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LISTED COMPANY

CNPJ: 89.850.341/0001-60

NIRE: 23300021118-CE

Management Report 2018

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Alexandre Grendene Bartelle
Chairman of the Board of Directors

Pedro Grendene Bartelle
Vice-Chair of the Board of Directors

Members of the Board of Directors
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Oswaldo de Assis Filho
Renato Ochman
Walter Janssen Neto

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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
Accounting – CRC/CE – SEC – 70.520/O-5

MANAGEMENT REPORT 2018

Dear Stockholders,

In accordance with the law and the by-laws, the management of Grendene S.A. presents to you, below, the Management Report 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, 2018.

Grendene®

Management Report 2018

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I. Message from management

Grendene reports net profit for 2018 of R$ 586 million, representing a return on equity since the start of the year of 19%. Of this amount, the Company proposes to distribute R$ 315 million in dividends and Interest on Equity, reinvesting the remaining amount in the Company. The book value per share of the Company has thus grown by 8% in the year, from R$ 3.57 to R$ 3.84. Since the stock was listed in October 2004 the Company has reinvested R$ 2.7 billion, incorporated into equity, and increased its annual profit by R$ 381 million. And in this period has distributed an aggregate of R$ 3.1 billion to stockholders as dividends and Interest on Equity (including the amounts proposed for 2018).

Considering Brazil's current precarious economic condition, which has produced major setbacks in domestic consumption in the last five years, we believe that the operational results have been good in these circumstances, since even having produced 43 million less pairs of shoes this year than in 2013 (which was our record year for volume), we have maintained our market share – both in domestic consumption, and also in maintaining our leadership in Brazilian exports of footwear. With a capacity utilization level of only 69% (full capacity is 250 million pairs/year), and several pressures on costs happening in the year, our Ebit was 1.9% lower. Even with these difficulties we have not sacrificed the future in exchange for short-term results – we have invested approximately R$ 4 million in training and development of people; some R$ 55 million in technological innovation and development; and R$ 150 million in building our brands via advertising, and marketing actions – all these are recorded in the accounts as expenses in 2018.

In our view, these actions strengthen us and position us to make the most of opportunities as growth resumes, and to increase margins when levels of production and capacity utilization return to the levels we have reached in the past, at least levels higher than the present.

To illustrate the actions we have taken, we highlight that we continue to brand-building with the ***Clube Melissa*** project, ignoring the adverse economy – we reached a total of 311 '***Clubes'*** at the end of 2018, 16 of them '***mini-Clubes***' – a new format for our children's public. This means an addition to the network of 48 new stores in the year – and an increase of 18% in the brand's selling area. To commemorate this momentum ***Melissa*** and the other Grendene brand, ***Rider***, held an all-street party in São Paulo's fashion street, Rua Oscar Freire, attracting 2,000 people to a show of the popular singer *Ludmila*. It also hooked up with *AWAYTOMARS* in a co-creation project receiving hundreds of ideas sent in by fans all over the world – which resulted in the biggest collaborative collection in the history of the brand – launched at Lisbon Fashion Week. With these actions we have positioned the brand in the domestic and international markets, in line with our strategy of continuing to grow in the domestic market, focusing on distribution through the *Clube Melissa* chain, and exporting products with higher added value.

The Ipanema brand formed a publicity partnership with the top singer *Anitta* – who has major penetration both in Brazil and worldwide – and with the Rider brand – and also with the US artist *Ahol Sniffs Glue*, a benchmark with the brand's target public, and also a collaboration with the Universal theme parks of the US.

With these efforts we continue our integrated work of developing our brands in Brazil and worldwide.

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 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.

While we regard the development of our brands, our people and our capacity for innovation and production as highly important, we also dedicate close attention to our financial results.

Operational cash flow in 2018 was R$ 483.8 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 55%, and a dividend yield of 4%. These results were achieved in spite of Financial revenue (expenses) being 33.4%, or R$ 80.0 mn, lower; and the positive effect on export revenue of a 14.5% increase in the exchange rate.

We always remember that these efforts are not transitory, but are a continuing part of our business model.

Indeed, a look at a longer period shows that management has generated value for stockholders, providing a significant return on equity as shown in this table (which contains only the formal accounting figures, without any adjustment):

Year (R$ '000)	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
2018	3,087,479	585,530	315,076	270,454	19.0%	3,341,108
Accumulated		**5,837,216**	**3,088,113**	**2,749,103**	**1,874.8%**	

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

In this period of 15 years the Company's equity increased from R$ 693 million to R$ 3.34 billion – a compound average growth rate of 11.1% p.a., while at the same time the Company paid dividends representing a yield of 12.1% p.a. on equity.

In the same period, Grendene's share price (adjusted for number of shares) has evolved from R$ 3.44 to R$ 8.20. Considering reinvestment of dividends paid, the Grendene share (GRND3) presented an average annual total return to shareholders of 12.5% p.a. This figure includes stock price appreciation, plus dividends, and is better than average total return on the shares in the Bovespa index, of 9% p.a. (also based on reinvestment of dividends).

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 15 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: Profit, Competitiveness, Innovation, Agility, and Ethics.

Finally, an essential tribute: In these 48 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	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR[1] 2013–2018
Gross sales revenue	2,711.4	2,720.3	2,631.8	2,483.0	2,727.7	2,825.0	3.6%	0.8%
Domestic market	2,146.9	2,077.7	1,899.8	1,870.3	2,106.6	2,168.0	2.9%	0.2%
Exports	564.5	642.6	732.0	612.7	621.1	657.0	5.8%	3.1%
Net sales revenue	2,187.3	2,233.3	2,202.8	2,045.1	2,252.0	2,333.4	3.6%	1.3%
Cost of goods sold	(1,193.6)	(1,207.4)	(1,134.9)	(1,048.6)	(1,151.2)	(1,227.3)	6.6%	0.6%
Gross profit	993.7	1,025.9	1,067.9	996.5	1,100.8	1,106.1	0.5%	2.2%
Operational expenses	(594.5)	(636.5)	(667.2)	(596.9)	(635.2)	(649.2)	2.2%	1.8%
Ebit	399.2	389.4	400.7	399.6	465.6	457.0	(1.9%)	2.7%
Ebitda	435.9	436.9	454.4	457.5	526.2	522.7	(0.7%)	3.7%
Net financial revenue (exp.)	103.6	135.5	182.3	268.5	238.5	158.9	(33.4%)	8.9%
Net profit	433.5	490.2	551.2	634.5	660.9	585.5	(11.4%)	6.2%

R$	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR[1] 2013–2018
Gross revenue per pair	12.54	13.27	14.58	15.18	15.92	16.33	2.6%	5.4%
Domestic market	12.96	13.60	14.12	15.13	16.67	16.36	(1.9%)	4.8%
Exports	11.17	12.29	15.91	15.33	13.81	16.22	17.5%	7.7%
Exports (US$)	5.18	5.22	4.78	4.39	4.33	4.44	2.5%	(3.0%)

R$	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR[1] 2013–2018
Basic profit per share	0.4807	0.5443	0.6114	0.7034	0.7328	0.6501	(11.3%)	(6.2%)
Diluted profit per share	0.4789	0.5431	0.6102	0.7019	0.7306	0.6483	(11.3%)	(6.2%)
Dividend per share	0.3328	0.2450	0.3059	0.3895	0.4188	0.3500	(16.5%)	1.0%

Million pairs	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR[1] 2012–2018
Volumes	216.2	204.9	180.4	163.6	171.4	173.0	1.0%	(4.4%)
Domestic market	165.7	152.7	134.5	123.6	126.4	132.5	4.9%	(4.4%)
Exports	50.5	52.2	45.9	40.0	45.0	40.5	(9.9%)	(4.3%)

Margins %	2013	2014	2015	2016	2017	2018	Change p.p.,[2] 2017–18	Change p.p.,[2] 2013–18
Gross	45.4%	45.9%	48.5%	48.7%	48.9%	47.4%	(1.5 p.p.)	2.0 p.p.
Ebit	18.3%	17.4%	18.2%	19.5%	20.7%	19.6%	(1.1 p.p.)	1.3 p.p.
Ebitda	19.9%	19.6%	20.6%	22.4%	23.4%	22.4%	(1.0 p.p.)	2.5 p.p.
Net	19.8%	22.0%	25.0%	31.0%	29.3%	25.1%	(4.2 p.p.)	5.3 p.p.

R$	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR[1] 2017–18
US dollar – at end of year	2.3426	2.6562	3.9048	3.2591	3.3080	3.8748	17.1%	10.6%
Average US dollar	2.1576	2.3536	3.3315	3.4901	3.1920	3.6545	14.5%	11.1%

Note:

1) CAGR: Compound annual growth rate.

2) p.p.: percentage points.

III. Market and macroeconomic conditions

In the Management Report on 2017 we had already warned that the serious fiscal problems of Brazil might halt or delay the economic recovery that everyone was hoping for in 2018. The year did start with a reasonable economic growth in the first quarter, but soon this lost traction, very probably caused by the country's political paralysis, and the government's consequent loss of ability to approve any of the expected reform. This situation was then exacerbated by the truck drivers' strike, and a deterioration in the international economic environment as commercial tension escalated between China and the United States. In the domestic market, although unemployment had begun to fall, this became very slow, and unable to impel consumption.

As we estimate it, once again – for the fifth year running – consumption of footwear in Brazil fell, or at the very best was stable at a low level, with apparent consumption around 3.5 pairs per head of population.

Inflation was controlled during the whole of 2018, and remained below the center of the target band, but factors such as the extremely low popularity of the government at the end of its period of office, a highly disputed and polarized presidential election, the strike in the transport sector, and the international tensions referred to above, combined with a volatility in the exchange rate, resulted in pressures on various costs, affecting our margins.

Another economic factor in 2018 was that interest rates were kept low, which penalized our financial revenues – while at the same time it was not enough to stimulate the economy and recovery of demand. This was undoubtedly a perverse combination of variables, such as had not previously happened even in this adverse economic period: Weak demand, low interest rates, FX volatility and pressure on costs.

In 2019 Brazil began with a new government and major, renewed, expectations. The new political situation, and the aims of the new government lead us once again to hope for a resumption in the Brazilian economy, with a fall in unemployment, increased income and recovery of consumption. On the other hand, there is still a need for caution. The work of economic reforms that is necessary to resolve the country's fiscal situation, while at the same time the international economy is showing signs of slowing down – which could have a negative effect on resumption of Brazilian economic activity – is challenging.

At Grendene we have made great efforts to compensate for the low level of activity and the adverse market, and we have succeeded in increasing revenues during this period, and indeed increasing margins – which in 2018 were higher than those we achieved in 2013, in spite of reduction of 43 million pairs sold in this period.

So, if there is a recovery in consumption in Brazil, as we expect to start in 2019, it will find us in much better conditions for taking advantage of the opportunities.

Brazilian footwear – Production and apparent consumption

Brazil (million pairs)	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013-2018
Production	1,036	998	944	868*	845*	826*	(2.2%)	(4.4%)
Imports	39	37	33	23	24	27	11.8%	(7.0%)
Exports	123	130	124	126	127	113	(10.8%)	(1.2%)
Apparent consumption	952	905	853	765*	742*	740*	(0.3%)	(4.9%)
Consumption per capita (pairs)	4.7	4.5	4.2	3.7*	3.6*	3.5*	(2.8%)	(5.7%)

Source: IBGE / Secex / Abicalçados. (*) Estimated by Grendene.

Grendene

Million pairs	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR / p.p. 2013–2018
Volumes	216.2	204.9	180.4	163.6	171.4	173.0	1.0%	(4.4%)
Volume share – Production	20.9%	20.5%	19.1%	18.8%	20.3%	20.9%	0.6 p.p.	-
Domestic market (DM)	165.7	152.7	134.5	123.6	126.4	132.5	4.9%	(4.4%)
Volume share – DM	17.4%	16.9%	15.8%	16.2%	17.0%	17.9%	0.9 p.p.	0.5 p.p.
Exports	50.5	52.2	45.9	40.0	45.0	40.5	(9.9%)	(4.3%)
Volume share – Exports	41.1%	40.3%	37.0%	31.8%	35.4%	36.3%	0.7 p.p.	(4.8 p.p.)

Source: Grendene S.A.

IV. Financial results

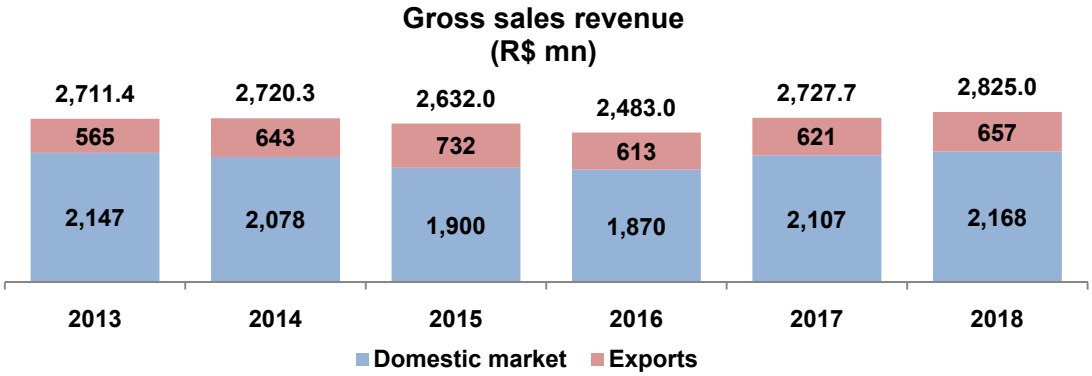
1. Gross sales revenue

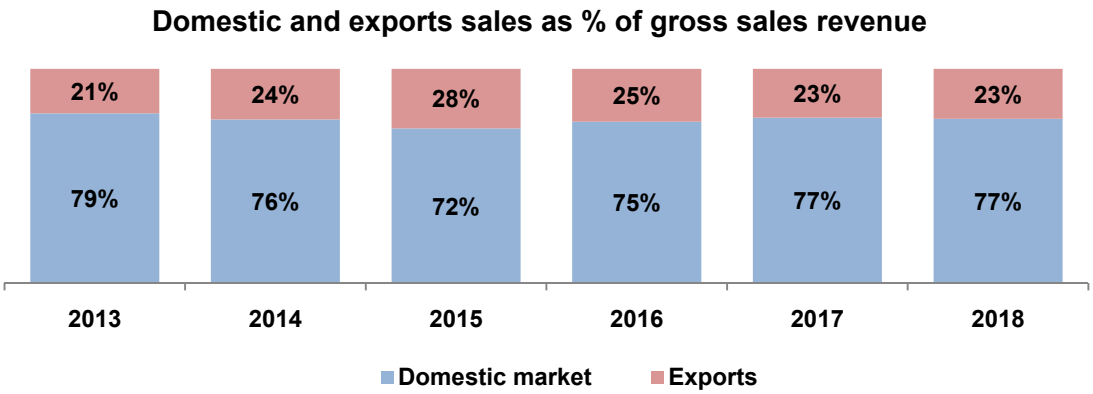
The changes in revenue, and especially in volumes of pairs in the domestic market are a good illustration of what has happened in the Brazilian footwear market during the worst crisis our economy has ever faced. If we compare Grendene's domestic market figures for the volume peak in 2013 (165.7 million pairs) and for 2018 (132.5 million pairs), this shows a loss of sales of 33.2 million pairs in the domestic market; but this represents a decline of only 4% p.a. over the period, a little below the decline in apparent consumption of footwear in the country over the same period. In addition, over this period our export sales declined by 10.0 million pairs p.a., totaling a decline of 43.2 million pairs.

In 2018 Grendene's revenue from the domestic market was 3% higher than in 2017, sustained by a small recovery in the economy, and in our assessment, a gain in market share. Over the period 2013-18, in which footwear consumption fell strongly in Brazil, our domestic market revenue grew by 0.2% p.a. more than the growth of the market, but less than the inflation indices over the period.

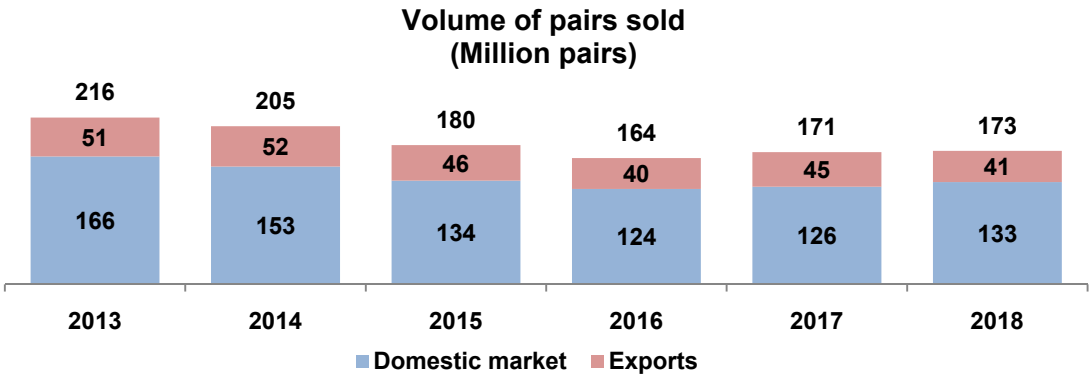
As well as the major decline in consumption in the country, during this period we still had further adverse factors: Change in the rate of the '*Reintegra*' benefit: it was 3% from January 2013 to February 2015; it was reduced to 1% in March 2015 through November 2015; further reduced to 0.1% in December 2015 through December 2016; increased to 2% in January 2017 through May 2018, and reduced to 0.1% for June 2018 to December 2018; and in exports, the *Proapi* benefit, which represented an increase of 10% in the value of export revenue, was abolished in March 2017. On top of this, there was the very high volatility of the exchange rate.

These charts give a clearer picture of the numbers:

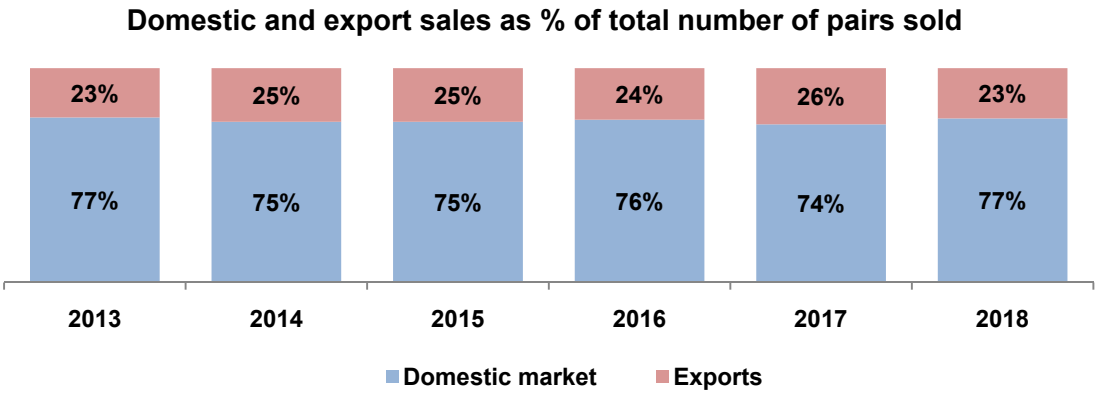


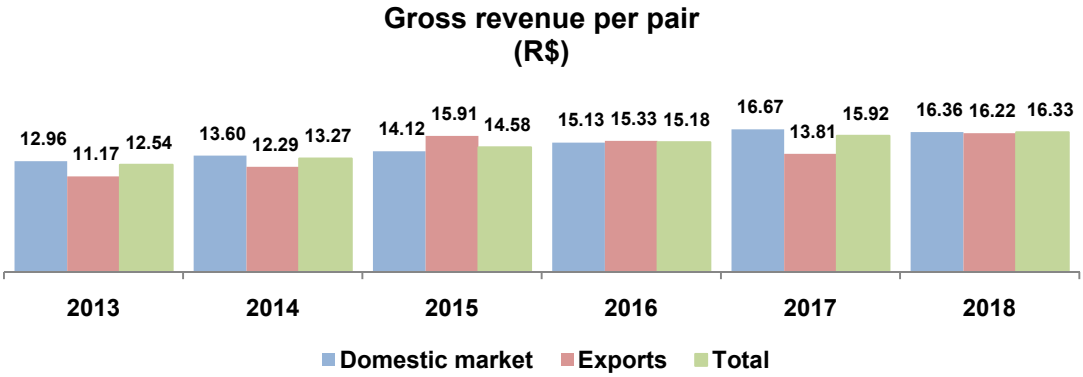


This chart shows the fall in the volume of pairs:



The profile of exports remained relatively stable in number of pairs, at between 23% and 26% of the total number of pairs sold:

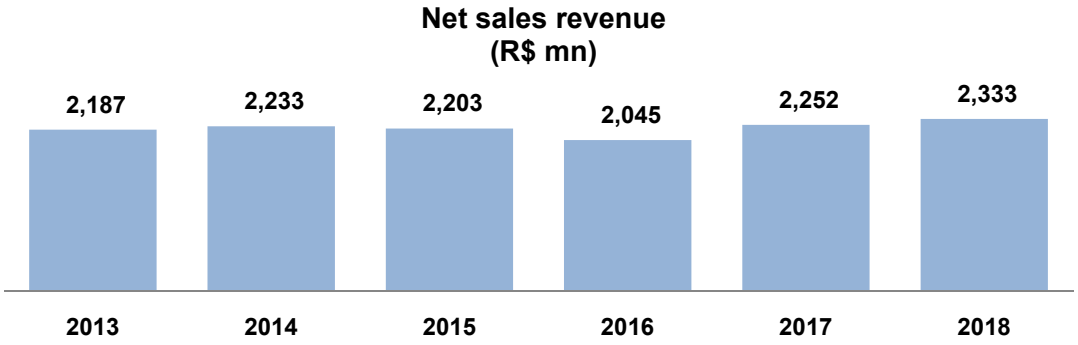




Data from the trade ministry, Secex and Abicalçados show Brazilian footwear exports in 2018 as being: 0.2% higher in average price per pair than in 2017, in US dollars; 10.5% lower in revenue in dollars; and 10.8% lower in number of pairs exported. By contrast, Grendene's average price per pair exported was 2.5% higher in US dollars, with total export revenue in dollars 7.6% lower, and the number of pairs exported 9.9% lower.
Our share in Brazilian footwear exports in 2018 was 35.7% by volume of pairs sold, and 18.4% in total export value in dollars. Comparing with 2017, we maintained the leadership in Brazilian exports of footwear, for the 16th year running.

2. Net sales revenue (R$ mn)

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013-18
Gross sales revenue	**2,711.4**	**2,720.3**	**2,631.8**	**2,483.0**	**2,727.7**	2,825.0	3.6%	0.8%
Domestic market	2,146.9	2,077.7	1,899.8	1,870.3	2,106.6	2,168.0	2.9%	0.2%
Exports	564.5	642.6	732.0	612.7	621.1	657.0	5.8%	3.1%
Deductions from sales	**(524.1)**	**(487.0)**	**(429.0)**	**(437.9)**	**(475.7)**	**(491.5)**	**3.3%**	**(1.3%)**
Returns and taxes on sales	(393.3)	(383.0)	(336.4)	(346.7)	(372.6)	(385.3)	3.4%	(0.4%)
Discounts given to clients	(130.8)	(104.0)	(92.6)	(91.2)	(103.1)	(106.3)	3.1%	(4.1%)
Net sales revenue	**2,187.3**	**2,233.3**	**2,202.8**	**2,045.1**	**2,252.0**	**2,333.4**	**3.6%**	**1.3%**



3. Cost of goods sold

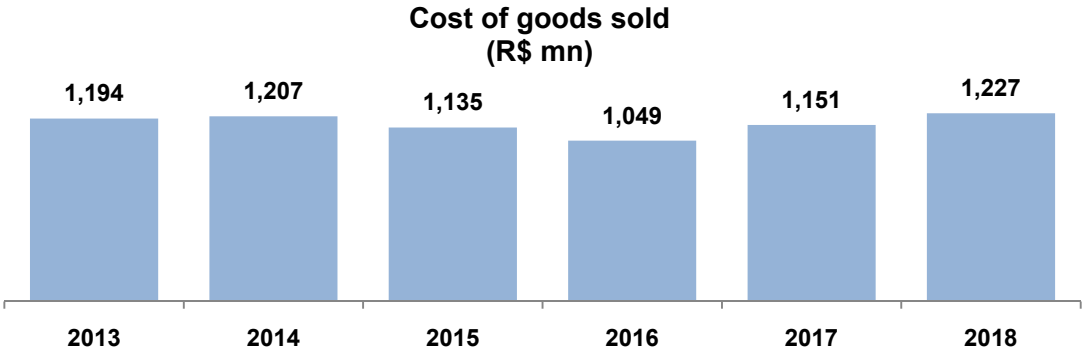
In 2018 we faced various pressures on costs, mainly caused by the FX volatility, and the transport strike. As well as the strike's effect on our freight and deliveries, items like glues, adhesives, resins, dyes, pigments and packaging suffered indirectly from the effects of the FX variation, inflating our costs. Prices of various inputs increased by more than inflation indices over the period of May through August, when some items such as PVC resin began to fall (on the international market). Clearly these prices of inputs affect the average prices of inventories and appear in COGS as and when the stock inventory cycle is completed, which in our case is an average of 85 days.

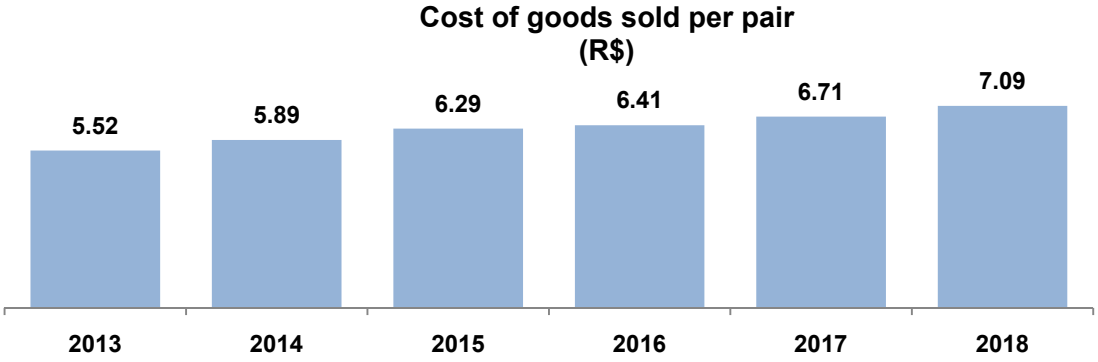
Even so, in the last five years, with all the FX volatility, increases in the minimum wage and domestic inflationary pressures, our unit cost (per pair sold) grew at the rate of 5.1% p.a., much lower than inflation in the period, and lower than the growth of 5.4% p.a. in gross revenue per pair. Over the whole of this period, total COGS grew at a CAGR of 0.6% p.a., less than the CAGR (of 1.3% p.a.) in net revenue.

These figures indicate the gain in productivity and show that the effects of costs associated with higher idle capacity were compensated for.

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

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013–18
Cost of goods sold	1,193.6	1,207.4	1,134.9	1,048.6	1,151.2	1,227.3	6.6%	0.6%
R$ per pair	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Change, 2017–18**	**CAGR 2013–18**
Cost of goods sold per pair	5.52	5.89	6.29	6.41	6.71	7.09	5.7%	5.1%

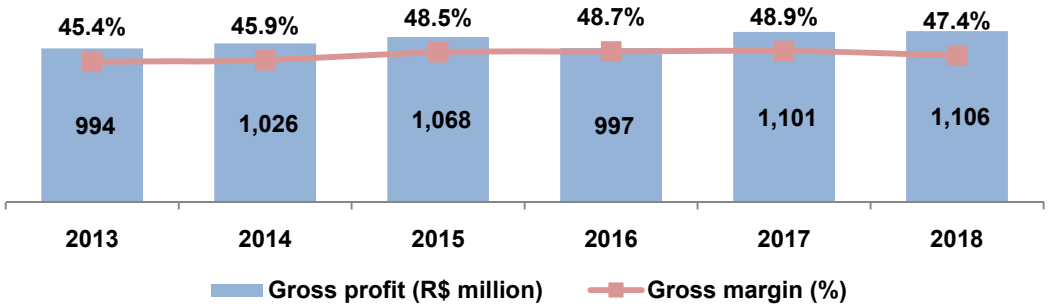




4. Gross profit

In 2018, even with the pressure of costs – shown by total COGS 6.6% higher (higher than the sum of growth in volume of pairs (1%) and the 5.7% growth in COGS/pair), and the difficulty of increasing net revenue via price increases – Gross profit was up 0.5% year-on-year, with gross margin 1.5 p.p. lower.

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013-18
Gross profit	993.7	1,025.9	1,067.9	996.5	1,100.8	1,106.1	0.5%	2.2%
Gross margin	45.4%	45.9%	48.5%	48.7%	48.9%	47.4%	(1.5 p.p.)	2.0 p.p.

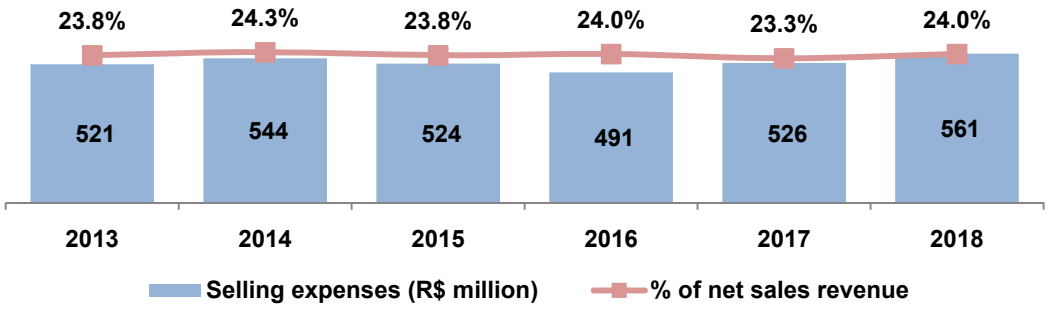


5. Operational expenses (SG&A)

5.1. Selling expenses

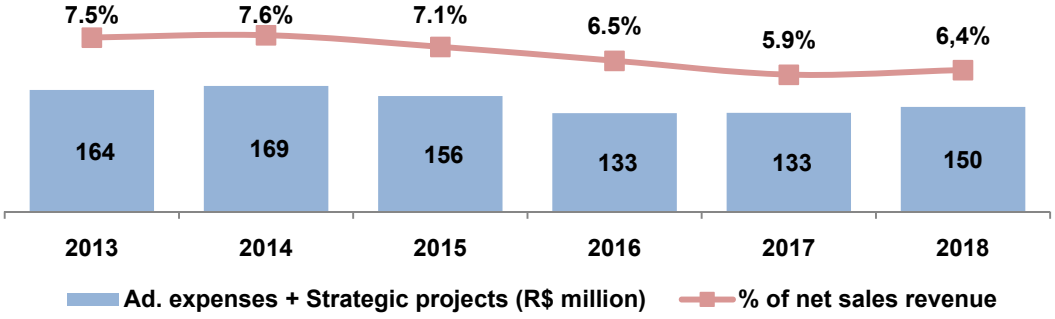
Grendene's selling expenses predominantly comprise variables such as freight (which rose in 2018), licensings (some affected by the exchange rate variation), commissions, advertising and marketing. Over the period they remained at approximately 24% of net revenue.

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013-18
Selling expenses	521.2	543.7	523.7	490.6	525.8	560.7	6.6%	1.5%
% of net sales revenue	23.8%	24.3%	23.8%	24.0%	23.3%	24.0	0.7 p.p.	0.2 p.p.



5.1.1 Advertising expenses

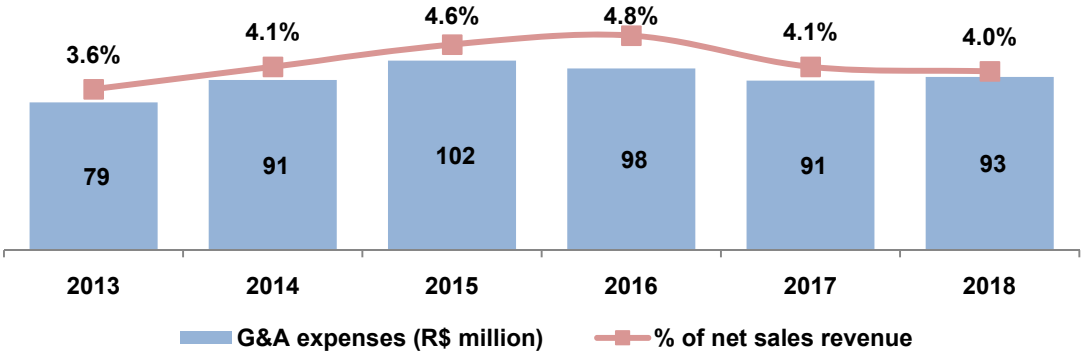
R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR, 2013–18
Advertising expenses (a)	163.7	169.2	148.9	125.2	125.6	141.3	12.5%	(2.9%)
% of net sales revenue	7.5%	7.6%	6.8%	6.1%	5.6%	6.1%	0.5 p.p.	1.4 p.p.
Strategic brand projects (b)	-	-	6.7	7.3	7.6	8.5	11.1%	-
Total (a + b)	163.7	169.2	155.6	132.5	133.2	149.8	12.4%	(1.8%)
% of net sales revenue	7.5%	7.6%	7.1%	6.5%	5.9%	6.4%	0.5 p.p.	(1.1 p.p.)



5.2. General and administrative expenses (G&A)

General and administrative expenses remained at the same percentage of net revenue, 4%: although this was higher than the target we have aimed for, it was lower than inflation.

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR, 2013–18
G&A expenses	79.0	91.3	101.7	97.5	91.3	92.6	1.4%	3.2%
% of net sales revenue	3.6%	4.1%	4.6%	4.8%	4.1%	4.0%	(0.1 p.p.)	0.4 p.p.



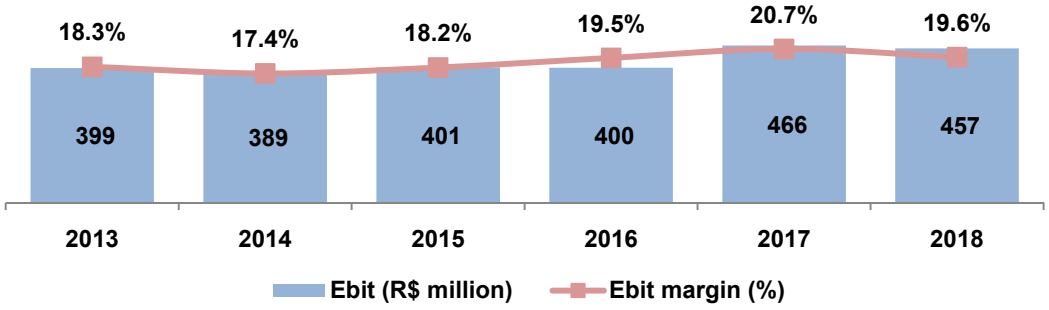
6. Ebit and Ebitda

6.1. Ebit

Ebit (Earnings before interest and taxes): We believe that because we have a high cash position which generates significant financial revenues, the operational profit of our activity is best characterized by Ebit.

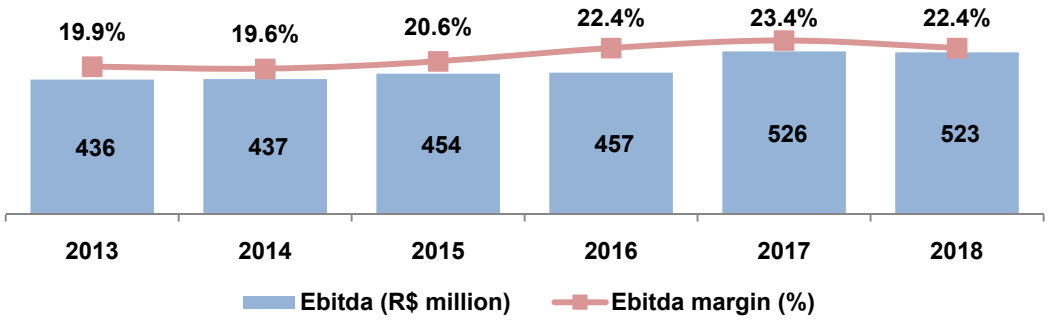
Reconciliation Ebit / Ebitda * (R$ mn)	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR, 2013–18
Net profit for the year	433,540	490,244	551,223	634,492	660,929	585,530	(11.4%)	6.2%
Non-controlling stockholders	465	(4,985)	(11,912)	(537)	(26)	-	-	-
Taxes on profit	68,805	39,678	43,768	34,157	43,189	30,311	(29.8%)	(15.1%)
Net financial revenue (expenses)	(103,577)	(135,524)	(182,347)	(268,518)	(238,502)	(158,878)	(33.4%)	8.9%
Ebit	**399,233**	**389,413**	**400,732**	**399,594**	**465,590**	**456,963**	**(1.9%)**	**2.7%**
Depreciation and amortization	36,648	47,461	53,652	57,878	60,639	65,761	8.4%	12.4%
Ebitda	**435,881**	**436,874**	**454,384**	**457,472**	**526,229**	**522,724**	**(0.7%)**	**3.7%**
Ebit margin	**18.3%**	**17.4%**	**18.2%**	**19.5%**	**20.7%**	**19.6%**	**(1.1p.p.)**	**1.3 p.p.**
Ebitda margin	**19.9%**	**19.6%**	**20.6%**	**22.4%**	**23.4%**	**22.4%**	**(1.0 p.p.)**	**2.5 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 2.8% of net revenue (2.8% in 2016, 2.7% in 2017 and 2.8% in 2018). The Company regularly invests at least 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 is that their net result in the long term should be very close to zero. Thus the result of Financial revenue (expenses) is primarily influenced by the interest rate (Selic), and the average level of cash held by the Company.

In 2018 we report net financial revenues of R$ 158.9 mn. This is 33.4% less than in 2017, as a result of the major fall in interest rates in the Brazilian economy in the year, as shown:

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013-17
Interest received from clients	1.9	1.9	2.9	2.2	2.2	2.1	(5.2%)	2.1%
Revenue from cash investments	81.9	100.1	168.2	207.7	169.8	135.5	(20.2%)	10.6%
Other financial revenues	2.2	5.2	4.1	3.3	3.0	7.5	147.1%	27.7%
Subtotal	**86.0**	**107.2**	**175.2**	**213.2**	**175.1**	**145.1**	**(17.1%)**	**11.0%**
Cost of financings	(19.6)	(21.8)	(20.5)	(18.3)	(10.9)	(10.4)	(3.8%)	(11.9%)
Cofins and PIS taxes on fin. revenues	-	-	(5.0)	(11.0)	(8.3)	(6.9)	(16.7%)	-
Other financial expenses	(5.2)	(5.6)	(9.6)	(4.9)	(3.8)	(4.1)	7.6%	(4.6%)
Subtotal	**(24.8)**	**(27.4)**	**(35.1)**	**(34.2)**	**(23.0)**	**(21.5)**	**(6.6%)**	**(2.8%)**
Net fin. revenues (exp.) (1)	**61.2**	**79.8**	**140.1**	**179.0**	**152.1**	**123.7**	(18.7%)	**15.1%**
Op. revenue on FX derivatives – BM&F	18.2	16.6	66.3	49.1	30.0	62.1	107.0%	27.8%
Foreign exchange gains	40.2	41.9	118.8	69.7	34.5	75.2	118.0%	13.3%
Subtotal	**58.4**	**58.5**	**185.1**	**118.8**	**64.5**	**137.3**	**112.9%**	**18.6%**
Op. revenue on FX derivatives – BM&F	(26.2)	(24.0)	(123.6)	(11.6)	(19.8)	(81.9)	313.2%	25.6%
FX variation expense	(28.5)	(33.5)	(80.3)	(82.4)	(31.2)	(74.0)	136.9%	21.0%
Subtotal	**(54.7)**	**(57.5)**	**(203.9)**	**(94.0)**	**(51.0)**	**(155.9)**	**205.3%**	**23.3%**
Net gain (loss) on FX variations (2)	**3.7**	**1.0**	**(18.8)**	**24.8**	**13.4**	**(18.6)**	**(238.5%)**	**(237.9%)**
Adjustments to present value (APV)	38.7	54.7	61.0	64.7	73.0	53.8	(26.3%)	6.8%
Financial result – APV (3)	**38.7**	**54.7**	**61.0**	**64.7**	73.0	53.8	(26.3%)	6.8%
Net fin. revenues (exp.) = (1) + (2) + (3)	**103.6**	**135.5**	**182.3**	**268.5**	**238.5**	**158.9**	**(33.4%)**	**8.9%**

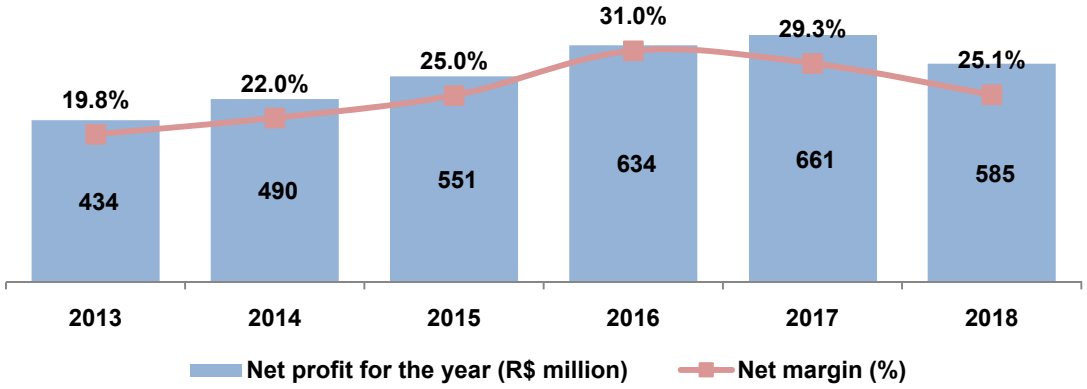
We remind you that in the consolidated financial statements discounts given to clients are classified as deductions from sales.

8. Net profit for the year

In the last five years adjusted net profit has grown 6.2% p.a. (CAGR over the years 2013-2018), and all the Company's margins have grown at positive CAGR in this period: Gross margin (by 2.0 p.p.), operational margin (by 1.3 p.p.) and net margin (by 5.3 p.p.). In 2018, with net Financial revenue 33.4% lower, and Ebit 1.9% lower, net margin fell by 4.2 p.p., to 25.1%.

It is important to note that in 2013, when we produced a substantially higher volume of pairs, and thus used a much larger percentage of our installed capacity, Net profit per pair was R$ 2.01/pair (on 216.2 million pairs); on the other hand in 2018 we achieved R$ 3.38/pair (on 173 million pairs) – indicating our increase in competitiveness over the period.

R$ mn	2013	2014	2015	2016	2017	2018	Change, 2017–18	CAGR 2013–18
Net profit for the year	433.5	490.2	551.2	634.5	660.9	585.5	(11.4%)	6.2%
Net margin	19.8%	22.0%	25.0%	31.0%	29.3%	25.1%	(4.2 p.p.)	5.3 p.p.



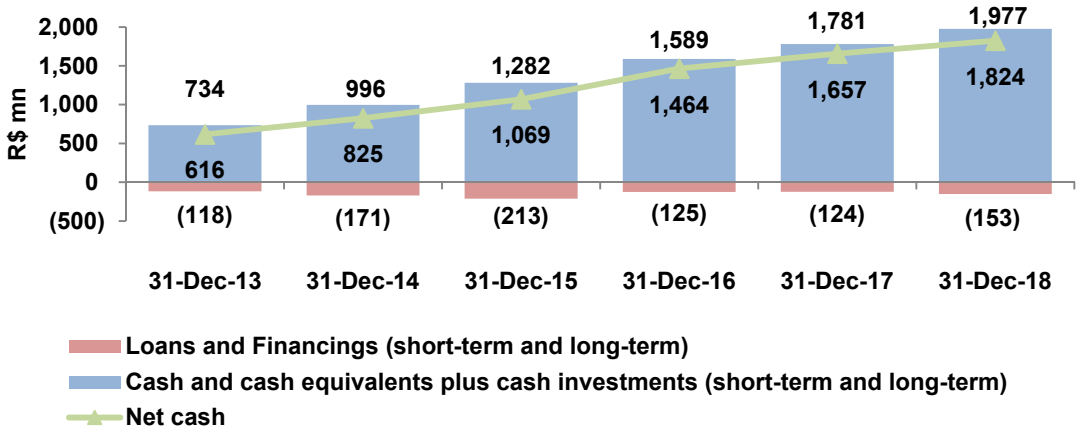
9. Cash generation

In 2018, cash generated by operational activities was R$ 483.8 million. This was allocated as to: R$ 72.2 mn for investments in fixed and intangible assets; R$ 75.6 mn, net, in financial investments; R$ 321.3 mn in dividends and Interest on Equity; and a net accounting loss of R$ 29.1 mn on the sale of treasury shares to meet exercise of stock options. In this period the Company raised loans of net R$ 0.8 mn. The final result was a reduction of R$ 13.6 mn in the amount held in current account and very short-term cash investments. The complete cash flow can be seen in the financial statements.

The regularity of these results can be seen over a longer period. We generated total cash of R$ 2.8 billion from our operational activities in the last six years – a confirming indication 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:

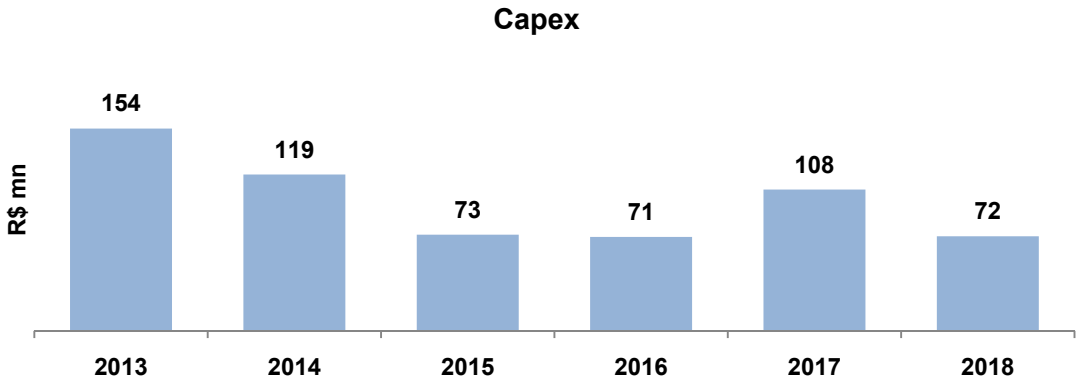


11. Capex (in fixed and intangible assets)

In 2018, our principal investments were in: maintenance of industrial buildings and facilities; replacement of fixed assets; and acquisition of new equipment for modernization of the manufacturing plant and greater efficiency of production.

We are estimating that we will invest around R$ 100 mn in 2019.

R$ mn	2013	2014	2015	2016	2017	2018	Change 2017–18	CAGR 2013–18
Capex	154.0	119.1	73.2	71.5	107.5	72.3	(32.8%)	(14.0%)



12. Independent auditors – CVM instruction 381/03

In compliance with CVM Instruction 381/2003, Grendene S.A. reports that it used the independent auditing services of Ernst & Young Auditores Independentes S.S. (EY), for a special review of its quarterly financial information, and auditing of its financial statements for the period ended December 31, 2018. Total fees paid were R$ 427,100. During this business year, EY was also contracted to carry out other services relating to advice on the Technological Innovation Incentive, for consideration of R$ 111,300, which corresponds to 20.7% of the total amount paid for the services of external auditing.

The Company's policy in contracting of the external auditors for any services not related to external auditing is based on the principles that preserve the auditor's independence, namely: (a) the auditor may not edit 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

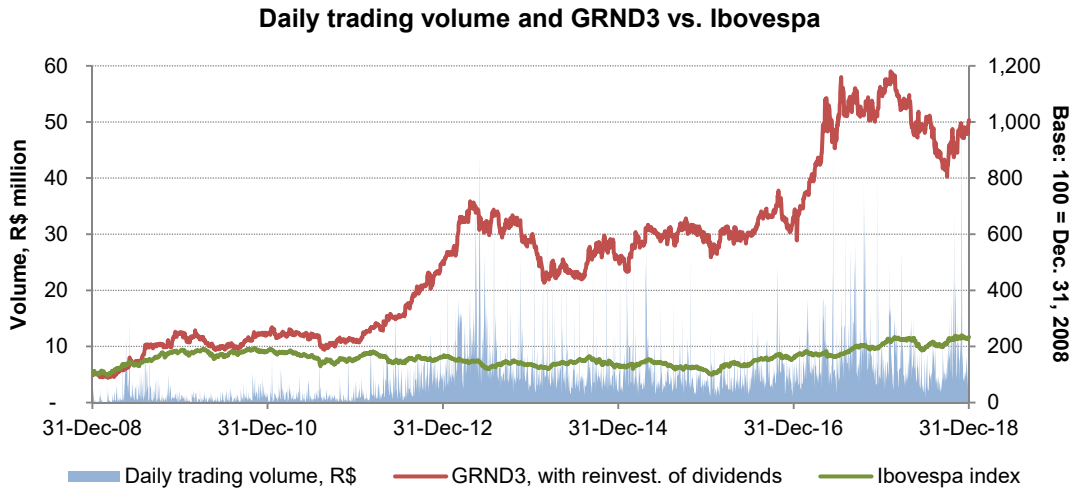
In 2018 a total of 207.6 million common shares were traded (equal to 0.8 times the total number of shares in the free float), in 530,400 trades, with total financial volume of R$ 1.7 billion. Daily averages were as follows – quantity: 847,000 common shares (0.33% of the free float); financial volume: R$ 7.0 mn; number of trades: 2,165.

Over full-year 2018 the value of Grendene's share (GRND3) declined in market price by 9.9%, when reinvestment of dividends is included, and the share price varied between a minimum of R$ 6.59 on October 1, 2018 and a maximum of R$ 10.15 on February 8, 2018 (this range in 2017 was between R$ 5.73 on January 16 and R$ 10.50 on July 18, 2017). In the same period (full-year 2018), the Ibovespa index rose by 15.0%. The dividend yield calculated on the basis of the weighted average price of the share in 2018 was 4.0% p.a. (4.7% p.a. in 2017).

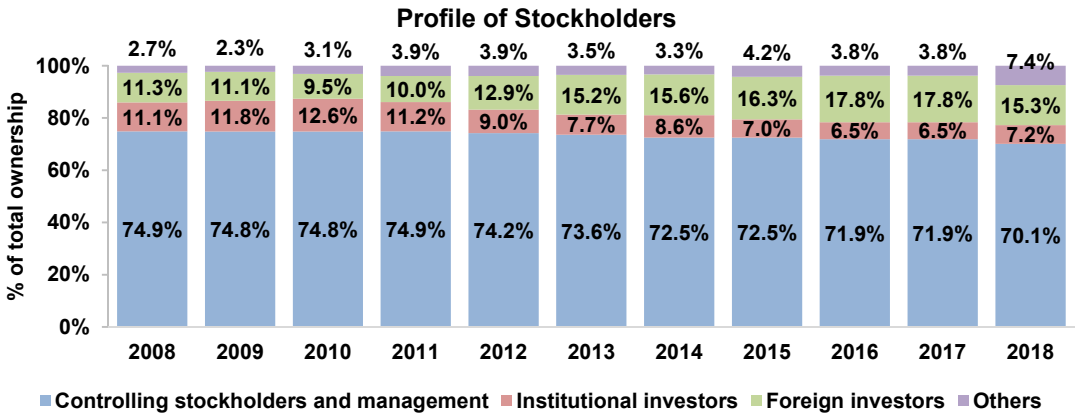
This table shows the number of shares traded, financial volume, and daily average trading:

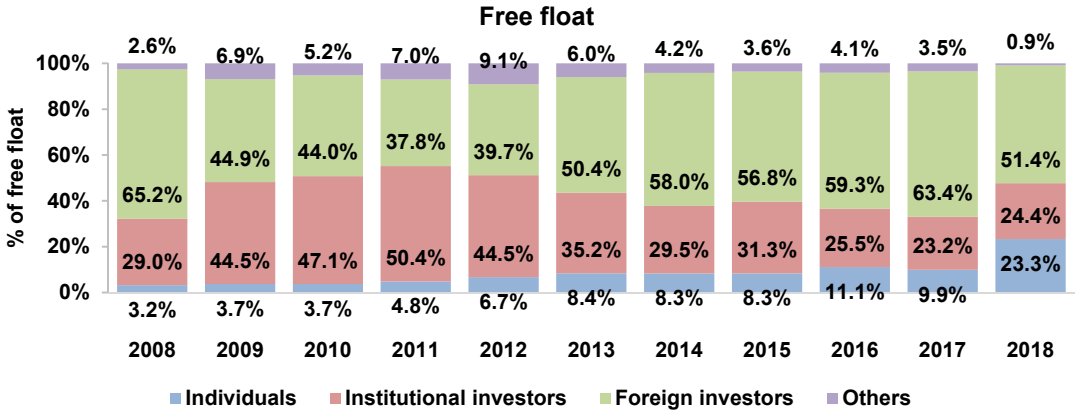
Year	Number of trading sessions	Number of trades	Quantity of shares	Volume R$	Price R$		Average quantity of shares		Average financial volume R$	
					Weighted average	Close	Per trade	Daily average	No. of trades	Daily average
2008	249	8,891	160,452,000	277,369,672	1.73	1.41	18,047	644,386	31,982	1,215,552
2009	246	19,171	181,936,800	374,317,949	2.06	3.32	9,490	739,580	19,525	1,521,618
2010	247	24,288	79,355,100	228,545,855	2.88	3.11	3,267	321,276	9,410	925,287
2011	249	60,621	103,622,700	296,444,307	2.86	2.56	1,709	416,155	4,890	1,190,539
2012	246	134,570	198,892,800	772,896,090	3.89	5.50	1,478	808,507	5,743	3,141,854
2013	248	395,765	319,708,800	2,146,610,763	6.71	6.03	808	1,289,148	5,424	8,655,689
2014	248	352,905	281,075,700	1,422,422,174	5.06	5.10	796	1,133,370	4,031	5,735,573
2015	246	331,468	236,060,100	1,317,558,400	5.58	5.61	712	959,594	3,975	5,355,928
2016	249	336,512	212,426,100	1,214,895,573	5.72	5.86	631	853,117	3,610	4,879,099
2017	246	381,336	264,217,200	2,202,354,443	8.34	9.48	693	1,074,054	5,775	8,952,660
2018	245	530,403	207,637,700	1,710,201,770	8.24	8.20	391	847,501	3,224	6,980,415

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



On December 31, 2018 Brazilian institutional investors held 7.2% of the share capital of Grendene S.A. (24.2% of the free float); foreign investors held 15.3% (51.4%% of the free float); small investors including individuals and shares held in treasury totaled 7.4% (24.4% of the free float); and the other 70.1% 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, 2017 and 2018:

Period	Highest price		Lowest price	
	R$	Date	R$	Date
1Q16	6.01	March 3, 2016	4.87	January 21, 2016
2Q16	5.90	April 1, 2016	5.08	June 16, 2016
3Q16	6.25	September 8, 2016	5.31	July 6, 2016
4Q16	6.85	October 28, 2016	5.34	December 15, 2016
1Q17	7.57	March 31, 2017	5.73	January 16, 2017
2Q17	9.60	May 12, 2017	7.40	April 3, 2017
3Q17	10.50	July 18, 2017	8.51	July 3, 2017
4Q17	9.40	December 26, 2017	8.44	November 10, 2017
1Q18	10.15	February 8, 2018	8.80	March 21, 2018
2Q18	9.49	April 26, 2018	7.67	May 29, 2018
3Q18	8.60	July 20, 2018	6.73	September 28, 2018
4Q18	8.24	November 27, 2018	6.59	October 1, 2018

2. Dividends

2.1. Dividend policy

For 2019, 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 bylaws, 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.

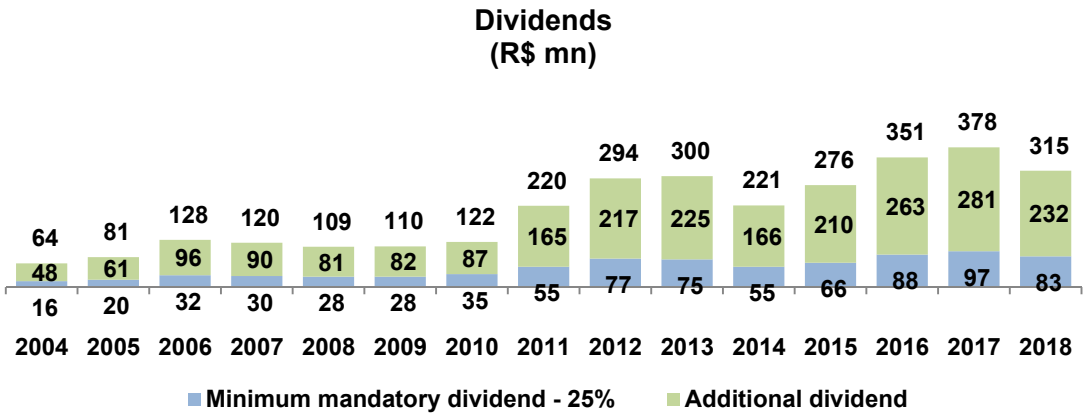
Additionally, we will maintain our policy of quarterly distribution of dividends.

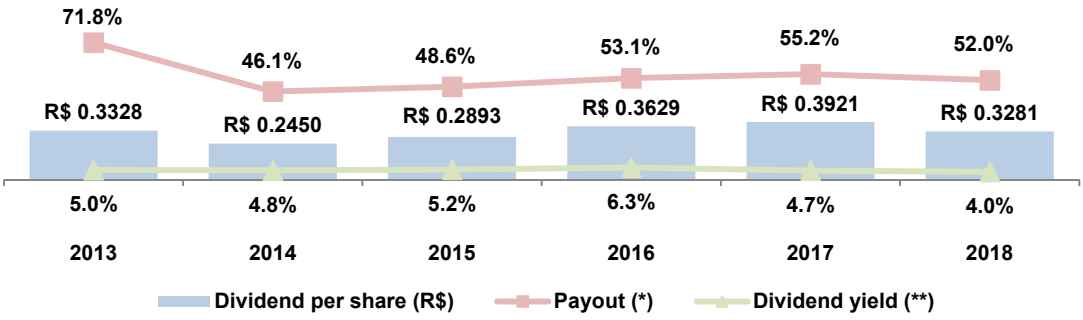
2.2. Dividends, and Interest on Equity, declared

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 2018, the value of the dividends distributed in accordance with this percentage specified in the Company's by-laws, was R$ 785 million. However, management proposed and the Company distributed an additional amount of R$ 2.3 billion, making a total of R$ 3.1 billion – which is 59.7% of the net profit after the legal reserve for the period, and represents R$ 3.42 per share (basis: 902,160,000 common shares).

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

Year	R$ mn		
	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
2018	83	232	315
Accumulated	**785**	**2,304**	**3,089**





(*) 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 2018 business year as follows:

a) **R$ 82,739,057.68** as minimum mandatory dividend, corresponding to 25% of the dividend calculation base, shown below;

b) **R$ 232,337,173.04** in dividends additional to the minimum mandatory dividend.

The sum of these amounts is a total of **R$ 315,086,230.72**, which after deduction of the quarterly interim payments on Equity plus dividends totaling, gross, R$ 171,642,046.10, results in a balance of **R$ 143,434,184.62**, which the Company will pay, subject to confirmation by the Annual General Meeting that approves the accounts for the business year 2018, as from **May 8, 2019** 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$ 13,434,184.62 as complementary dividends for the 2018 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 April 23, 2019 (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 April 24, 2019 on the B3** (São Paulo stock exchange).

Basis for the distribution of dividends in 2018

Grendene S.A. Holding company	R$
Net profit for the year (R$ mn)	585,529,816.72
(–) Tax incentives reserve	(237,154,837.02)
Basis for calculation of the Legal reserve	**348,374,979.70**
(–) Legal reserve	(17,418,748.98)
Basis for calculation of the minimum mandatory dividend	**330,956,230.72**
(–) Reserve for purchase of shares – Stock Options*	(15,880,000.00)
Dividends referring to the result for the 2018 business year	**315,076,230.72**
Minimum mandatory dividend – 25%	*82,739,057.68*
Dividend in addition to the minimum mandatory amount for 2018	*232,337,173.04*

** Reserve recorded in compliance with the stock options or subscription plan, under Clause 32, §2, of the Bylaws.*

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

Total of dividends and Interest on Equity proposed by management	**315,076,230.72**
(–) Dividend and I.O.E. paid in advance	(171,642,046.10)
(=) Balance to be distributed for 2018 business year	**143,434,184.62**
Balance of dividends	13,434,184.62
Balance of Interest on Equity, gross	130,000,000.00
(–) Income tax withheld at source (15%)	*19,500,000.00*
Balance of Interest on Equity, net	110,500,000.00

Dividends and Interest on Equity distributed / proposed							
Dividend / I.O.E.	**Date approved**	**Ex-dividend date**	**Date of start of payment**	**Gross amount R$**	**Gross amount per share R$**	**Net amount R$**	**Net amount per share R$**
Dividend [1 and 2]	Apr. 26, 2018	May 8, 2018	May 23, 2018	90,731,045.64	0.100570903	90,731,045.64	0.100570903
Dividend [1]	Jul. 26, 2018	Aug. 4, 2018	Aug. 16, 2018	33,685,929.15	0.037418208	33,685,929.15	0.037418208
Dividend [1]	Oct. 25, 2018	Nov. 7, 2018	Nov. 22, 2018	47,225,071.31	0.052457439	47,225,071.31	0.052457439
Dividend [1 and 3]	Feb. 14, 2019	Apr. 24, 2019	May 8, 2018	13,434,184.62	0.014922644	13,434,184.62	0.014922644
I.E. [1 and 3]	Feb. 14, 2019	Apr. 24, 2019	May 8, 2018	130,000,000.00	0.144403530	110,500,000.00	0.122743001
Total				**315,076,230.72**	0.349772724	**295,576,230.72**	0.328112195

1 *Dividends approved subject to ratification by AGM that considers the financial statements for the 2018 business year.*

2 *Value per share adjusted for the stock Split approved at the EGM of April 23, 2018.*

3 *Amount of dividend and interest on equity per share, subject to changes due to the quantity of treasury shares at the cut-off date (April 23, 2019). Statement of the unit value of the dividend and I.E. per share with base date Dec. 31, 2018*

3. Corporate governance best practices

Seeking to keep analysts and investors informed on the performance of our business, we have permanent channels of communication, we carry out visits, we take part in conferences and we make presentations in events at various locations around the world. We also maintain a specific site 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, depending on the interest shown by investors and stockholders.

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 28.9 million call options (the figure is adjusted for the stock splits of September 23, 2009 and April 23, 2018), equivalent to 3.2% of the Company's total shares. Of these, 12.6% remains unexercised (3.6 million shares), equivalent to 0.4% of the total shares (base date: December 31, 2018). Our shares are listed on the *Novo Mercado* of the B3 (São Paulo stock exchange), 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 (excluding this exercise of options). To comply with the other exercises of options the Company acquired shares in the market, and thus stockholders were not diluted.
In June 2018 we carried out a further stock split – in which 300,720,000 shares became 902,160,000 shares – once again aiming to improve liquidity for our shares and facilitate purchases of them by small investors, widening our shareholder base.

On September 5, 2017 a new drafting was approved for the Regulations of the *Novo Mercado* of the B3, allowing a period for adaptation to the new Regulations up to the annual general meeting that decides on the results for the year 2020. We are taking all the necessarily measures for adaptation of our practices and corporate documents within this period.

On December 31, 2018 the shares in circulation were 30.3% 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 the 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, 2018.

3.3 Awards & recognition

In 2018 **Grendene** was recognized and praised by various institutions for its performance in various sectors of activity.

10th *Taxpayers' Awards*
of the State of Ceará.

Clube Melissa
won the
Seal of Franchising Excellence
Awarded by the
Brazilian Franchising Association (ABF).

In the 18th edition of the
Valor 1000 Annual,
Grendene
was first placed in the category
Textiles, leather and apparel
for the fifth year running.

Grendene
received the
Estadão Empresas Mais 2018 Award
in the
Textile and Apparel
category.

At the *Nickelodeon Event 2018*,
Grendene Kids
was awarded the prize in the
Success Case
category for its
Paw Patrol
promotion.

Grendene
was awarded the *Next Step 2018* prize in
the
Outsystems Innovation Awards,
in the
Corporate Transformation
category.

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

VI. Social and environmental responsibility

Grendene's sustainable development program (*Jornada do Desenvolvimento Sustentável*) relates to 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 experiments and analyses for decision on the best was forward.

One of the main initiatives in relation to behavior, which has made a positive change in the behavior and attitude of Grendene employees, is the social-environmental program called *Prato Limpo* (*Clean Plate*). This educational program has been in place for three years at the end of 2018. It has aimed to reduce waste and show employees how useful knowledge can be replicated in their homes and personal life.

The combat of food waste and loss is a humanitarian initiative that is useful worldwide. It was included in the 2030 Agenda through the UN's *Sustainable Development Goal* (SDG) *No. 12*, which raises the challenge of reducing per capita food waste worldwide by half. In Grendene this recommendation was achieved, and exceeded, with a reduction of more than 70% in waste since the *Prato Limpo* program began in 2015.

In 2018 we achieved a further 4% reduction in food waste: we have achieved a wastage reduction of 10.51 grams/meal. The concept of complete use of food substances was also introduced. This aims to result in meals with a higher nutritional value and less waste, which employees can replicate in their homes. For 2019 we are preparing further awareness and educational initiatives for employees with the target of a waste quotient of 8 grams/meal.

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 reuse of wastes via recycling, and the quality of processes.

Another important objective is empowerment and inclusion for our employees and their local social 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:

Energy Efficiency

– We continued our permanent quest for reduction of electricity consumption per pair of shoes produced:

In 2018 we succeeded in reducing this index by 3.7%: this avoided consumption of 3.1 million kWh, and represented a reduction of 1,753.80 tons of CO_2 equivalent.

Cost of electricity	2016	2017	2018	Change % 2017–2018
Million kWh	99.0	106.6	105.0	(1.5%)
kWh per pair	0.604	0.629	0.606	(3.7%)

In 2018 we made progress on our project for LED lighting in our plants, and updated our temperature control technology in heating chambers and ovens, improving our energy performance.

In June 2018 one of Brazil's largest photovoltaic solar energy generation plants for self-consumption came into operation in Sobral, with peak installed capacity of 1.137 MWh. It produced approximately 1.2 million kWh, avoiding emission of CO2 equivalent according to international parameters.

Also, by use of energy bought from renewable sources, we reduced emission of CO_2 equivalent; and we also received a certificate of this reduction of emissions.

Waste management: In 2018 we recycled 92% of the waste produced: of this, 97% is directly used, and 3% undergoes some other process before being re-used.

In 2018 our use of new manufacturing technologies, including innovation and systematic adoption of leaner manufacturing methods, resulted in lower consumption of materials and more efficient use of raw materials and inputs in production, which also reduced generation of wastes. The organization has a *Solid Wastes Management Program* (PGRS), which monitors and controls identification, separation, storage and transport of hazardous and non-hazardous wastes.

In 2018 we reduced generation of wastes per pair produced by 10.9% from 2017 – this means we reduced creation of wastes by 174,536.62 kg.

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

	2016	2017	2018	Change, % 2017–2018
Waste (grams / pair)	8.92	9.28	8.27	(10.9%)

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. We re-used 81,102 m^3 of water, corresponding to 44% of all effluent treated. The re-used water is currently employed in toilet flushing, and for irrigation of the whole of the Company's green area and gardens.
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.

Our project for **Re-use of Industrial Effluents in Industry – Reduction of Consumption of Drinking Water** won the 25th **Brazilian Ecology Expression** (*Expressão de Ecologia*) **Award**. This is the biggest and longest-established environmental award in the South of Brazil: a total of 2,643 cases were inscribed by leading companies, NGOs, prefectures and other entities of the region during these last 25 years.

In 2018 our consumption of water per pair produced was increased by 2.9%, due to programed maintenance on refrigeration systems, new works and some refurbishment. In 2019 our efforts will concentrate on completion of implementation and re-use of effluents, increase water efficiency in processes, and combat of waste.

This shows the results for our drinking water consumption indicator:

Water consumption	2016	2017	2018	Change % 2017–2018
Thousand m^3	252.9	231.3	244.8	5.8%
Liters per pair	1.55	1.37	1.41	2.9%

Education initiatives inside and outside the Company

Grendene seeks to reduce environmental impacts in the communities living around its manufacturing plants, by promoting sustainable development education initiatives. We use education for selective waste collection as a simple basic approach which has a structuring and didactic effect in applying fundamental concepts of citizenship and sustainability. In 2018, at the Sobral Unit, we promoted selective collection at the Raimundo Pimentel Gomes municipal public school, with direct participation by 360 pupils in the 3rd and 4th grades, and total participation by 780 children aged 7 to 11. This is a permanent program – the school maintains it, with support and monitoring by Grendene through periodic visits and quantities of waste sent for recycling. For 2019 we plan to replicate this action for all of Grendene's units, and also for other public schools.

Sustainable Development audits and certifications

In 2018 we had 19 social, environmental and work safety audits in our manufacturing plants, carried out by both international and Brazilian clients. We were approved and certified in all of them.

The *Brazilian Textile Retail Association* (ABVTEX) is a sector effort led by fashion retailers to establish good practices in the supply chain, and to foster a sustainable environment, compliant with dignified working conditions. In 2018, as a result of all the initiatives and care that we implement in relation to the environment, Grendene received ABVTEX Recertification – for the fifth year running – reaffirming Grendene's commitment to ethics and sustainable development. This seal qualifies the Company to provide its products to signatory retailers in the program, and makes possible further market opening, since this certification is recognized as a credential of sustainability best practices.

VII Human resources

Employee engagement is an important factor for sustaining good performance in our business model. We believe that the more that employees are aligned to the Company's culture and guidelines, the more high quality will be their delivery of results, and consequently the more consistent the results for the business.

This is why our Human Resources area has the mission of contributing to the business's strategy, through integrated and competitive people management, in an environment of respect for the Company's values.

Developing the employees' knowledge, capacities and skills, to ensure that the business and human abilities that are seen as critical for the business's strategy are sustained, is a challenge with which the HR department engages, through the *Grendene University*; and the Company's more than 500 managers are continually trained for the exercise of leadership.

Our investments in the work environment related to machines and equipment, physical structures and input material, and qualification and training of our teams for secure and safe behavior, are practices that are now in our DNA and are part of our day-to-day routine. We also encourage employees to take home the knowledge that they acquire at Grendene and share it with their family and the community.

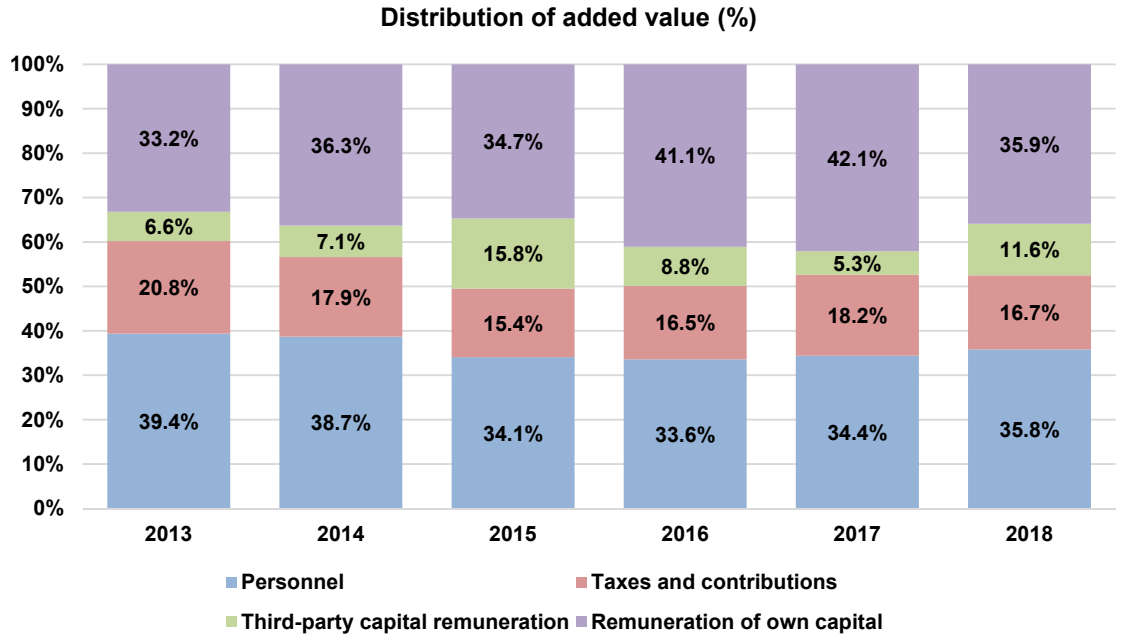
Social and corporate data	2012	2013	2014	2015	2016	2017	2018
Employees (average in the year)	24,084	28,085	26,543	24,176	20,401	20,080	20,240
Hours of training (per employee)	20	32	50	67	79	86	65
Meals (year)	5,955,479	6,867,415	4,990,607	4,815,696	5,046,305	5,247,901	5,147,132
Employees with special needs	1,016	1,288	1,146	1,088	971	1,012	1,001
Dental care (appointments/year)	20,485	19,875	17,818	17,555	15,391	17,822	13,530
Absenteeism	1.73%	2.08%	2.47%	2.17%	1.88%	1.83%	2.01%
Turnover (month)	2.12%	2.00%	1.66%	1.58%	1.72%	1.49%	1.53%
Basic food baskets distributed (units / year)	292,398	330,814	317,514	290,269	243,229	233,419	244,012

(*) Grendene's policy for distribution of 'basic food baskets' aims to reinforce the employee's food security. It has been adopted since 1990. The nutritional value of this 'basic basket' is maintained over time, with a varying set of options in the items offered. 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$ 1.633 billion (R$ 1.567 billion in 2017). The complete statement is a part of the financial statements.

Added value – R$'000	2013	2014	2015	2016	2017	2018
Personnel	515,243	521,449	531,099	518,382	538,554	584,544
Taxes and contributions	271,920	240,918	240,350	254,994	285,628	272,567
Third-party capital remuneration	86,700	95,615	246,601	135,728	82,396	189,997
Remuneration of own capital	433,540	490,244	539,311	633,955	660,903	585,530
Total	**1,307,403**	**1,348,226**	**1,557,361**	**1,543,059**	**1,567,481**	**1,632,638**



IX. Final considerations and outlook

We have some confidence that in 2019 the recovery in consumption that we had expected in previous years will finally take place. This depends on actions by the government to staunch the fiscal deficit, reactivate investments, and reduce unemployment.

In 2013, we sold 82.5 pairs of shoes in the domestic market for each 100 Brazilians. In 2018 this number had fallen to 58.6 pairs. Clearly these figures are only possible when we can sell to all the socio-economic groups, in all the states of the Brazilian Federation – and it is difficult to maintain them, and also grow, when the country has 12 million unemployed.

In our opinion the main drivers of our growth in the coming years will be reduction of unemployment and growth of GDP.

In the external market, we expect the situation to worsen. In our view, it will be more difficult to export, since the signs of slowdown in important markets such as the US and China are beginning to appear, while other markets – such as Latin America, Africa and Europe – have not recovered. These countries, as well as their reduced demand, have adopted various forms of barriers to make imports more difficult.

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, providing 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 2019, we expect to invest around R$ 100 million in maintaining our production capacity. Clearly this figure is only a reference, and we will not hesitate to invest in any good opportunities if they appear – at the moment we have none in prospect.

We believe it is probable that the recovery in the footwear sector will strengthen within the wider economic context. In 2019 we are expecting an increase in consumption in Brazil, which did not take place in 2018 – frustrating our expectations. In the footwear sector we are looking at the possibility of a growth on the order of 3% to 5% in the number of pairs – the same figure that we had forecast for last year, and which did not materialize; and similarly to last year, we do not have any concrete expectation that volume of pairs sold will return to its record level of 2013. We continue to believe that in the coming years, with the improvement of Brazil's economic situation, there can be a gradual return of the total of approximately 210 million pairs per year that we have lost over this period of economic adversity for Brazil. It is clear to us that this will not take place in one single year. 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.

Our expectation is that an increase in margins could come with the return of volumes, but we will not desist from our quest to increase productivity and rationalize production.

In the domestic market, consumers' desire for our products has not diminished, and their purchasing power is recovering. In a scenario of economic recovery, consumers, less indebted, with money in their pockets, and less fear of losing their job, should gradually resume their levels of consumption 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 should re-emphasize the execution of our strategy in 2019 with special attention to growth of market share, maximum taking of opportunities for growth – that we expect with the resumption of Brazilian consumption, and increase of margins that should be possible with greater use of installed capacity – 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, 2018, which were approved by the Company's Board of Directors on February 14, 2019. Based on our reviews, and further considering the report of Ernst & Young Auditores Independentes S.S., without qualification, dated February 13, 2019, 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 14, 2019.

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, 2018 and 2017.

Grendene

Financial statements
December 31, 2018 and 2017

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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 Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2018 and the statements of profit or loss, of comprehensive income, of changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Grendene S.A. as at December 31, 2018, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil, and with 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 the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance 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 provide a basis for 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 period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying 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. The disclosure of revenues earned by the Company is included in note 21 and its recognition criteria are described in explanatory notes 4 (a).

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

As mentioned in the explanatory note 15, a, the Company benefits from tax incentives related to the State value-added tax (ICMS), arising from the Incentive Program for Company Operation (PROVIN), in its activities located in the state of Ceará.

This incentive accounts for a 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, 2016, 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 form 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 accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of 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 and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Porto Alegre, February 13, 2019

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

Guilherme Ghidini Neto
Accountant CRC RS-067795/O-5

Grendene

Balance sheet
December 31, 2018 and 2017
(All amounts in thousands of reais)

	Note	Parent company 2018	Parent company 2017	Consolidated 2018	Consolidated 2017
Assets					
Current assets					
Cash and cash equivalents		**3,081**	18,240	**16,562**	30,119
Financial investments	6	**1,548,914**	1,537,477	**1,548,914**	1,537,477
Trade receivables	7	**955,428**	857,931	**944,214**	850,345
Inventories	8	**263,934**	258,317	**288,120**	279,267
Tax credits		**40,954**	47,553	**44,361**	50,810
Income tax and social contribution recoverable		**4,666**	3,812	**4,852**	3,841
Securities receivable		**59,481**	76,753	**59,560**	76,828
Costs and prepaid expenses		**4,504**	1,221	**7,870**	3,888
Other receivables		**15,621**	14,093	**15,860**	14,263
Total current assets		**2,896,583**	2,815,397	**2,930,313**	2,846,838
Non-current assets					
Long-term receivables:					
Financial investments	6	**411,482**	213,049	**411,482**	213,049
Judicial deposits		**1,078**	1,244	**1,149**	1,316
Tax credits		**996**	782	**996**	782
Receivables from subsidiaries		**-**	5,623	**-**	-
Deferred income tax and social contribution	16	**55,230**	54,869	**54,899**	54,627
Other receivables		**680**	309	**6,896**	7,342
		469,466	275,876	**475,422**	277,116
Investments	9	**48,253**	47,181	**412**	412
Property, plant and equipment	10	**408,515**	406,950	**423,746**	422,361
Intangible assets	11	**28,253**	27,040	**30,863**	29,281
Total non-current assets		**954,487**	757,047	**930,443**	729,011
Total assets		**3,851,070**	3,572,444	**3,860,756**	3,576,008

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

Grendene

Balance sheet
December 31, 2018 and 2017
(All amounts in thousands of reais)

	Note	Parent company		Consolidated	
		2018	2017	2018	2017
Liabilities					
Current liabilities					
Borrowings	12	**126,313**	89,666	**126,313**	89,666
Trade payables		**41,006**	35,387	**42,095**	36,705
Contractual obligations - Licensing		**12,238**	13,063	**17,192**	17,618
Commissions payable		**46,084**	41,686	**45,897**	41,622
Taxes and contributions		**34,659**	37,418	**34,836**	37,597
Income tax and social contribution payable		**5,946**	6,402	**5,946**	6,425
Salaries and social security charges payable		**69,853**	59,256	**71,122**	59,942
Provision for labor risks, tax and civil	13	**3,315**	824	**3,512**	833
Provision for losses in subsidiary	9	**-**	5,480	**-**	-
Advances from clients		**19,117**	31,152	**19,436**	31,384
Other payables		**532**	268	**560**	282
Total current liabilities		**359,063**	320,602	**366,909**	322,074
Non-current liabilities					
Borrowings	12	**26,614**	33,961	**26,614**	33,961
Provision for labor risks	13	**351**	272	**531**	452
Other debits		**-**	-	**1,660**	1,912
Total non-current liabilities		**26,965**	34,233	**28,805**	36,325
Equity	14				
Share capital		**1,231,302**	1,231,302	**1,231,302**	1,231,302
Capital reserves		**9,109**	8,385	**9,109**	8,385
Revenue reserves		**(15,565)**	(134)	**(15,565)**	(134)
Treasury shares		**2,222,040**	1,965,609	**2,222,040**	1,965,609
Other comprehensive income		**18,156**	12,447	**18,156**	12,447
Total equity		**3,465,042**	3,217,609	**3,465,042**	3,217,609
Total liabilities and equity		**3,851,070**	3,572,444	**3,860,756**	3,576,008

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

Grendene

Statement of income
December 31, 2018 and 2017
(All amounts in thousands of reais, except earnings per share)

	Note	Parent company 2018	Parent company 2017	Consolidated 2018	Consolidated 2017
Net sales revenue	21	**2,305,866**	2,219,584	**2,333,452**	2,251,972
Cost of goods sold	23	**(1,224,300)**	(1,143,788)	**(1,227,328)**	(1,151,216)
Gross profit		**1,081,566**	1,075,796	**1,106,124**	1,100,756
Selling expenses	23	**(500,778)**	(477,632)	**(560,749)**	(525,817)
General and administrative expenses	23	**(88,783)**	(84,969)	**(92,623)**	(91,343)
Other operating income	24	**24,984**	16,384	**25,788**	19,028
Other operating expenses	24	**(21,211)**	(32,532)	**(21,577)**	(37,034)
Provision for losses in subsidiary	9	**-**	(5,461)	**-**	-
Equity in the results of subsidiaries	9	**(39,029)**	(24,821)	**-**	-
Operating profit before finance result and taxes		**456,749**	466,765	**456,963**	465,590
Finance result	25				
Finance income		**335,374**	309,091	**336,205**	312,528
Finance costs		**(176,257)**	(71,968)	**(177,327)**	(74,026)
		159,117	237,123	**158,878**	238,502
Profit before taxation		**615,866**	703,888	**615,841**	704,092
Income tax and social contribution	16				
Current		**(30,697)**	(43,835)	**(30,583)**	(44,106)
Deferred		**361**	876	**272**	917
		(30,336)	(42,959)	**(30,311)**	(43,189)
Profit for the year		**585,530**	660,929	**585,530**	660,903
Total comprehensive income attributed to:					
Controlling interests				**585,530**	660,929
Non-controlling interests				**-**	(26)
				585,530	660,903
Basic earnings per share	14.g	**0.6501**	0.7328		
Diluted earnings per share	14.g	**0.6483**	0.7306		

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

Grendene

Statement of comprehensive income
December 31, 2018 and 2017
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2018	2017	2018	2017
Profit for the year	**585,530**	660,929	**585,530**	660,903
Items potentially reclassifiable to the Statement of income in the future:				
Exchange differences on subsidiaries abroad	**5,709**	1,642	**5,709**	1,642
Exchange losses on investments	**-**	7,774	**-**	7,774
Loss on disposal of investment	**-**	-	**-**	(46)
Comprehensive income for the year, net of taxes	**591,239**	670,345	**591,239**	670,273
Total comprehensive income attributed to:				
Controlling interests			**591,239**	670,345
Non-controlling interests			**-**	(72)
			591,239	670,273

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, 2018 and 2017
(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, 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	9.b	-	-	-	-	-	-	-	-	-	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	20.b	-	(4,463)	5,400	-	-	(937)	-	-	-	-	-	-	-
Expenses with stock option or subscription plan	20.b	-	6,368	-	-	-	-	-	-	-	-	6,368	-	6,368
Proposed appropriations:														
Tax incentives reserve	14.d	-	-	-	-	-	-	253.690	-	(253.690)	-	-	-	-
Legal reserve	14.d	-	-	-	-	20,362	-	-	-	(20,362)	-	-	-	-
Reserve for the acquisition of shares	14.d	-	-	-	-	-	9,104			(9,104)	-	-	-	-
Dividends distributed	14.f	-	-	-	-	-	-	-	(18,594)	(198,143)	-	(216,737)	-	(216,737)
Additional proposed dividends	14.f	-	-	-	-	-	-	-	19,630	(19,630)	-	-	-	-
Interest on Equity distributed	14.f	-	-	-	-	-	-	-	(110,500)	(30,000)	-	(140,500)	-	(140,500)
Interest on Equity (counted as part of total dividends)	14.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
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***585,530***	***5,709***	***591,239***	**-**	***591,239***
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**585,530**	**-**	**585,530**	**-**	**585,530**
Exchange differences on subsidiaries abroad	9.b	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,709**	**5,709**	**-**	**5,709**
Purchase of treasury shares		**-**	**-**	**-**	**(35,148)**	**-**	**-**	**-**	**-**	**-**	**-**	**(35,148)**	**-**	**(35,148)**
Change of the stock option or purchase subscription plan:														
Stock options exercised in the exercise		**-**	**-**	**(19,717)**	**19,717**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sale of treasury shares through exercise of purchase options		**-**	**-**	**6,050**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,050**	**-**	**6,050**
Result on sale of shares related to the stock option or subscription plan	20.b	**-**	**(5,840)**	**13,667**	**-**	**-**	**(7,827)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Expenses with stock option or subscription plan	20.b	**-**	**6,564**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,564**	**-**	**6,564**
Proposed appropriations:														
Tax incentives reserve	14.d	**-**	**-**	**-**	**-**	**-**	**-**	**237,155**	**-**	**(237,155)**	**-**	**-**	**-**	**-**
Legal reserve	14.d	**-**	**-**	**-**	**-**	**17,419**	**-**	**-**	**-**	**(17,419)**	**-**	**-**	**-**	**-**
Reserve for the acquisition of shares	14.d	**-**	**-**	**-**	**-**	**-**	**15,880**	**-**	**-**	**(15,880)**	**-**	**-**	**-**	**-**
Dividends distributed	14.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,630)**	**(171,642)**	**-**	**(191,272)**	**-**	**(191,272)**
Additional proposed dividends	14.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,434**	**(13,434)**	**-**	**-**	**-**	**-**
Interest on Equity distributed	14.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(110,500)**	**-**	**-**	**(110,500)**	**-**	**(110,500)**
Interest on Equity (counted as part of total dividends)	14.f	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,500**	**(130,000)**	**-**	**(19,500)**	**-**	**(19,500)**
On December 31, 2018		**1,231,302**	**9,109**	**-**	**(15,565)**	**165,353**	**31,915**	**1,900,838**	**123,934**	**-**	**18,156**	**3,465,042**	**-**	**3,465,042**

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

Grendene

Statement of cash flows
December 31, 2018 and 2017
(All amounts in thousands of reais)

	Parent company		Consolidated	
	2018	2017	2018	2017
Cash flows from operating activities				
Profit for the year	**585,530**	660,929	**585,530**	660,903
Adjustments to reconcile results to cash generated by operating activities:				
Equity in the results of subsidiaries	**39,029**	24,821	**-**	-
Depreciation and amortization	**62,961**	58,592	**65,761**	60,639
Deferred income tax and social contribution	**(361)**	(876)	**(272)**	(695)
Exchange losses on investments	**-**	7,774	**-**	7,774
Gain on sale and write-off of investment	**55**	2,817	**-**	-
Residual value after write-down the property, plant and equipment and intangible	**5,976**	4,504	**6,046**	12,359
Impairment of fixed assets	**-**	4,733	**-**	4,733
Provision for losses / Specific reversal	**-**	-	**-**	(3,270)
Stock option or subscription plan	**6,564**	6,368	**6,564**	6,368
Reducing accounts receivable from clients	**(4,515)**	3,656	**(4,581)**	2,993
Estimated losses for obsolete inventories	**4,064**	1,608	**4,064**	1,114
Provision for labor risks	**2,570**	(1,366)	**2,758**	(1,910)
Provision for losses in subsidiary	**-**	5,461	**-**	-
Interest expenses on borrowings	**1,804**	2,958	**1,804**	3,355
Interest income on financial investments	**(134,274)**	(163,876)	**(134,274)**	(163,876)
Foreign exchange variations, net	**26,656**	4,604	**29,857**	5,139
	596,059	622,707	**563,257**	595,626
Changes in assets and liabilities:				
Trade receivables	**(92,982)**	(105,227)	**(89,288)**	(92,385)
Inventories	**(9,681)**	(23,455)	**(12,917)**	(19,735)
Other receivables	**17,787**	10,221	**17,526**	11,916
Trade payables	**5,619**	(4,578)	**5,390**	(4,664)
Salaries and social security charges payable	**10,597**	9,220	**11,180**	8,445
Taxes and contributions	**(2,759)**	(617)	**(2,761)**	(778)
Income tax and social contribution payable	**(456)**	(1,155)	**(479)**	(1,135)
Advances from clients	**(12,035)**	26,970	**(11,948)**	26,787
Other payables	**3,837**	3,006	**3,875**	1,649
Net cash provided by operating activities	**515,986**	537,092	**483,835**	525,726
Cash flows from investing activities:				
In investment	**(39,927)**	(27,614)	**-**	-
Purchases of property, plant and equipment and intangible	**(71,715)**	(98,205)	**(72,266)**	(107,483)
Financial investments	**(3,750,932)**	(3,097,100)	**(3,750,932)**	(3,097,100)
Redemption of financial investments	**3,527,483**	2,815,398	**3,527,483**	2,815,398
Interest received	**147,853**	263,767	**147,853**	263,767
Loan to subsidiary	**5,623**	(687)	**-**	-
Loss on disposal of investment	**-**	-	**-**	(46)
Net cash used in investing activities	**(185,615)**	(144,441)	**(147,862)**	(125,464)
Cash flows from financing activities:				
New borrowings	**435,200**	307,748	**435,200**	324,588
Repayments of borrowings	**(432,830)**	(305,174)	**(432,830)**	(329,828)
Interest paid	**(1,530)**	(4,067)	**(1,530)**	(4,464)
Dividends paid	**(191,272)**	(216,737)	**(191,272)**	(216,737)
Interest on Equity paid	**(130,000)**	(160,000)	**(130,000)**	(160,000)
Purchase of treasury shares	**(35,148)**	(9,837)	**(35,148)**	(9,837)
Sale of treasury shares through exercise of purchase options	**6,050**	5,472	**6,050**	5,472
Net cash used in financing activities	**(349,530)**	(382,595)	**(349,530)**	(390,806)
Increase (decrease) in cash and cash equivalents	**(15,159)**	10,056	**(13,557)**	9,456
At the beginning of the year	**18,240**	8,184	**30,119**	20,663
At the end of the year	**3,081**	12,692	**16,562**	30,119
Item not affecting cash flow:				
Foreign exchange variations on investments	**(5,709)**	(1,642)	**-**	-
Provision for losses in subsidiary	**5,480**	-	**-**	-

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

Grendene

Statement of value added
December 31, 2018 and 2017
(All amounts in thousands of reais)

	Parent company				Consolidated			
	2018		2017		2018		2017	
Revenue								
Sales of goods	**2,653,122**		2,543,503		**2,681,999**		2,577,140	
Other income /expenses	**(2,595)**		(11,464)		**(2,033)**		(16,728)	
Provision for impairment of trade receivables	**5,976**		(3,290)		**6,007**		(3,477)	
Provision for losses in subsidiary	**-**		(5,461)		**-**		-	
	2,656,503		2,523,288		**2,685,973**		2,556,935	
Inputs acquired from third parties								
Raw materials used	**(689,705)**		(657,097)		**(668,378)**		(634,555)	
Other production costs	**(6,310)**		(3,533)		**(29,763)**		(32,469)	
Materials, electricity, outsourced services and other	**(592,838)**		(548,168)		**(623,386)**		(573,062)	
Impairment and recovery of assets	**(4,064)**		(1,608)		**(4,064)**		1,710	
Impairment of fixed assets	**-**		(4,733)		**-**		(4,733)	
	(1,292,917)		(1,215,139)		**(1,325,591)**		(1,243,109)	
Gross value added	**1,363,586**		1,308,149		**1,360,382**		1,313,826	
Retentions								
Depreciation and amortization	**(61,283)**		(56,959)		**(64,083)**		(58,994)	
	(61,283)		(56,959)		**(64,083)**		(58,994)	
Net value added	**1,302,303**		1,251,190		**1,296,299**		1,254,832	
Value added received through transfer								
Equity in the results of subsidiaries	**(39,029)**		(24,821)		**-**		-	
Finance income	**335,374**		309,091		**336,205**		312,528	
Rentals	**134**		121		**134**		121	
	296,479		284,391		**336,339**		312,649	
Value added to distribute	**1,598,782**		1,535,581		**1,632,638**		1,567,481	
Distribution of value added								
Personnel								
Direct compensation	**470,533**		433,397		**483,058**		445,238	
Benefits	**58,001**		53,352		**58,237**		53,553	
Government Severance Indemnity Fund for Employees (FGTS)	**43,186**		39,546		**43,249**		39,763	
	571,720	**35.76%**	526,295	34.27%	**584,544**	**35.80%**	538,554	34.36%
Taxes and contributions								
Federal	**218,699**		232,368		**219,536**		234,057	
State	**49,400**		48,449		**50,233**		49,096	
Municipal	**811**		733		**2,798**		2,475	
	268,910	**16.82%**	281,550	18.34%	**272,567**	**16.70%**	285,628	18.22%
Third-party capital remuneration								
Interest, discounts and financial charges	**169,339**		63,698		**170,378**		65,680	
Rentals	**3,283**		3,109		**19,619**		16,716	
	172,622	**10.80%**	66,807	4.35%	**189,997**	**11.64%**	82,396	5.26%
Remuneration of own capital								
Dividends	**185,076**		217,773		**185,076**		217,773	
Interest on Equity (counted as part of total dividends)	**130,000**		160,000		**130,000**		160,000	
Profits reinvested for the year	**270,454**		283,156		**270,454**		283,156	
Non-controlling interests in profits reinvested	**-**		-		**-**		(26)	
	585,530	**36.62%**	660,929	43.04%	**585,530**	**35.86%**	660,903	42.16%
	1,598,782	**100%**	1,535,581	100%	**1,632,638**	**100%**	1,567,481	100%

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

1. General information

a) Operational Context

Mercado segment, trading under the ticker GRND3, on the São Paulo stock exchange (B3 S.A. – Brasil, Bolsa, Balcão). It began trading in 1971. Its head office is at Av. Pimentel Gomes 214, Sobral, Ceará State, Brazil. Grendene S.A. is controlled by Alexandre Grendene Bartelle.

The Company and its subsidiaries ('the Group') have the following principal activities: development, production, distribution and sale of plastic footwear for all the socio-economic classes, in the women's, men's and children's market segments.

The Group currently has five industrial plants, in three States of Brazil: Ceará, Bahia and Rio Grande do Sul. It owns the brands Melissa, Grendha, Zaxy, Rider, Cartago, Ipanema, Pega Forte and Grendene Kids.

b) Authorization for issuance of the financial statements

Issuance of the Company's financial statements for the period ended December 31, 2018, was authorized by the Executive Board on February 13, 2018.

2. Basis of preparation and presentation of the financial statements

Of the accounting policies presented on December 31, 2017, those which have changed are the result of new accounting rules which came into effect on January 1, 2018, and they do not present any significant effect on the financial statements.

a) Statement of compliance

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).

All the material information in the financial statements accounting information, and only that information, is being presented, and is the information used by the Company in its management.

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

b) Basis of measurement

The financial statements have been prepared considering the historic cost as the basis of value, except in the case of certain financial instruments and the stock options plan, when applicable.

c) Functional currency and currency of presentation

These individual and consolidated financial statements are presented in Reais, which is the Company's functional currency.

d) Rules, and interpretations of rules, not yet in force

The rules, revisions and interpretations issued by the IASB, but not yet adopted up to the date of reporting of these financial statements, are as follows:

Rules	Nature of change	Period of validity
Interpretation IFRIC 23 / ICPC 22 – Uncertainty over Income Tax Treatments	Gives orientation on recognition and measurement of tax assets and liabilities on income when tax treatment applicable is uncertain.	01/01/2019
Change to IAS 12/CPC 32 - Taxation of profit	Deals with the tax consequences of distribution of profits, including payments in financial instruments classified as Stockholders' equity. These are recognized consistently with the transaction that generated the distributable profits (that is to say, in Net profit, Other comprehensive income or Stockholders' equity).	01/01/2019
Change to IAS 1 and IAS 8 - Definition of 'material'	Small alterations to improve and clarify the definition of "material".	01/01/2019
Change to IAS 8 - Accounting policies	Aims to help entities distinguish accounting policies from accounting estimates.	01/01/2019
IFRS 16 / CPC 06 (R2) – Leases	Presents a single model for accounting of leasing transactions. Establishes that all leases should be recognized in the lessee's balance sheet. Contracts for short terms and insignificant amounts may be excluded from the scope of this rule.	01/01/2019

The Company plans to adopt new rules on the effective date, and according to the prior assessment by the Company's Management, will not have any impact on its financial statements.

These are the only rules and interpretations issued which have not yet been adopted and which might, in the opinion of Management, have a significant effect on the profit or net equity disclosed by the Company.

3. The consolidated of the financial statements

The consolidated financial statements include the operations of the Company and its subsidiaries, as shown in this table:

	Principal characteristics	Country of head office	Stake	Percentage interest (%)	
				2018	2017
MHL Calçados Ltda.	Manufacture and sale of footwear.	Brazil	Direct	**99.998%**	99.998%
Grendene USA, Inc.	Commercial representative, selling and distributing our products in the US market. This is the parent company of Grendene New York L.L.C., which has head office in United States and operates in the same market segment.	USA	Direct	**100.00%**	100.00%
Grendene UK Limited.	Commercial representative, selling and distributing our products. Parent company of Grendene Italy S.R.L., a company with head office in Italy which operates in the same market segment.	United Kingdom	Direct	**100.00%**	100.00%
A3NP Indústria e Comércio de Móveis S.A.	Manufacture, sale, import and export of furniture and complimentary items based on plastic. Parent company of Z Plus EUR Company S.R.L., a company with head office in Italy which operates in the same market segment.	Brazil	Direct	**-**	100.00%
Grendene New York, L.L.C. (through Grendene USA, Inc.)	Commercial representative, selling and distributing our products in the US market.	USA	Indirect	**100.00%**	100.00%
Grendene Italy, S.R.L. (through Grendene UK Limited)	Commercial representative, selling and distributing our products.	Italy	Indirect	**100.00%**	100.00%
Z Plus EUR Company S.R.L. (through A3NP Indústria e Comércio de Móveis S.A.)	Manufacture, sale, import and export of furniture and complimentary items, based on plastic.	Italy	Indirect	**-**	100.00%

The business years of the financial statements of the subsidiaries included in the consolidation are coincident with those of the parent company, and the accounting policies having been applied uniformly in the consolidated companies and are consistent with international accounting rules.

4. Accounting policies

a) Recognition of revenue

Revenue is recognized in the Profit and loss account when its amount can be reliably measured and reflects the consideration that the entity expects to have the right to an exchange for transfer of products to clients. Revenue is measured based on fair value of the consideration received, excluding discounts, deductions and taxes or charges on the sale. The Company evaluates revenue transactions in accordance with the specific criteria for determining whether it is acting as agent or principal and, in the last analysis, has concluded that it is acting as principal in all its revenue contracts. A revenue is not recognized if there is significant uncertainty of its realization.

4. **Accounting policies**--Continued

a) Recognition of revenue--Continued

a.1) *Revenue from sale*

Revenue from sale of products is recognized in the Profit and loss account, when the control of the product is transferred to the client and the Company and its subsidiary have no further control or responsibility over the merchandise sold.

a.2) *Financial revenue*

Interest income is recognized using the effective interest rate. Interest revenues are included in the account line financial revenues, in the profit and loss account.

b) Transactions and balances in foreing currency

The monetary assets and liabilities of transactions in foreign currency are converted to the entity's functional currency, using the exchange rate of the reporting date, and profit and loss account items are converted at the average monthly rates for the periods. Non-monetary assets are converted from their functional currency to Reais at the FX rate of the accounting transaction. The functional currencies used in the conversion of the financial statements of these subsidiaries outside Brazil are: US dollars, pounds sterling and Euros.

c) Financial instruments

Financial instruments are measured at amortized cost or at fair value and classified in one of the following three categories:

1. Financial instruments at amortized cost.
2. Financial instruments measured at fair value through Comprehensive income.
3. Financial instruments measured at fair value through Profit or loss.

4. Accounting policies--Continued

c) Financial instruments--Continued

Subsequent measurement

Their subsequent measurement takes place at each recording date in accordance with the rules established for each type of classification of financial assets and liabilities.

The Company and its subsidiaries have classified their financial assets and liabilities in the category of amortized cost, in accordance with the purpose for which they were acquired or issued:

a) Financial assets at amortized cost: These are measured in a business model the objective of which is to receive contractual cash flows where the contractual terms give rise to cash flows which are, exclusively, payment of the principal and/or interest on it.

b) Financial assets measured at fair value through profit or loss: Any financial assets that are not classified in the aforementioned category stated above are measured and recognized at fair value through Profit or loss. Financial assets that are held for training and managed on the basis of fair value are also included in this category.

c) Financial liabilities*:* The entity should classify all financial liabilities as measured at amortized cost, except in the case of: (a) financial liabilities measured at fair value through Profit or loss; (b) financial liabilities that arise when the transfer of the financial asset does not qualify for derecognition, or when the continuing involvement approach is applicable; (c) a financial guarantee contract; (d) undertakings to grant loans with interest rates below market; or (e) a contingent consideration recognized by an acquiring party in a business combination to which CPC 15 should be applied.

The Company and its subsidiaries have assessed the classification of their financial instruments at January 1, 2018, based on the adoption of IFRS 9 / CPC 48, and have carried out the following re-classifications:

4. Accounting policies--Continued

c) Financial instruments--Continued

	Parent company					
	31/12/2017 – IAS 39/ CPC38				1/1/18 – IFRS 9/ CPC 48	
	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity	Amortized cost	Financial assets at fair value through profit or loss	Amortized cost
Financial assets						
Cash and cash equivalents	18,240	-	-	-	**-**	**18,240**
Financial investments	-	836,254	914,272	-	**-**	**1,750,526**
Trade receivables	857,931	-	-	-	**-**	**857,931**
Derivatives	-	407	-	-	**407**	**-**
Financial liabilities						
Borrowing	-	-	-	123,627	**-**	**123,627**
Trade payables	-	-	-	35,387	**-**	**35,387**
Commissions payable	-	-	-	41,686	**-**	**41,686**

	Consolidated					
	31/12/2017 – IAS 39/ CPC38				1/1/18 – IFRS 9/ CPC 48	
	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity	Amortized cost	Financial assets at fair value through profit or loss	Amortized cost
Financial assets						
Cash and cash equivalents	30,119	-	-	-	**-**	**30,119**
Financial investments	-	836,254	914,272	-	**-**	**1,750,526**
Trade receivables	850,345	-	-	-	**-**	**850,345**
Derivatives	-	407	-	-	**407**	**-**
Financial liabilities						
Borrowing	-	-	-	123,627	**-**	**123,627**
Trade payables	-	-	-	35,387	**-**	**36,705**
Commissions payable	-	-	-	41,686	**-**	**41,622**

c.1) *Derivative financial instruments and hedging activities*

The Company operates with derivative financial statements for the purpose of hedging, but does not use the practice of hedge accounting to account for its derivative transactions, which are not made for speculative purposes.

Derivatives are recorded initially at fair value on the date of contracting, and subsequently revalued, also at fair value, with any gains or losses being recognized in Financial revenue/expenses.

d) Cash and equivalents

Cash and equivalents include amounts in physical cash, bank deposits not attracting interest, and cash investments with immediate liquidity, able to be redeemed within three months or less from the date of acquisition, and with insignificant risk of change in value.

4. Accounting policies--Continued

e) Trade receivables

These are initially recognized at sale value; augmented by variation, when applicable; and subsequently recorded at amortized cost, less estimated losses on doubtful receivables, and discounts for punctuality.

Estimates of losses are made on amounts receivable more than 180 days past due, for which the risk of loss in their recovery is probable, excluding those that have court or out-of-court agreements, or guarantees. The amounts are considered by Management to be sufficient to cover any losses.

Estimated discounts for punctuality are recorded at the estimated amount of discount to be given, on trade bills becoming due at maturity, with counterpart in Deductions from sales.

Transactions in accounts receivable from clients have been adjusted to present value, taking into account the cash flows of the transaction and the implicit interest rate of the related assets.

f) Inventories

Valued at the average of acquisition or production cost, not exceeding their net realizable value. The net realizable value is calculated as the difference between the sale price in the Company's normal operation, less costs incurred to achieve the sale.

Estimated losses, for low-turnover or obsolete stock, are constituted on the basis of application of the average non-recoverable percentage on the balance of this inventory. The percentage takes into account the history of loss on resale of inventory, in which the Company recovers part of this cost. The Company's Management considers that estimated losses have been constituted in an amount sufficient for the low-turnover or obsolete inventory.

g) Investments

The Company has investments in directly and indirectly-controlled companies, which are valued by the equity method. The other investments are recorded at acquisition cost and adjusted to market cost when applicable.

In the acquisition of the investment, any differences between the cost of the investment and the investor's share in the net fair value of the identifiable assets and liabilities of the investee should be considered as goodwill.

4. Accounting policies--Continued

h) Property, plant and equipment

PP&E is recorded as cost of acquisition or construction, less depreciation, net of credits of PIS, COFINS and ICMS taxes offsettable, and reduced to recovery value, if appropriate. Depreciation of goods is calculated by the straight-line method at the rates mentioned in Note 10 and takes into consideration the estimated useful life of the assets. Residual values and the useful life of assets are reviewed and adjusted, if appropriate, at the end of each business year.

When significant parts of PP&E need to be replaced, their cost is recognized at the book value of the asset as a replacement, if the criteria for recognition had been met. All other expenses on repairs and maintenance are recognized in the profit and loss account, when they take place, and the book value of items or parts replaced is written off.

i) Intangible assets

Intangible assets have a defined useful life and are recognized at acquisition cost, net of accumulated amortization and impairment if any. Amortizations are calculated by the straight-line method at the rates mentioned in Note 11.

j) Perda por redução ao valor recuperável de ativos *(impairment)*

Fixed assets, intangible assets and other assets which present indications that their recorded costs are higher than their recovery value should be revised in detail to determine the need for posting of any impairment.

The Company carries out an annual analysis of impairment. In the 2018 business year no assets were identified that presented a need to calculate impairment. In 2017, the Company identified a net loss in book value of its PP&E assets totaling R$4,733.

k) Taxation

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

The provisions for current income tax and Social Contribution tax are calculated individually, by the Company and its subsidiaries, based on the tax laws in effect on the reporting date, in the countries where they generate tax revenue.

4. Accounting policies--Continued

k) Taxation--Continued

k.1) *Current income tax and social contribution*--Continued

Current taxes are presented net, and reported in assets when the balances paid in advance exceed the total payable on the reporting date, or in liabilities when there is an amount payable.

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

Deferred taxes are recognized only if there is a possibility of future generation of taxable profit in an amount significant to enable those temporal differences to be used.

Deferred income tax and Social Contribution tax are calculated by applying the rates expected to be in force on the reporting date at which the temporary differences are expected to be realized or demanded.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets with current tax liabilities, and if they are related with the taxed imposed by the same tax authority.

l) Borrowings

Borrowings are posted at contracted value, plus agreed charges including interest and monetary or FX updating incurred. After initial recognition they are measured at amortized cost using the effective rates method.

5. Julgments, estimated and accounting assumptions

The preparation of the individual and financial statements requires the use of certain critical accounting estimates and also the exercise of judgment by Management in the process of application of the accounting policies, for the accounting of certain assets, liabilities, revenues and expenses.

Estimates and the exercise of judgment are continuously reviewed and the results of this process are recognized in a timely manner and in any future periods affected. Actual results may diverge from these estimates when they materialize.

5. Julgments, estimates and accounting assumptions--Continued

Information on judgments, estimates and accounting assumptions that could result in significant effects on the amounts recognized in the financial statements are as follows:

Notes	Nature
Note 7	Estimated losses for doubtful receivables, estimated discounts for punctuality and the rates and periods applied in determining adjustments to present value.
Note 8	Estimated losses for obsolete inventory
Notes 10 and 11	Selection of useful lives of fixed and intangible assets, and impairments.
Note 13	Provisions for employment-law, tax, civil and environmental risks
Note 16	Deferred income tax and Social Contribution tax
Note 18	Sensitivity analyses of financial instruments.
Note 20	Fair value of share-based remuneration.

6. Financial investments

Financial investments are represented by Bank Deposit Certificates (CDBs), Debentures (Committed Transactions), Real-denominated Bank Debt Notes (LFINs), Government Debt Securities (NTNs-B), Letter Leasing Mercantile (LAM), and are classified as "Securities at amortized cost", according to the Company's investment strategy and Multimarket Investment Fund (consisting of shares). Note 17 gives the classification of these securities.

The Company's financial investments comprise the following components:

	Index	Average rate of return	Parent company / Consolidated	
			2018	2017
Indexed	CDI	103.07% and 101.51%	**1,555,813**	1,456,395
Fixed-rate and indexed	IPCA +	6.09 and 6.43% p.y.	**398,605**	294,131
Investment Fund	Market	10.63% p.y.	**5,978**	-
			1,960,396	1,750,526
Current assets			**1,548,914**	1,537,477
Non-current assets			**411,482**	213,049

7. Trade receivables

	Parent company		Consolidated	
	2018	2017	2018	2017
Domestic market	**750,021**	676,645	**750,535**	677,730
Foreing market	**251,781**	232,175	**240,387**	223,904
	1,001,802	908,820	**990,922**	901,634
Estimated losses on doubtful receivables	**(4,210)**	(10,186)	**(4,519)**	(10,549)
Punctuality discounts estimated	**(32,012)**	(27,907)	**(32,037)**	(27,943)
Adjustment to Present Value (AVP)	**(10,152)**	(12,796)	**(10,152)**	(12,797)
	955,428	857,931	**944,214**	850,345

7. Trade receivables--Continued

On December 31, 2018 the average period for receipt of sales in the domestic market was 96 days (89 days in 2017), and for sales in the export market 84 days (75 days in 2017).

The amounts of accounts receivable from clients are not subject to any lien or charge, nor guarantee given, nor any restrictions.

a) Classification by maturity and estimated losses for doubtful receivables

The constitution of estimated losses for doubtful receivables on past due trade bills, by maturity, is as follows:

	Parent company			
	2018		2017	
	Balance	Provision	Balance	Provision
Not yet due	**973,732**	**(2)**	870,991	-
Overdue for up to 30 days	**12,743**	**(3)**	13,776	-
Overdue from 31 to 60 days	**2,740**	**(2)**	2,827	(4)
Overdue from 61 to 90 days	**439**	**(10)**	541	(30)
Past due for more than 91 days	**12,148**	**(4,193)**	20,685	(10,152)
	1,001,802	**(4,210)**	908,820	(10,186)

	Consolidated			
	2018		2017	
	Balance	Provision	Balance	Provision
Not yet due	**961,287**	**(2)**	860,988	-
Overdue for up to 30 days	**13,205**	**(3)**	13,999	-
Overdue from 31 to 60 days	**2,902**	**(2)**	3,719	(4)
Overdue from 61 to 90 days	**484**	**(10)**	822	(30)
Past due for more than 91 days	**13,044**	**(4,502)**	22,106	(10,515)
	990,922	**(4,519)**	901,634	(10,549)

7. Trade receivables--Continued

b) Changes

The changes in estimated losses on doubtful receivables and estimated discounts for punctuality are as follows:

	Estimated losses on doubtful receivables		Punctuality discounts estimated	
	Parent company	Consolidated	Parent company	Consolidated
Balances at 12/31/2016	(6,896)	(7,934)	(25,085)	(25,110)
Additions	(11,887)	(12,272)	(94,773)	(94,897)
Realizations	7,647	7,861	77,785	77,901
Reversals	1,285	2,170	14,166	14,163
Exchange variation	(335)	(374)	-	-
Balances at 12/31/2017	(10,186)	(10,549)	(27,907)	(27,943)
Additions	**(4,632)**	**(4,836)**	**(98,745)**	**(98,831)**
Realizations	**9,606**	**9,842**	**82,940**	**83,038**
Reversals	**1,188**	**1,238**	**11,700**	**11,699**
Exchange variation	**(186)**	**(214)**	**-**	**-**
Balances at 12/31/2018	**(4,210)**	**(4,519)**	**(32,012)**	**(32.037)**

8. Inventories

	Parent company		Consolidated	
	2018	2017	2018	2017
Footwear	**50,838**	47,599	**74,596**	68,242
Inputs and components	**37,909**	51,880	**37,971**	51,965
Raw materials	**90,371**	72,863	**90,390**	72,921
Packaging materials	**15,168**	14,262	**15,183**	14,279
Intermediate and other materials	**30,793**	30,124	**30,881**	30,222
Goods for resale	**795**	761	**1,039**	810
Molds and tooling	**22,098**	19,698	**22,098**	19,698
Advances to suppliers	**8,092**	11,606	**8,092**	11,606
Imports in transit	**7,866**	7,792	**7,866**	7,792
Inventories held by third parties	**17,653**	15,317	**17,653**	15,317
Estimated losses for obsolete inventories	**(17,649)**	(13,585)	**(17,649)**	(13,585)
	263,934	258,317	**288,120**	279,267

8. Inventories--Continued

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

	Parent company	Consolidated
Balances at 12/31/2016	(11,977)	(12,471)
Additions	(51,233)	(51,233)
Realizations	10,167	10,688
Reversals	39,458	39,458
Exchange variation	-	(27)
Balances at 12/31/2017	(13,585)	(13,585)
Additions	**(43,118)**	**(43,118)**
Realizations	**6,711**	**6,711**
Reversals	**32,343**	**32,343**
Balances at 12/31/2018	**(17,649)**	**(17,649)**

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

9. Investments

a) Breakdown of investments

The Company's investments are as follows:

	Parent company		Consolidated	
	2018	2017	2018	2017
Subsidiaries	**52,465**	50,707	**-**	-
Unrealized profits in subsidiaries	**(4,624)**	(3,938)	**-**	-
Other investments	**412**	412	**412**	412
	48,253	47,181	**412**	412

9. Investments--Continued

b) Changes in investments

The changes in investments are as follows:

	Grendene Argentina S.A. (a) (c)	MHL Calçados Ltda.	Grendene USA, Inc. (a) (b)	Grendene UK Limited (a) (b)	A3NP Indústria e Comércio de Móveis S.A. (b) (d)	Outros	Total
Balances at 12/31/2016	1,362	13,701	19,917	10,171	-	412	45,563
Addition	734	-	-	-	-	-	734
Capital increase in subsidiary	-	-	19,850	7,030	-	-	26,880
Equity in the results of subsidiaries	(507)	296	(18,485)	(7,356)	1,231	-	(24,821)
Exchange differences on subsidiaries abroad	(3)	-	355	1,290	-	-	1,642
Exchange differences on subsidiaries abroad	-	-	-	-	(1,231)	-	(1,231)
Disposal of investment	(1,586)	-	-	-	-	-	(1,586)
Balances at 12/31/2017	-	13,997	21,637	11,135	-	412	47,181
Capital increase in subsidiary	**-**	**-**	**23,560**	**10,751**	**5,616**	**-**	**39,927**
Equity in the results of subsidiaries	**-**	**91**	**(26,996)**	**(12,043)**	**(81)**	**-**	**(39,029)**
Exchange differences on subsidiaries abroad	**-**	**-**	**4,446**	**1,263**	**-**	**-**	**5,709**
Realization for provision for losses in subsidiary	**-**	**-**	**-**	**-**	**(5,480)**	**-**	**(5,480)**
Disposal of investment	**-**	**-**	**-**	**-**	**(55)**	**-**	**(55)**
Balances at 12/31/2018	**-**	**14,088**	**22,647**	**11,106**	**-**	**412**	**48,253**

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

	MHL Calçados Ltda.		Grendene USA, Inc. (a) (b)		Grendene UK Limited (a) (b)		A3NP Indústria e Comércio de Móveis S.A. (b) (d)
	2018	2017	2018	2017	2018	2017	2017
Current assets	**13,977**	13,823	**27,819**	27,455	**12,858**	10,536	144
Non-current assets	**647**	651	**16,186**	16,478	**7,668**	7,986	-
Total assets	**14,624**	14,474	**44,005**	43,933	**20,526**	18,522	144
Current liabilities	**356**	288	**16,860**	18,078	**7,635**	5,755	10
Non-current liabilities	**180**	189	**920**	910	**739**	1,002	5,614
Total liabilities	**536**	477	**17,780**	18,988	**8,374**	6,757	5,624
Equity of subsidiaries	**14,088**	13,997	**26,225**	24,945	**12,152**	11,765	(5,480)
Percentage of interest	**99.998%**	99.998%	**100.00%**	100.00%	**100.00%**	100.00%	100.00%
Interest in equity (investment)	**14,088**	13,997	**26,225**	24,945	**12,152**	11,765	-

9. Investments--Continued

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

	Grendene Argentina S.A. (a) (c)	MHL Calçados Ltda.		Grendene USA, Inc. (a) (b)		Grendene UK Limited (a) (b)		A3NP Indústria e Comércio de Móveis S.A. (b) (d)	
	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	31	**3,296**	4,161	**40,679**	42,780	**16,968**	17,333	**-**	5,138
Costs and expenses	(564)	**(3,205)**	(3,865)	**(67,405)**	(61,656)	**(28,595)**	(24,633)	**(81)**	(9,368)
Profit (loss) of the subsidiaries for the year	(533)	**91**	296	**(26,726)**	(18,876)	**(11,627)**	(7,300)	**(81)**	(4,230)
Percentage of interest	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)	**91**	296	**(26,726)**	(18,876)	**(11,627)**	(7,300)	**(81)**	1,231
Unrealized profits	-	**-**	-	**(270)**	391	**(416)**	(56)	**-**	-
Total equity in results of subsidiaries	(507)	**91**	296	**(26,996)**	(18,485)	**(12,043)**	(7,356)	**(81)**	1,231
Losses in subsidiary	-	**-**	-	**-**	-	**-**	-	-	(5,461)
Net cash provided by (used in) operating activities	-	**862**	583	**(22,974)**	(11,863)	**(10,261)**	(6,314)	**-**	1,310
Net cash provided by (used in) investing activities	-	**(75)**	(9)	**(464)**	(9,152)	**(13)**	(116)	**-**	-
Net cash provided by (used in) financing activities	-	-	-	**23,560**	19,849	**10,751**	7,030	**-**	678
Increase (decrease) in cash and cash equivalents	-	**787**	574	**122**	(1,166)	**477**	600	**-**	(632)

a) Review by other independent auditors.
b) 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..
c) 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.
d) On February 21, 2018 a meeting of the Executive Board approved sale of the subsidiary A3NP Indústria e Comércio de Móveis S.A. On the same date a share purchase agreement was signed, assigning and transferring the total of the Company's equity A3NP Indústria e Comércio de Móveis S.A., for the agreed total price of R$55.

10. Property, plant and equipment

	Parent Company						
	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							
Balances at 12/31/2016	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)
Balances at 12/31/2017	339,920	387,733	28,513	36,438	29,183	5,282	827,069
Purchases	**407**	**27,295**	**2,063**	**7,247**	**25,076**	**332**	**62,420**
Disposals	**(358)**	**(16,319)**	**(200)**	**(1,349)**	**(1,540)**	**-**	**(19,766)**
Transfers	**20,931**	**8,641**	**465**	**(26)**	**(30,023)**	**12**	**-**
Balances at 12/31/2018	**360,900**	**407,350**	**30,841**	**42,310**	**22,696**	**5,626**	**869,723**
Accumulated depreciation	**4%, 10% and 20%**	**10% and 20%**	**10%**	**20%**	**-**	**5% and 10%**	**-**
Balances at 12/31/2016	(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
Balances at 12/31/2017	(181,238)	(197,106)	(14,269)	(24,289)	-	(3,217)	(420,119)
Depreciation	**(17,985)**	**(29,080)**	**(2,357)**	**(4,885)**	**-**	**(588)**	**(54,895)**
Disposals	**239**	**12,230**	**106**	**1,231**	**-**	**-**	**13,806**
Transfers	**119**	**(119)**	**(4)**	**4**	**-**	**-**	**-**
Balances at 12/31/2018	**(198,865)**	**(214,075)**	**(16,524)**	**(27,939)**	**-**	**(3,805)**	**(461,208)**
Net book value							
At 12/31/2017	158,682	190,627	14,244	12,149	29,183	2,065	406,950
At 12/31/2018	**162,035**	**193,275**	**14,317**	**14,371**	**22,696**	**1,821**	**408,515**

9. Property, plant and equipment--Continued

	Consolidated						
	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							
Balances at 12/31/2016	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)
Balances at 12/31/2017	357,022	389,998	30,951	39,099	29.183	5,482	851,735
Purchases	**496**	**27,366**	**2,371**	**7,288**	**25,076**	**332**	**62,929**
Disposals	**(385)**	**(17,538)**	**(542)**	**(1,542)**	**(1,540)**	**-**	**(21,547)**
Transfers	**20,931**	**8,641**	**465**	**(26)**	**(30,023)**	**12**	**-**
Foreign exchange variation	**2,363**	**-**	**327**	**369**	**-**	**27**	**3,086**
Balances at 12/31/2018	**380,427**	**408,467**	**33,572**	**45,188**	**22,696**	**5,853**	**896,203**
Accumulated depreciation	**4%, 10% and 20%**	**10% e 20%**	**10%**	**20%**	**-**	**5% and 10%**	
Balances at 12/31/2016	(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
Balances at 12/31/2017	(185,348)	(199,200)	(15,941)	(25,645)	-	(3,240)	(429,374)
Depreciation	**(20,058)**	**(29,133)**	**(2,586)**	**(5,232)**	**-**	**(624)**	**(57,633)**
Disposals	**241**	**13,427**	**425**	**1,424**	**-**	**-**	**15,517**
Transfers	**119**	**(119)**	**(4)**	**4**	**-**	**-**	**-**
Foreign exchange variation	**(562)**	**-**	**(235)**	**(165)**	**-**	**(5)**	**(967)**
Balances at 12/31/2018	**(205,608)**	**(215,025)**	**(18,341)**	**(29,614)**	**-**	**(3,869)**	**(472,457)**
Net book value							
At 12/31/17	171,674	190,798	15,010	13,454	29,183	2,242	422,361
At 12/31/18	**174,819**	**193,442**	**15,231**	**15,574**	**22,696**	**1,984**	**423,746**

Certain property, plant and equipment items are pledged in guarantee of borrowings, as disclosed in Note 12.e.

11. Intangible assets

	Parent Company					
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Total
Cost of intangible assets						
Balances at 12/31/2016	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)	-
Balances at 12/31/2017	54,300	20,720	4,374	9,500	5,855	94,749
Purchases	**2,067**	**1,317**	**-**	**-**	**5,911**	**9,295**
Disposals	**(14)**	**-**	**-**	**-**	**(2)**	**(16)**
Transfers	**999**	**-**	**-**	**-**	**(999)**	**-**
Balances at 12/31/2018	**57,352**	**22,037**	**4,374**	**9,500**	**10,765**	**104,028**
Accumulated amortization	**20%**	**10%**	**20%**	**20%**	**-**	
Balances at 12/31/2016	(38,318)	(11,968)	(4,194)	(3,934)	-	(58,414)
Amortization	(6,390)	(1,236)	(180)	(1,489)	-	(9,295)
Balances at 12/31/2017	(44,708)	(13,204)	(4,374)	(5,423)	-	(67,709)
Amortization	**(5,290)**	**(1,357)**	**-**	**(1,419)**	**-**	**(8,066)**
Balances at 12/31/2018	**(49,998)**	**(14,561)**	**(4,374)**	**(6,842)**	**-**	**(75,775)**
Net book value						
At 12/31/17	9,592	7,516	-	4,077	5,855	27,040
At 12/31/18	**7,354**	**7,476**	**-**	**2,658**	**10,765**	**28,253**

	Consolidated						
	Software	Trademarks and patents	Goodwill	Technology	Development of software	Others	Total
Cost of intangible assets							
Balances at 12/31/2016	53,516	21,578	4,374	7,992	1,387	1,551	90,398
Purchases	1,494	1,406	-	1,508	4,575	-	8,983
Disposals	(58)	(2)	-	-	(28)	-	(88)
Transfers	79	-	-	-	(79)	-	-
Foreign exchange variation	23	32	-	-	-	-	55
Loss on impairment	-	(125)	-	-	-	(1,551)	(1,676)
Balances at 12/31/2017	55,054	22,889	4,374	9,500	5,855	-	97,672
Purchases	**2,109**	**1,317**	**-**	**-**	**5,911**	**-**	**9,337**
Disposals	**(38)**	**-**	**-**	**-**	**(2)**	**-**	**(40)**
Transfers	**999**	**-**	**-**	**-**	**(999)**	**-**	**-**
Foreign exchange variation	**131**	**368**	**-**	**-**	**-**	**-**	**499**
Balances at 12/31/2018	**58,255**	**24,574**	**4,374**	**9,500**	**10,765**	**-**	**107,468**
Accumulated amortization	**20%**	**10%**	**20%**	**20%**	**-**	**-**	**-**
Balances at 12/31/2016	(38,980)	(11,983)	(4,194)	(3,934)	-	(865)	(59,956)
Amortization	(6,429)	(1,238)	(180)	(1,489)	-		(9,336)
Disposals	51	-	-	-	-	-	51
Foreign exchange variation	(15)	-	-	-	-	-	(15)
Loss on impairment	-	-	-	-	-	865	865
Balances at 12/31/2017	(45,373)	(13,221)	(4,374)	(5,423)	-	-	(68,391)
Amortization	**(5,351)**	**(1,358)**	**-**	**(1,419)**	**-**	**-**	**(8,128)**
Disposals	**24**	**-**	**-**	**-**	**-**	**-**	**24**
Foreign exchange variation	**(110)**	**-**	**-**	**-**	**-**	**-**	**(110)**
Balances at 12/31/2018	**(50,810)**	**(14,579)**	**(4,374)**	**(6,842)**	**-**	**-**	**(76,605)**
Net book value							
At 12/31/17	9,681	9,668	-	4,077	5,855	-	29,281
At 12/31/18	**7,445**	**9,995**	**-**	**2,658**	**10,765**	**-**	**30,863**

At December 31, 2018 and 2017, the Company does not have internally generated intangible assets.

12. Borrowings

Obligations under loans and financings are as follows:

	Parent company / Consolidated							
			2018			2017		
	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%	**10,727**	**20,681**	**31,408**	10,834	31,390	42,224
Provin and Proapi	Long-term Interest Rate (TJLP)	-	**-**	**5,933**	**5,933**	-	2,571	2,571
			10,727	**26,614**	**37,341**	10,834	33,961	44,795
In foreign currency								
Working capital - ACE	US Dollar +	3.36% and 2.30%	**115,586**	**-**	**115,586**	78,832	-	78,832
			115,586	**-**	**115,586**	78,832	-	78,832
			126,313	**26,614**	**152,927**	89,666	33,961	123,627

a) Fixed assets

These obligations refer to the financing contracted by the Company with Banco do Nordeste do Brasil S.A., through the FNE (*Fundo Constitucional de Financiamento do Nordeste*), for construction of a distribution center at the principal industrial plant; and financing for acquisition of industrial machines and equipment.

b) Financing – Provin and Proapi

The Company has the benefit of tax incentive advantages arising from financing granted by the FDI – *Fundo de Desenvolvimento Industrial* – of Ceará State, through the financial agent established by that Fund, applicable to ICMS tax payable (the *Provin* incentive), and products exported (the *Proapi* incentive), to be settled within periods of 36 to 60 months after their release. The financing shown here correspond to the non-incentive-bearing portions of those subsidies.

The benefit of reduction of the amount payable is recognized at the moment of obtaining the financings, as this more appropriately reflects the accrual method of reporting for the period – since the cost of the ICMS tax and of the exports relating to the incentive-bearing transaction are also recorded at the same time as the benefits.

c) Working capital – ACEs

The Company has contracted funding for financing of its exports in the modality, known as Advances on Delivered Shipping Documents, or ACEs.

11. Borrowings--Continued

d) Payment schedule

Maturities of the long-term portions are as follows:

Maturities	Long-term portions				
	2020	2021	2022	2023	Total
Property, plant and equipment	10,340	10,341	-	-	**20,681**
Proapi	-	-	4,079	-	**4,079**
Provin	53	465	142	1,194	**1,854**
Total	**10,393**	**10,806**	**4,221**	**1,194**	**26,614**

e) Guarantees

The amounts financed are covered by fiduciary liens on the goods acquired, and by a surety guarantee given by the majority stockholders of the Company.

13. Provisions, contingent liabilities and contingent assets

The Company and its subsidiaries are parties in administrative and court actions of an employment-law, tax, civil and environmental nature, arising from the normal course of business.

The Company periodically revises its list of contingencies, upon assessment by its legal department and external legal advisors and classifies the changes of loss into three categories: *(i)* Probable; *(ii)* Possible; and *(iii)* Remote.

a) Provisions – Probable loss risk

The estimated losses have been provisioned in an amount sufficient to cover any adverse judgments.

The changes in provisions for employment-law, tax and civil risks are as follows:

13. Provisions, contingent liabilities and contingent assets--Continued

a) Provisions – Probable loss risk--Continued

	Parent company			Consolidated		
	Labor	Tax	Civil	Labor	Tax	Civil
Balances at 12/31/2016	2,462	-	-	3,195	-	-
Additions	1,824	-	-	1,844	-	-
Realizations	(2,954)	-	-	(3,517)	-	-
Reversals	(236)	-	-	(237)	-	-
Balances at 12/31/2017	1,096	-	-	1,285	-	-
Additions	**1,723**	**2,427**	**150**	**1,921**	**2,427**	**150**
Realizations	**(1,646)**	**-**	**-**	**(1,654)**	**-**	**-**
Reversals	**(56)**	**(28)**	**-**	**(58)**	**(28)**	**-**
Balances at 12/31/2018	**1,117**	**2,399**	**150**	**1,494**	**2,399**	**150**
Current liabilities	**766**	**2,399**	**150**	**963**	**2,399**	**150**
Non-current liabilities	**351**	**-**	**-**	**531**	**-**	**-**

Employment-law cases: Most of these cases refer to interactions with the Employment Public Attorneys, and indemnities to former employees.

Tax issues: These refer to claims by the tax authority relating to credits of IPI tax (R$1,094); PIS and Cofins taxes on imports, on services received from outside Brazil (R$1,076); and alleged omissions in offsetting of corporate income tax carryforwards, with debit of Social Contribution tax (R$229).

Civil cases: This refers to an action for indemnity for property damage and pain and suffering relating to a service provision contract.

b) Contingent liabilities – Possible loss risk

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	
	2018	2017	2018	2017
Labor	**3,204**	8,957	**3,311**	10,120
Tax	**522**	1,941	**522**	1,941
Civil	**32,542**	33,280	**32,542**	33,280
Environmental	**500**	500	**500**	500
	36,768	44,678	**36,875**	45,841

Employment-law cases: Most of these are complaints by former employees of the Company and its subsidiaries, for alleged non-compliance with employment-law rules indemnity amounts and additional payments for alleged unhealthy conditions.

13. Provisions, contingent liabilities and contingent assets--Continued

b) Contingent liabilities – Possible loss risk --Continued

Tax issues: These refer to tax notices to post debits for the social security contribution on the collective life insurance policy made available to employees, and the PIS and Cofins taxes on imports, on services received from outside Brazil (R$1,050) at December 31, 2017.

Civil cases: The actions for indemnity by former commercial representatives (R$23,542); an action for indemnity by a former client alleging the existence of a distribution contract (R$6,000); actions to annul a tax claim for supposed non-compliance with consumer rules (R$2,568) and various other actions for indemnity (R$432).

Environmental: These are for amounts arising under inspection notices for supposed non-compliance with conditions of environmental licenses.

c) Contingent assets

The Group is in discussion, in the courts and in the administrative system, on reimbursement of federal taxes. The possibility of success in these matters has been assessed by our legal advisors as 'probable', as follows:

Nature	Description	Estimate
Tax matters	Inclusion of ICMS tax in the amount on which liability for PIS and Cofins taxes is calculated.	R$ 321,565
Tax matters	Inclusion of ICMS tax within the basis of calculation of the Social Security contribution on Gross Revenue.	R$ 7,500

(*) The estimated value comprises the principal amount for the period from April 2002 to December 2018. This may be changed as a result of future judgment and changes in the effects claimed by the federal government.

No asset will be recorded by the Company until there is a final judgment against which no further appeal is possible.

14. Equity

a) Capital

On April 23, 2018 an Extraordinary General Meeting of Stockholders approved a share split, without alteration in the share capital. Accordingly, since June 1, 2018 each common share became 3 common shares of the same type, the share capital now comprising 902,160,000 nominal common shares without par value.

14. Equity--Continued

a) Capital--Continued

The shares are all of the same class as regards their holders' rights, and all have equal right to vote, subject to the conditions of law.

This table shows the Company's ownership structure:

	Ownership structure			
	12/31/18		12/31/17	
	Common Shares	%	Common Shares (*)	%
Alexandre G. Bartelle Participações S.A.	-	-	279,900,036	31.03%
Alexandre Grendene Bartelle	**371,691,807**	**41.20%**	91,791,771	10.17%
Pedro Grendene Bartelle	**125,312,376**	**13.89%**	125,312,376	13.89%
Maria Cristina Nunes de Camargo	-	-	17,523,840	1.94%
Giovana Bartelle Veloso	**37,132,797**	**4.12%**	37,132,797	4.12%
Pedro Bartelle	**36,465,557**	**4.04%**	36,465,597	4.04%
André de Camargo Bartelle	**29,201,277**	**3.24%**	29,201,277	3.24%
Gabriella de Camargo Bartelle	**28,912,677**	**3.20%**	28,912,677	3.20%
Executive Board and Boar of Directors' Members	**2,476,002**	**0.27%**	2,196,708	0.25%
Treasury shares	**1,905,000**	**0.21%**	22,629	0.00%
Outstanding shares	**269,062,467**	**29.83%**	253,700,292	28.12%
	902,160,000	**100.00%**	902,160,000	100.00%

(*) For purposes of comparability, the figures for common shares have been adjusted taking into account the effect of stock splits.

b) Capital reserve

This corresponds to the amount of stock options granted by the Company to its managers as described in Note 20.

c) Treasury shares

The Company has acquired its own shares, for compliance with the stock options plan (Note 20) as decided at the 71st meeting of the Board of Directors on July 27, 2017, without reduction of the share capital.

The following shows the changes in treasury shares, taking into account the effects of the split:

14. Equity--Continued

c) Treasury shares--Continued

	Parent company	
	Common shares	R$
Balances at 12/31/2016	(210,900)	(1,169)
Acquisition of shares	(1,643,523)	(9,837)
Share options exercised	1,831,794	10,872
Balances at 12/31/2017	(22,629)	(134)
Acquisition of shares	**(3,937,029)**	**(35,148)**
Share options exercised	**2,054,658**	**19,717**
Balances at 12/31/2018	**(1,905,000)**	**(15,565)**

	Stock price		
	Minimum	Maximum	Medium cost
At 12/31/2017	5.75	6.20	5.99
At 12/31/2018	**7.92**	**10.00**	**8.93**

d) Income reserves

- *Legal reserve*

  Constituted on December 31, 2018 in the amount of R$165,353 (R$147,934 in 2017), based on 5% of the net profit for the period, less the amount of the tax incentives, limited to 20% of the paid-up share capital.

- *Reserve for acquisition of shares*

  This is the balance of R$31,915 on December 31, 2018 (R$23,862 in 2017), used for repurchase or acquisition of shares in the Company, in compliance with the share-based remuneration offered to participants in the Company's stock options plan.

  The reserve is limited to a total value equal to 20% of the share capital; it may be made up of up to 100% of the net profit remaining after the deductions required by law and by the by-laws.

- *Tax incentives*

  This is the portion of profit arising from government subsidies for investments as described in Note 15. These amounts have been excluded from the basis for calculation of dividends.

14. Equity--Continued

d) Income reserves

- *Tax incentives*

The changes are as follows:

	Parent company / Consolidated		
	ICMS and Exports	Income tax	Total tax incentives
Balances at 12/31/2016	909,055	500,938	1,409,993
Incentives generated by the operation	167,824	85,866	253,690
Balances at 12/31/2017	1,076,879	586,804	1,663,683
Incentives generated by the operation	158,411	78,744	237,155
Balances at 12/31/2018	**1,235,290**	**665,548**	**1,900,838**

e) Other comprehensive income

This corresponds to the accumulated effect of FX conversion from the functional currency to the original currency of the financial statements of the subsidiaries outside Brazil, calculated on the stockholding investments held outside Brazil, valued by the equity method. This accumulated effect will be reverted to the profit for the business year as a gain or loss, when the investment is sold or written off.

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, 2018 and 2017 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:

14. Equity--Continued

f) Dividends and interest on equity--Continued

	Parent company	
	2018	2017
Profit for the year	**585,530**	660,929
Legal reserve	**(17,419)**	(20,362)
Tax incentive reserve	**(237,155)**	(253,690)
Minimum mandatory dividends calculation basis	**330,956**	386,877
Reserve for acquisition of shares	**(15,880)**	(9,104)
Dividends calculation basis	**315,076**	377,773
Minimum mandatory dividend – 25%	**82,739**	96,719
Dividend proposed in addition to the minimum mandatory amount	**232,337**	281,054
Total of dividends proposed by management	**315,076**	377,773
Proposed allocation:		
Prepaid corporate action payments:		
Interim dividends	**171,642**	198,143
Interest on equity imputed as part of dividends (R$25,500, net of tax withheld at source)	**-**	30,000
Corporate action payments proposed:		
Additional dividend proposed	**13,434**	19,630
Interest on equity imputed as part of dividends (R$110,500, net of tax withheld at source)	**130,000**	130,000
	315,076	377,773

The 73rd meeting of the Board of Directors, held on February 22, 2018, approved Management's proposal of December 31, 2017 for payment of an additional dividend in the amount of R$ 19,630 and Interest on Equity of R$130,000 (R$ 110,500 net of withholding tax), which was paid on May 16, 2018.

The table below shows the timetable for corporate action payments approved and proposed by the Board of Directors for the year ended December 31, 2018:

	Parent company			
	2018			
Description of proceeds	**Date approved**	**Date of payment**	**Per share**	**R$**
Interim dividends paid				
Dividends	4/26/2018	5/23/2018	0.3017	90,731
Dividends	7/26/2018	8/22/2018	0.0374	33,686
Dividends	10/25/2018	11/21/2018	0.0524	47,225
Total interim payments				**171,642**
Proposed, not yet paid:				
Dividends			0.0149	13,434
Interest on Equity			0.1444	130,000
Total amounts relative to the 2018 business year				**315,076**

14. Equity--Continued

f) Dividends and interest on equity--Continued

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, 2018.

The Company calculated Interest on Equity using the Long-term Interest Rate (TJLP) in effect during the period. This is counted as part of the total of dividends. The Interest on Equity is posted in Stockholders' equity, and its tax effect in the Profit and loss account.

e) 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	
	2018	2017
Numerator		
Profit for the year (a)	**585,530**	660,929
Denominator (Thousands of shares)		
Weighted average number of common shares	**902,160,000**	902,160,000
Weighted average number of common treasury shares	**(1,416,931)**	(296,391)
Weighted average number of outstanding common shares (b)	**900,743,069**	901,863,609
Potential increase in common shares due to the stock option or subscription plan	**2,458,869**	2,821,314
Weighted average of the number of common shares, considering potential increment (c)	**903,201,938**	904,684,923
Basic earnings per common share (a/b)	**0.6501**	0.7328
Diluted earnings per common share (a/c)	**0.6483**	0.7306

The basic and diluted profit per share at December 30, 2017 is being re-presented to include the effect of the share, split which took place on June 1, 2018, so as to enable comparability between the periods.

15. Government grants for investments

The government subsidies received by the Company and its subsidiary MHL Calçados Ltda. have the nature of a subsidy for investment, and are as follows: *(i)* tax incentives applying to ICMS tax, relating to its operational activities located in the states of Ceará and Bahia; and *(ii)* reduction, of 75%, in the ICMS tax payable on profits of enterprises established in the state of Ceará calculated on the operational profit.

15. Government grants for investments--Continued

Government subsidies are recognized when there is reasonable certainty that the conditions established in the agreements governing them have been complied with.

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).

Units benefited by the incentive	Percentage reduction	Expiration date
Sobral – CE	81% 75%	Up to Feb/2019 Mar/2019 to Apr/2025
Crato – CE	81% 75%	Up to Sep/2022 Oct/2022 to Apr/2025
Fortaleza – CE	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 11). This incentive was in effect up to March 31, 2017, at the Sobral Unit, in the state of Ceará.

For the period ended December 31, 2018 the Company had amounts securities receivable recognized in Assets, for the Proapi incentives, totaling R$57,088 (R$70,502 at December 31, 2017).

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.

15. Government grants for investments--Continued

b) Incentives – Procomex and Probahia--Continued

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.

The balances of the incentive amounts are reported in the Profit and loss account of the Holding company and in the Consolidated accounts, under Net sales revenue, as shown in Note 20. These amounts were allocated to the *Tax incentives reserve* account in Profit reserves. The amounts arising from the incentives given by States may be allocated differently, as specified in Law 12.973 of May 13, 2014.

c) Federal fiscal tax incentive

The Company is beneficiary of the following tax incentive: reduction of 75% in income tax on the profits of undertakings located in the industrial units headquartered in the area of activity of Sudene, as shown in the table below:

Units benefited by the incentive	Project	Percentage reduction	Expiration date
Fortaleza – CE	Modernization	75%	Dec/2020
Sobral – CE	Modernization	75%	Dec/2022
	Modernization	75%	Dec/2023
Crato – CE	Modernization	75%	Dec/2026

The balances of this incentive are posted in the Company's Profit and loss account, under Current income tax, as shown in Note 15. In counterpart, these amounts were posted in the Tax incentives reserve account, in Profit reserves, in Stockholders' equity.

16. 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:

16. Income tax and social contribution tax--Continued

a) Current income tax and social contribution tax--Continued

	Parent company		Consolidated	
	2018	2017	2018	2017
Income tax				
Amount due	**(78,945)**	(93,970)	**(78,815)**	(94,229)
Tax incentives	**78,744**	85,866	**78,744**	85,866
	(201)	(8,104)	**(71)**	(8,363)
Social contribution				
Amount due	**(30,496)**	(35,731)	**(30,512)**	(35,743)
	(30,697)	(43,835)	**(30,583)**	(44,106)

b) Deferred income tax and social contribution tax

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

	Parent company		Consolidated	
	2018	2017	2018	2017
Estimated losses on doubtful receivables	**773**	1,684	**773**	1,684
Punctuality discounts estimated	**4,882**	4,255	**4,886**	4,261
Adjustment to Present Value (AVP)	**1,548**	1,952	**1,548**	1,952
Estimated losses for obsolete inventory	**2,691**	2,072	**2,691**	2,072
Provision for labor risks, tax and civil	**559**	168	**617**	196
Interest on equity (counted as part of total dividends	**44,200**	44,200	**44,200**	44,200
Other	**577**	538	**184**	262
	55,230	54,869	**54,899**	54,627

c) Estimate for realization of deferred income tax and Social Contribution tax.

Realization of deferred income tax and Social Contribution tax is supported by technical feasibility studies, which show an estimate of the realization of the differed assets.

Below is the timetable of the estimated periods for realization of the tax credits which exist at December 31, 2018:

	Party company	Consolidated
2019	**53,028**	**53,022**
2020	**1,283**	**958**
2021	**906**	**906**
2022	**7**	**7**
2023	**6**	**6**
	55,230	**54,899**

16. Income tax and social contribution tax--Continued

d) Reconciliation of tax expense to statutory rates

The amounts of income tax and Social Contribution tax, calculated at nominal rates, reported in the Profit and loss account, are reconciled as follows:

	Party company		Consolidated	
	2018	2017	2018	2017
Pretax income	**615,866**	703,888	**615,841**	704,092
Income tax and social contribution tax (at nominal rates of 25% and 9% respectively)	**(209,395)**	(239,322)	**(209,386)**	(239,391)
Adjustments to show effective rate				
Equity in the results of subsidiaries	**(13,037)**	(8,553)	**-**	-
Non-deductible costs and expenses	**(2,368)**	(2,607)	**(2,378)**	(2,607)
Adjustments to present value – AVP	**496**	460	**496**	460
Stock options plan	**(2,231)**	(2,165)	**(2,231)**	(2,165)
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	**1,552**	3,828	**1,552**	3,828
State tax incentives	**53,860**	57,060	**53,885**	57,109
Technological innovation incentive	**11,152**	11,128	**11,152**	11,128
Corporate tax incentive deductions – Income tax	**5,743**	5,260	**5,744**	5,261
Interest on equity counted as part of total dividends	**44,200**	54,400	**44,200**	54,400
Exchange losses on investments	**-**	(3,336)	**-**	(3,336)
Impairment of fixed assets	**-**	(1,609)	**-**	(1,609)
Other additions and exclusions	**948**	(3,369)	**(12,089)**	(12,133)
Amount before deduction of corporate tax incentives	**(109,080)**	(128,825)	**(109,055)**	(129,055)
Tax incentive reductions of corporate income tax (calculated on operational profit)	**78,744**	85,866	**78,744**	85,866
Total taxes posted in profit and loss account	**(30,336)**	(42,959)	**(30,311)**	(43,189)
Current taxes	**(30,697)**	(43,835)	**(30,583)**	(44,106)
Deferred taxes	**361**	876	**272**	917
Effective rate	**4.9%**	6.1%	**4.9%**	6.1%

17. Financial instruments

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 table below gives the classification of the principal financial assets and liabilities of the Company and its subsidiary.

17. Financial instruments--Continued

	Party company		Consolidated	
	2018	2017	2018	2017
Financial assets at amortized cost				
Cash and cash equivalents	**3,081**	18,240	**16,562**	30,119
Financial investments (*)	**1,954,418**	1,750,526	**1,954,418**	1,750,526
Trade receivables	**955,428**	857,931	**944,214**	850,345
Financial instruments measured at fair value through profit of loss				
Financial investments (*)	**5,978**	-	**5,978**	-
Derivatives	**843**	407	**843**	407
Financial liabilities at amortized cost				
Borrowings	**152,927**	123,627	**152,927**	123,627
Trade payables	**41,006**	35,387	**42,095**	36,705
Commissions payable	**46,084**	41,686	**45,897**	41,622

(*) The company measures its financial instruments at amortized cost and at fair value through profit of loss, in accordance with Level 1 of the hierarchy, that is to say they are valued at the quoted prices (without adjustments), in active markets, for identical assets or liabilities.

a) 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.

17. Financial instruments--Continued

a) 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$54,835 at December 31, 2018 (R$52,236 in 2017) 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, 2018 and 2017, with the notional and fair value.

	Notional value – US$		Notional value – R$		Amount receivable (payable)	
	2018	2017	2018	2017	2018	2017
Futures contracts						
Sell commitment	**53,500**	64,500	**207,504**	213,864	**843**	407

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, 2018 in the amount of R$843 (R$407 in 2017) is classified in securities receivable

18. Financial risk management

The activities of the Company and its subsidiaries are exposed to financial risks, including: credit risk, liquidity risk, and market risk. The financial instruments affected by risks include: deposits, securities available for sale, loans and financings, 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.

18. Financial risk management--Continued

a) Risk factors that could affect the business

a.1) *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 September 30, 2018 and December 31, 2017; 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.

a.2) *Liquidity risk*

The Company monitors the policy on cash generated by its activities, to avoid mismatch between accounts receivable and accounts payable, thus ensuring liquidity for compliance with its obligations. The principal source of funds used by the company is the volume of proceeds from the sale of its products. One characteristic of the strong cash flow generation is low default. The Company, additionally, holds balances in cash investments that may be redeemed at any moment, and has solid financial and equity conditions, for complying with its short and medium term obligations.

This table shows the requirements for contractual payments arising from the Company's financial liabilities:

	Parent company / Consolidated					
	2018			2017		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**10,727**	**20,681**	**31,408**	10,834	31,390	42,224
Working capital and ACE	**115,586**	**-**	**115,586**	78,832	-	78,832
Financing – Proapi and Provin	**-**	**5,933**	**5,933**	-	2,571	2,571
	126,313	**26,614**	**152,927**	89,666	33,961	123,627

18. Financial risk management--Continued

a) Risk factors that could affect the business--Continued

a.2) *Liquidity risk*--Continued

	Parent company / Consolidated					
	Projection including future interest					
	2018			2017		
	Up to 1 year	From 1 to 9 years	Total	Up to 1 year	From 1 to 9 years	Total
PP&E financing	**11,811**	**21,566**	**33,377**	12,363	33,577	45,940
Working capital and ACE	**117,368**	**-**	**117,368**	79,531	-	79,531
Financing – Proapi and Provin	**-**	**7,170**	**7,170**	-	3,241	3,241
	129,179	**28,736**	**157,915**	91,894	36,818	128,712

a.3) *Market risk*

These market risks principally involve the possibility of variation in interest rates, foreign exchange rates and prices of commodities.

a. 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.

The Company's policy is to keep its funds invested in instruments indexed to the CDI rate, at fixed rates or rates adjusted by inflation – since this ensures reduction of the impacts arising from variations in market interest rates.

b. Exchange rate risk

The Company's risk in this case arises from transactions in accounts receivable originating from exports, or from financial or other investments outside Brazil – which form a natural hedge against exchange rate variations. Management values its assets and liabilities that are subject to foreign exchange risk, and if necessary contracts additional derivative financial instruments.

The Company maintains coverage for its exposure to fluctuations in exchange rates for conversion to Reais at maturity of its export contracts. On December 31, 2018, these totaled USD 29,835 million (vs. total USD 23,835 million in 2017). There are no financings or loans contracted in or indexed to any foreign currency.

18. Financial risk management--Continued

a) Risk factors that could affect the business--Continued

a.3) *Market risk*--Continued

c. 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.

b) 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 December 31, 2018, 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 2018 (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, 2018, with the notional values and interest of each contracted instrument:

	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	**6.40%**	**4.05%**	**92,658**	**6.98%**	**414**
Possible scenario – 25%	**4.80%**	**3.03%**	**74,602**	**8.73%**	**518**
Remote scenario – 50%	**3.20%**	**2.02%**	**56,500**	**10.47%**	**621**

18. Financial risk management--Continued

c) Sensitivity analysis of contracted derivative financial instruments

c.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, 2019, as follows:

	Notional value			
	Short position in US$	FX rate – R$	Amount – R$	Impact – R$
Probable scenario – Book value	**53,500**	**3.8786**	**207,504**	**843**
Possible scenario – 25%	**53,500**	**4.8482**	**259,379**	**(51,875)**
Remote scenario – 50%	**53,500**	**5.8179**	**311,258**	**(103,754)**

d) Capital management

Management has the objective of ensuring continuity of the Company's business, protecting its capital from economic changes and conditions, so as to support reduction of costs of capital and maximize return to stockholders. To maintain or adjust the capital structure, the Company may, among other possible actions, make adjustments to its dividend payment policy, or contract loans, or issue securities in the financial markets.

The Company's policy of a low level of leverage is monitored through the financial leverage index, as shown below.

	Parent company		Consolidated	
	2018	2017	2018	2017
Current and non-current borrowings	**152,927**	123,627	**152,927**	123,627
(-) Cash and cash equivalents	**(3,081)**	(18,240)	**(16,562)**	(30,119)
Net debt	**149,846**	105,387	**136,365**	93,508
Equity	**3,465,042**	3,217,609	**3,465,042**	3,217,609
Gearing ratio	**4.3%**	3.3%	**3.9%**	2.9%

On December 31, 2018 the leverage index was higher than on December 31, 2017, mainly due to: raising of loans and financings, to finance advances against exchange contracts; and contractual obligations under tax incentive arrangements.

19. Related parties

Transactions with related parties arise from transactions between the Company and its (direct and indirect) subsidiaries, other companies controlled by stockholders of the Company, key professionals of the administration and other related parties.

a) Amounts of balances and transactions with subsidiaries (direct and indirect) and other companies controlled by a stockholder or the Company.

			Parent company / Consolidated					
			2018			2017		
	Nature of transaction	Maturity	Assets	Liabilities	P&L	Assets	Liabilities	P&L
Direct subsidiaries								
Grendene Argentina S.A.	Financial revenues	-	-	-	-	-	-	39
	Financial expenses	-	-	-	-	-	-	(88)
MHL Calçados Ltda.	Accounts receivable from clients	-	**1**	-	-	21	-	-
	Credits owed by subsidiaries	-	-	-	-	9	-	-
	Suppliers	-	-	**44**	-	-	-	-
	Advances from clients	-	-	-	-	-	9	-
	Sale of input materials	48 days	-	-	**795**	-	-	1,024
	Purchase of inputs	79 days	-	-	**(726)**	-	-	(35)
Grendene USA, Inc.	Accounts receivable from clients	–	**11,483**	-	-	12,621	-	-
	Commissions payable	–	-	**687**	-	-	537	-
	Sales of footwear	198 days	-	-	**15,791**	-	-	17,983
	Fees for services	10 days	-	-	**(1,338)**	-	-	(1,082)
	Financial revenues	–	-	-	**3,679**	-	-	1,339
	Financial expenses	–	-	-	**(1,433)**	-	-	(1,122)
Grendene UK Limited.	Accounts receivable from clients	–	**1,488**	-	-	849	-	-
	Sales of footwear	203 days	-	-	**1,705**	-	-	1,195
	Financial revenues	–	-	-	**1,687**	-	-	1,150
	Financial expenses	–	-	-	**(1,587)**	-	-	(1,142)
A3NP Indústria e Comércio de Móveis S.A.	Credits receivables in subsidiaries	–	-	-	-	5,614	-	-
	Provision for losses in subsidiary	–	-	-	-	-	5,480	-
Indirect subsidiary								
Grendene Italy SRL.	Accounts receivable from clients	–	**3,609**	-	-	3,287	-	-
	Suppliers	–	-	**248**	-	-	-	-
	Sales of footwear	207 days	-	-	**3,947**	-	-	3,664
	Advisory services	18 days	-	-	**(2,971)**	-	-	-
	Financial revenues	–	-	-	**863**	-	-	212
	Financial expenses	–	-	-	**(364)**	-	-	(313)
Companies controlled by stockholders of Grendene S.A.								
Vulcabras|azaleia – CE, Calçados e Artigos Esportivos S.A.	Sales of input materials and molds	21 days	-	-	**4**	-	-	69
	Sales of PP&E	21 days	-	-	**500**	-	-	-
	Rentals of machinery	40 days	-	-	**16**	-	-	-
	Indemnities to representatives	2 days	-	-	-	-	-	(2)
Vulcabras|azaleia – BA, Calçados e Artigos Esportivos S.A.	Accounts receivable from clients	–	**85**	-	-	-	-	-
	Sale of molds	43 days	-	-	**127**	-	-	1,291

19. Related parties--Continued

b) Remuneration of key personnel

This table gives the total remuneration of the key personnel of management:

	Parent company			
	2018		2017	
	Fees	Variable (*)	Fees	Variable (*)
Board of Directors	**1,146**	**-**	1,116	-
Audit Board	**437**	**-**	428	-
Executive Board	**4,264**	**2,139**	4,159	1,992
	5,847	**2,139**	5,703	1,992

(*) Refers to expenses on the stock options plan, as described in Note 20, in the period.

c) 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	
	2018	2017
Dall'Onder Viagens & Turismo Ltda.	**293**	479
Mailson da Nóbrega Consultoria S/C Ltda.	**72**	72
Ochman, Real Amadeo Advogados Associados	**138**	98
	503	649

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 0.03% of the Company's general expenses. There were no outstanding balances at December 31, 2018 and 2017.

There are no other transactions between the Company and its related parties, other than dividends and Interest on Equity paid.

20. Stock option or subscription plan

The stock options plan, approved the stockholders or the Company in a Extraordinary General Meeting of April 14, 2008, grants stock options, on the terms described in the plan, to directors and managers, other than the controlling stockholders.

20. Stock option or subscription plan--Continued

The share options may be exercised in up to six years from the date of grant, with a vesting period of three years, under which 33% is released as from expiry of the first year, 66% on completion of the second year and 100% on completion of the third year.

The information is being presented taking into account the number of shares after the split, to enable comparability with the current period.

For compliance with exercises of stock options, a total of 3,937,029 shares were acquired in 2018, at an average cost of R$8.93, totalling an amount of R$35,148. In first quarter 2018, options for a total of 2,054,658 shares were exercised, at an average price of R$2.94, totaling R$6,050.

The difference between the average exercise price of the options and the average cost of the shares acquired for compliance with the exercise of stock options resulted in recognition of R$7,827. This was posted in Stockholders' equity, since settlement of the stock option plans takes place with equity instruments.

a) Bases for recognition of expenses on share-based remuneration

Shares are valued at fair value on the date of the grant, and expenses recognized in the Profit and loss account as Personnel expenses, over the period in which the right to the exercise of the option is acquired, with counterpart in Stockholders' equity.

The fair value of the options granted was estimated using the Black & Scholes options pricing model. The economic parameters used were: *(i)* expected dividends, obtained on the basis of the average of dividend payments per share, in relation to the market value of the shares in the last 12 months; *(ii)* volatility, based on the historic average variation of the share price in the 18 months prior to the date of the grant; and *(iii)* the risk-free interest rate, assumed to be the projected average of the Selic rate, published by the Central Bank. This table gives this information in detail:

	8th Plan	9th Plan	10th Plan	11th Plan
Grant date	2/12/2015	2/25/2016	2/16/2017	2/22/2018
Total purchase options granted	1,939,662	2,675,538	2,181,456	1,524,825
Exercise price	2.81	2.96	3.27	5.16
Estimated volatility	26.51%	29.89%	20.16%	15.58%
Expected dividends	5%	6%	6%	4%
Weighted average risk-free interest rate	12.75%	14.25%	9.50%	6.75%
Maximum maturity	6 years	6 years	6 years	6 years
Average maturity	2.5 years	2.5 years	2.5 years	2.5 years
Option premium	2.02	2.58	3.16	4.43

The Company has no commitment to re-purchase such shares as are acquired by the beneficiaries.

20. Stock option or subscription plan--Continued

b) Movement stock options plan

This table shows the changes arising from the transactions of purchase or subscription of shares:

	4th Plan	7th Plan	8th Plan	9th Plan	10th Plan	11th Plan	Final Balance
Total at 12/31/2016	24,147	338,712	1,216,968	2,649,240	-	-	4,229,067
Granted	-	-	-	-	2,181,456	-	2,181,456
Exercised	(24,147)	(338,712)	(599,376)	(869,559)	-	-	(1,831,794)
Canceled	-	-	(41,607)	(107,931)	(90,072)	-	(239,610)
Total at 12/31/2017	-	-	575,985	1,671,750	2,091,384	-	4,339,119
Granted	**-**	**-**	**-**	**-**	**-**	**1,524,825**	**1,524,825**
Exercised	**-**	**-**	**(562,107)**	**(812,784)**	**(679,767)**	**-**	**(2,054,658)**
Canceled	**-**	**-**	**(13,878)**	**(59,016)**	**(74,241)**	**(23,688)**	**(170,823)**
Total at 9/30/2018	**-**	**-**	**-**	**799,950**	**1,337,376**	**1,501,137**	**3,638,463**
Options exercisable in 2019	**-**	**-**	**-**	**799,950**	**668,688**	**500,379**	**1,969,017**
Options exercisable in 2020	**-**	**-**	**-**	**-**	**668,688**	**500,379**	**1,169,067**
Options exercisable in 2021	**-**	**-**	**-**	**-**	**-**	**500,379**	**500,379**
	-	**-**	**-**	**799,950**	**1,337,376**	**1,501,137**	**3,638,463**
Result of options granted, recognized on 12/31/2017	(14)	(685)	(1,290)	(2,367)	(107)	-	(4,463)
Result of options granted, recognized on 12/31/2018	**-**	**-**	**(1,207)**	**(2,236)**	**(2,371)**	**(26)**	**(5,840)**
Expense on personnel at December 31 2017	-	(19)	(463)	(2,034)	(3,852)	-	(6,368)
Expense on personnel at December 31 2018	**-**	**-**	**(34)**	**(800)**	**(1,964)**	**(3,766)**	**(6,564)**

21. Net sales and services revenue

Net sales and services revenue is comprised as follows:

	Parent company		Consolidated	
	2018	2017	2018	2017
Gross sales and services revenue	**2,792,353**	2,689,927	**2,824,995**	2,727,675
Domestic market	***2,210,508***	*2,170,180*	***2,211,515***	*2,172,640*
Adjustment to Present Value (AVP)	***(43,516)***	*(66,091)*	***(43,516)***	*(66,091)*
Foreign market	***628,443***	*567,823*	***660,078***	*603,111*
Adjustment to Present Value (AVP)	***(7,648)***	*(4,420)*	***(7,648)***	*(4,420)*
Tax incentives – Proapi/Procomex	**-**	*11,174*	**-**	*11,174*
Special System for Refund of Tax Amounts to Exporting Companies (Reintegra)	***4,566***	*11,261*	***4,566***	*11,261*
Sales returns	**(48,153)**	(46,604)	**(49,736)**	(47,829)
Financial discounts	**(103,909)**	(100,063)	**(106,261)**	(103,082)
Taxes on sales and services	**(456,194)**	(447,286)	**(457,352)**	(448,492)
ICMS tax incentives – Provin/ Development Promotion Program of the State of Bahia (Probahia)	**158,411**	156,650	**158,484**	156,792
INSS	**(31,717)**	(28,840)	**(31,745)**	(28,879)
State Fiscal Balance Fund (FEEF)	**(4,925)**	(4,200)	**(4,933)**	(4,213)
	2,305,866	2,219,584	**2,333,452**	2,251,972

22. Segment reporting

The Group operates in the following market segments: *(i)* production and sale of synthetic footwear for the domestic and external markets; and *(ii)* sale, import and export of plastic-based furniture and associated products.

Sales volume in the footwear market may show variation over the period: a higher volume is expected in the second half of each year. In Management's judgment, the Company's operations have no significant impact that calls for additional disclosures.

Although the Company's footwear products are designed to serve the various publics and socio-economic groups, management does not monitor and manage them as independent market segments: the Company's results are accompanied, monitored and evaluated as an integrated whole.

This table shows consolidated sales in the domestic and export markets, and non-current assets:

	Parent company				Consolidated	
	2018		2017		2018	2017
	Gross sales	Non-current assets	Gross sales	Non-current assets	Gross sales	Gross sales
Footwear						
Domestic market	**2,166,992**	**14,088**	2,104,089	13,997	**2,167,999**	2,105,580
Foreign market	**625,361**	**33,753**	585,838	32,772	**656,996**	621,126
Furniture						
Domestic market	**-**	**-**	-	-	**-**	969
	2,792,353	**47,841**	2,689,927	46,769	**2,824,995**	2,727,675

Non-current assets outside Brazil refers to the investments in the Company's direct and indirect subsidiaries, and represents approximately 4% of the total of the Company's non-current assets. The summarized financial information of these subsidiaries is presented in Note 9.

The information on gross sales of products in the export market by geographical segment has been itemized by country of origin of the revenue, as follows:

	Consolidated	
	2018	2017
Brazil	**603,693**	562,902
USA	**39,344**	41,696
Italy	**9,454**	13,302
United Kingdom	**4,505**	3,226
	656,996	621,126

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

23. Costs and expenses by nature

The Company presents the Profit and loss account itemized by function. The classification of operational costs and expenses by type is as follows:

	Parent company		Consolidated	
	2018	2017	2018	2017
Cost of goods sold				
Raw materials	**(535,646)**	(511,376)	**(536,226)**	(513,286)
Personnel expenses	**(456,833)**	(428,140)	**(458,489)**	(431,152)
Depreciation and amortization	**(51,629)**	(46,824)	**(51,691)**	(47,010)
Outsourced services	**(26,569)**	(19,329)	**(26,606)**	(19,359)
Travel and accommodation	**(3,270)**	(3,529)	**(3,286)**	(3,530)
Electricity	**(25,022)**	(22,377)	**(25,254)**	(22,617)
Other costs	**(125,331)**	(112,213)	**(125,776)**	(114,262)
	(1,224,300)	(1,143,788)	**(1,227,328)**	(1,151,216)
Selling expenses				
Commissions	**(118,151)**	(117,031)	**(119,639)**	(118,914)
Freight	**(113,144)**	(102,766)	**(115,971)**	(104,920)
Copyrights	**(51,777)**	(49,245)	**(51,777)**	(49,245)
Advertising and publicity	**(124,283)**	(112,790)	**(141,281)**	(125,563)
Personnel expenses	**(38,359)**	(33,607)	**(49,106)**	(42,062)
Depreciation and amortization	**(2,540)**	(2,702)	**(5,198)**	(4,388)
Outsourced services	**(9,787)**	(8,627)	**(11,971)**	(11,006)
Travel and accommodation	**(6,559)**	(6,153)	**(7,019)**	(6,488)
Congresses	**(6,726)**	(7,042)	**(6,726)**	(7,042)
Rentals	**(3,047)**	(2,927)	**(19,071)**	(16,239)
Other expenses	**(26,405)**	(34,742)	**(32,990)**	(39,950)
	(500,778)	(477,632)	**(560,749)**	(525,817)
General and administrative expenses				
Personnel expenses	**(63,488)**	(57,974)	**(65,425)**	(62,077)
Depreciation and amortization	**(7,114)**	(7,433)	**(7,194)**	(7,596)
Outsourced services	**(8,173)**	(8,365)	**(9,417)**	(9,987)
Travel and accommodation	**(1,078)**	(1,397)	**(1,094)**	(1,423)
Tax expenses	**(4,936)**	(5,006)	**(4,978)**	(5,130)
Other expenses	**(3,994)**	(4,794)	**(4,515)**	(5,130)
	(88,783)	(84,969)	**(92,623)**	(91,343)

24. Other operational revenues and expenses

In 2018 the Company accounted the amount of R$15,247, comprising: (i) R$9,960 recognized upon final judgment (against which there is no further appeal) in a tax case on the calculation of credit under compulsory loans; (ii) R$2,009 in indemnity for social security and prior notice payments; and (iii) R$3,278 for employer's Social Security contribution related to payment under Provisional Measure 744/2017.

25. Finance result

	Parent company		Consolidated	
	2018	2017	2018	2017
Financial income				
Interest received from customers	**2,109**	2,225	**2,110**	2,225
Gains on foreign exchange hedge – BM&F	**62,052**	29,976	**62,052**	29,976
Income from financial investments	**134,852**	168,850	**135,499**	169,812
Foreign exchange gains	**75,041**	32,053	**75,213**	34,503
Adjustment to Present Value (AVP)	**53,808**	72,967	**53,808**	72,967
Other financial income	**7,512**	3,020	**7,523**	3,045
	335,374	309,091	**336,205**	312,528
Financial expenses				
Losses on foreign exchange hedge – BM&F	**(81,856)**	(19,808)	**(81,856)**	(19,808)
Financing expenses	**(10,445)**	(10,454)	**(10,445)**	(10,852)
Foreign exchange losses	**(73,621)**	(30,326)	**(74,008)**	(31,240)
PIS and COFINS tax on financial revenues	**(6,918)**	(8,270)	**(6,949)**	(8,346)
Other finance expenses	**(3,417)**	(3,110)	**(4,069)**	(3,780)
	(176,257)	(71,968)	**(177,327)**	(74,026)
	159,117	237,123	**158,878**	238,502

26. Insurance

For protection against operational risks, the Company's Management contracts insurance cover in sufficient amounts to cover possible losses, taking into account the nature of its activities and the risk involved, in accordance with the orientation of its insurance consultants. The principal coverages contracted have the follow Maximum Limits of Indemnity, under their respective policies:

Type	Coverage	Coverage amount
Balance sheet	Fixed assets and inventories are insured against fire, gales, flooding, electrical damage and damage in movement of merchandise and stationary equipment and furniture.	R$378,070
Loss of profits	Coverage of fixed expenses arising from payroll.	R$33,500
Civil liability	Industrial operations, employer, products and damages for pain and suffering.	R$5,250
Aviation	Fuselage, third party liability, medical expenses, rescue/emergency, substitute aircraft and personal damages.	U$3,500
Vehicles	Fuselage, third party liability for property and corporate damage and pain and suffering.	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

Members of Boards, Executive Board and Controller
December 31, 2018 and 2017

Board of Directors

CEO
Alexandre Grendene Bartelle

Deputy CEO
Pedro Grendene Bartelle

Board member
Maílson Ferreira da Nóbrega
Oswaldo de Assis Filho
Renato Ochman
Walter Janssen Neto

Audit Board

CEO
João Carlos Sfreddo

Board member
Eduardo Cozza Magrisso
Herculano Aníbal Alves

Executive Board

Chief Executive Officer
Rudimar Dall"Onder

Deputy Chief Executive Officer
Gelson Luis Rostirolla

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

Controller's Departament

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