

# Alpargatas S.A.

## **Quarterly Information Form – ITR for the quarter ended September 30, 2018**

(A free translation of the original quarterly information in Portuguese, prepared in accordance with the accounting practices adopted in Brazilian and international standards.)



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## Report on the review of quarterly information - ITR

To the Shareholders, Board members and Directors of  
**Alpargatas S.A.**  
São Paulo - SP

### Introduction

We have reviewed the interim, individual and consolidated interim financial information of Alpargatas S.A. ("Company"), contained in the Quarterly Information - ITR Form for the quarter ended September 30, 2018, which comprises the statement of financial position as at September 30, 2018 the statement of profit or loss and other comprehensive income for the 3 and 9-months period then ended, of changes in equity and of cash flows for the quarter then ended, including the explanatory notes.

Company's Management is responsible for the preparation of the interim financial information in accordance with CPC 21(R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB, as well as for the presentation of this information in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission, applicable to the preparation of the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the Brazilian and international review standards for interim information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists in asking questions, chiefly to the persons in charge of financial and accounting affairs, and in applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### **Conclusion on the individual and consolidated interim information**

Based on our review, we are not aware of any facts that would lead us to believe that the individual and consolidated interim financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 issued by IASB and applicable to the preparation of Quarterly Information - ITR, and presented in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission.

### **Other issues - Statements of value added**

The individual and consolidated interim financial information related to statements of value added (DVA) for the nine-months period ended September 30, 2018, prepared under responsibility of Company's Management, and presented as supplementary information for IAS 34 purposes, was submitted to review procedures carried out jointly with the audit of Company's quarterly information. To form a conclusion, we evaluated whether these statements are reconciled with interim financial information and accounting records, as applicable, and whether their forms and contents are in accordance with criteria defined in Technical Pronouncement CPC 09 - Statement of Added Value. Based on our review, we are not aware of any other event that make us believe that those were not prepared, in all material respects, in accordance with individual and consolidated interim financial information taken as a whole.

São Paulo, November 09, 2018

KPMG Auditores Independentes  
CRC SP014428/O-6  
*Original report in Portuguese signed by*  
Marcelle Mayume Komukai  
Accountant CRC 1SP249703/O-5

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**Company information / Capital composition**

<b>Quantity of shares (Units)</b>	<b>Current quarter 09/30/2018</b>
<b>Paid-in capital</b>	
<b>Common</b>	241,608,551
<b>Preferred</b>	228,841,226
<b>Total</b>	470,449,777
<b>Treasury</b>	
<b>Common</b>	26
<b>Preferred</b>	7,396,377
<b>Total</b>	7,396,403

**Individual financial statements / Financial position - Assets****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
1	Assets Total	3,191,046	3,222,616
1.01	Current assets	1,533,152	1,720,234
1.01.01	Cash and cash equivalents	316,163	510,734
1.01.02	Interest earning bank deposits	74,790	77,115
1.01.02.01	Interest earning bank deposits measured at fair value through profit or loss	74,790	77,115
1.01.02.01.01	Trading securities	74,790	77,115
1.01.03	Accounts receivable	544,892	707,751
1.01.03.01	Trade accounts receivable	544,892	707,751
1.01.04	Inventories	540,455	381,966
1.01.06	Recoverable taxes	23,807	24,225
1.01.06.01	Current taxes recoverable	23,807	24,225
1.01.07	Prepaid expenses	12,791	1,186
1.01.07.01	Prepaid expenses	4,686	1,186
1.01.07.02	Prepaid expenses with Advertising	8,105	0
1.01.08	Other Current assets	20,254	17,257
1.01.08.03	Other	20,254	17,257
1.01.08.03.01	Advances to suppliers	10,593	4,703
1.01.08.03.02	Accounts receivable – Employees	4,414	5,977
1.01.08.03.03	Deferred PIS and COFINS	179	153
1.01.08.03.04	Other	5,068	6,424
1.02	Non-current assets	1,657,894	1,502,382
1.02.01	Long term assets	450,456	208,755
1.02.01.07	Deferred taxes	63,329	96,017
1.02.01.07.01	Deferred income tax and social contribution	62,835	95,382
1.02.01.07.02	Deferred PIS and COFINS	494	635
1.02.01.09	Related party credits	138,840	43,565
1.02.01.09.02	Receivables from subsidiaries	138,840	43,565
1.02.01.10	Other non-current assets	248,287	69,173
1.02.01.10.03	Compulsory deposits	73	73
1.02.01.10.04	Judicial deposits and pledges	47,435	13,476
1.02.01.10.05	Recoverable taxes	190,094	10,009
1.02.01.10.06	Other accounts receivable	10,685	45,615
1.02.02	Investments	493,798	558,639
1.02.02.01	Equity interest	493,649	558,494
1.02.02.01.02	Interest in subsidiaries	493,649	558,494
1.02.02.02	Investment property	149	145
1.02.02.02.01	Other equity interest	149	145
1.02.03	Property, plant and equipment	609,815	621,721
1.02.03.01	Fixed assets in operation	564,545	570,010
1.02.03.03	Constructions in progress	45,270	51,711
1.02.04	Intangible assets	103,825	113,267
1.02.04.01	Intangible assets	103,825	113,267

**Individual financial statements - Financial position - Liabilities****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
2	Total liabilities	3,191,046	3,222,616
2.01	Current liabilities	586,570	668,550
2.01.01	Social and labor obligations	115,763	89,972
2.01.01.01	Social charges	9,802	7,063
2.01.01.02	Labor obligations	105,961	82,909
2.01.01.02.01	Salaries and social security charges	105,961	82,909
2.01.02	Suppliers	326,321	270,088
2.01.02.01	Domestic suppliers	253,240	219,332
2.01.02.02	Foreign suppliers	73,081	50,756
2.01.03	Tax liabilities	15,065	15,618
2.01.03.01	Federal tax liabilities	15,065	11,401
2.01.03.01.01	Income tax and social contribution payable	7,996	2,120
2.01.03.01.02	Other tax obligations	7,069	9,281
2.01.03.02	State tax liabilities	0	4,217
2.01.04	Loans and financing	58,676	237,050
2.01.04.01	Loans and financing	58,676	237,050
2.01.04.01.01	In domestic currency	58,676	237,050
2.01.05	Other liabilities	64,990	49,453
2.01.05.02	Other	64,990	49,453
2.01.05.02.01	Dividends and interest on own capital	5,055	5,044
2.01.05.02.04	Unrealized losses on derivative operations	40	587
2.01.05.02.05	Provisions and other obligations	59,895	43,822
2.01.06	Provisions	5,755	6,369
2.01.06.01	Tax, social security, labor and civil provisions	5,755	6,369
2.01.06.01.02	Social security and labor provisions	5,755	6,369
2.02	Non-current liabilities	355,289	367,676
2.02.01	Loans and financing	328,388	324,702
2.02.01.01	Loans and financing	328,388	324,702
2.02.01.01.01	In domestic currency	328,388	324,702
2.02.02	Other liabilities	16,533	13,571
2.02.02.02	Other	16,533	13,571
2.02.02.02.03	Other liabilities	10,935	2,922
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.06	Long-term incentive plan	5,426	10,477
2.02.04	Provisions	10,368	29,403
2.02.04.01	Tax, social security, labor and civil provisions	10,368	29,403
2.02.04.01.01	Tax provisions	5,612	5,556
2.02.04.01.02	Social security and labor provisions	4,164	4,548
2.02.04.01.04	Civil provisions	592	19,299
2.03	Shareholders' equity	2,249,187	2,186,390
2.03.01	Realized capital	648,497	648,497
2.03.02	Capital reserves	108,551	108,551
2.03.02.05	Treasury shares	-64,248	-64,248
2.03.02.07	Other reserves	169,241	169,241
2.03.02.08	Goodwill in the sale of treasury shares	3,558	3,558
2.03.04	Profit reserves	1,625,615	1,578,434

**Individual financial statements – Financial position - Liabilities****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.05	Profit retention reserve	11,487	0
2.03.04.07	Tax incentive reserve	1,546,374	1,413,241
2.03.04.08	Additional dividend proposed	0	97,439
2.03.06	Equity valuation adjustments	12,658	13,225
2.03.07	Accumulated translation adjustments	-187,862	-162,317
2.03.08	Other comprehensive income	41,728	0
2.03.08.03	Effect of the Adoption of IAS 29 (Hyperinflation)	41,728	0

**Individual financial statements / Statement of profit or loss****(In thousand of reais)**

Code of account	Account description	Current quarter	Accumulated of the current year	Same quarter of the prior year	Accumulated of the prior year
		07/01/2018-09/30/2018	01/01/2018-09/30/2018	07/01/2017-09/30/2017	01/01/2017-09/30/2017
3.01	Revenue from sales of goods and/or services	688,127	1,771,695	664,061	1,621,217
3.02	Cost of goods and/or services sold	-402,950	-1,052,063	-372,561	-973,364
3.03	Gross profit	285,177	719,632	291,500	647,853
3.04	Operating expenses/income	-116,701	-444,233	-215,719	-298,454
3.04.01	Sales expenses	-143,671	-377,392	-135,469	-371,655
3.04.02	General and administrative expenses	-37,170	-117,552	-31,736	-112,474
3.04.04	Other operating income	194,008	198,576	5,176	222,153
3.04.05	Other operating expenses	-4,177	-39,867	-30,094	-74,439
3.04.05.01	Amortization of intangible assets	-3,444	-10,890	-3,552	-12,162
3.04.05.02	Other operating expenses	-733	-28,977	-26,542	-62,277
3.04.06	Equity in net income of subsidiaries	-125,691	-107,998	-23,596	37,961
3.05	Profit (loss) before financial income and taxes	168,476	275,399	75,781	349,399
3.06	Financial income (loss)	2,271	25,713	-6,189	-10,025
3.06.01	Financial income	22,858	78,922	4,256	38,488
3.06.01.01	Exchange-rate change	12,018	32,866	-3,265	4,960
3.06.01.02	Gains on derivative operations	576	1,536	641	2,381
3.06.01.03	Other financial income	10,264	44,520	6,880	31,147
3.06.02	Financial expenses	-20,587	-53,209	-10,445	-48,513
3.06.02.01	Exchange-rate change	-11,135	-21,011	1,983	-5,224
3.06.02.02	Losses on derivative operations	-808	-2,903	-606	-2,226
3.06.02.03	Other financial expenses	-8,644	-29,295	-11,822	-41,063
3.07	Profit (loss) before income tax	170,747	301,112	69,592	339,374
3.08	Income tax and social contribution	-49,573	-43,330	3,727	-22,557
3.08.01	Current	-8,761	-8,761	-1,714	-9,842
3.08.02	Deferred assets	-40,812	-34,569	5,441	-12,715
3.09	Net profit (loss) from continued operations	121,174	257,782	73,319	316,817
3.10	Net profit (loss) from discontinued operations	0	0	0	-1,674
3.10.01	Net profit (loss) of discontinued operations	0	0	0	-1,674

**Individual financial statements / Statement of profit or loss****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 07/01/2018-09/30/2018</b>	<b>Accumulated of the current year 01/01/2018-09/30/2018</b>	<b>Same quarter of the prior year 07/01/2017-09/30/2017</b>	<b>Accumulated of the prior year 01/01/2017-09/30/2017</b>
3.11	Income/loss for the period	121,174	257,782	73,319	315,143
3.99	Earnings per share - (Reais / Share)				

**Individual financial statements / Statement of other comprehensive income****(In thousand of reais)**

Code of account	Account description	Current quarter	Accumulated of the current year	Same quarter of the prior year	Accumulated of the prior year
		07/01/2018-09/30/2018	01/01/2018-09/30/2018	07/01/2017-09/30/2017	01/01/2017-09/30/2017
4.01	Net profit for the period	121,174	257,782	73,319	315,143
4.02	Other comprehensive income	3,669	16,183	-17,686	-3,019
4.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	-8,041	-25,545	-17,683	-3,680
4.02.02	Unrealized income (loss) in hedge operations	0	0	219	780
4.02.03	Deferred tax on unrealized income (loss) in hedge operations	0	0	-74	-265
4.02.04	Unrealized income (loss) in hedge operations – Subsidiaries	0	0	-148	146
4.02.05	Effect of the Adoption of IAS 29 (Hyperinflation)	11,710	41,728	0	0
4.03	Comprehensive income for the period	124,843	273,965	55,633	312,124

**Individual financial statements / Statement of cash flows - Indirect method****(In thousand of reais)**

Code of account	Account description	Accumulated of the current year	Accumulated of the prior year
		01/01/2018-09/30/2018	01/01/2017-09/30/2017
6.01	Net cash from operational activities	333,218	102,976
6.01.01	Cash generated in operations	309,346	477,376
6.01.01.01	Net income for the period	257,782	316,817
6.01.01.02	Depreciation and amortization	48,063	50,029
6.01.01.03	Income (loss) from sale/write-off of property, plant and equipment	2,880	5,363
6.01.01.04	Equity in net income of subsidiaries	107,998	-37,961
6.01.01.05	Interest, inflation adjustments, and exchange-rate change	14,689	21,912
6.01.01.06	Provisions for tax, civil and labor risks	10,990	12,995
6.01.01.07	Provision for IR/CSLL	8,761	10,338
6.01.01.08	Deferred income tax and social contribution	34,569	12,715
6.01.01.09	Restatement of judicial deposits	-10,944	0
6.01.01.10	Prov. (Reversal) for doubtful accounts	3,464	12,878
6.01.01.11	Provision (Reversal) for inventory losses	12,309	9,614
6.01.01.12	Provision for property, plant and equipment/intangible asset loss	0	11,425
6.01.01.13	Net cash generated in discontinued operations	0	51,251
6.01.01.14	Provision for Success Fees	8,011	0
6.01.01.15	Taxes with enforceability suspended	-189,226	0
6.01.02	Changes in assets and liabilities	23,872	-374,400
6.01.02.01	Trade accounts receivable	153,448	185,205
6.01.02.02	Inventories	-170,798	-147,249
6.01.02.03	Prepaid expenses	-11,605	-12,804
6.01.02.04	Recoverable taxes	1,729	-7,802
6.01.02.05	Receipt Proc. IPI Credit Premium	37,031	0
6.01.02.06	Suppliers	56,233	-78,926
6.01.02.07	Taxes payable	-1,380	-212,490
6.01.02.08	Salaries and social security charges	25,791	-5,469
6.01.02.09	IR/CSLL payment	-2,822	-10,338
6.01.02.11	Operations with derivatives	-547	40
6.01.02.12	Amortization of charges on loans and financing	-14,681	-24,640
6.01.02.13	Contingencies	-39,137	-9,260
6.01.02.14	Other	-9,390	-50,667
6.02	Net cash used in investment activities	-141,930	24,794
6.02.01	Investment acquisition	-27,699	0
6.02.02	Acquisition of property, plant and equipment, intangible assets	-29,216	-58,029
6.02.03	Interest earning bank deposits	-164,201	-32,520
6.02.04	Redemption of interest earning bank deposits	171,186	115,343
6.02.05	Related parties	-92,000	0
6.03	Net cash from financing activities	-385,859	-188,766
6.03.01	Funding loans and financing	0	4,665
6.03.02	Amortization of loans and financing - Principal	-179,355	-81,884
6.03.03	Payment of dividends and interest on own capital	-206,504	-111,547
6.05	Increase (decrease) in cash and cash equivalents	-194,571	-60,996
6.05.01	Opening balance of cash and cash equivalents	510,734	266,327
6.05.02	Closing balance of cash and cash equivalents	316,163	205,331

**Individual financial statements / Statement of changes in equity / DMPL - 01/01/2018-09/30/2018****(In thousand of reais)**

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity
5.01	Opening balances	648,497	108,551	1,578,434	0	-149,092	2,186,390
5.02	Prior-year adjustments	0	0	-4,653	0	0	-4,653
5.02.01	Expected Customer loss adjustment (IFRS 9)	0	0	-4,653	0	0	-4,653
5.03	Adjusted opening balances	648,497	108,551	1,573,781	0	-149,092	2,181,737
5.04	Capital transactions with partners	0	0	-95,915	-110,600	0	-206,515
5.04.06	Dividends	0	0	-96,346	0	0	-96,346
5.04.07	Interest on own capital	0	0	431	-110,600	0	-110,169
5.05	Total comprehensive income	0	0	0	257,782	16,183	273,965
5.05.01	Net income for the period	0	0	0	257,782	0	257,782
5.05.02	Other comprehensive income	0	0	0	0	16,183	16,183
5.05.02.04	Translation adjustments in the period	0	0	0	0	-25,545	-25,545
5.05.02.06	Effect of the Adoption of IAS 29 (Hyperinflation)	0	0	0	0	41,728	41,728
5.06	Internal changes in shareholders' equity	0	0	147,749	-147,182	-567	0
5.06.01	Constitution of reserves	0	0	147,749	-147,749	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	567	-567	0
5.07	Closing balances	648,497	108,551	1,625,615	0	-133,476	2,249,187

**Individual financial statements / Statement of changes in equity / DMPL - 01/01/2017-09/30/2017****(In thousand of reais)**

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity
5.01	Opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023
5.03	Adjusted opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023
5.04	Capital transactions with partners	0	0	660	-112,100	0	-111,440
5.04.06	Dividends	0	0	238	0	0	238
5.04.07	Interest on own capital	0	0	422	0	0	-111,678
5.05	Total comprehensive income	0	0	0	315,143	-3,019	312,124
5.05.01	Net income for the period	0	0	0	315,143	0	315,143
5.05.02	Other comprehensive income	0	0	0	0	-3,019	-3,019
5.05.02.01	Adjustments of financial instruments	0	0	0	0	926	926
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-265	-265
5.05.02.04	Translation adjustments in the period	0	0	0	0	-3,680	-3,680
5.06	Internal changes in shareholders' equity	0	0	203,334	-203,043	-291	0
5.06.01	Constitution of reserves	0	0	203,334	-203,334	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	291	-291	0
5.07	Closing balances	648,497	108,551	1,569,188	0	-149,529	2,176,707

**Individual financial statements / Statement of value added****(In thousand of reais)**

Code of account	Account description	Accumulated of the	Accumulated of the prior
		current year 01/01/2018-09/30/2018	year 01/01/2017-09/30/2017
7.01	Revenue	2,066,366	1,889,093
7.01.01	Sale of merchandise, products and services	2,061,119	1,895,021
7.01.02	Other income	8,711	6,950
7.01.04	Formation/reversal of allowance for doubtful accounts	-3,464	-12,878
7.02	Inputs acquired from third parties	-845,303	-781,809
7.02.01	Cost of products, goods and services sold	-654,623	-580,269
7.02.02	Materials, Energy, Third-party services and other	-181,504	-182,608
7.02.03	Loss/recovery of asset values	-9,051	-16,712
7.02.04	Other	-125	-2,220
7.03	Gross added value	1,221,063	1,107,284
7.04	Retentions	-48,063	-50,029
7.04.01	Depreciation, amortization and depletion	-48,063	-50,029
7.05	Net added value produced	1,173,000	1,057,255
7.06	Added value received as transfer	-26,769	76,461
7.06.01	Equity in net income of subsidiaries	-107,998	37,961
7.06.02	Financial income	78,922	38,488
7.06.03	Other	2,307	12
7.06.03.01	Other	2,307	1,686
7.06.03.02	Income from discontinued operations	0	-1,674
7.07	Total added value payable	1,146,231	1,133,716
7.08	Distribution of added value	1,146,231	1,133,716
7.08.01	Personnel	449,621	458,604
7.08.01.01	Direct remuneration	351,187	352,452
7.08.01.02	Benefits	72,594	81,788
7.08.01.03	Severance Pay Fund (FGTS)	25,840	24,364
7.08.02	Taxes, duties and contributions	336,773	261,033
7.08.02.01	Federal	140,949	77,553
7.08.02.02	State	194,121	181,949
7.08.02.03	Municipal	1,703	1,531
7.08.03	Third-party capital remuneration	102,055	98,936
7.08.03.01	Interest	53,989	49,974
7.08.03.02	Rentals	21,177	22,939
7.08.03.03	Other	26,889	26,023
7.08.04	Remuneration of own capital	257,782	315,143
7.08.04.01	Interest on own capital	110,600	112,100
7.08.04.03	Retained earnings / Loss for the period	147,182	203,043

**Consolidated financial statements / Financial position - Assets****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
1	Assets Total	3,891,506	3,846,392
1.01	Current assets	2,311,373	2,439,913
1.01.01	Cash and cash equivalents	553,075	629,238
1.01.02	Interest earning bank deposits	74,790	77,115
1.01.02.01	Interest earning bank deposits measured at fair value through profit or loss	74,790	77,115
1.01.02.01.01	Trading securities	74,790	77,115
1.01.03	Accounts receivable	721,231	911,541
1.01.03.01	Trade accounts receivable	721,231	911,541
1.01.04	Inventories	829,899	698,761
1.01.06	Recoverable taxes	59,501	85,158
1.01.06.01	Current taxes recoverable	59,501	85,158
1.01.07	Prepaid expenses	25,151	11,262
1.01.07.01	Prepaid expenses	16,909	11,262
1.01.07.02	Prepaid expenses with Advertising	8,242	0
1.01.08	Other Current assets	47,726	26,838
1.01.08.01	Non-current assets held for sale	11,161	0
1.01.08.03	Other	36,565	26,838
1.01.08.03.01	Advance – Suppliers	18,320	9,473
1.01.08.03.02	Accounts receivable – Employees	4,428	6,022
1.01.08.03.03	Deferred PIS and COFINS	179	153
1.01.08.03.04	Other Assets	13,638	11,190
1.02	Non-current assets	1,580,133	1,406,479
1.02.01	Long term assets	360,429	189,680
1.02.01.07	Deferred taxes	91,981	107,041
1.02.01.07.01	Deferred income tax and social contribution	91,487	106,406
1.02.01.07.02	Deferred PIS and COFINS	494	635
1.02.01.10	Other non-current assets	268,448	82,639
1.02.01.10.03	Compulsory deposits	73	73
1.02.01.10.04	Judicial deposits and pledges	49,401	16,193
1.02.01.10.05	Recoverable taxes	202,473	16,564
1.02.01.10.06	Other accounts receivable	16,501	49,809
1.02.02	Investments	2,342	1,320
1.02.02.02	Investment property	2,342	1,320
1.02.02.02.01	Other equity interest	2,342	1,320
1.02.03	Property, plant and equipment	741,078	721,645
1.02.03.01	Fixed assets in operation	692,427	666,613
1.02.03.03	Constructions in progress	48,651	55,032
1.02.04	Intangible assets	476,284	493,834
1.02.04.01	Intangible assets	476,284	493,834
1.02.04.01.02	Intangible assets	476,284	493,834

**Consolidated financial statements / Financial position - Liabilities****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
2	Total liabilities	3,891,506	3,846,392
2.01	Current liabilities	1,127,551	1,115,857
2.01.01	Social and labor obligations	177,812	131,336
2.01.01.01	Social charges	16,534	21,836
2.01.01.02	Labor obligations	161,278	109,500
2.01.02	Suppliers	456,532	388,112
2.01.02.01	Domestic suppliers	259,682	228,676
2.01.02.02	Foreign suppliers	196,850	159,436
2.01.03	Tax liabilities	34,792	32,785
2.01.03.01	Federal tax liabilities	33,395	21,592
2.01.03.01.01	Income tax and social contribution payable	16,660	4,636
2.01.03.01.02	Other tax obligations	16,735	16,956
2.01.03.02	State tax liabilities	1,397	11,193
2.01.04	Loans and financing	271,559	408,941
2.01.04.01	Loans and financing	271,531	408,849
2.01.04.01.01	In domestic currency	75,308	258,705
2.01.04.01.02	In foreign currency	196,223	150,144
2.01.04.03	Financial leases	28	92
2.01.05	Other liabilities	177,591	145,339
2.01.05.02	Other	177,591	145,339
2.01.05.02.01	Dividends and interest on own capital	5,055	5,044
2.01.05.02.04	Liabilities traded from subsidiaries	1,830	4,855
2.01.05.02.05	Unrealized losses on derivative operations	40	587
2.01.05.02.06	Provisions and other obligations	170,666	134,853
2.01.06	Provisions	9,265	9,344
2.01.06.01	Tax, social security, labor and civil provisions	9,265	9,344
2.01.06.01.01	Tax provisions	2,679	2,252
2.01.06.01.02	Social security and labor provisions	6,586	7,092
2.02	Non-current liabilities	445,172	466,146
2.02.01	Loans and financing	328,388	324,702
2.02.01.01	Loans and financing	328,388	324,702
2.02.01.01.01	In domestic currency	328,388	324,702
2.02.02	Other liabilities	29,160	44,974
2.02.02.02	Other	29,160	44,974
2.02.02.02.03	Liabilities traded from subsidiaries	6,616	18,834
2.02.02.02.05	Provisions to employee benefits	172	172
2.02.02.02.06	Other liabilities	15,620	13,470
2.02.02.02.07	Long-term incentive plan	6,752	12,498
2.02.03	Deferred taxes	69,908	55,917
2.02.03.01	Deferred income tax and social contribution	69,908	55,917
2.02.04	Provisions	17,716	40,553
2.02.04.01	Tax, social security, labor and civil provisions	17,716	40,553
2.02.04.01.01	Tax provisions	5,612	5,556
2.02.04.01.02	Social security and labor provisions	11,475	15,661
2.02.04.01.04	Civil provisions	629	19,336
2.03	Consolidated shareholders' equity	2,318,783	2,264,389

**Consolidated financial statements / Financial position - Liabilities****(In thousand of reais)**

<b>Code of account</b>	<b>Account description</b>	<b>Current quarter 09/30/2018</b>	<b>Prior year 12/31/2017</b>
2.03.01	Realized capital	648,497	648,497
2.03.02	Capital reserves	108,551	108,551
2.03.02.05	Treasury shares	-64,248	-64,248
2.03.02.07	Other capital reserves	169,241	169,241
2.03.02.08	Goodwill in the sale of treasury shares	3,558	3,558
2.03.04	Profit reserves	1,625,615	1,578,434
2.03.04.01	Legal reserve	67,754	67,754
2.03.04.05	Profit retention reserve	11,487	0
2.03.04.07	Tax incentive reserve	1,546,374	1,413,241
2.03.04.08	Additional dividend proposed	0	97,439
2.03.06	Equity valuation adjustments	12,658	13,225
2.03.07	Accumulated translation adjustments	-187,862	-162,317
2.03.08	Other comprehensive income	41,728	0
2.03.08.03	Effect of the Adoption of IAS 29 (Hyperinflation)	41,728	0
2.03.09	Interest of non-controlling shareholders	69,596	77,999

**Consolidated financial statements / Statement of profit or loss****(In thousand of reais)**

Code of account	Account description	Current quarter	Accumulated of the current year	Same quarter of the prior year	Accumulated of the prior year
		07/01/2018-09/30/2018	01/01/2018-09/30/2018	07/01/2017-09/30/2017	01/01/2017-09/30/2017
3.01	Revenue from sales of goods and/or services	930,772	2,646,921	951,169	2,618,214
3.02	Cost of goods and/or services sold	-526,599	-1,450,123	-537,023	-1,462,476
3.03	Gross profit	404,173	1,196,798	414,146	1,155,738
3.04	Operating expenses/income	-200,476	-827,526	-329,018	-798,190
3.04.01	Sales expenses	-283,987	-800,035	-256,348	-754,162
3.04.02	General and administrative expenses	-49,848	-155,633	-45,549	-157,069
3.04.04	Other operating income	203,860	257,598	6,913	258,800
3.04.05	Other operating expenses	-70,501	-129,456	-34,034	-145,759
3.04.05.01	Amortization of intangible assets	-9,180	-25,319	-6,272	-20,230
3.04.05.02	Other operating expenses	-61,321	-104,137	-27,762	-125,529
3.05	Profit (loss) before financial income and taxes	203,697	369,272	85,128	357,548
3.06	Financial income (loss)	-32,519	-53,793	-25,317	-56,087
3.06.01	Financial income	26,032	98,156	5,102	41,866
3.06.01.01	Exchange-rate change	65	26,934	-2,387	7,003
3.06.01.02	Gains on derivative operations	576	1,536	641	2,381
3.06.01.03	Other financial income	10,062	44,248	6,848	32,482
3.06.01.04	Gain/Loss Net Cash Position	15,329	25,438	0	0
3.06.02	Financial expenses	-58,551	-151,949	-30,419	-97,953
3.06.02.01	Exchange-rate change	-38,489	-89,309	-6,739	-21,993
3.06.02.02	Losses on derivative operations	-808	-2,903	-606	-2,226
3.06.02.03	Other financial expenses	-19,254	-59,737	-23,074	-73,734
3.07	Profit (loss) before income tax	171,178	315,479	59,811	301,461
3.08	Income tax and social contribution	-51,384	-64,269	11,497	5,703
3.08.01	Current	-5,934	-29,881	1,223	3,599
3.08.02	Deferred assets	-45,450	-34,388	10,274	2,104
3.09	Net profit (loss) from continued operations	119,794	251,210	71,308	307,164
3.10	Net profit (loss) from discontinued operations	0	0	0	-1,674
3.10.01	Net profit (loss) of discontinued operations	0	0	0	-1,674

**Consolidated financial statements / Statement of profit or loss****(In thousand of reais)**

Code of account	Account description	Current quarter	Accumulated of the current year	Same quarter of the prior year	Accumulated of the prior year
		07/01/2018-09/30/2018	01/01/2018-09/30/2018	07/01/2017-09/30/2017	01/01/2017-09/30/2017
3.11	Profit/loss for the period	119,794	251,210	71,308	305,490
3.11.01	Attributed to the Parent company's partners	120,891	257,782	73,319	315,143
3.11.02	Attributed to non-controlling partners	-1,097	-6,572	-2,011	-9,653
3.99	Earnings per share - (Reais / Share)				

**Consolidated financial statements / Statement of other comprehensive income****(In thousand of reais)**

Code of account	Account description	Current quarter	Accumulated of the	Same quarter of the	Accumulated of the
		07/01/2018-09/30/2018	current year 01/01/2018-09/30/2018	prior year 07/01/2017-09/30/2017	prior year 01/01/2017-09/30/2017
4.01	Consolidated net income for the period	119,794	251,210	71,308	305,490
4.02	Other comprehensive income	3,154	14,837	-17,686	-3,019
4.02.01	Gain/losses in translation of financial statements of foreign subsidiaries	-8,556	-26,891	-17,683	-3,680
4.02.02	Unrealized income (loss) in hedge operations	0	0	219	780
4.02.03	Deferred tax on unrealized income (loss) in hedge operations	0	0	-74	-265
4.02.04	Unrealized income (loss) in hedge operations - Subsidiaries	0	0	-148	146
4.02.05	Effect of the Adoption of IAS 29 (Hyperinflation)	11,710	41,728	0	0
4.03	Consolidated comprehensive income for the period	122,948	266,047	53,622	302,471
4.03.01	Attributed to the Parent company's partners	124,843	273,965	55,633	312,124
4.03.02	Attributed to non-controlling partners	-1,895	-7,918	-2,011	-9,653

**Consolidated financial statements / Statement of cash flows - Indirect method****(In thousand of reais)**

Code of account	Account description	Accumulated of the current	Accumulated of the prior
		year 01/01/2018-09/30/2018	year 01/01/2017-09/30/2017
6.01	Net cash from operational activities	293,200	80,421
6.01.01	Cash generated in operations	318,967	357,573
6.01.01.01	Net income for the period	251,210	307,164
6.01.01.02	Depreciation and amortization	78,703	71,985
6.01.01.03	Income (loss) from sale/written-off of property, plant and equipment	4,871	11,766
6.01.01.04	Interest. Inflation adjustments and exchange-rate change	33,927	34,743
6.01.01.05	Provisions for tax, civil and labor risks	14,278	15,173
6.01.01.06	Provision for IR/CSLL	29,881	27,850
6.01.01.07	Deferred income tax and social contribution	34,388	-2,104
6.01.01.08	Taxes with enforceability suspended	-189,226	-198,624
6.01.01.09	Prov. (Reversal) for doubtful accounts	14,259	17,756
6.01.01.10	Provision (Reversal) for inventory losses	14,088	9,042
6.01.01.11	Provision for property, plant and equipment/intangible asset loss	0	11,425
6.01.01.12	Restatement of judicial deposits	-10,944	0
6.01.01.13	Unrealized gains/losses in derivative operations - Subsidiaries	0	146
6.01.01.14	Net cash generated in discontinued operations	0	51,251
6.01.01.15	Provision for Success Fees	8,011	0
6.01.01.16	Provision for restructuring - Argentina	35,521	0
6.01.02	Changes in assets and liabilities	-25,767	-277,152
6.01.02.01	Trade accounts receivable	106,754	114,063
6.01.02.02	Inventories	-224,772	-154,044
6.01.02.03	Prepaid expenses	-14,123	-14,666
6.01.02.04	Recoverable taxes	11,089	-59,620
6.01.02.05	Receipt Proc. IPI Credit Premium	37,031	0
6.01.02.06	Suppliers	142,317	-70,686
6.01.02.07	Taxes payable	-5,054	-28,190
6.01.02.08	Salaries and social security charges	61,071	-2,226
6.01.02.09	IR/CSLL payment	-18,561	-28,346
6.01.02.10	Operations with derivatives	-547	-154
6.01.02.11	Amortization of charges on loans and financing	-46,737	-37,742
6.01.02.12	Contingencies	-41,438	-10,805
6.01.02.13	Other	-32,797	15,264
6.02	Net cash used in investment activities	-36,305	2,600
6.02.01	Acquisition of property, plant and equipment, intangible assets	-43,290	-80,223
6.02.02	Interest earning bank deposits	-164,201	-32,520
6.02.03	Redemption of interest earning bank deposits	171,186	115,343
6.03	Net cash from financing activities	-338,470	-137,284
6.03.01	Funding loans and financing	331,544	174,990
6.03.02	Amortization of loans and financing - Principal	-456,837	-195,781
6.03.03	Payment of dividends and interest on own capital	-206,504	-111,547
6.03.04	Amortization for debt restructuring of subsidiary	-6,673	-4,946
6.04	Exchange rate change on cash and cash equivalents	5,412	1,427
6.05	Increase (decrease) in cash and cash equivalents	-76,163	-52,836
6.05.01	Opening balance of cash and cash equivalents	629,238	391,347

**Consolidated financial statements / Statement of cash flows - Indirect method****(In thousand of reais)**

Code of account	Account description	Accumulated of the current year	Accumulated of the prior year
		01/01/2018-09/30/2018	01/01/2017-09/30/2017
6.05.02	Closing balance of cash and cash equivalents	553,075	338,511

**Consolidated financial statements / Statement of changes in equity / DMPL - 01/01/2018-09/30/2018****(In thousand of reais)**

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated equity
5.01	Opening balances	648,497	108,551	1,578,434	0	-149,092	2,186,390	77,999	2,264,389
5.02	Prior-year adjustments	0	0	-4,653	0	0	-4,653	-485	-5,138
5.02.01	Expected Customer loss adjustment (IFRS 9)	0	0	-4,653	0	0	-4,653	-485	-5,138
5.03	Adjusted opening balances	648,497	108,551	1,573,781	0	-149,092	2,181,737	77,514	2,259,251
5.04	Capital transactions with partners	0	0	-95,915	-110,600	0	-206,515	0	-206,515
5.04.06	Dividends	0	0	-96,346	0	0	-96,346	0	-96,346
5.04.07	Interest on own capital	0	0	431	-110,600	0	-110,169	0	-110,169
5.05	Total comprehensive income	0	0	0	257,782	16,183	273,965	-7,918	266,047
5.05.01	Net income for the period	0	0	0	257,782	0	257,782	-6,572	251,210
5.05.02	Other comprehensive income	0	0	0	0	16,183	16,183	-1,346	14,837
5.05.02.04	Translation adjustments in the period	0	0	0	0	-25,545	-25,545	-1,346	-26,891
5.05.02.06	Effect of the Adoption of IAS 29 (Hyperinflation)	0	0	0	0	41,728	41,728	0	41,728
5.06	Internal changes in equity	0	0	147,749	-147,182	-567	0	0	0
5.06.01	Constitution of reserves	0	0	147,749	-147,749	0	0	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	567	-567	0	0	0
5.07	Closing balances	648,497	108,551	1,625,615	0	-133,476	2,249,187	69,596	2,318,783

**Consolidated financial statements / Statement of changes in equity / DMPL - 01/01/2017-09/30/2017****(In thousand of reais)**

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated equity
5.01	Opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023	89,726	2,065,749
5.03	Adjusted opening balances	648,497	108,551	1,365,194	0	-146,219	1,976,023	89,726	2,065,749
5.04	Capital transactions with partners	0	0	660	-112,100	0	-111,440	0	-111,440
5.04.06	Dividends	0	0	238	0	0	238	0	238
5.04.07	Interest on own capital	0	0	422	-112,100	0	-111,678	0	-111,678
5.05	Total comprehensive income	0	0	0	315,143	-3,019	312,124	-9,653	302,471
5.05.01	Net income for the period	0	0	0	315,143	0	315,143	-9,653	305,490
5.05.02	Other comprehensive income	0	0	0	0	-3,019	-3,019	0	-3,019
5.05.02.01	Adjustments of financial instruments	0	0	0	0	926	926	0	926
5.05.02.02	Taxes on financial instruments' adjustments	0	0	0	0	-265	-265	0	-265
5.05.02.04	Translation adjustments in the period	0	0	0	0	-3,680	-3,680	0	-3,680
5.06	Internal changes in equity	0	0	203,334	-203,043	-291	0	0	0
5.06.01	Constitution of reserves	0	0	203,334	-203,334	0	0	0	0
5.06.04	Realization of Other comprehensive income	0	0	0	291	-291	0	0	0
5.07	Closing balances	648,497	108,551	1,569,188	0	-149,529	2,176,707	80,073	2,256,780

**Consolidated financial statements/ Statement of value added****(In thousand of reais)**

Code of account	Account description	Accumulated of the current	Accumulated of the
		year 01/01/2018-09/30/2018	prior year 01/01/2017-09/30/2017
7.01	Revenue	3,067,763	3,053,331
7.01.01	Sale of merchandise, products and services	3,069,084	3,061,367
7.01.02	Other income	12,938	9,720
7.01.04	Formation/reversal of allowance for doubtful accounts	-14,259	-17,756
7.02	Inputs acquired from third parties	-1,364,758	-1,376,136
7.02.01	Cost of products, goods and services sold	-925,714	-864,818
7.02.02	Materials, Energy, Third-party services and other	-434,104	-499,003
7.02.03	Loss/recovery of asset values	-4,805	-10,095
7.02.04	Other	-135	-2,220
7.03	Gross added value	1,703,005	1,677,195
7.04	Retentions	-78,703	-71,985
7.04.01	Depreciation, amortization and depletion	-78,703	-71,985
7.05	Net added value produced	1,624,302	1,605,210
7.06	Added value received as transfer	101,015	42,460
7.06.02	Financial income	98,156	41,866
7.06.03	Other	2,859	594
7.06.03.01	Other	2,859	2,268
7.06.03.02	Income from discontinued operations	0	-1,674
7.07	Total added value payable	1,725,317	1,647,670
7.08	Distribution of added value	1,725,317	1,647,670
7.08.01	Personnel	672,543	705,962
7.08.01.01	Direct remuneration	562,155	576,149
7.08.01.02	Benefits	84,548	94,222
7.08.01.03	Severance Pay Fund (FGTS)	25,840	35,591
7.08.02	Taxes, duties and contributions	541,058	446,514
7.08.02.01	Federal	311,639	228,980
7.08.02.02	State	227,568	215,822
7.08.02.03	Municipal	1,851	1,712
7.08.03	Third-party capital remuneration	260,506	189,704
7.08.03.01	Interest	148,760	96,424
7.08.03.02	Rentals	84,561	67,038
7.08.03.03	Other	27,185	26,242
7.08.04	Remuneration of own capital	251,210	305,490
7.08.04.01	Interest on own capital	110,600	112,100
7.08.04.03	Retained earnings / Loss for the period	147,182	203,043
7.08.04.04	Interest of non-controlling shareholders in retained earnings	-6,572	-9,653

## Notes to the financial statements

### ALPARGATAS S.A.

#### NOTES TO FINANCIAL STATEMENTS FOR THE 9-MONTH PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of reais - R\$, unless otherwise indicated)

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## 1. Operations

### 1.1. General considerations

Alpargatas S.A. ("Company") is a publicly-held corporation headquartered in the capital city of São Paulo, at Avenida Doutor Cardoso de Melo, 1.336 and listed in B3 S.A. - Brasil, Bolsa, Balcão under ticker ALPA4" and "ALPA3".

The Company and its subsidiaries (hereinafter collectively referred to as "Alpargatas Group" or the "Group") are primarily engaged in the manufacturing and sale of footwear and footwear components, apparel items, textiles and textile components, leather, resin and natural or synthetic rubber goods, and sports items.

The direct and indirect subsidiaries through which the Company conducts activities in Brazil and abroad are described in Note 4.

The Board of Directors authorized the issuance of these financial statements on November 09, 2018.

### 1.2. Acquisition of the controlling interest by Itaúsa - Investimentos Itaú S.A., Cambuhy Investimentos Ltda. and Brasil Warrant Administração de Bens e Empresas S.A.

On July 12, 2017, the Company was informed that J&F Investimentos and ITAÚSA, Cambuhy and Brasil Warrant signed a purchase and sale agreement for the acquisition of the controlling interest of Alpargatas. This operation was concluded on September 20, 2017, after approval published in the Federal Official Gazette (D.O.U.) Order by the General Superintendent of the CADE (Administrative Council of Economic Defense), on August 4, 2017. Itaúsa, Cambuhy and Cambuhy Alpa ("Buyers") acquired all the shares issued by Alpargatas held by J&F Investimentos S.A., representing 255,183,112 shares, of which 207,246,069 are common shares and 47,937,043 are preferred shares, equivalent to 54.24% of Alpargatas total capital, 85.78% of the voting capital and 20.95% of the total preferred shares ("Disposed Shares").

The price of the Disposed Shares, after adjustments due to the payment of interest on own capital to J&F (pursuant to the Board of Directors Meeting held on August 4, 2017) was R\$ 3,479,907,000 (three billion, four hundred and seventy-nine million, nine hundred and seven thousand reais), the price per share being equivalent to R\$ 14.17 per common share and R\$ 11.32 per preferred share.

In accordance with article 254-A of the Brazilian Corporation Law and due to the acquisition of shareholder control by the Buyers through the purchase of the J&F Disposed Shares, on March 23, 2018, the Buyers carried out the public offering of the Alpargatas S.A. (OPA), pursuant to the public notice published on February 16, 2018. There was no interest of any shareholder in joining the OPA; thus, the shareholding interest remained unchanged.

## Notes to the financial statements

### 1.3. Disposal of Topper and Rainha operations

On November 3, 2015, for the purpose of increasing its focus on its most strategic businesses, the Company entered into with a group of investors led by Mr. Carlos Roberto Wizard Martins: (a) Purchase and Sale Agreement referring to disposal of 100% of the business unit that will comprise all operations related to the Topper brand in Brazil, and to Rainha brand in Brazil and worldwide; (b) Purchase and Sale Agreement referring to disposal of 20% of the business unit that will comprise all operations related to the Topper brand in Argentina and worldwide (except in the United States and China), currently conducted by the subsidiary Alpargatas S.A.I.C.; and (c) License Agreement referring to the Topper brand, for the period of 15 years, in the United States and China.

Operations were estimated to be closed on different dates, and such closing is subject to compliance with certain precedent conditions.

As anticipated in the structuring of the transaction, in February 2016, Alpargatas segregated the business unit responsible for the Topper and Rainha brands activities in Brazil into a new company, BRS Comércio e Indústria de Material Esportivo S.A.(BRS), which was acquired by the buyers on May 2, 2016 for the price of R\$49,836.

On September 14, 2018, the Company renegotiated the conditions of the sale of "Topper" business unit in Argentina and replaced the purchase and sale agreement that had been signed with Mr. Carlos Roberto Wizard Martins and other investors on November 3, 2015.

The new agreement provides for the disposal of 22.5% of ASAIC's capital stock, as well as the possible disposal of the remaining ownership interest subject to the exercise of the call option or put option provided for in the Agreement, after conclusion of ASAIC's corporate reorganization for segregation of assets and liabilities not related to Topper business. The call and put options may be exercised as of 2021.

The Buyer will acquire 22.5% of ASAIC's capital, for R\$100 million, with payment of R\$40 million ("Input Value") on the closing date of the operation under the Agreement.

In case the put option or call option is exercised, the price determined for acquisition of 100% of ASAIC's ownership interest will be calculated based on the application of the multiple of 6x on ASAIC's EBTIDA in the year immediately prior to the exercise of the option, being subject to certain usual adjustments in this kind of transaction, less Input Value.

The closing of the operation, expected for the 4th quarter of 2018, is subject to the compliance with certain usual preceding conditions for this type of operation.

### 1.4. Timberland brand licensing

On May 13, 2016, the Company announced in a material fact that, as of January 2017, would not be no longer representative of the Timberland brand in Brazil. This decision was in line with the Company's strategy regarding its positioning in the sporting goods market.

## Notes to the financial statements

### 1.5. Relocation and merger - Alpargatas International S.L.

On December 5, 2016, the Company completed the relocation process of Alpargatas International SL, new corporate name of Alpargatas International ApS, from Copenhagen (Denmark) to Madrid (Spain). Such European holding company relocation was due to strategic business growth issues.

On April 25, 2018, Alpargatas International S.L. was merged by the subsidiary Alpargatas Europe S.L.U., both domiciled in Madrid (Spain). With the merger, Alpargatas Europe S.L.U. became holder of direct interest in all the subsidiaries located in Europe and in the operation in the United States.

### 1.6 Start-up date of new operations

The operations of Alpargatas Colombia SAS started in January 2018 and is mainly engaged in the trading of Havaianas brand products.

The operations of the subsidiary Alpargatas Asia Ltd. started in May 2018. (Hong Kong) and its main activity is the commercial representation of the brand Havaianas.

## 2. Basis for preparation of the interim financial statements

### a) Statement of conformity

The individual and consolidated interim financial information of the Company for the nine-month period ended September 30, 2018 were prepared and are being presented in accordance with CPC 21 (R1) technical pronouncements - Interim Financial Reporting, which includes the provisions of the Brazilian Corporate Law, accounting standards and procedures issued by the Brazilian Securities Commission (CVM) and the Accounting Pronouncements Committee (CPC), and in accordance with IAS 34 - Interim Financial Reporting, issued by the Accounting Pronouncements Committee and the International Accounting Standards Board (IASB).

### b) Basis of presentation

The individual and consolidated interim financial information were prepared to update users on material events and transactions that occurred in the period, and should be analyzed in conjunction with the individual and consolidated financial statements for the year ended December 31, 2017. Accounting policies, estimates and judgments, risk management and measurement methods are the same as those adopted in the preparation of the last annual financial statements, except for the new accounting policies related to the adoption of IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers, which are described in note 3.

### c) Adoption of the accounting and reporting standard in hyperinflationary economy

In July 2018, considering that the inflation accumulated in the past three years in Argentina was higher than 100%, the adoption of the accounting and reporting standard in hyperinflationary economy (IAS 29) became mandatory. IAS 29 requires the disclosure of the results of the company's operations in Argentina as if they were hyperinflationary as of January 1, 2018 (beginning of the period in which the hyperinflation is identified).

## Notes to the financial statements

Pursuant to IAS 29, non-cash assets and liabilities, the shareholders' equity and the statement of income of subsidiaries that operate in hyperinflationary economies are adjusted by the change in the general purchasing power of the currency, applying a general price index.

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy should be expressed in terms of the current measurement unit at the balance sheet date and translated into Real at the closing exchange rate for the period.

In view of the foregoing, the Company applied the accounting of hyperinflationary economy to its subsidiary in Argentina by adopting the rules of IAS 29 as follows:

- the accounting and reporting standard in hyperinflationary economy was adopted as of January 1, 2018 (according to paragraph 4 of IAS 29);
  - non-cash assets and liabilities recorded at historical cost (for example, fixed assets, intangible assets, inventories, etc.) and the shareholders' equity of the subsidiary in Argentina were adjusted based on an inflation index. The impacts of hyperinflation resulting from changes in the general purchasing power up to December 31, 2017 were reported in the shareholders' equity under "Other comprehensive income". The impacts of the general purchasing power as of January 1, 2018 were reported in the statement of income under a specific account for adjustment of hyperinflation, in the financial income (loss) (see Note 29 - Financial income and expenses). Pursuant to paragraph 3 of IAS 29, there is no defined general price index, but it is allowed to use judgment when the restatement of the financial statements is necessary. Accordingly, the indices used were based on Resolution 539/18 issued by the Argentine Federation of Council of Economic Science Professionals: i) as of January 1, 2017, the national IPC (national consumer price index; ii) up to December 31, 2016, the IPIM (internal wholesale price index);
  - the statement of income is adjusted at the end of each reporting period using the change of the general price index and, subsequently, translated at the closing exchange rate of each period (instead of the average rate), thus resulting in the accumulated for the year the effects, on result accounts, of the inflation index and of the currency translation;
  - the statements of income for year 2017 and for the first and second quarters of 2018 and the respective balance sheets of the subsidiary in Argentina have not been restated. According to IAS 21, paragraph 42 (b) when the amounts are translated into the currency of non-hyperinflationary economy, the comparative amounts should be those that would be presented as amounts of the current year in the financial statements for the prior year (that is, not adjusted to subsequent changes in the level of prices or subsequent changes in exchange rates);
  - in the absence of issuance of analogous pronouncement by the Accounting Pronouncement Committee - CPC, the Company adopted IAS 29 as accounting practice for purposes of Accounting and Reporting in Hyperinflationary Economy in the individual interim financial statements.

## Notes to the financial statements

Impacts in Company's net assets as of September 30, 2018 are as follows:

<u>Assets</u>	<b>09/30/2018</b>
Inventories	14,148
Assets for sale	9,719
Property, plant and equipment	96,196
Impairment adjustment - property, plant and equipment	(43,539)
Intangible assets	795
<b>Total assets</b>	<b><u>77,319</u></b>
<u>Liabilities and shareholders' equity</u>	
Deferred income tax and social contribution	<u>20,523</u>
<b>Total liabilities</b>	<b><u>20,523</u></b>
<b>Shareholders' equity</b>	
Equity valuation adjustment	41,728
Retained earnings	<u>15,068</u>
<b>Total shareholders' equity</b>	<b><u>56,796</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>77,319</u></b>

The statement of income of the subsidiary in Argentina accumulated to September 30, 2018 was adjusted by the inflation index and, subsequently translated at the closing rate in September of 0.09859 Argentine pesos to one real, as result of the adoption of IAS 29.

In the nine-month period ended September 30, 2018 the use of the Accounting and reporting standard in Hyperinflationary Economy, pursuant to IFRS, resulted in a positive adjustment of R\$25,438 (see note 29) in the financial income (loss) related to gain on net cash position and a positive impact of R\$15,068 on net income.

The recoverable value of the "Textile" cash generating unit was estimated based on the net sales value of selling expenses.

The estimated recoverable value of this unit was lower than its book value after the monetary adjustment, therefore, a provision for impairment was recognized in the amount of R\$ 43,539 against other comprehensive income

For the other cash generating units the impairment was not determined.

## Notes to the financial statements

### d) Reclassifications

There have been a few reclassifications in the balances of balance sheet accounts of judicial deposits and provisions for tax, civil and labor risks related to the year ended December 31, 2017 to make them comparable with the presentations made of balance sheet accounts for the period ended September 30, 2018:

	<b>Parent company</b>		
	<b>Dec/17</b>	<b>reclassifications</b>	<b>Dec/17 (adjusted)</b>
Judicial deposits	20,538	(7,062)	13,476
Provisions for tax, civil and labor risks	(42,834)	7,062	(35,772)
<b>Total</b>	<b>(22,296)</b>	<b>-</b>	<b>(22,296)</b>

  

	<b>Consolidated</b>		
	<b>Dec/17</b>	<b>reclassifications</b>	<b>Dec/17 (adjusted)</b>
Judicial deposits	23,255	(7,062)	16,193
Provisions for tax, civil and labor risks	(56,959)	7,062	(49,897)
<b>Total</b>	<b>(33,704)</b>	<b>-</b>	<b>(33,704)</b>

### 3. New standards, amendments and interpretations of standards

#### a) CPC 47 / IFRS 15 - Revenue from contracts with customers

The Company adopted CPC 47/IFRS 15 with first-time adoption as of January 1, 2018, taking advantage of the exemption that allows it not to present comparative information from prior periods.

IFRS 15 introduced a comprehensive framework for determining whether and when income is recognized, and how income is measured. IFRS 15 replaces current income recognition standards, including CPC 30 (IAS 18) Revenues, CPC 17 (IAS 11) - Construction Contracts, and CPC 30 - Interpretation A (IFRIC 13) Client Loyalty Programs.

IFRS 15 established a five-step model, applicable to the recognition of revenue from contracts with customers. The core principle of this new pronouncement is the recognition of income upon the transfer of control of goods and services to the client and for an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for the transfer of such goods or services.

Since the transfer of risks and rewards usually coincides with the transfer of control of products, the timing of recognition of income from sales of products was not affected by the adoption of this new standard.

## Notes to the financial statements

The Company has a commercial agreement with certain clients that allows some special discounts, which were recorded upon recognition of income as "sales expenses" and, as of 2018, will be accounted for as a reduction in "sales income".

The Company recorded the amount of R\$ 16,037 in the parent company and R\$ 18,145 in the consolidated as a reduction of sales income for the nine-month period ended September 30, 2018.

### b) CPC 48 / IFRS 9 - Financial instruments

The Company adopted CPC 48/IFRS 9, effective as of January 1, 2018, taking advantage of the exemption that allows it not to present comparative information from prior periods arising from changes in classification, measurement and recognition of financial assets and liabilities, including expected credit losses.

- Classification and measurement - financial assets and liabilities

CPC 48/IFRS 9 contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in CPC 38/IAS 39 of held-to-maturity, loans and receivables, and available for sale. The new classification requirements had no impact on the accounting of the Company's financial assets and liabilities.

- Impairment - Financial and contractual assets

CPC 48/IFRS 9 replaced the "incurred losses" model of CPC 38 / IAS 39 with a prospective "expected credit losses" model. The new model of expected losses will be applied to financial assets measured at amortized cost or FVTOCI, with the exception of investments in equity instruments.

For the accounts receivable, the Company adopted a simplified approach and calculated the expected loss based on the expectation of default risk occurring throughout the life of the financial instrument. The Company has established a provisioning matrix that is based on its history of credit losses, adjusted to any financial guarantee related to the receivable.

The Company recognized the book balances of financial assets resulting from the adoption of IFRS 9 as retained earnings on January 1, 2018.

	<b>Initial adoption adjustment IFRS 9</b>
Trade accounts receivable	(6,675)
Deferred taxes	2,022
Total recognized in retained earnings in shareholders' equity	(4,653)

For other financial assets, the expected credit losses are based on a 12-month period, representing a proportion of the total contractual period of the instrument, where the possibility of default occurrence is estimated in relation to the financial asset in a 12-month period as of the date of presentation of the financial statements. However, when there is a significant increase in the original credit risk, the allowance will be based on expected credit losses for the total contractual period of the asset.

## Notes to the financial statements

When determining if the credit risk of a financial asset has significantly increased since the initial recognition and when estimating expected credit loss, the Company considers reasonable and sustainable information that is relevant and available without excessive cost or effort. Such information includes both quantitative and qualitative analyzes, based on the Company's historical experience and the existing credit assessment, which includes forward-looking information.

The Company will reassess its financial statements and whether its financial assets classified and measured at amortized cost should be subject to impairment at each reporting date. An impairment loss is recognized regarding a particular financial asset in the event of one or more events that adversely affect its estimated future cash flows.

### **c) Accounting pronouncements issued and not yet in effect**

The standards and interpretations issued by the IASB relevant to the Company that are not yet in force are the same as those presented in the financial statements for the year ended December 31, 2017. The other new pronouncements effective as of January 1, 2018 did not result in a material impact on the Company's interim financial statements and are described in items 3.a) and 3.b).

## Notes to the financial statements

### 4. Consolidated financial statements

The consolidation comprises the accounting information of the Company and the following direct and indirect subsidiaries:

	Main activity	Interest (%)	
		09/30/2018	12/31/2017
<b>Direct interest:</b>			
Fibrasil Agrícola e Comercial Ltda.	Import and export in general, purchase, sale and lease of own properties and interest in other companies, in the country or abroad	100.00	100.00
Alpargatas Imobiliária S.A.	Sale and lease of own properties and holding interest in other companies, in Brazil or abroad.	100.00	100.00
Alpargatas Europe S.L.U. - Spain (1)	Import and trading of footwear in the European market	100.00	100.00
Alpargatas S.A.I.C. - Argentina	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	98.35	98.35
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	Premium fashion retail chain with stores in Brazil and abroad	60.00	60.00
Alpargatas Asia Ltd. - Hong Kong	Commercial representation of the brand Havaianas	100.00	100.00
Alpargatas Colômbia SAS - Colombia	Import and trading of footwear in the Colombian market	100.00	100.00
Esportes S.A.	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	95.00	-
<b>Indirect interest (through Alpargatas Europe S.L.U.): (1)</b>			
Alpargatas USA Inc. - United States	Import and trading of footwear in the U.S. market	100.00	100.00
Alpargatas UK Limited - United Kingdom	Import and trading of footwear in the European market	100.00	100.00
Alpargatas France S.A.R.L. - France		100.00	100.00
Alpargatas Itália S.R.L. - Italy		100.00	100.00
Alpargatas Portugal Limited - Portugal		100.00	100.00
Alpargatas Germany GmbH - Germany		100.00	100.00
Alpargatas Greece M.E.P.E. - Greece		100.00	100.00
<b>Indirect interest (by means of Fibrasil Agrícola e Comercial Ltda.):</b>			
Alpargatas S.A.I.C. - Argentina	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	1.65	1.65
Dialog S.A.	Logistic services	10.00	10.00
Esportes S.A.	Manufacturing and trading of footwear and textile products, mainly in the Argentine market	5.00	-
<b>Indirect interest (by means of Alpargatas S.A.I.C. - Argentina):</b>			
Alpargatas Calzados de Uruguay S.A.	Trading of footwear	100.00	100.00
Dialog S.A.	Logistic services	90.00	90.00

(1) It merged Alparpagatas International S.L. in June 2018, as mentioned in note 1.5

## Notes to the financial statements

Thus, the Company considers that it controls an investee if, and only if, it has all the following characteristics: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) ability to use its power over the investee to affect their return value.

### 5. Tax incentives - Government grant

The Company has grants granted by state governments in its main plants, which, according to by original standards would expire between 2018 and 2020 in Northeast region and in 2031, in Minas Gerais. Meanwhile, both in Paraíba and in Pernambuco, laws were enacted extending such grants indefinitely. These standards are under the validation provided by Complementary Law 160/17, regulated by ICMS Agreement 190/17. Considering the restrictions contained in said standards for the conclusion of the validation process, namely the limitation of validity for industrial incentives until 2032 and the legal conditions to be fulfilled by the States by the end of 2018, the Company will monitor such process to act in the extension of its incentives for the maximum term allowed in the legislation in a timely manner.

The Company also has tax incentives granted by the federal government through profit from tax-incentive activities in the SUDENE Region, which will expire in 2023.

These investments grants and tax incentives are as follows:

		<b>Parent company and Consolidated</b>	
		<b>09/30/2018</b>	<b>09/30/2017</b>
ICMS grant:			
Paraíba	(a)	77,644	70,343
Pernambuco	(b)	9,795	8,471
Minas Gerais	(c)	18,206	18,831
Corporate Income Tax (IRPJ) incentives:	(d)		
Region SUDENE		27,488	6,367
Total		<u>133,133</u>	<u>104,012</u>

- (a) Amounts of the investment grant in the State of Paraíba, used in the calculation of matching ICMS credit. The amounts refer to unpaid ICMS installments, thus committed to what was agreed upon with the state government. The Company is compliant with the established agreement, which consisted of expanding the manufacturing facilities in that region, increasing its production of footwear and generating direct jobs in plants in the State of Paraíba.

In addition, during the nine-month periods ended September 30, 2018 and 2017, there were no incentive installments to be accounted for, arising from obligations established by the incentive program, to be complied with by the Company. Tax incentive installments are credited to "Sales taxes" in the statement of income.

- (b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of ICMS deemed credit, thus committed to what was agreed with the state government. The Company is compliant with the established agreement, which consists of maintaining a minimum number of direct jobs in the region and reaching gross income of at least R\$2,500.
- (c) Determination of presumed ICMS credit by Montes Claros plant. The amounts refer to unpaid ICMS installments, thus committed to what was agreed upon with the state government. The Company is in compliance with the established agreement, which consists of investing, generating income and creating direct jobs in Minas Gerais state plant.

## Notes to the financial statements

- (d) The amount of R\$ 27,488 includes R\$5,045 of incentive related to the prior year, but with no impact on the income (loss) because it has the same value recorded as income tax expense.

### 6. Cash and cash equivalents and interest earning bank deposits

#### a) Cash and cash equivalents

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Cash and banks	30,241	35,350	234,926	141,231
Interest earnings bank deposits:				
Post-fixed Bank Deposit Certificate - CDBs (i)	161,956	284,258	170,983	292,182
Post-fixed repurchase and resale agreements (i)	123,966	191,126	127,448	195,825
Other Alpargatas ASAIC - Argentina (ii)	-	-	19,718	-
Total	316,163	510,734	553,075	629,238

- (i) As of September 30, 2018, CDBs (Bank Deposit Certificates) and purchase and sale commitments had an average remuneration of 100.26% of CDI interest rate (99.50% as of December 31, 2017). The maturity terms range from October 2018 to March 2023, with a grace period for redemption of three months or less, and are subject to an insignificant risk of change in value.
- (ii) On September 30, 2018, the subsidiary Alpargatas S.A.I.C - Argentina had investments represented by fixed income security, with average yield of 57% p.a. in Argentine pesos. On December 31, 2017, the subsidiary had no financial investments.

#### b) Interest earnings bank deposits

As of September 30, 2018, they refer to CDBs (Bank Deposit Certificates) and repurchase and resale commitments had an average remuneration of 101.25% of CDI interest rate (101.37% as of December 31, 2017).

	Parent company and Consolidated	
	09/30/2018	12/31/2017
Post-fixed Bank Deposit Certificates - CDBs (i)	74,790	33,271
Post-fixed repurchase and resale agreements (i)	-	43,844
Total	74,790	77,115

- (i) They have grace period for redemption longer than three months and are subject to the risk of change in value in case of early redemption.

### 7. Trade accounts receivable

Trade accounts receivable are recorded in the balance sheet at that nominal value of securities, net of allowance for doubtful accounts, which is formed considering an individual analysis of receivables, of the economic environment and the history of losses recorded in prior years by maturity bracket.

## Notes to the financial statements

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Domestic market	505,208	671,070	560,574	754,454
Foreign market (i)	17,549	31,559	219,250	205,407
Related parties (Note 20.b)	68,488	48,563	-	-
Allowance for doubtful accounts	(46,353)	(43,441)	(58,593)	(48,320)
Total	544,892	707,751	721,231	911,541

(i) Foreign trade accounts receivable are denominated in U.S. dollars, euros and Argentinean pesos.

### a) Trade accounts receivable (third-parties) by maturity age -

#### Domestic market

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Falling due	452,693	584,232	497,361	653,472
Overdue (days)				
Up to 30	9,963	32,944	14,619	38,242
31-60	1,928	7,425	2,940	10,205
61-90	854	1,770	1,836	2,228
91-180	2,333	2,306	3,997	3,954
>181	37,437	42,393	39,821	46,353
Total	505,208	671,070	560,574	754,454

#### Foreign market

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Falling due	12,876	26,228	171,105	174,206
Overdue (days)				
Up to 30	-	885	25,245	17,034
31-60	-	585	6,558	3,988
61-90	-	-	4,279	3,406
91-180	-	-	3,261	1,735
>181	4,673	3,861	8,802	5,038
Total	17,549	31,559	219,250	205,407

### b) Allowance for doubtful accounts

Changes in the allowance for doubtful accounts are as follows:

	Parent company	Consolidated
Balances at December 31, 2017	(43,441)	(48,320)
First-time adoption of IFRS 9 on January 01, 2018	(5,836)	(6,675)
Additions	(3,464)	(14,259)
Write-offs to loss	7,047	11,471
Other changes /Exchange-rate change	(659)	(810)
Balances at September 30, 2018	(46,353)	(58,593)

The breakdown by aging of trade accounts receivable included in the allowance for doubtful accounts is as follows:

## Notes to the financial statements

### Domestic market

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Falling due	(4,265)	-	(4,265)	-
Overdue (days)				
Up to 30	(682)	(103)	(827)	(103)
31-60	(451)	(272)	(482)	(272)
61-90	(216)	(757)	(234)	(757)
91-180	(1,073)	(2,487)	(1,152)	(2,487)
>181	(34,993)	(35,961)	(36,907)	(37,520)
Total	(41,680)	(39,580)	(43,867)	(41,139)

  

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Up to 30 (days)	-	-	(558)	-
31-60	-	-	(1,421)	(171)
61-90	-	-	(1,437)	(307)
91-180	-	-	(2,609)	(1,735)
>181	(4,673)	(3,861)	(8,701)	(4,968)
Total	(4,673)	(3,861)	(14,726)	(7,181)

Additions and reversals of allowance for doubtful accounts were recorded in "Sales expenses" caption in the statement of income.

The maximum credit risk exposure on the date of the financial statements is the book value of each maturity bracket as shown in the tables above (item a). According to the collection policy, overdue securities should be dealt with in up to 45 days) and in case there is no positive evolution in the negotiation in up to 90 days, they are forwarded to outside collection advisory or judicial collection.

The provisions are recognized according to the IFRS 9, based on the historical percentages of loss, segregated by category of clients and according to the aging of the portfolio. For notes overdue for more than 180 days, the values are fully accrued, except for specific cases where there are real guarantees or renegotiations already approved by management and as of September 30, 2018, this amount was R\$ 2,914 in the consolidated.

For third-party clients in the foreign market, sales are made upon advance payment or letter of credit. For overdue securities in the portfolio, not covered by letter of credit and derived from former securities, the Company has specific guarantees.

The negotiations between related parties have terms defined according to the cash conversion cycle of each market, but in a few cases Management grants additional terms to assure cash liquidity.

## Notes to the financial statements

### 8. Inventories

Recorded at average acquisition or production cost and when applicable, restated at market value and possible losses.

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Finished goods	377,315	229,220	569,562	459,997
Work in process	23,843	23,282	44,541	45,064
Raw materials	115,529	101,304	127,138	129,594
Imports in transit	22,271	25,350	68,523	57,527
Effect of the adoption of IAS 29 (hyperinflation)	-	-	14,148	-
Other	1,497	2,810	5,987	6,579
<b>Total</b>	<b>540,455</b>	<b>381,966</b>	<b>829,899</b>	<b>698,761</b>

Changes in the provision for inventory losses are as follow:

	Parent company	Consolidated
Balances at December 31, 2017	(6,230)	(11,508)
Additions	(12,309)	(11,522)
Reversals	-	(2,566)
Write-offs/Exchange-rate change	2,814	3,235
Balances at September 30, 2018	<b>(15,725)</b>	<b>(22,361)</b>

The Company forms provision for inventory losses for: (i) all raw material not related to custom materials and 70% for other materials; and (ii) 100% of work in process for outdated items. Periodic evaluations and action plans are made to address obsolete items.

### 9. Recoverable taxes

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Prepayments of income tax and social contribution	992	828	1,253	1,088
Withholding income tax - IRRF	6,062	7,806	7,513	8,154
Value-added tax on sales and services (ICMS)	7,874	8,283	10,865	10,251
Excise Tax - IPI	46	1,744	46	1,744
Social Integration Program (PIS) and Contribution for social security funding - COFINS to be offset (i)	187,191	3,739	187,725	3,739
Tax incentive - Brasil Maior Plan	2,062	1,303	2,062	1,303
Credit from INSS lawsuit	6,988	6,988	6,988	6,988
Paex CBS	1,228	1,228	1,228	1,228
SAT refunding	-	1,254	-	1,254
Alpargatas Europe S.L.U. - Spain:				
Value-Added Tax - VAT	-	-	3,056	3,258
Prepayments of income tax	-	-	6,921	10,751
Alpargatas S.A.I.C. - Argentina:				
Value-Added Tax - VAT	-	-	3,099	9,923
Prepayments of income tax	-	-	6,835	31,541
Export taxes	-	-	2,561	2,609
IIBB/Fishing tax credit	-	-	14,816	5,266
Alpargatas Colômbia SAS - Colombia				
Value-Added Tax - VAT	-	-	1,925	-
Other	1,458	1,061	5,081	2,625
<b>Total</b>	<b>213,901</b>	<b>34,234</b>	<b>261,974</b>	<b>101,722</b>

## Notes to the financial statements

Current portion	23,807	24,225	59,501	85,158
Installments - non-current	190,094	10,009	202,473	16,564

- (i) Successful outcome of lawsuit related to Cofins base ICMS in the amount of R\$ 181 million, as described in note 22.

### 10. Income tax and social contribution

Deferred tax assets and liabilities are recognized on temporary differences only when it is probable that the Company will present future taxable income in sufficient amount to use these deductible temporary differences. The amounts are calculated based on the rates provided for by the tax legislation prevailing on the balance sheet dates.

#### a) Deferred assets

##### Parent company and Consolidated

	<b>Parent company and Consolidated</b>	
	<b>09/30/2018</b>	<b>12/31/2017</b>
Assets:		
Parent company:		
Allowance for doubtful accounts	15,545	14,822
Provision for inventory losses	4,204	2,125
Provision for tax, civil and labor risks	7,408	14,063
Provision for long-term incentive plan	1,845	3,562
Provision for loss of property, plant and equipment	3,971	4,002
Recognition adjustment of sales income	3,161	19,192
Tax losses and the negative social contribution base	-	5,607
Impairment of goodwill - Osklen	42,670	42,670
Other temporary differences	8,377	6,102
Total - parent company	<u>87,181</u>	<u>112,145</u>
Subsidiaries:		
Alpargatas S.A.I.C. - Argentina:		
- Provisions for tax, civil and labor risks	1,885	3,814
- Deferred taxes on tax losses	12,745	-
- Provision for inventory losses	2,765	5,285
- Other temporary differences	405	1,900
	<u>17,800</u>	<u>10,999</u>
Alpargatas Europe S.L.U. - Spain:		
- Allowance for doubtful accounts	735	377
- Provision for inventory losses	427	333
- Other temporary differences	6,749	1,639
	<u>7,911</u>	<u>2,349</u>
Alpargatas Europe S.L.		
- Deferred taxes on unrealized income	-	1,096
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen		
- Allowance for doubtful accounts	738	532
- Provisions for tax, civil and labor risks	239	873
- Provision for inventory losses	39	-
- Tax losses and the negative social contribution base	14,205	10,198
- Other temporary differences	494	428
	<u>15,715</u>	<u>12,031</u>
- Deferred taxes on unrealized income	6,466	5,555

## Notes to the financial statements

Total - consolidated		<u>135,073</u>	<u>144,175</u>
Liabilities:			
Parent company:			
Goodwill in the acquisition of subsidiaries - amortized for tax purposes	(i)	17,271	16,685
Provision for IR/CS without inflation adjustment of federal judicial deposits.		7,075	-
Transactions with derivative financial instruments		-	(200)
Adjustment to present value - Law 11638		-	278
Total parent company		<u>24,346</u>	<u>16,763</u>
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Adjustment of hyperinflation (IAS 29)		20,523	-
- Adjustment to present value on renegotiated liabilities and tax difference in valuation of fixed asset items		<u>3,525</u>	<u>8,975</u>
		24,048	8,975
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	(ii)	<u>65,100</u>	<u>67,948</u>
Total - consolidated		<u>113,494</u>	<u>93,686</u>
Parent company - Non-current assets		62,835	95,382
Consolidated - Non-current assets		91,487	106,406
Consolidated - Non-current liabilities		(69,908)	(55,917)

- (i) The Company enjoys the goodwill tax benefit on acquisition of subsidiary CBS S.A. Companhia Brasileira de Sandálias, at the ratio of 1/60, after the merger of former subsidiary Atlântico Participações S.A., with monthly amortization of R\$400 from January 2009 to October 2017, which has resulted in a R\$136/month tax effect, and of CBS S.A., with monthly amortization of R\$192 from February 2015 to January 2020, with a tax effect of R\$65/month for income tax and social contribution (IRPJ and CSLL) purposes.
- (ii) Refer to deferred income and social contribution tax liabilities on fair value of assets acquired and liabilities assumed upon acquisition of the controlling interest of Osklen. Liabilities are reversed as the acquired defined useful life intangible assets are amortized.

The deferred tax credits (consolidated) have the following estimated realization terms:

	<u>09/30/2018</u>	<u>12/31/2017</u>
2018 (nine months)	29,262	44,215
2019	24,811	28,740
2020	24,811	23,545
2021	24,811	23,540
>2022	<u>31,378</u>	<u>24,135</u>
Total - consolidated	<u>135,073</u>	144,175

## Notes to the financial statements

As of September 30, 2018, the Company had unrecognized tax credits on income tax losses and unrecognized temporary differences in the consolidated financial statements, generated by its foreign subsidiary Alpargatas USA Inc. and its indirect foreign subsidiary Osklen USA Holding Corp, which, in view of the lack of projected taxable profits for the next years, were not recorded by the corresponding foreign subsidiaries.

The amount of unrecorded tax credit, calculated at the current rate in the United States of America and Argentina, is as follows:

Alpargatas USA Inc. - United States:	
Total temporary differences	359
Tax losses	68,975
Osklen USA Holding Corp - USA:	
Tax losses	13,958
Alpargatas S.A.I.C - Argentina	
Tax losses	17,332
Unrecorded tax credit	<u><u>100,624</u></u>

The tax credit on tax losses generated by subsidiaries in United States has a 20-year period to be offset (expiration date) and in Argentina the period to be offset is 5 years.

Changes in balances of deferred income and social contribution taxes, assets and liabilities for the nine-month period ended September 30, 2018 is as follows:

	Parent company			Consolidated		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Balance at December 31, 2017	112,145	(16,763)	95,382	144,175	(93,686)	50,489
Effects on income (loss)	(26,986)	(7,583)	(34,569)	(11,414)	(22,974)	(34,388)
Exchange-rate change, charges and other changes	2,022	-	2,022	2,312	3,166	5,478
Balance at September 30, 2018	87,181	(24,346)	62,835	135,073	(113,494)	21,579

## Notes to the financial statements

### b) Current

Reconciliation of income tax and social contribution on net income:

	Parent company 09/30/2018	Consolidated 09/30/2017	Parent company 09/30/2018	Consolidated 09/31/2017
Profit before income tax and social contribution	301,112	339,374	315,479	301,461
Combined tax rate for income tax and social contribution	34%	34%	34%	34%
Expense with income tax and social contribution at the current tax rate	(102,378)	(115,387)	(107,263)	(102,497)
Equity in net income of subsidiaries	(36,719)	12,907	-	-
Benefits from interest on own capital	37,604	38,114	37,604	38,114
Investment grant - ICMS	35,914	36,290	35,914	36,290
Federal tax grant - IRPJ (Corporate Income Tax)	22,443	6,367	22,443	6,367
Tax credit - Argentina (Note 31.i))	-	-	-	11,330
Tax Adjustment from inflation - Argentina	-	-	-	18,421
Tax credit on tax loss not recognized and adjustment of equalization of rates of foreign subsidiaries	-	-	(55,655)	(1,559)
Other permanent exclusions (additions), net	(194)	(848)	2,688	(763)
Total expense with income tax and social contribution	(43,330)	(22,557)	(64,269)	5,703
Current	(8,761)	(9,842)	(29,881)	3,599
Deferred assets	(34,569)	(12,715)	(34,388)	2,104
Effective rate	14%	7%	20%	2%

## 11. Judicial deposits and pledges

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Tax	42,558	10,018	42,558	10,018
Civil	1,781	400	2,160	400
Labor	3,096	3,058	4,683	5,775
	47,435	13,476	49,401	16,193

These judicial deposits, which do not involve current obligations, were necessary to proceed with these claims. Based on the management's and its legal advisors' opinion, the likelihood of loss is not considered probable; therefore, no provision for tax, civil and labor contingencies was recorded.

In September 2018, the Company recorded as financial income, the inflation adjustment of judicial deposits in the amount of R\$ 21,490.

## Notes to the financial statements

### 12. Investments

They are represented as follow:

	<b>Parent company</b>	
	<b>09/30/2018</b>	<b>12/31/2017</b>
Investments	345,756	410,601
Goodwill	147,893	147,893
	<b>493,649</b>	<b>558,494</b>

	Fibrasil Agrícola e Comercial Ltda.	Alpargatas Europe S.L.U.	Alpargatas Imobiliária S.A.	Alpargatas S.A.I.C. - Argentina	Alpargatas Colômbia SAS	Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen	Alpargatas Asia Ltd. (Hong Kong)	Esportes S.A.	Total
<b>Information at September 30, 2018</b>									
Quantity of shares or quotas held	5,978,751	57,834,570	10,296,176	507,021,800	18,000,000	53,264,602	1	95,000	
Total current assets	423	324,864	9,239	396,589	22,568	130,955	5,079	10	
Total non-current assets	1,147	56,875	3,234	104,623	2,240	235,357	-	-	
Total current liabilities	1	226,972	92	309,193	8,260	138,332	-	-	
Total non-current liabilities		896	-	125,220		53,989	-	-	
Capital	5,979	465	10,296	50,825	23,105	80,209	8,032	10	
Non-controlling interest		-	-	45		69,596	-	-	
Shareholders' equity - Controlling shareholders	1,569	153,871	12,381	66,754	16,548	104,395	5,079	10	
Unrealized income in inventories / Unrealized gain from sale of assets	-	(8,117)	-	(1,983)	(1,158)	(1,294)			
	1,569	145,754	12,381	64,771	15,390	103,101	5,079	10	
net income for the period	-	459,033	83	350,653	973	154,333	-	-	
Net income/(loss) for the period	(1,962)	29,418	446	(118,799)	(6,337)	(16,430)	(2,864)	-	
Interest - %	100.00	100.00	100.00	98.35	100.00	60.00	100.00	95.00	
Book value of investments:									
Balance at December 31, 2017	3,635	92,017	11,935	187,583	-	115,431	-	-	410,601
Capital increase/contribution	-	-	-	-	20,599	-	7,084	15	27,698
Equity in net income of subsidiaries	(1,962)	31,368	446	(117,989)	(7,414)	(9,583)	(2,864)	-	(107,998)
Exchange-rate change on investments	(823)	22,369	-	(48,131)	2,205	(2,019)	859	(5)	(25,545)
Inflation Adjustment	719	-	-	41,009	-	-	-	-	41,728
IFRS 9 adjustment	-	-	-	-	-	(728)	-	-	(728)
Balance at September 30, 2018	1,569	145,754	12,381	62,472	15,390	103,101	5,079	10	345,756

The difference of R\$ 1,950 between income earned by Alparagatas Europe S.L. and equity in net income of subsidiaries for the period refers to realized profit in inventories of subsidiary.

- (i) The difference of R\$ (1,151) between income earned by Alparagatas S.A.I.C. - Argentina and equity in net income of subsidiaries for the year refers to unrealized profit in inventories of subsidiary.
- (ii) The other 1.65% interest of Alparagatas S.A.I.C. - Argentina is held by subsidiary Fibrasil Agrícola e Comercial Ltda. and totals R\$1,101 at September 30, 2018.
- (iii) As of September 30, 2018, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen was R\$ 71,160 (R\$74,204 as of December 31, 2017).
- (iv) The difference of R\$275 between the income of Terras de Aventuras and the equity in net income of subsidiaries in the period refers to income from sale of point of sale to the subsidiary.
- (v) The difference of R\$ (1,077) between income earned by Alparagatas Colômbia and equity in net income of subsidiaries for the year refers to unrealized profit in inventories of subsidiary.

	<b>Fibrazil Agrícola e Comercial Ltda.</b>	<b>Alpargatas International S.L. - Spain</b>	<b>Alpargatas Imobiliária S.A.</b>	<b>Alpargatas S.A.I.C. - Argentina</b>	<b>Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen</b>	<b>Total</b>
<u>Information at September 30, 2017</u>						
Quantity of shares or quotas held	5,978,751	57,734,570	10,296,177	507,021,800	50,914,603	
Total current assets	275	226,588	8,300	399,882	129,944	
Total non-current assets	3,677	60,399	3,234	97,609	262,428	
Total current liabilities	-	166,451	54	232,536	96,089	
Total non-current liabilities	-	711	-	56,094	96,098	
Capital	5,979	216,841	10,296	94,134	80,209	
Non-controlling interest	-	-	-	234	80,074	
Shareholders' equity	3,952	119,825	11,480	208,627	120,111	
Unrealized income in inventories / Unrealized gain from sale of assets	-	(4,330)	-	59	(1,568)	
	3,952	115,495	11,480	208,686	118,543	
Net income for the period	-	404,378	82	503,719	149,335	
Net income (loss) for the period	414	29,003	733	19,395	(24,131)	
Interest - %	100.00	100.00	100.00	98.35	ii) 60.00	
Book value of investments:						
Balance at December 31, 2016	3,985	62,366	10,747	210,127	133,020	420,245
Hedge operations	-	146	-	-	-	146
Equity in net income of subsidiaries	414	32,195	733	19,096	(14,477)	37,961
Exchange-rate change on investments	(447)	20,788	-	(24,021)	-	(3,680)
Balance at September 30, 2017	3,952	115,495	11,480	205,202	118,543 (iii)	454,672

(i) The difference of R\$ (3,192) between income earned by Alpargatas APS and equity in net income of subsidiaries for the year refers to realized income in inventories of subsidiary.

(ii) The other 1.65% interest of Alpargatas S.A.I.C. - Argentina is held by subsidiary Fibrazil Agrícola e Comercial Ltda. and totals R\$3,484 at September 30, 2017.

(iii) As of September 30, 2017, the amount related to the goodwill of assets and liabilities of Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen was R\$ 77,240 (R\$81,034 as of December 31, 2016).

As of September 30, 2018 and December 31, 2017, the goodwill in subsidiaries is comprised as follows:

	Alpargatas S.A.I.C. - Argentina	Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen	Total
Balance at December 31, 2017	96,268	51,625	147,893
Balance at September 30, 2018	96,268	51,625	147,893

Indirect investments through Alpargatas Europe S.L.U.

	Indirect subsidiaries							Total indirect subsidiaries
	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited - United Kingdom	AlpargatasItáli a S.R.L.- Italy	Alpargatas Portugal Limited - Portugal	Alpargatas Germany GmbH - Germany	Alpargatas USA Inc. - United States	Alpargatas Greece M.E.P.E.	
<u>Information at September 30, 2018</u>								
Quantity of shares or quotas held	5,000	1	1	2	25,000	10	1	
Total current assets	16,261	12,742	6,070	6,364	2,718	32,688	537	
Total non-current assets	5,770	1,484	8,279	4,752	517	22,125	27	
Total current liabilities	18,927	4,121	10,695	9,243	3,918	133,081	550	
Total non-current liabilities	-	-	-	-	-	327	-	
Shareholders' equity (unsecured liability)	3,104	10,105	3,654	1,874	(683)	(78,594)	14	
Net income for the period	24,614	17,136	22,423	10,347	4,285	87,191	332	
Net income (loss) for the period	(164)	833	(262)	(301)	(1,173)	(16,140)	13	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments: Balance at December 31, 2017	2,799	8,002	3,358	1,876	501	(103,795)	-	(87,259)
Acquisition	-	-	-	-	-	-	1	1
Capital increase	-	-	-	-	-	50,747	-	50,747
Equity in net income of subsidiaries	(164)	833	(262)	(301)	(1,173)	(16,140)	13	(17,194)
Exchange-rate change on investments	469	1,270	558	299	(11)	(9,406)	-	(6,821)
Balance at September 30, 2018	3,104	10,105	3,654	1,874	(683)	(78,594)	14	(60,526)

## Notes to the financial statements

Information at September 30, 2018	Indirect subsidiaries							Total indirect subsidiaries
	Alpargatas Europe S.L.U. - Spain	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited - United Kingdom	Alpargatas It ália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas Germany GmbH - Germany	Alpargatas USA Inc. - United States	
Quantity of shares or quotas held	100,000	5,000	1	1	2	25,000	10	
Total current assets	164,843	14,801	8,833	4,605	4,513	1,859	27,893	
Total non-current assets	28,831	5,129	1,914	4,642	4,046	1,081	14,238	
Total current liabilities	40,696	18,958	5,425	6,330	6,702	2,935	127,508	
Total non-current liabilities	384	-	-	-	-	-	327	
Shareholders' equity (unsecured liability)	152,594	972	5,322	2,917	1,857	5	(85,704)	
Net income for the year	266,305	19,617	12,189	15,365	7,309	2,842	80,751	
Net income (loss) for the year	46,398	(831)	(267)	647	419	(272)	(12,269)	
Indirect interest - %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments: Balance at								
December 31, 2016	91,999	1,701	5,247	2,051	1,298	269	(75,642)	26,923
Equity in income of subsidiaries and associated companies	46,398	(831)	(267)	647	419	(272)	(12,269)	33,825
Exchange-rate change on investments	14,197	102	342	219	140	8	2,207	17,215
Balance at September 30, 2017	152,594	972	5,322	2,917	1,857	5	(85,704)	77,963

## Notes to the financial statements

### 13. Property, plant and equipment

Property, plant and equipment are measured at historical cost, including expenditures directly attributable to the acquisition of items and financing costs related to the acquisition of qualified assets.

#### Parent company

	Useful life of depreciation (years)	09/30/2018			12/31/2017		
		Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	10,321	-	10,321	10,321	-	10,321
Buildings and constructions	10 - 80	363,230	(104,534)	258,696	357,314	(97,340)	259,974
Machinery and equipment	2 - 30	521,213	(245,123)	276,090	508,505	(233,179)	275,326
Furniture and fixtures	10	49,032	(30,270)	18,762	47,181	(27,666)	19,515
Vehicles	10	7,118	(5,195)	1,923	7,118	(4,702)	2,416
Leasehold improvements	5 - 10	31,018	(24,239)	6,779	30,576	(21,871)	8,705
Projects in progress	-	45,270	-	45,270	51,711	-	51,711
Other fixed assets	-	3,654	-	3,654	5,525	-	5,525
Provision for losses ("impairment") (ii)	-	(11,680)	-	(11,680)	(11,772)	-	(11,772)
<b>Total</b>		<b>1,019,176</b>	<b>(409,361)</b>	<b>609,815</b>	<b>1,006,479</b>	<b>(384,758)</b>	<b>621,721</b>

#### Parent company

	Useful life of depreciation (years)	09/30/2018			12/31/2017		
		Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	10,971	-	10,971	11,715	-	11,715
Buildings and constructions	10 - 80	398,869	(130,935)	267,934	435,290	(155,260)	280,030
Machinery and equipment	2 - 30	585,421	(297,717)	287,704	623,363	(326,971)	296,392
Furniture and fixtures	10	88,389	(58,491)	29,898	96,218	(65,175)	31,043
Vehicles	10	8,131	(6,242)	1,889	8,657	(6,196)	2,461
Leasehold improvements	5 - 10	116,301	(71,842)	44,459	106,602	(60,488)	46,114
Projects in progress	-	48,651	-	48,651	55,032	-	55,032
Other fixed assets	-	8,595	-	8,595	10,630	-	10,630
Provision for losses ("impairment") (ii)	-	(11,680)	-	(11,680)	(11,772)	-	(11,772)
Effect of the adoption of IAS 29 (hyperinflation)	-	52,657	-	52,657	-	-	-
<b>Total</b>		<b>1,306,305</b>	<b>(565,227)</b>	<b>741,078</b>	<b>1,335,735</b>	<b>(614,090)</b>	<b>721,645</b>

(i) Depreciation is calculated under the straight-line method, based on the estimated useful life of each asset, which is reviewed every year.

(ii) Refers to provision for asset losses of deactivated plants or obsolete assets.

## Notes to the financial statements

### Changes

	Parent company						09/30/2018
	12/31/2017	Additions	Transfers (i)	Depreciation	Write-offs	Other changes	
Property, plant and equipment							
Land	10,321	-	-	-	-	-	10,321
Buildings and constructions	259,974	-	5,961	(7,239)	-	-	258,696
Machinery and equipment	275,326	-	25,935	(24,728)	(518)	75	276,090
Furniture and fixtures	19,515	-	2,102	(2,673)	(182)	-	18,762
Vehicles	2,416	-	-	(493)	-	-	1,923
Leasehold improvements	8,705	-	211	(2,040)	(97)	-	6,779
Projects in progress	51,711	28,031	(34,472)	-	-	-	45,270
Other fixed assets	5,525	-	-	-	(2,083)	212	3,654
Provision for losses ("impairment")	(11,772)	-	-	-	-	92	(11,680)
<b>Total</b>	<b>621,721</b>	<b>28,031</b>	<b>(263)</b>	<b>(37,173)</b>	<b>(2,880)</b>	<b>379</b>	<b>609,815</b>

	Consolidated						09/30/2018
	12/31/2017	Additions	Transfers (i)	Depreciation	Write-offs	Exchange-rate change / Other changes	
Property, plant and equipment							
Land	11,715	-	-	-	(158)	(586)	10,971
Buildings and constructions	280,030	116	5,961	(7,791)	(991)	(9,391)	267,934
Machinery and equipment	296,392	1,064	26,050	(26,922)	(543)	(8,337)	287,704
Furniture and fixtures	31,043	348	4,182	(5,794)	(743)	862	29,898
Vehicles	2,461	-	-	(514)	-	(58)	1,889
Leasehold improvements	46,114	792	5,013	(9,336)	(314)	2,190	44,459
Projects in progress (ii)	55,032	35,313	(41,804)	-	-	110	48,651
Other fixed assets	10,630	-	-	-	(2,083)	48	8,595
Provision for losses ("impairment") (iii)	(11,772)	-	-	-	-	92	(11,680)
Effect of the adoption of IAS 29 (hyperinflation)	-	-	-	(3,027)	-	55,684	52,657
<b>Total</b>	<b>721,645</b>	<b>37,633</b>	<b>(598)</b>	<b>(53,384)</b>	<b>(4,832)</b>	<b>40,614</b>	<b>741,078</b>

- (i) The transfers correspond to the changes in assets between the line item "Projects in progress" to the corresponding definite accounts in "Property, plant and equipment", upon completion of projects.
- (ii) The balances recorded in line item "Projects in progress" refer to the following projects: (1) maintenance and modernization of plants, with investments of approximately R\$ 17,771; and (2) several improvements and expansion of the manufacturing process, with investments of approximately R\$ 12,276; and (3) other projects R\$ 18,604.
- (iii) Refers to provision for asset losses of deactivated plants or obsolete assets.

## Notes to the financial statements

### 14. Intangible assets

	Parent company						
	09/30/2018				12/31/2017		
	Useful life of amortization (years)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Business management systems (i)	4-10	198,072	(162,189)	35,883	196,688	(151,546)	45,142
Client portfolio	5	27,311	(27,311)	-	27,311	(27,311)	-
Assignment of commercial rights (ii)	5-10	6,515	(1,260)	5,255	6,621	(781)	5,840
Without defined useful life:							
Brands, rights and patents,	-	1,027	-	1,027	1,027	-	1,027
Goodwill in the acquisition of merged subsidiary	-	53,862	-	53,862	53,862	-	53,862
Projects in progress	-	7,798	-	7,798	7,396	-	7,396
<b>Total</b>		<b>294,585</b>	<b>(190,760)</b>	<b>103,825</b>	<b>292,905</b>	<b>(179,638)</b>	<b>113,267</b>

  

	Consolidated						
	09/30/2018				12/31/2017		
	Useful life of amortization (years)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
With defined useful life:							
Brands, rights and patents	1-10	22,598	(22,598)	-	22,034	(22,024)	10
Business management systems (i)	4-10	216,490	(172,334)	44,156	206,805	(158,948)	47,857
Assignment of commercial rights (ii)	5-10	88,557	(18,012)	70,545	91,299	(12,582)	78,717
Client portfolio	1-5	46,685	(44,034)	2,651	47,167	(40,637)	6,530
Non-compete agreement	4	20,850	(16,192)	4,658	20,850	(13,197)	7,653
Without defined useful life:							
Brands, rights and patents,	-	143,926	-	143,926	143,916	-	143,916
Goodwill in the acquisition of subsidiaries (iii)	-	201,755	-	201,755	201,755	-	201,755
Projects in progress	-	7,798	-	7,798	7,396	-	7,396
Effect of the adoption of IAS 29 (hyperinflation)	-	795	-	795	-	-	-
<b>Total</b>		<b>749,454</b>	<b>(273,170)</b>	<b>476,284</b>	<b>741,222</b>	<b>(247,388)</b>	<b>493,834</b>

- (i) They refer to the expenditures incurred in the acquisition, development and implementation of business management systems, such as SAP/R3, ALPA ONE Platform and LINX, and the costs incurred in the value chain management project.
- (ii) Refer to amounts paid in the acquisition of the rights to use points of sale where certain Havaianas and Osklen stores are located (consolidated). As of 2017, the cost of acquisition will be amortized over the remaining contractual term and considering the expectation of renewal.
- (iii) Refers to the goodwill regarding: (1) CBS S/A - Companhia Brasileira de Sandálias in the amount of R\$53,862; (2) Alpargatas A.S.A.I.C. -Argentina in the amount of R\$ 96,268; and (3) Osklen in the amount of R\$ 51,625.

## Notes to the financial statements

### Changes

	Parent company						09/30/2018
	12/31/2017	Additions	Transfers (i)	Amortizat	Write-offs	Other changes	
<b>Intangible</b>							
With defined useful life:							
Business management system	45,142	-	1,046	(10,305)	-	-	35,883
Assignment of commercial rights	5,840	-	-	(585)	-	-	5,255
Without defined useful life:							
Brands, rights and patents	1,027	-	-	-	-	-	1,027
Projects in progress (iii)	7,396	1,185	(783)	-	-	-	7,798
Goodwill in the acquisition of merged subsidiaries	53,862	-	-	-	-	-	53,862
<b>Total</b>	<b>113,267</b>	<b>1,185</b>	<b>263</b>	<b>(10,890)</b>	<b>-</b>	<b>-</b>	<b>103,825</b>

### Consolidated

	12/31/2017	Addition	Transf.(i)	Amortiz	Impairm	Write-	Exchan ge-rate change / Other	09/30/2018
<b>Intangible assets</b>								
With defined useful life:								
Brands, rights and patents	10	-	-	-	-	-	(10)	-
Business management systems	47,857	606	3,675	(11,712)	-	(6)	3,736	44,156
Assignment of commercial rights	78,717	34	2,147	(7,973)	-	(33)	(2,347)	70,545
Client portfolio	6,530	-	(609)	(2,838)	-	-	(432)	2,651
Non-compete agreement	7,653	-	-	(2,994)	-	-	(1)	4,658
Without defined useful life:								
Brands, rights and patents	143,916	-	-	-	-	-	10	143,926
Projects in progress (iii)	7,396	5,017	(4,615)	-	-	-	-	7,798
Goodwill in the acquisition of subsidiaries	201,755	-	-	-	-	-	-	201,755
Effect of the adoption of IAS 29 (hyperinflation)	-	-	-	198	-	-	597	795
<b>Total</b>	<b>493,834</b>	<b>5,657</b>	<b>598</b>	<b>(25,319)</b>	<b>-</b>	<b>(39)</b>	<b>1,553</b>	<b>476,284</b>

- (i) The transfers correspond to the changes in assets between the line item "Projects in progress" to the corresponding definite accounts in "Intangible assets", upon completion of projects.
- (ii) Mainly refers to exchange-rate change in foreign subsidiaries.
- (iii) The balances recorded under the caption "Projects in progress" on December 31, 2017 and September 30, 2018 refer to projects of investments in infrastructure and IT.

## Notes to the financial statements

### 15. Suppliers

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Domestic	223,783	207,045	230,225	216,389
Foreigners	73,081	50,756	196,850	159,436
Operation - drawee risk	29,457	12,287	29,457	12,287
Total	326,321	270,088	456,532	388,112

The balance of foreign suppliers mostly refers to amounts denominated in US dollars.

The amount as of September 30, 2018, of R\$ 29,457 (R\$ 12,287 as of December 31, 2017) refers to financial liabilities with suppliers through financial institutions. Due to their characteristics, these financial liabilities were included in cash advance programs using the Company's credit facilities. The Company understands that this transaction is of a specific nature, maintaining the same maturity date and amounts involved in commercial transactions with suppliers. Therefore, it was not classified separately from the caption "Suppliers".

### 16. Loans and financing

	Index and annual interest rate	Currency	Parent company		Consolidated		
			09/30/2018	12/31/2017	09/30/2018	12/31/2017	
<b>Denominated in reais:</b>							
FNE (BNB)	( a )		2.98%	79,379	93,312	79,379	93,312
Finame	( b )		3.38%	28,036	33,990	28,036	33,990
FINEM	( c )		50% TJLP+ 50% SELIC+ 2.35%	24,866	41,728	24,866	41,728
Exim (BNDES)	( d )		70% TJLP+ 30% SELIC+ 3.90%	-	142,171	-	142,171
Debtor risk	( e )		CDI + 3.15%	-	-	16,632	21,655
Debentures	( f )		104.2% CDI	254,783	250,551	254,783	250,551
Total in Reais				387,064	561,752	403,696	583,407

#### **Denominated in foreign currency:**

Foreign facility (4131) - Terras deAventura Ind. Artigos Esportivos S.A. - Osklen	( g )	US\$	3.52%	-	-	33,015	30,936
"Working capital" - Alpargatas USA	( h )	US\$	LIBOR 6M + 1.65%	-	-	-	15,058
"Working capital" - Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen	h	US\$	LIBOR 6M + 1.50%	-	-	19,558	16,540
"Line of Credit" - Alpargatas USA	h	US\$	LIBOR 6M + 1.30%	-	-	97,624	67,522
Financial leases -Alpargatas S.A.I.C. - Argentina	( i )	AR\$	23.88%	-	-	28	92
"Préstamo" - Alpargatas S.A.I.C. - Argentina	( h )	AR\$	36%	-	-	46,026	-
"Descubiertos" - Alpargatas S.A.I.C. - Argentina	( i )	AR\$	-	-	-	-	20,088
Total foreign currency				-	-	196,251	150,236

## Notes to the financial statements

<b>Overall total</b>	<b>387,064</b>	<b>561,752</b>	<b>599,947</b>	<b>733,643</b>
<b>Current liabilities</b>	<b>58,676</b>	<b>237,050</b>	<b>271,559</b>	<b>408,941</b>
<b>Non-current liabilities</b>	<b>328,388</b>	<b>324,702</b>	<b>328,388</b>	<b>324,702</b>

	<b>Parent company</b>	<b>Consolidated</b>
Balance at December 31, 2017	561,752	733,643
Borrowings	-	331,544
Payment of principal	(179,355)	(456,837)
Interest payment	(14,681)	(46,737)
Provision for interest	19,348	40,520
Exchange-rate change	-	(2,186)
Balance at September 30, 2018	387,064	599,947

- (a) Allocated to support investment programs in the Northeastern region, and investment in the Montes Claros plant in the Northern region of Minas Gerais. The clearance of contract installments was tied to disbursement schedule of investments. Guarantees are backed by a letter of bank guarantee.
- (b) Loans and financing related to FINAME, which were raised by the parent company between 2010 and 2014, are aimed at financing equipment used by the company for improving and increasing production (usually plant equipment). The average term of operations is 96 months. These financings are monthly amortized, one portion relating to principal value and the other to interest.
- (c) From October 2015 to December 2016, the Company received a credit of R\$ 57,14 million related to Pro Design (FINEM). The amounts raised in this modality are aimed at contributing and fostering the development and strengthen the trademark, and also product creation. There is a current financing agreement of this type, whose purpose is to strengthen the brand of sandals. In September 2018, we settled in advance another agreement of this type in the amount of approximately R\$ 3.8 million, whose purpose was to strengthen the brand of sporting goods.
- (d) In June 2016, the company received a credit of R\$ 180,84 million related to the financings of the BNDES-EXIM Pre-Shipment facility signed with the banks Santander and Safra. The funds are aimed at financing the exports of flip flops, and require evidence of the export performance during the contract period at the end of the operation. The financing was settled in the first quarter of 2018.
- (e) Loans obtained by subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. to finance working capital.
- (f) In December 2017, the Company raised the amount of R\$ 250,000,000 (two hundred and fifty million reais) through the issuance of unsecured simple debentures, non-convertible into shares in three series of the first issuance. The proceeds will be used for the ordinary management of its businesses, as provided for in its bylaws. The amortization of funds will be made in full in a single installment on the maturity date of each series, with the first in December 2019, the second in December 2020 and the third in December 2022.
- (g) In August 2017, it raised the amount of US\$ 9,519,000 (nine million, five hundred and nineteen thousand dollars), maturing in August 2018. On the same date, a swap was purchased to hedge against interest rate, converting the financial charges (2.72% p.a.) into 116.80% of CDI. In August 2018, we settled the same operation this time in the amount of U\$8,195 (eight million one hundred and ninety-five thousand dollars) falling due in August 2019. On the same date, a swap was purchased to hedge against interest rate, converting the financial charges (3.52% p.a.) into 105.0% of CDI (see note 35.c), designating the derivative financial instrument to hedge fair value.
- (h) The loans and financing funded by foreign subsidiaries are guaranteed by Parent company's sureties, guarantees and/or promissory notes, according to the limits approved by the Executive Board and/or Board of Directors.
- (i) The loans funded by Alpargatas S.A.I.C. - Argentina regarding the "Descubiertos line" are used in the working capital of the operation, and do not have covenants or guarantees.

## Notes to the financial statements

The maturities for the installment recorded in non-current liabilities are shown as follow:

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
2019	109,912	118,559	109,912	118,559
2020	125,278	118,559	125,278	118,559
2021	20,488	18,559	20,488	18,559
2022	70,488	68,559	70,488	68,559
2023	1,655	466	1,655	466
>2024	567	-	567	-
Total	328,388	324,702	328,388	324,702

### Contractual covenants

As of September 30, 2018 and December 31, 2017, the loans and financing contracts maintained by the Company and its subsidiaries did not contain restrictive covenants that established obligations by the Company and its subsidiaries. The Company and its subsidiaries are in compliance with these covenants, except for those mentioned below.

On September 30, 2018, due to a covenant related to the change of shareholding control (see note 1.2), the Company temporarily reclassified the balance of FINAME loans raised with BNDES and transferred by Banco do Nordeste in the amount of R\$ 13,8 million, from long to short term. The consent for this operation was obtained on October 18, 2018.

## 17. Liabilities traded from subsidiaries

	Consolidated	
	09/30/2018	12/31/2017
Current	1,830	4,855
Non-current	6,616	18,834
Total	8,446	23,689

On September 26, 2001, the subsidiary Alpargatas S.A.I.C. - Argentina filed proceedings for provisional remedy regarding the liabilities negotiated with creditors, such decision having been ratified at the Annual Shareholders' Meeting held on March 1, 2002, and the deferral by the competent Commercial Court, on March 7, 2002.

In December 2005, this same Commercial Court, granted the request from the Management of the subsidiary, awarded a decision making public the existence of a preliminary agreement with creditors, and on September 15, 2006, after the fulfillment of certain previously imposed legal obligations, the subsidiary started the implementation of the debt restructuring agreement with creditors.

The above amounts are shown net of the adjustments to present value, in the amounts of R\$ 4,953 and R\$ 11,738, respectively, as of September 30, 2018 and December 31, 2017. The adjustment to present value has been calculated considering as rate, the difference between the base rate of Argentina and the fixed rate for restating liabilities, as established according to the terms of the traded liabilities. As at

## Notes to the financial statements

September 30, 2018, the average discount rate for adjustment to present value was 15% per annum.

The effects arising from the net reversal of adjustment to present value have been recorded in the line item "Financial Expenses" in the consolidated, and totaled R\$ 2,470 in profit or loss for the nine-month period ended September 30, 2018 (R\$ 1,332 for the same period of 2017).

Total liabilities are subject to annual interests between 1% and 3%, and have maturity terms between 15 and 25 years, with grace period from 6 to 10 years, from the date in which agreements were entered into.

As at September 30, 2018, the reversals expected for the following years related to the adjustment to present value are shown as follow:

2018 (nine months)	163
2019	640
2020	619
>2021	3,531
Total	<u>4,953</u>

The maturities estimated for the installment recorded in non-current liabilities are shown as follow:

2020	300
>2021	6,316
Total	<u>6,616</u>

Balance at December 31, 2017	23,689
Interest - reversal	(129)
Exchange-rate change	(8,441)
Payments	(6,673)
Balance at September 30, 2018	<u>8,446</u>

## 18. Tax obligations

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Value-Added Tax on Sales and Services - ICMS	-	4,217	1,397	11,193
Social Integration Program - PIS and Contribution for the Financing of Social Security - COFINS	-	-	-	2,917
Excise Tax - IPI	-	857	-	857
Income tax and social contribution	7,996	2,120	8,059	2,050
Brasil Maior Plan	3,753	3,916	3,753	3,916
INSS THIRD PARTIES	243	966	243	966
Alpargatas S.A.I.C. - Argentina:				
Other taxes	-	-	5,450	2,221
Alpargatas Europe S.L.U. - Spain:				
Income tax	-	-	8,602	2,586
Other taxes	-	-	-	961
Other	3,073	3,542	7,288	5,118
Total	<u>15,065</u>	<u>15,618</u>	<u>34,792</u>	<u>32,785</u>

## Notes to the financial statements

### 19. Provisions and other obligations

	Parent company		Consolidated	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Royalties payable	-	1,197	-	1,197
Provision for freight payable	5,081	5,438	7,883	7,619
Advertising payable	2,513	10,597	9,408	13,954
Commissions payable	2,304	2,953	12,980	4,822
Insurance payable	192	-	529	-
Provision for fees - COFINS lawsuit (Note 22)	14,931	8,046	14,931	8,046
Import expenses - US	-	-	-	2,848
Expenses related to change in controlling interest (i)	2,337	3,957	2,337	3,957
Advances from clients	25,935	5,326	29,170	5,326
Advance from third-parties - Argentina (ii)	-	-	-	36,600
Provision for Industrial Restructuring Argentina (iii)	-	-	32,903	-
Services payable - EMEA/USA	-	-	16,689	11,118
Other accounts payable (commissions, outsourced services, concessionaires and other)	6,602	6,308	43,836	39,366
<b>Total</b>	<b>59,895</b>	<b>43,822</b>	<b>170,666</b>	<b>134,853</b>

- (i) These refer to expenses to be incurred in obtaining approvals for the brand licensing agreements, rental of commercial points and loans with financial institutions, as a result of the transfer of control of the Company, as mentioned in note 1.2, considering the current covenants in the respective contracts.
- (ii) Refers to the advance for the sale of real estate in Argentina.
- (iii) Refers to provision for coverage of labor indemnities, due to reduction of activity in Tucumán plant in Argentina.

### 20. Related parties

#### a) Balances with subsidiaries

<u>Non-current assets and (liabilities)</u>	Parent company	
	09/30/2018	12/31/2017
Alpargatas Imobiliária S.A.	12	(23)
Alpargatas S.A.I.C. - Argentina (i)	102,875	8,984
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen (ii)	35,962	34,604
Esportes S.A.	(9)	-
<b>Total</b>	<b>138,840</b>	<b>43,565</b>

- (i) Refers to loan agreement in the amount of R\$92,000, falling due on September 21, 2020 and interest rate of 120.10% of CDI.
- (ii) Refer to two loan agreements in the amounts of R\$ 12,000, maturing on March 23, 2019 and bearing interest rate of 107.40% of the CDI, and R\$ 20,000, maturing on February 14, 2019 and bearing interest rate of 104.45% of the CDI.

The balance is represented by the current account between the Company and its subsidiaries, in view of the centralized management of cash and cash equivalents.

## Notes to the financial statements

### b) Balances receivable and payable from subsidiaries' transactions

		Parent company Accounts receivable		Parent company Accounts payable	
		09/30/2018	12/31/2017	09/30/2018	12/31/201
Alpargatas USA Inc. - United States	(i)	26,460	17,643	-	-
Alpargatas Europe S.L.U. - Spain	(i)	19,379	25,258	-	-
Alpargatas S.A.I.C. - Argentina	(i)	16,023	4,644	-	-
Alpargatas Calzados del Uruguay S.A.		1,264	1,018	-	-
Alpargatas Colômbia SAS	(i)	5,362	-	-	-
Total		68,488	48,563	-	-

(i) Accounts receivable for the sales of the products described in item (ii), which receipts will occur through December 2018.

### c) Transactions with subsidiaries

Transactions made with subsidiaries are shown below:

		Sale of products/services		Purchase of	
		09/30/2018	09/30/2017	09/30/2018	09/30/2017
Alpargatas S.A.	(ii)	87,364	61,178	-	3,001
Alpargatas USA Inc. - United States		-	-	8,968	9,229
Alpargatas Europe S.L.U. - Spain		-	-	59,470	49,499
Alpargatas S.A.I.C. - Argentina		-	-	14,250	1,707
Alpargatas Colômbia SAS		-	-	4,676	-
J&F Investimentos S.A.		-	3,001	-	743
Total		87,364	64,179	87,364	64,179

(ii) Substantially comprise sales of flip flops of "Havaianas" trademark to the foreign subsidiaries, in view of the operations model, and the distribution channel format defined for the Company's foreign operations, in which products are manufactured in Brazil and then sold to foreign subsidiaries, where they are resold.

During the nine-month periods ended September 30, 2018 and 2017, the Company did not record any derecognition or allowance for doubtful accounts for balances receivable of foreign subsidiaries.

### d) Related-party transactions

		Parent company and Consolidated - Assets			Parent Company and Consolidated - Liabilities	
		09/30/2018	12/31/2017		09/30/2018	12/31/2017
Banco Itaú-Unibanco	(i)	4,598	19,787	(ii)	51,206	70,371
Banco Itaú Argentina		-	-	(iii)	-	20,086
Total		4,598	19,787		51,206	90,457

## Notes to the financial statements

	Parent Company and Consolidated - Income			Parent Company and Consolidated - Expense	
	09/30/2018	09/30/2017		09/30/2018	09/30/2017
Banco Itaú-	70	-	(iv)	3,168	5,295
Unibanco Banco	-	-	(iv)	-	2,337
Itaú Argentina Total	70	-		3,168	7,632

- (i) The amounts refer to the balance of financial investments of Alpargatas S.A.
- (ii) The values refer to: (1) Finem Loans of Alpargatas S.A. in the amount of R\$ 34,565; and (2) drawee risk transactions carried out at Osklen in the amount of R\$ 16,640 (see note 16). The transactions were contracted prior to the date of change of shareholding control.
- (iii) Refer to loans of Alpargatas S.A.I.C - Argentina as of December 31, 2017 (see Note 16). The transactions were contracted prior to the date of change of shareholding control.
- (iv) Refers to interest expense on loans mentioned in item (ii)

As of September 30, 2018, except for the collaterals and for the guarantees granted to support the loans and financing operations, as mentioned in Note 16, the Company and its subsidiaries had not granted other collaterals and guarantees to the related parties.

e) Dividends and interest on own capital payable

	Parent company and Consolidated	
	09/30/2018	12/31/2017
Interest on own capital / Dividends	5,055	5,044

f) Remuneration of key management personnel

The Directors' fees are as follow:

	09/30/2018		
	Fixed	Variable remuneration (i)	Total
Boards of Directors, Tax Council/Audit Committee	2,719	-	2,719
Directors	6,153	3,089	9,242
Total	8,872	3,089	11,961

	09/30/2017		
	Fixed	Variable remuneration (i)	Total
Board of Directors and Tax Council	2,297	-	2,297
Directors	6,074	2,328	8,402
Total	8,371	2,328	10,699

- (i) Refers to profit sharing recorded in the nine-month period.

## Notes to the financial statements

According to Note 27, during the nine-month period ended September 30, 2018, a positive income (loss) was recognized, due to the partial reversal of provision regarding the long-term incentive plan amounting to R\$ 5,051 (negative by R\$ 6,000 in the same period of 2017).

In addition to the Directors' fees, during the nine-month period semester ended September 30, 2018, the Company made contributions to the private pension plan in the amount of R\$ 498 (R\$ 467 in the same period of 2017) on behalf of the statutory directors.

The annual global Directors' fees set for the year 2018 in the Annual Shareholders' Meeting of April 27, 2018 was R\$17,000.

### 21. Provision for tax, civil and labor claims

As of September 30, 2018 and December 31, 2017, the Company and its subsidiaries are parties to tax, civil and labor lawsuits, arising from tax assessment notices by tax authorities, third-parties and former employees claims, or actions and questionings. For these contingencies, new provisions were recognized, when, in the opinion of Management and its legal advisors, the risk of any loss is considered probable. These provisions are shown as follow:

		Parent company		Consolidated	
		09/30/2018	12/31/2017	09/30/2018	12/31/2017
Labor claims	(i)	17,069	17,979	23,810	28,414
Tax proceedings	(ii)	5,612	5,556	8,291	7,808
Civil proceedings	(iii)	592	19,299	592	19,299
Contingent liabilities	(iv)	-	-	1,438	1,438
Total		<u>23,273</u>	<u>42,834</u>	<u>34,131</u>	<u>56,959</u>
Judicial deposits	(i)	<u>7,150</u>	<u>7,062</u>	<u>7,150</u>	<u>7,062</u>
Net total		16,123	35,772	26,981	49,897
Current portion		5,755	6,369	9,265	9,344
Installments - non-current		10,368	29,403	17,716	40,553

- (i) Refer to the claims filed against the Company and its subsidiaries by former employees, who basically claim severance payment, extras, overtime, and allowances that they understand as due in view of the subsidiary liability.
- (ii) Basically refers to a COFINS collection of the period from July and September to December 1992, in which the non-taxed differences are disputed, which amount adjusted as at September 30, 2018 amounts to R\$4,376. The claim is waiting from a decision in the lower court.
- (iii) Refer to civil lawsuits filed against the Company primarily related to moral and material damages arising from discussions of contractual noncompliance regarding consumer and commercial contracts.
- (iv) Refers to a contingent liability recognized at fair value as a result of the acquisition of subsidiary Osklen.

### Changes

	Parent company			
	Labor	Tax	Civil	Total
Balance at December 31, 2017	10,917	5,556	19,299	35,772
Complements	10,864	56	70	10,990
Payments	(11,862)	-	(18,777)	(30,639)
Balance at September 30, 2018	<u>9,919</u>	<u>5,612</u>	<u>592</u>	<u>16,123</u>

## Notes to the financial statements

	Consolidated				
	Labor	Tax	Civil	Contingent liabilities	Total
Balance at December 31, 2017 -	21,352	7,808	19,299	1,438	49,897
Supplementary Payments/Write-offs/Exchange-rate change Balance at	14,142	56	80	-	14,278
September 30, 2018	(18,834)	427	(18,787)	-	(37,194)
	16,660	8,291	592	1,438	26,981

### Possible losses

Contingent liabilities with risk of loss classified as possible:

	Parent company and Consolidated	
	09/30/2018	12/31/2017
Tax:		
Tax assessment notice - IRRF (Withholding Income	10,790	10,622
CSLL and IRPJ (ii)	12,192	11,979
Royalties (iii)	7,741	7,600
IPI (iv)	49,837	48,882
Other	9,498	6,540
	90,058	85,623
Civil (indemnity lawsuits)	14,650	10,268
Labor	10,465	15,400

- (i) Tax assessment notice aimed at collecting IRRF, offset against IRPJ credits.
- (ii) Tax assessment notice related to the non-approval of offsets of tax debits against IRPJ and CSLL debits.
- (iii) Tax assessment notice aimed at collecting II, IPI, PIS-Import and COFINS-Import on amounts remitted abroad as royalties, in the period from 2007 to 2010. The Company was awarded a final and unappealable favorable decision in administrative proceeding in the amount of R\$ 51,569. The remaining amount of R\$ 7,741 refers to tax assessment notice that is still pending judgment.
- (iv) Tax assessment notices related to the non-approval of the offset of IPI credits arising from the acquisition of exempt inputs from the former subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., corresponding to the period from July 2004 to June 2008.

### Contingent assets

The Company has court discussions aiming at the recovery of taxes, with likelihood of probable success according to its legal counsel. The main actions are: i) the exclusion of ICMS from the calculation base of social security contribution on net income; ii) the application of SAT rate according to the risk level of each establishment; iii) the non-levy of PIS and COFINS on sales to Manaus free trade zone; and iv) the non-levy of social security contribution on indemnified prior notice. Since they are contingent assets, they will be measured and recorded in the form and proportion of the favorable court decision, when it is given on final basis.

## 22. Judicial claim - ICMS in the base of PIS and COFINS

The Company is questioning in court the inclusion of ICMS in the tax base of COFINS since May 1993 and in the tax base of PIS since March 2002.

## Notes to the financial statements

On September 25, 2018 the lawsuit discussing the COFINS in the period from May 1993 to December 2014 was given a final and unappealable judgment. The amounts involved in this lawsuit correspond to R\$ 15 million, deposited in court, related to the period from May 1993 to February 1996, and to R\$ 181 million, overpaid, related to the period from March 1996 to May 2008. These assets were recognized by the Company on September 30, 2018 under the caption "Other operating income".

From June 2008 to December 2014, the Company used the stay effects from the Injunction sought at the Federal Supreme Court to exclude ICMS from the COFINS calculation basis, with no need for making judicial deposits. Such amounts were recorded as liability with enforceability suspended. This provision was reversed (R\$190.5 million) by the Company in 2017, in view of the STF's decision, with general repercussion, on the Extraordinary Appeal No. 574,706, on March 15, 2017. On that date, there was favorable thesis to the taxpayers: "ICMS should not comprise PIS and COFINS calculation basis", interpreting the issue favorable to taxpayers. Such judgment was duly formalized by the Judgment Records published on March 17, 2017 and March 20, 2017.

It is also estimated undue values awaiting conclusion of lawsuits in the amount of R\$ 165 million, of which R\$ 85 million of COFINS related to the period from January 2015 on, and of R\$ 80 million of PIS related to the period from March 2002 on. The Company did not recognize such contingent assets, Contingencies are recognized in compliance with Pronouncement CPC 25 - Provisions, contingent liabilities and assets.

### 23. Equity

#### a) Capital

Subscribed and paid-in capital have the following ownership interest: September

30, 2018:

Shareholders	Common shares		Preferred shares		Total	
	Quantity	%	Quantity	%	Quantity	%
Controlling shareholders (Itaúsa, Cambuhy I and Cambuhy Alpa)	207,246,069	85.78	47,937,043	20.95	255,183,112	54.24
Directors:						
Board of Directors	25,229,713	10.44	23,045,185	10.07	48,274,898	10.26
Other shareholders	9,132,743	3.78	150,462,621	65.75	159,595,364	33.93
Treasury	26	0	7,396,377	3.23	7,396,403	1.57
<b>Total</b>	<b>241,608,551</b>	<b>100.00</b>	<b>228,841,226</b>	<b>100.00</b>	<b>470,449,777</b>	<b>100.00</b>

December 31, 2017:

Shareholders	Common shares		Preferred shares		Total	
	Quantity	%	Quantity	%	Quantity	%
Controlling shareholders (Itaúsa and Cambuhy)	207,246,069	85.78	47,937,043	20.95	255,183,112	54.24
Directors:						
Board of Directors	25,288,933	10.47	23,046,311	10.07	48,335,244	10.28
Tax Council	-	-	200	-	200	-
Other shareholders	9,073,523	3.75	150,461,295	65.75	159,534,818	33.91
Treasury	26	-	7,396,377	3.23	7,396,403	1.57
<b>Total</b>	<b>241,608,551</b>	<b>100.00</b>	<b>228,841,226</b>	<b>100.00</b>	<b>470,449,777</b>	<b>100.00</b>

## Notes to the financial statements

### b) Treasury shares

The Company has 7,396,403 treasury shares at an average cost of R\$ 8.69. During the nine-month period ended September 30, 2018, there were no changes in "Treasury shares" caption.

### c) Dividends and interest on own capital

Shareholders are guaranteed, every year, minimum dividend of 25% of net income, calculated under the terms of Corporation law and by-laws.

On February 9, 2018, the Board of Directors approved the proposal for the payment of dividends "ad referendum" of the Annual Shareholders' Meeting held on April 27, 2018, in the amount of R\$ 97,439, of which R\$ 27,778 refers to net income for the year 2017 and R\$ 69,661 related to profit reserves from prior years.

<u>Additional dividends distributed per share</u>	<u>2017</u>	<u>Prior years</u>
Dividends	27,778	69,661
common shares (per share)	0.0573	0.1435
Preferred shares (per share)	0.0630	0.1579

In the nine-month period ended September 30, 2018, Management declared interest on own capital in the gross amount of R\$ 110,600 (R\$ 97,361, net of Withholding Income Tax - IRRF).

The breakdown of the distribution of dividends and interest on own capital proposed by Management is as follows:

	<u>09/30/2018</u>	<u>12/31/2017</u>
Management proposal:		
Interest on own capital	110,600	150,300
Dividends	-	97,439
	<u>110,600</u>	<u>247,739</u>
Interest on own capital distributed per share		
Common shares	0.2279	0.3098
Preferred shares	0.2507	0.3407
Dividends distributed per share		
Common shares	-	0.2008
Preferred shares	-	0.2209

### d) Tax incentive reserve

From January 1, 2008, tax incentives started to be directly recorded in profit or loss, being later on, upon the closing of the annual financial statements, recognized as "Tax incentive reserve" in "Profit Reserves" group.

## Notes to the financial statements

### e) Legal reserve

The legal reserve is calculated at the rate of 5% of the net income under current legislation, up to the limit of 20% of the capital.

## 24. Information per business segment

The main operating decision maker about the Company's operations is the CEO.

Although the Company has a matrix management structure where sales income is analyzed by the main decision maker in several levels, because the products manufactured and sold by the Company and its subsidiaries are divided into several trademarks among shoes, sports items, flip flops and clothing, the operations are managed by geographical segments with the following segregation: (i) Domestic Operations: performance of the Company and its subsidiaries in Brazil, and (ii) Foreign Operations: performance of the subsidiaries in Argentina, and the consolidated performance of the subsidiaries in the US and Europe, as well as direct exports.

Net income per segment is as follows in the nine-month period ended September 30, 2018:

- Domestic operations:
  - Brazil: 66.3%
- Foreign operations:
  - Argentina: 13.2%
  - International Flip Flops: 20.6%

The segment performance was assessed based on net operating income, net income, and employed capital (total assets less current and non-current liabilities) in each segment. This measurement basis includes the financial effects, income tax and social contribution, depreciation and amortization.

Information is shown below:

Statement of income accounts - Continued operations	09/30/2018					
	Net operating income	Net income (loss)	Depreciation and amortization	Financial income (loss)	Net exchange rate change	Income tax and social contribution
Domestic operations:						
Brazil	1,600,020	328,438	(45,778)	14,258	5,741	(43,648)
Terras de Avent. Ind.						
Art. Esport. S.A. - Osklen	154,333	(16,430)	(16,250)	(5,853)	(571)	5,504
Foreign operations:						
Argentina	348,491	(101,773)	(4,876)	3,196	(57,030)	(10,338)
International Flip Flops	544,077	40,975	(11,799)	(3,019)	(10,496)	(15,787)
Consolidated	2,646,921	251,210	(78,703)	8,582	(62,356)	(64,269)

## Notes to the financial statements

Statement of income accounts - Continued operations	09/30/2017					
	Net operating income	Net income (loss)	Depreciation and amortization	Financial income (loss)	Net exchange- rate change	Income tax and social contribution
Domestic operations:						
Brazil	1,433,010	238,219	(47,838)	(9,218)	(1,753)	(24,512)
Terras de Avent. Ind. Art. Esport. S.A. - Osklen Foreign	149,335	(24,131)	(10,869)	(6,955)	(62)	9,224
Operations:						
Argentina	503,719	19,395	(3,380)	(22,758)	(7,602)	37,036
International Flip Flops	532,150	64,028	(9,898)	(2,166)	(5,573)	(16,045)
Interest of non-controlling shareholders	-	9,653	-	-	-	-
Consolidated	2,618,214	307,164	(71,985)	(41,097)	(14,990)	(5,703)

The table below presents equity balances as of September 30, 2018 and December 31, 2017.

Assets and liabilities	09/30/2018			12/31/2017		
	Total assets	Current and non- current liabilities	Addition to fixed and intangible assets	Total assets	Current and non- current liabilities	Addition to fixed and intangible assets
Domestic operations:						
Brazil	2,553,441	696,572	29,216	2,617,330	910,035	78,292
Terras de Avent. Ind. Art. Esport. S.A. - Osklen	366,312	192,321	1,809	405,059	210,061	2,337
Foreign operations:						
Argentina	484,833	426,468	630	472,135	281,017	8,818
International Flip Flops	486,919	257,361	11,635	358,930	187,952	16,001
Consolidated	3,891,506	1,572,723	43,290	3,853,454	1,589,065	105,448

The Company has a diluted client portfolio, and no individual client accounts for more than 6% of sales income.

### 25. Net revenue

	Parent company		Consolidated	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Gross operating income:				
Domestic market	1,921,782	1,751,844	2,130,201	1,959,624
Foreign market	198,835	186,746	1,039,369	1,195,884
	2,120,617	1,938,590	3,169,570	3,155,508
Refunds and rebates	(59,498)	(43,569)	(100,486)	(94,141)
Sales taxes	(289,424)	(273,804)	(422,163)	(443,153)
Net operating income	1,771,695	1,621,217	2,646,921	2,618,214

### 26. Expenses per type

The Company presents the statement of income using a classification of expenses based on their function. The information on expense by type is as follows:

## Notes to the financial statements

	<b>Parent company</b>		<b>Consolidated</b>	
	<b>09/30/2018</b>	<b>09/30/2017</b>	<b>09/30/2018</b>	<b>09/30/2017</b>
Cost of goods sold:				
Raw material and material	592,234	517,074	865,774	785,584
Salaries, social charges and benefits	336,871	336,618	461,901	499,383
Depreciation	33,334	32,454	35,873	35,172
Hedge accounting (Note 33.c)	-	1,934	-	1,934
Provision for tax, civil and labor risks	8,247	10,277	9,203	11,211
Other costs	81,377	75,007	125,054	129,192
Effect of the adoption of IAS 29 (hyperinflation)	-	-	(47,682)	-
<b>Total</b>	<b>1,052,063</b>	<b>973,364</b>	<b>1,450,123</b>	<b>1,462,476</b>
Sales expenses:				
Salaries, social charges and benefits	54,237	51,123	162,723	140,752
Profit sharing	4,554	2,762	9,122	5,440
Freight	60,123	51,846	94,046	86,388
Advertising and publicity	138,354	133,631	214,525	204,660
Commissions	6,556	7,571	38,065	38,438
Clients' agreement	-	13,230	-	15,019
Depreciation	1,620	1,838	11,610	11,329
Royalties	26,889	25,967	27,185	26,187
Third party services	16,388	10,468	52,083	42,061
Rental / Leasing	6,318	6,813	63,399	54,889
Travel expenses	3,992	2,962	10,258	8,410
Storage expenses	4,018	4,133	34,886	30,445
Bulk packaging	9,504	20,802	9,504	20,802
Cargo Insurance	4,440	5,481	6,060	7,488
Effect of the adoption of IAS 29 (hyperinflation)	-	-	(13,855)	-
Other	40,399	33,028	80,424	61,854
<b>Total</b>	<b>377,392</b>	<b>371,655</b>	<b>800,035</b>	<b>754,162</b>
General and administrative:				
Salaries, social charges and benefits	57,030	55,662	81,402	81,413
Directors' fees (Note 20.f)	11,873	10,491	11,961	10,699
Third party services	18,696	17,910	29,096	27,595
Depreciation	2,219	2,258	2,874	3,956
Rent and condominium	9,492	9,281	11,520	10,123
Maintenance and repairs	5,919	6,198	6,013	6,406
Adjustment from inflation - Argentina	-	-	(5,741)	-
Other	12,323	10,674	18,508	16,877
<b>Total</b>	<b>117,552</b>	<b>112,474</b>	<b>155,633</b>	<b>157,069</b>

### 27. Long-term incentive plan

On April 23, 2015, in the Annual and Special Shareholders' Meeting the shareholders approved the new long-term incentive plan (ILP). The ILP plan is based on a value-creation policy that enables some employees of the Company and its subsidiaries to acquire rights with the Company, based on the distribution of a portion of the creation of future value for the Company that exceeds the hurdle rate (ke / hurdle rate) to its shareholders, and has the following benchmarks: (i) market (BM&F Bovespa); (ii) economic (multiple of EBITDA); and (iii) multiple of dividends.

Individual interest of beneficiaries in the creation of value in excess of the hurdle rate is operationalized by granting Virtual Value Units ("UVV"), which individual value is calculated by: (i) weighing of the average quotation of shares over the last 60 trading sessions (40%); (ii) multiple of EBITDA discounted of net debt divided by the number of shares (40%); and (iii) dividends and interest on own capital per share divided into dividend yield (20%).

The UVV translations into payment will be made by the beneficiary in up to five years and three months from the commencement of each annual program, provided that the following grace periods are observed: (i) up to 36 months: no translation will be allowed; (ii) after 36 months: up to 33%; (iii) after 48 months: up to 66%; less those already exercised and; (iv) after 60 months: up to 100%, discounted of those already exercised. The settlement will be in cash.

The new plan started on January 1, 2015 and provides five annual programs, from 2015 to 2019.

## Notes to the financial statements

The Board of Directors of the Company may approve new programs after 2019.

In case the beneficiary is no longer an employee or director of the Company and its subsidiaries during the effective period of the ILP plan, except due to death, retirement or permanent disability, the conversion into payment of the UVVs granted to the beneficiary will be restricted only to the UVVs that have already been vested for conversion. In the event any beneficiary is no longer an employee or management member of the Company and its subsidiaries due to just cause, all of the UVVs not exercised, whether vested or not, will be cancelled. In case of death, permanent disability or retirement, all of the UVVs, including those that have not been vested yet for translation into payment, will become exercisable earlier, and converted into cash, and such right shall be exercised for said employee by the respective heirs and successors.

The accounting impact recorded in profit or loss related to long-term incentive plans, in the nine-month period ended September 30, 2018, was positive by R\$ 5,051 for the partial reversal of provision (negative by R\$ 6,000 in the nine-month period ended September 30, 2017) as contra-entry to the liability account of long-term incentive plan.

### 28. Employee benefits

The Company and its subsidiaries sponsor a defined contribution private pension plan, and, in addition, grant its own conceded um single-life annuity and pension plan for a certain group of former employees and respective spouses which will be extinguished after the last beneficiary's death. As of September 30, 2018 and December 31, 2017, actuarial liabilities of these plans is R\$ 172.

### 29. Financial income and expenses, net

	Parent company		Consolidated	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Financial income:				
Yields from financial investments	23,738	23,584	24,383	24,739
Asset interest	7,734	6,772	6,848	6,714
Inflation adjustment of judicial deposits	10,973	-	10,973	-
Other	2,075	791	2,044	1,029
	<u>44,520</u>	<u>31,147</u>	<u>44,248</u>	<u>32,482</u>
Financial expenses:				
Interest and charges on loans and financing	(19,349)	(26,107)	(43,224)	(37,952)
Interest and charges on liabilities traded from subsidiary	-	-	780	(1,948)
Tax on Financial operations - IOF	(419)	(201)	(481)	(746)
Tax on bank operations - Argentina	-	-	(1,243)	(5,535)
Inflation adjustment on taxes	-	-	-	(241)

## Notes to the financial statements

Bank expenses	(4,874)	(2,788)	(7,128)	(4,053)
Adjustment to present value	(4,537)	(10,226)	(4,537)	(10,904)
Liability interest	-	(129)	(3,845)	(9,806)
Effect of the adoption of IAS 29 (hyperinflation)	-	-	5,952	-
Other	(116)	(1,612)	(6,011)	(2,549)
<b>Total</b>	<b>(29,295)</b>	<b>(41,063)</b>	<b>(59,737)</b>	<b>(73,734)</b>
Gains on operations with derivative financial instruments	1,536	2,381	1,536	2,381
Losses on operations with derivative financial instruments	(2,903)	(2,226)	(2,903)	(2,226)
	(1,367)	155	(1,367)	155
Gain on net cash position (IAS 29)	-	-	25,438	-
<b>Total</b>	<b>13,858</b>	<b>(9,761)</b>	<b>8,582</b>	<b>(41,097)</b>

### 30 Net exchange rate change

	Parent company		Consolidated	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Foreign-exchange income	32,866	4,960	26,934	7,003
Foreign exchange costs	(21,011)	(5,224)	(89,309)	(21,993)
	11,855	(264)	(62,375)	(14,990)

### 31. Other operating income (expenses)

	Parent company		Consolidated	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Other operating income:				
Sale of scrap	645	532	645	532
Income from deductible rate	910	685	910	685
Gain in the sale of property, plant and equipment	1,279	1,379	1,279	2,862
Income from sale of energy	3,931	-	3,931	-
Income from sale of property in Argentina	-	-	45,543	31
Escrow Osklen	-	235	-	235
Successful outcome of lawsuit related to Cofins base ICMS (note 22)	189,226	192,452	189,226	190,518
Credit action premium IPI (iii)	-	22,223	-	22,223
Tax credit - Argentina (ii)	-	-	7,652	33,323
Reimbursement of affected goods	1,379	1,749	1,379	1,749
Other	1,206	2,898	7,033	6,642
	198,576	222,153	257,598	258,800
Other operating expenses:				
Amortization of intangible assets	(10,890)	(12,162)	(25,319)	(20,230)
Provisions for labor, civil and tax risks (Note 21)	(2,743)	(2,718)	(2,791)	(3,962)
Long-term incentive plan (Note 27)	5,051	(6,000)	5,051	(6,000)
Special projects	-	(1,046)	-	(1,046)
Severance pay	(1,021)	(1,736)	(1,021)	(4,657)
Provision for industrial restructuring	-	(14,695)	-	(14,695)
Provision for change of control	-	(15,508)	-	(17,049)

## Notes to the financial statements

Provision for losses on property, plant and	-	(7,719)	-	(7,719)
Third-party fees	(23,626)	(4,678)	(23,626)	(4,787)
Cotton moratorium Argentina (i)	-	-	-	(14,660)
Restructuring - Argentina	-	-	(76,533)	(33,462)
Negative goodwill - Points of sale - Osklen	-	-	-	(5,552)
Contractual termination with distributor	-	(3,091)	-	(3,091)
Other	(6,638)	(5,086)	(5,217)	(8,849)
	<u>(39,867)</u>	<u>(74,439)</u>	<u>(129,456)</u>	<u>(145,759)</u>
 Total	 <u>158,708</u>	 <u>147,714</u>	 <u>128,142</u>	 <u>113,041</u>

- (i) In March 2017, Alpargatas S.A.I.C. - Argentina renegotiated with the domestic tax authority the payment of a debit of taxes levied on cotton purchases, for the years from 2005 to 2012. The payment will be made in sixty (60) monthly installments starting in April 2017.
- (ii) In March 2017, Alpargatas S.A.I.C. - Argentina obtained favorable outcome in a lawsuit against the Argentine Government, which challenged the suspension of export benefit in 1992.
- (iii) Updating of the amount of the court-ordered debt payment (*precatório*) according to calculation approved by the Federal Court.

### 32. Profit sharing

The Company and its subsidiaries grant profit sharing to its employees related to the achievement of operating goals and specific objectives established and approved at the beginning of each year for each plant/unit. In the nine-month periods ended September 30, 2018 and 2017, the following amounts were recognized in the income (loss):

	Parent company		Consolidated	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Profit sharing program	22,976	27,046	29,443	31,121

This liability is recorded in "Salaries and social security charges payable" account in current liabilities. The expense is calculated under "Cost of Products Sold", "Sales Expenses" and "General and Administrative Expenses" captions.

### 33. Financial derivative instruments and risk management

#### a) Sundry considerations and policies

The management of financial instruments, including derivatives, is carried out by means of policies, definition of strategies and establishment of control systems, and are monitored by the Company's management.

The treasury procedures defined by the prevailing policy include monthly routines of projection and evaluation of the consolidated exchange exposure of the Company and its subsidiaries, on which the decisions made by Management are based.

#### b) Financial risk management

*Financial risk factors*

## Notes to the financial statements

The activities of the Company and its subsidiaries expose them to various financial risks: market risk (including currency risk and interest rate), credit and liquidity risk. The Company's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects in financial performance, and when required, using derivative financial instruments to hedge certain risk exposures.

The risk management is conducted by the Company's Treasury Department, and policies are mandatorily approved by the Board of Directors. The Treasury Department identifies, values and hires financial instruments with the intention of protecting the Company from possible financial risks, specially those derived from interest and foreign exchange rate.

### *b.1) Market risk*

The Company is exposed to market risks arising from a number of its business activities. These risks mainly involve the possibility of fluctuations in exchange rates and changes in interest rates.

#### (i) Foreign exchange risk

In view of accounts receivable and financial obligations of several natures assumed by the Company in foreign currencies, a Foreign Exchange Hedge policy is conducted establishing levels of exposure related to this risk.

Considering values in foreign currency of balances receivable and payable of commitments already assumed and recorded in the financial statements derived from the Company's operations, as well as future cash flows.

#### (ii) Interest rate risk

The Company's interest rate risk arises from interest earning bank deposits which are post-fixed and loans and financing are on short and long-term basis.

### *b.2) Credit risk*

Sales are mainly made to retail and wholesale stores. The credit risk is reduced by the large dispersion of the client portfolio and the procedures of evaluation and concession of credit. As of September 30 2018, the amount recorded for allowance for doubtful accounts was R\$ 58,593 (R\$ 48,320 as of December 31, 2017). The maximum exposure to credit risk on the base date of September 30, 2018 is the book value of accounts receivable presented in note 7.

The Company has differentiated credit policies for clients in the Domestic Market and Third-Party Clients Abroad.

In the domestic market, the volume of business is concentrated on retailers, distributors and wholesalers which work with a model of purchase on credit and to operate in this market it is necessary the definition / attribution of credit limits. The following factors are considered to define the proper limit: market survey about the company, analysis of economic and financial data and evaluation of the internal history with the Company. These limits are regularly reviewed and in a few cases actual guarantees, surety letters or bank sureties are required to define the limit.

## Notes to the financial statements

In the foreign market, sales to Third-Party Clients are almost entirely made upon advance payment or letter of credit. Exceptions are analyzed by management.

In both policies, there are grants of authority defined according to the different hierarchical levels / values and which are used for concession, change or maintenance of credit limits for each client.

The Company and its subsidiaries are also subject to credit risks related to the financial instruments contracted in the management of its business.

The risk of non-settlement of the operations that it maintains at financial institutions with which it operates was considered low, which are considered prime by the market.

The Company maintains cash, cash equivalents and short-term interest earning bank deposits in prime financial institutions and does not limit its exposure to a specific institution. As of September 30, 2018, the maximum exposure to credit risk was the book value of cash, cash equivalents and interest earning bank deposits, presented in note 6.

### b.3) Liquidity risk

Prudent liquidity risk management implies in maintaining cash, enough marketable securities, cash fund raising availability by means of bank credit facilities and capacity to settle market positions.

Management monitors the consolidated liquidity level of the Company, considering the expected cash flows against the credit facilities not used and amounts not available in cash and cash equivalents. The following table, in item d), analyzes financial liabilities per maturity brackets, corresponding to the remaining period in balance sheet, in relation to contract maturity date. Amounts presented in the table are contracted undiscounted cash flows.

### c) Derivative financial instruments and hedge accounting

The Company has imports of finished products and raw materials in dollars, in relation to business units of Sporting Goods and Flip Flops. In addition, the Company also buys part of its local raw materials at a price that is subject to indirect impact of the exchange-rate change. On the other hand, the Company also has exports of flip flops which are mostly sold in dollars.

The volume of exports and receipts in foreign currency is higher than the volume of imports and payments in foreign currency. Accordingly, the Company has foreign exchange exposure whose export position is higher than the import position, that is, it has a risk of loss in case of decrease in the foreign exchange rate.

In addition, the Company may eventually contract exchange derivatives against the risk of exchange-rate change on debts in foreign currency (for example, Export Credit Note (NCE), Export Prepayment (PPE), among other).

In order to mitigate this risk and mainly to hedge its cash flow, the Foreign Exchange Risk Management Policy was approved by the Company's Board of Directors. This policy establishes the guidelines for operations of hedge of the cash flow through derivative financial instruments.

## Notes to the financial statements

The operations with derivatives aim to hedge the Company's future cash flow through reduction of foreign exchange exposure to a horizon of 12 months in the future. The future foreign exchange exposure is based on projections of payments and receipts in foreign currency. These operations aim to hedge against impacts of the exchange-rate change on imports and exports.

The book balance recorded in Company's balance sheet as of September 30, 2018 is in the table below:

	09/30/2018		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
NDF - "Non-Deliverable Forward" (Fair value - MtM)	-	-	-	587

The accumulated impacts of derivative instruments of the NDF type on income (loss) for the nine-month period ended September 30, 2018 totaled R\$ (1,367) in Financial Income/Expenses (see note 29).

The settlements of derivative financial instruments of the type NDF in the semester ended September 30, 2018 totaled a cash outflow of R\$(191).

### Cash flow hedge

As of December 31, 2017, the Company discontinued the hedge accounting to all operations with derivative financial instruments of the type NDF, whose object of hedge, exports of flip flops are highly-probable imports and future purchases of inventories in foreign currency.

The accumulated impacts of derivative instruments of the NDF type on income (loss) for the nine-month period ended September 30, 2017 totaled R\$ (1,780) of which R\$ 154 in Financial Income/Expenses (see note 29) and R\$ (1,934) in Costs of Sold Products (see note 26).

### Fair value hedge

The Company adopts the hedge accounting to operations with derivative financial instruments of the Swap type, whose object of hedge is the risk of exchange-rate change on debts in foreign currency.

As of September 30, 2018, the Company, through the subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. had a position of derivative financial instruments of the type Swap designated as "hedge" of debts in foreign currency, obtained through Foreign Facility 4131, with maturity on August 16, 2019. The settlement of this type of instrument is made according to the present value on the settlement date. The book balance recorded in Company's balance sheet as of September 30, 2018 is in the table below:

## Notes to the financial statements

	09/30/2018		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
Swap	661	-	-	785

The operations of fair value hedge of loans in currency were considered as highly efficient on September 30, 2018.

Accumulated effects in operations in income (loss) for the nine-month period ended September 30, 2018 totaled R\$ (8,282).

### d) Liquidity risk

The consolidated book value of financial liabilities is measured under the amortized cost method, and its corresponding future values are as follows:

	09/30/2018				
	<1 year	1-2 years	3-5 years	>5 years	Future Flow
Current:					
Obligations from financial lease Loans and financing Loans and financing (charges)	28	-	-	-	28
Suppliers	273,965	108,070	215,409	2,475	599,919
	25,526	15,903	14,424	-	55,853
	456,532	-	-	-	456,532
Total	756,051	123,973	229,833	2,475	1,112,332
	12/31/2017				
	<1 year	1-2 years	3-5 years	>5 years	Future Flow
Current:					
Obligations from financial lease Loans and financing Loans and financing (charges)	92	-	-	-	92
Suppliers	408,849	237,118	87,584	-	733,551
	40,512	40,783	8,746	-	90,041
	388,112	-	-	-	388,112
Total	837,565	277,901	96,330	-	1,211,796

### e) Capital management

The Company's objectives in managing its capital are to safeguard its business continuity capacity to offer return to shareholders and benefits to the other stakeholders besides maintaining an optimal capital structure to reduce this cost.

	09/30/2018	12/31/2017
Cash and cash equivalents and interest earning bank deposits	627,864	706,353
(-) Short and long-term loans and financing	(599,947)	(733,643)

## Notes to the financial statements

Net financial position	<u>27,917</u>	<u>(27,290)</u>
Shareholders' equity	<u>2,318,783</u>	<u>2,264,389</u>

### f) Foreign exchange exposure

The Company is exposed to changes in the US dollar. For the subsidiaries abroad, there is no risk of currency exposure, since monetary assets and liabilities are maintained in the functional currencies of each location.

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>30/09/2018</u>	<u>12/31/2017</u>	<u>09/30/2018</u>	<u>12/31/2017</u>
Assets:				
Trade accounts receivable	86,038	80,122	86,038	80,122
Total assets	<u>86,038</u>	<u>80,122</u>	<u>86,038</u>	<u>80,122</u>
Liabilities: Suppliers				
Royalties payable	73,081	50,756	73,081	50,756
Total liabilities	<u>73,081</u>	<u>51,953</u>	<u>73,081</u>	<u>51,953</u>
Net exposure	12,957	28,169	12,957	28,169
Derivative financial instruments	-	(29,772)	-	(29,772)
Total exposure for sensitivity analysis purpose	<u>12,957</u>	<u>(1,603)</u>	<u>12,957</u>	<u>(1,603)</u>

### g) Market values

On September 30, 2018 and December 31, 2017, the market values of variable investments approximate the values recorded in the financial statements since they are linked to the CDI change. The Company adjusts the market value of its prefixed investments recorded in the balance sheet. Loans and financing are monetarily updated based on interest rates contracted according to usual market conditions and, therefore, the balances payable on the balance sheet dates substantially approximate market values, even those classified as "non-current", considering the type of the corresponding financing.

The fair value of financial instruments that are not traded on active markets (for example, over-the-counter market derivatives) is determined based on evaluation techniques. The Company and its subsidiaries use several methods and define assumptions that are based on market conditions on the balance sheet date. The fair value of forward exchange agreements is determined based on forward exchange rates, quoted on the balance sheet date.

It is assumed that balances of trade accounts receivable and trade accounts payable, recorded at book value, approximate their market fair values, due to the short-term of transactions made.

The Company and its subsidiaries adopt hierarchical rules to determine the fair values of its financial instruments, which requires disclosure of the measurements of fair value according to the level of the following hierarchy:

## Notes to the financial statements

- Prices quoted (not adjusted) in active markets for identical assets and liabilities (Level 1).
- In addition to quoted prices, information included in level 1 that is adopted by the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Exemptions for assets or liabilities that are not based on data adopted by the market (that is, non-observable entries) (Level 3).

The market price quoted and used for the financial assets held by the Group is the price of the existing competitor. These instruments are included in the Level 1.

Specific evaluation techniques used to measure the financial instruments pursuant to Level 2 rules include:

- Market prices quoted or quotations of financial institutions or brokerage firms for similar instruments.
- The fair value of "swaps" of interest rate is calculated at the present value of future cash flows estimated based on yield curves adopted by the market.
- The fair value of future exchange agreements is determined based on future exchange rates on the balance sheet date, whose result is discounted at present value.
- Other techniques, such as analysis of discounted cash flows, are used to determine the fair value of the remaining financial instruments.

Accounting classification and fair values

September 30, 2018	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedge instruments	Amortized cost	Total	Level 1	Level 2	Total
<b>Financial assets measured at fair value</b>							
Cash and cash equivalents	553,075	-	-	553,075	-	553,075	553,075
Interest earnings bank deposits	74,790	-	-	74,790	-	74,790	74,790
Foreign currency forward contract	-	661	-	661	-	661	661
	<u>627,865</u>	<u>661</u>	<u>-</u>	<u>628,526</u>	<u>-</u>	<u>628,526</u>	<u>628,526</u>
<b>Financial assets not measured at fair value</b>							
Trade accounts receivable	-	-	721,231	721,231	-	-	-
Other accounts receivable	-	-	30,139	30,139	-	-	-
	<u>-</u>	<u>-</u>	<u>751,370</u>	<u>751,370</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>September 30, 2018</b>							
	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedge instruments	Amortized cost	Total	Level 2	Level 3	Total
<b>Financial instruments measured at fair value</b>							
Loans and financing	-	32,561	-	32,561	32,561	-	32,561
Foreign currency forward contract	-	40	-	40	40	-	40
	<u>-</u>	<u>32,601</u>	<u>-</u>	<u>32,601</u>	<u>32,601</u>	<u>-</u>	<u>32,601</u>
<b>Financial liabilities not measured at fair value</b>							
Loans and financing	-	-	567,386	567,386	567,322	-	567,322
Liabilities traded from subsidiary	-	-	8,446	8,446	-	-	-
Suppliers	-	-	456,532	456,532	-	-	-
	<u>-</u>	<u>-</u>	<u>1,032,364</u>	<u>1,032,364</u>	<u>567,322</u>	<u>-</u>	<u>567,322</u>

<u>December 31, 2017</u>	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedge instruments	Amortized cost	Total	Level 1	Level 2	Total
<b>Financial assets measured at fair value</b>							
Cash and cash equivalents	488,007	-	-	488,007	-	488,007	488,007
Interest earnings bank deposits	77,115	-	-	77,115	-	77,115	77,115
	565,122	-	-	565,122	-	565,122	565,122
<b>Financial assets not measured at fair value</b>							
Trade accounts receivable	-	-	911,541	911,541	-	-	-
Other accounts receivable	-	-	60,999	60,999	-	-	-
Other	-	-	972,540	972,540	-	-	-
	-	-	972,540	972,540	-	-	-
<b>December 31, 2017</b>							
	Book value				Fair value		
	Fair value through profit or loss	Fair value - Hedge instruments	Amortized cost	Total	Level 2	Level 3	Total
<b>Financial instruments measured at fair value</b>							
Loans and financing	-	30,936	-	30,936	30,936	-	30,936
Foreign currency forward contract	-	1,372	-	1,372	1,372	-	1,372
	-	32,308	-	32,308	32,308	-	32,308
<b>Financial liabilities not measured at fair value</b>							
Loans and financing	-	-	702,707	702,707	702,615	-	702,615
Liabilities traded from subsidiary	-	-	23,689	23,689	-	-	-
Suppliers	-	-	388,112	388,112	-	-	-
	-	-	1,114,508	1,114,508	702,615	-	702,615

## Notes to the financial statements

### h) Sensitivity analysis of financial instruments Foreign

#### exchange risk

For the sensitivity analysis of the consolidated foreign exchange exposure on September 30, 2018, whose effects reflect only the impacts on monetary assets and liabilities, the balances of trade accounts receivable and of loans and financing held by the foreign subsidiaries were not considered, which are denominated in local functional currencies of each of these subsidiaries, and for this reason, the Company's Management believes that there is no risk of exchange exposure to these subsidiaries.

Considering the foreign exchange exposures described in item (f) above, on September 30, 2018 the sensitivity analysis concerning the outstanding position is as follows:

	Probable scenario	Decreasing scenario		Rising scenario	
		25%	50%	25%	50%
<b><u>Impacts of USD changes</u></b>					
Trade accounts receivable	(2,581)	(21,509)	(43,019)	21,509	43,019
Suppliers	2,192	18,270	36,541	(18,270)	(36,541)
Impact on income	(389)	(3,239)	(6,478)	3,239	6,478

As provided for in CVM Instruction no. 475/08, the Company carried out sensitivity analysis using probable scenario, and scenarios for 25% and 50% decrease and increase.

The Company considers a devaluation of the Brazilian real of 3% against the U.S. dollar as a probable scenario, considering a future exchange rate of R\$ 3.90, for December 31, 2018, based on market references.

#### Interest rate risk

The sensitivity analysis was calculated based on the interest rates of non-derivative financial instruments in the end of each reporting period.

The analysis considers the financial assets and liabilities of the Parent Company at the end of the period and forecasts the financial income and expenses calculated on such balance. Three scenarios are used, where the probable one is the curve of future interest with base date September 28, 2018. For the possible scenario, we assumed an increase of 25 base points on the curve of future interest, equally divided by the 2 meetings of the COPOM (Committee of Monetary Policy) which are scheduled to be held up to the end of year 2018. In the remote scenario, we considered a decrease of 25 base points, also equally divided by the number of meetings of the COPOM.

As of September 30, 2018, 100% of investments was indexed at CDI (Interbank Deposit Certificate). Loans comprised 70% of the balance tied to the variable interest curve and 30% of the balance tied to the post-fixed rate or TJLP plus a fixed spread.

## Notes to the financial statements

	Gain/(loss)		
	Probable scenario	Possible scenario	Remote scenario
<u>Impacts of interest rate change</u>			
Income from interest earning bank deposits	9,594	9,747	9,440
Expenses with interest on loans	(5,773)	(5,849)	(5,697)
Impact on income (loss)	3,821	3,898	3,743

### 34. Net earnings per share

	09/30/2018		
	Common shares	Preferred shares (a)	Total
<u>Consolidated</u>			
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	(26)	(7,396,377)	(7,396,403)
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic / diluted numerator			
Net income for the period of each class of shares	61,620	62,142	123,762
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
Total net income per share - diluted	0.2550	0.2806	0.2673
<u>Continued operations</u>			
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	(26)	(7,396,377)	(7,396,403)
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic / diluted numerator			
Income/loss for the period attributable to each share class	152,933	154,230	307,163
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
Total net earning/loss or the period per share, diluted	0.6330	0.6965	0.6633
<u>Discontinued operations</u>			
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	(26)	(7,396,377)	(7,396,403)
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic / diluted numerator			
Total net earning/loss or the period per share, diluted	(834)	(841)	(1,674)
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
Total diluted earning/loss per share	(0.0035)	(0.0038)	(0.0036)

## Notes to the financial statements

Consolidated	09/30/2017		
	Common - ON	Preferred - PN (a)	Total
Denominator			
Weighted average of total number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	(26)	(7,396,377)	(7,396,403)
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
% of shares in relation to total	52.18%	47.82%	100.00%
Basic / diluted numerator			
Net income (loss) for the period of each class of shares	152,100	153,389	305,489
Weighted average number of outstanding shares	241,608,525	221,444,849	463,053,374
Total diluted earning/loss per share	0.6295	0.6927	0.6597

(a) Preferred shares are entitled to dividend 10% higher than common shares.

### 35. Assumed commitments

#### 35.1. Operating leases

##### Rental

As of September 30, 2018, the Company had rental contracts entered into with third-parties which Management analyzed and concluded that they may be classified as operating leases.

The lease amount for properties is always the higher of: (i) the equivalent to the average rate between 3 and 4% of monthly gross sales, practiced by the store; or (ii) a monthly minimum value restated on annual basis at several indexes representing the inflation. Such lease contracts are effective from 5 to 15 years and are subject to renewal.

In the nine-month period ended September 30, 2018, rent expenses, net of recoverable taxes was R\$ 19,423 (R\$ 19,796 in the nine-month period ended September 30, 2017) in the consolidated.

##### Other leases

The Company also has rental agreements of warehouses for products and goods and commercial offices with monthly fixed values, restated on annual basis at usual market inflation indices.

In the nine-month period ended September 30, 2018, rent expenses, net of recoverable taxes was R\$ 67,166 (R\$ 58,351 in the nine-month period ended September 30, 2017) in the consolidated.

##### Future commitments

Total future commitments derived from operating lease agreements, in amounts on September 30, 2018, totaled a minimum fixed amount of R\$ 342,736, distributed as follows:

## Notes to the financial statements

2018 (nine months)	59,508
2019	72,842
2020	74,548
2021	77,754
2022	58,084
Total	<u><u>342,736</u></u>

These operations contain usual covenants, such as guarantees against early termination of agreement, among other, with which the Company was compliant on September 30, 2018.

### 35.2. IFRS 16 - Leases

IFRS 16 introduces a single model of accounting of leases in the balance sheet to lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligation to make the lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor's accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases.

The standard is effective in years starting on or after January 1, 2019. The possible impacts of the adoption of this standard for the Company's financial statements are being evaluated and will be completed by the date on which the standard becomes effective.

### 35.3. Input supply agreements

The Company has commitments derived from electric power supply agreement, according to which a minimum monthly volume of 10,009 kw, equivalent to R\$ 1,745, should be acquired, which may be changed with minimum term of six months. On September 30, 2018, the Company fulfilled with the commitments of this agreement.

## 36. Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance to cover fixed assets and inventories subject to risk of fire, at the technical replacement value, and to cover loss of profits. As of September 30, 2018, the insurance coverage in consolidated was considered sufficient by Management to cover risks involved.