(A free translation of the original in Portuguese)

Arezzo Indústria e Comércio S.A.

Parent company and consolidated financial statements at December 31, 2017 and 2016 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Arezzo Indústria e Comércio S.A.

Opinion

We have audited the accompanying parent company financial statements of Arezzo Indústria e Comércio S.A. (the "Company" or “Parent Company”), which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Arezzo Indústria e Comércio S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arezzo Indústria e Comércio S.A. and of Arezzo Indústria e Comércio S.A. and its subsidiaries as at December 31, 2017, and its financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

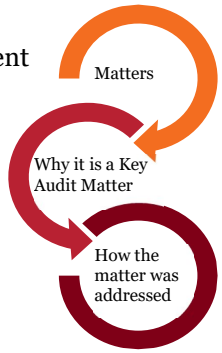
Basis for opinion

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

Arezzo Indústria e Comércio S.A.

Key audit matters

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



Context

Our audit for 2017 was planned and performed taking into consideration that the Company's operations remained substantially consistent with the operations of the previous year, especially because, as mentioned in the Management Report, the Company maintained its strategy of expanding the network of its own stores and franchises and the continuing investment in the web-commerce channel as important revenue drivers. The Company also maintained its focus on improving the generation of cash from operations through a more efficient management of its working capital, the continuous improvement in the balances of trade receivables and suppliers and the increase in profit before taxation. Consequently, in terms of scope and key audit matters, our approach has remained substantially unchanged with a continued focus on the analyses of transactions involving revenues and cost of sales and the realizable values of goodwill balances.

Why it is a key audit matter	How the matter was addressed in the audit
Revenue recognition (Notes 2.5 and 24)	
The Company and its subsidiaries have been continuously expanding their network of own stores and franchises and developing the web-commerce sales channel, factors that contribute to a growth in revenues. During 2017, the Company achieved a significant growth rate in those channels. Also, sales revenues are comprised of a large number of transactions of small individual amounts. The accounting standards require that sales transactions must be recognized at the appropriate time and at the correct values. We consider that this area is significant for our	We updated our understanding of the controls considered significant in the billing process and monitoring of receivables, including the general controls of the technology environment. We selected sales transactions from the different channels, on a sample basis, to verify the documentation that supported the accounting records. We obtained confirmations directly from the Company's customers of the balances of trade receivables and, in the instances where differences were noted or we did not receive confirmation, we tested the reconciling items of the difference and/or verified the documentation supporting the notes receivable. We tested the documentation related to

Why it is a key audit matter	How the matter was addressed in the audit
audit because of the complexity that is inherent to the billing process, the large number of items billed, and the significance of the controls associated to the billing and monitoring of receivables, as well as the materiality of the revenue in the financial statements taken as a whole.	the analysis of the sales revenue cut-off of the different sales channels at the balance sheet date. The results obtained from the application of these procedures on the balance of receivables at the balance sheet date and the sales revenues for the year were satisfactory.

Why it is a key audit matter	How the matter was addressed in the audit
Adequacy of costing and existence and valuation of inventories (Notes 2.7 and 8)	
The Company and its subsidiaries have an exclusive business model operating a multi-brand and multi-channel business, in which the product research and development team and the supply structure enable several collections to be marketed throughout the year. The accounting standards require inventories at the balance sheet date to reflect the amount of the existing items valued at the average purchase or production cost, adjusted to the estimated realizable value, whenever lower. These aspects, together with the large number of items, the seasonality of the collections and the model for the receipt and supply of the products, including from own and independent factories, that result in the monitoring of the number of items available and the costing and valuation of the inventories being very complex activities that we consider to be relevant in our audit.	We updated our understanding of the processes of monitoring of the inventory quantities and of the methodology and criteria used by management to determine purchase and production costs. In addition, we selected raw material items, work in process and finished products for tests of the calculation of the purchase and production costs. We monitored and tested, on sample bases, inventory counts in various units and we tested the movement of inventory receipts and shipments, from the inventory dates to the balance sheet date. We also obtained an understanding of and tested the assumptions and criteria used by management to determine the provisions for realization of inventories, whether due to the existence of obsolete items or negative margins. The results obtained from the tests of the existence and costs of the inventory items, as well as of the methodology, data and assumptions used in determining the provisions for losses were satisfactory.

Recoverability of goodwill balances (Notes 2.10, 2.11 and 15)

The Company and its subsidiaries make payments for certain business locations in order to facilitate the installation of their stores in places considered strategic. These assets, when considered as having an indefinite useful life, are classified as intangible assets and are subject to annual impairment tests.

The accounting standards require that intangible assets with indefinite useful lives be subject to impairment tests by management at least once every 12 months, unless there is evidence that may indicate the need to carry out an earlier test. Management carried out an impairment test using the Discounted Cash Flow method and did not identify the need to record a provision for impairment for this category of assets.

The cash flow projections used for the purpose of these impairment tests are performed individually, per cash-generating unit (in this case, per store) and take into account sensitive estimates and assumptions that were considered significant in our audit. The use of different assumptions in future cash flow projections, such as: revenue growth rates, EBITDA margins and discount rate used could significantly change the conclusions of these tests, therefore, we focused on this area in our audit.

We updated our understanding of the methodology, significant assumptions and data used by the Company in carrying out the annual impairment test of goodwill balances. The audit approach that we used was to independently develop, on a test basis, an expected recoverable amount, and compare the recoverable amounts estimated by management with our own estimates, per cash generating unit. In this context, we used an alternative methodology that we consider also to be appropriate for this category of intangible assets; the methodology was the Multi-period Excess Earnings Method (MPEEM) and we stressed the main assumptions used in the analysis prepared by management.

The results of the impairment tests carried out by management at the balance sheet date were reasonable and the disclosures in the explanatory notes are consistent with the management analyses.

Other matters

Statements of value added

The parent company and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Added Value". In our opinion, these statements of value added have been properly prepared in all material respects, in accordance with the criteria established in the

Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

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

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

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

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

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or on aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Arezzo Indústria e Comércio S.A.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Porto Alegre, March 5, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Adriano Machado
Contador CRC PR042584/O-7

(A free translation of the original in Portuguese)

Arezzo Indústria e Comércio S.A.

Financial statements

December 31, 2017

Contents

Audited financial statements

Balance sheet 1
Statement of income 3
Statement of comprehensive income 4
Statement of changes in equity 5
Statement of cash flows 6
Statement of value added 7
Notes to the financial statements 8

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Balance sheet as at December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
Assets	**Note**	**2017**	**2016**	**2017**	**2016**
Current assets					
Cash and cash equivalents	5	**4,262**	81	**10,156**	5,020
Cash investments	6	**298,951**	198,310	**327,764**	237,824
Trade receivables	7	**250,299**	244,979	**336,954**	315,304
Inventories	8	**36,267**	39,559	**113,489**	110,478
Taxes recoverable	9	**36,850**	15,352	**51,127**	22,562
Other receivables	10	**13,741**	11,291	**15,747**	15,041
Total current assets		**640,370**	509,572	**855,237**	706,229
Non-current assets					
Long-term receivables					
Trade receivables	7	**11,490**	13,676	**11,490**	13,676
Related parties	12	**18,236**	40,998	**-**	-
Judicial deposits	20	**12,556**	10,361	**19,117**	14,733
Deferred income tax and social contribution	11.a	**8,408**	5,551	**11,533**	8,405
Other receivables	10	**1,921**	3,328	**2,768**	4,187
		52,611	73,914	**44,908**	41,001
Investments	13	**276,625**	182,316	**-**	-
Investment properties		**2,925**	905	**2,925**	905
Property, plant and equipment	14	**21,561**	21,961	**67,636**	73,052
Intangible assets	15	**38,865**	46,538	**79,193**	85,961
		339,976	251,720	**149,754**	159,918
Total non-current assets		**392,587**	325,634	**194,662**	200,919
Total assets		**1,032,957**	835,206	**1,049,899**	907,148

DC2 - Informação de distribuição restrita

		Parent company		Consolidated	
Liabilities and equity	**Note**	**2017**	**2016**	**2017**	**2016**
Current liabilities					
Borrowings	16	**108,193**	26,201	**163,729**	78,970
Trade payables	17	**96,555**	52,569	**104,416**	66,445
Taxes and social charges payable	19	**12,181**	10,313	**24,681**	22,861
Salaries and vacation pay	18	**26,477**	16,646	**34,568**	23,639
Interest on capital	22.b	**18,062**	-	**18,062**	-
Other liabilities		**6,734**	5,149	**11,369**	9,915
Total current liabilities		**268,202**	110,878	**356,825**	201,830
Non-current liabilities					
Borrowings	16	**17,548**	26,456	**18,016**	27,079
Related parties	12	**76,121**	-	**1,232**	1,214
Provisions for labor, tax and civil contingencies	20	**6,126**	5,548	**8,866**	7,209
Provision for investment losses	13	**-**	22,508	**-**	-
Other liabilities		**-**	117	**-**	117
Total non-current liabilities		**99,795**	54,629	**28,114**	35,619
Total liabilities		**367,997**	165,507	**384,939**	237,449
Equity					
Share capital	21.1	**330,375**	310,008	**330,375**	310,008
Capital reserve	21.2	**45,568**	39,554	**45,568**	39,554
Revenue reserves	21.3	**289,406**	269,024	**289,406**	269,024
Treasury shares	21.5	**(1,199)**	-	**(1,199)**	-
Other comprehensive income	21.4	**(1,986)**	(1,862)	**(1,986)**	(1,862)
Proposed additional dividend	22.a	**2,796**	52,975	**2,796**	52,975
Total equity		**664,960**	669,699	**664,960**	669,699
Total liabilities and equity		**1,032,957**	835,206	**1,049,899**	907,148

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

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Statement of income
Years ended December 31
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2017	2016	2017	2016
Net operating revenue	24	**1,070,438**	1,017,116	**1,360,474**	1,239,110
Cost of sales and services	26	**(680,591)**	(675,547)	**(736,706)**	(689,819)
Gross profit		**389,847**	341,569	**623,768**	549,291
Operating income (expenses):					
Selling expenses	26	**(157,192)**	(136,479)	**(334,215)**	(302,708)
General and administrative expenses	26	**(98,621)**	(78,347)	**(113,816)**	(92,846)
Equity in the results of investees	13	**20,705**	11,341	**-**	-
Other operating expenses, net	29	**(1,616)**	(4,953)	**(2,104)**	(2,411)
		(236,724)	(208,438)	**(450,135)**	(397,965)
Profit before finance result		**153,123**	133,131	**173,633**	151,326
Finance result	28				
Finance costs		**(9,707)**	(13,672)	**(19,783)**	(22,428)
Finance income		**26,575**	32,589	**30,041**	34,414
Foreign exchange variations, net		**(2,100)**	(6,102)	**(958)**	(6,312)
		14,768	12,815	**9,300**	5,674
Profit before taxation		**167,891**	145,946	**182,933**	157,000
Income tax and social contribution	11				
Current		**(16,278)**	(32,117)	**(31,591)**	(42,971)
Deferred		**2,857**	2,320	**3,128**	2,120
Profit for the year		**154,470**	116,149	**154,470**	116,149
Basic earnings per share - R$	23	**1.7286**	1.3082	**1.7286**	1.3082
Diluted earnings per share - R$	23	**1.7152**	1.3001	**1.7152**	1.3001

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

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Statement of comprehensive income
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2017	**2016**	**2017**	**2016**
Profit for the year		**154,470**	116,149	**154,470**	116,149
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Foreign exchange differences arising from the translation of foreign operations	21.4	**953**	3,640	**953**	3,640
Net investment hedge	21.4	**(1,077)**	-	**(1,077)**	-
Total comprehensive income for the year		**154,346**	119,789	**154,346**	119,789

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

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Statement of changes in equity
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Share capital	Treasury shares	Capital reserve	Revenue reserves: Legal reserve	Revenue reserves: Tax incentive reserve	Revenue reserves: Investment reserve	Revenue reserves: Retained profits	Proposed additional dividend	Retained earnings	Other comprehensive income	Total
At December 31, 2015		261,247	-	35,377	30,176	-	2,683	275,220	18,704	-	(5,502)	617,905
Profit for the year		-	-	-	-	-	-	-	-	**116,149**	-	**116,149**
Foreign exchange differences arising from the translation of foreign operations	21.4	-	-	-	-	-	-	-	-	-	**3,640**	**3,640**
Share capital increase	21.1	**46,830**	-	-	-	-	-	**(46,830)**	-	-	-	-
Grant of share options	21.2	-	-	**4,177**	-	-	-	-	-	-	-	**4,177**
Issue of shares	21.1	**1,931**	-	-	-	-	-	-	-	-	-	**1,931**
Legal reserve	21.3	-	-	-	**5,807**	-	-	-	-	**(5,807)**	-	-
Allocation:			-									
Interest on capital	22	-	-	-	-	-	-	-	-	**(44,142)**	-	**(44,142)**
Dividends paid	22	-	-	-	-	-	-	-	**(18,704)**	-	-	**(18,704)**
Interim dividends paid	22	-	-	-	-	-	-	-	-	**(11,257)**	-	**(11,257)**
Proposed dividends	22	-	-	-	-	-	-	-	**52,975**	**(52,975)**	-	-
Profits retained	21.3	-	-	-	-	-	-	**1,968**	-	**(1,968)**	-	-
At December 31, 2016		310,008	-	39,554	35,983	-	2,683	230,358	52,975	-	(1,862)	669,699
Profit for the year		-	-	-	-	-	-	-	-	**154,470**	-	**154,132**
Foreign exchange differences arising from the translation of foreign operations	21.4	-	-	-	-	-	-	-	-	-	**953**	**953**
Net investment hedge	21.4	-	-	-	-	-	-	-	-	-	**(1,077)**	**(1,077)**
Share option and restricted stock plans	21.2	-	-	**6,014**	-	-	-	-	-	-	-	**6,014**
Issue of shares	21.1	**20,367**	-	-	-	-	-	-	-	-	-	**20,367**
Treasury shares	21.5	-	**(1,199)**	-	-	-	-	-	-	-	-	**(1,199)**
Legal reserve	21.3	-	-	-	**7,724**	-	-	-	-	**(7,724)**	-	-
Tax incentive reserve	21.3	-	-	-	-	**64,658**	-	-	-	**(64,658)**	-	-
Allocation:												
Interest on capital	22.b	-	-	-	-	-	-	-	-	**(42,460)**	-	**(42,460)**
Dividends paid	22.a	-	-	-	-	-	-	-	**(52,975)**	-	-	**(52,975)**
Interim dividends paid	22.a	-	-	-	-	-	-	**(52,000)**	-	**(36,832)**	-	**(88,832)**
Proposed dividends	22.a	-	-	-	-	-	-	-	**2,796**	**(2,796)**	-	-
At December 31, 2017		**330,375**	**(1,199)**	**45,568**	**43,707**	**64,658**	**2,683**	**178,358**	**2,796**	-	**(1,986)**	**664,960**

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

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Statement of cash flows
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2017	2016	2017	2016
Cash flows from operating activities:				
Profit before income tax and social contribution	**167,891**	**145,946**	**182,933**	**157,000**
Adjustments to reconcile profit to net cash provided by operating activities:				
Depreciation and amortization	**19,188**	18,391	**32,632**	25,815
Result on disposal of property, plant and equipment	**(19)**	212	**479**	(3)
Equity in results of investees	**(20,705)**	(11,341)	**-**	-
Provision (reversal) for labor, tax and civil contingencies, net	**578**	1,322	**1,657**	1,615
Interest and foreign exchange variation	**2,143**	(2,225)	**4,707**	(2,318)
Interest income on cash investments	**(21,747)**	(27,648)	**(24,844)**	(29,239)
Provision (reversal) for inventory losses, net	**1,787**	992	**3,054**	1,494
Provision (reversal) for impairment of trade receivables, net	**9,375**	3,154	**9,375**	3,154
Share option and restricted stock plans	**6,014**	4,177	**6,014**	4,177
Decrease (increase) in assets				
Trade receivables	**(14,528)**	(16,257)	**(30,859)**	(38,088)
Inventories	**1,505**	(3,248)	**(6,065)**	(5,020)
Taxes recoverable	**(32,192)**	(7,735)	**(39,212)**	(6,849)
Change in other assets	**(1,043)**	4,241	**1,550**	9,113
Judicial deposits	**(2,195)**	(4,307)	**(4,384)**	(6,112)
(Decrease) increase in liabilities				
Trade payables	**43,986**	(2,845)	**37,971**	1,563
Salaries and vacation pay	**9,830**	10,332	**10,928**	10,764
Taxes and social charges payable	**32,516**	13,555	**32,079**	9,012
Change in other liabilities	**1,473**	496	**1,338**	2,173
Income tax and social contribution paid	**(31,414)**	(29,601)	**(45,466)**	(36,542)
Net cash inflow from operating activities	**172,443**	97,611	**173,887**	101,709
Cash flows from investing activities:				
Proceeds from sale of property, plant and equipment and intangible assets	**52**	450	**686**	3,117
Acquisition of property, plant and equipment and intangible assets	**(11,148)**	(9,136)	**(21,548)**	(25,066)
Cash investments	**(722,602)**	(588,105)	**(1,047,291)**	(818,205)
Redemption of cash investments	**638,885**	618,625	**976,456**	819,196
Capital contribution to subsidiaries	**(99,300)**	(5,569)	**-**	-
Dividends received	**4,141**	-	**-**	-
Net cash inflow (outflow) from investing activities	**(189,972)**	**16,265**	**(91,697)**	(20,958)
Cash flows from financing activities with third parties:				
Proceeds from borrowings	**97,500**	34,977	**160,420**	71,129
Repayments of borrowings	**(26,275)**	(80,843)	**(88,451)**	(81,201)
Payment of interest on borrowings	**(1,361)**	(1,744)	**(2,057)**	(1,602)
Payables to related parties, except shareholders	**98,883**	1,439	**-**	-
Net cash inflow (outflow) from financing activities with third parties	**168,747**	(46,171)	**69,912**	(11,674)
Cash flows from financing activities with shareholders:				
Interest on capital paid	**(24,398)**	(44,142)	**(24,398)**	(44,142)
Dividends paid	**(141,807)**	(29,961)	**(141,807)**	(29,961)
Receivables from (payables to) shareholders	**-**	-	**18**	(178)
Share issue	**20,367**	1,931	**20,367**	1,931
Repurchase of shares	**(1,199)**	-	**(1,199)**	-
Net cash outflow from financing activities with shareholders	**(147,037)**	(72,172)	**(147,019)**	(72,350)
Net cash inflow (outflow) from financing activities	**21,710**	(118,343)	**(77,107)**	(84,024)
Increase (decrease) in cash and cash equivalents	**4,181**	(4,467)	**5,083**	(3,273)
Cash and cash equivalents				
Effect of foreign exchange variation on cash and cash equivalents	**-**	-	**53**	(529)
Cash and cash equivalents at the beginning of the year	**81**	4,548	**5,020**	8,822
Cash and cash equivalents at the end of the year	**4,262**	81	**10,156**	5,020
Increase (decrease) in cash and cash equivalents	**4,181**	(4,467)	**5,083**	(3,273)

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

DC2 - Informação de distribuição restrita

Arezzo Indústria e Comércio S.A.

Statement of value added
Years ended December 31
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Revenue	**1,246,523**	1,191,547	**1,596,155**	1,478,405
Inputs acquired from third parties	**(965,884)**	(946,941)	**(1,084,917)**	(1,014,495)
Cost of sales and services	**(864,242)**	(857,837)	**(871,607)**	(819,813)
Energy, outsourced services and other expenses	**(98,584)**	(86,236)	**(207,716)**	(189,519)
Other costs of sales and services	**(3,058)**	(2,868)	**(5,594)**	(5,163)
Gross value added	**280,639**	244,606	**511,238**	463,910
Depreciation and amortization	**(19,188)**	(18,391)	**(32,632)**	(25,815)
Net value added generated by the entity	**261,451**	226,215	**478,606**	438,095
Value added received through transfer	**52,589**	43,701	**37,757**	37,423
Equity in the results of investees	**20,705**	11,341	**-**	-
Finance income, including foreign exchange gain	**27,486**	33,137	**33,847**	35,658
Other income (expenses)	**4,398**	(777)	**3,910**	1,765
Total value added to distribute	**314,040**	269,916	**516,363**	475,518
Distribution of value added				
Personnel	**109,131**	88,406	**178,682**	155,023
- Salaries, benefits and Government severance indemnity fund for employees (FGTS)	**88,501**	74,780	**158,018**	141,397
- Employee profit sharing	**14,616**	9,449	**14,650**	9,449
- Share option and restricted stock plans	**6,014**	4,177	**6,014**	4,177
Taxes	**31,968**	37,397	**111,041**	128,218
- Federal	**66,017**	67,776	**106,167**	111,560
- State	**(34,275)**	(30,487)	**3,652**	15,743
- Local	**226**	108	**1,222**	915
Lenders and creditors	**18,471**	27,964	**72,170**	76,128
- Interest	**1,590**	3,023	**3,214**	3,361
- Rentals	**5,753**	7,642	**47,623**	46,144
- Finance costs, including foreign exchange loss	**11,128**	17,299	**21,333**	26,623
Shareholders	**154,470**	116,149	**154,470**	116,149
- Interest on capital	**42,460**	44,142	**42,460**	44,142
- Dividends	**39,628**	64,232	**39,628**	64,232
- Profits reinvested	**72,382**	7,775	**72,382**	7,775
Value added distributed	**314,040**	269,916	**516,363**	475,518

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

DC2 - Informação de distribuição restrita

1. Company information

Arezzo Indústria e Comércio S.A. (the "Company" or "Parent company") is a listed company headquartered at Rua Fernandes Tourinho, 147 – sala 402, in the city of Belo Horizonte, State of Minas Gerais. The Company has shares traded on the "Novo Mercado" (New Market) listing segment of the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA) under the ticker symbol ARZZ3 since February 2, 2011.

The Company and its subsidiaries manufacture, develop, mold and sell women's shoes, handbags, clothing and accessories.

At December 31, 2017, the Company had 563 franchise-operated stores in Brazil and 5 abroad; 48 company-operated stores in Brazil and 2 abroad, and a web commerce channel to sell its products of Arezzo, Schutz, Anacapri, Alexandre Birman and Fiever brands.

The franchise system is controlled by the Company and company-owned stores form part of Company subsidiaries.

The Company's subsidiaries included in the consolidated financial statements are the following:

ZZAB Comércio de Calçados Ltda. ("ZZAB")

ZZAB is engaged in the retail sale of shoes, handbags and belts, and has stores in the cities of São Paulo, Itupeva, São Roque, Cariacica, Rio de Janeiro, São Gonçalo, Brasília, Alexania, Porto Alegre, Novo Hamburgo, Gramado, Belo Horizonte and Duque de Caxias, selling all brands of the Group (Parent company and its subsidiaries).

ZZSAP Indústria e Comércio de Calçados Ltda. ("ZZSAP")

ZZSAP manufactures, sells, imports and exports leather shoes, handbags and belts, footwear components, clothing and accessories.

ZZEXP Comercial Exportadora S/A ("ZZEXP")

ZZEXP exports leather shoes, handbags and belts, clothing and accessories of the Group.

ARZZ International Inc. ("ARZZ Inc.")

ARZZ Inc. is engaged in selling shoes and business intermediation. ARZZ Inc. owns a direct equity interest in ARZZ LLC, Schutz 655 LLC and Schutz Cali.

ARZZ LLC

ARZZ LLC is engaged in selling shoes and business intermediation.

Schutz 655 LLC

Schutz 655 LLC is engaged in selling exclusive Schutz-brand shoes, handbags and belts at retail.

DC2 - Informação de distribuição restrita

1. Company information (Continued)

Schutz Cali LLC

Schutz Cali LLC sells exclusive Schutz-brand shoes, handbags and belts at retail.

2. Accounting policies

2.1. Basis of preparation and presentation of the financial statements

2.1.1 Parent company financial statements

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

2.1.2 Consolidated financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as according to the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC) and its technical interpretations (ICPC) and guidance (OCPC), approved by the Brazilian Securities Commission (CVM), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

In preparing these financial statements, the Company followed the same accounting policies and methods of calculation as used for the consolidated financial statements at December 31, 2016, and adopted all standards, amendments to standards and interpretations issued by the CPC and IASB that were in effect at December 31, 2017.

The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets and financial liabilities measured at fair value or amortized cost.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to the uncertainties inherent in the estimating process. The Company reviews estimates and assumptions at intervals not greater than one year.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.1. Basis of preparation and presentation of the financial statements (Continued)

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The parent company and consolidated financial statements for the year ended December 31, 2017 were authorized at the Board of Directors' meeting held on March 5, 2018.

2.2. Basis of consolidation

The consolidated financial statements include the operations of the Company and the following subsidiaries in which the Company directly or indirectly owns an interest, as summarized below:

		Total ownership interest - %			
Subsidiaries	**Country of incorporation**	**2017**		**2016**	
		Direct	**Indirect**	**Direct**	**Indirect**
ZZAB Comércio de Calçados Ltda.	Brazil	**99.99**	**-**	99.99	-
ZZSAP Indústria e Comércio de Calçados Ltda.	Brazil	**99.99**	**-**	99.99	-
ZZEXP Comercial Exportadora S/A	Brazil	**99.99**	**-**	99.99	-
ARZZ International INC.	USA	**100.00**	**-**	100.00	-
ARZZ Co LLC	USA	**-**	**100.00**	-	100.00
Schutz 655 LLC	USA	**-**	**100.00**	-	100.00
Schutz Cali LLC	USA	**-**	**100.00**	-	100.00

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is an assumption that the majority of voting rights results in control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all consolidated entities. All intra-group balances, income and expenses and unrealized gains or losses resulting from intra-group transactions are fully eliminated.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control is accounted for as equity transactions within equity.

The profit for the year is fully attributable to owners of the parent since non-controlling interests represent 0.0001% of the consolidated equity.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.3. Functional currency

The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency, and also the Company's and its subsidiaries' presentation currency. Each subsidiary of the Company determines its own functional currency and the financial statements of the Company's subsidiaries that have a functional currency different from the Brazilian real are translated into Brazilian reais at the balance sheet date.

2.4. Foreign currency transactions and balances

2.4.1 Transactions and balances

Foreign currency transactions are initially translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All foreign exchange differences arising on translation are taken to profit or loss.

2.4.2 Subsidiaries

The assets and liabilities of foreign subsidiaries are translated into Brazilian reais at the exchange rate prevailing at the balance sheet date, and the related statements of income are translated monthly at average foreign exchange rates for the periods. All resulting foreign exchange differences are recognized as a separate component of equity, in the account "Carrying value adjustments". When a foreign operation is disposed of or sold, foreign exchange differences that were recorded in equity are recognized in the statement of income.

On consolidation, foreign exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to equity.

2.5. Revenue recognition

Revenue is recognized when it is probable that future economic benefits will result from the transaction and when the amount of revenue can be reliably measured. Revenue comprises the fair value of the consideration received, and is shown net of discounts, rebates, taxes or charges on sales. The Company assesses sales transactions based on specific criteria to determine whether it is acting as a principal or as an agent in the transaction and concluded that it is acting as a principal in all arrangements. The following specific conditions must be satisfied for revenue to be recognized:

I. Sales of goods

Revenue from the sale of goods is recognized when control of the goods passes to the

DC2 - Informação de distribuição restrita

buyer, which usually occurs upon delivery.

2. Accounting policies (Continued)

2.5 Revenue recognition (Continued)

II. Royalty income

Royalty income is recognized on the accrual basis in accordance with the substance of the relevant agreements.

III. Interest income

Interest income or expense is recognized for all financial instruments carried at amortized cost and interest-bearing financial assets using the effective interest rate that is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Interest income is included in the statement of income as “Finance income”.

2.6. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of the Group's business. Trade receivables are stated at amortized cost and receivables from foreign customers are restated using the foreign exchange rates prevailing at the reporting date. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

The provision for impairment of trade receivables was recorded based on a customer-by-customer analysis of outstanding receivables with risk of default, the amount of which is considered sufficient by management to cover probable losses on collection of accounts receivable.

2.7. Inventories

Inventories are stated at the lower of cost and net realizable value. Costs incurred in bringing the inventories to their present location and condition are recorded as specified below:

I. Raw materials: average acquisition cost.

II. Finished goods and work in progress: cost of direct materials and labor and related production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less conclusion costs and selling expenses.

The provisions for slow-moving or obsolete inventories are recognized when considered necessary by management.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.8. Investments in subsidiaries

In the parent company financial statements, investments in subsidiaries are accounted for using the equity method.

Under the equity method, investments in subsidiaries are recorded in the balance sheet of the parent at cost plus any changes after acquisition of ownership interest in the subsidiary.

The Company's share of the profit or loss of its subsidiaries is recognized in the statement of income as equity in results of investees and represents the profit or loss attributable to owners of the parent.

After applying the equity method for purposes of the parent company financial statements, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in subsidiaries. The Company assesses at each reporting date whether there is objective evidence that investments in subsidiaries are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and recognizes the amount in the statement of income.

2.9. Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, based on the rates mentioned in Note 14, as follows:

	Estimated average useful life
Facilities and showroom	10 years
Machinery and equipment	10 years
Furniture and fittings	10 years
Computers and peripherals	5 years
Vehicles	5 years

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income when the item is derecognized.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, at the end of each reporting period.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.10. Intangible assets

Separately acquired intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets comprise mainly computer software licenses, trademarks and patents and store use rights.

The useful life of intangible assets is assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Research costs are expensed as incurred.

2.11. Impairment of non-financial assets

Management reviews annually the net carrying amount of the assets with the objective of assessing events or changes in economic, operational or technological environment that might indicate that an asset is impaired. Where such evidence is identified and the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized by writing down the asset’s carrying amount to its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its net selling price and its value in use.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.11. Impairment of non-financial assets (Continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. An asset's net selling price is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between knowledgeable, willing parties, adjusted for incremental costs that would be directly attributable to the disposal of the asset or, if there is no binding sale agreement, is based on the asset's market price of an active market or on the price of the most recent transaction for similar assets.

2.12. Adjustment to present value of assets and liabilities

Long-term monetary assets and liabilities are adjusted to present value. Adjustment to present value of short-term monetary assets and liabilities is calculated and recorded only if considered material in relation to the financial statements taken as a whole.

The adjustment to present value is calculated taking into account the contractual cash flows and the explicit interest rate and, in some cases the implicit interest rate, of respective assets and liabilities. Accordingly, the interest embedded in revenue, expenses and costs associated with these assets and liabilities is discounted for recognition on an accrual basis. Subsequently, this interest is reclassified to finance costs and income in the statement of income using the effective interest rate method for the contractual cash flows.

The Company periodically evaluates the effect of this procedure and in 2017 and 2016 there were no long-term transactions (and no material short-term transactions) that would qualify for adjustments.

2.13. Provisions

2.13.1. General

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.13 Provisions (Continued)

2.13.2. Provisions for tax, civil and labor contingencies

The Company is a party to several judicial and administrative proceedings. Provisions are recognized for all judicial proceedings where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, previous court decisions, most recent court decisions and their relevance in the judicial context, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits or additional exposures identified based on new issues or court decisions.

2.14. Income taxes and other taxes

2.14.1. Sales taxes

Revenue and expenses are recognized net of the amount of sales tax, unless:

- the sales tax incurred on the purchase of goods or services is not recoverable from the relevant taxation authority. In this case, it is recognized as part of the cost of acquisition of the asset or as part of an item of the expense, as applicable;

- receivables and payables are stated inclusive of the amount of sales tax receivable or payable; and

- the net amount of sales tax recoverable from, or payable to, the relevant taxation authority, is included with other receivables or payables in the balance sheet.

The Company's sales and service revenue is subject to the following taxes and contributions at the specified tax rates:

	Tax rates
Value-added Tax on Sales and Services (ICMS)	7.00% to 19.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
Social Security Contribution (INSS)	1.50%
State Sales Tax - USA	0% to 8.875%

In the statement of income, sales are stated net of these taxes.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.14. Income taxes and other taxes (Continued)

2.14.2. Current income tax and social contribution

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities, and are classified as current or non-current depending on the expected period of realization and/or settlement. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

In Brazil, the main country where the Company operates, the taxes on profit comprise income tax and social contribution. The income tax is charged at a rate of 15% plus a surcharge of 10% on annual taxable income in excess of R$240, and the social contribution is charged at a rate of 9% on taxable income recognized on the accrual basis. Thus, the additions of temporary non-deductible expenses to, or the exclusions of temporary non-taxable income from, accounting profit, when calculating current taxable income generate deferred tax assets or liabilities. The amounts prepaid or amounts to be offset are included in current or non-current assets depending on the expected period of realization.

Current income taxes relating to items recognized directly in equity are also recognized directly in equity. Management periodically evaluates positions taken by the Company in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate.

2.14.3. Deferred taxes

Deferred taxes are recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.14. Income taxes and other taxes (Continued)

2.14.3. Deferred taxes (Continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the end of each reporting period.

Deferred tax relating to items recognized directly in equity is also recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are netted if there is a legal or contractual right to offset the amounts and they relate to the same taxable entity and the same taxing authority.

2.15. Other employee benefits

The benefits provided by the Company to its employees and executives include variable compensation such as profit sharing, share option plan and restricted stock plan in addition to the fixed compensation (normal wages and salaries, social security contributions (INSS), vacation pay and 13th month salary). These benefits are recognized on the income statement on the accrual basis when the Company has an obligation.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.16. Earnings per share

The Company calculates basic earnings per share based on the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares, in conformity with technical pronouncement CPC 41 (IAS 33). Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential common shares with dilutive effects.

2.17. Statement of cash flows and statement of value added

The statements of cash flows were prepared under the indirect method and are presented in accordance with Technical Pronouncement CPC 03 R2 (IAS 7) - “Statement of Cash Flows”, issued by the CPC (IASB).

The presentation of the statement of value added is required by the Brazilian corporate legislation, while it is not required by IFRS. The statement of value added is presented as supplementary information for IFRS purposes and was prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". The purpose of value added statement is to show wealth created by the Company during the year and how is that wealth distributed among various stakeholders.

2.18. Financial instruments

2.18.1. Initial recognition and measurement

Financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except in the case of financial assets not recorded at fair value through profit or loss.

The Company’s main financial assets comprise cash, trade receivables and cash investments. These assets were classified into the categories of loans and receivable and financial assets at fair value through profit or loss, respectively.

The Company’s main financial liabilities comprise trade payables and borrowings. These liabilities were classified into the category of other financial liabilities and financial liabilities.

2.18.2. Subsequent measurement

Subsequent measurement of financial instruments occurs at each balance sheet date and depends on the category into which the financial instrument is classified. The Company’s financial assets and liabilities are classified into the following categories:

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.18. Financial instruments (Continued)

Subsequent measurement (Continued)

I. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial instruments held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Cash investments were designated at initial recognition as financial assets at fair value through profit or loss. The Company has neither financial assets or liabilities held for trading nor financial liabilities at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognized in the statement of income. Interest, monetary restatement, foreign exchange variation and changes in fair value are recognized in the statement of income as incurred.

II. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs incurred. The effective interest rate amortization is included in finance income in the statement of income. Impairment losses are recognized as finance costs in the statement of income.

III. Other financial liabilities

After initial recognition, interest-bearing other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the effective interest rate amortization process.

2.19. Derivative financial instruments and hedging activities

The Company uses derivatives to hedge its exposure to fluctuations in foreign exchange rates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, in the case of adoption of hedge accounting and, if so, the nature of the item being hedged. The Company adopts the hedge accounting procedure and designates certain derivatives as hedges of a net investment in a foreign operation (net investment hedge).

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.19. Derivative financial instruments and hedging activities (Continued)

I. Net investment hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedge is recognized in equity within “Translation adjustments”. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income within "Other gains (losses), net". Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in profit or loss when the transaction is recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the statement of income within "Other gains (losses), net".

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity within "Translation adjustments". The gain or loss relating to the ineffective portion is recognized immediately in the statement of income within "Other gains (losses), net".

2.20. Segment reporting

The Company is managed as a single business unit engaged in manufacturing and selling women’s shoes, handbags and accessories. The Company has five brands - Arezzo, Schutz, Alexandre Birman, Anacapri and Fiever. Although the Company’s products are sold to customers through various channels (mono-brand stores, which comprise company-owned stores, franchises and web commerce, and multi-brand stores), they are not controlled and run by management as separate operating segments, and the Company’s results are monitored and assessed in an integrated way.

2.21. Leases

The Company has store lease contracts as a lessee. The contracts were evaluated by the Company and classified as operating lease.

Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

DC2 - Informação de distribuição restrita

2. Accounting policies (Continued)

2.22. Share-based payments

2.22.1. Share option plan

The Company approved a share option plan for selected officers and executives, offering them the opportunity to buy shares in the Company under certain terms and conditions specified in the plan. The fair value of the options granted is calculated on the date of the grant and the expense is recorded on a pro rata basis over the period from the date of grant to the vesting date. See Note 32 for details of the Company's share option plan.

2.22.2. Restricted stock plan

The Company approved a restricted stock plan for its officers, executives and selected employees, giving them restricted shares under the terms and conditions laid out in the plan. The expense is recorded on a pro rata basis over the period from the date of grant to the vesting date. The expense represents the number of shares granted multiplied by the fair value of the share at the grant date as well as provision for charges. See Note 32 for further details.

3. Critical accounting judgments, estimates and assumptions

3.1. Judgments

The preparation of parent company and consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions are continually evaluated and prospectively recognized.

3.2. Estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

DC2 - Informação de distribuição restrita

3. Critical accounting judgments, estimates and assumptions (Continued)

3.2. Estimates and assumptions (Continued)

I. Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from sales transactions for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the assets' performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow method as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

II. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable profits. The Company establishes provisions based on applicable estimates for anticipated outcomes of tax audits in the jurisdictions in which it operates. The provision amounts are based on various factors, such as experience from prior tax audits and divergent interpretations of tax regulations by the taxable entity and the relevant taxation authority. Such divergent interpretations may arise from a wide range of issues, depending on the conditions prevailing in the domicile of the Company.

Significant judgment by management is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

III. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

DC2 - Informação de distribuição restrita

3. Critical accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions (Continued)

IV. Share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value of share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and risk-free interest rate. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 32.

V. Provisions for tax, civil and labor contingencies

The Company recognizes a provision for all lawsuits involving risks of loss assessed as probable. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, previous court decisions, most recent court decisions and their relevance in the judicial context, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to reflect changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits or additional exposures identified based on new issues or court decisions.

The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to the uncertainties inherent in the estimation process. The Company reviews its estimates and assumptions at least on a quarterly basis.

DC2 - Informação de distribuição restrita

4. New or revised pronouncements

I. New or revised pronouncements that were first adopted in 2017

The Company understands that the amendments and revisions to existing standards issued by IASB that were effective as from January 1, 2017 had no material impact on its financial statements.

II. New or revised pronouncements that were not effective at December 31, 2017

On the date of issuance of these financial statements, the following standards and interpretations were issued but were not yet effective.

IFRS 9/CPC 48 – Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments that replaces IAS 39/CPC 38 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: (i) classification and measurement, (ii) impairment and (iii) hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has reviewed its financial assets and liabilities and concluded that there will be no material impact on its equity and profit from the adoption of this standard.

IFRS 15/CPC47 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has assessed the effects of IFRS 15 and concluded that there will be no material impact on its equity and profit from the adoption of this standard.

DC2 - Informação de distribuição restrita

4. New or revised pronouncements (Continued)

II. New or revised pronouncements that were not effective at December 31, 2017 (Continued)

IFRS 16 – Leases

IFRS 16, issued in January 2016, requires companies to bring most leases onto the balance sheet, recognizing new assets and liabilities. All companies that lease major assets for use in their business will see an increase in reported assets and liabilities. This will affect a wide variety of sectors, from airlines that lease aircraft to retailers that lease stores. The larger the lease portfolio, the greater the impact on key reporting metrics.

The new standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted if IFRS 15 is applied. The Company is currently assessing the impact that IFRS 16 will have on its financial statements and disclosures.

There are no other standards or interpretations that are not yet effective that, in management's opinion, would be expected to have a material impact on the profit or equity reported by the Company.

DC2 - Informação de distribuição restrita

5. Cash and cash equivalents

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash	**114**	78	**846**	938
Banks	**4,148**	3	**9,310**	4,082
	4,262	81	**10,156**	5,020

6. Cash investments

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Current				
Fixed income (a)	**2,686**	2,457	**3,784**	6,828
Exclusive investment fund				
Bank deposit certificate (CDB)	**16,821**	15,826	**18,394**	18,665
Repurchase agreements	**7,961**	16,152	**8,706**	19,050
Financial bills (CEF)	**29,187**	56,165	**31,917**	66,243
Financial Treasury bills	**242,296**	107,710	**264,963**	127,038
Total cash investments	**298,951**	198,310	**327,764**	237,824

(a) Includes bank deposit certificates (CDB) and marketable securities.

Exclusive investment fund

ZZ Referenciado DI Crédito Privado is a private fixed-income investment fund under management, administration and custody of Banco Santander S.A. There is no specified holding period for this investment fund and so shares can be redeemed without a material risk of loss. The investment fund does not have significant financial obligations. Financial obligations include asset management fees, custody fees, audit fees and expenses.

The fund is solely for the benefit of the Company and its subsidiaries. Thus, in accordance with CVM Instruction 408/04, the investment fund in which the Company invests exclusively has been consolidated.

At December 31, 2017, the average rate of return of the investment fund is 99.68% of the Interbank Deposit Certificate rate (CDI) (99.03% at December 31, 2016). Financial Treasury Bills (LFT) account for 78% of the investment fund assets and 90.55% of the assets provide daily liquidity.

The Company has cash investment policies in place that require the Company to invest its money in low-risk securities that substantially provide a return based on the CDI variance and to keep its investments in top-tier financial institutions (top 10 financial institutions in the country).

At December 31, 2017, the Company has no investment pledged as collateral to financial institutions.

DC2 - Informação de distribuição restrita

7. Trade receivables

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Trade notes – domestic customers	**234,386**	207,450	**234,686**	208,973
Trade notes – foreign customers	**11,558**	22,974	**43,194**	53,485
Trade notes – related parties (Note 12.a)	**18,655**	29,837	**-**	-
Checks	**33**	117	**115**	182
Credit cards	**-**	-	**73,338**	68,109
	264,632	260,378	**351,333**	330,749
(-) Provision for impairment of trade receivables	**(2,843)**	(1,723)	**(2,889)**	(1,769)
	261,789	258,655	**348,444**	328,980
Current	**250,299**	244,979	**336,954**	315,304
Non-current	**11,490**	13,676	**11,490**	13,676

The customer sales policies are subordinated to the credit policies established by management and are designed to minimize problems arising out of failure of customers to pay on due date. Sales transactions with retail customers are included in “credit cards”, and transactions with sales representatives and distributors (franchisees), which have a structured relationship with the Company, are included in the account “trade notes – domestic customers”.

Trade receivables from foreign customers by currency are as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
USD	**11,464**	18,575	**39,510**	47,042
EUR	**94**	4,399	**3,684**	6,443
	11,558	22,974	**43,194**	53,485

Changes in the provision for impairment of trade receivables are as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
At the beginning of the year	**(1,723)**	(2,241)	**(1,769)**	(2,287)
Additions	**(9,375)**	(3,154)	**(9,375)**	(3,154)
Realization	**8,255**	3,672	**8,255**	3,672
At the end of the year	**(2,843)**	(1,723)	**(2,889)**	(1,769)

The ageing analysis of these trade receivables is as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Not yet due	**257,554**	249,608	**344,255**	319,673
Up to 30 days past due	**2,302**	4,145	**2,302**	4,145
31-60 days past due	**1,034**	3,071	**1,034**	3,075
61-90 days past due	**563**	1,067	**563**	1,067
91-180 days past due	**1,738**	1,047	**1,738**	1,157
181-360 days past due	**608**	766	**608**	869
Over 360 days past due	**833**	674	**833**	763
	264,632	260,378	**351,333**	330,749

DC2 - Informação de distribuição restrita

7. Trade receivables (Continued)

The present economic scenario is posing financial difficulties for some customers. In this context and based on credit analyses, the Company made negotiations with some customers to extend the collection periods for accounts receivable. In addition, the Company has put more stringent credit analysis and guarantee rules in place to reduce its credit risk. Such negotiations are documented by specific legal documents, guarantee documents and restatement of amounts at rates linked to the Interbank Deposit Certificate rate (CDI). The ageing analysis of trade receivables shown above takes into account the terms of these negotiations.

The Company assesses the risk of loss on outstanding accounts receivable on a periodic basis and recognized an additional provision of R$9,375 for the year ended December 31, 2017 (December 31, 2016 - R$3,154) and R$3,018 (December 31, 2016 – R$9,124) of losses on accounts receivable, which was classified in selling expenses. Management believes that the balance of the provision is sufficient to cover losses on uncollectible accounts.

8. Inventories

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Raw material	**5,815**	5,910	**18,209**	14,598
Work in progress	**-**	-	**3,913**	3,977
Finished products	**30,051**	31,682	**90,444**	89,941
Advances to suppliers	**3,355**	4,196	**4,471**	4,693
(-) Provision for losses	**(2,954)**	(2,229)	**(3,548)**	(2,731)
	36,267	39,559	**113,489**	110,478

Raw materials are used in the development of new products and collections and in the manufacture of shoes of the subsidiary ZZSAP. Work in progress refers mainly to shoes that are currently in production at the subsidiary ZZSAP. Finished products refer mainly to manufactured shoes and handbags in stock that are available for customer purchase and for sale at the Company-owned stores.

Changes in the provision for losses are as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
At the beginning of the year	**(2,229)**	(3,584)	**(2,731)**	(4,473)
(Additions) reversals	**(1,787)**	(992)	**(3,054)**	(1,494)
Recoveries/realization	**1,062**	2,347	**2,237**	3,236
At the end of the year	**(2,954)**	(2,229)	**(3,548)**	(2,731)

DC2 - Informação de distribuição restrita

9. Taxes recoverable

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Value-added Tax on Sales and Services (ICMS) recoverable	**5,103**	3,920	**11,210**	6,083
Excise tax (IPI) recoverable	**-**	-	**1,571**	1,167
Prepaid income tax	**23,348**	8,148	**24,905**	9,099
Prepaid social contribution	**8,384**	2,852	**8,998**	3,281
Other	**15**	432	**4,443**	2,932
	36,850	15,352	**51,127**	22,562

10. Other receivables

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Advances to the advertising fund (i)	**7,892**	7,253	**7,893**	7,253
Prepaid expenses	**3,133**	4,574	**3,029**	5,009
Advances to suppliers	**1,845**	1,138	**2,209**	2,060
Advances to employees	**946**	663	**1,514**	1,147
Receivables from franchisees	**623**	689	**623**	689
Travel advances	**90**	302	**137**	363
Other receivables	**1,133**	-	**3,110**	2,707
	15,662	14,619	**18,515**	19,228
Current	**13,741**	11,291	**15,747**	15,041
Non-current	**1,921**	3,328	**2,768**	4,187

(i) Advances to the advertising fund

To pay for national promotions and advertising campaigns for the entire franchise system ("Arezzo Franchise Network", "Schutz Franchise Network" and "Anacapri Franchise Network"), the franchisees agree to contribute a percentage of their gross sales to a national advertising fund called "Arezzo Cooperative Advertising and Promotion Fund", "Schutz Cooperative Advertising and Promotion Fund" and "Anacapri Cooperative Advertising and Promotion Fund". National advertising funds are paid by franchisees each month and used to pay for expenses to create marketing and advertising strategies, including advertisements and promotions for the benefit of the Arezzo Franchise Network, Schutz Franchise Network and Anacapri Franchise Network, as well as to pay external advertising agencies for creation and development of campaigns, and other advertising and promotional activities at the national level. The national advertising funds are administered by the franchisor who shall furnish a yearly report disclosing contributions made and uses thereof. During the year, the Company makes advances to meet total advertising fund commitments.

DC2 - Informação de distribuição restrita

11. Income tax and social contribution

a) Deferred taxes

Deferred taxes are calculated on income tax (IRPJ) and social contribution (CSLL) losses and the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In Brazil, the currently enacted tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Deferred income tax and social contribution on:				
Temporary differences	**8,408**	5,551	**9,769**	5,711
Tax loss carryforwards	**-**	-	**1,764**	2,694
Total deferred income tax and social contribution (i)	**8,408**	5,551	**11,533**	8,405

(i) Deferred tax asset arising from deductible temporary differences, principally on provisions for labor, tax and civil contingencies and income tax and social contribution losses of subsidiary.

The reconciliation of deferred tax assets is as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Opening balance	**5,551**	3,231	**8,405**	6,285
Deferred tax recognized in the statement of income	**2,857**	2,320	**3,128**	2,120
Closing balance	**8,408**	5,551	**11,533**	8,405

The studies and projections carried out by the Company's management indicate that there will be sufficient future taxable profit to allow the related tax benefit to be utilized in the next years.

Based on projections of future taxable profits, deferred tax assets are expected to be recovered as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
2018	**7,400**	4,673	**8,962**	5,623
2019	**504**	439	**2,067**	1,391
2020	**504**	439	**504**	1,391
Total	**8,408**	5,551	**11,533**	8,405

DC2 - Informação de distribuição restrita

11. Income tax and social contribution (Continued)

b) Reconciliation of tax charges between statutory and effective tax rates

A reconciliation of tax expense calculated at the statutory tax rates to tax expense at the effective tax rate is as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Profit before income tax and social contribution	**167,891**	145,946	**182,933**	157,000
Statutory tax rate	**34%**	34%	**34%**	34%
Expected income tax and social contribution expense at statutory tax rate	**(57,083)**	(49,622)	**(62,197)**	(53,380)
Deferred income tax and social contribution on unrecognized losses of subsidiaries	**-**	-	**(5,048)**	(2,390)
Effect of income tax and social contribution on permanent differences:				
Tax benefit from technological research and innovation expenses – Law 11,196/05	**6,707**	3,952	**6,707**	3,952
Equity in the results of investees	**7,040**	3,856	**-**	-
Interest on capital	**14,436**	15,008	**14,436**	15,008
Government subsidies	**17,837**	-	**21,985**	-
Share option plan expense	**(2,045)**	(1,420)	**(2,045)**	(1,420)
Tax incentives (Workers' Meal Program (PAT), Rouanet Law, other)	**251**	380	**251**	380
Other permanent differences	**(564)**	(1,951)	**(2,552)**	(3,001)
Income tax and social contribution expense	**(13,421)**	(29,797)	**(28,463)**	(40,851)
Current	**(16,278)**	(32,117)	**(31,591)**	(42,971)
Deferred	**2,857**	2,320	**3,128**	2,120
Total	**(13,421)**	(29,797)	**(28,463)**	(40,851)
Effective tax rate - %	**7.99%**	20.42%	**15.56%**	26.02%

DC2 - Informação de distribuição restrita

12. Balances and transactions with related parties

a) Balances and transactions with subsidiaries and controlling shareholders

	12/31/2017						
	Current assets	Non-current assets		Current liabilities	Non-current liabilities	Transactions	
	Trade receivables	Receivables	Loans	Trade payables	Loans	Revenues	Purchases
Parent company							
Subsidiaries							
ARZZ Co LLC	**-**	**10,889**	**-**	**-**	**76,121**	**-**	**-**
ARZZ International INC	**-**	**7,347**	**-**	**-**	**-**	**86**	**-**
ZZAB Comércio de Calçados Ltda.	**18,394**	**-**	**-**	**1,346**	**-**	**177,713**	**-**
ZZSAP Indústria e Comércio de Calçados Ltda.	**7**	**-**	**-**	**4,029**	**-**	**90**	**86,831**
ZZEXP Comercial Exportadora	**254**	**-**	**-**	**-**	**-**	**170**	**-**
Total – Parent company	**18,655**	**18,236**	**-**	**5,375**	**76,121**	**178,059**	**86,831**
Consolidated							
Controlling shareholders	**-**	**-**	**-**	**-**	**1,232**	**-**	**-**
Total - Consolidated	**-**	**-**	**-**	**-**	**1,232**	**-**	**-**

	12/31/2016						
	Current assets	Non-current assets		Current liabilities	Non-current liabilities	Transactions	
	Trade receivables	Receivables	Loans	Trade payables	Loans	Revenues	Purchases
Parent company							
Subsidiaries							
ARZZ Co LLC	-	7,239	-	-	-	-	-
ARZZ International INC	-	33,759	-	-	-	19,881	-
ZZAB Comércio de Calçados Ltda.	28,877	-	-	225	-	159,261	-
ZZSAP Indústria e Comércio de Calçados Ltda.	960	-	-	1,022	-	1,207	114,523
ZZEXP Comercial Exportadora	-	-	-	-	-	42	-
Total – Parent company	29,837	40,998	-	1,247	-	180,391	114,523
Consolidated							
Controlling shareholders	-	-	-	-	1,214	-	-
Total - Consolidated	-	-	-	-	1,214	-	-

b) Nature, terms and conditions of transactions – subsidiaries

The transactions with related parties are conducted on commercial and financial terms agreed upon between the parties concerned. The most common transaction is the sale of shoes and accessories by the Company (parent) to ZZAB stores and to ARZZ International Inc. (subsidiaries) and the purchase of shoes and accessories from manufacturer ZZSAP (subsidiary). In September 2016, ZZEXP (subsidiary) began to purchase from ZZSAP and sell to ARZZ International Inc.

The commercial transactions between such related parties follow price policies and specified terms established between the parties. The average collection period for receivables from related parties is 38 days while the average payment period for payables to related parties is 23 days.

DC2 - Informação de distribuição restrita

12. Balances and transactions with related parties (Continued)

c) Management compensation

Management compensation is composed of management fees, profit sharing and share option plan. At December 31, 2017, the compensation paid to management totaled R$8,646 (December 31, 2016 - R$6,878), as shown below:

	12/31/2017	12/31/2016
Annual fixed compensation – salary/management fees	**5,304**	5,302
Variable pay	**1,816**	469
Share option and restricted stock plans (Note 32)	**2,086**	1,107
Total compensation	**9,206**	6,878

At March 31, 2017, the Company paid a variable compensation of R$1,816 according to the provision recorded in the year ended December 31, 2016.

The expenses related to the share option and restricted stock plans (Note 32) are presented as operating expense before finance result.

The Company and its subsidiaries do not provide post-employment benefits, termination benefits or other benefits to their management and employees.

d) Transactions or relationships with shareholders

At December 31, 2017, certain Company officers and directors directly own a total interest of 51.4% in the Company.

e) Transactions with other related parties

The Company has a service agreement with the firm Ethos Desenvolvimento S/C Ltda. owned by Mr. José Ernesto Beni Bolonha, a member of the Company's Board of Directors. In the year ended December 31, 2017, this firm received R$671 (December 31, 2016 - R$577).

DC2 - Informação de distribuição restrita

13. Investments

Description	Assets	Liabilities	Equity	Capital	Net revenue	Profit (loss) for the year	Ownership interest %	Investment/Provision for investment losses		Equity in results of investees	
								12/31/2017	12/31/2016	12/31/2017	12/31/2016
ARZZ International Inc.	**118,786**	**57,688**	**61,098**	**127,144**	**77,030**	**(14,847)**	100.00	**61,098**	-	**(14,847)**	-
ZZAB Com. de Calçados Ltda.	**203,315**	**41,522**	**161,793**	**93,614**	**300,941**	**16,833**	99.99	**161,793**	144,962	**16,833**	12,410
ZZSAP Ind. e Com. de Calçados Ltda.	**52,394**	**15,991**	**36,403**	**27,592**	**107,467**	**3,436**	99.99	**36,403**	32,967	**3,436**	1,773
ZZEXP Comercial Exportadora S.A.	**80,374**	**63,043**	**17,331**	**2,000**	**86,826**	**15,283**	99.99	**17,331**	4,387	**15,283**	4,186
Investments								**276,625**	182,316	**20,705**	18,369
ARZZ International Inc.	**-**	**-**	**-**	**-**	**-**	**-**	100.00	**-**	(22,508)	**-**	(7,028)
Provision for investment losses								**-**	(22,508)	**-**	(7,028)
								276,625	159,808	**20,705**	11,341

	Parent company	
	12/31/2017	12/31/2016
Balance at the beginning of the year, net of provision for losses	**159,808**	139,258
Capital payment	**99,300**	5,569
Distribution of dividends	**(4,141)**	-
Cumulative translation adjustments (CTA)	**953**	3,640
Equity in the results of investees	**20,705**	11,341
Balance at the end of the year, net of provision for losses	**276,625**	159,808

DC2 - Informação de distribuição restrita

13. Investments (Continued)

Share capital increase

On November 24, 2017, the subsidiary ARZZ International Inc. had its share capital increased from US$10,639 thousand to US$40,639 thousand, i.e. an increase of US$30,000 thousand, equivalent to R$97,500 paid up in cash during the year.

On June 30, 2017, the subsidiary ZZEXP Comercial Exportadora S.A. had its capital paid up in cash in the amount of R$1,800.

Distribution of dividends

At June 30, 2017, the subsidiary ZZEXP Comercial Exportadora S.A. distributed dividends of R$4,141 to the Company out of profits for the year ended December 31, 2016, after the transfer to legal reserve as required by the Brazilian Corporate legislation.

14. Property, plant and equipment

	12/31/2017			12/31/2016		
Parent company	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Computers and peripherals	**14,763**	**(9,723)**	**5,040**	13,219	(7,821)	5,398
Furniture and fittings	**8,107**	**(4,443)**	**3,664**	7,536	(3,778)	3,758
Machinery and equipment	**8,127**	**(4,042)**	**4,085**	7,099	(3,306)	3,793
Facilities and showroom	**16,522**	**(7,896)**	**8,626**	15,194	(6,373)	8,821
Vehicles	**221**	**(176)**	**45**	221	(131)	90
Land	**101**	**-**	**101**	101	-	101
Total	**47,841**	**(26,280)**	**21,561**	43,370	(21,409)	21,961

	12/31/2017			12/31/2016		
Consolidated	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Computers and peripherals	**18,070**	**(11,918)**	**6,152**	15,914	(9,687)	6,227
Furniture and fittings	**25,411**	**(12,235)**	**13,176**	24,284	(10,051)	14,233
Machinery and equipment	**19,358**	**(10,186)**	**9,172**	17,866	(8,506)	9,360
Facilities and showroom	**71,316**	**(32,325)**	**38,991**	67,214	(24,173)	43,041
Vehicles	**234**	**(190)**	**44**	234	(144)	90
Land	**101**	**-**	**101**	101	-	101
Total	**134,490**	**(66,854)**	**67,636**	125,613	(52,561)	73,052

DC2 - Informação de distribuição restrita

14. Property, plant and equipment (Continued)

Changes in the property, plant and equipment are as follows:

Parent company	Computers and peripherals	Furniture and fittings	Machinery and equipment	Facilities and showroom	Vehicles	Land	Total
At December 31, 2015	5,016	4,292	3,964	10,120	135	578	24,105
Purchases	2,019	271	503	420	-	-	3,213
Depreciation	(1,637)	(652)	(674)	(1,482)	(45)	-	(4,490)
Write-offs	-	(153)	-	(237)	-	(477)	(867)
At December 31, 2016	5,398	3,758	3,793	8,821	90	101	21,961
Purchases	**1,552**	**583**	**1,029**	**1,361**	**-**	**-**	**4,525**
Depreciation	**(1,904)**	**(675)**	**(737)**	**(1,531)**	**(45)**	**-**	**(4,892)**
Write-offs	**(6)**	**(2)**	**-**	**(25)**	**-**	**-**	**(33)**
At December 31, 2017	**5,040**	**3,664**	**4,085**	**8,626**	**45**	**101**	**21,561**
Average depreciation rate	20%	10%	10%	10%	20%	-	

Consolidated	Computers and peripherals	Furniture and fittings	Machinery and equipment	Facilities and showroom	Vehicles	Land	Total
At December 31, 2015	6,004	13,674	9,499	43,703	135	578	73,593
Purchases	2,324	3,701	1,489	7,352	-	-	14,866
Depreciation	(2,047)	(2,404)	(1,628)	(5,688)	(45)	-	(11,812)
Write-offs	(17)	(589)	-	(1,337)	-	(477)	(2,420)
Foreign exchange variation	(37)	(149)	-	(989)	-	-	(1,175)
At December 31, 2016	6,227	14,233	9,360	43,041	90	101	73,052
Purchases	**2,258**	**1,987**	**1,584**	**5,866**	**-**	**-**	**11,695**
Depreciation	**(2,311)**	**(2,699)**	**(1,762)**	**(9,176)**	**(46)**	**-**	**(15,994)**
Write-offs	**(28)**	**(296)**	**(10)**	**(830)**	**-**	**-**	**(1,164)**
Foreign exchange variation	**6**	**(49)**	**-**	**90**	**-**	**-**	**47**
At December 31, 2017	**6,152**	**13,176**	**9,172**	**38,991**	**44**	**101**	**67,636**
Average depreciation rate	20%	10%	10%	10%	20%	-	

Taking into account the significance of property, plant and equipment to the financial statements as a whole, the Company and its subsidiaries evaluated the useful economic life of these assets and concluded that there is no material adjustment or change to be recognized as at December 31, 2017.

During the year, the Company did not identify any indication that the carrying value of certain items of property, plant and equipment may exceed their recoverable amount and therefore no provision for impairment was required.

DC2 - Informação de distribuição restrita

15. Intangible assets

	12/31/2017			12/31/2016		
Parent company	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**3,927**	**-**	**3,927**	3,521	-	3,521
Store use rights	**1,078**	**(260)**	**818**	1,078	-	1,078
Software licenses	**87,710**	**(53,590)**	**34,120**	81,493	(39,554)	41,939
Total	**92,715**	**(53,850)**	**38,865**	86,092	(39,554)	46,538

	12/31/2017			12/31/2016		
Consolidated	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Trademarks and patents	**4,051**	**-**	**4,051**	3,644	-	3,644
Store use rights	**40,754**	**(1,151)**	**39,603**	39,781	-	39,781
Software licenses	**89,868**	**(54,329)**	**35,539**	82,743	(40,207)	42,536
Total	**134,673**	**(55,480)**	**79,193**	126,168	(40,207)	85,961

Changes in intangible assets are as follows:

Parent company	**Trademarks and patents**	**Store use rights**	**Software licenses**	**Total**
At December 31, 2015	3,330	1,078	50,108	54,516
Purchases	191	-	5,732	5,923
Amortization	-	-	(13,901)	(13,901)
At December 31, 2016	3,521	1,078	41,939	46,538
Purchases	**406**	**-**	**6,217**	**6,623**
Amortization	**-**	**(260)**	**(14,036)**	**(14,296)**
At December 31, 2017	**3,927**	**818**	**34,120**	**38,865**
Estimated average useful life	Indefinite	Indefinite	5 years	

Consolidated	**Trademarks and patents**	**Store use rights**	**Software licenses**	**Total**
At December 31, 2015	3,459	36,679	50,591	90,729
Purchases	192	4,001	6,007	10,200
Amortization	-	-	(14,003)	(14,003)
Write-offs	-	(899)	(2)	(901)
Foreign exchange variation	(7)	-	(57)	(64)
At December 31, 2016	3,644	39,781	42,536	85,961
Purchases	**406**	**2,338**	**7,109**	**9,853**
Amortization	**-**	**(2,515)**	**(14,123)**	**(16,638)**
Write-offs	**-**	**(1)**	**-**	**(1)**
Foreign exchange variation	**1**	**-**	**17**	**18**
At December 31, 2017	**4,051**	**39,603**	**35,539**	**79,193**
Estimated average useful life	Indefinite	Finite and indefinite	5 years	

DC2 - Informação de distribuição restrita

15. Intangible assets (Continued)

Intangible assets with a finite useful life refer to software licenses acquired from third parties and are amortized on a straight-line basis over the estimated useful life of the assets, with a contra entry to general and administrative expenses.

Intangible assets with an indefinite useful life refer to trademarks and patents and store use rights. Store use rights refer to expenditures incurred by the Company in connection with the installation of stores at rented commercial premises, and the related lease contracts provide for highly probable renewal periods. The recovery of these assets will occur upon the disposal of the commercial premises or through impairment.

The store use rights are acquired through cash payments for release of the commercial premises and there are no other obligations arising out of these acquisitions in the Company's liabilities. Such negotiations are usual in this type of commercial transaction due to the business characteristics.

In the periodic review of its Expansion Plan, the Company revised the useful life of certain intangible assets classified as store use rights from indefinite to finite.

The amount of R$20,176 in expenses associated with the research and development of new products was recorded in the parent company and consolidated statement of income for the year ended December 31, 2017(December 31, 2016 - R$19,374).

Impairment test for indefinite-lived intangible assets

The Company tested intangible assets for impairment based on the value-in-use approach using a discounted cash flow model for cash-generating units, which represent its stores.

Determining the value in use involves the use of assumptions, judgments and estimates of cash flows, such as rates of growth of revenues, costs and expenses, estimates of future investments, working capital and discount rates. The assumptions related to growth, cash flows and future cash flows forecasts are based on the Company's business plan approved by management as well as on comparable market data and represent management's best estimate of economic conditions that will exist over the economic lives of the various cash-generating units, the group of assets that generate cash flows. Future cash flows were discounted based on the rate that represent the cost of capital.

DC2 - Informação de distribuição restrita

15. Intangible assets (Continued)

In line with the economic valuation techniques, the value-in-use calculation is made for a period of five years and, thereafter, considering the perpetuity of the assumptions in view of the ability to continue to operate indefinitely.

The estimated future cash flows were discounted at a pre-tax discount rate of 14.6% p.a. (equivalent to WACC of 10.0% p.a.) for each cash-generating unit analyzed.

The key assumptions used for estimating the value in use are as follows:

- Revenues – Revenues were forecasted for the period between 2018 and 2022 considering growth of the customer base of the various cash-generating units.

- Operating costs and expenses – Costs and expenses were forecasted in line with the Company's historical performance as well as with the historical growth of revenues.

- Capital expenditure – Capital expenditure was estimated considering the infrastructure needed for the Company to offer its products based on the Company's history.

The key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions based on financial market projections documented and approved by the Company's management.

The impairment test performed on the Company's intangible assets did not reveal any need to recognize impairment losses for the year ended December 31, 2017, since the estimated value in use exceeds the net carrying amount at the date of valuation.

16. Borrowings

Borrowings can be summarized as follows:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Working capital (a)	**-**	-	**-**	16,419
FINAME (b)	**-**	-	**623**	844
Advance on foreign exchange contract - ACC (c)	**-**	15,679	**55,381**	51,809
FINEP (d)	**26,456**	36,978	**26,456**	36,977
Borrowings in foreign currency – "transaction 4.131" (e)	**99,285**	-	**99,285**	-
	125,741	52,657	**181,745**	106,049
Current	**108,193**	26,201	**163,729**	78,970
Non-current	**17,548**	26,456	**18,016**	27,079

DC2 - Informação de distribuição restrita

16. Borrowings (Continued)

The maturities and the interest rate and charges on borrowings are as follows:

a) Working capital in the United States of America: denominated in U.S. dollars, plus average Libor + fixed rate of 1.35% p.a., with maturity in September 2017;

b) Equipment financing (Finame): 2.5% to 6% p.a., with maturities in 2014 until September 2021;

c) Advance on foreign exchange contract (ACC): denominated in U.S. dollars, plus average interest rate of 3.07% p.a. at December 31, 2017. There are several agreements with a final maturity until October 2018;

d) Study and project financing (FINEP): rate of 4% and 5.25% p.a., limited to Long-Term Interest Rate (TJLP), with maturities in 2018 until September 2021; and

e) Borrowings in foreign currency - "transaction 4.131": On December 22 and 28, 2017, the Company took out loans from Banco Itaú S/A and Citibank N.A. in the amount of US$30,000, equivalent to R$97,500, with interest based on 100% accumulated variation of Libor plus spread of 1.25% p.a. and maturing in December 2018. These loans were designated as hedges with the specific intent of protecting against adverse moves in foreign currency rates and interest rates of investments in foreign subsidiaries, as per Note 27.b. Interest payments are quarterly.

Changes in borrowings are as follows:

	Parent company				Consolidated					
	ACC	FINEP	Transaction 4131	Total	Working capital	Finame	ACC	FINEP	ransaction 4131	Total
At December 31, 2015	56,065	46,427	-	102,492	19,655	1,005	56,065	46,427	-	123,152
Proceeds from borrowings	34,977	-	-	34,977	-	-	71,129	-	-	71,129
Payment of installments	(71,236)	(9,607)	-	(80,843)	(358)	-	(71,236)	(9,607)	-	(81,201)
Interest payment	-	(1,744)	-	(1,744)	358	(216)	-	(1,744)	-	(1,602)
Provision for interest and foreign exchange variation (statement of income)	(4,127)	1,902	-	(2,225)	(125)	55	(4,149)	1,901	-	(2,318)
Foreign exchange variation (comprehensive income)	-	-	-	-	(3,111)	-	-	-	-	(3,111)
At December 31, 2016	15,679	36,978	-	52,657	16,419	844	51,809	36,977	-	106,049
Proceeds from borrowings	**-**	**-**	**97,500**	**97,500**	**-**	**-**	**62,920**	**-**	**97,500**	**160,420**
Payment of installments	**(15,753)**	**(10,522)**	**-**	**(26,275)**	**(16,003)**	**-**	**(61,927)**	**(10,521)**	**-**	**(88,451)**
Interest payment	**-**	**(1,361)**	**-**	**(1,361)**	**(434)**	**(262)**	**-**	**(1,361)**	**-**	**(2,057)**
Provision for interest and foreign exchange variation (statement of income)	**74**	**1,361**	**708**	**2,143**	**18**	**41**	**2,579**	**1,361**	**708**	**4,707**
Foreign exchange variation (comprehensive income)	**-**	**-**	**1,077**	**1,077**	**-**	**-**	**-**	**-**	**1,077**	**1,077**
At December 31, 2017	**-**	**26,456**	**99,285**	**125,741**	**-**	**623**	**55,381**	**26,456**	**99,285**	**181,745**

DC2 - Informação de distribuição restrita

16. Borrowings (Continued)

At December 31, the non-current borrowings mature as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	**12/31/2017**	12/31/2016
2018	**-**	8,913	**-**	9,068
2019	**8,592**	8,592	**8,709**	8,709
2020	**5,118**	8,951	**5,191**	9,302
After 2020	**3,838**	-	**4,116**	-
Total	**17,548**	26,456	**18,016**	27,079

Borrowings are secured by Group entities' guarantee and bank letters of guarantee, and do not contain restrictive covenants. Finame agreements are secured by the financed assets.

Other guarantees and commitments

The Company has a technical and financial cooperation agreement with Banco do Nordeste do Brasil S/A, to have borrowing facilities available for Arezzo franchisees that are located in the area where the Bank operates, using the funds from the Northeast Region Constitutional Finance Fund (FNE) to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees through working capital loans, if needed.

Under the terms of the agreement, the Company shall be the guarantor for these transactions through a surety bond when contracted by store owners. At December 31, 2017, these transactions amounted to R$1,624 (December 31, 2016 - R$1,846).

The Company has a technical and financial cooperation agreement with Banco Alfa, to have borrowing facilities available for Arezzo franchisees, using the funds from the National Bank for Economic and Social Development (BNDES) to finance modernization of franchisees' stores, according to the standards established by the Company, as well as to finance operations of franchisees. The Company is the guarantor for these transactions. At December 31, 2017, the balance of transactions guaranteed by the Company was R$11,912 (December 31, 2016 - R$5,067).

The Company has no history of loss experience on such transactions.

DC2 - Informação de distribuição restrita

17. Trade payables

Breakdown of trade payables is as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Domestic suppliers	**34,813**	14,048	**48,049**	29,170
Reverse factoring (a)	**56,265**	36,837	**56,265**	36,837
Related parties (Note 12.a)	**5,375**	1,247	**-**	-
Foreign suppliers	**102**	437	**102**	438
Total	**96,555**	52,569	**104,416**	66,445

(a) The Company has agreements with Banco Itaú Unibanco S.A. to structure with its main suppliers a reverse factoring arrangement. In this arrangement, the suppliers transfer the right to receive their invoices to the Bank which, in turn, will become the creditor in the transaction. Management has reviewed the portfolio of this transaction and concluded that there was no significant change in maturities, prices and conditions that were previously established upon a complete analysis of suppliers by category; therefore, the Company shows this transaction within the account “Trade payables”.

18. Salaries and vacation pay

The balances are as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Salaries payable	**18,752**	10,273	**21,210**	12,030
Accrued vacation pay and charges	**7,725**	6,373	**13,358**	11,609
Total	**26,477**	16,646	**34,568**	23,639

19. Taxes and social charges payable

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Value-added Tax on Sales and Services (ICMS) on sales	**544**	127	**5,919**	4,045
Withholding income tax	**4,303**	4,222	**4,878**	4,693
Social charges	**3,143**	2,419	**5,193**	4,264
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	**2,378**	2,005	**4,534**	4,508
Income tax (IRPJ) and social contribution (CSLL)	**-**	-	**2,123**	3,527
Other taxes and charges	**1,813**	1,540	**2,034**	1,824
Total	**12,181**	10,313	**24,681**	22,861

DC2 - Informação de distribuição restrita

20. Provisions for labor, tax and civil contingencies

The Company and its subsidiaries are parties to judicial and administrative proceedings involving tax, social security, labor and civil matters, arising in the normal course of business. Based on the information provided by its legal advisors and the analysis of pending lawsuits, management recorded a provision at an amount considered sufficient to cover estimated probable losses that may arise from the final outcome of lawsuits in progress supported by judicial deposits, as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Civil	**256**	288	**287**	326
Tax	**1,675**	1,675	**2,044**	2,044
Labor	**4,195**	3,585	**6,535**	4,839
	6,126	5,548	**8,866**	7,209

Civil – the Company and its subsidiaries are parties to civil lawsuits related principally to claims for pain and suffering and pecuniary damages, and collection of bills. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

Tax – the Company and its subsidiary ZZSAP are parties to tax proceedings discussing the increase in the Accident Prevention Factor (FAP) rate, for which judicial deposits at the same amount were made. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

Labor – the Company and its subsidiaries are parties to labor lawsuits related principally to overtime pay and related social charges, health exposure premium, hazard pay, salary equalization and additions to the salary. Based on the opinion of the legal advisors and the history of the final outcome of such claims, management believes that the provision amounts are sufficient to cover probable losses.

Based on the information provided by its legal advisors and the analysis of pending lawsuits, management set up a provision at an amount considered sufficient to cover estimated probable losses that may arise from the final outcome of lawsuits in progress, as shown below:

Parent company	Civil	Tax	Labor	Total
At December 31, 2015	240	1,675	2,311	4,226
Additions/restatements	309	-	1,320	1,629
Reversals/payments	(261)	-	(46)	(307)
At December 31, 2016	288	1,675	3,585	5,548
Additions/restatements	**11**	**-**	**1,756**	**1,767**
Reversals/payments	**(43)**	**-**	**(1,146)**	**(1,189)**
At December 31, 2017	**256**	**1,675**	**4,195**	**6,126**

DC2 - Informação de distribuição restrita

20. Provisions for labor, tax and civil contingencies (Continued)

Consolidated	Civil	Tax	Labor	Total
At December 31, 2015	240	2,044	3,310	5,594
Additions/restatements	356	-	2,328	2,684
Reversals/payments	(270)	-	(799)	(1,069)
At December 31, 2016	326	2,044	4,839	7,209
Additions/restatements	**50**	**-**	**3,156**	**3,206**
Reversals/payments	**(89)**	**-**	**(1,460)**	**(1,549)**
At December 31, 2017	**287**	**2,044**	**6,535**	**8,866**

The Company and its subsidiaries have other civil, tax and labor proceedings at the administrative and judicial levels, amounting to approximately R$63,219 (Parent company and Consolidated), involving risks of loss classified by the legal advisors as possible and, therefore, requiring no provision. Of total amount, R$30,439 refers to labor proceedings, R$28,574 to tax proceedings and R$4,206 to civil proceedings.

The proceedings include the following:

i) Income tax and social contribution deficiency notice issued by the Brazilian Revenue Service on June 11, 2013, which, among other things, challenges the tax deductibility of the amortization of goodwill arising from the acquisition by BRICS Participações S.A. (BRICS) of an equity interest in the Company at a market value determined by independent experts, which was subsequently absorbed by the Company through a downstream merger. The goodwill absorbed is shown net of goodwill adjustment provision, as required by CVM Instruction 319/99, and represents the tax benefit resulting from the deductibility of said goodwill. This tax proceeding is currently at the administrative level and the risk of loss is assessed by the Company's legal advisors as possible, amounting to R$8,704.

ii) Tax delinquency notice issued by the Rio Grande do Sul State Finance Office on April 2, 2013, alleging that the Company has recognized improper ICMS credits on shipment of goods to buyers established in the Manaus Free Trade Zone (ZFM) and Free Trade Areas (ALCs) in the periods from February 2008 to December 2011, and thus demanding payment of ICMS. This tax proceeding is currently at the administrative level and the risk of loss is assessed by the Company's legal advisors as possible, amounting to R$6,409.

Legislation in force

Pursuant to the legislation in force in Brazil, federal, state and municipal taxes and social charges are subject to examination by tax authorities for periods varying from five to thirty years. The legislation of the United States of America (where certain subsidiaries of the Company operate) prescribes different periods of limitations.

Judicial deposits

At December 31, 2017, judicial deposits of the parent company are R$12,556 (December 31, 2016 - R$10,361) and consolidated judicial deposits are R$19,117 (December 31, 2016 - R$14,733).

DC2 - Informação de distribuição restrita

21. Share capital and reserves

21.1. Share capital

On May 29, 2017, the Board of Directors approved an increase of R$20,367 in the Company's share capital by reason of the exercise by certain plan participants of their respective share options in the amount of 930 thousand registered, book-entry, common shares without par value, under the terms of the Share Option Plan.

	Shares (in thousands)	Share capital R$
At December 31, 2015	88,735	261,247
Share capital increase with conversion of capital reserve	-	46,830
Issuance of shares under share option plan	101	1,931
At December 31, 2016	88,836	310,008
Issuance of shares under share option plan	**930**	**20,367**
At December 31, 2017	**89,766**	**330,375**

21.2. Capital reserve

The capital reserve was initially established as a result of the corporate restructuring process performed in 2007, against the merged net assets, and represents the amount of the tax benefit earned through the amortization of the merged goodwill. The portion of the special goodwill reserve corresponding to the benefit may be capitalized for the benefit of shareholders at the end of each financial year through the issue of new shares, according to CVM Instruction 319/99.

The corporate events which gave rise to the capital reserve in connection with the corporate restructuring are as follows:

a) On June 1, 2008, BRICS Participações S/A ("BRICS") was merged into the Company, and merged net assets comprised goodwill paid on acquisition of the investment in the Company based on the future profitability of the acquired business, net of the provision set forth by CVM Instruction 319/99, in the amount of R$13,935. With the extinction of BRICS after merger, BRICS' equity interest in the Company was transferred to FIGEAC Holdings S/A ("FIGEAC").

b) On December 1, 2009, FIGEAC was merged into the Company, and merged net assets comprised goodwill paid on acquisition of the investment in the Company based on the future profitability of the acquired business, net of the provision set forth by CVM Instruction 319/99, in the amount of R$7,535.

On September 30, 2011, the Company recorded an additional provision for costs of the stock public offering amounting to R$550 (R$363, net of tax effects), and this net amount was subtracted from the capital reserve.

DC2 - Informação de distribuição restrita

21. Share capital and reserves (Continued)

21.2. Capital reserve (Continued)

Due to the implementation of the Share Option Plan, the Company recorded the Options Granted Reserve in the amount of R$21,368, as described in Note 32. Out of this total, R$3,283 was recognized in 2017 (R$ 4,177 in 2016, R$4,749 in 2015, R$4,451 in 2014, R$3,933 in 2013 and R$ 775 in 2012).

With the implementation of the Restricted Stock Plan, the Company recorded in 2017 the Restricted Stock Reserve in the amount of R$2,730, as described in Note 32.

21.3. Reserves and retained profits

Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of the capital, according to article 193 of Law 6,404/76 as amended (Brazilian corporate law). The balance of the legal reserve at December 31, 2017 is R$43,707.

Investment reserve

The investment reserve is to fund research and development of new products, according to the capital budget prepared by management and approved at the Annual Shareholders' Meeting. The balance of the investment reserve at December 31, 2017 and 2016 is R$2,683.

Tax incentive reserve

Refers to the tax incentives (Note 33) that the Parent company and its subsidiaries received for investments. The balance of this reserve at December 31, 2017 is R$64,658.

Retained profits

The retained profits reserve was recorded pursuant to the terms of article 196 of Law 6,404/76, for use in future investments. The profits retained up to 2017 amount to R$178,358 and are based on the capital budget prepared by management and approved at the Annual Shareholders' Meeting held on April 20, 2018.

According to article 199 of Law 6,404/76, the balance of this reserve plus other revenue reserves cannot exceed the amount of the share capital.

DC2 - Informação de distribuição restrita

21. Share capital and reserves (Continued)

21.4. Other comprehensive income

Reserve for exchange differences on translation of foreign operations

The Company recognized as other comprehensive income, within equity, exchange differences on the translation of foreign operations, represented by its subsidiaries located in the United States of America, whose functional currency is the U.S. dollar. For the year ended December 31, 2017, the amount is R$953 (December 31, 2016 - R$3,640).

Hedge

The Company recognized as other comprehensive income, within equity, exchange differences on the translation of foreign operations, represented by loans under "transaction 4.131", whose functional currency is the U.S. dollar. For the year ended December 31, 2017, the amount is R$1,077.

21.5 Treasury shares

On March 27, 2017, the Board of Directors approved a Share Repurchase Plan ("Repurchase Plan") for the Company to buy back its own shares, without reducing the amount of share capital, and keep them in its own treasury to make them available at a later date for the Restricted Stock Plan (Note 32), or then cancel or sell those shares.

At December 31, 2017, the balance of treasury shares is R$1,199 consisting of 25,000 common shares at an average acquisition cost of R$47.96.

22. Dividends and interest on capital paid and proposed

a) Dividends

In accordance with the Company's bylaws, the shareholders are entitled to a mandatory minimum dividend of 25% of the profit for the year after transfer to legal reserve as required by the Brazilian Corporate legislation. Interest on capital, when calculated, is considered as distribution of profits for purposes of determination of the minimum dividend to be distributed.

Dividends were calculated as follows:

	2017	2016
Profit for the year	**154,470**	116,149
Legal reserve - 5%	**(7,724)**	(5,807)
Tax incentive reserve	**(64,658)**	-
Profit to allocate	**82,088**	110,342
Minimum dividends according to the bylaws	**25%**	25%
Amount of mandatory minimum dividends	**20,522**	27,586

Dividends and interest on capital

DC2 - Informação de distribuição restrita

Interest on capital credited and paid	**42,460**	44,142
Withholding income tax on interest on capital	**(5,881)**	(6,306)
Interim dividends paid	**36,832**	11,257
Proposed additional dividends	**2,796**	52,975
Total	**76,207**	102,068
Dividends in excess of mandatory minimum dividends	**55,685**	74,482
Dividends in excess of mandatory minimum dividends per share - R$	**0.6205**	0.8384

At March 6, 2017, the Board of Directors approved the proposal for allocation of profit for the year ended December 31, 2016, in the amount of R$52,975, for dividends paid on May 15, 2017.

The Company approved at its Board of Directors' meeting held on August 28, 2017 the distribution of interim dividends of R$88,832, which were paid on September 27, 2017. Of total dividends, the amount of R$36,832 was paid out of net profit for the current year and R$52,000 out of the Company's revenue reserves. The interim dividends paid during the year are an advance payment of mandatory minimum dividend.

The Executive Board will present to the Board of Directors for consideration at the meeting to be held on March 20, 2018 a proposal for allocation of profit for the year ended December 31, 2017, including the proposal for distribution of additional dividends of R$2,796 (R$0.0312 per share), subject to subsequent approval at the General Shareholders' Meeting.

DC2 - Informação de distribuição restrita

22. Dividends and interest on capital paid and proposed (Continued)

b) Interest on capital – Law 9,249/95

In order to comply with tax rules, the Company recorded interest on capital paid in the year in "finance costs". For the purposes of these financial statements, this interest on capital was reversed from the statement of income to retained earnings, as determined by accounting practices. Income tax was withheld at the rate of 15% from the payment of this interest on capital, except for shareholders that are actually tax-exempt or shareholders that are domiciled in countries or jurisdictions in which the tax legislation establishes a different tax rate.

On June 26, 2017, the Board of Directors approved the distribution of R$21,540 of interest on capital relating to the first half of 2017, which was paid on July 28, 2017.

On December 18, 2017, the Board of Directors approved the distribution of R$20,920 of interest on capital relating to the second half of 2017, which was paid on January 5, 2018.

The interest on capital paid during the year is an advance payment of mandatory minimum dividend.

23. Earnings per share

In compliance with CPC 41 (IAS 33), the Company presents below earnings per share information for the years ended December 31, 2017 and 2016.

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares (Note 21.5).

	12/31/2017	12/31/2016
Profit for the year (in thousands of reais)	**154,470**	116,149
Weighted average number of outstanding common shares (thousands)	**89,361**	88,786
Basic earnings per share - R$	**1.7286**	1.3082

DC2 - Informação de distribuição restrita

23. Earnings per share (Continued)

b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held as treasury shares, plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares. The Company has one category of potential common shares with dilutive effects: share options, as shown below:

	12/31/2017	12/31/2016
Profit for the year (in thousands of reais)	**154,470**	116,149
Weighted average number of outstanding common shares (thousands)	**89,361**	88,786
Adjustments for share options (thousands)	**701**	551
Weighted average number of common shares for diluted earnings per share (thousands)	**90,062**	89,337
Diluted earnings per share - R$	**1.7152**	1.3001

There were no other transactions involving common shares or potential common shares between the balance sheet date and the date of completion of these financial statements.

24. Net sales revenue

Breakdown of net sales revenue is as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Gross sales revenue				
Domestic market	**1,274,019**	1,152,217	**1,524,408**	1,402,008
Foreign market	**12,264**	72,704	**154,465**	152,139
Sales returns	**(28,718)**	(27,433)	**(71,676)**	(69,801)
Discounts and rebates	**(1,667)**	(2,787)	**(1,667)**	(2,787)
Taxes on sales	**(185,460)**	(177,585)	**(245,056)**	(242,449)
Net sales revenue	**1,070,438**	1,017,116	**1,360,474**	1,239,110

DC2 - Informação de distribuição restrita

25. Segment reporting

The Company has only one operating segment, which is defined as shoes, handbags and accessories. The Company is organized, and has its performance assessed, as a single business unit for operating, commercial, management and administrative purposes.

This view is supported by the following factors:

- There is no segregation in its structure for the management of different product lines, brands or sales channels;
- Its manufacturing plant operates for more than one brand and sales channel;
- The Company's strategic decisions are based on studies that indicate market opportunities and not only on performance by product, brand or sales channel.

The Company's products are distributed through different brands (Arezzo, Schutz, Anacapri, Alexandre Birman and Fiever) and multiple channels (franchises, multi-brand stores, company-owned stores and web commerce), however they are controlled and run by management as a single operating segment, and the results therefrom are monitored and evaluated in a centralized way.

For management purposes, management monitors the consolidated gross revenue by brand and sales channel, as shown below:

	Consolidated	
Brand	**12/31/2017**	**12/31/2016**
Gross revenue	**1,678,873**	1,554,147
Arezzo – domestic market	**873,839**	803,779
Schutz - domestic market	**451,420**	457,648
Anacapri - domestic market	**157,259**	119,357
Other	**41,890**	21,224
Foreign market	**154,465**	152,139

	Consolidated	
Channel	**12/31/2017**	**12/31/2016**
Gross revenue	**1,678,873**	1,554,147
Franchises	**748,055**	686,334
Multi-brand stores	**343,749**	303,661
Company-owned stores	**298,692**	301,315
Web-commerce	**128,973**	108,080
Other	**4,939**	2,618
Foreign market	**154,465**	152,139

The revenue from foreign market is not shown separately by geographic area as at December 31, 2017 it represents 9% of the gross revenue (December 31, 2016 – 10%). No single customer accounts for more than 5% of the sales on the domestic and foreign markets.

DC2 - Informação de distribuição restrita

26. Expenses by nature

The Company has chosen to present its income statement by function and thus presents below the details by nature:

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Expenses by function				
Cost of sales	**(680,591)**	(675,547)	**(736,706)**	(689,819)
Selling expenses	**(157,192)**	(136,479)	**(334,215)**	(302,708)
General and administrative expenses	**(98,621)**	(78,347)	**(113,816)**	(92,846)
Other operating expenses, net	**(1,616)**	(4,953)	**(2,104)**	(2,411)
	(938,020)	(895,326)	**(1,186,841)**	(1,087,784)

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Expenses by nature				
Depreciation and amortization	**(19,188)**	(18,391)	**(32,632)**	(25,815)
Personnel expenses	**(128,769)**	(104,753)	**(207,531)**	(180,358)
Raw materials and consumables used	**(684,096)**	(679,137)	**(742,511)**	(695,629)
Freight	**(19,934)**	(18,562)	**(27,879)**	(23,927)
Store occupancy expenses	**-**	-	**(40,117)**	(35,946)
Other operating expenses	**(86,033)**	(74,483)	**(136,171)**	(126,109)
	(938,020)	(895,326)	**(1,186,841)**	(1,087,784)

27. Financial risk management objectives and policies

a) Fair value

The table below shows the carrying amounts and fair values of the Company's financial assets and liabilities calculated by the Company's management:

	Consolidated			
	12/31/2017		12/31/2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	**10,156**	**10,156**	5,020	5,020
Cash investments	**327,764**	**327,764**	237,824	237,824
Trade receivables	**348,444**	**348,444**	328,980	328,980
Borrowings	**181,745**	**181,717**	106,049	106,049
Trade payables	**104,416**	**104,416**	66,445	66,445

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

a) Fair value (Continued)

At December 31, 2017, consolidated financial instruments by category are as follows:

	Measured at	
	Fair value	**Amortized cost**
Assets		
Loans and receivables		
Cash and cash equivalents	-	10,156
Trade receivables	-	348,444
Financial assets at fair value through profit or loss		
Cash investments	327,764	-
Liabilities		
Other financial liabilities		
Trade payables	-	104,416
Borrowings	-	181,717

The fair value of the financial instruments has been determined on the basis of the following methods and assumptions:

- Cash investments – the carrying amounts stated in the balance sheet equal the fair value because the interest rates for the cash investments are based on the variation of the Interbank Deposit Certificate (CDI), Bank Deposit Certificate (CDB) and Financial Treasury Bills (LFT) (Note 6).

- Cash and cash equivalents, trade and other receivables, trade and other payables – These items derive directly from the operations of the Company and its subsidiaries and are measured at amortized cost. They are stated at original amount less provision for impairment and present value adjustment when applicable. The carrying amount approximates fair value due to the short-term nature of these instruments.

- Borrowings – These are classified as other financial liabilities not measured at fair value and are carried at amortized cost according to the contractual terms. This classification was adopted because the amounts are not held for trading, which management understands is the most relevant financial information. The fair values of the borrowings are equivalent to their carrying amounts as these financial instruments are subject to rates equivalent to market rates and have specific characteristics.

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

a) Fair value (Continued)

a.1) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company uses quoted prices in active markets (Level 1) and observable prices (Level 2) to measure the fair value of its financial instruments.

b) Hedges of net investments in foreign operations (net investment hedge)

After borrowings taken in December 2017 and based on technical pronouncement, the Company designated as hedge the financial instruments it held in the amount of US$30,000 to hedge against foreign currency risk of the investment in a foreign operation of US$18,663. The amount of hedging instruments is grossed up for income tax and social contribution at the rate of 34% as per legislation in force, for purposes of hedge effectiveness testing.

The effects of the net investment hedge were accounted for in conformity with technical pronouncement CPC 38 and IAS 39 – Financial Instruments. Thus, the Company made the formal designation and documentation of the hedging relationship, including identification of: (i) hedge objective; (ii) type of hedge; (iii) the nature of the risk being hedged; (iv) hedged item; (v) hedging instrument; and (vi) correlation between the hedge and the hedged item (retrospective effectiveness test).

The Company assesses, both at the hedge inception and on an ongoing basis, whether the instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss that was recorded in the statement of comprehensive income is immediately transferred to the statement of income.

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

b) Hedges of net investments in foreign operations (net investment hedge) (Continued)

The application of the effectiveness test described in accounting practices demonstrated that the financial instruments are effective. Therefore, at December 31, 2017, no ineffectiveness was recognized in the income statement for net investment hedges and gains or losses were fully recorded in equity.

c) Foreign exchange risk

The results of operations of the Company and its subsidiaries are exposed to the U.S. dollar exchange rate risk because a portion of their sales revenue is linked to the U.S. dollar. To reduce the foreign exchange risk, almost all of their exports have financing pegged to the U.S. dollar.

At December 31, 2017 and 2016, the net exposure to the U.S. dollar is as follows:

	Consolidated	
	12/31/2017	**12/31/2016**
Trade receivables	**30,055**	42,409
Borrowings	**(55,381)**	(51,809)
Net exposure	**(25,326)**	(9,400)

To measure the sensitivity of the Company's foreign currency-denominated assets and liabilities which expose it to foreign exchange risk at December 31, 2017, three different scenarios were simulated and a sensitivity analysis relating to exchange rate fluctuations was prepared.

The table below shows three scenarios, being the probable scenario adopted by the Company. These scenarios were defined based on management's expectations of foreign exchange rate changes at the dates of maturity of the agreements exposed to foreign exchange risk.

In addition to this scenario, the CVM through Instruction 475 of December 17, 2008 (CVM Instruction 475) determined that two other scenarios should be presented, applying an appreciation of 25% and 50% of the risk variable under analysis. These scenarios are being presented according to CVM regulation.

Operation	**Currency**	**Probable scenario (Carrying amount)**	**Scenario A**	**Scenario B**
Depreciation of the exchange rate				
Trade receivables in foreign currency	R$	30,055	37,569	45,083
Borrowings in foreign currency	R$	(55,381)	(69,226)	(83,072)
Depreciation of the exchange rate			25%	50%
against the US dollar	R$	3.31	4.13	4.96
Effect on pre-tax profit			(6,331)	(12,663)

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

d) Interest rate risk

The Company is exposed to interest rate risk because of borrowings subject to the Long-term Interest Rate (TJLP). The rates are disclosed in Note 16.

At December 31, 2017, borrowings are subject to the following interest rates:

	Consolidated	
	12/31/2017	**%**
Fixed interest	**56,004**	31%
Interest based on TJLP and Libor	**125,741**	69%
	181,745	100%

To measure the sensitivity of the Company's borrowings to interest rates to which the Company was exposed at December 31, 2017, three different scenarios were simulated and a sensitivity analysis relating to interest rate shifts was prepared.

The table below shows three scenarios, being the probable scenario adopted by the Company. Based on the amounts of TJLP and Libor in effect at December 31, 2017, the probable scenario for the year 2017 was defined, applying variances of 25% and 50% as required by CVM Instruction 475.

For each scenario, gross interest expense was calculated, without taking into consideration taxes and the flow of maturities of each agreement. The base date used for borrowings was December 31, 2017, projecting the interest rates for one year and verifying the sensitivity of the same rates in each scenario.

Operation	Currency	Probable scenario	Scenario A	Scenario B
Increase in interest expense				
Borrowings – TJLP	R$	1,852	2,315	2.778
Borrowings – Libor	R$	2,025	2,532	3.038
		3,877	4,847	5.816
Increase in the interest rate for financial liabilities			25%	50%
TJLP		7.00%	8.75%	10.50%
Libor		2.04%	2.55%	3.06%

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

e) Credit risk

Credit risk arises from the difficulty in collecting the amounts due from customers for goods sold and services rendered.

The Company and its subsidiaries are also subject to credit risk arising from their cash investments.

Most of trade receivables are denominated in Brazilian reais and spread across various customers. To reduce the credit risk, the Company performs an individual analysis for new customers but, as a usual market practice, only high-risk customers are required to make advance payments. No single customer accounts for more than 5% of the Company's total accounts receivable at December 31, 2017 and 2016.

Management monitors the risk of the receivables portfolio on a weekly basis and, if there is the risk of default on a receivable, adjusts the income statement. The analysis covers receivables that are over 30 days past due, customer payment history, guarantees provided and renegotiations completed with collaterals. The amounts recorded as effective losses or provision for losses reflect uncollectible accounts and receivables with low chance of recovery.

With regard to the credit risk associated with financial institutions, the Company and its subsidiaries use top-tier financial institutions

f) Liquidity risk

Liquidity risk reflects the probability that Company and its subsidiaries will not have sufficient cash on hand to meet their obligations by reason of different currencies and maturities of their receipts and payments.

The liquidity and cash flow of the Company and its subsidiaries is monitored on a daily basis by the Company's management to ensure that the amount of cash generated from their normal business operations and borrowing facilities, when needed, are sufficient to meet their scheduled obligations, without exposing the Company and its subsidiaries to the liquidity risk.

The table below shows contractual payments due under financial liabilities:

	Projection including future interest			
	Less than one year	**From 1 to 5 years**	**Over 5 years**	**Total**
Borrowings	164,705	18,909	62	183,676
Trade payables	104,416	-	-	104,416

DC2 - Informação de distribuição restrita

27. Financial risk management objectives and policies (Continued)

g) Capital management

The Company's objective when managing capital is to ensure that the Company has a strong credit rating with the institutions and an optimal capital structure to support the Company's business and maximize the value for shareholders.

The Company controls its capital structure by making adjustments to reflect current economic conditions. In order to maintain or adjust the capital structure, the Company can make dividend payments, return capital to shareholders, take new borrowings, issue debentures, issue promissory notes and enter into derivative transactions. There was no change in capital structure objectives, policies or processes in 2017 and 2016.

The gearing ratios at December 31, 2017 and 2016 were as follows:

	Consolidated	
	12/31/2017	**12/31/2016**
Borrowings	**(181,745)**	(106,049)
Cash and cash equivalents	**10,156**	5,020
Cash investments	**327,764**	237,824
Net cash position	**156,175**	136,795
Total capital	**664,960**	669,699

28. Finance result

	Parent company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Finance income:				
Interest income	**4,648**	4,834	**4,658**	4,908
Interest income on cash investments	**20,736**	26,362	**23,707**	27,888
Other income	**1,191**	1,393	**1,676**	1,618
	26,575	32,589	**30,041**	34,414
Finance costs:				
Credit card administration fee	**-**	-	**(6,758)**	(6,397)
Discounts granted	**(2,393)**	(5,667)	**(2,436)**	(5,771)
Interest on borrowings	**(1,590)**	(3,023)	**(3,214)**	(3,361)
Bank charges	**(2,829)**	(2,500)	**(4,151)**	(3,308)
Notary public fees	**(2,234)**	(2,050)	**(2,250)**	(2,099)
Other costs	**(661)**	(432)	**(974)**	(1,492)
	(9,707)	(13,672)	**(19,783)**	(22,428)
Foreign exchange variation, net	**(2,100)**	(6,102)	**(958)**	(6,312)
Total	**14,768**	12,815	**9,300**	5,674

DC2 - Informação de distribuição restrita

29. Other operating income (expenses), net

	Parent company		Consolidated	
	12/31/2017	12/31/2016	**12/31/2017**	12/31/2016
Share option and restricted stock plans	**(6,014)**	(4,177)	**(6,014)**	(4,177)
Franchise fees	**2,104**	1,103	**2,104**	1,103
Recovery of expenses	**1,869**	934	**1,910**	939
Result on disposal of property, plant and equipment and intangible assets	**19**	(212)	**(479)**	3
Other income (expenses)	**406**	(2,601)	**375**	(279)
	(1,616)	(4,953)	**(2,104)**	(2,411)

30. Operating lease commitments – store lease

At December 31, 2017, the Company had lease agreements with third parties. Management analyzed these agreements and concluded that they meet the criteria for classification as operating leases.

The future minimum lease payments under non-cancelable operating leases are as follows:

	Minimum lease payments at 12/31/2017 (Consolidated)
Less than one year	**23,007**
More than one year and no later than 5 years	**52,485**

The average monthly rent expense is R$3,054 (2016 - R$2,739). The lease terms are four to five years, and the lease agreements are subject to finance charges based on IGPM variance p.a., as specified in each agreement.

At December 31, 2017, rent expense, net of taxes recoverable, amounted to R$36,652 (December 31, 2016 - R$32,871). The balance of rents payable is R$184 (December 31, 2016 - R$1,545).

A substantial portion of the rents is linked to the store sales turnover, with a minimum base rent. Further, the rent-free period set forth in the agreements is not representative for purposes of straight-lining of expenses.

DC2 - Informação de distribuição restrita

31. Insurance

The Company and its subsidiaries have insurance policies contracted with some of the main insurance companies in the country, taking into account the nature and degree of the risk involved. At December 31, 2017, the Company had insurance coverage against fire and multiple risks for items of property, plant and equipment and inventories. The insurance amounts are considered sufficient by management to cover possible losses, as shown below:

Insured assets	Risks covered	Coverage amount - R$
Inventories and property, plant and equipment	Fire	162,000
	Civil liability	20,000

32. Share-based compensation

32.1 Share option plan

At the Extraordinary General Meeting held on May 25, 2012, the Company's shareholders approved a Share Option Plan for officers, employees and service providers of the Company or other entities under its control, which became effective on that same date. The Option Plan is administered by the Board of Directors that can, at its discretion, set up a Committee to manage the Plan.

The Option Plan is limited to a maximum number of options resulting in a dilution of 5% of the Company's share capital. The dilution corresponds to the percentage represented by the maximum number of shares underlying the options by the total number of shares issued by the Company.

On May 28, 2012, the Board of Directors approved the first grant of options under the Option Plan. The first grant totaled 386,404 options: 68,231 options of Lot I and 318,173 options of Lot II.

On May 27, 2013, the Board of Directors approved the second grant of options under the Option Plan. The second grant totaled 686,901 options: 25,757 options of Lot I and 661,144 options of Lot II.

On May 26, 2014, the Board of Directors approved the third grant of options under the Option Plan. The third grant totaled 974,237 options: 29,395 of Lot I and 944,842 of Lot II.

On May 25, 2015, the Board of Directors approved the fourth grant of options under the Option Plan. The fourth grant totaled 942,079 options: 73,955 of Lot I and 942,079 of Lot II.

On June 3, 2016, the Board of Directors approved the fifth grant of options under the Option Plan. The fifth grant totaled 1,284,986 options: 99,538 of Lot I and 1,185,448 of Lot II.

DC2 - Informação de distribuição restrita

32. Share-based compensation (Continued)

32.1 Share option plan (Continued)

Under the Option Plan, the options of Lot I granted to the plan participants: (i) will become exercisable on the business day subsequent to the grant date; (ii) can be exercised within 30 days from the date they become exercisable; and (iii) the shares resulting from the exercise cannot be traded over a three-year blackout period from the date of exercise. If, prior to the end of the aforementioned blackout period, the participant leaves the Company at his/her own will, quitting the job, resigning from the officer position or terminating the service agreement; or in case of Company's decision, through dismissal for cause, removal from position due to violation of duties and responsibilities as an officer, or termination of the service agreement, the Company may, at its sole discretion, repurchase the restricted shares for the exercise price paid by the participant to acquire the restricted shares.

The plan participants may exercise their options of Lot II within three years from the date they become exercisable. The vesting period will be up to 3 years for each release, which will be in the following proportion: 25% from the first anniversary of the respective grant date; 25% from the second anniversary of the respective grant date; and 50% from the third anniversary of the respective grant date.

Breakdown, changes and fair value of options

The breakdown of the option plan, considering the vesting period, is as follows:

	Maximum number of shares				
Vesting period as from grant	**1st grant**	**2nd grant**	**3rd grant**	**4th grant**	**5th grant**
Up to 30 days from the grant date	45,059	22,539	21,744	52,741	53,735
From first anniversary	54,731	158,228	195,787	162,992	176,476
From second anniversary	54,731	158,228	195,787	162,992	176,476
From third anniversary	109,462	316,455	391,572	325,984	352,952
Total	263,983	655,450	804,890	704,709	759,639

	1st grant	**2nd grant**	**3rd grant**	**4th grant**	**5th grant**
At December 31, 2015	60,806	407,506	695,084	643,928	-
Options granted	-	-	-	-	759,639
Options exercised	(45,658)	-	-	-	(53,735)
Options written off (*)	(11,819)	(38,814)	(85,606)	(88,408)	-
At December 31, 2016	3,329	368,692	609,478	555,520	705,904
Options exercised	**(2,225)**	**(352,114)**	**(574,292)**	**(1,004)**	**-**
Options written off (*)	**(50)**	**(250)**	**(1,000)**	**(81,874)**	**(90,496)**
At December 31, 2017	**1,054**	**16,328**	**34,186**	**472,642**	**615,408**

(*) Options written off due to termination of employees who participated in the share option plan.

DC2 - Informação de distribuição restrita

32. Share-based compensation (Continued)

32.1 Share option plan (Continued)

In compliance with IFRS 2/ CPC 10, the Company calculated the fair value of the options, based on aforementioned vesting periods. In the year ended December 31, 2017, the Company determined the amount of R$3,283 (December 31, 2016 - R$4,177) for option plan expense, which was charged to the income statement with a contra entry to a separate capital reserve account within equity. The Black & Scholes model was used to calculate the fair value of the options from the 2012 grant, while for the 2013 to 2016 grants, management opted for the binomial option pricing model.

Assumptions used for determining the fair value of the share options were as follows:

	1st grant June 2012		**2nd grant June 2013**		**3rd grant June 2014**		**4th grant June 2015**		**5th grant June 2016**	
Lot	I	II	I	II	I	II	I	II	I	II
Number of shares										
1st maturity	68,231	79,543	25,757	165,286	29,395	236,211	73,955	217,031	99,538	296,362
2nd maturity	N/A	79,543	N/A	165,286	N/A	236,211	N/A	217,031	N/A	296,362
3rd maturity	N/A	159,087	N/A	330,572	N/A	472,420	N/A	434,062	N/A	592,724
Exercise price - (R$)	20.86	20.86	27.61	27.61	18.42	18.42	19.91	19.91	17.68	17.68
Fair value per share - (R$)										
1st maturity	6.66	9.05	7.36	13.82	4.95	9.82	1.55	8.52	6.66	6.16
2nd maturity	N/A	11.33	N/A	16.37	N/A	10.22	N/A	9.23	N/A	4.15
3rd maturity	N/A	13.32	N/A	16.72	N/A	11.47	N/A	9.84	N/A	2.68
Dividend yield	-	-	4.85%	4.85%	5.03%	5.03%	1.89%	1.89%	1.56%	1.56%
Share price volatility	40.36%	40.36%	36.29%	41.18%	27.95%	40.91%	24.93%	31.69%	24.01%	32.40%
Risk-free interest rate										
1st maturity	8.50%	7.81%	7.86%	10.47%	10.81%	11.75%	13.41%	12.48%	14.12%	12.59%
2nd maturity	N/A	8.59%	N/A	10.60%	N/A	11.80%	N/A	12.33%	N/A	12.62%
3rd maturity	N/A	9.35%	N/A	10.69%	N/A	11.86%	N/A	12.25%	N/A	12.68%
Expected time to maturity - (calendar days)										
1st maturity	30	365	30	365	30	365	30	365	30	365
2nd maturity	N/A	730	N/A	730	N/A	730	N/A	730	N/A	730
3rd maturity	N/A	1,095	N/A	1,095	N/A	1,095	N/A	1,095	N/A	1,095

DC2 - Informação de distribuição restrita

32. Share-based compensation (Continued)

32.2 Restricted stock plan

On June 23, 2017, the extraordinary general meeting approved the design and implementation of a new restricted stock plan (the "Plan") for the Company. On August 28, 2017, the Board of Directors approved the execution of restricted stock award agreements between the Company and Award Recipients under the Restricted Stock Plan and the First Stock Award Program.

The purpose of the Plan is permit grants of shares, subject to certain restrictions, to the Company's or a subsidiary's officers and employees ("Recipients") selected by the Board of Directors, as a means of: (i) stimulating the expansion and success of the Company and its subsidiaries and the achievement of their business objectives; (b) promoting improvement in management of the Company and its subsidiaries, giving Recipients the opportunity to become shareholders in the Company, motivating them to optimize all aspects that can increase the Company's value over the long term; (c) aligning the interests of Recipients with those of shareholders; and (d) incentivizing officers and employees to remain with the Company or its subsidiaries.

For purposes of this Plan, the Board of Directors may, upon prior recommendation of the Committee, grant a certain number of registered, book-entry common shares that must not exceed 5% of the Company's total share capital at the date of approval of the Plan.

Without affecting other terms and conditions laid out in the respective Award Agreements, Recipients shall become fully vested in the restricted stock grant only if they remain continuously employed by the Company or any subsidiary, as applicable, and achieve required performance goals stipulated in each Program and in the respective Award Agreements, in the period between the date of grant and the vesting dates of the respective vesting tranches:

(i) up to 10% after the first anniversary of the grant date;
(ii) up to 10% after the second anniversary of the grant date;
(iii) up to 20% after the third anniversary of the grant date; and
(iv) up to 60% after the fourth anniversary of the grant date.

Notwithstanding the items (i) to (iv) above, a Recipient may receive an additional up to 10% of the total number of restricted shares granted by the Board of Directors if he/she exceeds the applicable performance goals specified in the Program and in the respective Award Agreement, as it may be determined by the Board of Directors, which may at its discretion establish various vesting dates with respect to the restricted shares granted.

In order to satisfy the grant of restricted shares under the Plan, the Company, subject to applicable law and regulation, will dispose of treasury shares through a private transaction at no cost to Recipients, in accordance with CVM Instruction 567.

DC2 - Informação de distribuição restrita

32. Share-based compensation (Continued)

32.2 Restricted stock plan (Continued)

	Date of grant	Vesting date	Quantity
1st grant	**08/28//2017**	**N/A**	**534,270**
1st tranche	N/A	08/27/2018	53,427
2nd tranche	N/A	08/27/2019	53,427
3rd tranche	N/A	08/27/2020	106,854
4th tranche	N/A	08/27/2021	320,562

In compliance with IFRS 2/ CPC 10, the Company determined the fair value of the shares, based on the stated vesting periods. In the year ended December 31, 2017, the Company determined R$2,730 in restricted stock plan expense, which was charged to the statement of income with a contra-entry to a separate capital reserve account within equity.

The following assumptions were adopted to determine the fair value of restricted shares:

	1st grant
Number of shares	
1st tranche	53,427
2nd tranche	53,427
3rd tranche	106,854
4th tranche	320,562
Share price - (R$)	**35.50**
Fair value per share - (R$)	
1st tranche	34.73
2nd tranche	33.97
3rd tranche	33.24
4th tranche	32.51
Dividend yield	**2.20%**
Volatility of the share price	
1st tranche	32.21%
2nd tranche	36.51%
3rd tranche	36.55%
4th tranche	36.75%
Risk-free interest rate	
1st tranche	7.88%
2nd tranche	8.37%
3rd tranche	8.97%
4th tranche	9.40%
Expected time to maturity (years)	
1st tranche	1
2nd tranche	2
3rd tranche	3
4th tranche	4

DC2 - Informação de distribuição restrita

33. Government subsidies

Presumed tax credit of State Value-added Tax on Sales and Services (ICMS)

a) Under Regulations 088-R of October 29, 2015 and 077-R of June 1, 2016, the State of Espírito Santo has registered the Company, through its parent and one subsidiary, respectively, to receive ICMS tax benefits under the tax benefit arrangement called Competitiveness Agreement.

b) The State of Rio Grande do Sul, through state internal regulation, grants presumed credits of ICMS on sales of shoes to other states.

	Parent company		Consolidated	
	12/31/2017	12/31/2016	**12/31/2017**	12/31/2016
ICMS tax benefits – State of Espirito Santo (a)	**52,462**	34,195	**64,265**	40,577
ICMS tax benefits – State of Rio Grande do Sul (b)	**-**	-	**393**	357
Total	**52,462**	34,195	**64,658**	40,934

With the enactment of Complementary Law 160 on August 7, 2017, which determines that ICMS tax benefits offered by governments are an investment subsidy and, accordingly, no longer subject to income tax and social contribution, at December 31, 2017 the Company recognized a tax incentive reserve of R$64,658 for tax incentives received during the year.

DC2 - Informação de distribuição restrita

2017 Financial Statements & Attachment

- Attachment I A - Officer's Statement with regard to the Financial Statements
- Attachment I B - Officer's Statement with regard to the Independent Auditor's Report
- Attachment II - Management Report

AREZZO&CO

AREZZO

SCHUTZ

ALEXANDRE BIRMAN

ANACAPRI

FIEVER

OWME

ATTACHMENT I-A

OFFICER'S STATEMENTS

STATEMENT PURSUANT TO ARTICLE 25 OF CVM NORMATIVE INSTRUCTION No. 480/09

Officer's Statement with regard to the Financial Statements

The undersigned Officers of AREZZO INDÚSTRIA E COMÉRCIO S.A., a publicly-held corporation with its principal place of business in the City of Belo Horizonte, State of Minas Gerais, at Rua Fernandes Tourinho, 147, suites 1301 and 1303, postal code 30112-000, enrolled with the CNPJ/MF under No. 16.590.234/0001-76, with its articles of incorporation filed with the Commercial Registry of the State of Minas Gerais under NIRE 31.300.025.91-8 ("Company"), hereby state that they reviewed, discussed and agree with the financial statements of the Company for the fiscal year ended December 31, 2017, as provided for and for the purposes of § 1, item VI of article 25 of CVM Ruling 480, of December 7, 2009, as amended.

São Paulo, March 05, 2018.

Alexandre Café Birman – Chief Executive Officer
Daniel Levy – Vice President of Corporate, Chief Financial Officer and Investor Relations Officer
Marco Antônio Ferreira Coelho - Officer with no specific designation

ATTACHMENT II-B

OFFICER'S STATEMENTS

STATEMENT PURSUANT TO ARTICLE 25 OF CVM NORMATIVE INSTRUCTION No. 480/09

Officer's Statement with regard to the Independent Auditor's Report

The undersigned Officers of AREZZO INDÚSTRIA E COMÉRCIO S.A., a publicly-held corporation with its principal place of business in the City of Belo Horizonte, State of Minas Gerais, at Rua Fernandes Tourinho, 147, suites 1301 and 1303, postal code 30112-000, enrolled with the CNPJ/MF under No. 16.590.234/0001-76, with its articles of incorporation filed with the Commercial Registry of the State of Minas Gerais under NIRE 31.300.025.91-8 ("Company"), hereby state that they reviewed, discussed and agree with the opinions expressed in the independent auditors' report relating to the financial statements of the Company for the fiscal year ended December 31, 2017, as provided for and for the purposes of § 1, item V of article 25 of CVM Ruling 480, of December 7, 2009, as amended.

São Paulo, March 05, 2018.

Alexandre Café Birman – Chief Executive Officer
Daniel Levy – Vice President of Corporate, Chief Financial Officer and Investor Relations Officer
Marco Antônio Ferreira Coelho - Officer with no specific designation

1. Message from Management

Arezzo&Co continues to consolidate its position of leadership in the women's footwear, handbags and fashion accessories market through its multibrand, multichannel strategy - based on an asset-light business model and focused on high-performance teams, which combined offer greater resilience in challenging times, as well as a quick response when the economy is expanding.

2017 was marked by a significant growth of 19.3%, in our web commerce channel, which now accounts for an 8.5% share of the Company's domestic business. We also took the first steps on our journey of digital transformation - a process that starts with motivated people and new initiatives – and not just technology. The impetus for a real, solid transformation comes from the needs of consumers and it is also fed by the mission, the principles and the values that inspire our staff. Added to this, the shopping experience is more and more relevant in people's decision about what to buy – and this experience starts well before the moment of purchase; and this reinforces even more the importance of being increasingly an OMNIChannel player.

We believe that when we invest in innovation, we are embarking on initiatives and projects that will anticipate future trends and open up new solutions and avenues of growth. Because of this we structured our HUB 2154 last year, based on the pillars of CRM (Valorizza), Strategy and Innovation. We are making every effort to disseminate a culture of innovation throughout Arezzo&Co, speeding up our processes and integrating the business areas.

To supplement these initiatives, in February 2018 Arezzo&Co held its Digital Day, an in-house event to which we invited distinguished speakers from the digital and technological world, who gave our leaders and board members invaluable information on how to execute a digital transformation. We believe that this will be a disruptive force in every sector of the business – including retailing – and we are confident that we shall be prepared for it.

The way we manage our Investor Relations department reinforces the Company's strategy of dynamism, diligence and transparency. Our managers hosted hundreds of investors and analysts during the year at our stores, offices and showrooms, and took part in national and international panels and conferences. In December, Arezzo&Co's annual Investor Day was held in São Paulo for the seventh time. More than 180 people attended, and the investors and analysts who attended were given an in-depth understanding of our key strategic initiatives, as well as the opportunity for important discussions with company executives.

In 2017, the Company passed the sales threshold of 12 million pairs of shoes and 1.2 million handbags, resulting in an 8% increase in gross revenue. The best performing channels were web commerce, multibrand and franchises, which boosted revenue by 19.3%, 13.2% and 9% respectively. The domestic market saw an 8.7% rise in sales. On a net basis we added 53 stores, and together with the expansion of existing stores the sales area grew by 2,383 m². Thanks to the Company's strategy of increased focus on sell-out, with a more assertive mix and a larger share of full-price sales, the SSS sell-out of Franchises, Owned Stores and Web Commerce was 3.9% higher than in 2016.

The Company continues to invest in short, medium and long-term growth options. Highlights of our 2017 initiatives were: (i) the launch of a simplified franchising project for the Arezzo brand, (ii) the significant progress with the US operation, (iii) the Alexandre Birman brand accelerated expansion, (iii) a new store concept for the Schutz brand, and (iv) the increased recall of the Fiever brand among its customers. We also highlight the constant improvement of our CRM tool, which expanded its performance to all the group's brands in 2017. During the year we reactivated twice as many customers as in 2016 and this contributed to influence more than half the sell out.

The Arezzo brand, which accounts for 57.3% of the Company's turnover in the domestic market, has been consolidating its lead position with an 8.7% improvement over 2016, and opening up new avenues of growth through a simplified franchising project ("Project Light") aimed at cities with less than 250 thousand inhabitants. The key changes to the traditional store model include (i) a leaner product mix, (ii) a smaller store space and (iii) the higher integration with the OMNI channel. Arezzo ended the year with nine stores in the new format, laying the foundations for a new growth opportunity. The brand's good results are also thanks to constant investment in communication – once again with Brazil's most famous top model Gisele Bündchen in the starring role - and increasingly consistent work in online media and CRM.

1. Message from Management

The second year of the Arezzo Web Commerce saw major advances, with its consolidation as an important sales channel for the brand, contributing 6.8% of the brand's turnover in the domestic market. It is worth remembering that the Company's strategy for this channel is that it should be a platform to leverage sales of the physical stores as well, applying the OMNI concept whereby the channels coexist and reach their full potential.

Schutz continues to solidify its positioning as a bold, trend-setting brand at the high end of the market. The end of 2017 saw the redesign of the brand store concept, offering a different and innovative experience through (i) the use of technology in the form of RFID readers and Touch TV to provide integration with the online channel, (ii) a new architectural project providing a more welcoming touch, with the feeling of "being at home", and more comfort for shoppers during the time they spend in the store and when checking out, and (iii) a revised product mix, with an exclusive collection to match the profile of each of the stores. The first store in the new format was inaugurated in December 2017 at the Iguatemi Mall in São Paulo, the second one in January 2018, at the flagship store on Oscar Freire, and the third in February 2018, at the flagship store on Madison Avenue in New York. The way forward will be to develop the new concept and adapt it for the other owned stores, and later extend it to the franchise network.

The Schutz brand maintained revenues similar to the year 2017, with revenue of R$ 554.7 million (-0.2% compared to 2016), representing 33% of the company's consolidated revenues. A highlight of 2017 was the growth in the handbags category, which is a core business for the brand, surpassing the 24% sell-out level. Added to this, the franchising channel performed well during the quarter, growing by 9.6%, due to the net increase of 6 stores during the year.

The US operation took great strides in 2017, with the strengthening of its corporate structure, the hiring of new executives and the resumption of partnerships with major department stores such as Nordstrom and Bloomingdale's. Plans for 2018 include building up the retail channel in the country by opening new stores in addition to the two existing flagship stores in California and New York, with a view to making this important channel profitable. The Company continues to be confident in the future of its other channels – Wholesale and E-Commerce – which are steadily becoming stronger and more prominent in the US market.

Anacapri continued to grow strongly in Brazil, consolidating its position as a young, uncomplicated and accessible brand focused on flat shoes. The brand grew by 31.8% in the year and now accounts for 10.3% of the Company's turnover. All the brand's channels performed well in 2017, in particular franchising which was up by 39.3% and the web commerce channel, which improved by 38.9%. This performance reflects the opening of 33 stores during the year, a bold product mix, investment in R&D and a simplified method of sourcing, speeding up the creative process and restocking, with a larger number of non-seasonal items being automatically replenished in the stores. Finally, the engagement of the actress Isis Valverde as the brand's face in advertising campaigns has been a positive factor, since she is identified with our target consumer market.

The Alexandre Birman brand, boosted by its brand awareness in domestic territory and accelerated international expansion, grew by 30.3% year-on-year in 2017 and accounted for 22.0% of the Company's sales abroad. Highlights in 2017 were the opening of the brand's first flagship store in Rio de Janeiro, the launch of web commerce in Brazil, and the award by the Fashion Footwear Association of New York ("FFANY") of the "Designer of the Year" prize in the United States, where it is already well known as a luxury brand. There is also a growing presence in department stores in Europe and increased brand awareness in this market. In 2018, the brand intends to consolidate these steps by inaugurating its showroom in Europe (in Milan), as well as its first flagship store in the United States (on Madison Avenue in NY).

Fiever spent the year reinforcing its positioning as a brand in the sneakers category and investing in new designs for this type of footwear. The brand performed excellently during the year, selling twice as much as in 2016, and highlights included the opening of its fourth owned store and growth in its portfolio of multibrand clients. The plan for 2018 is to continue boosting brand awareness and complete the process of structuring a franchising channel.

1. Message from Management

In February 2018 we launched the sixth brand in our portfolio, OWME – the result of nearly a year of quantitative and qualitative research. The brand aims at a timeless style and is intended to meet a growing demand for comfortable footwear that looks good enough to use on any occasion. OWME is aimed at women over 35 in the AB1 social classes. The brand's key concept is Wellness, which was born of our aim to simplify life for authentic, urban women who are self-assured and have their own opinions ("Own" + "Me"). The product differentials are in the elastic insoles, thicker and more stable heels, linings which let the skin breathe more easily, and non-slip flexible soles for increased safety.

One of the central pillars of the Company's strategy is to have a skilled, motivated and engaged workforce. We took a number of steps to develop talents during the year, including Team Building and an off-site course for leaders, internship and trainee schemes, and also the Trend&Co, which is a program focused on developing talents in the design area.

2017 also saw a major change in our Board of Directors, with the founding partner Anderson Birman stepping down as Chairman. This was one more stage in our strategy of keeping the Company attuned to new developments, and it is Anderson's wish that it continues on a sustainable growth path. In addition, there have been changes to our organization structure, with fewer people reporting directly to the CEO, to make the achievement of our long-term objectives more efficient.

For Arezzo&Co, one goal achieved is simply the basis for the next goal. This keeps us motivated, and we are confident about the prospects for 2018 and heading for 2154.

THE MANAGEMENT

2. Company Overview

About Arezzo&Co

Arezzo&Co is Brazil's leading manufacturer of ladies' footwear, handbags and accessories. With a history of 44 years, it currently sells over 11 million pairs of shoes a year, in addition to handbags and accessories. It has four relevant brands - Arezzo, Schutz, Anacapri and Alexandre Birman. Its product lines are distinguished by their innovation, design, comfort and excellent value for money.
The multichannel strategy enhances the group's capillarity through owned stores, franchises, multibrand stores and Web Commerce, with a presence in every Brazilian state. Internationally, the brand products are also sold in franchises, owned stores, multibrand stores and department stores.
The company ended 2016 with a presence through 510 franchises, 48 owned stores and 2,100 multibrand stores.

AREZZO

Founded in 1972 by the brothers Anderson and Jefferson Birman, in addition to occupying top of mind of consumers of Brazilian ladies' shoes, the brand is one of the most preferred in this segment and most consumed in Brazil. The brand has a trendy positioning, combining concept, high quality, contemporary design and consumer satisfaction. It is the benchmark in launching trends in Brazil and is always to be found in the editorials of the most prestigious magazines, newspapers and sites in Brazil as a reference for fast fashion in ladies' footwear, handbags and accessories.

SCHUTZ

The Schutz brand invests heavily in researching trends and developing materials and technology in order to create its portfolio. Its mission is to offer the public a concept of products where design, quality, fashion and freedom of expression all come together. The result is collections developed to reflect the spirit of the young, contemporary woman who makes na impact, is irreverent and has her own style. It is an invitation to be daring, to look for something different and to challenge the norm.

ANACAPRI

The Anacapri brand, specializing in flats of the Arezzo&Co Group, was founded in 2008 with the purpose of simplifying the lives of its consumers with versatile fashion full of personality, but without relinquishing comfort. It produces diferente models and colors every year, which are presented in three large collections and in limited editions.

ALEXANDRE BIRMAN

The Alexandre Birman brand is a reference among Brazilian brands of ladies' shoes, vying for room with the top fashion names in well-know retail chains around the world, such as in North America, Europe and Asia. The brand's hallmark is the concept of exclusiveness and sophistication, which is widely recognized abroad, and for which the Alexandre Birman brand was awarded the Vivian Infantino Emerging Talent Award as the 2009 talent in footwear creation (an award acknowledged as the Oscar of the international footwear industry).

FIEVER

A wordplay on FIVE (the group's 5th brand) and FEVER was launched in December 2015 as an urban, cool, casual brand dedicated to a younger demographic. The path it has traveled includes engaging its customers in the brand's construction in an effort to always innovate and keep up with this generation's pace. Its icon is the white sole sneakers that translate the brand's essence: convenient, cool, and versatile.

OWME

The OWME - composed by two words, own and me, which, together express the "owning herself" attitude - was created after a year of qualitative and quantitative research with consumers of different ages. The brand seeks to attend a growing demand of consumers that wants comfortable and beautiful shoes for all occasions.

3. Operational and Financial Performance – 2017

Summary of Results	4Q17	4Q16	Δ 17 x 16	2017	2016	Δ 17 x 16
Net Revenues	363.601	338.870	7,3%	1.360.474	1.239.110	9,8%
Gross Profit	169.554	153.231	10,7%	623.768	549.291	13,6%
Grosss Margin	46,6%	45,2%	1,4 p.p.	45,8%	44,3%	1,5 p.p.
EBITDA*	54.482	53.915	1,1%	206.265	177.141	16,4%
EBITDA Margin*	15,0%	15,9%	-0,9 p.p.	15,2%	14,3%	0,9 p.p.
Net Income	55.344	35.817	54,5%	154.470	116.149	33,0%
Net Margin	15,2%	10,6%	4,6 p.p.	11,4%	9,4%	2,0 p.p.

Indicadores Operacionais	4Q17	4Q16	Δ 17 x 16	2017	2016	Δ 17 x 16
# of pairs sold ('000)	3.653	3.244	12,6%	12.132	11.331	7,1%
# of handbags sold ('000)	358	346	3,4%	1.257	1.098	14,4%
# of employees	2.405	2.233	7,7%	2.405	2.233	7,7%
# of stores*	737	650	87	737	650	87
Owned Stores	119	85	34	119	85	34
Franchises	618	565	53	618	565	53
Outsourcing (as % of total production)	93,0%	91,0%	2,0 p.p	90,9%	90,0%	0,9 p.p
SSS² Sell-in (franchises)	1,2%	17,9%	-16,7 p.p	5,0%	4,3%	0,7 p.p
SSS² Sell-out (owned stores + franchises + web)	2,8%	8,6%	-5,8 p.p	3,9%	4,1%	-0,2 p.p

* Include international stores

(1) EBITDA = Earnings before interest, income tax and social contribution on net income, depreciation and amortization. EBITDA is not a measure used in accounting practices adopted in Brazil (BR GAAP), does not represent cash flow for the periods presented and should not be considered as an alternative to net income, as an indicator of operating performance, or as an alternative to cash flow as an indicator of liquidity. EBITDA does not have a standardized meaning and Arezzo&Co's EBITDA definition may not be comparable to adjusted EBITDA of other companies. While EBITDA does not provide, in accordance with the accounting practices adopted in Brazil, a measure of operating cash flows, management uses it to measure operating performance. Additionally, the company believes that certain investors and financial analysts use EBITDA as an indicator of operating performance for a company and/ or its cash flow.

(2) SSS (Same-store sales): Stores are included in comparable stores' sales as of the 13th month of operation. Variations in comparable stores' sales in the two periods are based on sales, net of returns, for owned stores, and on gross sales for franchises in operation during both periods under comparison. As of 4Q16, the Company started to report the SSS sell-in net of discounts. If a store is included in the calculation of comparable stores' sales for only a portion of one of the periods under comparison, this store will be included in the calculation of the corresponding portion of the other period. When square meters are added to or deducted from a store included in comparable stores' sales, with an impact of over 15% on the sales area, the store is excluded from comparable stores' sales. When a store operation is discontinued, this store's sales are excluded from the calculation of comparable stores' sales for the periods under comparison. As from this period, if a franchisee opens a warehouse, its sales will be included in comparable stores' sales if its franchises operate during both periods under comparison. The so-called "SSS of Franchises – Sell In" refers to comparison of Arezzo&Co's sales with those of each Franchised Store in operation for more than 12 months, serving as a more accurate indicator for monitoring the Group's revenue. On the other hand, "SSS – Sell Out" is based on the point of sales' performance, which, in the case of Arezzo&Co, is a better indicator of Owned Stores' sales behavior and Franchises' sell out sales. The franchise sell-out figures represent the best estimate calculated on the basis of information provided by third parties. Starting in 1Q14, the Company begins to also report SSS sell-out including web commerce.

Gross Revenue	4T17	Part%	4T16	Part%	Δ (%) 17 x 16	2017	Part%	2016	Part%	Δ (%) 17 x 16
Total Gross Revenue	**448.185**		**419.610**		**6,8%**	**1.678.874**		**1.554.148**		**8,0%**
Exports market	**40.787**	**9,1%**	**37.832**	**9,0%**	**7,8%**	**154.465**	**9,2%**	**152.139**	**9,8%**	**1,5%**
Domestic market	**407.398**	**90,9%**	**381.778**	**91,0%**	**6,7%**	**1.524.408**	**90,8%**	**1.402.008**	**90,2%**	**8,7%**
By brand										
Arezzo	*236.589*	*58,1%*	*218.755*	*57,3%*	*8,2%*	*873.839*	*57,3%*	*803.779*	*57,3%*	*8,7%*
Schutz	*107.474*	*26,4%*	*114.892*	*30,1%*	*(6,5%)*	*451.420*	*29,6%*	*457.648*	*32,6%*	*(1,4%)*
Anacapri	*50.125*	*12,3%*	*39.756*	*10,4%*	*26,1%*	*157.259*	*10,3%*	*119.357*	*8,5%*	*31,8%*
Others[1]	*13.210*	*3,2%*	*8.375*	*2,2%*	*57,7%*	*41.890*	*2,7%*	*21.224*	*1,5%*	*97,4%*
By channel										
Franchises	*210.265*	*51,6%*	*195.299*	*51,2%*	*7,7%*	*748.055*	*49,1%*	*686.334*	*49,0%*	*9,0%*
Multibrand	*67.431*	*16,6%*	*60.831*	*15,9%*	*10,8%*	*343.749*	*22,5%*	*303.661*	*21,7%*	*13,2%*
Owned Stores	*91.475*	*22,5%*	*94.376*	*24,7%*	*(3,1%)*	*298.692*	*19,6%*	*301.315*	*21,5%*	*(0,9%)*
Web Commerce	*35.853*	*8,8%*	*30.607*	*8,0%*	*17,1%*	*128.973*	*8,5%*	*108.080*	*7,7%*	*19,3%*
Others[2]	*2.374*	*0,6%*	*665*	*0,2%*	*257,0%*	*4.939*	*0,3%*	*2.618*	*0,2%*	*88,7%*

(1) Includes only domestic markets for Alexandre Birman and Fiever brands and other revenues.
(2) Includes domestic market revenues that are not specific for distribution channels.

Brands

The fourth quarter is always the best for brand sell-out because of Christmas, which is the most important commemorative date for retailers. October is the month when we have an in-season promotion, to make room for the launch of the new High Summer collection. Same-store-sale (SSS) performance presented new challenges, due to the Company's strategy of focusing on sell-out and increasing the turnover of collections, with fewer discounts and a lower proportion of mark-down sales. In compensation, more products were sold at full price and this improved the stores' gross margin.

Black Friday is now a feature of the calendar for shoppers, and with the launch of the High Summer collection the month of November saw higher sales levels. To end the quarter, sales performed very well in December, with an improvement in same-store-sales (SSS) thanks to an attractive collection supported by a strong marketing effort and first-class visual merchandising in the stores.

The Arezzo brand posted R$236.6 million in gross revenue in 4Q17, an increase of 8.2% against 4Q16, representing 58.1% of domestic sales. At the beginning of the quarter, in October, the brand lent its support to the fight against breast cancer. As a contribution to Pink October, part of the sales proceeds was donated to the NGO Américas Amigas. The month was also the occasion for Hot Summer Week, a two-week promotional period which brought a large number of shoppers into the stores.

In November the High Summer collection was launched, and through content promotion and an effective media plan we generated more than 18 million hits from consumers. The Black Friday event, which also took place during the month, saw sales targets being surpassed by 21%. Arezzo's initiatives with a focus on Christmas during December included (i) "Buy and Win", with customers spending more than R$700 being given a free pair of flat shoes, with the result that 45% more shoppers made purchases exceeding this amount, and (ii) CRM initiatives aimed at the brand's fourteen thousand best customers, achieving a 66% sales conversion rate and accounting for 4% of the total Christmas sell-out.

Finally, franchises and multibrand sales ("sell-in") rose by 4% and 38.4%, respectively, against the same period of 2016. The relative performance of the channels was calculated on a different basis of comparison in 4Q16 (19% sales increase in franchises vs. a drop of 9% in the multibrands channel). The Arezzo brand web commerce, in turn, continued to establish itself as a channel of importance, growing by 34.2% in the quarter and accounting for 7.2% of sales against 5.8% in 4Q16. The performance of handbags also deserves a mention, with their share of sell-out in the physical stores growing by 110 bps against 4Q16, to 20.3%.

The Schutz brand, in consolidated terms - including the domestic and foreign markets, maintained similar sales levels as 2016 (-0.2% in 2017). In line with our strategy for increasing its share of sell-out, the handbags category continued to do well, accounting for 23.9% of sell-out in the physical stores. The Franchises channel grew by 9.6% in 4Q17, with the net opening of 6 stores in the last 12 months, and accounted for 21.2% of the brand's sales in the domestic market. In the foreign market, turnover was up by 4.4% in Reais in 4Q17 against 4Q16. The US operation did particularly well. It is an essential part of the brand's international development, and it produced turnover 33.5% higher than in 4Q16.

Schutz launched its High Summer collection in the first week of November with major CRM efforts and the presence of digital opinion-makers in stores throughout Brazil. This period enabled us to identify a significant improvement in the assertiveness of our collection, reflecting positively on SSS Sell-out. A high point came in the first week of December with the pilot remodeling of the flagship store in the Iguatemi São Paulo Mall.

The new pilot concept for Schutz stores provided a new shopping experience for customers, by means of (i) the use of technology (such as a smart mirror with an RFID reader, Touch TV integrated with the online channel, and a hologram of items from future collections), (ii) a new architectural project to provide a more welcoming atmosphere and (iii) a new product mix as well as an exclusive collection. All this boosted same-store-sales (SSS) in that store by more than 20% during the month of December. The next stages of the project include a roll-out of the concept to the other owned stores and an adaptation of the model for later adoption in the franchising network.

Anacapri continues to expand strongly, with revenues of R$50.1 million in 4Q17, 26.1% more than in 4Q16, and ending the quarter with a 12.3% share of the Company's domestic turnover against 10.4% in 4Q16. The Franchise channel saw strong growth thanks to the opening of 25 stores during the quarter and, above all, to an increase in SSS – the result of a more assertive product mix and the brand's growing importance in the market. The Multibrand channel posted growth of 27.5%, which means a larger share of wallet for the brand.

One of the key events during the quarter was the "No-Heels Day", to celebrate the brand's ninth anniversary; and there were engagement initiatives at Christmas to boost sales, focusing on higher average tickets and greater numbers of pairs per ticket, in addition to excusive gift wrappings.

Alexandre Birman brand grew substantially during the quarter, with a 42.5% improvement over 4Q16 and a strong growth in SSS, accounting for 23.7% of overseas sales. In October the brand was awarded the "FFANY Designer of the Year" prize by the Fashion Footwear Association of New York – the first Brazilian brand to receive this honor. In line with our strategy for placing the brand in major department stores abroad, the famous London store Harrods started selling Alexandre Birman products. For Christmas, the brand designed a special collection in partnership with Swarovski, and the maker of high-quality crystal products sponsored visual merchandising in the four Alexandre Birman stores in Brazil.

Fiever continued to reinforce its presence in its market, with revenue up by 14.2% in 4Q17 against 4Q16, especially in the owned stores channel. During the quarter the brand carried out some customization actions in its stores, with a combination of technology and videos in its shop windows, and launched its new model of tennis ("RIVER"). During Black Friday week the brand offered discounts on a different product each day, resulting in turnover for the week beating targets by 26%.

Channels

Monobrand - Franchises, Owned Stores and Web Commerce

Reflecting the Company's strategy of building up the monobrand stores, the Arezzo&Co POS network (Owned Stores + Franchises + Web Commerce) showed sell-out sales 5.5% higher in 4Q17 than in 4Q16, due mainly to substantial growth in the online channel and the net addition of 53 franchises during the last 12 months, in addition to a 2.8% increase in SSS in 4Q17. The sales area of the stores increased by 5.8% against 4Q16, with the addition of 33 Anacapri stores, 5 for Schutz, 13 for Arezzo, and one each for Fiever and Alexandre Birman, giving a total of 2,383 m² (excluding outlets).

The Company's revenue from monobrand stores, consisting of sell-in for franchise and sell-out for owned stores and web commerce, showed growth of 5.4% in 4Q17 against 4Q16, thanks mainly to a 7.7% increase in the Franchises channel and 17.1% in web commerce.

The Franchises channel achieved a 51.6% share of domestic sales in 4Q17, with an SSS sell-in of 1.2%, and ended the year with stocks at a healthy level and continued gains in gross margin. It should be remembered that in 4Q16 SSS sell-in increased by 17.9%, representing a challenging comparison base for the period.

History of Stores	4Q16	1Q17	2Q17	3Q17	4Q17
Sales area [1,3]- Total (m²)	**38.828**	**38.623**	**38.930**	**39.351**	**41.211**
Sales area - franchises (m²)	32.440	32.374	32.660	33.029	34.925
Sales area - owned stores[2] (m²)	6.387	6.249	6.270	6.322	6.286
Total number of domestic stores	**558**	**555**	**560**	**569**	**611**
# of franchises	**510**	**509**	**513**	**520**	**563**
Arezzo	369	368	369	369	382
Schutz	61	61	61	62	67
Anacapri	80	80	83	89	114
# of owned stores	**48**	**46**	**47**	**49**	**48**
Arezzo	15	15	14	15	15
Schutz	23	22	22	22	22
Alexandre Birman	3	3	3	4	4
Anacapri	4	4	4	4	3
Fiever	3	2	4	4	4
Total number of international stores	**7**	**7**	**7**	**7**	**7**
# of franchises	5	5	5	5	5
# of owned stores	2	2	2	2	2

(1) Includes areas in square meters of the seven stores overseas
(2) Includes seven outlet type stores with a total area of 1,952 m²
(3) Includes areas in square meters of storesexpanded

Multi-brands

Turnover in the Multibrands channel in 4Q17 was 10.8% higher than in 4Q16, and the increase for the full year was 13.2%. This positive performance reflects a number of initiatives to gain new customers and constant efforts to boost cross-selling between the five brands – and a higher share for handbags in the mix.

The Arezzo brand did particularly well, with a 38.4% increase in sales through this channel during the quarter, while Anacapri improved 27.5% over 4Q16.

In 4Q17 the group's five brands were being distributed through 2,288 stores, 8.1% more than in 4Q16, with a presence in 1,253 cities.

Foreign Market

The Company's sales in the foreign market in 4Q17, including the US operation and exports to the rest of the world, were 7.8% higher against 4Q16, and accounted for 9.1% of total revenue.

In the USA, through the Schutz and Alexandre Birman brands in the Wholesale (department stores, third party online stores and multibrand stores), Retail (flagship stores) and Online channels, the group saw a 33.5% improvement in dollar terms (31.1% in Reais), accounting for 56% of foreign sales in 4Q17.

Exports of our footwear to other parts of the world, on the other hand, fell by 10.5% in dollar terms in 4Q17, against the same period of 2016, because of a decrease in our private label sales and lower levels of old stock sold. In turn, these two factors resulted in a 12.5 p.p. improvement in the channel's gross margin. It is important to note that the Alexandre Birman brand continues to increase its volume of exports, which were 43% higher during the quarter.

Key financial indicators	4Q17	4Q16	Δ (%) 17 x 16	2017	2016	Δ (%) 17 x 16
Gross Revenues	448.185	419.610	6,8%	1.678.874	1.554.148	8,0%
Net Revenues	363.601	338.870	7,3%	1.360.474	1.239.110	9,8%
COGS	(194.047)	(185.639)	4,5%	(736.706)	(689.819)	6,8%
Gross Profit	169.554	153.231	10,7%	623.768	549.291	13,6%
Gross margin	*46,6%*	*45,2%*	*1,4 p.p*	*45,8%*	*44,3%*	*1,5 p.p*
SG&A	(125.074)	(105.849)	18,2%	(450.135)	(397.964)	13,1%
% of net revenues	*(34,4%)*	*(31,2%)*	*(3,2 p.p)*	*(33,1%)*	*(32,1%)*	*(1,0 p.p)*
Selling expenses	**(83.722)**	**(74.764)**	**12,0%**	**(309.776)**	**(284.292)**	**9,0%**
Owned stores and web commerce	(35.865)	(32.970)	8,8%	(126.997)	(122.407)	3,7%
Selling, logistics and supply	(47.857)	(41.794)	14,5%	(182.779)	(161.885)	12,9%
General and administrative expenses	**(30.063)**	**(23.971)**	**25,4%**	**(105.623)**	**(85.447)**	**23,6%**
Other operating revenues (expenses)	**(1.287)**	**(581)**	**121,5%**	**(2.104)**	**(2.411)**	**(12,7%)**
Depreciation and amortization	**(10.002)**	**(6.533)**	**53,1%**	**(32.632)**	**(25.815)**	**26,4%**
EBITDA	54.482	53.915	1,1%	206.265	177.141	16,4%
EBITDA margin	*15,0%*	*15,9%*	*(0,9 p.p)*	*15,2%*	*14,3%*	*0,9 p.p*
Net income	55.344	35.817	54,5%	154.470	116.149	33,0%
Net margin	*15,2%*	*10,6%*	*4,6 p.p*	*11,4%*	*9,4%*	*2,0 p.p*
Working capital[1] - as % of revenues	25,2%	27,5%	(2,3 p.p)	23,5%	27,5%	(4,0 p.p)
Invested capital[2] - as % of revenues	38,9%	42,3%	(3,4 p.p)	38,8%	42,3%	(3,5 p.p)
Total debt	181.745	106.049	71,4%	93.221	106.049	(12,1%)
Net debt[3]	(156.175)	(136.795)	14,2%	(125.033)	(136.795)	(8,6%)
Net debt/EBITDA LTM	-0,8x	-0,8x	-	-0,6x	-0,8x	-

(1) The Company obtained an injunction in 4Q17 exempting it from payment of income and social contribution taxes (IR and CSLL) on an ICMS tax benefit granted by the government of Espírito Santo because of the distribution center located in the state. This led to a gain of R$21.9 million during the quarter, representing the tax exemption for 4Q17 and the reversal of the tax paid earlier in the year.
(2) Working Capital: current assets minus cash, cash equivalents and financial investments less from current liabilities minus loans and financing and dividends payable.
(3) Invested Capital: working capital plus fixed assets and other long term assets less income tax and deferred social contributions.
(4) Net debt is equal to total interest bearing debt position at the end of a period less cash, cash equivalents and short-term financial investments.

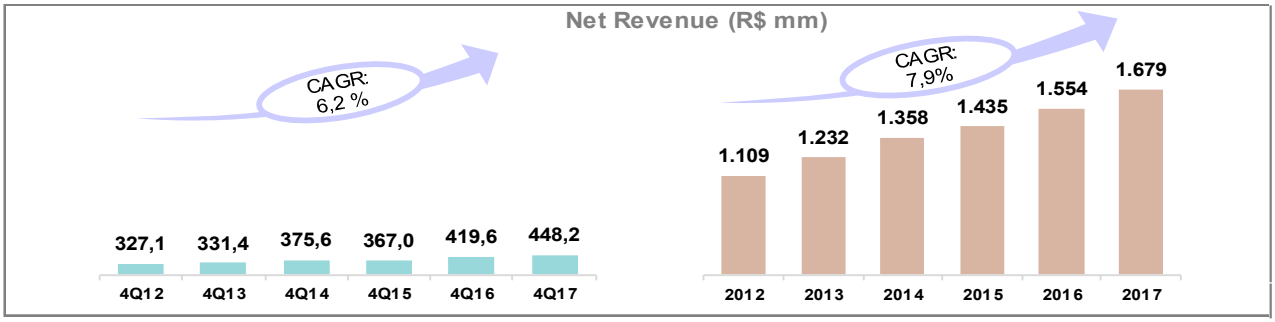
Gross Revenue

The company's Gross revenue in this quarter totaled R$448.2 million, up by 6.8% against 4Q16. Among the primary factors driving this growth, worthy of mention are:

i) expansion of 17.1% in the web commerce channel, reaching 8.8% of net sales in the domestic market, compared to 8.0% in 4Q16.

ii) increase of 31.1% in net revenue in the operation in the USA against 4Q16;

iii) increase of 7.7% in the Franchise channel against 4Q16.



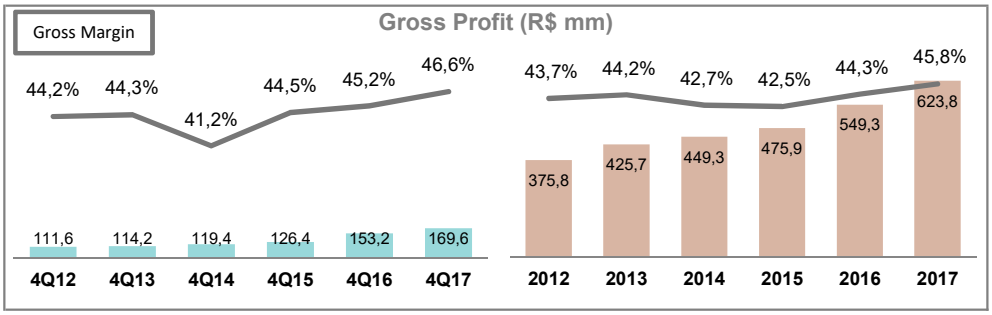
Gross Profit

Gross profit for 4Q17 totaled R$169.6 million, a 10.7% increase against 4Q16, with gross margin up by 140 bps, reaching 46.6% in 4Q17. Among the main factors, highlight goes to the following:

(i) positive impact of 80 bps due to an improvement in gross margin in the foreign market.

(ii) positive impact of 40 bps due to an improvement in the gross margin of sell-out channels (Owned Stores and Web Commerce), thanks to the exclusion of ICMS from the calculation base for PIS/COFINS tax in those channels.

(iii) positive impact of 20 bps due to the higher share of the Web Commerce channel, which accounted for 8.8% of the Company's gross sales in the domestic market, against 8,0% in 4Q16.



Operating expenses

The Company makes every effort to control the level of expenses and keep them in line with changes in sales. In 4Q17, expenses were affected by the following factors: (i) additional provision for payment of profit sharing ("PPR") in view of exceeding the period's targets, (ii) costs related to the company's strategic projects and (iii) reinforcement of the organization structure.

Selling Expenses

Selling expenses grew by 12,0% in 4Q17 against 4Q16, reaching R$83.7 million for the quarter. Selling expenses include the costs of Owned Stores and Web Commerce, which totaled R$35.9 million, 8.8% higher than in 4Q16.

Sales, Logistics and Supplies expenses increased by 14.5% or R$6.1 million against 4Q16. Excluding the incremental expenditure on (i) the additional provision for the payment of PPR, and (ii) costs related to strategic and innovation projects, with the launch of the sixth brand brought forward to 1Q18 and faster expansion in Alexandre Birman brand – the increase in expenses would be 2.3%, well below the 8.3% sales growth in the sell-in channels (Multibrands, Franchises and Exports).

General and Administrative Expenses

In 4Q17, general and administrative expenses grew by 25.4%, R$6.1 million higher than in 4Q16. These expenses included the cost of:

(i) streghtening the company's personnel and the governance structure (R$ 2.1 million),
(ii) the US operation (R$ 1.6 million),
(iii) the Company's strategic projects mentioned above (R$ 0.9 million).

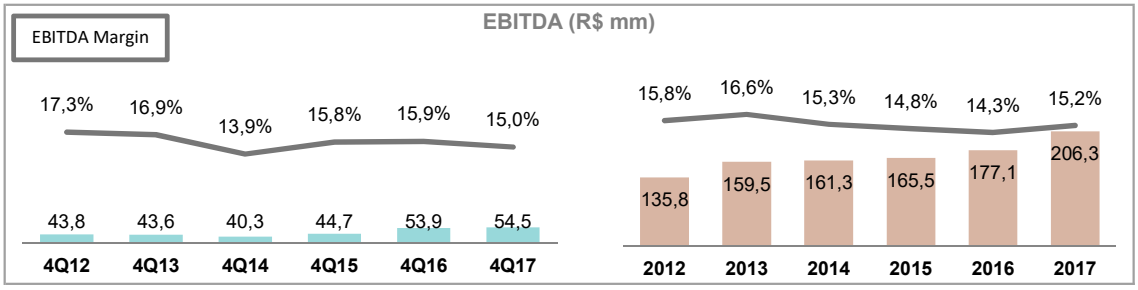
EBITDA and EBITDA margin

The company's EBITDA totaled R$54.5 million in 4Q17, which represents a margin of 15.0% and a growth of 1.1% against the results reported in 4Q16. Among the main reasons, the highlights were as follows:

i) 7.3% growth in net revenue against the same period of the previous year;

ii) A 140 bps increase in gross margin, ending 4Q17 at 46.6%, partially compensated by an increase of 18.2% in operating expenses as previously highlighted.

Excluding the operation in the USA, the company's consolidated EBITDA margin would have increased by 160bps in 4Q17. In the year, EBITDA margin would have increased 90bps to 15.2% (against 14.3% in 2016).

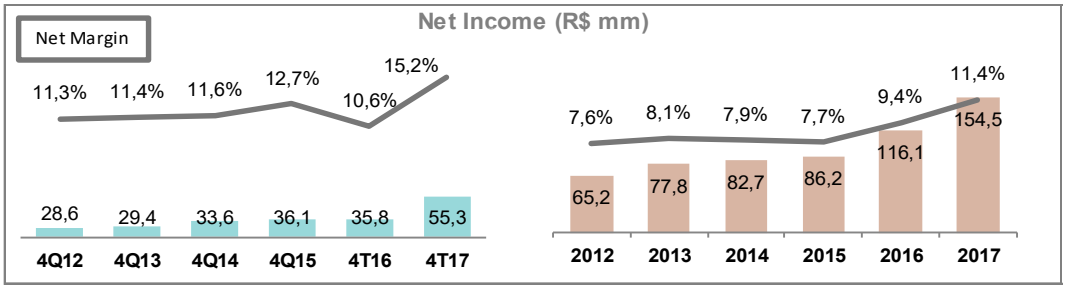


Net income and net margin

Arezzo&Co had a net margin of 15.2% in 4Q17 and a net income of R$ 55.3 million, an increase of 54.5% against 4Q16.

It is worth highlighting that in 4Q17 the company obtained an injunction exempting it from the payment of income and social contribution taxes (IR and CSLL) on an ICMS tax benefit granted by the government of Espírito Santo through our distribution center located in the state. This led to a gain of R$21.9 million, representing the tax exemption for 4Q17 as well as the reversal of taxes already collected during the year of 2017.

EBITDA Reconciliation	4Q17	4Q16	2017	2016
Net income	55.344	35.817	154.470	116.149
(-) Income tax and social contribution	13.558	(10.721)	(28.463)	(40.851)
(-) Financial results	(2.694)	(844)	9.300	5.674
(-) Depreciation and amortization	(10.002)	(6.533)	(32.632)	(25.815)
(=) EBITDA	54.482	53.915	206.265	177.141



Operating cash flow

Arezzo&Co generated R$ 45,9 million cash from operations in 4Q17, in line with the cash generation in 4Q16.

In 2017, operating cash generation was 71,0% higher than in 2016, a result of the Company's focus on managing its working capital more efficiently and continuous improvement in accounts receivable and suppliers, as well as a 16.5% increase in profits before income tax and social contribution.

Operating Cash Flow	4Q17	4Q16	Δ 17 x 16 (R$)	Δ 17 x 16 (%)	2017	2016	Δ 17 x 16 (R$)	Δ 17 x 16 (%)
Profits before income tax and social contribution	**41.786**	**46.538**	**(4.752)**	**(10,2%)**	**182.933**	**157.000**	**25.933**	**16,5%**
Depreciações e amortizações	**10.002**	**6.533**	**3.469**	**53,1%**	**32.632**	**25.815**	**6.817**	**26,4%**
Others	**4.713**	**1.435**	**3.278**	**228,4%**	**442**	**(21.120)**	**21.562**	**n/a**
Decrease (increase) in assets / liabilities	**7.001**	**8.506**	**(1.505)**	**(17,7%)**	**3.346**	**(23.444)**	**26.790**	**n/a**
Trade accounts receivables	(292)	15.903	(16.195)	n/a	(30.859)	(38.088)	7.229	(19,0%)
Inventories	3.729	12.897	(9.168)	(71,1%)	(6.065)	(5.020)	(1.045)	20,8%
Suppliers	(4.604)	(36.606)	32.002	(87,4%)	37.971	1.563	36.408	2.329,4%
Change in other noncurrent and current assets and liabilities	8.168	16.312	(8.144)	(49,9%)	2.299	18.101	(15.802)	(87,3%)
Payment of income tax and social contribution	**(17.555)**	**(17.333)**	**(222)**	**1,3%**	**(45.466)**	**(36.542)**	**(8.924)**	**24,4%**
Net cash flow generated by operational activities	**45.947**	**45.679**	**268**	**0,6%**	**173.887**	**101.709**	**72.178**	**71,0%**

Investments - CAPEX

The Company makes investments of three types:

i) Investments in expansion or refurbishment of owned stores;

ii) Corporate investments that include IT, facilities, showrooms and offices; and

iii) Other investments, which are related to the modernization of our industrial operations.

In 4Q17, Arezzo&Co invested R$7.6 million in Capex, including (i) the migration of our data center to the "cloud" environment, (ii) the integration of e-commerce systems, (iii) the implementation of a new operating system in the Owned Stores and (iv) the expansion and refurbishment of stores.

Summary of investments	4Q17	4Q16	Δ 17 x 16 (%)	2017	2016	Δ 17 x 16 (%)
Total CAPEX	**7.602**	**4.283**	**77,5%**	**21.547**	**25.067**	**(14,0%)**
Stores - expansion and refurbishing	1.970	902	118,4%	7.423	6.702	10,7%
Corporate	5.188	2.730	90,1%	11.151	11.066	0,8%
Other	445	652	(31,8%)	2.973	7.299	(59,3%)

Cash position and indebtedness

The Company ended 4Q17 with R$ 156.2 million in cash. The debt policy remains conservative, as follows:

- Total indebtedness of R$181.7 million in 4Q17 against R$106.1 million in 4Q16;
- Long term indebtedness of 9,9% of total debt in 4Q17, compared to 25.5% in 4Q16;
- The weighted average cost of the company's total debt in 4Q17 remained at low levels.

It is worth mentioning that during 4Q17, the Company approved a distribution of Interest on Equity in the amount of R$ 21.9 million, which were paid on 01/05/2018.

Cash position and Indebtedness	4Q17	3Q17	4Q16
Cash	**337.920**	**218.254**	**242.844**
Total debt	**181.745**	**93.221**	**106.049**
Short term	163.729	72.946	78.970
% total debt	90,1%	78,3%	74,5%
Long-term	18.016	20.275	27.079
% total debt	9,9%	21,7%	25,5%
Net debt	**(156.175)**	**(125.033)**	**(136.795)**

ROIC (Return on Invested Capital)

Return on invested capital (ROIC) again showed growth in 4Q17, reaching 27.4%. Among the factors responsible for this improvement are:

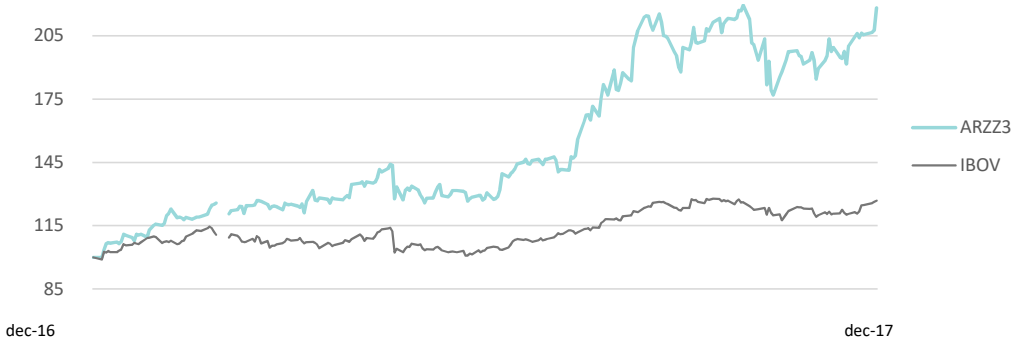
- Increase of 31.4% of NOPAT, against 4Q16;
- Working capital improvement actions, focusing on the reduction of inventories and suppliers;
- Permanent asset reduction, resulting from the lower share of our own stores in the Company's mix.

Income from operations	4Q17	4Q16	4Q15	Δ 17 x 16 (%)
EBIT (LTM)	173.633	151.326	141.288	14,7%
+ IR and CS (LTM)	(28.463)	(40.851)	(44.894)	(30,3%)
NOPAT	**145.170**	**110.475**	**96.394**	**31,4%**
Working Capital[1]	342.283	340.528	327.005	0,5%
Permanent assets	149.754	159.918	164.322	(6,4%)
Other long-term assets[2]	33.375	32.596	25.138	2,4%
Invested capital	**525.412**	**533.042**	**516.465**	**(1,4%)**
Average invested capital[3]	**529.227**	**524.754**		**0,9%**
ROIC[4]	**27,4%**	**21,1%**		

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less current liabilities minus loans and financing and dividends payable.
(2) Less deferred income tax and social contribution.
(3) Average invested capital in the period and same period previous year.
(4) ROIC: NOPAT for the last 12 months divided by average invested capital.

4. Capital Markets and Corporate Governance

On December 28, 2017, the Company's market capitalization was R$ 4.91 billion (R$ 54.70), an increase of 118.28% when compared to the same period of 2016.



Arezzo&Co	
Number of shares	89.765.882
Ticker	ARZZ3
Listing	02/02/2011
Share price (28/12/2017)	54,70
Market Cap	4.910.193.745
Performance	
2011[1]	20%
2012[2]	71%
2013[3]	(24%)
2014[4]	(9%)
2015[5]	(22%)
2016[6]	27%
2017	118%

2011: From 02/02/2011 to 12/29/2011
2012: From 12/29/2011 to 12/28/2012
2013: From 12/28/2012 to 12/30/2013
2014: From 12/30/2013 to 12/30/2014
2015: From 12/30/2014 to 12/30/2015
2016: From 01/04/2016 to 12/29/2016
2017: From 01/01/2017 to 28/12/2017

To ensure greater predictability and transparency to shareholders, the Company has seminnanual distribution of dividends for its shareholders.

Projected payments [1]:

Reference date	Payment date	Remuneration	R$	Gross amount byordinary share (R$)
2016	15/05/2017	Dividends	R$52.975.551,20	R$0,596328
2017	28/07/2017	JCP	R$21.539.993,13	R$0,239957
2017	27/09/2017	Dividends	R$88.832.940,65	R$0,989607
2017	05/01/2018	JCP	R$20.920.347,16	R$0,233119

(1) Subject to tax withholding at a source rate of 15%, except for proven immune or exempt shareholders, or shareholders domiciled in countries or jurisdictions to which the rules establish different aliquot

It also provides that the Company shall distribute the dividends, including interest on capital, dividends from other, equivalente to at least 25% of Net income to shareholders. For more information about Arezzo&Co' s remuneration policy, please see: www.arezzoco.com.br.

5. Main awards received in 2017

Reward	Category	Brand
Prêmio Ecommerce Brasil	Categoria Experience	Arezzo
Prêmio Alshop	Excelência no Varejo Categoria Design	Arezzo
Prêmio Alshop	Destaque Programa Excelência no Varejo	Arezzo
Prêmio FFANY	Designer of the Year	Alexandre Birman

6. Independent Auditors

Arezzo&Co's financial statements relative to the business year ending on December 31, 2017, were audited by PricewaterhouseCoopers Auditores Independentes ("PwCAI"). The services provided by PwCAI to the company in 2017 and connected to audit or review activities can be summarized as follows:

• Full audit conducted according to the Brazilian and international audit standards, of the company's individual and consolidated financial statements prepared according to the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) for the business year ending on December 31, 2017;
• Reviews of the company's Quarterly Information on March 31, June 30, and September 30, 2017; and
• Review of the management statements related to Advertising Funds allocated to Arezzo, Schutz, and Anacapri for the business year ending on December 31, 2017.

The fees for the services above were quoted at R$379.750,00.

The company's policy regarding the purchase of services unrelated to external audits aims at preventing conflicts of interest. It is based on principles that uphold the Independent Auditor's independence and basically comprises current international standards such as: (a) auditors must not audit their own work; (b) auditors must not hold management positions in the company; (c) auditors must not advance the company's interests; and (d) auditors must not provide any services that may be barred by the legislation in force. Additionally, the senior management obtains from the independent auditors a statement that the special services provided do not affect their professional independence.

Independent auditors state that they will report all relationships and other matters existing between the Independent Auditors, or other firms belonging to their organization, and the company, relationships and matters which, according to their professional judgment, may be reasonably related to their independence (including total fees charged for services related or unrelated to audits and provided by the Independent Auditors). Independent Auditors further report on the safeguards they have applied to eliminate threats detected against their independence or reduce them to an acceptable level.

7. Investor Relations

Shareholders, analysts and market participants have at their disposal information available on the Company's IRwebpage, www.arezzoco.com.br, CVM webpage, www.cvm.gov.br, and at BM&FBovespa webpage, www.bmfbovespa.com.br.

For further information, direct contact can be made with IR department by the e-mail ri@arezzoco.com.br, or telephone +55 (11) 2132-4300.

8. Officer's Statement

The Officers of Arezzo Indústria e Comércio S.A. state to have reviewed, discussed and agreed upon the Independent auditors' report and financial statements for the quarter ended on December 30th, 2017, according and pursuant to CVM Normative Instruction No. 480/09.

Disclaimer

The information contained here may include forward-looking information and reflects the executive office's current perception and prospects for the macroeconomic environment, the industry situation, the Company's performance and financial results. Any statements, expectations, capacities, plans and projections contained here which do not describe historical facts, such as information about the dividend payment statement, the future course of operations, the introduction of relevant financial strategies, the investment program and the factors or trends affecting the financial condition, liquidity or the operating results are considered forward-looking information as defined by the "U.S. Securities Litigation Reform Act" of 1995 and involve a number of risks and uncertainties. These results are not guaranteed to materialize. These statements are based on several factors and expectations, including the economic and market conditions, level of competition in the industry and operating factors. Any changes in these expectations and factors may lead to real results materially different from the current expectations. The consolidated financial information of Arezzo Indústria e Comércio S/A – Arezzo&Co presented here complies with the International Financial Reporting Standards – IFRS, issued by the International Accounting Standards Board – IASB, based on audited financial information. The non-financial information, as well as other operating information, was not audited by the independent auditors.