017
Asset										
Accounts receivable	-	-	617	-	-	1,040	12	11	1,680	421
AFAC(*)	2,330	-	-	-	-	-	-	-	2,330	28,995
Other accounts receivable	-	263	-	-	50	1,833	451	-	2,597	2,382
Loans receivable	-	278	7,150	7,598	-	-	-	-	15,026	3,295
									6/30/2018	**12/31/2017**
Liabilities										
Trade and other payables	-	-	-	-	381	1,730	23	-	2,134	759
Other debits	3	-	-	-	-	22,927 (**)	-	-	22,930	-
									6/30/2018	**12/31/2017**
Net income										
Finance income	-	(36)	(542)	(179)	-	-	-	-	(757)	(127)

The main nature of the transactions is the purchase and sale of shoes and apparel and accessories, loans and advance for future capital increase.

(*) Advance for future capital increase already considered in the investment.

(**) Refer to advances to suppliers for services provided by Vulcabras Azaleia CE to Vulcabras Azaleia BA.

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

At the Annual General Meeting held April 25, 2018, the Company established the annual overall compensation of the Executives at up to R$ 9,471. In the period ended June 30, 2018, the Company paid R$ 4,400 as management compensation (R$ 3,643 at June 30, 2017).

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

At June 30, 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	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Permanent equity interests				
Subsidiaries	-	-	855,604	780,968
Associated companies	40,372	40,080	-	-
Total	40,372	40,080	855,604	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	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Opening balances	40,080	29,733	780,968	133,277
Equity in net income of subsidiary (*)	292	8,757	70,887	191,102
Foreign operations - foreign currency translation differences	-	-	3,203	1,851
Available-for-sale financial assets - net change in fair value	-	-	546	169
Increase in interest in investee (Pars)	-	1,590	-	454,569
Closing balances	40,372	40,080	855,604	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	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**
Total assets	999,135	974,646	20,607	19,316	828	930	1	20	-	-
Total assets	143,488	193,930	3,440	3,249	748	692	5,771	4,920	-	-
Share capital	1,363,597	1,363,597	71,635	69,945	2,715	2,715	1056	1,056	-	-
Net revenue	343,811	785,544	12,952	20,426	-	-	-	-	-	-
Net income in the period	71,168	191,011	(590)	(10,547)	(117)	2,727	(51)	(86)	-	-
Number of shares held (in lots of one thousand)	247,178	247,178	200	200	1,983	1,983	10	10	-	-
Equity	855,647	780,716	17,167	16,067	80	238	(5,770)	(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	855,643	780,714	46	321	3	9	-	-	855,692	781,044
Provision for liability on investment loss		-	-	-	-	-	(89)	(76)	(89)	(76)
Share of profit (loss) of equity-accounted investees	71,167	191,011	(2)	(13)	(5)	108	(1)	(1)	71,159	190,905

d. Information on indirect interests

At June 30, 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.

6/30/2018	**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	324,481	20,607	1	828
Total assets	44,961	3,440	5,771	748
Share capital	486,339	71,635	1,056	2,715
Equity	279,520	17,167	(5,770)	80
Net revenue	741	12,952	-	-
Net income in the period	21,152	(590)	(51)	(117)
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
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.

6/30/2018	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	291,596	68,119	11,201	13,396	35,206
Total assets	55,075	41,550	8,749	11,994	2,166
Share capital	459,929	92,404	26,207	841	1,072
Equity	236,521	26,569	2,452	1,402	33,040
Net revenue	179,249	37,977	10,139	8,128	30,121
Net income in the period	21,401	1,089	1,795)	(293)	423
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
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

a. Account breakdown

	Consolidated		Parent Company	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Property	10,624	10,624	10,574	10,574
Depreciation (*)	(7,470)	(7,262)	(7,432)	(7,225)
Grand Total	3,154	3,362	3,142	3,349

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

b. Change in amortization

	Consolidated		
	Balance at 12/31/2017	**Additions**	**Balance at 6/30/2018**
Property	(7,262)	(208)	(7,470)
Total	(7,262)	(208)	(7,470

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 June 30, 2018 the property earned rental revenue of R$ 2,099 (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

		Consolidated			
		6/30/2018			12/31/201
June 30, 2018	**Average depreciation rate % p.a.**	**Cost**	**Depreciation**	**Net**	**Ne**
Buildings	2 to 4	126,589	(78,269)	48,320	49,575
Plant and equipment	10	334,635	(273,747)	60,888	50,517
Molds	100	218,815	(200,807)	18,008	13,209
Fixtures and fittings	10 to 20	26,752	(21,648)	5,104	4,969
Vehicles	20	2,097	(1,785)	312	252
Computer equipment	20 to 25	23,924	(20,004)	3,920	2,756
Land	-	3,490	-	3,490	3,490
Molds in progress	-	19	-	19	410
Industrial facilities	10	73,128	(44,754)	28,374	23,251
Improvements to rented property	10 to 20	89	(89)	-	-
Imports in transit	-	8,371	-	8,371	2,849
Improvements to leased property	-	2,887	(2,069)	818	49
Others	10 to 20	2,438	(970)	1,468	1,320
		823,234	**(644,142**	**179,092**	**152,647**

b. Change in the cost

	Consolidated					
	12/31/2017	**6/30/2018**				
June 30, 2018	**Opening balance**	**Additions**	**Write-offs**	**Transfer**	**Translation Adjustment**	**Closing balance**
Buildings	125,911	19	-	-	659	126,589
Plant and equipment	319,134	4,333	(3,653)	14,821	-	334,635
Molds	204,841	20,116	(4,906)	(1,236)	-	218,815
Fixtures and fittings	25,919	538	(89)	58	326	26,752
Vehicles	1,994	82	(33)	-	54	2,097
Computer equipment	22,136	1,391	(36)	26	407	23,924
Land	3,490	-	-	-	-	3,490
Molds in progress	410	1,236	(343)	(1,284)	-	19
Industrial facilities	65,791	7,337	-	-	-	73,128
Improvements to rented property	89	-	-	-	-	89
Imports in transit	2,849	17,907	-	(12,385)	-	8,371
Improvements to leased property	2,092	795	-	-	-	2,887
Others	2,066	56	(28)	-	344	2,438
	776,722	**53,810**	**(9,088)**	**-**	**1,790**	**823,234**

		Consolidated			
	2016	**2017**			
At 31 December 2017	**Opening balance**	**Additions**	**Write-offs**	**Transfer**	**Closing balance**
Buildings	125,872	39	-	-	125,911
Plant and equipment	325,236	8,992	(21,053)	5,959	319,134
Molds	189,181	28,039	(12,379)	-	204,841
Fixtures and fittings	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
Molds 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
Others	1,971	269	(174)	-	2,066
	757,158	**61,712**	**(42,148)**	**-**	**776,722**

c. Change in depreciation

June 30, 2018	**12/31/2017**	**Consolidated 6/30/2018**				
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Translation Adjustment**	**Closing balance**
Buildings	(76,336)	(1,782)	-	(20)	(131)	(78,269)
Plant and equipment	(268,617)	(8,254)	3,104	20	-	(273,747)
Molds	(191,632)	(13,480)	4,305	-	-	(200,807)
Fixtures and fittings	(20,950)	(633)	86	-	(151)	(21,648)
Vehicles	(1,742)	(45)	32	-	(30)	(1,785)
Computer equipment	(19,380)	(431)	33	-	(226)	(20,004)
Industrial facilities	(42,540)	(2,214)	-	-	-	(44,754)
Improvements to rented property	(89)	-	-	-	-	(89)
Improvements to leased property	(2,043)	(27)	1	-	-	(2,069)
Others	(746)	(91)	-	-	(133)	(970)
	(624,075)	**(26,957)**	**7,561**	**-**	**(671)**	**(644,142)**

December 31, 2017	**2016**	**Consolidated 2017**			
	Opening balance	**Additions**	**Write-offs**	**Transfe**	**Closing balance**
Buildings	(72,627)	(3,709)	-	-	(76,336)
Plant and equipment	(269,802)	(18,075)	19,260	-	(268,617)
Molds	(175,624)	(26,532)	10,524	-	(191,632)
Fixtures and fittings	(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)
Others	(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 June 30, 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	**6/30/2018**	**12/31/2017**	**6/30/2018**	**12/31/2017**
Definite-lived					
Software	10 years	31,028	29,746	-	785
Assignment of rights	Contractual term	622	544	-	-
Accumulated amortization - Software	10 years	(27,706)	(27,256)	-	(785)
Accumulated amortization - Assignment of rights	Contractual term	(466)	(357)	-	-
Total		3,478	2,677	-	-
Indefinite-lived					
Patents and trademarks	Indefinite	2,176	2,158	111	111
Goodwill (d)		198,214	198,214	-	-
Total		200,390	200,372	111	111
Grand Total		203,868	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

				Consolidated			
June 30, 2018	**Terms of useful life**	**Amortization methods**	**Balance as of 12/31/2017**	**Additions**	**Write-offs**	**Translation Adjustment**	**Balance as of 6/30/2018**
Definite-lived							
Software	10 years	Straight-line	29,746	1,165	-	117	31,028
Assignment of rights	Contract term	Straight-line	544	-	(1)	79	622
Indefinite-lived							
Patents and trademarks	Not defined	-	2,158	18	-	-	2,176
Goodwill			198,214	-	-	-	198,214
Total			230,662	1,183	(1)	196	232,040

				Consolidated		
December 31, 2017	**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

June 30, 2018

			Consolidated				
	Terms of useful life	**Amortization methods**	**Balance at 12/31/2017**	**Additions**	**Write-offs**	**Translation Adjustment**	**Balance at 6/30/2018**
Definite-lived							
Software	10 years	Straight-line	(27,256)	(417)	-	(33)	(27,706)
Assignment of rights	Contract term	Straight-line	(357)	(52)	-	(57)	(466)
Total			(27,613)	(469)	-	(90)	(28,172)

December 31, 2017

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

d. Goodwill on business combination

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

e. Research and development

In the period ended June 30, 2018, the Company recognized R$ 19,235 (R$ 8,565 at June 30, 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 June 30, 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 7.7275%. p.a.

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 3.46% 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 7.57% p.a. between the period from 2018 to 2027.

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

18 Trade payables

a. Account breakdown

	Consolidated		Parent Company	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Trade payables				
Domestic				
Other	55,349	63,602	72	450
Foreign				
Other	7,712	6,225	-	-
	63,061	69,827	72	450

b. By maturity

	Consolidated	
	6/30/2018	**12/31/2017**
Neither past due nor impaired		
1 to 30 days	43,429	56,905
31 to 60 days	11,764	9,891
61 to 90 days	3,922	2,668
Past due more than 90 days	3,769	172
	62,884	69,636
Overdue		
1 to 30 days	77	190
31 to 90 days	-	1
Past due more than 90 days	100	-
	177	191
	63,061	69,827

c. Portfolio concentration

	Consolidated			
	6/30/2018		**12/31/2017**	
Trade payables (unrelated parties)				
Top supplier	2,515	4%	6,857	10%
Top 2 to 11 suppliers	9,672	15%	13,300	19%
Top 12 to 50 suppliers	10,934	17%	12,558	18%
Other trade payables	39,940	64%	37,112	53%
Total suppliers (unrelated parties)	63,061	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 47 days as of June 30, 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 rates	**6/30/2018**	**12/31/2017**
Local Currency			
Property, plant and equipment/ Tax incentive	Fixed Rate of 4.0% TJLP	12,150	21,490
NCE - Export Credit Note	CDI + 1.2% p.a	-	71,235
		12,150	**92,725**
Foreign Currency			
Import financing			
FINIMP - Import Financing	7.26% p.a.	-	2,074
		-	2,074
Total loans and financing		**12,150**	**94,799**
Current		7,354	84,474
Non-current		4,796	10,325

At June 30, 2018 and December 31, 2017 the installment payments under the primary loans and financing agreements were as follows:

	6/30/2018		12/31/2017	
Expiry date	**Amount**	**%**	**Amount**	**%**
Current	**7,354**	**61%**	**84,474**	**89%**
2018	3,706	31%	-	0%
2019	7,406	61%	84,474	89%
2020	785	6%	9,567	10%
2021	253	2%	758	1%
Non-current	**4,796**	**39%**	**10,325**	**11%**
Total	**12,150**	**100%**	**94,799**	**100%**

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

	6/30/2018	12/31/2017
Opening balances	**94,799**	**539,268**
Inflows	249	70,052
Charges	1,992	30,827
Monetary and exchange variance	(18)	480
Amortization of principal	(81,650)	(509,603)
Interest payments	(3,222)	(36,225)
Closing balances	**12,150**	**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 borrowings	Capital share	Total
Balance as of January 1, 2018	**94,799**	**1,107,661**	**1,202,460**
Change in financing cash flow			
Loans secured - Principal	249	-	249
Realization of share issuance expense	-	(735)	(735)
Repayment of loans secured - principal	(81,650)	-	(81,650)
Total changes from financing cash flows	**(81,401)**	**(735)**	**(82,136)**
Other changes related to liabilities			
Interest paid	(3,222)	-	(3,222)
Financial charges recognized in profit or loss	1,974	-	1,974
Total other changes related to liabilities	(1,248)	-	(1,248)
Balance as of June 30, 2018	**12,150**	**1,106,926**	**1,119,076**

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**	
	6/30/2018	**12/31/2017**	**6/30/2018**	**12/31/2017**
Provision for judicial and administrative proceedings				
Civil	19,301	19,649	565	615
Labor	49,290	48,119	1,980	1,023
Tax	9,872	9,717	107	105
Total	78,463	77,485	2,652	1,743
Current	54,753	53,115	479	566
Non-current	23,710	24,370	2,173	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. The effects on the provision for loss on labor claims are charged to other expenses in profit or loss.

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. The effects on the provision for loss on tax claims are charged to other expenses in profit or loss.

e. Changes in the lawsuits

		Consolidated		
June 30, 2018	**12/31/2017**	**6/30/2018**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	19,649	(27)	(321)	19,301
Labor	48,119	7,719	(6,548)	49,290
Tax	9,717	153	2	9,872
Total	77,485	7,845	(6,867)	78,463

		Parent Company		
June 30, 2018	**12/31/2017**	**6/30/2018**		
Nature	**Opening balance**	**Additions**	**Use**	**Closing balance**
Civil	615	13	(63)	565
Labor	1023	959	(2)	1,980
Tax	105	-	2	107
Total	1,743	972	(63)	2,652

		Consolidated		
December 31, 2017	**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

		Parent Company		
December 31, 2017	**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 June 30, 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	
	6/30/2018	**12/31/2017**
Contingencies		
Civil	2,899	1,922
Labor	48,170	54,101
Tax(*)	122,327	121,371
Total	173,396	177,394

(*) The Company's Main tax claims entail applications to recognize the right to use PIS and COFINS credits established by Laws 10637/02 and 10833/03 and Assessment Notices as a result of charging ICMS, IPI, II, PIS and COFINS credits.

The Company has an environmental contingency due to the disposal of industrial waste in the property in which the industrial landfill of Itapetinga / BA was installed. Currently, this area is subject to administrative remediation process. The practice of waste disposal has already been regularized.

21 Shareholders’ Equity (Parent company)

a. Capital

At June 30, 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 June 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$ 33,984 resulting in a net effect of R$ 541,642. The amount of capital as of June 30, 2018 is R$ 1,106,926.

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 June 30, 2018 is R$ 6,837 (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.

Plan features

2018 Plan	**1st Grant**
Date Granted	16/Jan/2018
Number of options granted	835,000
Vesting Period	3 years
Maturity for exercising	31/Mar/2021
Maximum deadline for exercising	31/Mar/2022
Strike Price	R$ 9.50[1]
Beneficiaries (employees)	24

[1] The strike price is set at R$ 9.50 (nine reais and fifty cents), restated by the change in the Broad Consumer Prices Index - IPCA from the award date through the effective exercising of the Option.

Beneficiaries

Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras Azaleia S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

Pricing Method

The Black-Scholes pricing model was used to price the options, using the following core 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.

Option Plan Expense
The amortization amounts recorded as an expense in the financial statements and charged to the Company's equity since the granting date through June 30, 2018 are shown below (stated in reais):

Plan	Strike Price	Date Granted	Accumulated Expense 6/30/2018
2018	R$ 9.50	16/Jan/2018	R$ 302,831
Total	**-**	**-**	**R$ 302,831**

d. Asset and liability valuation 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 June 30, 2018 is R$ 704 (R$ 3,045 as of December 31, 2017).

22 Revenue

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

	Consolidated	
	6/30/2018	**6/30/2017**
Gross operating revenue		
Sale and resale of goods		
Domestic	601,274	635,375
Overseas	71,858	76,362
Services rendered	1,141	937
	674,273	712,674
Deductions		
Sales and services taxes	(77,406)	(80,800)
Returns, rebates and prompt-payment discount	(24,055)	(27,357)
	(101,461)	(108,157)
Net operating revenue	**572,812**	**604,517**

23 Cost of sales and resales

	Consolidated	
	6/30/2018	**6/30/2017**
Raw materials	(138,702)	(142,578)
Temporary labor	(101,690)	(108,493)
Indirect cost	(96,193)	(92,208)
Total cost of sales	336,585	343,279
Resale	(39,185)	(34,261)
	(375,770)	**(377,540)**

24 Sales expenses

	Consolidated	
	6/30/2018	**6/30/2017**
Commission	(22,825)	(23,197)
Carriage	(22,151)	(22,672)
Commercial discount (*)	-	(1,532)
PECLD	(1,504)	(2,598)
Advertising	(25,072)	(24,313)
Royalties	-	(35)
Personnel expenses	(7,223)	(7,427)
Fixed expenses	(6,169)	(5,645)
Semi-variable expenses	(1,235)	(1,569)
	(86,179)	(88,988)

(*) Under the adoption of IFRS 15 on 6/30/2018, the balance of commercial rebates was reclassified to revenue reductions.

25 Administrative expenses

	Consolidated		Parent Company	
	6/30/2018	**6/30/2017**	**6/30/2018**	**6/30/2017**
Personnel expenses	(22,282)	(22,102)	(2,651)	(1,933)
Outsourced services	(6,614)	(5,205)	(2,372)	(1,185)
Rent	(1,120)	946	-	1,924
Travel and accommodation	(731)	(492)	-	-
Safety and security	(656)	(1,045)	(4)	(401)
Litigation and tax	(910)	(1,174)	(294)	(292)
IT and telecommunications	(1,770)	(2,150)	(1)	(1)
Energy, water and sanitation	(327)	(1,557)	(1)	(1,272)
Maintenance, cleaning and environment.	(1,029)	(1,534)	(15)	(125)
Others	(3,073)	(3,427)	(529)	(622)
	(38,512)	(37,740)	(5,867)	(3,907)

26 Other net operating income (expenses)

	Consolidated		Parent Company	
	6/30/2018	**6/30/2017**	**6/30/2018**	**6/30/2017**
Rental income	2,247	2,147	2,099	2,013
Provision for contingencies	(7,827)	(7,537)	(973)	977
Sale of scrap	767	634	-	-
Net income on sale of fixed assets	65	(24)	-	-
PRT - Tax Regularization Program	-	18,579	-	-
Others	(1,487)	(188)	541	422
	(6,235)	13,611	1,667	3,412

27 Finance income

	Consolidated		Parent Company	
	6/30/2018	**6/30/2017**	**6/30/2018**	**6/30/2017**
Finance costs				
Capital structure				
Interest	(1,461)	(22,712)	(194)	(91)
IOF	(126)	(462)	(10)	(2)
Others	(1,421)	(3,058)	(116)	(4)
	(3,008)	(26,232)	(320)	(97)
Operating				
Banks fees	(3,103)	(4,212)	(3)	(3)
Prompt payment discount (*)	-	(1,736)	-	-
Discounts awarded	(1,288)	(9,060)	-	-
	(4,391)	(15,008)	(3)	(3)
Exchange differences	(4,746)	(20,081)	(4)	(33)
	(12,145)	(61,321)	(327)	(133)
Finance revenue				
Capital structure				
Investment yield	3,032	1,365	1	2
Monetary restatement	592	183	12	-
	3,624	1,548	13	2
Operating				
Interest	254	2,753	90	354
Discounts obtained	99	23	-	3
	353	2,776	90	357
Exchange differences	9,029	20,839	1	7
	13,006	25,163	104	366
Finance income	**861**	**(36,158)**	**(223)**	**233**

(*) Under the adoption of IFRS 15 on 6/30/2018, the balance of prompt payment discounts was reclassified to revenue reductions.

28 Earnings (loss) 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 June 30, 2018 and June 30, 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	
	6/30/2018	**6/30/2017**
Net income attributable to shareholders	66,464	77,578
Weighted average number of shares outstanding during the period	245,756,346	185,230,346
Basic and diluted earnings per thousand shares - R$	0.27	0.42

29 Financial instruments and risk management

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

Financial risks framework and management

The Company manages financial risks by monitoring the financial positions of assets and liabilities, controlling exposure limits. 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 assessments of financial instruments and risk management are explained below:

Credit risk

The Company and its subsidiaries are exposed to the credit risk entailing the possibility of not receiving trade accounts receivable or credits from 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 6.1% of the Company's total accounts receivable as of June 30, 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 6.47% of its subsidiaries' revenues at June 30, 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 16.56% against the Brazilian currency in the year ended June 30, 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)	**6/30/2018**	**12/31/2017**
Foreign-currency assets (a)	15,972	15,515
Foreign-currency liabilities (b)	(2,000)	(2,502)
Surplus determined (a-b)	13,972	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$ 3.8558 at June 30, 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$ 4.8198 and R$ 2.8919, 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$ 5.7837 and R$ 1.9279, respectively.

Sensitivity Analysis of the foreign exchange risk - effect on income (loss) at June 30, 2018

Transaction	Risk	Probable scenario	Possible scenario	Remote scenario
	US$ 13,972 thousand	Exchange rate of 3.8558	Exchange rate of 2.8919	Exchange rate of 1.9279
Finance income	Decrease in US$	-	(13,467)	(26,936)

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 short-term investments and the TJPL on part of the borrowings linked to this rate.

	Consolidated
	6/30/2018
Assets in CDI	34,450
Liabilities in TJPL	2,214

For compliance with CVM Resolution No. 550 of October 17, 2008, given the exposure to the risk of changes in the indexes used in short-term investments and loans, the Company presents below scenarios for the changes in rates and the respective future results that would be generated, Namely: (i) probable scenario adopted by the Company and its subsidiaries, with a DI-CETIP rate of 6.39% p.a. and TJLP at the rate of 6.60% p.a.; (ii) possible scenario, including an increase or decrease of 25% on the DI-CETIP and TJPL rates; (iii) remote scenario, including an increase or decrease of 50% on the DI-CETIP and TJPL rates;

We present below the movements in the rates at June 30, 2018:

Transaction	Risk	Probable Scenario	Possible Scenario - 25%	Remote Scenario - 50%
		TJLP at 6.60%	TJLP at 8.25%	TJLP at 9.90%
Loans in TJLP	Increase of TJLP	R$ 0	R$ 37	R$ 73
		CDI at 6.39%	CDI at 4.79%	DI at 3.20%
Investments in CDI	CDI decrease	R$ 0	R$ (551)	R$ (1,099)

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:

	6/30/2018	
Expiry date	**Amount**	%
2018	3,927	31%
2019	7,646	60%
2020	831	7%
2021	258	2%
Total	**12,662**	**100%**

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 June 30, 2018 and December 31, 2017 are shown below:

		Consolidated			
		6/30/2018		**12/31/2017**	
Description	**Classification**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	40,844	40,844	100,502	100,502
Short-term investments	Financial assets at amortized cost	2,903	2,851	5,661	3,938
Accounts receivable	Financial assets at amortized cost	358,173	358,173	326,522	326,522
Other accounts receivable	Financial assets at amortized cost	18,675	18,675	33,187	33,187
Loans and borrowings:					
Local currency	Financial liabilities at amortized cost	12,150	12,150	92,725	92,725
Foreign currency	Financial liabilities at amortized cost	-	-	2,074	2,074
Trade payables	Financial liabilities at amortized cost	63,061	63,061	69,827	69,827

Fair value hierarchy

	6/30/2018		12/31/2017	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Short-term investments	2,851	-	3,938	-
Loans and borrowings	-	12,150	-	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 June 30, 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 borrowings
Loans and financing calculated at June 30, 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 payables
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	
	6/30/2018	**12/31/2017**
Loans and financing and subsidized financing	12,150	94,799
Cash and cash equivalents	(40,844)	(100,502)
Short-term investments	(2,903)	(5,661)
Net debt	**(31,597)**	**(11,364)**
Equity	**854,400**	**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 June 30, 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 (P.I. 3 months)	60,000
D&O	General civil liability of directors and officers	20,000
General CL	General civil liability	2,000
Light vehicles	Property damages, bodily injury and pain and suffering to third parties	23,800
Heavy vehicles	Property damages, bodily injury and pain and suffering to third parties	8,100
International transportation - Import	Limit per shipment - Goods/Raw materials	5,784
	Total corporate insurance	**229,684**

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	75%	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			Equity in net income of subsidiaries at parent company	
Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**6/30/2018**	**6/30/2017**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	27,999	99.99	27,996	34,960
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	22,164	100.00	22,164	21,843
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	1,435	100.00	1,435	1,386
	51,598		51,595	58,189

IRPJ			Equity in net income of subsidiaries at parent company	
Tax incentive recognized in profit (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**6/30/2018**	**6/30/2017**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	1,683	99.99	1,683	4,555
	1,683		1,683	4,555

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:

	6/30/2018	6/30/2017
Net sales revenue		
Athletic footwear	440,596	472,054
Women's footwear	82,331	84,476
Other footwear and others	36,702	38,005
Clothing	13,183	9,982
	572,812	604,517
Domestic sales	500,915	527,786
Overseas	71,897	76,731
	572,812	604,517

The noncurrent assets of each geographic region are shown below:

	Consolidated	
	6/30/2018	**12/31/2017**
Noncurrent assets in the domestic and foreign markets from:		
Brazil	469,072	444,479
Other countries	9,094	7,976
Total	478,166	452,455

33 Subsequent events

On July 6, 2018 Vulcabras Azaleia S.A. ("Company") announced that Vulcabras Azaleia - CE, Calçados e Artigos Esportivos S.A., a Company subsidiary ("Vulcabras CE"), entered into a share purchase and sale agreement with UNDER ARMOUR EUROPE B.V. and UNDER ARMOUR UK LIMITED, amongst others ("Contract"), under which it intends to acquire all of the shares comprising the share capital of UA Brasil Comércio e Distribuição de Artigos Esportivos Ltda., having its registered office at the address Rodovia Vice-Prefeito Hermenegildo Tonolli, nº 2.000, Jundiaí, São Paulo state, corporate taxpayer number (CNPJ/MF) 18.565.468/0001-99, an associate of Under Armour, Inc. ("Transaction").

Completion of the Transaction is subject to meeting certain precedent conditions that are standard in such acquisitions, such as approval by the Administrative Council for Economic Defense - CADE.

Subject to performance of the precedent conditions, upon completion of the Transaction, licensing and operating agreements will also be entered into by Vulcabras CE and companies of Under Armour Group, whereby Vulcabras CE will be the distributor and exclusive license holder of the "Under Armour" brands in Brazil for footwear, clothing and accessories.

The signing of the agreement was approved by the Company's Board of Directors pursuant to article 17 of its Bylaws, and the situations established in article 256 of Law No. 6404, enacted December 15, 1976, were not found to be in place.
On July 27, 2018 the Managing Division of the Administrative Council for Economic Defense - CADE issued an order approving the acquisition unreservedly.

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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