A free translation of the original in Portuguese

Listed Company

CNPJ: 89.850.341/0001-60

NIRE: 23300021118-CE

Management Report 2017

BOARD OF DIRECTORS

Alexandre Grendene Bartelle
Chairman of the Board of Directors

Pedro Grendene Bartelle
Vice-Chairman of the Board of Directors

Members of the Board of Directors
Maílson Ferreira da Nóbrega
Oswaldo de Assis Filho
Renato Ochman
Walter Janssen Neto

STATUTORY AUDIT BOARD

João Carlos Sfreddo
Chair of the Audit Board

Members of the Audit Board
Eduardo Cozza Magrisso
Herculano Aníbal Alves

EXECUTIVE BOARD

Rudimar Dall' Onder
Chief Executive Officer

Gelson Luis Rostirolla
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt
Chief Finance and Investor Relations Officer

Luiz Carlos Schneider
Accountant – CRC/CE – SEC – 70.520/O-5

MANAGEMENT REPORT 2017

Dear Stockholders:

In accordance with the law and the by-laws, the management of Grendene S.A. presents to you, below, the Report of Management and the Consolidated Financial Statements. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and also based on accounting practices adopted in Brazil and the rules of the Brazilian Securities Commission (CVM). The Company has adopted all the rules, revisions of rules and interpretations issued by IASB which are in effect for financial statements at December 31, 2017.

Grendene®

Management Report 2017

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I. Message from management

Grendene reports net profit for 2017 of R$ 661 million, representing a return on equity since the start of the year of 23.7%. Of this amount, the Company proposes to distribute R$ 378 million in dividends and Interest on Equity, reinvesting the remaining amount in the Company. The book value per share has thus grown by 10% in the year, from R$ 9.72 to R$ 10.70. Since the stock was listed in October 2004 the Company has reinvested R$ 2.5 billion, incorporated into equity, and increased its annual profit by R$ 456 million; and in this period has distributed and aggregate R$ 2.8 billion to stockholders as dividends and Interest on Equity (including the proposed amounts for 2017).

In 2017, in spite of the low domestic market consumption of footwear, the tough competitive environment, and the increase in taxes, our operational results were good, with Ebit increased by 16.5% year-on-year, and Ebit margin of 20.7%, up by 1.2 p.p. from 2016. At the same time, with the fall in interest rates our financial revenue was 11.2% lower in 2017 than 2016. Together these effects resulted in net profit 4.2% higher in 2017 than 2016, but with net margin, at 29.3%, 1.7 percentage points lower than in 2016.

In 2017 our low expectations for the performance of the economy and for a return of growth in the footwear market was confirmed: we had a year of slow economic recovery, and a continuing high level of political instability. As a counterpart to the somber domestic market situation, there was a rare period of synchronous growth in the international market, enabling some recovery in volume – especially in 4Q17, when our export volumes were 42.7% up YoY, from 4Q16.

Operational cash flow in 2017 was R$ 525.7 mn. The proposed dividends represent a dividend payout (defined as {sum of dividends and Interest on Equity} divided by {profit after the legally required reserves}) of 59%, and a dividend yield of 4.7%. These results were achieved in spite of Financial revenue (expenses) being 11.2%, or R$ 30.0 mn, lower, year-on-year; and the negative affect on export revenue of an 8.5% variation in the exchange rate.

A look at a longer period (table, below) shows that management has generated value for stockholders, providing a significant return on equity (in this table all amounts are from the formal accounting, without any adjustment):

R$ '000						
Year	**Initial Stockholders' equity[1]**	**Net profit**	**Dividends**	**Reinvestment**	**Return on equity**	**Final Stockholders' equity[1]**
2004	692,726	204,865	64,152	140,713	29.6%	733,566
2005	733,566	200,116	81,181	118,935	27.3%	847,373
2006	847,373	257,343	128,261	129,082	30.4%	998,510
2007	998,510	260,508	119,724	140,784	26.1%	1,132,718
2008	1,132,718	239,367	109,000	130,367	21.1%	1,274,080
2009	1,274,080	272,211	110,000	162,211	21.4%	1,430,569
2010	1,430,569	312,399	121,738	190,661	21.8%	1,624,542
2011	1,624,542	305,446	219,526	85,920	18.8%	1,713,743
2012	1,713,743	429,003	293,503	135,500	25.0%	1,848,309
2013	1,848,309	433,540	300,057	133,483	23.5%	1,957,295
2014	1,957,295	490,244	220,814	269,430	25.0%	2,232,649
2015	2,232,649	551,223	275,925	275,298	24.7%	2,520,866
2016	2,520,866	634,492	351,383	283,109	25.2%	2,792,976
2017	2,792,976	660,929	377,773	283,156	23.7%	3,087,479
Accumulated		**5,251,686**	**2,773,037**	**2,478,649**	**1,559.5%**	

1) The figures for Stockholders' equity exclude dividends, etc., proposed for the subsequent year.

In this period of 14 years Grendene's book value per share has evolved from R$ 2.44 to R$ 10.70 – representing a CAGR (compound annual growth rate) of 12% p.a.

In the same period, Grendene's share price (adjusted for number of shares) has evolved from R$ 10.33 to R$ 28.45. With this variation, and considering the reinvestment of the dividends in fact paid, the share (GRND3) provided investors with an average annual total return 14.5% p.a., which is less than the gain that might have been indicated by the accounting results, but also more than the average total return for the Bovespa index, of 8.6% p.a. (also based on reinvestment of the dividends).

In our building of brands, we made progress with the *Clube Melissa* franchise project, exceeding our initial estimate (at the launch, in 2012) of a total of 200 franchised stores by 2017: we closed 2017 with 263 franchised stores – an increase of 22 stores in a year of strong retraction in retailing. On the momentum of this success we launched the Mini Clube Melissa, which we expect to boost growth of this project in 2018.

At the same time, we strengthened our traditionally established brands – *Rider, Cartago, Ipanema, Zaxy, Grendha* and *Grendene Kids* – with innumerable efforts in marketing and communication. Among the marketing initiatives that helped produce good results we highlight the following: the *Rider* brand was strengthened by its collaboration with the NBA; for the *Zaxy* brand, aligning with its target public, it was the first year its communication was 100% online – reaching the mark of 1 million supporters on Facebook; and for *Grendene Kids*, in the infant footwear segment, there was a range of achievements: *Nickelodeon* Licensee of the Year; a global contract with *Mattel*; and a global contract with *Warner*.

In our assessment we have made significant strides in our strategy of differentiation of products through marketing, design and innovation. In this context Melissa maintained its strategy based on its central three pillars of fashion, art and design – and on its partnerships with fashion icons including: *Comme des Garçons, Hayden Dunham, The Cambridge Satchel Co, Vivienne Westwood, Jeremy Scott, Vitorino Campos, Cartel 011, Fábula CSC, and Jason Wu* – among others.

These and other efforts are ensuring that the Melissa brand grows in its principal markets, and also as a proportion of Grendene's total business, with recognition through market awards. It is important to highlight that, in line with our business model, we do not invest only in brands and marketing.

To achieve continuing good results we have invested in our manufacturing operations at the level which has now come to be called Industry 4.0: robots, automation and the IoT (Internet of Things) are some of the tools that we are applying to improve our product quality, our assertiveness and our punctuality in delivery, while keeping our costs under control and planning for optimized production. As a function of this quest for optimization, and due to the falling production volume in recent years, we have concentrated these investments, and production, in the larger and more efficient plants in the state of Ceará. As a consequence, the level of use of our plant at Teixeira de Freitas, in Bahia, has fallen considerably, and this has led us to post an impairment, in the amount of the investment, with a net negative impact on net profit of R$ 4.7 million, to be recognized in the financial statements at December 31, 2017. In our assessment, once again we have set the country's economic crisis aside and achieved good results. This has been possible only with the discipline and application of our management team – who on average have more than 20 years' experience in Grendene, and very low turnover, enabling continuous improvement of processes – and the great engagement of our staff of approximately 20,000 employees.

In our 47 years of existence we have won a significant leadership in the footwear sector, and we continue to believe in the strengthening of our brands and growth in the domestic and international markets, confident for the future and confident of our potential. This leadership, and the competitive advantages that we have built, can be estimated when we consider the continuous and persistent gain in market share that we have achieved, with robust return on equity for stockholders.

We calculate that we have gained volume share in our target markets in 2017, as well as improving Ebit margin. For the coming years, management aims to maintain the present level of margins – consolidating the trend established – and if possible improve it. The quality of our products, the strength of our brands, our recognition by retailers and final clients, and our operational efficiency serve as the basis for this expectation.

To achieve this regularity of results, we highlight our skill in building strong brands that have a privileged relationship with clients, and developing solid relationships with the distribution channels through a long term process with cumulative effects. In the last 14 years, among many other efforts, we have invested approximately R$ 1.9 billion in advertising, as a means of consolidating construction of value, and in coming years we will seek this approximation with Grendene's final clients with even greater vigor. We believe that understanding of the client's needs is a fundamental factor for the success of our business model.

All these actions are coherent with our Values, which highlight precisely the aspects for which we have received reiterated public recognition: profitability, competitiveness, innovation, agility, and ethics.

In 2017, we closed our own distribution operation in Argentina – where we are now distributing through outsourced distributors, as in other countries.

Also in 2017, our subsidiary that operated in the furniture business sold all its assets, paid its liabilities and closed its operations in Italy. We also report a subsequent event: The company A3NP, a wholly-owned subsidiary of Grendene S.A., which had been constituted to operate in the furniture industry, was sold, as per decision by the Executive Board at its meeting of February 21, 2018, authorized by the Board of Directors at its meeting of February 25, 2016, when the Board recognized 100% write-off of this investment by the Company, as previously disclosed. The sale price was not significant, and the transaction thus has no impact on the Company's results.

Finally, an essential tribute: In these 47 years we have never lacked the decisive support and trust of suppliers, clients, partners, stockholders – and especially our thousands of employees, who are dedicated and committed to our business vision and values.

To all of these, we extend our sincere thanks, and with them we share our success.

The Management

II. Main consolidated indicators (IFRS)

R$ mn	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR[1] 2012–17
Gross revenue from sales	2,324.5	2,711.4	2,720.3	2,631.8	2,483.0	2,727.7	9.9%	3.3%
Domestic market	1,845.4	2,146.9	2,077.7	1,899.8	1,870.3	2,106.6	12.6%	2.7%
Exports	479.1	564.5	642.6	732.0	612.7	621.1	1.4%	5.3%
Net revenue	1,882.3	2,187.3	2,233.3	2,202.8	2,045.1	2,252.0	10.1%	3.7%
Cost of goods sold	(1,000.2)	(1,193.6)	(1,207.4)	(1,134.9)	(1,048.6)	(1,151.2)	9.8%	2.9%
Gross profit	882.1	993.7	1,025.9	1,067.9	996.5	1,100.8	10.5%	4.5%
Operational expenses	(519.3)	(594.5)	(636.5)	(667.2)	(596.9)	(635.2)	6.4%	4.1%
Ebit	362.8	399.2	389.4	400.7	399.6	465.6	16.5%	5.1%
Ebitda	394.5	435.9	436.9	454.4	457.5	526.2	15.0%	5.9%
Net financial revenue (Exp.)	132.5	103.6	135.5	182.3	268.5	238.5	(11.2%)	12.5%
Net profit	429.0	433.5	490.2	551.2	634.5	660.9	4.2%	9.0%

R$	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR[1] 2012–17
Gross revenue per pair	12.56	12.54	13.27	14.58	15.18	15.92	4.9%	4.9%
Domestic market	13.21	12.96	13.60	14.12	15.13	16.67	10.2%	4.8%
Exports	10.56	11.17	12.29	15.91	15.33	13.81	(9.9%)	5.5%
Exports (US$)	5.40	5.18	5.22	4.78	4.39	4.33	(1.4%)	(4.3%)

R$	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR[1] 2012–17
Basic profit per share	1.4266	1.4421	1.6328	1.8342	2.1101	2.1985	4.2%	9.0%
Diluted profit per share	1.4195	1.4367	1.6293	1.8305	2.1058	2.1917	4.1%	9.1%
Dividend per share	0.9760	0.9985	0.7351	0.9177	1.1686	1.2563	10.9%	5.8%

Millions of pairs	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR[1] 2012–17
Volumes	185.0	216.2	204.9	180.4	163.6	171.4	4.8%	(1.5%)
Domestic market	139.7	165.7	152.7	134.5	123.6	126.4	2.2%	(2.0%)
Exports	45.3	50.5	52.2	45.9	40.0	45.0	12.5%	(0.2%)

Margin, %	2012	2013	2014	2015	2016	2017	Change p.p.[2] 2016–17	Change p.p.[2] 2012–17
Gross	46.9%	45.4%	45.9%	48.5%	48.7%	48.9%	0.2 p.p.	2.0 p.p.
Ebit	19.3%	18.3%	17.4%	18.2%	19.5%	20.7%	1.2 p.p.	1.4 p.p.
Ebitda	21.0%	19.9%	19.6%	20.6%	22.4%	23.4%	1.0 p.p.	2.4 p.p.
Net	22.8%	19.8%	22.0%	25.0%	31.0%	29.3%	(1.7 p.p.)	6.5 p.p.

R$	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR[1] 2012–17
US dollar at end of year	2.0435	2.3426	2.6562	3.9048	3.2591	3.3080	1.5%	10.1%
US dollar – average	1.9546	2.1576	2.3536	3.3315	3.4901	3.1920	(8.5%)	10.3%

Note:

1) *CAGR: Compound annual growth rate.*

2) *p.p.: percentage points.*

III. Market and macroeconomic conditions

After four years of falling consumption and contraction in Brazil's economy, with record levels of unemployment, inflation and high interest rates, 2017 was finally a year of recovery – in all senses. Inflation was below the target, interest rates are now at their lowest since the introduction of the Real as a currency, unemployment has declined, and there has been a slight recovery in consumption. Without a doubt, all this is encouraging news – even though footwear consumption in the country has once again declined. However, Brazil's serious fiscal situation has not been resolved – and we believe this should keep us on the alert for a possible interruption in the current recovery if the problem is not properly solved.

Even so, we are looking forward to the first half of 2018 as potentially having good numbers boosted by such factors as: the World Cup in Russia, the Brazilian election year, and the continuing strong moment in the world economy.

After our several years increasing profit even with lower volumes – whether caused by the domestic market recession or problems in the world market – we are encouraged and motivated by the outlook for a recovery in volumes as a whole.

Falling unemployment and low inflation increase consumers' purchasing power. Also, low interest rates facilitate deleverage of the economy. We see these as signals that footwear consumption could again grow in 2018, recovering part of the levels it has lost in recent years.

We reiterate that we are ready to take advantage of the opportunities.

Considering all these aspects, we see it as probable that the worst economic moment of this devastating episode is now past, and those companies that knew how to strengthen themselves during this period – such as Grendene – are preparing to reap the results of a healthier economy. This is our expectation, and we are confident.

Brazilian footwear – Production and apparent consumption

Brazil (million pairs)	2012	2013	2014	2015	2016	2017	Change % 2016-2017	CAGR 2012-17
Production	997	1,036	998	944	868*	845*	(2.6%)	(3.3%)
Imports	36	39	37	33	23	24	4.6%	(7.8%)
Exports	113	123	130	124	126	127	1.2%	2.4%
Apparent consumption	920	952	905	853	765*	742*	(3.0%)	(4.2%)
Consumption per capita (pairs)	4.6	4.7	4.5	4.2	3.7*	3.6*	(2.7%)	(4.8%)

Source: IBGE / Secex / Abicalçados; and (*) = estimated by Grendene.

Due to updates and revisions by the sources of information, we are re-presenting the figures for production, apparent consumption and per capita consumption for the years 2012-2015.

Grendene

Million pairs	2012	2013	2014	2015	2016	2017	Change 2016-2017	CAGR 2012-17
Volume	185.0	216.2	204.9	180.4	163.6	171.4	4.8%	(1.5%)
Volume share – production	18.6%	20.9%	20.5%	19.1%	18.8%	20.3%	1.5 p.p.	1.7 p.p.
Domestic market (DM)	139.7	165.7	152.7	134.5	123.6	126.4	2.2%	(2.0%)
Volume share – domestic market	15.2%	17.4%	16.9%	15.8%	16.2%	17.0%	0.8 p.p.	1.8 p.p.
Exports	45.3	50.5	52.2	45.9	40.0	45.0	12.5%	(0.2%)
Volume share – exports	40.0%	41.1%	40.3%	37.0%	31.8%	35.4%	3.6 p.p.	(4.6 p.p.)

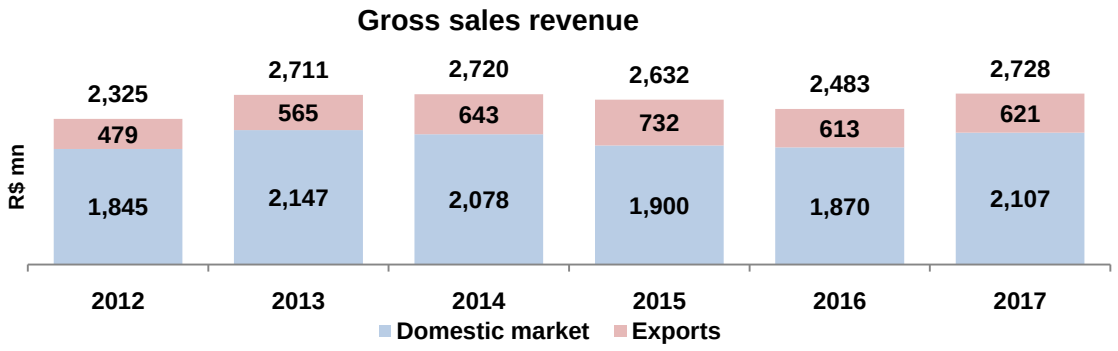
Source: Grendene S.A.

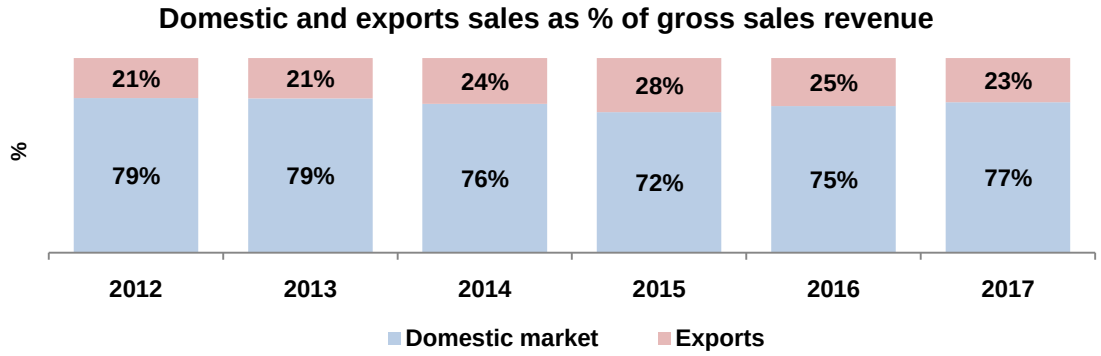
IV. Financial results

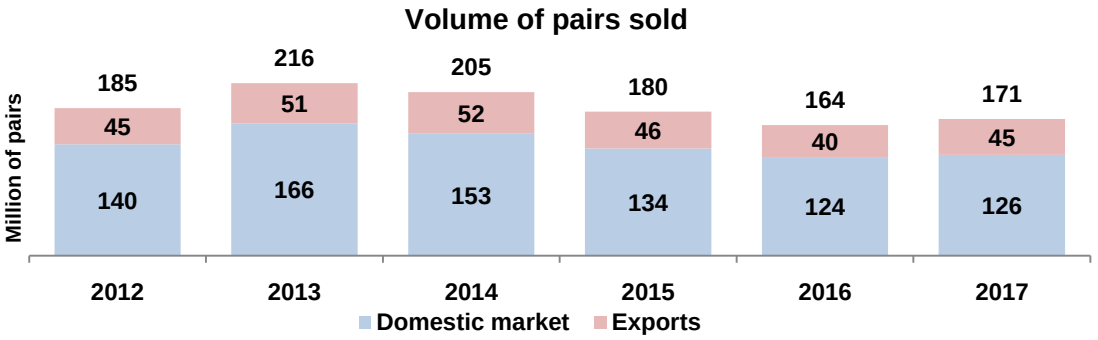
1. Gross sales revenue

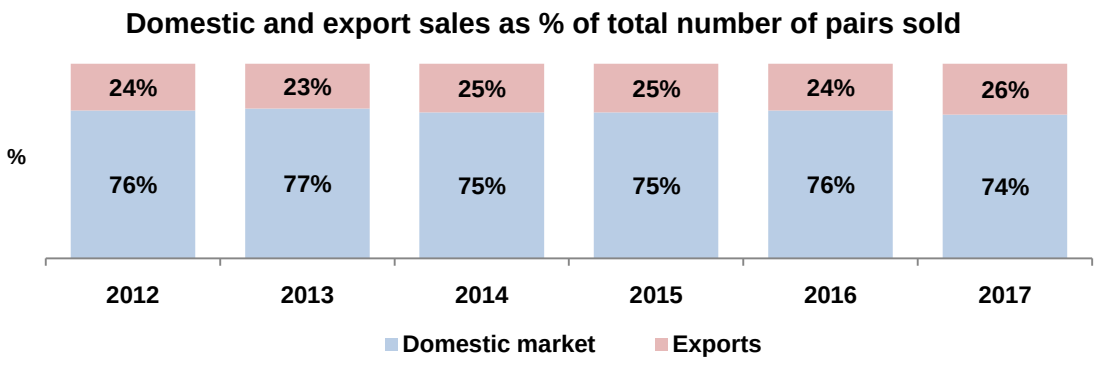
The changes in revenue, and especially in volumes of pairs in the domestic market are a good illustration of what has happened in the Brazilian footwear market during the worst crisis our economy has ever faced. Comparing with the volume peak in 2013 (165.7 million pairs sold in the domestic market), the reduction, by 2017, is 39.9 million pairs. Over the period 2012-17 this reduction represents a fall of 2% p.a., which is very much in line with what happened in domestic consumption. Grendene's revenue from the domestic market grew by 12.6% from 2016 to 2017, sustained by a small recovery in the economy, and gains in market share, but over the period 2012-17, in which consumption in Brazil fell strongly, it grew by 2.7% p.a., which is less than the inflation indices over that period.

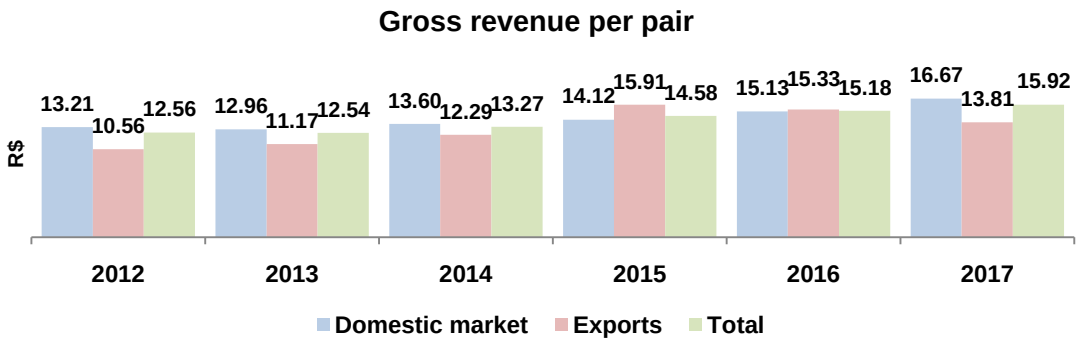
The robust 12.5% growth in volume of pairs exported also does not completely translate into higher revenue, due to the less favorable exchange rate, and the ending of the export incentive (Proapi).









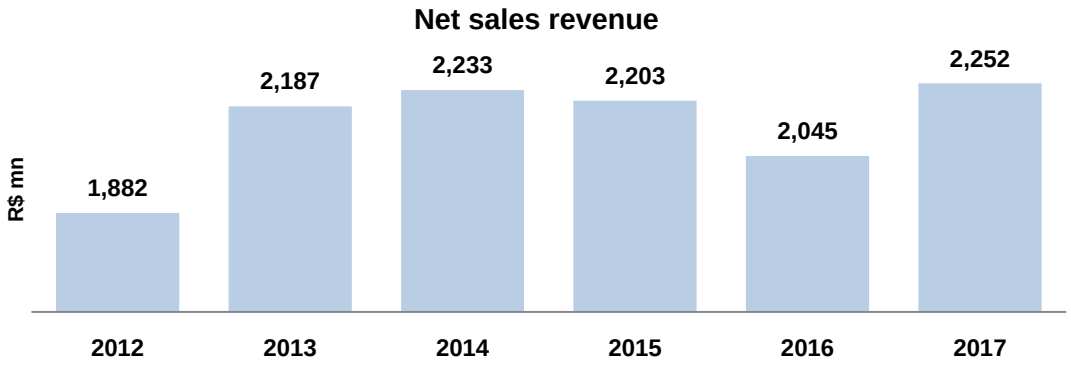


According to figures from the Foreign Trade Ministry, the Foreign Trade Service of the Central Bank (*Secex*), and the Brazilian Footwear Manufacturers' Association (*Abicalçados*), Brazilian footwear exports in 2017 were 1.2% higher in volume of pairs sold, 9.3% higher in total export revenue in dollar terms, and 7.9% higher in average price in dollars.

Our share in Brazilian footwear exports in 2017 was 35.4% by volume of pairs sold, and 17.8% in total export value in dollars, compared to 2016 – we maintained the leadership in Brazilian exports of footwear, for the 15th year running.

2. Net sales revenue

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Gross sales revenue	**2,324.5**	**2,711.4**	**2,720.3**	**2,631.8**	**2,483.0**	**2,727.7**	**9.9%**	**3.3%**
Domestic market	1,845.4	2,146.9	2,077.7	1,899.8	1,870.3	2,106.6	12.6%	2.7%
Exports	479.1	564.5	642.6	732.0	612.7	621.1	1.4%	5.3%
Deductions from sales	**(442.2)**	**(524.1)**	**(487.0)**	**(429.0)**	**(437.9)**	**(475.7)**	**8.6%**	**1.5%**
Returns and taxes on sales	(328.6)	(393.3)	(383.0)	(336.4)	(346.7)	(372.6)	7.5%	2.5%
Discounts given to clients	(113.6)	(130.8)	(104.0)	(92.6)	(91.2)	(103.1)	13.0%	(1.9%)
Net sales revenue	**1,882.3**	**2,187.3**	**2,233.3**	**2,202.8**	**2,045.1**	**2,252.0**	**10.1%**	**3.7%**

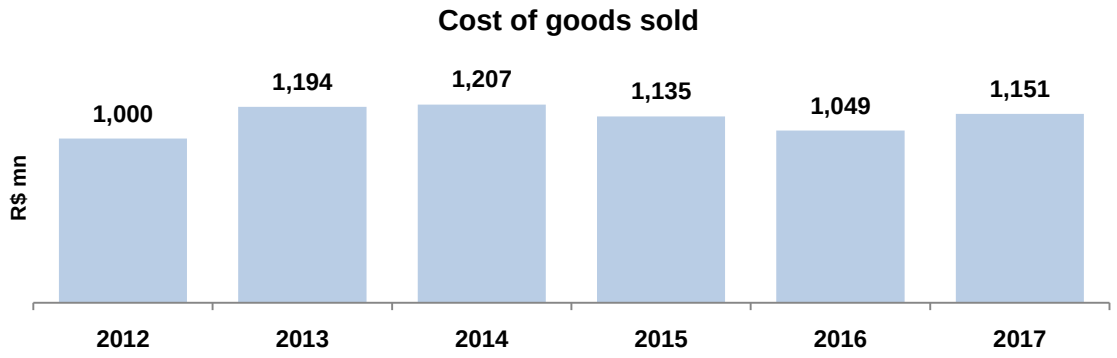


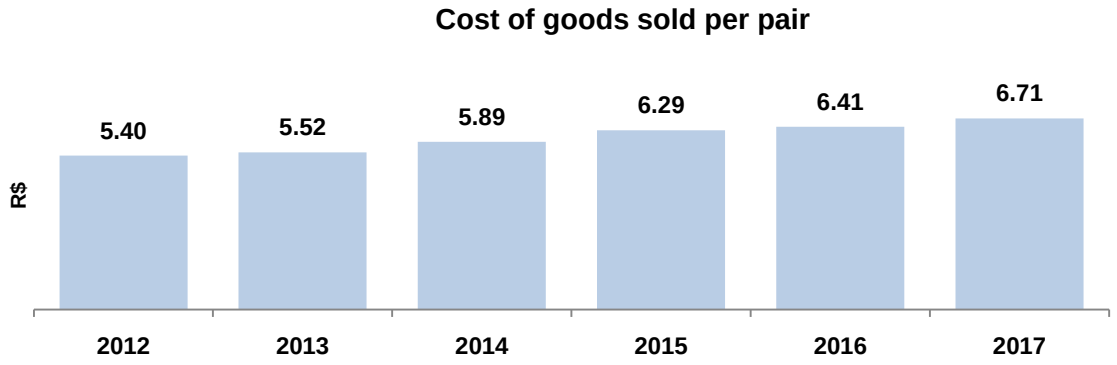
3. Cost of goods sold

In the last five years, with all the FX volatility, increases in the minimum wage and domestic inflationary pressures, our unit cost grew at the rate of 4.4% p.a., much lower than inflation in the period, and also lower than the growth of 4.9% p.a. in gross revenue per pair. It is true that we had the benefit of the 'de-burdening of payroll' by federal laws that came into effect in 2011 (partially reversed in December 2015). Over the whole of this period, total COGS grew by 2.9% p.a., less than net revenue.

We believe that cost discipline has played a fundamental role in our results.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Cost of goods sold	1,000.2	1,193.6	1,207.4	1,134.9	1,048.6	1,151.2	9.8%	2.9%
R$ per pair	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Change, 2016–17**	**CAGR 2012–17**
Cost of goods sold per pair	5.40	5.52	5.89	6.29	6.41	6.71	4.7%	4.4%

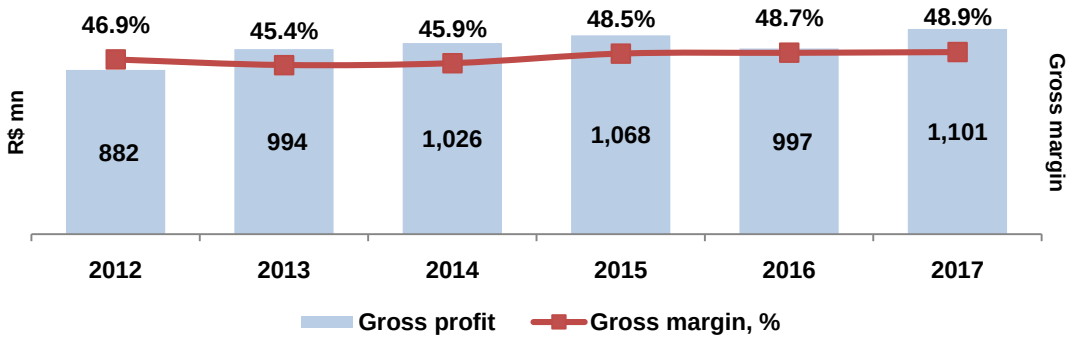




4. Gross profit

Gross profit accompanied the recovery in revenue – growing 10.5% YoY in 2017, with gross margin up 0.2 p.p. in the year. It has been a significant achievement that we have kept our gross margin above 48% – and broken one more record for gross margin this year, in a context of depressed consumption and increased taxes. This has been made possible by our considerable efforts in productivity, which has made our operation more robust and resilient.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Gross profit	882.1	993.7	1,025.9	1,067.9	996.5	1,100.8	10.5%	4.5%
Gross margin	46.9%	45.4%	45.9%	48.5%	48.7%	48.9%	0.2 p.p.	2.0 p.p.

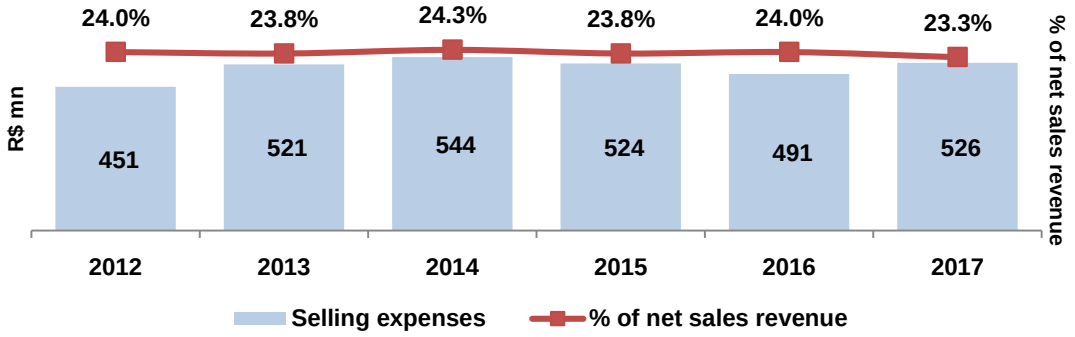


5. Operational expenses (SG&A)

5.1. Selling expenses

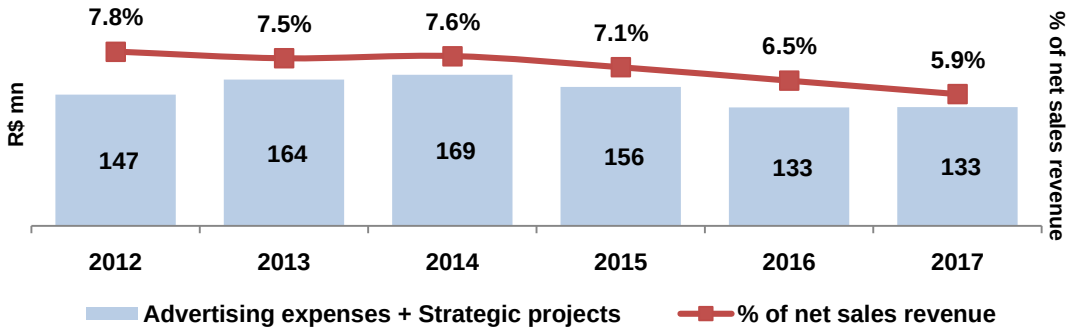
Grendene's selling expenses predominantly comprise variable such as freight, licensings, commissions, advertising and marketing. Over the 2012–2017 period they remained at approximately 24% of net revenue.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Selling expenses	451.0	521.2	543.7	523.7	490.6	525.8	7.2%	3.1%
% of net sales revenue	24.0%	23.8%	24.3%	23.8%	24.0%	23.3%	(0.7 p.p.)	(0.7 p.p.)



5.1.1 Advertising expenses

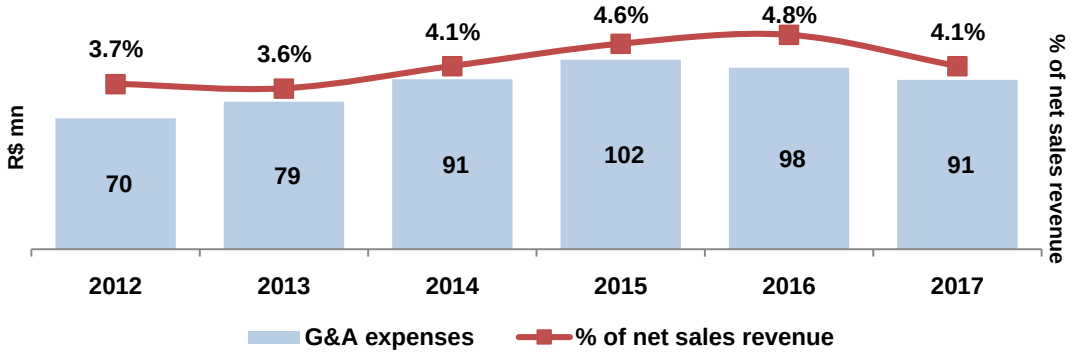
R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Advertising expenses (a)	147.0	163.7	169.2	148.9	125.2	125.6	0.3%	(3.1%)
% of net sales revenue	7.8%	7.5%	7.6%	6.8%	6.1%	5.6%	(0.5 p.p.)	(2.2 p.p.)
Strategic brand projects (b)	-	-	-	6.7	7.3	7.6	4.0%	-
Total (a + b)	147.0	163.7	169.2	155.6	132.5	133.2	0.5%	2.0%
% of net sales revenue	7.8%	7.5%	7.6%	7.1%	6.5%	5.9%	(0.6 p.p.)	(1.9 p.p.)



5.2. General and administrative expenses (G&A)

General and administrative expenses were 6.3% lower in 2017 than 2016, and were 4.1% of net revenue – still higher than the ratio that we had aimed for.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
G&A expenses	70.4	79.0	91.3	101.7	97.5	91.3	(6.3%)	5.3%
% of net sales revenue	3.7%	3.6%	4.1%	4.6%	4.8%	4.1%	(0.7 p.p.)	0.4 p.p.



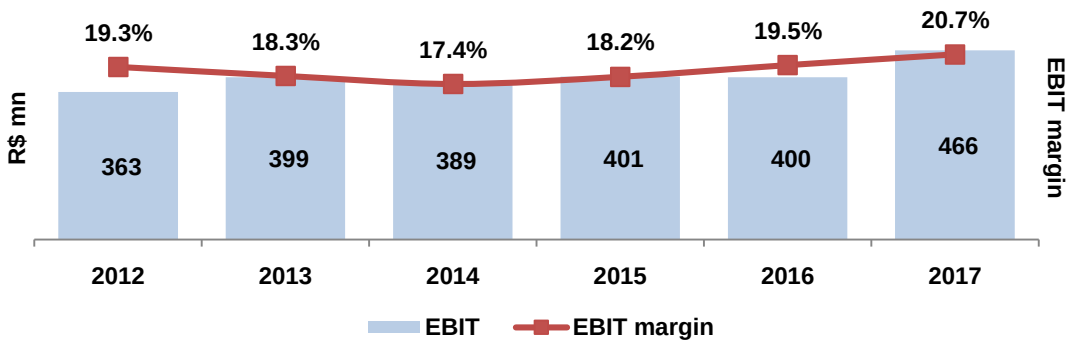
6. Ebit and Ebitda

6.1. Ebit

Ebit is operational profit before depreciation and amortization. We believes that because Grendene has a high cash position which generates significant financial revenues, Ebit – Earnings before interest and taxes – is the best indicator of operational profit.

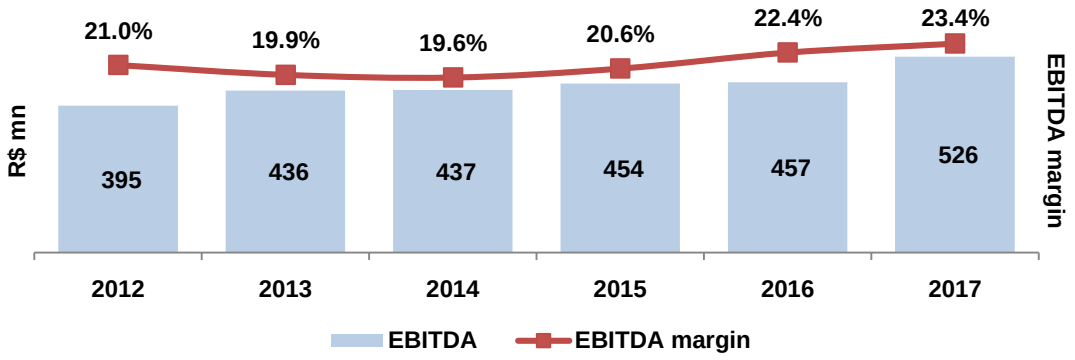
Reconciliation: Accounting Ebit / Ebitda * / (R$ mn)	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Net profit for the year	429,003	433,540	490,244	551,223	634,492	660,929	4.2%	9.0%
Non-controlling stockholders	888	465	(4,985)	(11,912)	(537)	(26)	(95.2%)	(149.4%)
Taxes on profit	65,399	68,805	39,678	43,768	34,157	43,189	26.4%	(8.0%)
Net financial revenue (expenses)	(132,477)	(103,577)	(135,524)	(182,347)	(268,518)	(238,502)	(11.2%)	12.5%
Ebit	**362,813**	**399,233**	**389,413**	**400,732**	**399,594**	**465,590**	**16.5%**	**5.1%**
Depreciation and amortization	31,725	36,648	47,461	53,652	57,878	60,639	4.8%	13.8%
Ebitda	**394,538**	**435,881**	**436,874**	**454,384**	**457,472**	**526,229**	**15.0%**	**5.9%**
Ebit margin	**19.3%**	**18.3%**	**17.4%**	**18.2%**	**19.5%**	**20.7%**	**1.2 p.p.**	**1.4 p.p.**
Ebitda margin	**21.0%**	**19.9%**	**19.6%**	**20.6%**	**22.4%**	**23.4%**	**1.0 p.p.**	**2.4 p.p.**

* Ebitda is stated as per CVM instruction 527 of October 4, 2012.



6.2. Ebitda

Our business is low capital-intensive. Depreciation is around 2.5% of net revenue (2.4% in 2015, 2.8% in 2016 and 2.7% in 2017). The Company regularly invests an amount equivalent to depreciation in any period, to keep its production capacity up-to-date. It also maintains positive net cash, and has no costs of interest that need to be paid with funds from operations. As a result we believe that analyzing Ebit makes more sense as an indicator for the Company's management.



7. Net financial revenue (expenses)

The Company has a solid cash position, and its financial revenues are an important part of its net profit. The aim of foreign exchange transactions is hedging, mainly of receivables from exports. In these transactions Grendene is vendor of dollars, and the objective of their net result in the long term to be very close to zero. Thus the result of Financial revenue (expenses) is basically influenced by the interest rate (Selic), and the average level of cash held by the Company.

In 2017 we report net financial revenues of R$ 238.5 mn. This is 11.2% less than in 2016, as a result of the major fall in interest rates in the Brazilian economy in the year, as shown:

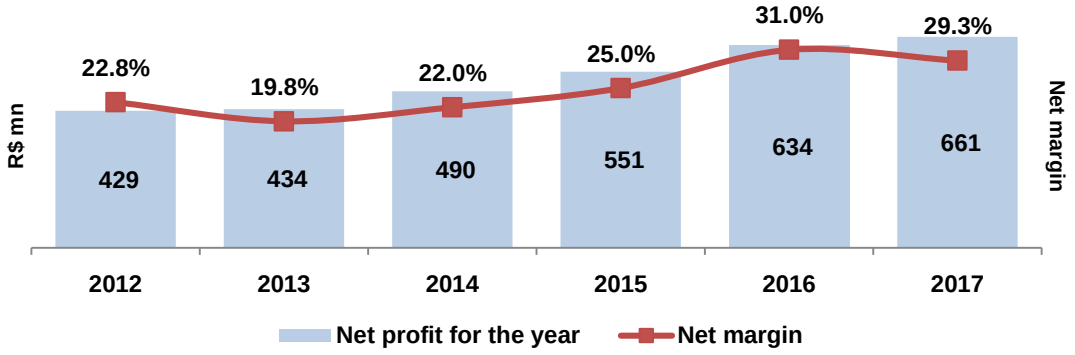
R$ mn	2012	2013	2014	2015	2016	2017	Change 2016–17	CAGR 2012–17
Interest received from clients	1.9	1.9	1.9	2.9	2.2	2.2	2.9%	3.3%
Revenue from cash investments	93.7	81.9	100.1	168.2	207.7	169.8	(18.3%)	12.6%
Other financial revenues	3.5	2.2	5.2	4.1	3.3	3.0	(8.0%)	(2.7%)
Subtotal	**99.1**	**86.0**	**107.2**	**175.2**	**213.2**	**175.1**	**(17.9%)**	**12.1%**
Costs of financings	(9.2)	(19.6)	(21.8)	(20.5)	(18.3)	(10.9)	(40.8%)	3.3%
Cofins and PIS taxes on fin. revenues	-	-	-	(5.0)	(11.0)	(8.3)	(23.9%)	-
Other financial expenses	(4.2)	(5.2)	(5.6)	(9.6)	(4.9)	(3.8)	(23.2%)	(2.2%)
Subtotal	**(13.4)**	**(24.8)**	**(27.4)**	**(35.1)**	**(34.2)**	**(23.0)**	**(32.9%)**	**11.3%**
Net fin. revenues (expenses) (1)	**85.7**	**61.2**	**79.8**	**140.1**	**179.0**	**152.1**	**(15.0%)**	**12.2%**
Revenue from FX derivatives – BM&F	14.8	18.2	16.6	66.3	49.1	30.0	(38.9%)	15.1%
Foreign exchange gains	49.7	40.2	41.9	118.8	69.7	34.5	(50.5%)	(7.0%)
Subtotal	**64.5**	**58.4**	**58.5**	**185.1**	**118.8**	**64.5**	**(45.7%)**	**-**
Op. exp. on FX derivatives – BM&F	(11.3)	(26.2)	(24.0)	(123.6)	(11.6)	(19.8)	71.3%	11.9%
Expenses of FX variation	(47.7)	(28.5)	(33.5)	(80.3)	(82.4)	(31.2)	(62.1%)	(8.1%)
Subtotal	**(59.0)**	**(54.7)**	**(57.5)**	**(203.9)**	**(94.0)**	**(51.0)**	**(45.7%)**	**(2.9%)**
Net gain (loss) on FX variations (2)	**5.5**	**3.7**	**1.0**	**(18.8)**	**24.8**	**13.4**	**(45.9%)**	**19.4%**
Adjustments to present value (APV)	41.3	38.7	54.7	61.0	64.7	73.0	12.8%	12.1%
Financial result – APV (3)	**41.3**	**38.7**	**54.7**	**61.0**	**64.7**	73.0	12.8%	12.1%
Net fin. revenues (exp.) (1) + (2) + (3)	**132.5**	**103.6**	**135.5**	**182.3**	**268.5**	**238.5**	**(11.2%)**	**12.5%**

Since January 1, 2009 discounts to clients for punctual payment have been posted as deductions from gross sales revenue (see 'Net sales revenue').

8. Net profit for the year

In the last five years adjusted net profit has grown 9.0% p.a. (CAGR over the years 2012-2017), and all the Company's margins have grown in this period: Gross margin (by 2.0 p.p.), operational margin (by 1.4 p.p.) and net margin (by 6.5 p.p.). In 2017, with the lower Financial revenue (expenses), even with the 16.5% increase in Ebit, net margin fell by 1.7 p.p., to 29.3%.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016-2017	CAGR 2012-17
Net profit for the year	429.0	433.5	490.2	551.2	634.5	660.9	4.2%	9.0%
Net margin	22.8%	19.8%	22.0%	25.0%	31.0%	29.3%	(1.7 p.p.)	6.5 p.p.



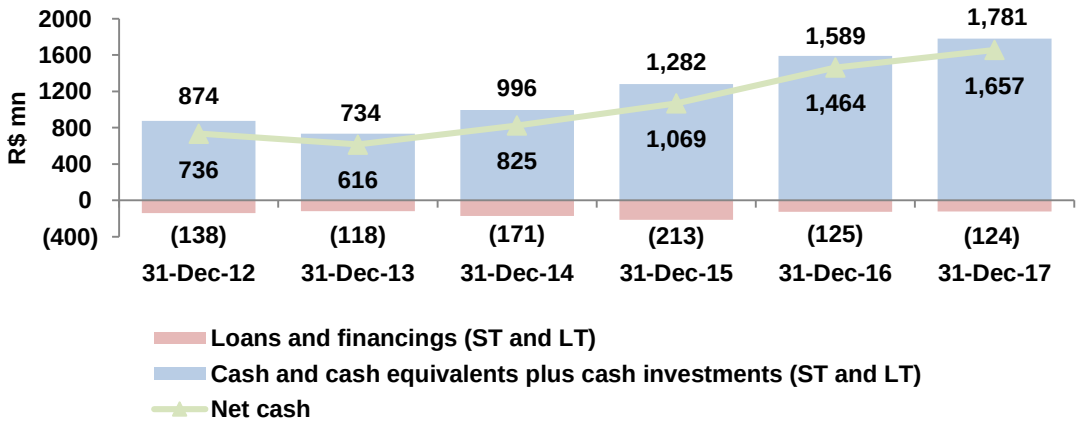
9. Cash generation

Cash generated by operations in full-year 2017, totaling R$ 525.7mn, was allocated for payment of: Investments in PP&E and intangible assets, totaling R$ 107.5 mn; payment of loans, in the net amount of R$ 9.7mn; cash investments, in the net amount of R$ 17.9mn; Interest on Equity, and dividends, totaling R$ 376.7mn; and a net loss of R$ 4.4mn on purchase of shares to hold in Treasury for exercise of stock options. This resulted in the amount held in current account and very short term cash investments being R$ 9.5mn higher at the end of the year. The complete cash flow can be seen in the financial statements.

We generated total cash of R$ 2.6 billion from our operational in the last six years – a confirmation of our excellent operational performance.

10. Net cash

The chart below shows the distribution of the cash position (cash, cash equivalents and short and long-term financial investments), loans and financings (short-term and long-term) and net cash:

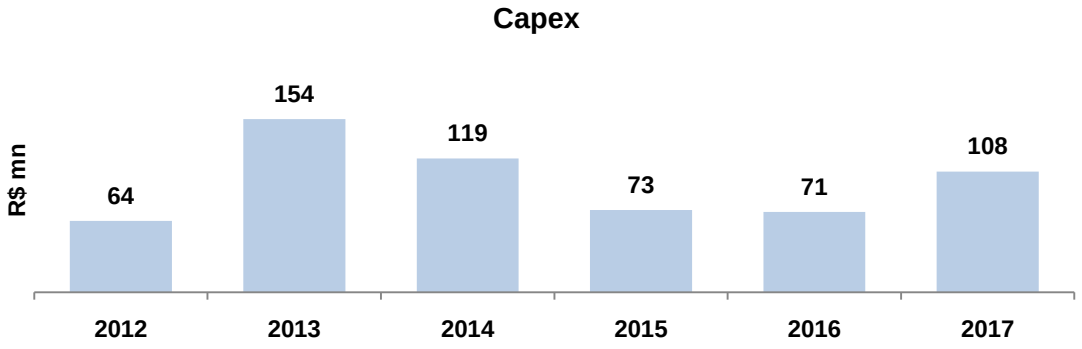


11. Capex (in fixed and intangible assets)

In 2017, our principal investments were in: maintenance of industrial buildings and facilities; replacement of fixed assets; and acquisition of new equipment for modernization of plant and greater efficiency of production.

We are estimating that we will invest between R$ 110 mn and R$ 120 mn in 2018.

R$ mn	2012	2013	2014	2015	2016	2017	Change % 2016–2017	CAGR 2012–17
Capex	63.6	154.0	119.1	73.2	71.5	107.5	50.4%	11.1%



12. Independent auditors – CVM Instruction 381/03

Complying with CVM Instruction 381/2003, we report that Grendene S.A. used the independent auditing services of Ernst & Young Auditores Independentes S.S. ('EY'), for a special review of its quarterly information and an audit of its financial statements for the year ended December 31, 2017. The total fees paid to EY were R$ 409,200. During this business year, EY was also contracted to carry out other services relating to tax advice, for consideration of R$ 131,100, which corresponds to 32% of the total amount paid for the services of external auditing.

The Company's policy in contracting with the independent auditor of any services not related to external auditing is based on the principals that preserve the auditors' independence, namely: (a) the auditor must not audit its own work; (b) the auditor must not exercise management functions in its client; and (c) the auditor must not promote the interests of its client.

The services provided by EY in relation to assurance work were executed in compliance with the Brazilian Accounting Rules – NBC PA 291 (R1) – *Independence*: *Other assurance work*, as approved by Federal Accounting Council Resolution 1311/10, of December 9, 2010, and do not include any services that could compromise independence as described in those rules.

12.1. Statement of justification in relation to independent auditors – EY

The provision of other professional services not related to external auditing, described above, does not affect the independence nor the objectivity in conduction of external auditing examination made on Grendene S.A. and its subsidiaries. Grendene's operational policy in provision of services not related to external auditing is based on the principles that preserve the independence of the External Auditor, and all these principles were complied with in provision of the said services.

V. Capital markets and corporate governance

1. Capital markets

In 2017 a total of 88.1 million common shares were traded (equal to 1.04 times the total number of shares in the free float), in 381,300 trades, with total financial volume of R$ 2.2 billion. Daily averages were as follows: quantity – 358,000 common shares (0.42% of the free float); financial volume – R$ 9.0 mn; number of trades – 1,550.

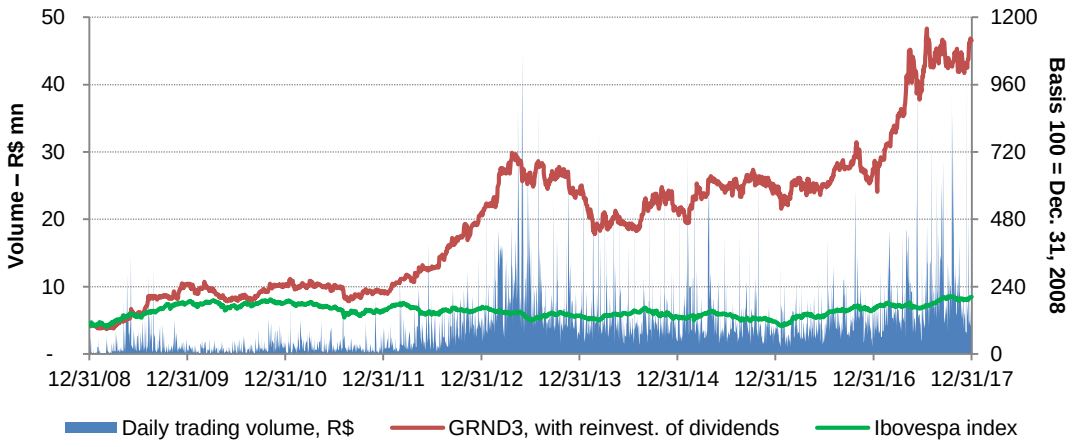
Over full-year 2017 Grendene's share (GRND3) provided a return of 69.3%, when reinvestment of dividends is included, and the share price varied from a minimum of R$ 17.20 on January 16, 2017 and a maximum of R$ 31.49 on July 18 (this range in 2016 was between R$ 14.60 on January 21 and R$ 20.54 on October 28). In the same period (full-year 2017), the Ibovespa index rose by 26.9%. The dividend yield calculated on the basis of the weighted average price of the share in 2017 was 4.7% p.a. (6.3% p.a. in 2016).

In this table, the number of shares traded, financial volume, and daily average trading:

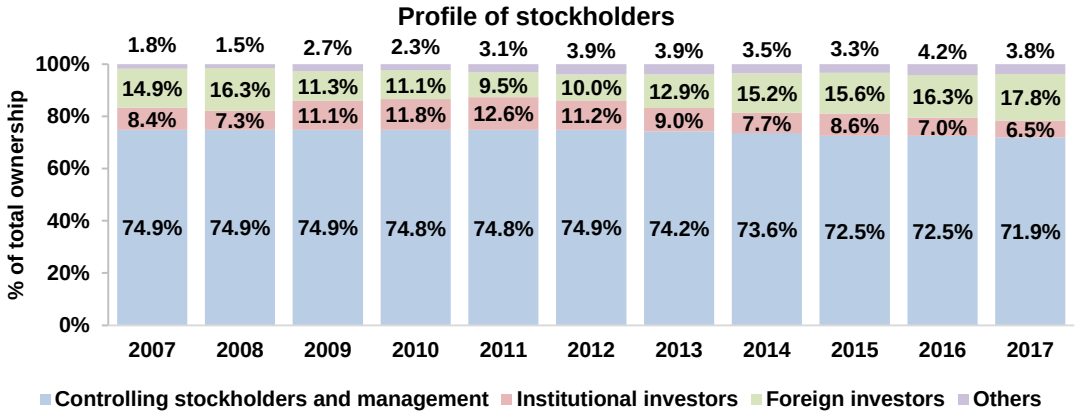
Year	Number of trading sessions	Number of trades	Number of shares	Volume R$	Price R$		Average number of shares		Average financial volume R$	
					Weighted average	Close	Per trade	Daily	Per trade	Daily
2012	246	134,570	66,297,600	772,896,090	11.66	16.49	493	269,502	5,743	3,141,854
2013	248	395,765	106,569,600	2,146,610,763	20.14	18.09	269	429,716	5,424	8,655,689
2014	248	352,905	93,691,900	1,422,422,174	15.18	15.30	265	377,790	4,031	5,735,573
2015	246	331,468	78,686,700	1,317,558,400	16.74	16.84	237	319,865	3,975	5,355,928
2016	249	336,512	70,808,700	1,214,895,573	17.16	17.58	210	284,372	3,610	4,879,099
2017	246	381,336	88,072,400	2,202,354,443	25.01	28.45	231	358,018	5,775	8,952,660

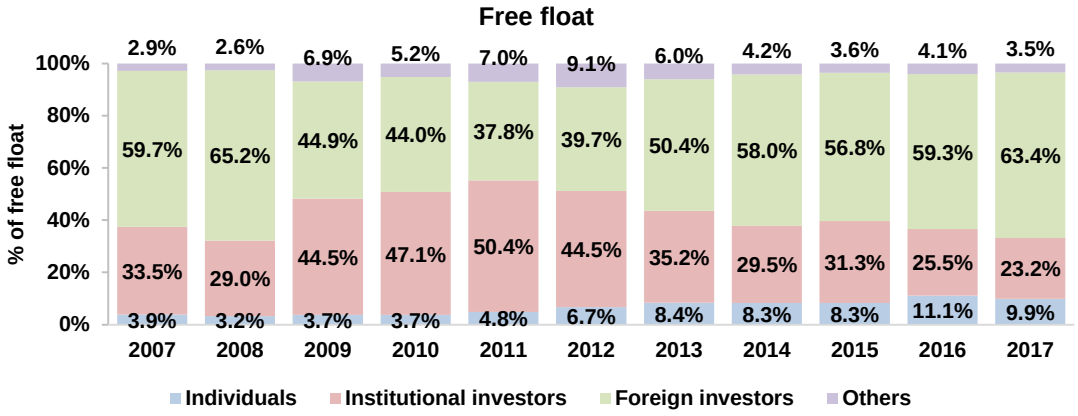
This chart shows performance of Grendene ON shares compared to the Bovespa index (Base: Dec. 31, 2008 = 100), and daily trading volume.

GRND3: Comparison with Ibovespa index and daily trading volume



On December 31, 2017 Brazilian institutional investors held 6.5% of the share capital of Grendene S.A. (23.2% of the free float); foreign investors held 17.8% (63.4%% of the free float); small investors including individuals held 3.8% (13.4% of the free float); and the other 71.9% of the share capital was in the possession of the controlling stockholders and managers.





This table gives the highest and lowest share prices for each quarter of 2016 and 2017:

Period	Highest price		Lowest price	
	R$	Date	R$	Date
1Q16	18.03	March 3, 2016	14.60	January 21, 2016
2Q16	17.70	April 1, 2016	15.25	June 16, 2016
3Q16	18.75	September 8, 2016	15.92	July 6, 2016
4Q16	20.54	October 28, 2016	16.01	December 15, 2016
1Q17	22.72	March 31, 2017	17.20	January 16, 2017
2Q17	28.79	May 12, 2017	22.20	April 3, 2017
3Q17	31.49	July 18, 2017	25.54	July 3, 2017
4Q17	28.20	December 26, 2017	25.32	November 10, 2017

2. Dividends

2.1. Dividend policy

For 2018, we will maintain our policy, established on February 13, 2014 and published in a Material Announcement on that date, of distributing, as dividends, after the constitution of the Legal reserve and the Reserve under the by-laws, the totality of such Profits as do not originate from tax incentive arrangements with individual Brazilian states. We remind you that these dividends may be paid in the form of Interest on Equity, as allowed by the legislation.

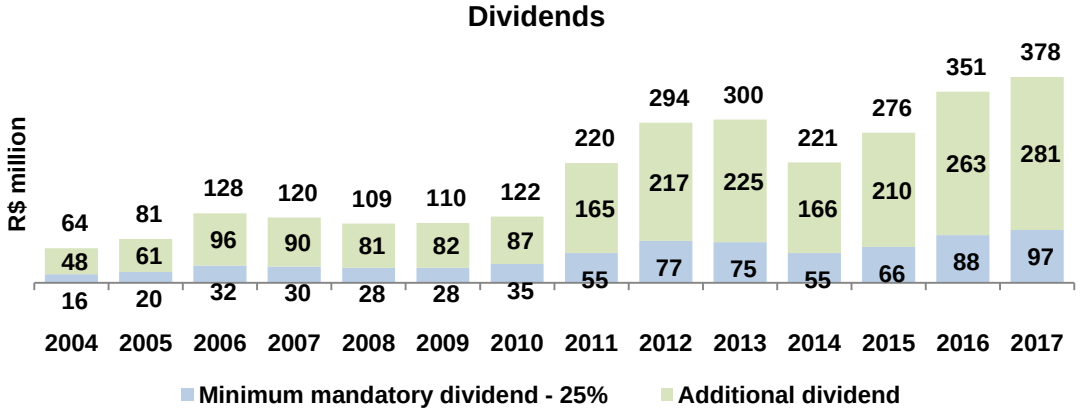
Additionally, we will maintain our policy of quarterly distribution of dividends.

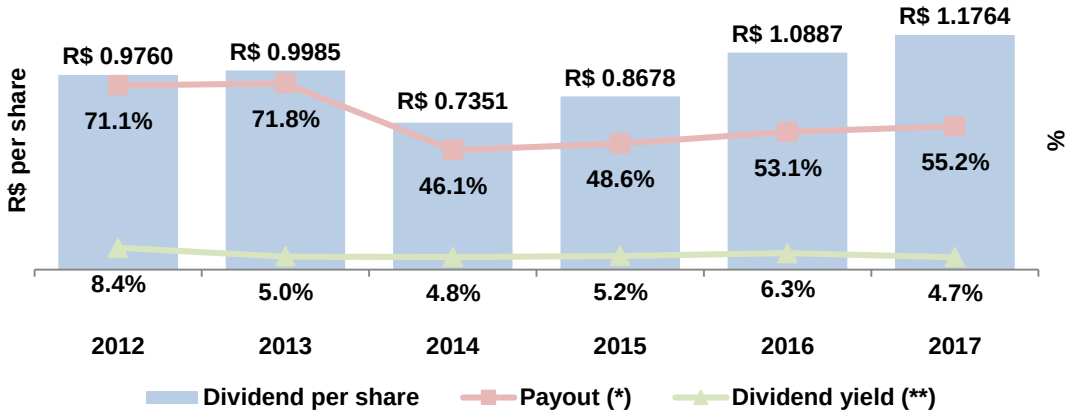
2.2. Dividends and Interest on Equity declared

Under Grendene's by-laws, the minimum obligatory dividend is calculated as 25% of the net profit remaining for the year after payments to reserves specified by law. From 2004 to 2017, the value of the dividends distributed in accordance with this percentage specified in the Company's by-laws, was R$ 703 million. However, management proposed and the Company distributed an additional amount of R$ 2.1 billion, making a total of R$ 2.8 billion – which is 60.2% of the net profit after the legal reserve for the period, and represents R$ 9.22 per share (basis: 300,720,000 common shares).

This tables shows the totals for payment of Interest on Equity, and dividends:

Years	R$ million		
	Minimum mandatory dividend – 25%	Additional dividend	Total dividend
2004	16	48	64
2005	20	61	81
2006	32	96	128
2007	30	90	120
2008	28	81	109
2009	28	82	110
2010	35	87	122
2011	55	165	220
2012	77	217	294
2013	75	225	300
2014	55	166	221
2015	66	210	276
2016	88	263	351
2017	97	281	378
Accumulated (R$ million)	**702**	**2,072**	**2,774**





(*) Payout: Dividend + Net Interest on Equity, divided by net profit after constitution of legal reserves.

(**) Dividend yield: Dividend per share + Net Interest on Equity per share in the business year divided by weighted average price of the share in the annualized period.

Under the bylaws and the present dividend policy, based on the amount demonstrated below, management proposes allocation of the net profit for the 2017 business year as follows:

a) **R$ 96,719,155.51** as minimum mandatory dividend, corresponding to 25% of the dividend calculation base, shown below;

b) **R$ 281,053,987.83** in dividends additional to the minimum mandatory dividend.

The sum of these amounts is a total of **R$ 377,773,143.34,** which after deduction of the quarterly interim payments of Interest on Equity plus dividends totaling, gross, R$ 228,143,143.34, results in a balance of **R$ 149,630,000.00**, which the Company will pay, subject to confirmation by the Annual General Meeting that approves the accounts for the business year 2017, **as from May 16, 2018** as follows:

a) R$ 130,000,000.00 – as Interest on Equity (gross), which is imputed as part of and on account of the dividend (net amount R$ 110,500,000.00);

b) R$ 19,630,000.00 – as complementary dividends for the 2017 business year.

The Interest on Equity, and the complementary dividends, will be payable to holders of GRND3 (common shares – GRND3) in the Company's records on May 3, 2018 (the cut-off date). As from this date, the credits of Interest on Equity will be credited individually to stockholders, with retention of the income tax applicable at source, in accordance with the legislation. Thus Grendene shares (GRND3) will be traded, **ex-dividend and ex-Interest on Equity,** on the B3 (Sao Paulo stock exchange), **on May 4, 2018**.

Basis for the distribution of dividends in 2017

Grendene S.A. (Holding company)	R$
Net profit for the year	**660,928,515.86**
(–) Tax incentives reserve	**(253,689,966.35)**
Basis for calculation of the Legal reserve	**407,238,549.51**
(–) Legal reserve	(20,361,927.47)
Basis for calculation of the minimum mandatory dividend	**386,876,622.04**
(–) Reserve for the purchase of shares – Stock Options*	(9,103,478.70)
Dividends referring to the result for the 2017 business year	**377,773,143.34**
Minimum mandatory dividend – 25%	*96,719,155.51*
Dividend in addition to the minimum mandatory amount for 2017	*281,053,987.83*

** Reserve recorded in compliance with the stock options or subscription plan ('Stock options'), under Clause 32, §2, of the bylaws.*

Allocation of the proposed corporate action payments (Interest on Equity and Dividends)

Total of dividends and Interest on Equity proposed by management	**377,773,143.34**
(–) Dividend and I.E. paid in advance	(228,143,143.34)
(=) Balance to be distribute for 2017 business year	**149,630,000.00**
Balance of dividends	19,630,000.00
Interest on Equity, gross	130,000,000.00
(–) Income tax withheld at source (15%)	*19,500,000.00*
(+) Interest on Equity, net	*110,500,000.00*

Dividends and Interest on Equity distributed / proposed							
Dividend / I.E.	**Date approved**	**Ex- date**	**Date of start of payment**	**Gross amount R$**	**Gross amount per share R$**	**Net amount R$**	**Net amount per share R$**
Dividend [1]	Apr. 27, 2017	May 3, 2017	May 17, 2017	69,078,060.63	0.2297	69,078,060.63	0.2297
I.E. [1]	Apr. 27, 2017	May 3, 2017	May 17, 2017	30,000,000.00	0.0998	25,500,000.00	0.0848
Dividend [1]	Jul. 27, 2017	Aug. 4, 2017	Aug. 16, 2017	55,584,193.70	0.1848	55,584,193.70	0.1848
Dividend [1]	Oct. 26, 2017	Nov. 7, 2017	Nov. 22, 2017	73,480,889.01	0.2444	73,480,889.01	0.2444
Dividend [1]	Feb. 22, 2018	May 4, 2018	May 16, 2018	19,630,000.00	0.0653[2]	19,630,000.00	0.0653[2]
I.E. [1]	Feb. 22, 2018	May 4, 2018	May 16, 2018	130,000,000.00	0.4323[2]	110,500,000.00	0.3675[2]
Total				**377,773,143.34**	**1.2563[2]**	**353,773,143.34**	**1.1765[2]**

[1] *Dividends approved subject to confirmation by the Annual General Meeting of Stockholders that will examine the balance sheets and financial statements for 2017.*

[2] *Dividends per share subject to changes due to the amount of treasury shares at the cut-off date (May 3, 2018). Statement of the unit value of the dividend with base date 12/31/2017.*

3. Corporate governance best practices

Seeking to keep analysts and investors informed on the performance of our business, we maintain permanent channels of communication, carry out visits, take part in conferences and make presentations, in events at various locations around the world. We also maintain a specific website for investor relations in English and Portuguese. Since 2008 we have ceased to prepare the Annual Report, providing all the information on our performance in the Report of Management and Reference Form, both being translated and posted on our site. We carry out quarterly conference calls presenting our results in Portuguese with simultaneous translation in English and we publish a press release with analysis of these results. We also present a non-deal roadshow, quarterly in Brazil and six-monthly outside Brazil,, depending on the interest shown by investors and stockholders, and at least two meetings with the Brazilian Capital Markets Professionals' and Investors' Association – Apimec (in Sao Paulo, and Rio Grande do Sul) per year.

Since April 14, 2008, as a means of aligning the interests of management with those of stockholders, we have had a Stock Options Plan in operation, for members of the Executive Board and our principal executives. Since the start of the Plan we have already made grants of 9.1 million call options (the figure is adjusted for the stock split of September 23, 2009), equivalent to 3.0% of the Company's total shares. Of these, 15.8% remains unexercised (1.4 million shares), equivalent to 0.5% of the total shares (base date: December 31, 2017). Our shares are listed on the *Novo Mercado* of B3, since October 29, 2004. In November 2007 we adjusted our free float to 25%, in accordance with the rules established by the listing regulations of the *Novo Mercado*. As a way of improving liquidity, we contracted a market maker for our shares (GRND3) since September 2005, and in September 2009 we made a stock split of the number of shares issued from 100,000,000 to 300,000,000, aiming for better liquidity for our shares and to facilitate their purchase by small investors and consequently expand our base of stockholders. On March 22, 2010 we approved an increase in share capital through issuance of 720,000 new common shares without par value, to comply with the Stock Options Plan, increasing the share capital to 300,720,000 common shares (with the exception of this exercise). To comply with the other exercises of options the Company acquired shares in the market, and thus stockholders were not diluted. On December 31, 2017 the shares in circulation were 28.1% of the total shares issued.

3.1 Commitment clause

The Company, its stockholders, its managers and the members of its Audit Board undertake to resolve by means of arbitration, in the Market Arbitration Chamber, all and any dispute or controversy that may arise between them, relating to our arising from, in particular, the application, validity, efficacy, interpretation, violation, or their effects, of the provisions contained in the Corporate Law, the Company's by-laws, the rules issued by the National Monetary Council, by the Brazilian Central Bank or by the Brazilian Securities Commission, or in the other rules applicable to the functioning of the capital market in general, as well as those contained in the Listing Regulations of the *Novo Mercado*, the Arbitration Regulations, the Sanctions Regulations and the *Novo Mercado* Participation Agreement.

3.2 Statement by executive board

In compliance with CVM Instruction 480/09 the members of the Executive Board declare that they have discussed, reviewed and agree with the opinions expressed in the opinion of the external auditors and with the financial statements for the business year ended December 31, 2017.

3.3 Awards and recognition

In 2017 Grendene was recognized and praised by various institutions for its performance in various sectors of activity.

ABF *Seal of Excellence in Franchising*, 2017

24th *Expression of Ecology* Award

17th annual *Valor 1000* awards

21st *Transparency Trophy* (*Troféu Transparência*)_

17th *Delmiro Gouveia* awards

Included in the '500 Greatest of the South' (*500 Maiores do Sul*)

VI. Social and environmental responsibility

Grendene's 'Sustainable Development Journey' (*Jornada do Desenvolvimento Sustentável*) embraces various areas for learning, and discoveries related to behavior and attitudes that can have a positive or negative affect on certain indicators. This program is at the stage of in-depth experiment and analysis for decision on best ways forward.

One of the principal actions that has changed Grendene employees' behavior and attitude for the better is the social-environmental program called *Prato Limpo* ('*Clean Plate*'). It aims to reduce waste, while giving employees useful knowledge that can be replicated in their homes and personal life. This program resulted in a reduction of food waste, in 2017 alone, of 241.5 tons, for a workforce of approximately 17,000 employees. It was this program that won us our prize in the *Expressão de Ecologia* Awards.

Our focus continues to be on reducing waste, optimization and awareness of the availability and realistic use of resources (raw materials, equipment, energy, water), thought, and action in relation to the recyclability of wastes and the quality of processes.

Another important objective is to include and involve our employees and their local society in this context, in the areas where our operations are located, as a further component of sustainable development.

We continue to direct special attention to water consumption, energy consumption, and generation of wastes, in general. The actions that we take have not only reduced costs and operational risks but also lowered environmental impacts. Here are some of our results:

In 2017, we achieved a **reduction of 11.6%** in the amount of water consumed, per pair of footwear produced.

Water consumption: Our industrial operations are in an arid region, which strengthens our efforts to increase availability of water – and reduce our water-consumption footprint.

a. After treatment of effluents, in 2017 we re-used 53,289m^3 of water, or 73% of the total flow in the year.
b. We currently have one of the lowest water-consumption footprints in footwear production.
c. Our water consumption is approximately 75% for human use.
d. We have a target of re-using 100% of treated effluents by 2020 – in other words, zero effluent disposal.

This shows the result for our drinking water consumption indicator**:**

	2015	2016	2017	Change % 2016–17
Water consumption (liters / pair)	1.57	1.55	1.37	(11.6%)
Water consumption (thousand m^3)	259.4	252.9	231.3	(8.5%)

In 2017 our energy consumption per pair produced increased by 4.1%.

Energy efficiency – We are aiming to reduce energy consumption per pair produced, and related carbon emission equivalent. However, due to the increase in complexity of some products (which depends on the product mix offered) we increased our consumption by 6.7 million kWh in the year. In spite of this, with actions to raise awareness with our daily energy efficiency indicator (targets for managers), and projects for automation and improvement in equipment, in 2017 we were able to eliminate consumption of 3.7 million kWh which would have been consumed if we had produced pairs of the same complexity with the consumption patterns of the previous year.

a. We have invested in energy efficiency since 2012, with actions ranging from replacement of motors to installment of LED lighting. Over this period our energy efficiency actions have reduced electricity consumption per pair of footwear produced by 7.8%.
b. 85% of the energy supplied to our production plant originates from renewable sources and has low or zero carbon emission equivalent.

Consumption of electricity	2015	2016	Reduction by efficiency	Increase in consumption	2017	Change % 2016–17
Million kWh	106.8	99.0	(3.7)	6.7	106.6	7.7%
kWh per pair	0.587	0.604	-	-	0.629	4.1%

In 2017 our waste generation per pair produced increased by 4%.

Waste management

Usually we recycle 92% of the waste produced: 97% is directly used, and 3% undergoes some other process before being re-used. Amount of waste created per pair was exacerbated in 2017 by the increased complexity of some products (which would be a consequence of the product mix offered).

On the other hand we took some important measures to reduce waste: increased recycling of EVA (a plastic material); increased recycling of dye sludge; and inclusion of new technologies avoiding generating waste at source – these were responsible for reduction of waste by approximately 76,356kg.

This table shows the indicator of waste generated per pair, and total figures:

	2015	2016	2017	Change % 2016-17
Wastes (grams / pair)	10.67	8.92	9.28	4.0%
Reduction of wastes (million kg)	1.8	1.5	1.6	6.7%

In 2017 we had 24 social-environmental audits in our manufacturing plants – carried out by clients, both international and Brazilian. We were approved and certified in all of them.

In 2017, as a result of all the actions and the care that we take with the environment, Grendene obtained **Re-certification from ABVTEX** (the Brazilian Textile Retail Association) – it is the first footwear company to receive this certificate.

The certificate is to enable the retail sector to certify and monitor its suppliers in relation to practices of environmental and social responsibility, and employment relations.

VII. Human resources

One feature of our business model is the excellence of the work by our employees: the more they are aligned to the Company's culture and values, the better they will contribute to delivery of consistent results. This is the motivating conviction behind all the Company's actions in relation to human resources.

Our HR is structured into subsystems that channel effort into integrated formation, development and engagement of teams, in all units – with the watchwords of achieving results that sustain the business strategy through integrated and competitive action in our people management, in an environment of compliance with the Company's values.

Our task of developing employees' competencies, knowledge and skill is shared with more than 500 managers who are consistently trained for exercise of leadership.

The care that we take for our employees' health and safety goes beyond requirement with legal limits – we invest constantly in technology, machinery, technical advances and administrative and medical measures. We also carry out consciousness-raising campaigns which extend to the community surrounding our facilities.

One outstanding factor in our HR management is investment in education. In 2017 we remodeled our corporate education process with the inauguration of the Grendene University – the main aim of which is development and implementation of the corporate and human competencies that are considered to be critical for achieving the business strategies.

As our return on investment in people, we have our maintenance of a low turnover, and our history of the Company's good results.

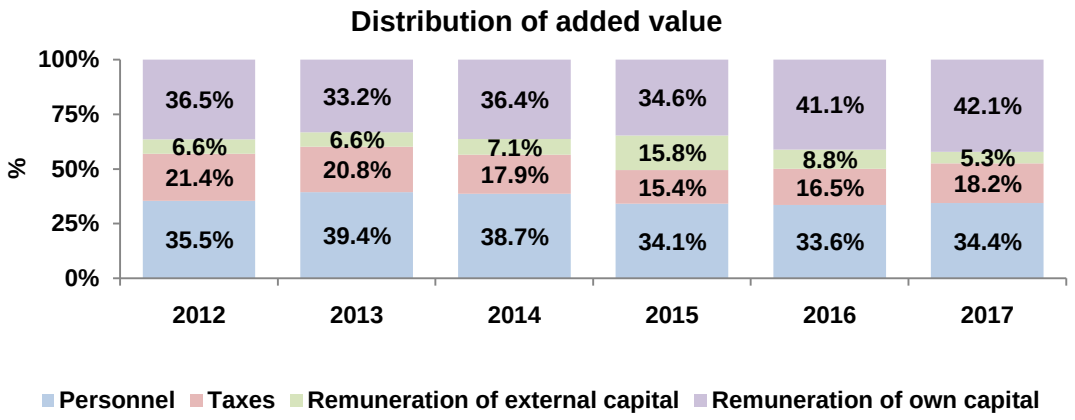
Social and corporate data	2012	2013	2014	2015	2016	2017
Employees (average in the year)	24,084	28,085	26,543	24,176	20,401	20,080
Hours of training (per employee)	20	32	50	67	79	86
Meals (year)	5,955,479	6,867,415	4,990,607	4,815,696	5,046,305	5,247,901
Employees with special needs	1,016	1,288	1,146	1,088	971	1,012
Dental care (appointments/year)	20,485	19,875	17,818	17,555	15,391	17,822
Absenteeism	1.73%	2.08%	2.47%	2.17%	1.88%	1.83%
Turnover (month)	2.12%	2.00%	1.66%	1.58%	1.72%	1.49%
'Basic food baskets' distributed (units/year)*	292,398	330,814	317,514	290,269	243,229	233,419

(*) Grendene's policy of distribution of 'basic food baskets' aims to reinforce the employee's food security. It has been in place since 1990. Over time, the effort is to maintain the basket's nutritional value offering various options of items. All the employees and interns of Grendene, without distinction, receive it after the first month of work, until they leave the Company.

VIII. Statement of value added

Added value, which is an indication of the wealth added to society by the Company in its economic activity, totaled R$ 1.568 billion (R$ 1.543 billion in 2016). The complete statement is a part of the financial statements.

Added value statement R$ '000	2012	2013	2014	2015	2016	2017
Personnel	416,699	515,243	521,449	531,099	518,382	538,554
Taxes	250,761	271,920	240,918	240,350	254,994	285,628
Remuneration of external capital	77,518	86,700	95,615	246,601	135,728	82,396
Remuneration of own capital	429,003	433,540	490,244	539,311	633,955	660,903
Total	**1,173,981**	**1,307,403**	**1,348,226**	**1,557,361**	**1,543,059**	**1,567,481**



IX. Final considerations and outlook

Summing up, we expect 2018 to be a better year, especially in the first half as the Brazilian economy recovers, while the international scenario remains positive. However it needs to be remembered that Brazil has not resolved its serious fiscal problems, and any disturbance in the international economy, especially, for example, a stronger contraction in China, or a significant increase in US interest rates, could abort the domestic recovery. We believe Brazil is not yet prepared for any significant disturbances in the international scenario, but we still have a great deal of idle capacity in Brazil, and high unemployment, which could provide the fuel for the economy to continue to recover.

We at Grendene will continue our strategy that has been successful over the years, during both recessions and periods of growth.

For a long time we have perceived that quality design at acceptable cost is the consumption dream of the middle class. Our brands and products have stood out in these categories, and provided us with very good results.

The value proposal that Grendene has been delivering to consumers – all over the world – continues to be definable by the phrase '*Affordable Luxury*' – delivering value to the client for low cost: the work of famous designers, accessible to all the income groups. In 2018 we expect to invest between R$ 110 and R$ 120 million in maintaining our production capacity. Clearly this figure is only a reference, and we will not hesitate to invest in any good opportunities – at the moment we see none – if they appear.

Fortunately we are able to have an optimistic expectation that the footwear sector will recover within a wider economic context. We expect to see consumption in Brazil – expressed as number of pairs – increase by between 3% and 5% in 2018 – but we have no concrete expectations of returning to the record volume of pairs achieved in 2014. Whatever the market situation is, we will seek to obtain better results than those of the previous year – something which we have been repeatedly achieving.

We expect to see a continuing increase in our margins, coming from an increase in productivity, and rationalization of cost, as well as a certain increase in volumes – which may be greater than the growth of the market – i.e. producing some gain in *market share.*

In the domestic market, consumers' desire for our products has not diminished, and their purchasing power is recovering. The consumer is now less indebted, and has money to spend, and we expect to see a gradual return to consumption levels of previous years. Hence our challenge will be to continue to meet the expectations of our consumers with products that fit in their budget, while at the same time offering variety to those that demand new products and ideas. We are confident that we will not disappoint them.

We have always faced whatever scenario presents itself in the same way – with determination, courage and lucidity, obtaining strong results – this is our habit. We should re-emphasize the execution of our strategy in 2018, with special attention to growth of market share and maintenance of margins, improving our communication with the market, understanding the needs of the distribution channels, innovating in products, strengthening our brands with aggressive marketing through multiple media, and seeking excellence in the operation through continuous improvements. The objective is to continually strengthen our relationship with our clients, and serve them in a way that is increasingly focused on their needs. We understand that the remuneration of stockholders depends on this.

Appendix I

OPINION OF THE AUDIT BOARD

The Audit Board of Grendene S.A., in compliance with the provisions of law and of the by-laws, has examined the Report of Management and the Individual financial statements of the Company (holding company), prepared in accordance with accounting practices adopted in Brazil, and the Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for the business year ended December 31, 2017, which were approved by the Company's Board of Directors on February 22, 2018. Based on our reviews, and further considering the report of Ernst & Young Auditores Independentes S.S., without qualification, dated February 22, 2018, and the information and explanations received during the business year, it is the opinion of this Audit Board that the said documents are in the proper condition to be considered by the Annual General Meeting of Stockholders.

Farroupilha, February 22, 2018.

João Carlos Sfreddo
Member of the Audit Board

Eduardo Cozza Magrisso
Member of the Audit Board

Herculano Aníbal Alves
Member of the Audit Board

Appendix II

Grendene®

Parent company and consolidated financial statements for the years ended December 31, 2017 and 2016.

Financial statements

December 31, 2017 and 2016

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Financial statements

(A free translation of the original in Portuguese)

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers of
Grendene S.A.
Sobral – CE

Opinion

We have audited the individual and consolidated financial statements of Grendene S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2017 and the statements of profit or loss, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

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

Basis for opinion

We conducted our audit in accordance with Brazilian and International standards on auditing. Our responsibilities, under those standards, are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) 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 support our opinion.

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. Those matters were addressed in the context of our audit of the overall individual and consolidated financial statements, and to form our opinion on these individual and consolidated financial statements. Therefore, we do not express a separate opinion on those matters. For each matter below, we present a description of how our audit addressed it, including any comments on the results of our procedures, considering the overall financial statements.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section, including those related to these key audit matters. Accordingly, our audit includes the performance of planned procedures to respond to our risk assessment of material misstatements in the financial statements. The results of our procedures, including those performed to address the

matters below, provide a basis for our audit opinion on the Company's financial statements.

Sales revenue recognition

The Company daily manufactures and ships a large volume of products ordered by its customers. Such products are grouped according to the orders and transported by independent trucks, with deliveries in every region of Brazil.

Considering the large volume and pulverization of its sales and materiality of the respective amount recorded in its financial statements, the Company controls product delivery confirmation in order to account for revenues in the appropriate reference period. Determining the amount of revenue to be recognized, and the time to recognize it, requires that Company management analyze the terms and conditions of its sales in detail, and involves significant judgment. Such professional judgment may lead to the risk of early revenue recognition, particularly in connection with the monthly accounting closing period. Therefore, we consider that revenue recognition is a key audit matter.

How our audit has addressed this matter:

Our procedures included, among others: (i) evaluating the design and operational effectiveness of the key controls implemented by the Company on the determination of the time of revenue recognition; (ii) analysis of monthly changes in revenue balances recognized by the Company in order to evaluate the existence of variations contrary to our expectations established based on our knowledge of the industry and the Company; and (iii) for a sample of sales recorded during the year, obtaining the respective supporting documentation to assess whether revenue was recognized in the appropriate accounting period.

In addition, we performed audit tests of sales transactions carried out at yearend to check the accounting recognition policy for consistency, and identified an audit adjustment indicating the need to reverse certain revenues and costs recognized in advance by the Company in the cut-off period. The Company did not make this adjustment due to its immateriality on the financial statements taken as a whole.

Internal control deficiencies in relation to the revenue recognition cut-off that resulted in the adjustment identified by our audit, as mentioned above, modified our assessment of the nature, time and extent of our planned substantive procedures to obtain sufficient and adequate audit evidence in relation to the Company's revenue. Based on the procedures performed and results achieved, we consider that the estimates prepared by management are acceptable and that disclosures are appropriate considering the overall financial statements.

Tax incentive for investments

The Company benefits from tax incentives related to the State value-added tax (ICMS), arising from the Incentive Program for Company Operation (PROVIN) and Incentive Program for Industrial and Port Activities in the State of Ceará (PROAPI), in its activities located in the state of Ceará.

These incentives account for a significant portion of the Company's consolidated net revenue, and to recognize them, the Company must comply with the conditions established in the agreements, among which, compliance with specific clauses related to contra entries required, and effective terms of the respective programs.

In this regard, we consider that this is an area to be focused by the audit, given the materiality of the tax benefit amounts in comparison with the result of the Company's operations, the required compliance with each of the agreements, and the very process to compute these tax incentives, which demands controls and criteria to comply with prevailing legislation.

How our audit has addressed this matter:

Our procedures included, among others: (i) understanding and testing the calculations to determine those benefits; (ii) analyzing the documentation to fulfill the condition to enjoy the referred to tax incentives; and (iii) checking reasonableness of the sales taxes and tax benefits recognized under revenues, in comparison with the net sales revenue.

Based on the result of the audit procedures performed, which are in line with management's assessment, we consider that the Company's policies for recognition and measurement of government grants for investments are acceptable to support judgments, estimates and information included in the overall financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2017, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To issue our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned technical pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

Audit of corresponding figures

The Company's individual and consolidated financial statements for the year ended December 31, 2016, presented for comparison purposes, were audited by another independent auditor, who issued an unmodified opinion on these financial statements dated February 15, 2017.

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

Company management is responsible for such other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not included the management's report and we do not express any audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the management's report and consider whether it is significantly consistent with the financial statements or, based on our understanding of the audit, presents any material misstatement. If, based on the work performed, we conclude that there is any material misstatement in management's report, we are required to report this fact. We have nothing to report in this regard.

Management and governance's responsibility for the individual and consolidated financial statements

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

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

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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

- 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 controls 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 substantial doubt as to the Companies' and its subsidiaries' ability 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 individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding 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.

  We communicate with those charged with governance regarding, among other matters, of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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.

  Of the matters communicated to those in charge of governance, we determine those that are considered most significant in the audit of the financial statements for the current year and, therefore, constitute key audit matters. We describe these matters in our audit report unless the law or regulation has prohibited their public disclosure or when, in extremely rare circumstances, we determine that the issue should not be included in our report because the adverse consequences of such disclosure may, within a reasonable perspective, overcome the benefits of communication to the public interest.

Porto Alegre, February 22, 2018

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP015199/O-6

Américo F. Ferreira Neto
Accountant CRC-1-SP 192685/O-9

(A free translation of the original in Portuguese)

Grendene®

Balance sheet
December 31, 2017 and 2016
(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2017	2016	2017	2016
Assets					
Current assets					
Cash and cash equivalents	6	**18,240**	8,184	**30,119**	20,663
Financial investments					
Securities at fair value through profit or loss	7	**836,254**	483,659	**836,254**	483,659
Held-to-maturity investments	7	**701,223**	804,411	**701,223**	804,411
Trade receivables	8	**857,931**	756,360	**850,345**	760,953
Inventories	9	**258,317**	236,470	**279,267**	260,646
Tax credits	10	**47,553**	24,093	**50,810**	29,347
Income tax and social contribution recoverable		**3,812**	3,208	**3,841**	3,681
Securities receivable		**76,753**	84,584	**76,828**	84,217
Costs and prepaid expenses		**1,380**	1,438	**4,047**	3,677
Other receivables		**14,093**	41,129	**14,263**	41,725
Total current assets		**2,815,556**	2,443,536	**2,846,997**	2,492,979
Non-current assets					
Long-term receivables:					
Financial investments					
Held-to-maturity investments	7	**213,049**	280,645	**213,049**	280,645
Judicial deposits		**1,244**	1,003	**1,316**	1,073
Tax credits	10	**782**	533	**782**	533
Receivables from subsidiaries		**5,623**	4,936	**-**	-
Deferred income tax and social contribution	18	**54,869**	53,993	**54,627**	53,932
Securities receivable		**150**	-	**150**	-
Prepaid expenses		**-**	-	**7,033**	6,733
		275,717	341,110	**276,957**	342,916
Investments	11	**47,181**	45,563	**412**	412
Property, plant and equipment	12	**406,950**	376,140	**422,361**	387,071
Intangible assets	13	**27,040**	27,474	**29,281**	30,442
Total non-current assets		**756,888**	790,287	**729,011**	760,841
Total assets		**3,572,444**	3,233,823	**3,576,008**	3,253,820

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

Grendene

Balance sheet
December 31, 2017 and 2016
(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2017	2016	2017	2016
Liabilities					
Current liabilities					
Borrowings	14	**89,666**	62,920	**89,666**	70,734
Trade payables		**35,387**	39,965	**36,705**	41,369
Contractual obligations - Licensing		**13,063**	12,542	**17,618**	14,011
Commissions payable		**41,686**	39,087	**41,622**	39,831
Taxes and contributions		**37,418**	38,035	**37,597**	38,375
Income tax and social contribution payable		**6,402**	7,557	**6,425**	7,560
Salaries and social security charges payable		**59,256**	50,036	**59,942**	51,497
Provision for labor risks	15	**824**	1,932	**833**	2,485
Provision for losses in subsidiary	11	**5,480**	19	**-**	-
Advances from clients		**31,152**	4,182	**31,384**	4,597
Other payables		**268**	382	**282**	4,924
Total current liabilities		**320,602**	256,657	**322,074**	275,383
Non-current liabilities					
Borrowings	14	**33,961**	54,638	**33,961**	54,638
Provision for labor risks	15	**272**	530	**452**	710
Other debits		**-**	-	**1,912**	1,019
Total non-current liabilities		**34,233**	55,168	**36,325**	56,367
Equity	16				
Share capital		**1,231,302**	1,231,302	**1,231,302**	1,231,302
Capital reserves		**8,385**	6,480	**8,385**	6,480
Revenue reserves		**(134)**	(1,169)	**(134)**	(1,169)
Treasury shares		**1,965,609**	1,682,354	**1,965,609**	1,682,354
Other comprehensive income		**12,447**	3,031	**12,447**	3,031
Total equity		**3,217,609**	2,921,998	**3,217,609**	2,921,998
Non-controlling interests		**-**	-	**-**	72
Total equity		**3,217,609**	2,921,998	**3,217,609**	2,922,070
Total liabilities and equity		**3,572,444**	3,233,823	**3,576,008**	3,253,820

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

(A free translation of the original in Portuguese)

Grendene

Statement of income
December 31, 2017 and 2016
(All amounts in thousands of reais, except earnings per share)

	Note	Parent company		Consolidated	
		2017	2016	2017	2016
Net sales revenue	22	**2,219,584**	2,013,877	**2,251,972**	2,045,115
Cost of goods sold	24	**(1,143,788)**	(1,041,003)	**(1,151,216)**	(1,048,588)
Gross profit		**1,075,796**	972,874	**1,100,756**	996,527
Selling expenses	24	**(477,632)**	(442,938)	**(525,817)**	(490,574)
General and administrative expenses	24	**(84,969)**	(83,796)	**(91,343)**	(97,514)
Other operating income	25	**16,384**	40,322	**19,028**	44,454
Other operating expenses	25	**(32,532)**	(22,347)	**(37,034)**	(53,299)
Provision for losses in subsidiary	11	**(5,461)**	(19)	**-**	-
Equity in the results of subsidiaries	11	**(24,821)**	(72,844)	**-**	-
Operating profit before finance result and taxes		**466,765**	391,252	**465,590**	399,594
Finance result	26				
Finance income		**309,091**	394,657	**312,528**	396,698
Finance costs		**(71,968)**	(117,234)	**(74,026)**	(128,180)
		237,123	277,423	**238,502**	268,518
Profit before taxation		**703,888**	668,675	**704,092**	668,112
Income tax and social contribution	18				
Current		**(43,835)**	(44,671)	**(44,106)**	(44,713)
Deferred		**876**	10,488	**917**	10,556
		(42,959)	(34,183)	**(43,189)**	(34,157)
Profit for the year		**660,929**	634,492	**660,903**	633,955
Total comprehensive income attributed to:					
Controlling interests		**660,929**	634,492	**660,929**	634,492
Non-controlling interests		**-**	-	**(26)**	(537)
				660,903	633,955
Basic earnings per share	16.g	**2.1985**	2.1101	**-**	-
Diluted earnings per share	16.g	**2.1917**	2.1058	**-**	-

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

(A free translation of the original in Portuguese)

Grendene®

Statement of comprehensive income
December 31, 2017 and 2016
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2017	2016	2017	2016
Profit for the year	**660,929**	634,492	**660,903**	633,955
Other comprehensive income:				
Items potentially reclassifiable to the Statement of income in the future:				
Exchange differences on subsidiaries abroad	**1,642**	(11,479)	**1,642**	(11,016)
Loss in minority interest	**-**	-	**-**	(125)
Exchange losses on investments	**7,774**	-	**7,774**	-
Loss on disposal of investment	**-**	-	**(46)**	-
Comprehensive income for the year, net of taxes	**670,345**	623,013	**670,273**	622,814
Total comprehensive income attributed to:				
Controlling interests	**670,345**	623,013	**670,345**	623,013
Non-controlling interests	**-**	-	**(72)**	(199)
	670,345	623,013	**670,273**	622,814

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

(A free translation of the original in Portuguese)

GRENDENE S.A.

Statements of changes in equity

December 31, 2017 and 2016

(All amounts in thousands of reais)

	Note	Share capital	Capital reserves		Treasury shares	Income reserves				Comprehensive income				Total
			Options granted	Gains from sale of treasury shares		Legal reserve	Reserve for the acquisition of shares	Tax incentives	Additional proposed dividends	Retained earnings	Other comprehensive income	Controlling interests	Non-controlling interests	
On December 31, 2015		1,231,302	5,261	-	(1,052)	109,078	16,118	1,145,378	95,894	-	14,510	2,616,489	271	2,616,760
Total comprehensive income		-	-	-	-	-	-	-	-	*634,492*	*(11,479)*	*623,013*	*(199)*	*622,814*
Profit for the year		-	-	-	-	-	-	-	-	634,492	-	634,492	(537)	633,955
Exchange differences on subsidiaries abroad	11	-	-	-	-	-	-	-	-	-	(11,479)	(11,479)	463	(11,016)
Loss on increase in stockholding interest		-	-	-	-	-	-	-	-	-	-	-	(125)	(125)
Purchase of treasury shares		-	-	-	(11,020)	-	-	-	-	-	-	(11,020)	-	(11,020)
Change of the stock option or purchase subscription plan:														
Stock options exercised in the exercise		-	-	(10,903)	10,903	-	-	-	-	-	-	-	-	-
Sale of treasury shares through exercise of purchase options		-	-	6,416	-	-	-	-	-	-	-	6,416	-	6,416
Result on sale of shares related to the stock option or subscription plan	21.b	-	(4,064)	4,487	-	-	(423)	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	21	-	5,283	-	-	-	-	-	-	-	-	5,283	-	5,283
Proposed appropriations:														
Tax incentives reserve														
Borrowings - Provin and Proapi	17.a	-	-	-	-	-	-	188,830	-	(188,830)	-	-	-	-
Income tax	17.c	-	-	-	-	-	-	75,785	-	(75,785)	-	-	-	-
Legal reserve		-	-	-	-	18,494	-	-	-	(18,494)	-	-	-	-
Dividends distributed	16.f	-	-	-	-	-	-	-	(10,894)	(172,789)	-	(183,683)	-	(183,683)
Additional proposed dividends	16.f	-	-	-	-	-	-	-	18,594	(18,594)	-	-	-	-
Interest on Equity distributed	16.f	-	-	-	-	-	-	-	(85,000)	(30,000)	-	(115,000)	-	(115,000)
Interest on Equity (counted as part of total dividends)	16.f	-	-	-	-	-	-	-	110,500	(130,000)	-	(19,500)	-	(19,500)
On December 31, 2016		1,231,302	6,480	-	(1,169)	127,572	15,695	1,409,993	129,094	-	3,031	2,921,998	72	2,922,070
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***660,929***	***9,416***	***670,345***	***(72)***	***670,273***
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**660,929**	**-**	**660,929**	**(26)**	**660,903**
Exchange differences on subsidiaries abroad	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,642**	**1,642**	**-**	**1,642**
Exchange losses on investments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,774**	**7,774**	**-**	**7,774**
Loss on disposal of investment		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(46)**	**(46)**
Purchase of treasury shares		**-**	**-**	**-**	**(9,837)**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,837)**	**-**	**(9,837)**
Change of the stock option or purchase subscription plan:														
Stock options exercised in the exercise		**-**	**-**	**(10,872)**	**10,872**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sale of treasury shares through exercise of purchase options		**-**	**-**	**5,472**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,472**	**-**	**5,472**
Result on sale of shares related to the stock option or subscription plan	**21.b**	**-**	**(4,463)**	**5,400**	**-**	**-**	**(937)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Expenses with stock option or subscription plan	**21**	**-**	**6,368**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,368**	**-**	**6,368**
Proposed appropriations:														
Tax incentives reserve														
Borrowings - Provin and Proapi	**17.a**	**-**	**-**	**-**	**-**	**-**	**-**	**167,824**	**-**	**(167,824)**	**-**	**-**	**-**	**-**
Income tax	**17.c**	**-**	**-**	**-**	**-**	**-**	**-**	**85,866**	**-**	**(85,866)**	**-**	**-**	**-**	**-**
Legal reserve		**-**	**-**	**-**	**-**	**20,362**	**-**	**-**	**-**	**(20,362)**	**-**	**-**	**-**	**-**
Reserve for the acquisition of shares		**-**	**-**	**-**	**-**	**-**	**9,104**			**(9,104)**	**-**	**-**	**-**	**-**
Dividends distributed	**16.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,594)**	**(198,143)**	**-**	**(216,737)**	**-**	**(216,737)**
Additional proposed dividends	**16.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,630**	**(19,630)**	**-**	**-**	**-**	**-**
Interest on Equity distributed	**16.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(110,500)**	**(30,000)**	**-**	**(140,500)**	**-**	**(140,500)**
Interest on Equity (counted as part of total dividends)	**16.f**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,500**	**(130,000)**	**-**	**(19,500)**	**-**	**(19,500)**
On December 31, 2017		**1,231,302**	**8,385**	**-**	**(134)**	**147,934**	**23,862**	**1,663,683**	**130,130**	**-**	**12,447**	**3,217,609**	**-**	**3,217,609**

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

Grendene

Statement of cash flows
December 31, 2017 and 2016
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2017	2016	2017	2016
Cash flows from operating activities				
Profit for the year	**660,929**	634,492	**660,903**	633,955
Adjustments to reconcile results to cash generated by operating activities:				
Equity in the results of subsidiaries	**24,821**	72,844	**-**	-
Depreciation and amortization	**58,592**	54,251	**60,639**	57,878
Deferred income tax and social contribution	**(876)**	(10,488)	**(695)**	(10,378)
Exchange losses on investments	**7,774**	-	**7,774**	-
Gain on sale and write-off of investment	**2,817**	(1,504)	**-**	-
Real estate – residual value after write-down	**4,474**	4,084	**12,322**	16,199
Intangible – residual value after write-down	**30**	456	**37**	4,758
Impairment of fixed assets	**4,733**	-	**4,733**	-
Provision for losses / Specific reversal	**-**	-	**(3,270)**	(11,793)
Stock option or subscription plan	**6,368**	5,283	**6,368**	5,283
Estimated losses on doubtful receivables	**3,290**	1,923	**2,615**	1,490
Punctuality discount estimated	**2,822**	730	**2,833**	737
Estimated losses for obsolete inventories	**1,608**	3,605	**1,114**	3,996
Provision for labor risks	**(1,366)**	565	**(1,910)**	312
Provision for losses in subsidiary	**5,461**	(5,430)	**-**	-
Interest expenses on borrowings	**2,958**	3,967	**3,355**	9,027
Interest income on financial investments	**(163,876)**	(204,851)	**(163,876)**	(204,851)
Foreign exchange variations, net	**4,604**	(22,536)	**5,139**	(30,049)
	625,163	537,391	**598,081**	476,564
Changes in assets and liabilities:				
Trade receivables	**(107,683)**	73,127	**(94,840)**	91,811
Inventories	**(23,455)**	(12,616)	**(19,735)**	(3,180)
Other receivables	**10,221**	5,215	**11,916**	15,767
Trade payables	**(4,578)**	1,740	**(4,664)**	(3,534)
Salaries and social security charges payable	**9,220**	(447)	**8,445**	(1,223)
Taxes and contributions	**(617)**	4,007	**(778)**	2,624
Income tax and social contribution payable	**(1,155)**	(6,151)	**(1,135)**	(6,148)
Advances from clients	**26,970**	891	**26,787**	922
Other payables	**3,006**	(6,984)	**1,649**	(7,132)
Net cash provided by operating activities	**537,092**	596,173	**525,726**	566,471
Cash flows from investing activities:				
In investment	**(27,614)**	(56,111)	**-**	-
In property, plant and equipment	**(89,314)**	(57,903)	**(98,500)**	(59,302)
In intangible assets	**(8,891)**	(6,897)	**(8,983)**	(12,166)
Financial investments	**(3,097,100)**	(2,125,588)	**(3,097,100)**	(2,125,588)
Redemption of financial investments	**2,815,398**	1,856,314	**2,815,398**	1,856,314
Interest received	**263,767**	166,005	**263,767**	166,005
Loan to subsidiary	**(687)**	(4,936)	**-**	-
Loss on disposal of investment	**-**	-	**(46)**	-
Net cash used in investing activities	**(144,441)**	(229,116)	**(125,464)**	(174,737)
Cash flows from financing activities:				
New borrowings	**307,748**	349,822	**324,588**	531,301
Repayments of borrowings	**(305,174)**	(385,436)	**(329,828)**	(593,756)
Interest paid	**(4,067)**	(5,670)	**(4,464)**	(11,489)
Dividends paid	**(216,737)**	(183,683)	**(216,737)**	(183,683)
Interest on Equity paid	**(160,000)**	(130,000)	**(160,000)**	(130,000)
Purchase of treasury shares	**(9,837)**	(11,020)	**(9,837)**	(11,020)
Sale of treasury shares through exercise of purchase options	**5,472**	6,416	**5,472**	6,416
Loss on increase in stockholding interest	**-**	(5,415)	**-**	(125)
Net cash used in financing activities	**(382,595)**	(364,986)	**(390,806)**	(392,356)
Increase (decrease) in cash and cash equivalents	**10,056**	2,071	**9,456**	(622)
Changes in cash and cash equivalents				
At the beginning of the year	**8,184**	6,113	**20,663**	21,285
At the end of the year	**18,240**	8,184	**30,119**	20,663
Increase (decrease) in cash and cash equivalents	**10,056**	2,071	**9,456**	(622)
Item not affecting cash flow:				
Foreign exchange variations on investments	**(1,642)**	11,479	**-**	-

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

(A free translation of the original in Portuguese)

Grendene

Statement of value added
December 31, 2017 and 2016
(All amounts in thousands of reais)

	Parent company				Consolidated			
	2017		2016		2017		2016	
Revenue								
Sales of goods	**2,543,503**		2,325,840		**2,577,140**		2,360,146	
Other income /expenses	**(11,464)**		5,908		**(16,728)**		(6,466)	
Provision for impairment of trade receivables	**(3,290)**		(1,923)		**(3,477)**		(1,925)	
Provision for losses in subsidiary	**(5,461)**		(19)		**-**		-	
	2,523,288		2,329,806		**2,556,935**		2,351,755	
Inputs acquired from third parties								
Raw materials used	**(657,097)**		(584,992)		**(634,555)**		(567,323)	
Other production costs	**(3,533)**		(3,394)		**(32,469)**		(27,403)	
Materials, electricity, outsourced services and other	**(548,168)**		(509,894)		**(573,062)**		(534,334)	
Impairment and recovery of assets	**(1,608)**		(3,605)		**1,710**		(20,100)	
Impairment of fixed assets	**(4,733)**		-		**(4,733)**		-	
	(1,215,139)		(1,101,885)		**(1,243,109)**		(1,149,160)	
Gross value added	**1,308,149**		1,227,921		**1,313,826**		1,202,595	
Retentions								
Depreciation and amortization	**(56,959)**		(52,735)		**(58,994)**		(56,349)	
	(56,959)		(52,735)		**(58,994)**		(56,349)	
Net value added	**1,251,190**		1,175,186		**1,254,832**		1,146,246	
Value added received through transfer								
Equity in the results of subsidiaries	**(24,821)**		(72,844)		**-**		-	
Finance income	**309,091**		394,657		**312,528**		396,698	
Rentals	**121**		115		**121**		115	
	284,391		321,928		**312,649**		396,813	
Value added to distribute	**1,535,581**		1,497,114		**1,567,481**		1,543,059	
Distribution of value added								
Personnel								
Direct compensation	**433,397**		407,693		**445,238**		423,705	
Benefits	**53,352**		51,108		**53,553**		51,281	
Government Severance Indemnity Fund for Employees (FGTS)	**39,546**		43,017		**39,763**		43,396	
	526,295	**34.27%**	501,818	33.52%	**538,554**	**34.36%**	518,382	33.59%
Taxes and contributions								
Federal	**232,368**		209,223		**234,057**		211,054	
State	**48,449**		41,731		**49,096**		42,336	
Municipal	**733**		608		**2,475**		1,604	
	281,550	**18.34%**	251,562	16.80%	**285,628**	**18.22%**	254,994	16.53%
Third-party capital remuneration								
Interest, discounts and financial charges	**63,698**		106,347		**65,680**		117,213	
Rentals	**3,109**		2,895		**16,716**		18,515	
	66,807	**4.35%**	109,242	7.30%	**82,396**	**5.26%**	135,728	8.80%
Remuneration of own capital								
Dividends	**217,773**		191,383		**217,773**		191,383	
Interest on Equity (counted as part of total dividends)	**160,000**		160,000		**160,000**		160,000	
Profits reinvested for the year	**283,156**		283,109		**283,156**		283,109	
Non-controlling interests in profits reinvested	**-**		-		**(26)**		(537)	
	660,929	**43.04%**	634,492	42.38%	**660,903**	**42.16%**	633,955	41.08%
	1,535,581	**100%**	1,497,114	100%	**1,567,481**	**100%**	1,543,059	100%

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

1. General information

Grendene S.A. (the "Company") is a publicly-held corporation headquartered in Sobral, State of Ceará, Brazil. Its manufacturing operations are concentrated mainly in its headquarters located in the municipality of Sobral, State of Ceará. It also has industrial plants in the cities of Fortaleza and Crato in the State of Ceará, Teixeira de Freitas in the State of Bahia and Farroupilha in the State of Rio Grande do Sul.

Grendene develops, manufactures, distributes and sells footwear for various uses and for all social classes, in the male, female, child and mass market segments.

Due to the characteristics of the footwear sector, the sales volume can fluctuate during the year and a higher sales volume is expected in the second half of the year. In management's opinion, the Company's operations are not impacted by these effects to the extent that would require additional disclosures or information in the notes to the financial statements.

2. Basis of preparation and presentation of the financial statements

Accounting policies and measurement methods adopted in the preparation of the parent company and consolidated financial statements have not changed in relation to the financial statements on December 31, 2016.

a) Parent company and consolidated financial statements

At the meeting of the executive board held on February 21, 2018, the financial statements of Grendene S.A. was reviewed and revised, and their issuance was authorized.

The parent company financial statements of the Company has been prepared in accordance with accounting policies adopted in Brazil and rules of the Brazilian Securities Commission (*Comissão de Valores Mobiliários* – CVM), obeying the accounting rules stated in the Brazilian Corporation Law legislation (Law 6.406 of 1976) and also International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The Company has adopted all standards, revisions of standards and interpretations issued by IASB and that are effective for the q financial statements on December 31, 2017 and 2016.

2. Basis of preparation and presentation of the financial statements -- Continued

b) Standards and interpretations of standards not yet in effect

The standards that will be in effect for the year beginning January 1, 2018 are as follows:

- **IFRS 9 – Financial Instruments:** In July 2014, the IASB issued the final version of IFRS 9 – Financial instruments (CPC 48 – Instrumentos Financeiros), which replaces IAS 39 – Financial Instruments: Recognition and Measurement and all prior versions of IFRS 9. IFRS 9, which is effective for accounting periods beginning on or after January 1, 2018, brings together three aspects of accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

- **IFRS 15 – Revenue from contracts with customers:** IFRS 15 (CPC 47 – Revenue from contracts with customers), issued in May 2014 and altered in April 2016, establishes a five step model for accounting for revenues arising from contracts with clients. Under IFRS 15, revenue is recognized at an amount which reflects the consideration to which an entity expects to be entitled in exchange for transfer of goods or services to a client.

- **IFRS 2 – Share-based payment – Alteration to IFRS 2:** The IASB issued alterations to IFRS 2 – Share-based payment – relating to 3 main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of share-based payment transactions with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for accounting periods beginning on or after January 1, 2018. The Company plans to adopt the new form on the effective date, and does not foresee any significant impact on its financial statements arising from these changes.

2. Basis of preparation and presentation of the financial statements -- Continued

c) New accounting rules and interpretations not yet adopted

Some accounting pronouncements (new, or revisions of pronouncements currently in force) have been revised by the IASB, and have not yet come into effect for the business year ended December 31, 2017:

IFRS	Corresponding CPC	Effective
IFRS 16 – *Leases*	CPC 06 (R2)	2019
IFRIC Interpretation 23 – *Uncertainty over Income Tax Treatments*	In preparation	2019
IFRS 17 – *Insurance Contracts*	In preparation	2021

The rules, amendments to rules and interpretations of IFRS standards are effective for accounting periods indicated in the above table. The Company's prior assessment is that they will not result in any impact on the financial statements.

There are no other rules and interpretations issued and not yet adopted which, in the opinion of Management, could have a material effect on the profit or net equity reported by the Company.

3. Consolidated financial statements

The consolidated financial statements include the operations of the Company and its subsidiaries, as follows:

	Country	Percentage of interest	
		2017	2016
Direct investment			
Grendene Argentina S.A.	Argentina	-	95.00%
MHL Calçados Ltda.	Brazil	99.998%	99.998%
Grendene USA, Inc.	USA	100.00%	100.00%
Grendene UK Limited.	United Kingdom	100.00%	100.00%
A3NP Indústria e Comércio de Móveis S.A.	Brazil	100.00%	100.00%
Indirect investment			
Grendene New York, L.L.C. (through Grendene USA, Inc.)	USA	100.00%	100.00%
Grendene Italy, S.R.L. (through Grendene UK Limited.)	Italy	100.00%	100.00%
Z Plus EUR Company S.R.L. (through A3NP Indústria e Comércio de Móveis S.A.)	Italy	100.00%	100.00%

3. Consolidated financial statements--Continued

The main characteristics of the subsidiaries included in the consolidation are as follows:

- **Grendene Argentina S.A.:** this company is primarily engaged in trading footwear for local market supply purposes. This company was sold as per a Purchase and sale agreement entered into on June 9, 2017.

- **MHL Calçados Ltda.:** its main objectives are the manufacture and trading of footwear.

- **Grendene USA, Inc.:** its main objective is to act as a sales representative by trading and distributing the Company's products in the North American market. It is the parent company of Grendene New York, L.L.C., a company headquartered in the USA, which operates in the same segment.

- **Grendene UK Limited:** its main objective is to act as a sales representative by trading and distributing the Company's products. It is the parent company of Grendene Italy S.R.L., a company headquartered in Italy, which operates in the same segment.

- **A3NP Indústria e Comércio de Móveis S.A.:** its purposes are to manufacture, sell, import and export of furniture and supplements made from plastic. It is the parent company of Z Plus EUR Company S.R.L., a company headquartered in Italy, which operates in the same segment.

There were no investments in associates or joint ventures at December 31, 2017 and 2016.

The financial year of the subsidiaries included in the consolidation coincide with those of the parent company and the accounting policies were uniformly applied in the subsidiaries and were consistent with international financial reporting standards.

The main consolidation procedures are:

- Elimination of intercompany asset and liability accounts;
- Elimination of equity interests, reserves and retained earnings of consolidated companies; and
- Elimination of intercompany revenues and expenses, as well as of unrealized profits from intercompany transactions.

4. Accounting policies

a) Revenue recognition

Revenue is recognized when the amount can be reliably measured and it is probable that future economic benefits will flow to the Company and its subsidiaries. Revenue is measured based on the fair value of the consideration received, net of discounts, rebates and taxes or charges on sales. The Company evaluates revenue transactions in accordance with specific criteria in order to determine if it is acting as agent or principal and ultimately concluded that it has been acting as principal in all its revenue contracts. Revenue is not recognized when there is significant uncertainty about its realization. Revenues and expenses are recognized on the accrual basis.

a.1) *Sales revenue*

The revenue from the sale of products is recognized when all the risks and rewards inherent to the product have been transferred to the buyer and the Company and its subsidiaries no longer have control over, or responsibility for, the product sold.

a.2) *Financial income*

Interest income is recognized as financial income using the effective interest rate method.

b) Translation of balances denominated in foreign currency

b.1) *Functional and presentation currency of the financial statements*

The Company's functional currency is the Brazilian Real, which is the currency also utilized for the preparation and presentation of the parent company and consolidated financial statements. The financial statements of each subsidiary included in the consolidation, as well as those utilized as a basis to account for investments under the equity method, are prepared based on the functional currency of each entity. For subsidiaries located abroad which management has concluded have administrative, financial and operational independence, assets and liabilities are translated into Reais at the period-end exchange rate and the results are calculated at the average monthly exchange rates for the years.

4. **Accounting policies**--Continued

b) Translation of balances denominated in foreign currency--Continued

b.2) *Transactions denominated in foreign currency*

In the parent company financial statements, subsidiaries are accounted for using the equity method, and their results are recognized in proportion to the Company's investment, as "equity in the results of subsidiaries". Adjustments to the investment account arising from foreign exchange variation are recognized in the Company's equity, as carrying value adjustments. For consolidation purposes, the financial statements of these subsidiaries are included in the consolidated financial statements and adjustments arising from foreign exchange variation on assets and liabilities denominated in U.S. dollars, Argentinean Pesos, Pound Sterling and Euro are recognized in consolidated equity, as carrying value adjustments.

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency (Real) at the exchange rate in effect at the end of the reporting period. Gains and losses resulting from the remeasurement of these assets and liabilities, at the exchange rate in effect at the transaction date and at the end of the periods, are recognized as financial income or expenses in the statement of income.

c) Financial instruments

Financial instruments are only recognized when the Company or its subsidiaries become parties to the contractual provisions of the instruments. Financial instruments are initially recognized at fair value, plus transaction costs directly attributable to their acquisition or issue, except for financial assets and liabilities classified as "at fair value through profit or loss", when these costs are recognized directly in the results.

Subsequent measurement

Financial instruments are subsequently measured, at each reporting date, in accordance with the rules established for each category of financial assets and liabilities.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.1) *Financial assets*

Financial assets are classified in the categories below in accordance with the purpose for which they are acquired or issued:

a) Financial assets at fair value through profit or loss: an instrument is classified as at fair value through profit or loss when it is held for trading, that is, designated as such an initial recognition. Financial assets are classified as held for trading if acquired for sale or repurchase in the short-term. Derivatives are also categorized as held for trading. At the end of each reporting period, the assets are measured at fair value. Interest, monetary restatements, foreign exchange variations and variations arising from fair value measurements are recognized in the results when incurred.

b) Held-to-maturity investments: non-derivative financial assets with fixed or determinable payments and defined maturities for which the Company has the positive intent and ability to hold to maturity. After initial recognition they are measured at amortized cost using the effective interest rate method, less any impairment. Interest, monetary restatement and foreign exchange variation are recognized in profit or loss when incurred.

c) Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interests, monetary restatement, foreign exchange variation, less impairment, where applicable, are recognized immediately in profit or loss, as finance income or expenses.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.1) *Financial assets*--Continued

d) Available-for-sale financial assets: where applicable, are included in this classification the financial assets that dot not qualify for categories c.1a, c.1b. and c.1c above. Subsequent to initial recognition, they are measured at fair value and their fluctuations, except any impairment, as well as foreign currency differences of these instruments are recognized directly in equity, net of tax effects. These tax effects are recognized against a deferred income tax and social contribution asset/liability. When an investment is derecognized, the gain or loss accumulated in equity is transferred to the results.

The main financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents, financial investments, trade receivables and derivatives.

c.2) *Financial liabilities*

Financial liabilities are classified in the categories below in accordance with the purpose for which they are contracted or issued:

a) Financial liabilities at fair value through profit or loss: these include financial liabilities usually traded before maturity, liabilities designated at initial recognition at fair value through profit or loss and derivatives. At the end of each reporting period, they are measured at fair value. Interest, monetary restatement, foreign exchange variation and variations arising from fair value measurement, when applicable, are recognized immediately in profit or loss.

b) Financial liabilities measured at amortized cost: non-derivative financial liabilities that are not usually traded before maturity. After initial recognition they are measured at amortized cost, using the effective interest rate method. Interest, monetary restatement and foreign exchange variation, when applicable, are recognized immediately in profit or loss.

The main financial liabilities recognized by the Company and its subsidiaries are: borrowings, trade payables and commissions payable.

4. **Accounting policies**--Continued

c) Financial instruments--Continued

c.3) *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

c.4) *Market value*

The fair values of financial instruments actively traded in organized markets are determined based on quoted market prices at the end of the reporting period. In the absence of an active market, the fair value is determined by using valuation techniques. These techniques include the use of recent market transactions between independent parties, discounted cash flow analysis or other valuation methods. The financial instruments and their respective fair values are disclosed in Note 19.a.

c.5) *Impairment of financial instruments*

Financial assets that are not classified at fair value through profit or loss are tested annually for impairment. Financial assets are considered impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset.

c.6) *Derivative financial instruments and hedging activities*

The Company operates with derivative financial instruments, mainly hedging transactions. Derivative instruments are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Although the Company uses derivatives for hedging purposes protection, it does not adopt the hedge accounting practice.

The fair values of derivative instruments used for hedging purposes are disclosed in Note 19.b. The Company does not have speculative derivatives.

4. Accounting policies--Continued

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and financial investments redeemable within 90 days from the investment date, and with immaterial risk of change in value. Financial investments included in cash equivalents are mostly classified as "financial assets at fair value through profit or loss" (Note 6).

e) Financial investments

The classification of financial investments depends on the purpose for which the investment was acquired and it is measured, according to the category, as described in Note 4.c.1. Where applicable, costs directly attributable to the acquisition of a financial asset are added to the amount originally recognized.

f) Trade receivables

Trade receivables are stated at realizable values, and trade receivables in the foreign market are remeasured at the exchange rates in effect at the reporting date.

Provisions have been made, in amounts considered sufficient by management, for estimated losses due to impairment of trade receivables and for the estimated total prompt payment discounts. The criterion for constitution of the provision for impairment of trade receivables takes into consideration the analysis of credit risks of customers who have receivables overdue for more than 180 days, not considering those that have court or out-of-court settlements or guarantees.

The prompt payment discounts is made the estimated amount of discounts to be granted on trade receivables for payment of trade notes on due dates, and is recorded in Sales deductions.

Information related to the breakdown of trade receivables into amounts not yet due and past due is included in Note 8.

g) Inventories

Inventories are stated at average acquisition or production cost, which does not exceed their net realizable values. Net realizable value is calculated as the sales price in the normal course of business, less costs to be incurred make the sale.

4. Accounting policies--Continued

g) Inventories--Continued

Estimated losses for obsolete inventories (in good condition, but no longer of use for the Company's business) are recorded taking into consideration the history of resale of these inventories, in which the Company recovers part of the cost, resulting in an average percentage of non-recovery which is applied to the balance of inventories classified as slow-moving or obsolete. The Company's management considers that the provision recorded is sufficient to cover losses arising from slow-moving or obsolete inventories.

h) Investments

In the parent company financial statements, investments in subsidiaries are accounted for using the equity method. Other investments are stated at cost and adjusted to market value, where applicable.

Upon the acquisition of the investment, any differences between the investment cost and the portion of the investor in the net fair value of the identifiable assets and liabilities of the subsidiary must be recorded as goodwill.

i) Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition or construction. Cost includes expenditure that is directly attributable to the acquisition of the items. The depreciation of assets is calculated using the straight-line method at the rates mentioned in Note 12 and takes into consideration the estimated useful lives of assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year. Property, plant and equipment are recognized net of the Social Integration Program (PIS), Social Contribution on Revenues (COFINS) and Value-added Tax on Sales and Services (ICMS) credits, which are recorded in taxes recoverable.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Group and they can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the profit and loss income during the financial period in which they are incurred.

The carrying amount of property, plant and equipment items is reviewed whenever events or changes in circumstances indicate that the amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped in CGUs.

4. Accounting policies--Continued

j) Intangible assets

Intangible assets refer to separately acquired intangible assets, which are initially recognized at acquisition cost and, subsequently, less accumulated amortization. The Company's intangible assets have finite useful lives. Amortization is calculated using the straight-line method at the rates mentioned in Note 13.

Goodwill represents the excess of the cost of an acquisition over the net fair value of assets and liabilities of the acquired entity. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets" in the consolidated financial statements.

The carrying amount of an intangible asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped in CGUs.

k) Other assets and liabilities

Assets and liabilities are classified as current when it is probable that their realization or settlement will occur within the next twelve months. Otherwise, they are presented as non-current.

l) Taxation

l.1) *Current income tax and social contribution*

Current tax assets and liabilities for the period and prior years are measured at the expected amount recoverable from or payable to the tax authorities. The tax rates and tax laws used to calculate the amount are those enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income.

l.2) *Deferred income tax and social contribution*

The book profit is adjusted for temporarily non-deductible expenses or temporarily non-taxable income in order to calculate current taxable income, thereby generating deferred tax assets or liabilities. Amounts relating to the impacts of deferred tax assets and liabilities are recognized and classified in non-current assets and/or liabilities.

Deferred tax assets relating to temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. **Accounting policies**--Continued

l) Taxation--Continued

l.2) *Deferred income tax and social contribution*--Continued

Deferred taxes are reviewed at the end of each reporting period and, if necessary, a provision for loss is recognized when it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred taxes are assessed at the rate that is expected to be applicable in the business year in which the asset will be realized or the liability settled, based on the rates (and tax legislation) in effect at the reporting date.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset the current tax asset against the current tax liability, and if they are related to taxes administered by the same tax authority with respect to the same taxable entity.

m) Government grants for investments

Tax incentives correspond to: *(i)* reduction of 75% in income tax levied on profits of the business in the states of Ceará and Bahia, calculated based on operating profit; and *(ii)* ICMS tax incentives related to operating activities located in such states (Note 17).

Government grants are recognized when there is reasonable assurance that the conditions established in the agreements were fulfilled. They are recognized as revenue in the profit and loss income over the period necessary to match the expense that the government grant intends to compensate and, subsequently, they are transferred to the revenue reserve, within "Tax incentives" in equity. The amounts from state incentives may have different applications, as provided for by Law 11,941 of May 27, 2009.

n) Share-based payments

The Company's directors and managers receive compensation in the form of a share-based payment (grant of share purchase options), in which employees render services in exchange for equity instruments ("equity-settled transactions").

4. Accounting policies--Continued

n) Share-based payments--Continued

The cost of equity-settled transactions with employees, and of options granted, is measured based on the fair value at the grant date. The Company uses pricing and valuation techniques to determine fair value.

The cost of equity-settled transactions is recognized, together with a corresponding credit in equity, over the period in which the performance and/or service condition are fulfilled, ending on the date in which the employee is fully entitled to exercise the option (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity securities to be acquired. The expense in the statement of income account for the period is recognized in "personnel expenses" and represents the change in the cumulative expenses recognized at the beginning and end at the period, as presented in Note 21.

The effect of outstanding options on diluted earnings per share is disclosed in Note 16.g.

o) Segment information

The segments of the Company and its subsidiaries are as follows: *(i)* production and sale of synthetic footwear for domestic and foreign markets and *(ii)* sale, import and export of furniture and supplements made from plastic. Segment information is presented in Note 23.

p) Adjustment of assets and liabilities to present value

Current monetary assets and liabilities are adjusted to present value when the effect is considered material in relation to the financial statements taken as a whole. At December 31, 2017 and 2016, only trade receivables transactions were considered material and adjusted to their present values. There were no other current or non-current components that required adjustment to present value. The adjustment to present value is calculated considering the cash flows of the transactions and the implicit interest rates of the related assets.

4. Accounting policies--Continued

p) Adjustment of assets and liabilities to present value--Continued

Therefore, interest embedded in revenues is discounted in order to recognize it in conformity with the accrual basis of accounting. This interest is subsequently reallocated to financial income, in the statement of income, using the effective interest rate method in relation to the contractual cash flows. The implicit interest rates applied were determined based on assumptions and are considered accounting estimates.

q) Accounting judgments, estimates and assumptions

The preparation of the financial statements of the Company and its subsidiaries requires management to make judgments and estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the reporting date. However, the uncertainty related to these assumptions and estimates could lead to results that would require a significant adjustment to the carrying amount of the respective asset or liability in future periods. The areas involving a higher degree of judgment, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

r) Borrowings

Borrowings are stated at contractual amounts, plus agreed-upon charges including interest and monetary restatement or foreign exchange variations. After initial recognition they are measured at amortized cost, using the effective interest rate method.

s) Provisions

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 can be reliably estimated. When a provision is expected to be fully or partially reimbursed, for example, in connection with an insurance contract, the reimbursement is recognized as a separate asset, but only when the receipt is virtually certain. The expense related to any provision is presented in the statement of income, net of any reimbursement.

4. Accounting policies--Continued

t) Presentation of the statements of cash flows and value added

The statements of cash flows were prepared in accordance with the indirect method and are presented in accordance with technical pronouncement CPC 03 – R2 (IAS 7) – Statement of Cash Flows. Changes in financial investments are shown in investing activities. The statement of value added was prepared in accordance with technical pronouncement CPC 09 – Statement of Value Added.

u) Treasury shares

The Company's own equity instruments that are repurchased (treasury shares) are recorded at cost, as a reduction of equity. No gain or loss is recognized in the statement of income account on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration received on sale is recognized in capital or revenue reserves.

5. Accounting estimates and assumptions

The main assumptions related to sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the end of the reporting period, involving a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period, are presented below.

Impairment of non-financial assets: An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available information on sales of similar assets or market prices, reduced of costs incurred to carry out the sale. The value-in-use calculation is based on the discounted cash flow model. Cash flows derive from estimates of results for the following five periods and do not include restructuring activities to which the Company is not yet committed or significant future investments that will improve the asset base of the cash generating unit subject to test. The recoverable amount is influenced by the discount rate used under the discounted cash flow method, as well as by the expected future cash receipts and the growth rate used for extrapolation purposes.

5. Accounting estimates and assumptions--Continued

Taxes: Tax regulations in Brazil are complex, which raises uncertainties as to their interpretation and to the amount and timing of future taxable profits. Accordingly, any differences between actual results and assumptions adopted, or future changes in these assumptions, could require future adjustments to tax credits and expenses already recognized. The Company did not recognize a provision in this respect based on several factors, such as experience of past tax audits, diverging interpretations of tax regulations, and systematic assessments carried out jointly by the Company's management and its tax advisors.

Fair value of financial instruments: When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. The data for these methods are based on those practiced in the market, whenever possible. However, when this is not possible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on data utilized, such as liquidity risk, credit risk and volatility. Changes in assumptions concerning these factors could affect the reported fair value of the financial instruments.

Provisions for labor, tax and civil risks: The assessment of the likelihood of loss includes evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their importance in the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to take into consideration 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.

Other significant items subject to estimates include: the selection of useful lives of property, plant and equipment and intangible assets; estimated losses on doubtful receivables; punctuality discounts estimated; estimated losses for obsolete inventory; deferred income tax and social contribution; rates and periods used to determine the present value adjustment of certain assets and liabilities; fair value of share-based payment; and financial instrument sensitivity analyses.

6. Cash and cash equivalents

	Parent company		Consolidated	
	2017	2016	2017	2016
Cash and banks	**3,200**	3,433	**5,085**	6,485
Financial investments	**15,040**	4,751	**25,034**	14,178
	18,240	8,184	**30,119**	20,663

Cash and banks are represented by non-interest-bearing bank deposits. Financial investments classified as cash equivalents refer to short-term investments redeemable no later than three months from the acquisition date.

7. Financial investments

	Parent company /Consolidated	
	2017	2016
Securities at fair value through profit or loss	**836,254**	483,659
Held-to-maturity investments	**914,272**	1,085,056
	1,750,526	1,568,715
(-) Total current assets	**(1,537,477)**	(1,288,070)
Total non-current assets	**213,049**	280,645

The Company's financial investments comprise the following components:

	Index	Return	Parent company / Consolidated	
			2017	2016
Indexed	CDI	101.51% and 104.99%	**1,456,395**	1,048,347
Fixed-rate and indexed	IPCA +	6.43% p.y.	**294,131**	336,860
Fixed-rate and indexed	IGPM +	6.25% p.y.	**-**	62,688
Fixed-rate		14.24% p.y.	**-**	120,820
			1,750,526	1,568,715

Financial investments comprise: Bank Deposit Certificates (CDBs), Debentures, Real-denominated Bank Debt Notes (LFINs), Government Debt Securities (NTNs) and Letter Leasing Mercantile (LAM), and are classified as "Securities at fair value through profit or loss", and "Held-to-maturity investments", according to the Company's investment strategy.

8. Trade receivables

	Parent company		Consolidated	
	2017	2016	2017	2016
Not yet due	**870,991**	768,592	**860,988**	768,691
Overdue for up to 30 days	**13,776**	10,108	**13,999**	11,394
Overdue from 31 to 60 days	**2,827**	2,119	**3,719**	3,193
Overdue from 61 to 90 days	**541**	1,299	**822**	1,661
Past due for more than 91 days	**20,685**	21,475	**22,106**	24,310
	908,820	803,593	**901,634**	809,249
Estimated losses on doubtful receivables	**(10,186)**	(6,896)	**(10,549)**	(7,934)
Punctuality discounts estimated	**(27,907)**	(25,085)	**(27,943)**	(25,110)
Adjustment to Present Value (AVP)	**(12,796)**	(15,252)	**(12,797)**	(15,252)
	857,931	756,360	**850,345**	760,953

At December 31, 2017 and 2016, the average collection periods for the domestic market are 89 and 90 days, respectively, and for the foreign market are 75 and 81 days, respectively.

There are no liens, pledges and/or restrictions to the trade receivables amounts.

The constitutions of estimated losses for doubtful accounts on securities due by maturity were as follows:

	Parent company			
	2017		2016	
	Balance	Provision	Balance	Provision
Not yet due	**870,991**	**-**	768,592	-
Overdue for up to 30 days	**13,776**	**-**	10,108	-
Overdue from 31 to 60 days	**2,827**	**(4)**	2,119	(53)
Overdue from 61 to 90 days	**541**	**(30)**	1,299	(106)
Past due for more than 91 days	**20,685**	**(10,152)**	21,475	(6,737)
	908,820	**(10,186)**	803,593	(6,896)

	Consolidated			
	2017		2016	
	Balance	Provision	Balance	Provision
Not yet due	**860,988**	**-**	768,691	-
Overdue for up to 30 days	**13,999**	**-**	11,394	-
Overdue from 31 to 60 days	**3,719**	**(4)**	3,193	(53)
Overdue from 61 to 90 days	**822**	**(30)**	1,661	(106)
Past due for more than 91 days	**22,106**	**(10,515)**	24,310	(7,775)
	901,634	**(10,549)**	809,249	(7,934)

8. Trade receivables--Continued

The changes in the estimated losses on doubtful receivables were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Balance at the beginning of the year	**(6,896)**	(4,973)	**(7,934)**	(6,444)
Additions	**(11,887)**	(9,667)	**(12,272)**	(9,895)
Realizations	**7,647**	6,164	**7,861**	6,280
Reversals	**1,285**	1,580	**2,170**	1,700
Exchange variation	**(335)**	-	**(374)**	425
Balance at the end of the year	**(10,186)**	(6,896)	**(10,549)**	(7,934)

The changes in the punctuality discounts estimated were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Balance at the beginning of the year	**(25,085)**	(24,355)	**(25,110)**	(24,373)
Additions	**(94,773)**	(85,518)	**(94,897)**	(85,621)
Realizations	**77,785**	68,948	**77,901**	69,039
Reversals	**14,166**	15,840	**14,163**	15,845
Balance at the end of the year	**(27,907)**	(25,085)	**(27,943)**	(25,110)

9. Inventories

	Parent company		Consolidated	
	2017	2016	2017	2016
Footwear	**47,599**	46,208	**68,242**	68,681
Furniture	**-**	-	**-**	175
Inputs and components	**51,880**	41,005	**51,965**	41,179
Raw materials	**72,863**	63,584	**72,921**	63,670
Packaging materials	**14,262**	12,196	**14,279**	12,223
Intermediate and other materials	**30,124**	31,018	**30,222**	31,118
Goods for resale	**761**	1,258	**810**	1,324
Molds and tooling	**19,698**	18,758	**19,698**	18,758
Advances to suppliers	**11,606**	8,508	**11,606**	8,508
Imports in transit	**7,792**	8,989	**7,792**	8,989
Inventories held by third parties	**15,317**	16,923	**15,317**	18,492
Estimated losses for obsolete inventories	**(13,585)**	(11,977)	**(13,585)**	(12,471)
	258,317	236,470	**279,267**	260,646

The changes in the estimated losses for obsolete inventories were as follows:

9. Inventories--Continued

	Parent company		Consolidated	
	2017	2016	2017	2016
Balance at the beginning of the year	**(11,977)**	(8,372)	**(12,471)**	(8,475)
Additions	**(51,233)**	(14,935)	**(51,233)**	(15,601)
Realizations	**10,167**	3,665	**10,688**	3,665
Reversals	**39,458**	7,665	**39,458**	7,936
Exchange variation	**-**	-	**(27)**	4
Balance at the end of the year	**(13,585)**	(11,977)	**(13,585)**	(12,471)

There are no liens, pledges and/or restrictions to the full utilization of the inventories.

10. Tax credits

	Parent company		Consolidated	
	2017	2016	2017	2016
Withholding Income Tax (IRRF)	**39,981**	20,737	**40,172**	20,940
Excise tax (IPI) recoverable	**491**	281	**728**	568
Value-added Tax on Sales and Services (ICMS) recoverable	**3,863**	3,235	**5,860**	5,317
Social Integration Program (PIS) recoverable	**51**	64	**87**	122
Social Contribution on Revenues (COFINS) recoverable	**236**	294	**402**	559
INSS recoverable	**3,713**	15	**3,713**	29
Withholding Income Tax (IRRF)	**-**	-	**892**	2,345
Provision for losses	**-**	-	**(262)**	-
	48,335	24,626	**51,592**	29,880
(-) Total current assets	**(47,553)**	(24,093)	**(50,810)**	(29,347)
Total non-current assets	**782**	533	**782**	533

a) IRRF

IRRF refers to withholding income tax on the redemption of financial investments, These credits are realizable through the offset against federal taxes and contributions.

b) ICMS and IPI recoverable

The balances were generated from sales transactions and can be offset against taxes of the same nature.

c) PIS and COFINS recoverable

Refer to PIS and COFINS balances to be offset against federal taxes and contributions.

10. Tax credits--Continued

d) National Institute of Social Security (INSS) recoverable

The Company reported a positive item of R$ 3,698 in its profit and loss account for 2017 (R$ 2,832 in Other operational revenues and R$ 866 in Financial expenses) for a credit recognized by a final court judgment, against which there is no further appeal, in a tax legal action on the question of requirement to pay the Social Security Contribution on gross revenue from sales made in the Free Trade Zone. In the 2018 business year the amount of taxes of the same nature will be offset by this amount.

11. Investments

a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Subsidiaries	**50,707**	49,424	**-**	-
Unrealized profits in subsidiaries	**(3,938)**	(4,273)	**-**	-
Other investments	**412**	412	**412**	412
	47,181	45,563	**412**	412

b) Changes in investments

The changes in investments are as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Balance at the beginning of the year	**45,563**	66,856	**412**	412
Addition – Grendene Argentina S.A.	**734**	8,694	**-**	-
Capital increase in subsidiary	**26,880**	47,417	**-**	-
Equity in the results of subsidiaries	**(24,821)**	(72,844)	**-**	-
Exchange differences on subsidiaries abroad	**1,642**	(11,479)	**-**	-
Write-off FX differences in subsidiaries – A3NP	**(1,231)**	1,504	**-**	-
Gain on increase in stockholding interest	**-**	5,415	**-**	-
Disposal of investment – Grendene Argentina S.A.	**(1,586)**	-	**-**	-
Balance at the end of the year	**47,181**	45,563	**412**	412

11. Investments--Continued

b) Changes in investments--Continued

The capital increases in subsidiaries in the table above refer to:

		Foreign currency		Brazilian currency	
		2017	2016	2017	2016
Grendene USA, Inc.	US$	**6,200**	3,050	**19,850**	10,290
Grendene UK Limited.	EUR	**1,745**	1,680	**7,030**	8,242
A3NP Indústria e Comércio de Móveis S.A.		**-**	-	**-**	28,885
		7,945	4,730	**26,880**	47,417

c) Summarized financial information of direct and indirect subsidiaries (consolidated)

	Grendene Argentina S.A. (*) (***)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (*) (**)		A3NP Indústria e Comércio de Móveis S.A. (**)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current assets	**-**	9,890	**13,823**	13,404	**27,455**	31,268	**10,536**	8,549	**144**	2,791
Non-current assets	**-**	222	**651**	859	**16,478**	8,446	**7,986**	8,062	**-**	3,702
Total assets	**-**	10,112	**14,474**	14,263	**43,933**	39,714	**18,522**	16,611	**144**	6,493
Current liabilities	**-**	8,678	**288**	382	**18,078**	15,080	**5,755**	5,866	**10**	1,577
Non-current liabilities	**-**	-	**189**	180	**910**	1,018	**1,002**	-	**5,614**	4,935
Total liabilities	**-**	8,678	**477**	562	**18,988**	16,098	**6,757**	5,866	**5,624**	6,512
Equity of subsidiaries	**-**	1,434	**13,997**	13,701	**24,945**	23,616	**11,765**	10,745	**(5,480)**	(19)
Percentage of interest	**-**	95.00%	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	100.00%	**100.00%**	100.00%
Interest in equity (investment)	**-**	1,362	**13,997**	13,701	**24,945**	23,616	**11,765**	10,745	**-**	-

11. Investments--Continued

c) Summarized financial information of direct and indirect subsidiaries (consolidated)--Continued

	Grendene Argentina S.A. (*) (***)		MHL Calçados Ltda.		Grendene USA, Inc. (*) (**)		Grendene UK Limited (*) (**)		A3NP Indústria e Comércio de Móveis S.A. (**)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	**31**	1,785	**4,161**	3,879	**42,780**	44,578	**17,333**	13,542	**5,138**	1,651
Costs and expenses	**(564)**	(12,531)	**(3,865)**	(3,546)	**(61,656)**	(62,127)	**(24,633)**	(24,356)	**(9,368)**	(37,906)
Profit (loss) of the subsidiaries for the year	**(533)**	(10,746)	**296**	333	**(18,876)**	(17,549)	**(7,300)**	(10,814)	**(4,230)**	(36,255)
Percentage of interest	**95.00%**	95.00%	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	100.00%	**100.00%**	100.00%
Equity in the results of subsidiaries	**(507)**	(10,209)	**296**	333	**(18,876)**	(17,549)	**(7,300)**	(10,814)	**1,231**	(36,236)
Unrealized profits	**-**	11	**-**	-	**391**	1,594	**(56)**	26	**-**	-
Total equity in results of subsidiaries	**(507)**	(10,198)	**296**	333	**(18,485)**	(15,955)	**(7,356)**	(10,788)	**1,231**	(36,236)
Losses in subsidiary	-	-	**-**	-	**-**	-	**-**	-	**(5,461)**	(19)
Net cash provided by (used in) operating activities	-	23,268	**583**	584	**(11,863)**	(11,407)	**(6,314)**	(8,459)	**(1,310)**	(6,649)
Net cash provided by (used in) investing activities	-	-	**(9)**	(5)	**(9,152)**	(1,486)	**(116)**	(150)	**-**	(5,027)
Net cash provided by (used in) financing activities	-	(23,508)	-	-	**19,849**	10,290	**7,030**	8,241	**678**	12,402
Increase (decrease) in cash and cash equivalents	-	(240)	**574**	579	**(1,166)**	(2,603)	**600**	(368)	**(632)**	726

(*) Review by other independent auditors.
(**) Amount consolidated in the subsidiary Grendene USA Inc, and indirect subsidiary Grendene New York L.L.C.;
Amount consolidated in the subsidiary Grendene UK Limited and indirect subsidiary Grendene Italy, S.R.L.; and
Amount consolidated in the subsidiary A3NP Indústria e Comércio de Móveis S.A. and indirect subsidiary Z Plus EUR Company S.R.L..
(***) On April 27, 2017 a meeting of the Board of Directors approved the sale of the Company's interest in subsidiary Grendene Argentina S.A. On June 9, 2017, a Share purchase and sale agreement was executed, assigning and transferring all of its interest in the Company's capital for a total agreed price of R$778, resulting in a loss in P&L for the period of R$808.

12. Property, plant and equipment

	Parent Company 2017						
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
Cost of PPE							
At the beginning of the year	334,594	343,152	24,496	33,137	21,833	5,692	762,904
Purchases	**662**	**43,780**	**3,864**	**4,704**	**36,237**	**67**	**89,314**
Disposals	**(10)**	**(11,310)**	**(337)**	**(1,473)**	**(2,326)**	**(11)**	**(15,467)**
Transfers	**14,356**	**12,111**	**490**	**70**	**(26,561)**	**(466)**	**-**
Loss on impairment (**)	**(9,682)**	**-**	**-**	**-**	**-**	**-**	**(9,682)**
At the end of the year	**339,920**	**387,733**	**28,513**	**36,438**	**29,183**	**5,282**	**827,069**
Accumulated depreciation(*)	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	**-**
At the beginning of the year	(169,107)	(181,308)	(12,427)	(21,244)	-	(2,678)	(386,764)
Depreciation	**(17,095)**	**(25,198)**	**(2,032)**	**(4,396)**	**-**	**(576)**	**(49,297)**
Disposals	**-**	**9,426**	**209**	**1,347**	**-**	**11**	**10,993**
Transfers	**15**	**(26)**	**(19)**	**4**	**-**	**26**	**-**
Loss on impairment (**)	**4,949**	**-**	**-**	**-**	**-**	**-**	**4,949**
At the end of the year	**(181,238)**	**(197,106)**	**(14,269)**	**(24,289)**	**-**	**(3,217)**	**(420,119)**
Net book value							
At 12/31/2016	165,487	161,844	12,069	11,893	21,833	3,014	376,140
At 12/31/2017	**158,682**	**190,627**	**14,244**	**12,149**	**29,183**	**2,065**	**406,950**

	Parent Company 2016						
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
Cost of PPE							
At the beginning of the year	322,681	326,278	22,867	27,883	15,496	4,847	720,052
Purchases	263	26,190	1,211	6,263	22,985	991	57,903
Disposals	(598)	(11,097)	(112)	(991)	(2,107)	(146)	(15,051)
Transfers	12,248	1,781	530	(18)	(14,541)	-	-
At the end of the year	334,594	343,152	24,496	33,137	21,833	5,692	762,904
Accumulated depreciation (*)	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	**-**
At the beginning of the year	(153,268)	(168,427)	(10,633)	(18,151)	-	(2,206)	(352,685)
Depreciation	(16,084)	(22,503)	(1,866)	(4,022)	-	(571)	(45,046)
Disposals	247	9,628	64	929	-	99	10,967
Transfers	(2)	(6)	8	-	-	-	-
At the end of the year	(169,107)	(181,308)	(12,427)	(21,244)	-	(2,678)	(386,764)
Net book value							
At 12/31/2015	169,413	157,851	12,234	9,732	15,496	2,641	367,367
At 12/31/2016	165,487	161,844	12,069	11,893	21,833	3,014	376,140

12. Property, plant and equipment--Continued

	Consolidated 2017						
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
Cost of PPE							
At the beginning of the year	343,700	345,416	27,567	34,478	21,833	10,163	783,157
Purchases	**8,291**	**43,781**	**4,118**	**6,006**	**36,237**	**67**	**98,500**
Disposals	**(771)**	**(11,310)**	**(1,348)**	**(1,561)**	**(2,326)**	**(8,383)**	**(25,699)**
Transfers	**14,356**	**12,111**	**490**	**70**	**(26,561)**	**(466)**	**-**
Foreign exchange variation	**1,128**	**-**	**124**	**106**	**-**	**20**	**1,378**
Provision for losses	**-**	**-**	**-**	**-**	**-**	**4,081**	**4,081**
Loss on impairment (**)	**(9,682)**	**-**	**-**	**-**	**-**	**-**	**(9,682)**
At the end of the year	**357,022**	**389,998**	**30,951**	**39,099**	**29,183**	**5,482**	**851,735**
Accumulated depreciation(*)	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	
At the beginning of the year	(171,767)	(183,216)	(14,175)	(22,435)	-	(4,493)	(396,086)
Depreciation	**(18,386)**	**(25,384)**	**(2,340)**	**(4,596)**	**-**	**(597)**	**(51,303)**
Disposals	**214**	**9,426**	**653**	**1,422**	**-**	**1,662**	**13,377**
Transfers	**15**	**(26)**	**(19)**	**4**	**-**	**26**	**-**
Foreign exchange variation	**(373)**	**-**	**(60)**	**(40)**	**-**	**162**	**(311)**
Loss on impairment (**)	**4,949**	**-**	**-**	**-**	**-**	**-**	**4,949**
At the end of the year	**(185,348)**	**(199,200)**	**(15,941)**	**(25,645)**	**-**	**(3,240)**	**(429,374)**
Net book value							
At 12/31/2016	171,933	162,200	13,392	12,043	21,833	5,670	387,071
At 12/31/2017	**171,674**	**190,798**	**15,010**	**13,454**	**29,183**	**2,242**	**422,361**

	Consolidated 2016						
	Land, buildings, facilities and leasehold improvements	Machinery, equipment, tools and parts and replacement sets	Furniture and fittings	Data processing equipment	PPE in progress	Other	Total
Cost of PPE							
At the beginning of the year	343,752	328,542	25,658	29,431	15,496	4,919	747,798
Specific reversal	4,813	-	1,008	97	-	11,045	16,963
Purchases	918	26,190	1,469	6,266	22,985	1,474	59,302
Disposals	(14,387)	(11,097)	(498)	(1,046)	(2,107)	(2,356)	(31,491)
Transfers	12,248	1,781	530	(18)	(14,541)	-	-
Foreign exchange variation	(3,644)	-	(600)	(252)	-	(27)	(4,523)
Provision for losses	-	-	-	-	-	(4,892)	(4,892)
At the end of the year	343,700	345,416	27,567	34,478	21,833	10,163	783,157
Accumulated depreciation(*)	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	
At the beginning of the year	(159,416)	(170,108)	(12,247)	(19,410)	-	(2,279)	(363,460)
Specific reversal	(64)	-	(196)	(36)	-	(906)	(1,202)
Depreciation	(17,514)	(22,730)	(2,253)	(4,138)	-	(1,479)	(48,114)
Disposals	4,354	9,628	191	948	-	171	15,292
Transfers	(2)	(6)	8	-	-	-	-
Foreign exchange variation	875	-	322	201	-	-	1,398
At the end of the year	(171,767)	(183,216)	(14,175)	(22,435)	-	(4,493)	(396,086)
Net book value							
At 12/31/2015	184,336	158,434	13,411	10,021	15,496	2,640	384,338
At 12/31/2016	171,933	162,200	13,392	12,043	21,833	5,670	387,071

12. Property, plant and equipment--Continued

(*) The Company depreciates property, plant and equipment on the straight-line method, based on the estimated useful lives of the assets.

(**) The Company makes an annual analysis of impairment. In 2017 it identified accounting losses of R$ 4,733 for impairments of its PP&E.

Depreciation costs and expenses are recorded in the statement income, net of PIS/COFINS credits, as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of goods sold	**(42,743)**	(38,790)	**(42,927)**	(39,010)
Selling expenses	**(1,392)**	(1,443)	**(3,050)**	(2,926)
General and administrative expenses	**(3,909)**	(3,651)	**(4,062)**	(5,002)
	(48,044)	(43,884)	**(50,039)**	(46,938)

Certain property, plant and equipment items are pledged in guarantee of borrowings, as disclosed in Note 14.c.

13. Intangible assets

	Parent Company					
	2017					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
At the beginning of the year	52,819	19,316	4,374	7,992	1,387	85,888
Purchases	**1,402**	**1,406**	**-**	**1,508**	**4,575**	**8,891**
Disposals	**-**	**(2)**	**-**	**-**	**(28)**	**(30)**
Transfers	**79**	**-**	**-**	**-**	**(79)**	**-**
At the end of the year	**54,300**	**20,720**	**4,374**	**9,500**	**5,855**	**94,749**
Accumulated amortization (*)	**20%**	**10%**	**20%**	**20%**	**-**	
At the beginning of the year	(38,318)	(11,968)	(4,194)	(3,934)	-	(58,414)
Amortization	**(6,390)**	**(1,236)**	**(180)**	**(1,489)**	**-**	**(9,295)**
At the end of the year	**(44,708)**	**(13,204)**	**(4,374)**	**(5,423)**	**-**	**(67,709)**
Net book value						
At 12/31/2016	14,501	7,348	180	4,058	1,387	27,474
At 12/31/2017	**9,592**	**7,516**	**-**	**4,077**	**5,855**	**27,040**

13. Intangible assets--Continued

	Parent Company 2016					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
At the beginning of the year	49,117	17,444	4,374	6,375	2,137	79,447
Specific reversal	1,191	1,879	-	1,617	2,210	6,897
Purchases	(449)	(7)	-	-	-	(456)
Disposals	2,960	-	-	-	(2,960)	-
At the end of the year	52,819	19,316	4,374	7,992	1,387	85,888
Accumulated amortization (*)	**20%**	**10%**	**20%**	**20%**	**-**	
At the beginning of the year	(31,957)	(10,833)	(3,779)	(2,640)	-	(49,209)
Specific reversal	(6,361)	(1,135)	(415)	(1,294)	-	(9,205)
At the end of the year	(38,318)	(11,968)	(4,194)	(3,934)	-	(58,414)
Net book value						
At 12/31/2015	17,160	6,611	595	3,735	2,137	30,238
At 12/31/2016	14,501	7,348	180	4,058	1,387	27,474

	Consolidated 2017						
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Other	Total
Cost of intangible assets							
At the beginning of the year	53,516	21,578	4,374	7,992	1,387	1,551	90,398
Specific reversal	**1,494**	**1,406**	**-**	**1,508**	**4,575**	**-**	**8,983**
Purchases	**(58)**	**(2)**	**-**	**-**	**(28)**	**-**	**(88)**
Disposals	**79**	**-**	**-**	**-**	**(79)**	**-**	**-**
Foreign exchange variation	**23**	**32**	**-**	**-**	**-**	**-**	**55**
Provision for losses	**-**	**(125)**	**-**	**-**	**-**	**(1,551)**	**(1,676)**
At the end of the year	**55,054**	**22,889**	**4,374**	**9,500**	**5,855**	**-**	**97,672**
Accumulated amortization (*)	**20%**	**10%**	**20%**	**20%**	**-**	**-**	**-**
At the beginning of the year	(38,980)	(11,983)	(4,194)	(3,934)	-	(865)	(59,956)
Specific reversal	**(6,429)**	**(1,238)**	**(180)**	**(1,489)**	**-**		**(9,336)**
Amortization	**51**	**-**	**-**	**-**	**-**	**-**	**51**
Disposals	**(15)**	**-**	**-**	**-**	**-**	**-**	**(15)**
Foreign exchange variation	**-**	**-**	**-**	**-**	**-**	**865**	**865**
At the end of the year	**(45,373)**	**(13,221)**	**(4,374)**	**(5,423)**	**-**	**-**	**(68,391)**
Net book value							
At 12/31/2016	14,536	9,595	180	4,058	1,387	686	30,442
At 12/31/2017	**9,681**	**9,668**	**-**	**4,077**	**5,855**	**-**	**29,281**

13. Intangible assets--Continued

	Consolidated							
	2016							
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Goodwill	Other	Total
Cost of intangible assets								
At the beginning of the year	49,903	19,415	4,374	6,375	2,137	-	-	82,204
Specific reversal	113	2,194	-	-	-	2,069	8,142	12,518
Purchases	1,191	2,397	-	1,617	2,210	-	4,751	12,166
Disposals	(500)	(18)	-	-	-	(2,069)	(2,196)	(4,783)
Transfers	2,960	-	-	-	(2,960)	-	-	-
Foreign exchange variation	(151)	(352)	-	-	-	-	-	(503)
Provision for losses	-	(2,058)	-	-	-	-	(9,146)	(11,204)
At the end of the year	53,516	21,578	4,374	7,992	1,387	-	1,551	90,398
Accumulated amortization (*)	20%	10%	20%	20%	-	-	-	-
At the beginning of the year	(32,687)	(10,846)	(3,779)	(2,640)	-	-	-	(49,952)
Specific reversal	(41)	-	-	-	-	-	(349)	(390)
Amortization	(6,402)	(1,137)	(415)	(1,294)	-	-	(516)	(9,764)
Disposals	25	-	-	-	-	-	-	25
Foreign exchange variation	125	-	-	-	-	-	-	125
At the end of the year	(38,980)	(11,983)	(4,194)	(3,934)	-	-	(865)	(59,956)
Net book value								
At 12/31/2015	17,216	8,569	595	3,735	2,137	-	-	32,252
At 12/31/2016	14,536	9,595	180	4,058	1,387	-	686	30,442

(*) The Company amortizes its intangible assets based on the acquisition cost.

Amortization costs and expenses are recorded in the statement income, net of PIS/COFINS credits, as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of goods sold	**(4,081)**	(3,783)	**(4,083)**	(3,785)
Selling expenses	**(1,310)**	(1,479)	**(1,338)**	(1,498)
General and administrative expenses	**(3,524)**	(3,589)	**(3,534)**	(4,128)
	(8,915)	(8,851)	**(8,955)**	(9,411)

At December 31, 2017 and 2016, the Company does not have internally generated intangible assets.

14. Borrowings

	Parent company							
			2017			2016		
	Index	Interest rate (p.y.)	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
In local currency								
Property, plant and equipment	Fixed	4.31%	**10,834**	**31,390**	**42,224**	10,841	42,198	53,039
Provin and Proapi	Long-term Interest Rate (TJLP)	-	**-**	**2,571**	**2,571**	1,809	12,440	14,249
			10,834	**33,961**	**44,795**	12,650	54,638	67,288
In foreign currency								
Working capital - ACE	US Dollar +	2.30% and 3.87%	**78,832**	**-**	**78,832**	50,270	-	50,270
			78,832	**-**	**78,832**	50,270	-	50,270
			89,666	**33,961**	**123,627**	62,920	54,638	117,558

	Consolidated							
			2017			2016		
	Index	Interest rate (p.y.)	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
In local currency								
Property, plant and equipment	Fixed	4.31%	**10,834**	**31,390**	**42,224**	10,841	42,198	53,039
Provin and Proapi	Long-term Interest Rate (TJLP)	-	**-**	**2,571**	**2,571**	1,809	12,440	14,249
			10,834	**33,961**	**44,795**	12,650	54,638	67,288
In foreign currency								
Working capital	Pesos Argentina	27.75%	**-**	**-**	**-**	7,814	-	7,814
Working capital - ACE	Dólar +	2.30% and 3.87%	**78,832**	**-**	**78,832**	50,270	-	50,270
			78,832	**-**	**78,832**	58,084	-	58,084
			89,666	**33,961**	**123,627**	70,734	54,638	125,372

a) Financing – Provin and Proapi

The Company enjoys tax incentives with respect to its activities in the State of Ceará, by means of financing obtained from the Industrial Development Fund of Ceará (FDI) through the financial agent accredited by the fund. Such financing is based on ICMS due (Provin) and on exported products (Proapi), computed on a monthly basis. The financing is settled within a period ranging from 36 to 60 months after the release of the funds.

14. Borrowings--Continued

a) Financing – Provin and Proapi--Continued

Management believes that the benefit of the reduction should be recorded at the time the financing is obtained, so as to reflect the accrual method of accounting more accurately, since the cost of ICMS and exports related to operations entitled to the incentive are recorded concomitantly with the benefits.

Under the Proapi Program, the financing is granted based on 11% of the Free on Board (FOB) export value, is payable within 60 months and is subject to the long-term interest rate (TJLP). At maturity, the Company pays 10% of the financing debt balance and the remaining 90% is waived, representing a net incentive of 9.9% of the FOB value.

b) Payment schedule

This table details the tranches of long-term borrowings, by year of maturity:

Maturity	Long-term portions				
	2019	2020	2021	2022	Total
Bank financing	10,708	10,341	10,341	-	**31,390**
Proapi	-	-	-	2,389	**2,389**
Provin	-	49	-	133	**182**
Total	**10,708**	**10,390**	**10,341**	**2,522**	**33,961**

c) Guarantees

Guarantees for borrowings are as follows: a) statutory lien on financed machinery and equipment; b) land and buildings; and c) personal sureties provided by the Company's stockholders. The existing guarantees are for the financed amounts.

15. Provisions for labor, tax, civil and environmental risks

a) Probable loss risk – Provided for

The Company is a defendant in certain labor and civil claims. The estimated loss was provisioned based on the opinion of the legal advisors, in an amount considered sufficient to cover probable losses that could arise in the event of unfavorable court decisions.

The changes in the provision for labor and civil risks were as follows:

15. Provisions for labor, tax, civil and environmental risks--Continued

a) Probable loss risk – Provided for--Continued

	Parent Company			Consolidated		
	2017	2016		2017	2016	
	Labor	Labor	Civil	Labor	Labor	Civil
Balance at the beginning of the year	**2,462**	1,897	-	**3,195**	2,883	-
Additions	**1,824**	2,376	7,327	**1,844**	2,812	7,327
Realizations	**(2,954)**	(1,703)	(7,327)	**(3,517)**	(1,718)	(7,327)
Reversals	**(236)**	(108)	-	**(237)**	(517)	-
Exchange variation	**-**	-	-	**-**	(265)	-
Balance at the end of the year	**1,096**	2,462	-	**1,285**	3,195	-
(-) Total current liabilities	**(824)**	(1,932)	-	**(833)**	(2,485)	-
Total non-current liabilities	**272**	530	-	**452**	710	-

b) Possible loss risk – Not provided for

The Company has labor, tax, civil and environmental contingencies involving risks classified by management as possible losses, based on the evaluation of the legal advisors, for which no provision was recognized. The analysis and the estimates are as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Labor	**8,957**	6,383	**10,120**	7,499
Tax				
PIS and COFINS	**1,050**	672	**1,050**	672
INSS	**891**	383	**891**	383
Civil (*)	**33,280**	9,157	**33,280**	9,157
Environmental	**500**	500	**500**	500
Labor	**44,678**	17,095	**45,841**	18,211

(*) The variation comprises two components: *(i)* R$18,000 for a legal action in progress brought by a commercial representative - the chance of financial loss in which has been reclassified from 'remote' to 'possible'; and *(ii)* R$6,000, for inclusion of a legal action brought by a commercial distributor.

15. Provisions for labor, tax, civil and environmental risks--Continued

c) Ongoing proceedings

On March 15, 2017, the Federal Supreme Court concluded the trial, on the basis of general application, and declared the inclusion of State VAT (ICMS) in the Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) bases unconstitutional. On October 2, 2017, the Federal Supreme Court published a decision determining that, since the ICMS is not included in the income or gross revenues of companies, it should be excluded from the PIS and COFINS bases.

The Company is claiming the recovery of taxes paid in the period from 04/2002 to 03/2017, in the approximate amount of R$272,000 (this amount could be changed by virtue of motions for clarification filed by the Public Finance Division of the Attorney General's Office), arising from the inclusion of ICMS in the PIS and COFINS bases, and, according to the assessment of its legal advisors, the likelihood of success in this lawsuit is probable. No assets will be recorded until a final and unappeasable decision is obtained by the Company, as well as the effects of such decision is changed by the Federal Supreme Court.

16. Equity

a) Capital

At December 31, 2017 and 2016, fully subscribed and paid-up capital is represented by 300,720,000 common shares of R$4.09 each, which comprise voting shares of a sole class in relation to stockholder rights, observing the applicable legal conditions.

This tables shows the Company's ownership structure:

	Ounership structure			
	2017		2016	
	Common Shares	%	Common Shares	%
Alexandre G. Bartelle Participações S.A.	**93,300,012**	**31.03%**	93,300,012	31.03%
Verona Negócios e Participações S.A.	**-**	**-**	77,199,988	25.67%
Alexandre Grendene Bartelle	**30,597,257**	**10.17%**	31,349,457	10.43%
Pedro Grendene Bartelle	**41,770,792**	**13.89%**	4,307,340	1.43%
Maria Cristina Nunes de Camargo	**5,841,280**	**1.94%**	5,841,280	1.94%
Giovana Bartelle Veloso	**12,377,599**	**4.12%**	2,743,040	0.91%
Pedro Bartelle	**12,155,199**	**4.04%**	2,720,640	0.90%
André de Carvalho Bartelle	**9,733,759**	**3.24%**	-	-
Gabriella de Carvalho Bartelle	**9,637,559**	**3.20%**	-	-
Executive Board and Boar of Directors' Members	**732,236**	**0.25%**	731,085	0.24%
Treasury shares	**7,543**	**0.00%**	70,300	0.03%
Outstanding shares	**84,566,764**	**28.12%**	82,456,858	27.42%
	300,720,000	**100.00%**	300,720,000	100.00%

16. Equity--Continued

b) Capital reserves

This refers to the amount of the stock option or share subscription plan granted by the Company to its officers, as described in Note 21.

c) Treasury shares

In order to comply with the stock option or subscription plan (Note 21), the program for acquisition of 2,000,000 registered common shares was approved at the 71th Board of Directors Meeting held on July 27, 2017, without capital reduction. This amount of registered common shares corresponds to 2.38% of the shares outstanding.

Pursuant to CVM Instruction 567/15, the maximum term for the program is less than 18 months, as of the approval by the Board of Directors.

The changes in treasury shares were as follows:

	Parent company	
	Common shares	R$
Balance at the beginning of the year	**70,300**	**1,169**
Repurchases	547,841	9,837
Exercise of share purchase options (Note 21)	(610,598)	(10,872)
Balance at the end of the year	**7,543**	**134**

For the year ended December 31, 2017, the average purchase cost of these shares was R$17.96 (R$17.28 in 2016), the lowest cost being R$17.24 (R$16.04 in 2016) and the highest cost R$18.61 (R$17.60 in 2016).

d) Income reserves

- *Legal reserve*

  This reserve is credited with 5% of the profit for the period, less the amount of tax incentives, and is limited to 20% of the company's share capital. The balance is R$147,934 at December 31, 2017 (R$127,572 in 2016).

16. Equity--Continued

d) Income reserves--Continued

- *Reserve for acquisition of shares*

  The balance of R$23,862 at December 31, 2017 (R$15,695 in 2016), refers to the amount retained for redemption, repurchase or acquisition of shares in the Company, which may include compliance with its obligations to deliver shares to participants in the company's stock options plan.

  The reserve for acquisition of shares may be formed from up to 100% of the profit remaining after the legal and statutory deductions, and is limited to a maximum of 20% of the company's share capital.

- *Tax incentives*

  This reserve is established in reference to the tax benefits received by the company under governmental subsidies to encourage investment, as shown in Note 17.

	Parent company / Consolidated					
	2017			2016		
	ICMS and Exports	Income tax	Tax incentives	ICMS and Exports	Income tax	Tax incentives
Balance at the beginning of the year	**909,055**	**500,938**	**1,409,993**	720,225	425,153	1,145,378
Incentives generated by the operation	**167,824**	**85,866**	**253,690**	188,830	75,785	264,615
Balance at the end of the year	**1,076,879**	**586,804**	**1,663,683**	909,055	500,938	1,409,993

e) Other comprehensive income

These adjustments refer to the effects of the conversion from the functional currency to the reporting currency of foreign investments accounted for under the equity method.

f) Dividends and interest on equity

In accordance with the Company's bylaws, the minimum mandatory dividend is calculated as 25% of the profit for the period, after deduction of the transfers to reserves required by law.

Based on the profits for the years ended December 31, 2017 and 2016 and on the Company's capacity of generating operating cash, management submitted for approval at the General Meeting of Stockholders the distribution of dividends above the minimum mandatory, as follows:

16. Equity--Continued

f) Dividends and interest on equity--Continued

	Parent company	
	2017	2016
Profit for the year	**660,929**	634,492
(-) Legal reserve	**(20,362)**	(18,494)
(-) Tax incentive reserve	**(253,690)**	(264,615)
Minimum mandatory dividends calculation basis related to the profit for the year	**386,877**	351,383
(-) Reserve for acquisition of shares	**(9,104)**	-
Dividends calculation basis related to the profit for the year	**377,773**	351,383
Minimum mandatory dividend – 25%	**96,719**	87,846
Dividend proposed in addition to the minimum mandatory amount	**281,054**	263,537
Total of dividends proposed by management	**377,773**	351,383
Allocation of the proposed payments		
Interim dividends paid	**198,143**	172,789
Interest on Equity (counted as part of total dividends)	**160,000**	160,000
Balance of dividends for the year	**19,630**	18,594
	377,773	351,383

These tables show the allocation of corporate action payments approved and proposed by the Board of Directors for the years ended December 31, 2017 and 2016:

	Parent company			
	2017			
Description of proceeds	**Date approved**	**Date of payment**	**Per share**	**R$**
Interim dividends and Interest on Equity paid				
Dividends	4/27/2017	5/17/2017	0.2297	69,078
Interest on Equity	4/27/2017	5/17/2017	0.0998	30,000
Dividends	7/27/2017	8/16/2017	0.1848	55,584
Dividends	10/26/2017	11/22/2017	0.2444	73,481
Total interim payments				**228,143**
Proposed, not yet paid:				
Dividends			0.0653	19,630
Interest on Equity			0.4323	130,000
Total amounts relative to the 2017 business year				**377,773**

16. Equity--Continued

f) Dividends and interest on equity--Continued

Description of proceeds	Parent company 2016			
	Date approved	Date of payment	Per share	R$
Dividends	4/28/2016	5/18/2016	0.1702	51,191
Interest on Equity	4/28/2016	5/18/2016	0.0998	30,000
Dividends	7/28/2016	8/17/2016	0.1513	45,505
Dividends	10/20/2016	11/16/2016	0.2530	76,093
Dividends	2/16/2017	4/26/2017	0.0618	18,594
Interest on Equity	2/16/2017	4/26/2017	0.4324	130,000
Total amounts relative to the 2016 business year				351,383

The dividends and Interest on Equity proposed and not paid are subject to approval by the Annual General Meeting of Stockholders, and are not recognized as a liability at December 31, 2017.

The Company calculated Interest on Equity using the Long-term Interest Rate (TJLP) in effect during the period. The amount of Interest on Equity is counted as part of the total of dividends. Interest on Equity is reported in Stockholders' equity.

g) Earnings per share

Reconciliation of net income to the amounts used to calculate basic and diluted earnings per share (all amounts in thousands of reais, except earnings per share), are as follows:

	Parent company	
	2017	2016
Numerator		
Profit for the year	**660,929**	634,492
Denominator		
Weighted average number of common shares	**300,720,000**	300,720,000
Weighted average number of common treasury shares	**(98,797)**	(20,513)
	300,621,203	300,699,487
Basic earnings per common share	**2.1985**	2.1101
Weighted average number of outstanding common shares	**300,621,203**	300,699,487
Potential increase in common shares due to the stock option or subscription plan	**940,438**	609,745
	301,561,641	301,309,232
Diluted earnings per common share	**2.1917**	2.1058

17. Government grants for investments

a) Incentives – Provin and Proapi

Provin – Program of Incentive to the Industrial Development Fund of Ceará (FDI), which consists of the deferral equivalent to 81% of the effectively paid ICMS, levied on the Company's production. Of the amount of each portion of the benefit, the equivalent to 1% will be paid at once, on the last day of the maturity month, after 60 months and will be dully restated, from the date of the disbursement up to the maturity date, by applying the Long-Term Interest Rate (TJLP).

Periods of expiration of this benefit					
Industrial units	Incentive	%	Expiration period	%	Expiration period
Sobral – CE	PROVIN - ICMS	81%	Up to Feb/2019	75%	Mar/2019 to Apr/2025
Crato – CE	PROVIN - ICMS	81%	Up to Sep/2022	75%	Oct/2022 to Apr/2025
Fortaleza – CE	PROVIN - ICMS	81%	Up to Apr/2025		

Proapi – Program of Incentives for the Port and Industrial Activities of Ceará, consists of the financing for manufacturing companies, mainly exporting companies of footwear and artifacts of fur and leather, except for "wet blue", headquartered in the state, through use of funds arising from the returns on FDI operations while not credited to the State treasury account (Note 14).

Period of expiration of this benefit		
Industrial unit	Incentive	Expiration period
Sobral – CE	PROAPI – EXPORT	Up to Mar/2017

For the year ended December 31, 2017 the Company recognized R$167,824 (R$188,830 in 2016), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 22. These amounts were allocated to the Tax Incentive Reserve account in Profit reserves.

For the year ended December 31, 2017 the Company had amounts securities receivable recognized in Assets, for the Proapi incentives, totaling R$70,502 (R$80,795 in 2016).

17. Government grants for investments--Continued

b) Incentives – Procomex and Probahia

Procomex – Program of Incentive of Foreign Trade, with the purpose of stimulating exports of products manufactured in the State of Bahia and the financing of the tax on import of products for sale and manufacture promoted by industrial units headquartered in the state, Subsidiary MHL Calçados Ltda. has ICMS tax credit equivalent to 11% of the FOB value of the transactions of exports of footwear and its components. The incentive is valid up to December 2021.

Probahia – Program for the Development of Bahia, with the purpose of promoting diversification, and stimulating the transformation and industrial processes of the state.

Subsidiary MHL Calçados Ltda. has ICMS tax credit of 90% of the incurring tax on transactions of output and footwear and its components and deferral of the ICMS paid in relation to the differential of rate by the acquisition of property, plant and equipment and in the imports and internal operations with inputs, packages and components, for the moment in which the output of their products occurs. The incentive is valid up to November 2021.

For the year ended December 31, 2017 the parent company recognized R$142 (R$121 at in 2016), related to the tax incentive portions of such incentives, in net sales revenue, as disclosed in Note 22. These amounts were allocated to the Tax Incentives Reserve account in Profit reserves.

c) Income tax incentive

The Company and its subsidiary MHL Calçados Ltda. benefit from the incentive of decrease of 75% of the income tax calculated based on the operation profit, in the industrial units headquartered in the operation area of the Superintendence for the Development of the Northeast (SUDENE).

For the year ended December 31, 2017, the company recorded the amount of R$85,866, in Income tax, in the statement income (R$75,785 in 2016) for the amount of this incentive, as shown in Note 18. These amounts were allocated to the Tax Incentives Reserve account in Profit reserves.

17. Government grants for investments--Continued

c) Income tax incentive--Continued

Periods of expiration of this benefit		
Industrial units	**% of decrease in tax**	**Expiration period**
Sobral – CE	75%	Up to Dec/2022
	75%	Up to Dec/2023
Fortaleza – CE	75%	Up to Dec/2020
Crato – CE	75%	Up to Dec/2026
Teixeira de Freitas – BA	75%	Up to Dec/2017

18. Income tax and social contribution tax

a) Current income tax and social contribution tax

Current income tax and social contribution tax amounts recorded in the expense for the year, net of tax incentives, are as follows:

	Parent company					
	2017			2016		
	Income tax	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Amount due	**(93,970)**	**(35,731)**	**(129,701)**	(86,785)	(33,671)	(120,456)
Tax incentives	**85,866**	**-**	**85,866**	75,785	-	75,785
	(8,104)	**(35,731)**	**(43,835)**	(11,000)	(33,671)	(44,671)

	Consolidated					
	2017			2016		
	Income tax	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Amount due	**(94,229)**	**(35,743)**	**(129,972)**	(86,810)	(33,688)	(120,498)
Tax incentives	**85,866**	**-**	**85,866**	75,785	-	75,785
	(8,363)	**(35,743)**	**(44,106)**	(11,025)	(33,688)	(44,713)

18. Income tax and social contribution tax--Continued

b) Deferred income tax and social contribution tax

Deferred income tax and social contribution tax are comprised as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Income tax				
Estimated losses on doubtful receivables	**690**	485	**690**	771
Punctuality discounts estimated	**1,744**	1,568	**1,746**	1,569
Adjustment to Present Value (AVP)	**800**	953	**800**	953
Estimated losses for obsolete inventory	**849**	749	**849**	749
Provision for labor risks	**69**	154	**80**	352
Tax losses in subsidiaries	**-**	-	**131**	135
Hedging transactions	**(25)**	(162)	**(25)**	(162)
Interest on equity (counted as part of total dividends	**32,500**	32,500	**32,500**	32,500
Other	**246**	267	**2**	(247)
	36,873	36,514	**36,773**	36,620
Social contribution tax				
Estimated losses on doubtful receivables	**994**	698	**994**	698
Punctuality discounts estimated	**2,511**	2,258	**2,515**	2,260
Adjustment to Present Value (AVP)	**1,152**	1,373	**1,152**	1,373
Estimated losses for obsolete inventory	**1,223**	1,078	**1,223**	1,078
Provision for labor risks	**99**	221	**116**	240
Tax losses in subsidiaries	**-**	-	**189**	194
Hedging transactions	**(37)**	(233)	**(37)**	(233)
Interest on equity (counted as part of total dividends	**11,700**	11,700	**11,700**	11,700
Other	**354**	384	**2**	2
	17,996	17,479	**17,854**	17,312
Non-current assets	**54,869**	53,993	**54,627**	53,932

c) Changes in deferred income tax and social contribution tax

	Parent company		Consolidated	
	2017	2016	2017	2016
Balance at the beginning of the year	**53,993**	43,505	**53,932**	43,554
Taxes recorded in the result for the year	**876**	10,488	**917**	10,556
Taxes recorded in equity	**-**	-	**(222)**	(178)
Balance at the end of the year	**54,869**	53,993	**54,627**	53,932

18. Income tax and social contribution tax--Continued

d) Reconciliation of tax expense to statutory rates

The income tax and social contribution calculated based on statutory rates can be reconciled to the amounts recorded as expenses as follows:

	Party company			
	2017		2016	
	Income tax	Social contribution	Income tax	Social contribution
Pretax income	**703,888**	**703,888**	668,675	668,675
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	**(175,972)**	**(63,350)**	(167,169)	(60,181)
Adjustments to show effective rate				
Equity in the results of subsidiaries	**(6,289)**	**(2,264)**	(21,489)	(7,736)
Non-deductible costs and expenses	**(1,917)**	**(690)**	(1,092)	(393)
Adjustments to present value – AVP	**460**	**-**	(643)	-
Stock options plan	**(1,592)**	**(573)**	(1,321)	(476)
Foreign exchange differences on foreign subsidiaries	**-**	**-**	2,870	1,033
Hedge transactions	**(409)**	**-**	1,261	-
Unrealized profit on inventories	**63**	**-**	306	-
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	**2,815**	**1,013**	129	47
State tax incentives	**41,956**	**15,104**	47,208	16,995
Technological innovation incentive	**8,182**	**2,946**	7,817	2,369
PAT corporate tax incentive deductions	**2,382**	**-**	2,215	-
Corporate tax incentive deductions *(Rouanet Law, Funcriança, Audiovisual, Sports, Fund for the Elderly)*	**2,878**	**-**	3,271	-
Provision for losses in subsidiary	**(1,365)**	**(491)**	6,995	2,518
Interest on equity counted as part of total dividends	**40,000**	**14,400**	40,000	14,400
Exchange losses on investments	**(2,251)**	**(810)**	-	-
Loss on disposal of investment	**(202)**	**(73)**	-	-
Impairment of fixed assets	**(1,183)**	**(426)**	-	-
Other	**(1,167)**	**-**	475	623
Amount before deduction of corporate tax incentives	**(93,611)**	**(35,214)**	(79,167)	(30,801)
Tax incentive reductions of corporate income tax (calculated on operational profit)	**85,866**	**-**	75,785	-
Amount posted in profit and loss account	**(7,745)**	**(35,214)**	(3,382)	(30,801)
Total taxes posted in profit and loss account	**(42,959)**		(34,183)	
Current taxes	**(43,835)**		(44,671)	
Deferred taxes	**876**		10,488	
Effective rate	**6.1%**		5.1%	

18. Income tax and social contribution--Continued

d) Reconciliation of tax expense to statutory rates--Continued

	Consolidated			
	2017		2016	
	Income tax	Social contribution	Income tax	Social contribution
Pretax income	**704,092**	**704,092**	668,112	668,112
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	**(176,023)**	**(63,368)**	(167,028)	(60,130)
Adjustments to show effective rate				
Non-deductible costs and expenses	**(1,917)**	**(690)**	(1,093)	(394)
Adjustments to present value – AVP	**460**	**-**	(643)	-
Stock options plan	**(1,592)**	**(573)**	(1,321)	(476)
Foreign exchange differences on foreign subsidiaries	**-**	**-**	2,870	1,033
Hedge transactions	**(409)**	**-**	1,261	-
Unrealized profit on inventories	**63**	**-**	306	-
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	**2,815**	**1,013**	129	47
State tax incentives	**41,992**	**15,117**	47,238	17,006
Technological innovation incentive	**8,182**	**2,946**	7,817	2,369
PAT corporate tax incentive deductions	**2,383**	**-**	2,216	-
Corporate tax incentive deductions *(Rouanet Law, Funcriança, Audiovisual, Sports, Fund for the Elderly)*	**2,878**	**-**	3,271	-
Provision for losses in subsidiary	**(1,365)**	**(491)**	6,995	2,518
Interest on equity counted as part of total dividends	**40,000**	**14,400**	40,000	14,400
Exchange losses on investments	**(2,251)**	**(810)**	-	-
Loss on disposal of investment	**(202)**	**(73)**	-	-
Impairment of fixed assets	**(1,183)**	**(426)**	-	-
Other	**(7,685)**	**(2,246)**	(21,281)	(7,052)
Amount before deduction of corporate tax incentives	**(93,854)**	**(35,201)**	(79,263)	(30,679)
Tax incentive reductions of corporate income tax (calculated on operational profit)	**85,866**	**-**	75,785	-
Amount posted in profit and loss account	**(7,988)**	**(35,201)**	(3,478)	(30,679)
Total taxes posted in profit and loss account	**(43,189)**		(34,157)	
Current taxes	**(44,106)**		(44,713)	
Deferred taxes	**917**		10,556	
Effective rate	**6.1%**		5.1%	

19. Financial instruments and risk management

The Company has transactions with financial instruments, the risks of which are managed through financial position strategies and exposure limit systems. All transactions are fully recognized in the accounting records. The valuation of financial instruments, including derivatives, as well as risk management, is presented below:

19. Financial instruments and risk management--Continued

a) Financial instruments

- Cash and cash equivalents – classified as loans and receivables and measured at fair value, which approximates the carrying amount.

- Financial investments – financial investments classified as "held-to-maturity" are measured at amortized cost using the effective interest rate method, and those classified as "financial assets at fair value through profit or loss" are measured at fair value.

- Trade receivables – classified as loans and receivables and arise directly from the Company's sales operations. They are carried at their original amounts, adjusted for foreign exchange and monetary variations, and the estimated losses on impaired receivables, and discounts for prompt payments and the adjustment to present value.

- Trade payables and commissions payable – these are classified as liabilities measured at amortized cost and arise directly from the Company's commercial operations. They are carried at their original amounts, adjusted for foreign exchange and monetary variations, when applicable.

- Borrowings – classified as financial liabilities measured at amortized cost using the effective interest rate method, and are carried at their contractual amounts. The fair values of borrowings approximate their carrying amounts at the balance sheet date.

The main financial instruments of the Company and its subsidiaries at December 31, 2017 and 2016 were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	**18,240**	8,184	**30,119**	20,663
Financial investments (*)	**1,750,526**	1,568,715	**1,750,526**	1,568,715
Trade receivables	**857,931**	756,360	**850,345**	760,953
Derivatives	**407**	2,586	**407**	2,586
Financial liabilities				
Borrowings	**123,627**	117,558	**123,627**	125,372
Trade payables	**35,387**	39,965	**36,705**	41,369
Commissions payable	**41,686**	39,087	**41,622**	39,831

19. Financial instruments and risk management--Continued

a) Financial instruments--Continued

(*) The Company measures its financial instruments at fair value through profit or loss, as required by technical pronouncement CPC 40 – R1 (IFRS 7), "Financial Instruments: Disclosures", and in accordance with the level 1 of the hierarchy.

Level 1 – negotiated prices (with no adjustments) in active markets for identical assets or liabilities.

The fair value of financial instruments is calculated as described in Note 4.c.4.

b) Derivative financial instruments

The Company and its subsidiaries have transactions involving the following derivative financial instruments:

b.1) *Foreign exchange rate hedging transactions*

The strategy when contracting these transactions is to hedge the sales revenue and financial assets of the Company and its subsidiaries that are subject to foreign exchange exposure. These instruments are used for the specific purpose of hedging, and the portfolio includes sale of U.S. dollar futures through financial instruments used for this purpose such as: sales on the São Paulo Futures, Commodities and Securities Exchange – BM&F and advances on future exports (ACE).

In transactions involving BM&F sales, the impact on the cash flow of the Company and its subsidiaries is assessed through the calculation of daily adjustments to the U.S. dollar exchange rate until the settlement of the contracts.

To reduce the net effects of exposure of its business the managers may negotiate future contracts for sale of USD on the BM&F up to the maximum limit defined by the sum of the following items: (i) bank balances in foreign currency held outside Brazil; (ii) financial investments held outside Brazil; (iii) balances of accounts receivable (denominated in USD) of exchange transactions to be contracted; (iv) up to 25% of the forecasts of annual exports equivalent to approximately 90 days of forecast exports (normally corresponding to orders in the order book and negotiations for sales in progress), less: (i) balances of suppliers held in foreign currency; (ii) imports in progress; and (iii) ACCs (Advances against exchange contract). These risks are monitored daily and administered through internal controls aimed to demonstrate the limits of exposure and adapt them to the Company's risk management policy.

19. Financial instruments and risk management--Continued

b) Derivative financial instruments--Continued

b.1) *Foreign exchange rate hedging transactions*--Continued

Other forms of foreign exchange hedges without the express authorization of the Company's officers are not permitted, Up to date, the Company has not authorized the use of foreign exchange hedges other than those disclosed in the previous paragraph.

Foreign exchange hedging transactions are usually made with the BM&F through specialized brokers, without the need to deposit margin. The guarantee amounted to R$52,236 at December 31, 2017 (R$51,362 in 2016) and usually comprises the Company's investments in government securities, considering the limits and exposures to foreign exchange risk, as defined in the policy for management of counterparty risk.

The table below shows the positions at December 31, 2017 and 2016, with the notional and fair value, which was calculated as described in Notes 4.c.1 and 4.c.2.

	Notional value – US$		Notional value – R$		Amount receivable (payable)	
	2017	2016	2017	2016	2017	2016
Futures contracts						
Sell commitment	**64,500**	73,500	**213,864**	240,947	**407**	2,586

It should be noted that these transactions are linked to sales and financial assets in foreign currency, which are also subject to foreign exchange rate changes, offsetting any gains or losses. The balance receivable at December 31, 2017 in the amount of R$407 (R$2,586 in 2016) is classified in securities receivable.

c) Risk management

c.1) *Risk factors that may affect the business of the Company and its subsidiaries*

The Company's main financial liabilities, except derivative financial instruments, comprise borrowings and other payables. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has other credits, accounts receivable, cash and cash equivalents and short-term investments that are obtained directly from its operations.

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continued

The Company is exposed to market risk (including interest rate risk, foreign exchange risk and commodity price risk), credit risk and liquidity risk. The financial instruments which involve risks include borrowings, deposits, available-for-sale investments and derivative financial instruments.

The risk management activities follow the Company's risk management policy, which is administered by its officers. The management of these risks is effected based on a control policy, which establishes monitoring techniques, measurement and ongoing accompanying of exposure. The Company does not have transactions with speculative derivative financial instruments or any other type of speculative transactions.

a) Credit risk:

The company and its subsidiaries are exposed to credit risk from the possibility of not receiving amounts receivable from clients or credit amounts with financial institutions.

The Company and its subsidiaries adopt the following risk management practices: *(i)* Analysis of credits granted to clients, and setting of sales limits, No single client represented more than 5% of the total Company's accounts receivable at December 31, 2017 and 2016; and *(ii)* selectiveness in choice of financial institutions that are considered by the market to be first-tier (the country's 10 largest banks by total assets), and diversification of financial instruments in investment of the company's funds, Cash investments are made in a basket of indicators comprising the CDI rate, fixed rates and inflation-indexed investments.

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continued

b) Liquidity risk:

Liquidity risk represents the potential decrease in funds available for debt service (substantially borrowings). The Company has cash monitoring policies to avoid any mismatch between accounts receivable and payable. In addition, the Company maintains financial investments that are immediately redeemable to cover any mismatch between the maturity date of its contractual obligations and its cash flow management. The table below shows the contractual payments required by the Company's financial liabilities:

	Parent company					
	2017			2016		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**10,834**	**31,390**	**42,224**	10,841	42,198	53,039
Working capital and ACE	**78,832**	**-**	**78,832**	50,270	-	50,270
Financing – Proapi and Provin	**-**	**2,571**	**2,571**	1,809	12,440	14,249
	89,666	**33,961**	**123,627**	62,920	54,638	117,558

	Consolidated					
	2017			2016		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**10,834**	**31,390**	**42,224**	10,841	42,198	53,039
Working capital and ACE	**78,832**	**-**	**78,832**	58,084	-	58,084
Financing – Proapi and Provin	**-**	**2,571**	**2,571**	1,809	12,440	14,249
	89,666	**33,961**	**123,627**	70,734	54,638	125,372

	Parent company					
	2017			2016		
	Projection including future interest			Projection including future interest		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**12,363**	**33,577**	**45,940**	12,815	45,697	58,512
Working capital and ACE	**79,531**	**-**	**79,531**	50,865	-	50,865
Financing – Proapi and Provin	**-**	**3,241**	**3,241**	1,871	15,433	17,304
	91,894	**36,818**	**128,712**	65,551	61,130	126,681

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continued

b) Liquidity risk:--Continued

	Consolidated					
	2017			2016		
	Projection including future interest			Projection including future interest		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**12,363**	**33,577**	**45,940**	12,815	45,697	58,512
Working capital and ACE	**79,531**	**-**	**79,531**	58,956	-	58,956
Financing – Proapi and Provin	**-**	**3,241**	**3,241**	1,871	15,433	17,304
	91,894	**36,818**	**128,712**	73,642	61,130	134,772

c) Market risk:

Interest rate risk: This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates that lead to an increase in its finance costs related to borrowings, or a decrease in its earnings on financial investments. The Company continuously monitors the volatility of market interest rates.

In order to mitigate possible impacts from fluctuations in interest rates the Company and its subsidiaries adopt the policy of maintaining their funds invested in instruments linked to a basket of indicators such as CDI, fixed rates, or adjusted for inflation.

Foreign exchange rate risk: This risk arises from the possibility of fluctuations in foreign exchange rates, which may affect the financial cost (or income) and the liability (or asset) balance of contracts denominated in foreign currency. In addition to trade receivables originating from exports from Brazil, financial investments and foreign investments are utilized as a natural hedge against fluctuations in foreign exchange rates. For the balances of assets and liabilities subject to foreign exchange rate risk, the Company and its subsidiaries assess foreign exchange exposure and contract additional derivative financial instruments as a hedge, if necessary.

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.1) *Risk factors that may affect the business of the Company and its subsidiaries*--Continued

c) Market risk:--Continued

At December 31, 2017, the Company has advances on export contracts in the amount of US$23,835 thousand (US$15,427 thousand in 2016), which is consistent with the sales scheduled for the foreign market up to the maturity of the contracts. There were no other borrowings denominated in, or indexed to, foreign currencies.

Commodity price risk: This risk refers to the possibility of fluctuations in the price of raw materials and other inputs used in the production process, As the Company uses commodities as raw materials, its cost of sales can be affected by fluctuations in the international prices of these materials. In order to minimize this risk, the Company maintains ongoing monitoring of price fluctuations in the domestic and foreign markets and, if necessary, maintains strategic inventories to support its commercial activities.

c.2) *Interest rate fluctuation sensitivity analysis*

In order to verify the sensitivity of indices of financial investments and loans to which the Company was exposed on September 30, 2017, three different scenarios were defined and a sensitivity analysis of the fluctuation of the indices of these instruments was prepared, Based on the projection of the index of each contract for 2017 (probable scenario), decreases of 25% and 50% for financial investments and increases of 25% and 50% for loans were calculated. The scenarios do not consider the probable cash flow related to loan repayments and investment redemptions.

Earnings from financial investments as well as financial costs related to the Company's borrowings are affected by fluctuations in interest rates, such as TJLP, Amplified Consumer Price Index (IPCA), IGPM and CDI.

The table below shows the outstanding positions at December 31, 2017, with the notional values and interest of each contracted instrument:

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.2) *Interest rate fluctuation sensitivity analysis*--Continued

	Reduction of finance income			Increase in finance costs	
	Reference for finance income		Interest on financial investments	Reference financial liabilities	Cost of Proapi and Provin financings
	CDI rate	*IPCA index*		*TJLP rate*	
Probable scenario – Book value	**6.99%**	**2.80%**	**60,979**	**7.00%**	**180**
Possible scenario – 25%	**5.24%**	**2.10%**	**49,820**	**8.75%**	**225**
Remote scenario – 50%	**3.49%**	**1.40%**	**38,591**	**10.50%**	**270**

c.3) *Sensitivity analysis of contracted derivative financial instruments*

c.3.1) Foreign exchange rate hedge

The Company has projected the effect of the transactions designed for Exchange rate protection in three scenarios, considering the transactions would be settled, on the basic of the position becoming due on January 31, 2018, as follows:

	Notional value			
	Short position in US$	FX rate – R$	Amount – R$	Impact – R$
Probable scenario – Book value	**64,500**	**3.3157**	**213,864**	**407**
Possible scenario – 25%	**64,500**	**4.1447**	**267,333**	**(53,469)**
Remote scenario – 50%	**64,500**	**4.9736**	**320,797**	**(106,933)**

c.4) *Capital management*

Capital management mainly aims to ensure the Company's ability to continue as a going concern, maintaining a policy of low gearing ratio and thereby hedging its capital against changes in government economic policy, and maximizing stockholder value.

The Company manages the capital structure and adjusts it considering changes in the economic conditions of the country, In order to maintain or adjust the capital structure, the Company can adjust the policy for dividend payments to stockholders.

The Company's dividend policy may include tax incentives related to the Provin and Proapi programs in the dividend calculation basis, provided there is no impact on the Company's capital management objectives, policies or processes adopted. There is no impact during the years ended December 31, 2017 and 2016.

19. Financial instruments and risk management--Continued

c) Risk management--Continued

c.4) *Capital management*--Continued

	Parent company		Consolidated	
	2017	2016	2017	2016
Current and non-current borrowings	**123,627**	117,558	**123,627**	125,372
(-) Cash and cash equivalents	**(18,240)**	(8,184)	**(30,119)**	(20,663)
Net debt	**105,387**	109,374	**93,508**	104,709
Equity	**3,217,609**	2,921,998	**3,217,609**	2,922,070
Gearing ratio	**3.3%**	3.7%	**2.9%**	3.6%

20. Balances and transactions with related parties

During the year, the Company carried out the following transactions with related parties:

a) Amounts and transactions receivable and payable – Related parties

	Parent company							
	Balances				Transactions			
	Other receivables	Other payables	Accounts receivable from sales	Trade payables	Sales of goods and PPE	Purchases of goods and services	Finance income	Finance costs
Direct subsidiaries								
Grendene Argentina S.A.								
At 12/31/2017	**-**	**-**	**-**	**-**	**-**	**-**	**39**	**88**
At 12/31/2016	-	-	-	-	-	-	745	701
MHL Calçados Ltda.								
At 12/31/2017	**9**	**9**	**21**	**-**	**1,024**	**35**	**-**	**-**
At 12/31/2016	-	3	62	-	865	8	-	-
Grendene USA, Inc.								
At 12/31/2017	**-**	**-**	**12,621**	**537**	**17,983**	**1,082**	**1,339**	**1,122**
At 12/31/2016		-	9,311	333	14,641	1,025	1,666	4,536
Grendene UK Limited.								
At 12/31/2017	**-**	**-**	**849**	**-**	**1,195**	**-**	**1,150**	**1,142**
At 12/31/2016	-	-	395	-	953	-	1,959	2,086
A3NP Indústria e Comércio de Móveis S.A.								
At 12/31/2017	**5,614**	**5,480**	**-**	**-**	**-**	**-**	**-**	**-**
At 12/31/2016	5,349	19	-	-	-	-	2,508	(237)
Indirect subsidiary								
Grendene Italy SRL.								
At 12/31/2017	**-**	**-**	**3,287**	**-**	**3,664**	**-**	**212**	**313**
At 12/31/2016	-	-	2,969	-	2,697	-	367	896

20. Balances and transactions with related parties--Continued

a) Amounts and transactions receivable and payable – Related parties--Continued

	Parent company /Consolidated							
	Balances				Transactions			
	Other receivables	Other payables	Accounts receivable from sales	Trade payables	Sales of goods and PPE	Purchases of goods and services	Finance income	Finance costs
Companies controlled by stockholders of Grendene S.A.								
Vulcabrás|azaléia – CE, Calçados e Artigos Esportivos S.A.								
At 12/31/2017	**-**	**-**	**-**	**-**	**69**	**2**	**-**	**-**
At 12/31/2016	-	-	-	-	-	3	-	-
Vulcabrás|azaléia – BA, Calçados e Artigos Esportivos S.A.								
At 12/31/2017	**-**	**-**	**-**	**-**	**1,291**	**-**	**-**	**-**
Vulcabrás|azaléia Argentina S.A.								
At 12/31/2016	-	-	-	-	-	592	-	-
Vulcabrás Distribuidora de Artigos Esportivos Ltda.								
At 12/31/2016	-	-	-	-	5	-	-	-
Lagoa Clara Agrícola S.A.								
At 12/31/2016	-	-	-	-	-	8	-	-

b) Nature, terms and conditions of transactions

Related parties	Nature of transactions	Average terms
Direct subsidiaries		
Grendene Argentina S.A.	Sale of shoes	96 days
MHL Calçados Ltda.	Sale of inputs for the production of shoes	37 days
	Purchase of inputs for the production of shoes	55 days
Grendene USA. Inc.	Sale of shoes	199 days
	Purchases of services and referred to commissions	11 days
Grendene UK Limited.	Sale of shoes	197 days
Indirect subsidiary		
Grendene Italy S.R.L.	Sale of shoes	258 days
Companies controlled by stockholders of Grendene S.A.		
Vulcabrás|azaleia – CE, Calçados e Artigos Esportivos S.A.	Sale of inputs and molds for the production of shoes	32 days
	Purchases of services and referred to commissions	11 days
	Trademark use license	83 days
	Indemnities to representatives	2 days
Vulcabrás|azaleia – BA, Calçados e Artigos Esportivos S.A	Sale of molds used in production of shoes	33 days
Vulcabrás Azaleia Argentina S.A.	Purchase of products and services with subsidiary Grendene Argentina	1 days
Vulcabrás Distribuidora de Artigos Esportivos Ltda.	Sale of shoes	85 days
Lagoa Clara Agrícola S.A.	Purchase of fixed assets	1 days

Alexandre G. Bartelle Participações S.A. is the controlling stockholders of Grendene S.A.. There are no other transactions, except dividends paid, between the Company and the subsidiary, for the years ended December 31, 2017 and 2016.

20. Balances and transactions with related parties--Continued

c) Key management compensation

Salaries and social charges for key management personnel are as follows:

	Parent company	
	2017	2016
Board of Directors	**1,116**	1,056
Statutory Audit Board	**428**	401
Statutory Directors	**4,159**	3,915
	5,703	5,372

The Company offers a stock option plan as variable compensation, as described in Note 21, having recognized as an expense the amount corresponding to the option premium at December 31, 2017 of R$6,368 (R$5,283 in 2016).

The Company did not pay its key management personnel compensation in the categories of: a) long-term benefits; b) employment contract termination benefits; and c) post-employment benefits.

d) Other related parties

The Company uses travel agency and consultancy services provided by companies that are the property of a related party, as follows:

	Parent company	
	2017	2016
Dall'Onder Viagens & Turismo Ltda.	**479**	413
Mailson da Nóbrega Consultoria S/C Ltda.	**72**	66
Ochman, Real Amadeo Advogados Associados	**98**	54
	649	533

The transactions with related parties are carried out on a commutative basis and in accordance with the criteria for evaluation and selection of suppliers. The amounts spent on these services total approximately 0.04% of the Company's general expenses. There were no outstanding balances at December 31, 2017.

21. Stock option or subscription plan

At the Extraordinary General Meeting held on April 14, 2008, the Company's stockholders approved the "Stock Option or Share Subscription Plan", to be effective as from April 14, 2008, for the Company's directors and managers, except for directors nominated by the controlling stockholders. The plan is administered by the Company's Board of Directors, which may delegate this function, within the restrictions established by law to the committee created on February 12, 2015, by the 59th meeting of the Board of Directors.

The share purchase options granted under the Stock Option Plan are limited to 5% of the Company's capital. The shares to be delivered as a result from the exercise of options will be issued through a resolution to increase capital, by the Board of Directors, within the Company's authorized capital, or using treasury shares, within legal limits.

The Stock Option or Share Subscription Plan beneficiaries may exercise their options within 6 years from the grant date. The vesting year will be of up to 3 years, with releases of 33% after one year, 66% after two years and 100% after three years.

At December 31, 2017 the company recognized an expense of R$6,368 (R$5,283 in 2016) in Personnel expenses, for stock options, based on the fair value of the transactions on the date of their being granted.

a) Summary of grants of share purchase options or subscription

The options granted and the related changes were as follows:

2017								
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Closing balance
2/24/2011	10.80	2/24/2014	1,741,632	8,049	-	(8,049)	-	-
2/13/2014	9.84	2/13/2017	370,158	112,904	-	(112,904)	-	-
2/12/2015	8.42	2/12/2017	431,036	202,828	-	(199,792)	(3,036)	-
2/12/2015	8.42	2/12/2018	646,554	202,828	-	-	(10,833)	191,995
2/25/2016	7.80	2/25/2017	297,282	294,360	-	(289,853)	(4,507)	-
2/25/2016	7.80	2/25/2018	594,564	294,360	-	-	(15,735)	278,625
2/25/2016	7.80	2/25/2019	891,846	294,360	-	-	(15,735)	278,625
2/16/2017	8.99	2/16/2018	242,384	-	242,384	-	(10,008)	232,376
2/16/2017	8.99	2/16/2019	484,768	-	242,384	-	(10,008)	232,376
2/16/2017	8.99	2/16/2020	727,152	-	242,384	-	(10,008)	232,376
				1,409,689	**727,152**	**(610,598)**	**(79,870)**	**1,446,373**

21. Stock option or subscription plan--Continued

a) Summary of grants of share purchase options or subscription--Continued

2016									
Grant date	Option exercise price	Vesting period as from grant date	Maximum number of shares	Opening balance	Granted	Exercised	Canceled	Anticipation of the Grace period	Closing balance
2/24/2011	10.80	2/24/2012	580,544	5,956	-	(5,956)	-	-	-
2/24/2011	10.80	2/24/2013	1,161,088	5,956	-	(5,956)	-	-	-
2/24/2011	10.80	2/24/2014	1,741,632	53,114	-	(45,065)	-	-	8,049
2/28/2013	9.55	2/28/2016	795,549	240,561	-	(240,561)	-	-	-
2/13/2014	9.84	2/13/2016	246,772	117,371	-	(119,080)	-	1,709	-
2/13/2014	9.84	2/13/2017	370,158	117,371	-	-	(2,758)	(1,709)	112,904
2/12/2015	8.42	2/12/2016	215,518	210,298	-	(215,948)	-	5,650	-
2/12/2015	8.42	2/12/2017	431,036	210,298	-	-	(4,645)	(2,825)	202,828
2/12/2015	8.42	2/12/2018	646,554	210,298	-	-	(4,645)	(2,825)	202,828
2/25/2016	7.80	2/25/2017	297,282	-	297,282	-	(2,922)	-	294,360
2/25/2016	7.80	2/25/2018	594,564	-	297,282	-	(2,922)	-	294,360
2/25/2016	7.80	2/25/2019	891,846	-	297,282	-	(2,922)	-	294,360
				1,171,223	**891,846**	**(632,566)**	**(20,814)**	**-**	**1,409,689**

The fair value of options is calculated at the grant date of the plans, and is not subsequently remeasured since the settlement of the plan is made through equity instruments, as described in technical pronouncement CPC10 – R1 (IFRS 2) – Share-based Payment. Therefore, the Company is subject to variation of the share price in the market when the option is exercised by the beneficiaries of the plans.

In 2017, the Company acquired, for the fulfillment of the plans for exercise of options of share purchase, 547,841 shares, at an average cost of R$17.96, totaling R$9,837. In the first quarter of 2017, 610,598 shares were exercised at an average cost of R$17.80, totaling R$10,872.

In 2017, the Company recognized the difference between the average exercise price of the options and the average cost of the shares acquired for the fulfillment of these exercises, in the amount of R$937, directly in equity, since the settlement of options plans occurs through equity instruments, as described in technical pronouncement CPC 10 – R1 (IFRS 2) – Share-based payment.

b) Changes in operations with stock option

Changes involving issuance, exercise and cancellation of share purchase options in the year were as follows:

21. Stock option or subscription plan--Continued

b) Changes in operations with stock option--Continued

Plan	Changes	Grace period – from grant	Number of shares	Movement in shares	Premium	Expense of exercise or cancellation
Fourth	**Balance at the beginning of the year**	-	**8,049**	-	-	-
	(-) Exercise of share purchase option	2/24/2014	-	(8,049)	1.74	(14)
	Balance at the end of the year	-	-	-	-	-
Seventh	**Balance at the beginning of the year**	-	**112,904**	-	-	-
	(-) Exercise of share purchase option	2/13/2017	-	(112,904)	6.07	(685)
	Balance at the end of the year	-	-	-	-	-
Eighth	**Balance at the beginning of the year**	-	**405,656**	-	-	-
	(-) Canceled	2/12/2018	-	(4,426)	6.29	(19)
	(-) Exercise of share purchase option	2/12/2017	-	(199,792)	6.10	(1,219)
	(-) Canceled	2/12/2017	-	(3,036)	6.10	(18)
	(-) Canceled	2/12/2018	-	(1,795)	6.29	(8)
	(-) Canceled	2/12/2018	-	(2,531)	6.29	(14)
	(-) Canceled	2/12/2018	-	(2,081)	6.29	(12)
	Balance at the end of the year	-	**191,995**	-	-	-
Ninth	**Balance at the beginning of the year**	-	**883,080**	-	-	-
	(-) Canceled	2/25/2018	-	(6,824)	7.76	(26)
	(-) Canceled	2/25/2019	-	(6,824)	7.83	(18)
	(-) Exercise of share purchase option	2/25/2017	-	(289,853)	7.59	(2,200)
	(-) Canceled	2/25/2017	-	(4,507)	7.59	(34)
	(-) Canceled	2/25/2018	-	(2,643)	7.76	(12)
	(-) Canceled	2/25/2019	-	(2,643)	7.83	(8)
	(-) Canceled	2/25/2018	-	(3,484)	7.76	(22)
	(-) Canceled	2/25/2019	-	(3,484)	7.83	(14)
	(-) Canceled	2/25/2018	-	(2,784)	7.76	(20)
	(-) Canceled	2/25/2019	-	(2,784)	7.83	(13)
	Balance at the end of the year	-	**557,250**	-	-	-
Tenth	**Balance at the beginning of the year**	-	-	-	-	-
	Share purchase options issued	-	727,152	-	-	-
	(-) Canceled	2/16/2018	-	(2,282)	9.77	(4)
	(-) Canceled	2/16/2019	-	(2,282)	9.49	(2)
	(-) Canceled	2/16/2020	-	(2,282)	9.21	(1)
	(-) Canceled	2/16/2018	-	(2,987)	9.77	(17)
	(-) Canceled	2/16/2019	-	(2,987)	9.49	(8)
	(-) Canceled	2/16/2020	-	(2,987)	9.21	(6)
	(-) Canceled	2/16/2018	-	(4,739)	9.77	(38)
	(-) Canceled	2/16/2019	-	(4,739)	9.49	(19)
	(-) Canceled	2/16/2020	-	(4,739)	9.21	(12)
	Balance at the end of the year	-	**697,128**	-	-	-
	Movement in Stockholders' equity					**(4,463)**

c) Economic assumptions adopted for recognition of employee remuneration expenses

The Company recognizes expenses with variable remuneration of employees based on the fair value of the options granted, which was estimated using the Black-Scholes option pricing model. The Company utilized the following economic assumptions to determine this weighted average fair value:

21. Stock option or subscription plan--Continued

c) Economic assumptions adopted for recognition of employee remuneration expenses--Continued

	4th Plan	7th Plan	8th Plan	9th Plan	10th Plan
Grant date	2/24/2011	2/13/2014	2/12/2015	2/25/2016	2/16/2017
Total purchase options granted	1,741,632	370,158	646,554	891,846	727,152
Exercise price	10.80	9.84	8.42	8.88	9.81
Estimated volatility	27.60%	26.35%	26.51%	29.89%	20.16
Expected dividends	4%	6%	5%	6%	6%
Weighted average risk-free interest rate	12.50%	11.25%	12.75%	14.25%	9.50%
Maximum maturity	6 years	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	1.20	5.96	6.07	7.73	9.49

Volatility was determined based on the average historical fluctuation of the share price over the 18 months prior to the grant date.

The expected dividends were based on the average dividend payment per share in relation to the market value of the share over the last 12 months.

The Company uses as the risk-free interest rate the average projected Special System for Settlement and Custody (SELIC) rate published by the Central Bank of Brazil (BACEN).

The fair value of options is calculated at the grant date and recorded as an expense, on a straight-line basis, during the vesting period.

The Company is not committed to repurchase of shares that were purchased by the beneficiaries.

22. Net sales and services revenue

Net sales and services revenue is comprised as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Gross sales and services revenue	**2,689,927**	2,447,200	**2,727,675**	2,483,038
Domestic market	***2,170,180***	*1,934,408*	***2,172,640***	*1,936,016*
Adjustment to Present Value (AVP)	***(66,091)***	*(65,643)*	***(66,091)***	*(65,643)*
Foreign market	***567,823***	*527,601*	***603,111***	*560,149*
Adjustment to Present Value (AVP)	***(4,420)***	*(2,485)*	***(4,420)***	*(803)*
Tax incentives – Proapi/Procomex	***11,174***	*52,802*	***11,174***	*52,802*
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	***11,261***	*517*	***11,261***	*517*
Sales returns	**(46,604)**	(48,978)	**(47,829)**	(50,867)
Financial discounts	**(100,063)**	(89,445)	**(103,082)**	(91,194)
Taxes on sales and services	**(447,286)**	(398,707)	**(448,492)**	(399,749)
ICMS tax incentives – Provin/ Development Promotion Program of the State of Bahia (Probahia)	**156,650**	136,028	**156,792**	136,149
INSS	**(28,840)**	(28,377)	**(28,879)**	(28,413)
State Fiscal Balance Fund (FEEF)	**(4,200)**	(3,844)	**(4,213)**	(3,849)
	2,219,584	2,013,877	**2,251,972**	2,045,115

Taxes on sales

Sales revenues are subject to certain taxes and contributions, at the following basic rates:

	Rates
Value-added tax on sales and services (ICMS)	7.00% a 20.00%
Social Contribution on Revenues (COFINS)	7.60%
Social Integration Program (PIS)	1.65%
National Institute of Social Security (INSS)	1.50%

On September 1, 2016, Ceará State Decree 32,013 of August 16, 2016 came into force, instituting the Ceará State Fiscal Balance Fund (FEEF), to be in effect for 2 years. This fund will comprise deposits paid by companies that benefit under tax breaks in ICMS tax granted by the State of Ceará in the past or in the future. In counterpart, the tax incentives will be extended for twice the length of time for which this contribution continues to be given.

Companies holding these grants have to deposit, in the FEEF, 10% of the amount of the benefit used in each ICMS tax period. There is an exception: if in any month the amount of ICMS tax due has increased by 10% year-on-year, the taxpayer is exempt from making the FEEF deposit.

23. Segment reporting

The Company and its subsidiaries operate in the footwear and furniture segments, as described in Note 4.o.. In the footwear segment, although the Company's products are intended for different consumers and social classes, they are not controlled by management as independent segments, and the Company's results are accompanied, monitored and evaluated on an integrated basis.

Sales in the domestic and foreign markets and non-current assets were as follows:

	Parent company				Consolidated	
	2017		2016		2017	2016
	Gross sales	Non-current assets	Gross sales	Non-current assets	Gross sales	Gross sales
Footwear						
Domestic market	**2,104,089**	**13,997**	1,868,765	13,701	**2,105,580**	1,870,200
Foreign market	**585,838**	**32,772**	578,435	31,450	**621,126**	612,504
Furniture						
Domestic market	**-**	**-**	-	-	**969**	173
Foreign market	**-**	**-**	-	-	**-**	161
	2,689,927	**46,769**	2,447,200	45,151	**2,727,675**	2,483,038

The Company's non-current assets refer to investments in its subsidiaries: MHL Calçados Ltda. (headquartered in Brazil), Grendene Argentina S.A. (headquartered in Argentina), Grendene USA, Inc. (headquartered in the United States), Grendene UK, Limited. (headquartered in the United Kingdom) and A3NP Indústria e Comércio de Móveis S.A. (headquartered in Brazil).

The summary of the financial information of these subsidiaries is disclosed in Note 11.

The information on gross foreign sales revenue by geographic area was prepared considering the country where the revenue originated, that is, on the basis of sales realized by the parent company in Brazil and through direct and indirect subsidiaries abroad (Grendene USA, Inc., Grendene Argentina S.A., Grendene Italy S.R.L., Grendene UK, Limited. and Z Plus EUR Company S.R.L., in the United States, Argentina, United Kingdom and Italy, respectively), as follows:

	Consolidated	
	2017	2016
Gross sales to foreign market from:		
Brazil	**562,902**	558,829
USA	**41,696**	40,757
Argentina	**-**	121
Italy	**13,302**	9,372
United Kingdom	**3,226**	3,586
	621,126	612,665

23. Segment reporting--Continued

No customer individually represented more than 5% of sales in the domestic or foreign market.

Non-current assets abroad represent approximately 4% of the Company's non-current assets.

24. Costs and expenses by function and nature

The Company presents the statement of income by function. As required by technical pronouncement CPC 26 – R1 (IAS 1) – Presentation of Financial Statements. The classification by function and the breakdown of operating costs and expenses by nature are as follows:

a) Costs and expenses by function

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of goods sold	**(1,143,788)**	(1,041,003)	**(1,151,216)**	(1,048,588)
Selling expenses	**(477,632)**	(442,938)	**(525,817)**	(490,574)
General and administrative expenses	**(84,969)**	(83,796)	**(91,343)**	(97,514)
	(1,706,389)	(1,567,737)	**(1,768,376)**	(1,636,676)

24. Costs and expenses by function and nature--Continued

b) Costs and expenses by nature

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of goods sold				
Raw materials	**(511,376)**	(473,436)	**(513,286)**	(475,668)
Personnel expenses	**(445,663)**	(417,871)	**(448,514)**	(421,021)
Depreciation and amortization	**(46,824)**	(42,573)	**(47,010)**	(42,795)
Outsourced services	**(19,329)**	(20,563)	**(19,359)**	(20,665)
Electricity	**(22,377)**	(25,946)	**(22,617)**	(26,172)
Other costs	**(98,219)**	(60,614)	**(100,430)**	(62,267)
	(1,143,788)	(1,041,003)	**(1,151,216)**	(1,048,588)
Selling expenses				
Commissions	**(117,031)**	(101,504)	**(118,914)**	(103,620)
Freight	**(102,766)**	(94,312)	**(104,920)**	(96,569)
Copyrights	**(49,245)**	(49,175)	**(49,245)**	(49,175)
Management for development of trademarks	**-**	(3)	**-**	(3)
Advertising and publicity	**(112,790)**	(116,626)	**(125,563)**	(125,174)
Personnel expenses	**(33,607)**	(31,262)	**(42,062)**	(40,270)
Depreciation and amortization	**(2,702)**	(2,922)	**(4,388)**	(4,424)
Outsourced services	**(8,627)**	(8,756)	**(11,006)**	(11,306)
Travel and accommodation	**(6,153)**	(4,880)	**(6,488)**	(5,148)
Congresses	**(7,042)**	(5,021)	**(7,042)**	(5,021)
Rentals	**(2,927)**	(2,534)	**(16,239)**	(17,229)
Other expenses	**(34,742)**	(25,943)	**(39,950)**	(32,635)
	(477,632)	(442,938)	**(525,817)**	(490,574)
General and administrative expenses				
Personnel expenses	**(57,974)**	(57,805)	**(62,077)**	(66,141)
Depreciation and amortization	**(7,433)**	(7,240)	**(7,596)**	(9,130)
Outsourced services	**(8,365)**	(10,222)	**(9,987)**	(12,947)
Travel and accommodation	**(1,397)**	(1,117)	**(1,423)**	(1,158)
Tax expenses	**(5,006)**	(3,337)	**(5,130)**	(3,457)
Other expenses	**(4,794)**	(4,075)	**(5,130)**	(4,681)
	(84,969)	(83,796)	**(91,343)**	(97,514)
	(1,706,389)	(1,567,737)	**(1,768,376)**	(1,636,676)

25. Other operational revenues and expenses

	Parent company		Consolidated	
	2017	2016	2017	2016
Other operational revenues				
Write-off of investments in subsidiary	**-**	6,920	**-**	6,920
Provision for losses in subsidiary	**-**	28,000	**-**	28,000
Revenue from Sales of PP&E, scrap and other items	**1,669**	1,397	**4,001**	1,483
Recovery of expenses	**10,521**	2,612	**10,769**	2,828
Indemnity for rescission of contract	**-**	-	**-**	3,821
Revenue from sales of equity interest	**778**	-	**778**	-
Social security credits	**2,832**	-	**2,832**	-
Other operational revenues	**584**	1,393	**648**	1,402
	16,384	40,322	**19,028**	44,454
Other operational expenses				
Cost of sales and write-off of PP&E, scrap and other items	**(12,476)**	(6,995)	**(20,070)**	(19,454)
Fees for court proceeding and tax advice	**(221)**	(426)	**(227)**	(426)
Provision for labor risks	**1,366**	(565)	**1,381**	(578)
Losses on non-realization of assets	**(1,608)**	(3,605)	**1,710**	(20,021)
Impairment of fixed assets	**(4,733)**	-	**(4,733)**	-
Canceled credits	**-**	-	**-**	(1,414)
Indemnities to third parties	**(128)**	(9,043)	**(161)**	(9,043)
Exchange losses on investments	**(9,005)**	-	**(9,005)**	-
Disposal of investment	**(1,586)**	-	**(1,586)**	-
Revenue recovery	**(733)**	(13)	**(904)**	(531)
Indemnities labor	**(1,610)**	-	**(1,634)**	-
Other operational expenses	**(1,798)**	(1,700)	**(1,805)**	(1,832)
	(32,532)	(22,347)	**(37,034)**	(53,299)
	(16,148)	17,975	**(18,006)**	(8,845)

26. Finance result

	Parent company		Consolidated	
	2017	2016	2017	2016
Financial income				
Interest received from customers	**2,225**	2,162	**2,225**	2,163
Gains on foreign exchange hedge – BM&F	**29,976**	49,091	**29,976**	49,091
Income from financial investments	**168,850**	206,449	**169,812**	207,734
Foreign exchange gains	**32,053**	67,798	**34,503**	69,700
Adjustment to Present Value (AVP)	**72,967**	64,699	**72,967**	64,702
Other financial income	**3,020**	4,458	**3,045**	3,308
	309,091	394,657	**312,528**	396,698
Financial expenses				
Losses on foreign exchange hedge – BM&F	**(19,808)**	(11,563)	**(19,808)**	(11,563)
Financing expenses	**(10,454)**	(13,155)	**(10,852)**	(18,340)
Foreign exchange losses	**(30,326)**	(78,471)	**(31,240)**	(82,390)
COFINS and PIS tax on financial revenues	**(8,270)**	(10,887)	**(8,346)**	(10,967)
Other finance expenses	**(3,110)**	(3,158)	**(3,780)**	(4,920)
	(71,968)	(117,234)	**(74,026)**	(128,180)
	237,123	277,423	**238,502**	268,518

27. Insurance

The Company's management, based on the advice of its insurance consultants, contracts insurance policies from the main insurance companies in Brazil in amounts considered sufficient to cover possible losses. Taking into account the nature of the activities and the risks involved in the operations. The main types of insurance are as follows:

Type	Coverage	Coverage amount
Balance sheet	Property, plant and equipment and inventories are insured against fire, windstorm, flood and electrical damages.	R$374,269
Loss of profits	Profit plus fixed expenses.	R$32,000
Civil liability	Industrial operations, employer, products and moral damages.	R$5,250
Aviation	Hull, civil liability.	U$3,700
Vehicles	Material damages, moral and third-party civil liability (CL).	100% of Fipe valuation plus R$100 MD R$200 third party property damages and R$1,000 third party personal injury
Transportation	Export and import.	U$2,500 per shipment and/or consolidation

Board of Directors

Alexandre Grendene Bartelle
CEO

Pedro Grendene Bartelle
Deputy CEO

Maílson Ferreira da Nóbrega
Board member

Oswaldo de Assis Filho
Board member

Renato Ochman
Board member

Walter Janssen Neto
Board member

Audit Board

João Carlos Sfreddo
CEO

Eduardo Cozza Magrisso
Board member

Herculano Aníbal Alves
Board member

Executive Board

Rudimar Dall'Onder
Chief Executive Officer

Gelson Luis Rostirolla
Deputy Chief Executive Officer

Francisco Olinto Velo Schmitt
Chief Officer for Investor Relations, Finance and Administration

Controller's Department

Luiz Carlos Schneider
Controller
Accountant: CRC 70.520/O-5 "S" CE