Individual and Consolidated Financial Statements

Alpargatas S.A.

December 31, 2016
with Independent Auditor's Report

Alpargatas S.A.

Individual and consolidated financial statements

December 31, 2016

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A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

Independent auditor's report on individual and consolidated financial statements

The Board of Directors, Shareholders and Officers
Alpargatas S.A.

Opinion

We have audited the accompanying individual and consolidated financial statements of Alpargatas S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2016 and the statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Alpargatas S.A. as at December 31, 2016, its individual and consolidated financial performance and its respective cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements defined in the Code of Ethics for Professional Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Revenue recognition

A substantial portion of the Company's sales revenue comes from the sale of wholesale products, whose delivery does not necessarily occur on the same date as the invoice is issued. CPC30 (R1)/(IAS 18) - Revenue determines that sales revenues should only be recognized when the most significant risks and rewards inherent in the ownership of the products sold have been substantially transferred to the buyer, among other criteria.

This matter was considered significant for our audit in view of the relevance of the amounts involved and the need to maintain effective internal controls and routines to identify and measure revenue from invoiced and non-delivered products whose revenue can be recognized.

Our audit procedures included, among others, the evaluation of key internal controls related to the sales process, the sending of external confirmation letters to a sample of customers requesting postponement of the delivery during the year, analysis of sales documents to confirm the date of delivery of the products for a sample of revenues recognized throughout the year and analysis of returns and cancellations subsequently to December 2016, considering the additional risk existing in the year-end period. Additionally, we performed analytical procedures on related balances, considering the expectations on these balances obtained based on our historical knowledge of the Company, in addition to the trends and seasonality of the operation applicable to the industry.

In addition, we checked the adequacy of the Company's disclosures, which are included in Note 26.

Impairment of goodwill on business combinations

As disclosed in Note 15, at December 31, 2016, the Company records under "Intangible assets" goodwill paid for expected future profitability amounting to R$327,255 thousand and indefinite-lived intangible assets totaling R$231,251 thousand, related to acquisitions of CBS S.A. - Companhia Brasileira de Sandálias, Terras de Aventura Indústria de Artigos Esportivos S.A. (Osklen) and Alpargatas S.A.I.C. - Argentina.

The Company annually tests the impairment of these amounts, as required by CPC01 (R1) / IAS36– Impairment of Assets. This matter was considered significant for our audit, since the process of testing the impairment of these assets is complex and involves a high degree of subjectivity, as well as is based on several assumptions, such as, among others, the determination of cash-generating units (CGUs), discount rates, inflation projection, growth rates, quotation of foreign currencies and profitability of the Company’s and its subsidiaries' business for the coming years. These assumptions will be affected by the market conditions or future economic scenarios of Brazil and the countries in which its subsidiaries are located, which cannot be accurately estimated.

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Our audit procedures included, among others, the involvement of valuation experts to help us evaluate the model used to measure the recoverable amount and the assumptions, projections and methodology used by the Company, in particular those related to estimates of future sales, growth and discount rates used in the discounted cash flows and profit margin of the cash generating units to which the goodwill was allocated. We also focused on the adequacy of the disclosures made by the Company on the assumptions used in the recoverability calculations, especially those that most significantly affected determination of the recoverable amount of the goodwill.

Discontinued operations

As reported in Notes 1.3 and 1.4, on November 3, 2015, the Company entered into an agreement on purchase and sale of the Topper and Rainha brands operations in Brazil and Argentina. The Brazil operation purchase price amounted to R$49,836 thousand and the Argentina operation purchase price will be equivalent to the disposed interest of 20% multiplied by 6.5 times the effective EBITDA of the Argentina Topper business for the fiscal year ended December 31, 2015, adjusted by the net indebtedness on the respective closing date. On May 13, 2016, through a material news release, the Company disclosed that as from January 1, 2017 it would no longer represent Timberland brand in Brazil.

These transactions were considered relevant in our audit, since they refer to significant and unusual operations, which impact the presentation of the balance sheet and statements of income and consolidated cash flows for the current and prior years, which had to be restated.

Our audit procedures included, among others, the evaluation of the correct recognition of these operations by examining the supporting documentation, especially the disposal and representation agreements of the brands involved and related financial transactions. Additionally, we analyzed the disclosures of discontinued operations and their adequacy to Brazilian and international accounting practices, which were disclosed in Note 11.

Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2016, prepared under the responsibility of Company’s management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purpose of forming our opinion, we evaluate whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria set forth in this Accounting Pronouncement and are consistent with the overall individual and consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Companies' and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

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

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

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

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

São Paulo, March 10, 2017.

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

Waldyr Passetto Junior
Accountant CRC-1SP173518/O-8

Alpargatas S.A.

Balance sheets
December 31, 2016 and 2015
(In thousands of reais – R$)

		Company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Assets					
Current assets					
Cash and cash equivalents	6	**266,327**	220,465	**391,347**	394,926
Short-term investments	6	**110,771**	93,267	**110,771**	93,267
Trade accounts receivable	7	**749,073**	727,949	**931,300**	883,760
Inventories	8	**355,859**	351,266	**652,408**	633,664
Taxes recoverable	9	**26,763**	51,718	**63,476**	84,663
Prepaid expenses		**358**	4,523	**11,684**	14,797
Unrealized gains on derivative transactions	35.c	**632**	1,397	**632**	3,448
Assets of discontinued operations	11	**65,453**	54,667	**65,453**	54,667
Other receivables		**28,927**	21,615	**34,934**	45,439
Total current assets		**1,604,163**	1,526,867	**2,262,005**	2,208,631
Noncurrent assets					
Taxes recoverable	9	**10,487**	7,053	**19,523**	25,804
Judicial deposits	12	**19,869**	19,419	**22,264**	20,969
Deferred income and social contribution taxes	10.a	**70,628**	59,166	**76,689**	64,709
Related parties	21	**531**	-	**-**	-
Other receivables		**26,059**	24,610	**30,125**	28,754
Investments:					
Subsidiaries	13	**747,500**	781,951	**-**	-
Other		**145**	195	**2,206**	2,319
Property, plant and equipment	14	**614,108**	598,470	**722,083**	740,902
Intangible assets	15	**71,276**	89,017	**647,157**	671,382
Total noncurrent assets		**1,560,603**	1,579,881	**1,520,047**	1,554,839
Total assets		**3,164,766**	3,106,748	**3,782,052**	3,763,470

	Note	Company		Consolidated	
		2016	2015	2016	2015
Liabilities and equity					
Current liabilities					
Trade accounts payable	16	**322,036**	327,685	**427,288**	437,636
Loans and financing	17	**46,530**	362,608	**209,908**	495,243
Related parties	21	**-**	22	**-**	-
Debt-restructuring agreements of subsidiaries	18	**-**	-	**6,100**	8,124
Labor and social security liabilities		**114,013**	105,627	**162,695**	172,530
Provision for tax, civil and labor contingencies	22	**10,558**	9,555	**13,349**	16,057
Interest on equity and dividends payable	21	**4,891**	4,785	**4,891**	4,785
Tax liabilities	19	**25,983**	12,758	**68,840**	47,185
Unrealized losses on derivative transactions	35.c	**1,369**	63	**1,369**	63
Provisions and other liabilities	20	**35,684**	55,651	**87,562**	121,919
Liabilities of discontinued operations	11	**12,528**	5,977	**12,528**	5,977
Total current liabilities		**573,592**	884,731	**994,530**	1,309,519
Noncurrent liabilities					
Loans and financing	17	**382,658**	177,150	**382,766**	177,449
Debt-restructuring agreements of subsidiaries	18	**-**	-	**24,626**	41,193
Deferred income and social contribution taxes	10.a	**-**	-	**67,510**	82,868
Provision for tax, civil and labor contingencies	22	**25,576**	12,970	**38,358**	24,012
Suspended tax payments and other	23	**198,624**	185,245	**198,624**	185,245
Long-term incentive plan	29	**5,157**	1,295	**6,488**	1,599
Other liabilities		**3,136**	5,828	**3,401**	10,349
Total noncurrent liabilities		**615,151**	382,488	**721,773**	522,715
Equity					
Capital	24.a	**648,497**	648,497	**648,497**	648,497
Capital reserves		**172,799**	169,241	**172,799**	169,241
Paid-in additional capital		**-**	10,743	**-**	10,743
Income reserve		**1,365,194**	1,123,749	**1,365,194**	1,123,749
Equity adjustment		**(146,219)**	(28,121)	**(146,219)**	(28,121)
Treasury shares		**(64,248)**	(84,580)	**(64,248)**	(84,580)
Equity attributable to controlling interests		**1,976,023**	1,839,529	**1,976,023**	1,839,529
Noncontrolling interests in subsidiary's equity		**-**	-	**89,726**	91,707
Total equity		**1,976,023**	1,839,529	**2,065,749**	1,931,236
Total liabilities and equity		**3,164,766**	3,106,748	**3,782,052**	3,763,470

See accompanying notes.

Alpargatas S.A.

Income statements
Years ended December 31, 2016 and 2015
(In thousands of reais - R$, except earnings per share)

	Note	Company		Consolidated	
		2016	2015	2016	2015
Continuing operations					
Net operating revenue	26	**2,710,177**	2,492,646	**4,054,404**	4,038,676
Cost of goods sold	27	**(1,637,666)**	(1,476,950)	**(2,254,120)**	(2,313,613)
Gross profit		**1,072,511**	1,015,696	**1,800,284**	1,725,063
Operating income (expenses)					
Selling expenses	27	**(540,046)**	(549,923)	**(975,963)**	(977,869)
General and administrative expenses	27	**(142,776)**	(149,051)	**(251,279)**	(259,274)
Key management personnel compensation	21	**(16,083)**	(17,559)	**(16,672)**	(20,301)
Equity pickup	13	**81,723**	61,479	**-**	-
Other operating expenses, net	33	**(47,451)**	(59,894)	**(84,027)**	(102,358)
		(664,633)	(714,948)	**(1,327,941)**	(1,359,802)
Operating income before financial income/expenses		**407,878**	300,748	**472,343**	365,261
Financial income	31	**57,187**	44,514	**63,259**	55,991
Financial expenses	31	**(93,703)**	(75,150)	**(130,964)**	(112,886)
Gains on derivative transactions	31	**14,703**	13,935	**22,028**	13,935
Losses on derivative transactions	31	**(14,648)**	(14,901)	**(22,766)**	(14,901)
Foreign exchange gains (losses), net	32	**(14,990)**	6,602	**(18,619)**	(2,897)
Income before income and social contribution taxes		**356,427**	275,748	**385,281**	304,503
Current income and social contribution taxes	10.b	**(284)**	(201)	**(47,543)**	(21,844)
Deferred income and social contribution taxes	10.a	**9,209**	10,432	**24,520**	(5,746)
Net income for the year from continuing operations		**365,352**	285,979	**362,258**	276,913
Loss for the year from discontinued operations	11	**(3,785)**	(13,665)	**(3,785)**	(13,665)
Net income for the year		**361,567**	272,314	**358,473**	263,248
Net income for the year attributable to:					
Controlling interests		**361,567**	272,314	**361,567**	272,314
Noncontrolling interests		**-**	-	**(3,094)**	(9,066)
Earnings per share for the year					
Basic earnings per common share - R$	36	**0.7534**	0.5897	**0.7534**	0.5897
Diluted earnings per common share - R$	36	**0.7529**	0.5893	**0.7529**	0.5893
Basic earnings per preferred share - R$	36	**0.8291**	0.6490	**0.8291**	0.6490
Diluted earnings per preferred share - R$	36	**0.8284**	0.6484	**0.8284**	0.6484

See accompanying notes.

Alpargatas S.A.

Statements of comprehensive income
Years ended December 31, 2016 and 2015
(In thousands of reais – R$)

	Note	Company		Consolidated	
		2016	**2015**	**2016**	**2015**
Net income for the year from continuing operations		**361,567**	272,314	**358,473**	263,248
Net income for the year		**361,567**	272,314	**358,473**	263,248
Other comprehensive income to be reclassified to income in subsequent periods:					
Gains/losses on translation of financial statements of subsidiaries abroad	13	**(114,352)**	(1,156)	**(113,239)**	(3,561)
Unrealized income (loss) on hedging transactions		**(1,005)**	(3,890)	**(1,005)**	(3,890)
Unrealized income (loss) on hedging transactions – Subsidiaries		**(2,052)**	2,052	**(2,052)**	2,052
Deferred tax on unrealized income (loss) on hedging transactions		**342**	1,323	**342**	1,323
		(117,067)	(1,671)	**(115,954)**	(4,076)
Other comprehensive income not reclassified to income for the year in subsequent periods:		**-**	-	**-**	-
Total comprehensive income for the year		**244,500**	270,643	**242,519**	259,172
Total comprehensive income for the year attributable to:					
Controlling interests		**244,500**	270,643	**244,500**	270,643
Noncontrolling interests		**-**	-	**(1,981)**	(11,471)

See accompanying notes.

Alpargatas S.A.

Statements of changes in equity
Years ended December 31, 2016 and 2015
(In thousands of reais – R$)

	Note	Capital	Capital reserves			Paid-in additional capital	Income reserves			Treasury shares	Proposed additional dividend	Equity valuation adjustments	Retained earnings	Equity attributable to controlling interests	Ownership interest of noncontrolling shareholders in subsidiaries' equity	Total equity
			Goodwill (negative goodwill) on disposal of treasury shares	Tax incentives - investment grants	Capital reserve		Legal	Tax incentives	For investments							
Balances at December 31, 2014		648,497	-	169,241	-	8,220	49,676	904,425	180,615	(85,004)	147,100	(25,044)	-	1,997,726	103,178	2,100,904
Net income for the year		-	-	-	-	-	-	-	-	-	-	-	272,314	272,314	(9,066)	263,248
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	(1,671)	-	(1,671)	(2,405)	(4,076)
Total comprehensive income		-	-	-	-	-	-	-	-	-	-	(1,671)	272,314	270,643	(11,471)	259,172
Acquisition of shares to be held in treasury		-	-	-	-	-	-	-	-	(9,468)	-	-	-	(9,468)	-	(9,468)
Disposal of treasury shares due to stock options exercised	28	-	(5,857)	-	-	-	-	-	-	9,892	-	-	-	4,035	-	4,035
Stock option plan granted	28	-	-	-	-	4,198	-	-	-	-	-	-	-	4,198	-	4,198
Exercise of stock options	28	-	-	-	-	(1,675)	-	-	-	-	-	-	1,675	-	-	-
Realization of deemed cost to property, plant and equipment of subsidiary and affiliate		-	-	-	-	-	-	-	-	-	-	(1,406)	1,406	-	-	-
Unclaimed interest on equity and dividends		-	-	-	-	-	-	-	-	-	-	-	395	395	-	395
Goodwill/negative goodwill on disposal of treasury shares		-	5,857	-	-	-	-	-	-	-	-	-	(5,857)	-	-	-
Distribution of dividends declared on March 6, 2015 - R$0.31 per share		-	-	-	-	-	-	-	-	-	(147,100)	-	-	(147,100)	-	(147,100)
Distribution of dividends declared on August 7, 2015 - R$0.16 per share		-	-	-	-	-	-	-	(75,000)	-	-	-	-	(75,000)	-	(75,000)
Distribution of dividends declared on August 7, 2015 - R$0.19 per share		-	-	-	-	-	-	-	(91,000)	-	-	-	-	(91,000)	-	(91,000)
Allocations of net income for the year:																
Setting up of reserves:		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
For tax incentives	5	-	-	-	-	-	-	142,871	-	-	-	-	(142,871)	-	-	-
For investments		-	-	-	-	-	-	-	12,162	-	-	-	(12,162)	-	-	-
Distribution of interest on equity - R$0.24 per share	24.c	-	-	-	-	-	-	-	-	-	-	-	(114,900)	(114,900)	-	(114,900)
Balances at December 31, 2015		**648,497**	**-**	**169,241**	**-**	**10,743**	**49,676**	**1,047,296**	**26,777**	**(84,580)**	**-**	**(28,121)**	**-**	**1,839,529**	**91,707**	**1,931,236**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**361,567**	**361,567**	**(3,094)**	**358,473**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(117,067)**	**-**	**(117,067)**	**1,113**	**(115,954)**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(117,067)**	**361,567**	**244,500**	**(1,981)**	**242,519**
Disposal of treasury shares due to stock options exercised	28	**-**	**3,558**	**-**	**-**	**-**	**-**	**-**	**-**	**20,332**	**-**	**-**	**-**	**23,890**	**-**	**23,890**
Stock option plan granted	28	**-**	**-**	**-**	**-**	**(10,743)**	**-**	**-**	**-**	**-**	**-**	**-**	**10,743**	**-**	**-**	**-**
Realization of deemed cost to property, plant and equipment of subsidiary and affiliate		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,031)**	**1,031**	**-**	**-**	**-**
Unclaimed interest on equity and dividends		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**704**	**704**	**-**	**704**
Allocations of net income for the year:																
Setting up of reserves:		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Legal		**-**	**-**	**-**	**-**	**-**	**18,078**	**-**	**-**	**-**	**-**	**-**	**(18,078)**			
For tax incentives	5	**-**	**-**	**-**	**-**	**-**	**-**	**181,734**	**-**	**-**	**-**	**-**	**(181,734)**	**-**	**-**	**-**
For investments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,633**	**-**	**-**	**-**	**(41,633)**	**-**	**-**	**-**
Distribution of interest on equity - R$0.28 per share	24.c	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(132,600)**	**(132,600)**	**-**	**(132,600)**
Balances at December 31, 2016		**648,497**	**3,558**	**169,241**	**-**	**-**	**67,754**	**1,229,030**	**68,410**	**(64,248)**	**-**	**(146,219)**	**-**	**1,976,023**	**89,726**	**2,065,749**

See accompanying notes.

Alpargatas S.A.

Cash flow statements
Years ended December 31, 2016 and 2015
(In thousands of reais – R$)

	Note	Company		Consolidated	
		2016	**2015**	**2016**	**2015**
Cash flow from operating activities					
Net income for the year from continuing operations		**365,352**	286,967	**362,258**	277,901
Adjustments to reconcile net income for the year from continuing operations to net cash provided by operating activities:					
Depreciation and amortization	14/15	**70,948**	66,918	**103,621**	101,611
Loss on sale/derecognition of property, plant and equipment items		**5,026**	2,093	**6,332**	2,464
Income on sale of property		**(213)**	-	**(213)**	-
Provision for impairment of property, plant and equipment		**-**	1,891	**-**	1,891
Equity pickup	13	**(81,723)**	(61,479)	**-**	-
Interest, and monetary and exchange losses		**56,929**	29,397	**71,702**	42,222
Provision for tax, civil and labor contingencies	22	**26,577**	4,593	**31,430**	9,105
Deferred income and social contribution taxes	10.a	**(9,209)**	(9,923)	**(24,520)**	6,255
Stock option plan granted	28	**-**	4,198	**-**	4,198
Provision for inventory losses	8	**9,897**	13,850	**11,566**	11,901
Allowance for doubtful accounts	7.b	**6,995**	4,627	**8,370**	8,406
Unrealized losses (gains) on derivative transactions		**1,066**	769	**3,118**	(1,283)
Unrealized (gains) losses on derivative transactions – Subsidiaries		**-**	-	**(2,052)**	2,052
Remeasurement adjustment – 1st acquisition Osklen		**-**	-	**-**	(3,368)
Net cash from discontinued operations		**(13,966)**	(13,530)	**(13,966)**	(13,530)
		437,679	330,371	**557,646**	449,825
Decrease (increase) in assets:					
Trade accounts receivable		**(16,154)**	22,941	**(96,111)**	(18,821)
Inventories		**(15,254)**	(66,822)	**(110,909)**	(53,441)
Prepaid expenses		**4,226**	(221)	**902**	(1,382)
Taxes recoverable		**30,792**	(9,439)	**24,576**	(11,290)
Other		**(21,995)**	(23,714)	**(9,696)**	(10,145)
Increase (decrease) in liabilities:					
Trade accounts payable		**(12,723)**	38,622	**24,514**	35,376
Tax liabilities		**8,494**	(6,336)	**47,567**	33,175
Payment of income and social contribution taxes		**(456)**	(554)	**(37,183)**	(27,018)
Labor and social security liabilities		**7,613**	11,948	**5,845**	23,343
Payment of interest on loans and financing		**(32,325)**	(27,074)	**(42,560)**	(35,210)
Other		**(30,485)**	13,034	**(23,620)**	22,908
Net cash from operating activities		**359,412**	282,756	**340,971**	407,320

Alpargatas S.A.

Cash flow statements (Continued)
Years ended December 31, 2016 and 2015
(In thousands of reais – R$)

	Note	Company		Consolidated	
		2016	2015	2016	2015
Cash flow from investing activities					
Investments in subsidiaries	13	**(2,350)**	-	**-**	-
Acquisition of property, plant and equipment and intangible assets	14/15/39	**(80,830)**	(95,087)	**(109,103)**	(126,804)
Short-term investments		**(11,785)**	65,195	**(11,785)**	89,702
Dividends and interest on equity received		**421**	16,126	**-**	-
Proceeds from disposal of investments/property, plant and equipment		**8,100**	-	**11,886**	9,690
Merger of subsidiary		**-**	52,729	**-**	-
Net cash used in investing activities		**(86,444)**	38,963	**(109,002)**	(27,412)
Cash flow from financing activities					
Loans and financing raised		**287,657**	430,359	**398,458**	497,812
Amortization of loans and financing - principal		**(406,863)**	(295,187)	**(475,546)**	(372,991)
Acquisition of shares to be held in treasury, net of disposals		**23,890**	(5,433)	**23,890**	(5,433)
Payment of interest on equity and dividends		**(131,790)**	(424,894)	**(131,790)**	(424,894)
Payment of debt-restructuring agreements of subsidiary		**-**	-	**(9,689)**	(12,400)
Net cash used in financing activities		**(227,106)**	(295,155)	**(194,677)**	(317,906)
Effect of exchange gain (loss) on cash and cash equivalents		**-**	-	**(40,871)**	16,314
Decrease/increase in cash and cash equivalents		**45,862**	26,564	**(3,579)**	78,316
Opening balance of cash and cash equivalents		**220,465**	193,901	**394,926**	316,610
Closing balance of cash and cash equivalents		**266,327**	220,465	**391,347**	394,926
Decrease/increase in cash and cash equivalents		**45,862**	26,564	**(3,579)**	78,316

See accompanying notes.

Alpargatas S.A.

Statements of value added
Years ended December 31, 2016 and 2015
(In thousands of reais – R$)

	Note	Company		Consolidated	
		2016	2015	2016	2015
Revenues		**3,229,651**	3,154,412	**4,834,155**	4,948,055
Sales of goods and services		**3,179,326**	3,158,565	**4,786,398**	4,953,685
Allowance for doubtful accounts	7.b	**(6,995)**	(4,627)	**(8,370)**	(8,406)
Other revenues		**57,320**	474	**56,127**	2,776
Inputs acquired from third parties		**(1,367,580)**	(1,535,268)	**(2,021,154)**	(2,280,291)
Cost of goods sold		**(1,119,034)**	(1,208,653)	**(1,733,410)**	(2,042,705)
Materials, electric power, third-party services and other expenses		**(231,895)**	(317,142)	**(263,757)**	(229,529)
(Loss)/recovery of assets		**(1,892)**	(9,167)	**(9,228)**	(7,751)
Other		**(14,759)**	(306)	**(14,759)**	(306)
		1,862,071	1,619,144	**2,813,001**	2,667,764
Withholdings		**(70,948)**	(66,918)	**(103,621)**	(101,611)
Depreciation and amortization	14/15	**(70,948)**	(66,918)	**(103,621)**	(101,611)
Net value added produced by the Company		**1,791,123**	1,552,226	**2,709,380**	2,566,153
Value added received in transfer		**169,812**	192,243	**110,337**	152,243
Equity pickup	13	**81,723**	61,479	**-**	-
Financial income - including exchange gains (losses)		**88,336**	139,748	**109,665**	160,584
Income (loss) from discontinued operations		**(3,785)**	(14,653)	**(3,785)**	(14,653)
Other		**3,538**	5,669	**4,457**	6,312
Value added to be distributed		**1,960,935**	1,744,469	**2,819,717**	2,718,396
Distribution of value added		**(1,960,935)**	(1,744,469)	**(2,819,717)**	(2,718,396)
Salaries and social charges		**(629,033)**	(542,853)	**(1,005,656)**	(964,429)
Taxes, rates and contributions		**(749,936)**	(685,267)	**(1,114,239)**	(1,147,721)
Financial expenses and rentals		**(220,399)**	(244,035)	**(341,349)**	(342,998)
Interest on equity	24.c	**(132,600)**	(114,900)	**(132,600)**	(114,900)
Retained profit		**(228,967)**	(157,414)	**(228,967)**	(157,414)
Noncontrolling interests in retained profits		**-**	-	**3,094**	9,066

See accompanying notes.

1. Operations

1.1. General considerations

Alpargatas S.A. (the “Company”) is a publicly-held corporation headquartered in the city of São Paulo, at Avenida Doutor Cardoso de Melo, 1336, listed in the São Paulo Stock Exchange (BMF&BOVESPA) under the ticker symbols “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 and affiliate through which the Company conducts activities in Brazil and abroad are described in Note 4.

The Board of Directors authorized the issue of these financial statements on March 10, 2017.

1.2. Acquisition of controlling interest by J&F Investimentos S.A.

On November 23, 2015, J&F Investimentos S.A. (“J&F”) entered into a Controlling Interest Purchase and Sale Agreement and Other Covenants with Camargo Corrêa S.A. (“CCSA”), the Company’s controlling shareholder, for acquisition of the controlling interest of Alpargatas S.A. by J&F. The purpose of this agreement is the acquisition of 207,575,464 shares issued by Alpargatas (161,846,378 common shares and 45,729,086 preferred shares), i.e. 44.12% of the Company capital (66.99% of total common shares and 19.98% of total preferred shares).

On December 4, 2015, the Brazil's Council for Economic Defense (CADE) approved this acquisition.

On December 23, 2015, J&F and CCSA entered into the Closing Document for the Controlling Interest Purchase and Sale Agreement and Other Covenants, through which the acquisition of all shares issued by Alpargatas and held by CCSA was concluded.

The price, after adjustments made due to payment of dividends and interest on equity to CCSA, was R$2,614,172, and the price per share amounted to R$12.60 per common share and R$12.57 per preferred share.

1. Operations (Continued)

1.2. Acquisition of controlling interest by J&F Investimentos S.A. (Continued)

On July 12, 2016, Alpargatas communicated to the shareholders and to the market in general that J&F Investimentos S.A., its Parent company, in the capacity of offeror of the mandatory public offering (Mandatory IPO) of shares issued by Alpargatas, (i) contracted Banco Bradesco BBI to provide intermediation services related to the Mandatory IPO; and (ii) resubmitted, within the scope of the Mandatory IPO, all documents provided for in CVM Ruling No. 361. The Mandatory IPO notice was published on August 17, 2016. As a result of this IPO, J&F Investimentos S.A. acquired 45,322,491 common shares issued by the Company, representing 56.82% of the common shares submitted to the IPO, and now holds 207,168,869 common shares, representing 85.75% of total common shares. These shares were acquired for the unit price of R$11.02, totaling R$499,454. Considering that J&F had already owned 47,937,043 preferred shares of Company, its total interest in Alpargatas is now 54.23%. The settlement of the Mandatory IPO was on October 5, 2016.

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. - Argentina; and (c) License Agreement referring to the Topper brand, for the period of 15 years, in the United States and China.

Such operations will be closed on different dates, and such closing is subject to compliance with certain conditions precedent.

As provided in the transaction structuring, in February 2016, Alpargatas segregated the business unit responsible for 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.

1. Operations (Continued)

1.3. Disposal of Topper and Rainha operations (Continued)

The transaction in Argentina will also be completed through segregation of the operation into a new company ("NewCo Argentina"), to be organized by Alpargatas S.A.I.C. - Argentina. The buyers will acquire shares representing 20% of NewCo Argentina's capital.

The Brazil operation purchase price amounted to R$49,836. The Argentina operation purchase price will be equivalent to the disposed interest of 20% multiplied by 6.5 times the effective EBITDA of the Argentina Topper business for the fiscal year ended December 31, 2015, adjusted by the net indebtedness on the respective closing date (see details in Note 11).

On May 2, 2016, the Company received the first installment related to purchase price of the Brazil operation in the amount of R$24,345. The remaining receipts have been occurring since July 2016 according to agreement and respective amendments.

1.4. Licensing of Timberland brand

On May 13, 2016, through a material news release, the Company disclosed that as from January 1, 2017 it will no longer represent Timberland brand in Brazil. This decision is aligned with the Company's strategy regarding its positioning in the market of sports items (see details in Note 11).

1.5. Redomiciliation of Alpargatas International S.L.

On December 5, 2016, the redomiciliation process was completed for Alpargatas International S.L., new name of Alpargatas International ApS, from Copenhagen (Denmark) to Madrid (Spain). This change of domicile of the European holding company was due to strategic business growth issues, as well as to optimize management in a country where there is a strong presence, a strong cultural identity and a structure prepared to absorb new projects.

2. Basis of preparation and summary of significant accounting policies

The Company's consolidated and individual financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions contained in the Brazilian Corporate Law (Law No. 6404/76) and embodies the amendments introduced through Law No. 11638/07 and Law No. 11941/09, and the pronouncements, interpretations and guidelines issued by the Brazilian Financial Accounting Standards Board ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM"), and the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

All significant information that is inherent in the financial statements, and only such information, is evidenced, and it correspond to that used by the Company in its management.

The financial statements were prepared at historical cost, except as otherwise stated in a note to the financial statements, where applicable.

The preparation of these financial statements requires the use of certain accounting estimates, as well as use of judgment by the Company management. The areas deemed significant and that require a higher level of judgment include: recognition of sales, deferred income and social contribution taxes, provision for tax, civil and labor contingencies, allowance for doubtful accounts, provision for slow-moving and obsolete inventory items, pension plans and health care, assessment of goodwill recoverable amount, and useful lives of PP&E items and intangible assets.

The significant accounting policies are described in the notes referring to respective items. Those policiess that are generally applicable to different aspects of the financial statements are described below:

a) Impairment testing of assets (except for goodwill)

The Company and its subsidiaries annually tests the net book value of assets to determine whether there are any events or changes in economic, operating, or technological circumstances that may indicate deterioration or impairment loss. When such evidence is found, and the net book value exceeds the recoverable amount, a provision for impairment is recorded so as to adjust the net book value to the recoverable amount.

b) Functional and reporting currency

For the purposes of the consolidated financial statements, profit or loss and balance sheet balances of each Group company were translated into reais, which is the functional and reporting currency of the Company's financial statements.

2. Basis of preparation and summary of significant accounting policies (Continued)

b) Functional and reporting currency

Transactions and balances denominated in foreign currency

Foreign currency-denominated transactions are translated into the Company's functional currency by the exchange rates prevailing on the transaction dates and the exchange rate prevailing on the balance sheet dates. Exchange gains and losses arising from the settlement of these transactions and from the conversion of monetary assets and liabilities denominated in foreign currency are recognized in income for the year.

c) Financial instruments

Classification

The Company classifies its financial assets and liabilities upon initial recognition into the following categories:

Financial assets

(i) *Financial assets measured at fair value through profit or loss:* are presented in the balance sheet at fair value, and the corresponding gains or losses are recognized in the income statement. At December 31, 2016 and 2015, these are represented by cash and cash equivalents, short-term investments and other accounts receivable.

(ii) *Loans and receivables:* non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these financial assets are measured at amortized cost by using the effective interest rate method, less impairment.

Financial liabilities

(i) *Financial liabilities measured at fair value through profit or loss:* financial liabilities are recorded under this classification when they are held for trading or measured at fair value through profit or loss. At December 31, 2016, they are represented by a long-term incentive plan.

(ii) *Other financial liabilities:* at December 31, 2016 and 2015, these comprise bank loans and financing, trade accounts payable, and traded bonds of subsidiary Alpargatas S.A.I.C. - Argentina, which are stated at original value, except for trade accounts payable, plus interest and exchange and monetary differences incurred through the balance sheet dates.

2. Basis of preparation and summary of significant accounting policies (Continued)

c) Financial instruments (Continued)

Derivative financial instruments and hedging activities

The Company uses Non-Deliverable Forward (NDF) derivative financial instruments and swap to hedge against currency fluctuation risk. Derivative financial instruments designated in hedge operations are initially recognized at fair value on the date when the derivative agreement is entered into, being subsequently revaluated also at fair value. Derivative financial instruments are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value is negative.

The Company's and its subsidiaries' agreements involving derivatives are considered cash flow hedging instruments.

The effective portion of changes in fair value of instruments qualified as cash flow *hedge accounting* is recorded in equity, under other comprehensive income. The gain or loss related to the ineffective portion is recognized in income for the year under "Financial income (expenses)".

The amounts accumulated in equity are realized to income for the year in the periods when the *hedge*d item affects income for the year. In addition, when the expected *hedge*d transaction results in recognition of a non-financial asset, gains and losses previously deferred in equity are transferred and included in the initial measurement of the asset cost.

d) Assets held for sale and gains/losses from discontinued operations

The Company classifies an asset item as held for sale if its book value is expected to be recovered in the sale transaction. Therefore, the asset or group of assets held for sale must be available for immediate sale in its current state, subject to the terms that are usual to the sale of such asset only. The sale is then highly likely.

For a sale to be highly likely, management must be committed to the asset sale plan, and a firm program to locate a buyer and complete the plan must be in place. In addition, the sale price of the asset item held for sale must be reasonable vis-à-vis its current fair value. Also, the sale should be expected to be completed within no longer than one year as from classification of the asset as held for sale.

2. Basis of preparation and summary of significant accounting policies (Continued)

d) Assets held for sale and gains/losses from discontinued operations (Continued)

The group of asset held for sale is measured at the lower of book value and fair value less cost to sell. If the book value exceeds fair value, a provision for impairment is recognized against profit or loss. Any reversal or gain will only be recorded to the limit of the loss recognized.

Depreciation of an asset item held for sale ceases when the asset is designated as held for sale.

e) Statement of Value Added ("SVA")

The Statement of Value Added (SVA) is not required by the IFRS, and is presented herein as supplementary information in compliance with the Brazilian corporate law. Its purpose is to disclose the wealth created by the Company over the year, as well as its distribution among several stakeholders.

3. New standards, interpretations and amendments to standards

The nature and impacts of new interpretations and amendments to standards are as follows:

IFRS 9 – Financial Instruments (effective from 01/01/2018)	Its ultimate purpose is to replace IAS 39. The main expected changes are: (i) all financial assets must be initially recognized at fair value; (ii) the standard divides all financial assets into: amortized cost and fair value; and (iii) the concept of embedded derivatives was extinct.	Management evaluated the new standard and did not identify any significant impacts on the financial statements, considering its current transactions.
IFRS 15 – Revenue from Contracts with Customers (effective from 01/01/2017)	The main objective is to establish clear principles for revenue recognition and streamline the financial statements preparation process.	Management evaluated the new standard and did not identify any significant impacts on the financial statements, considering the nature of its sales transactions, where performance obligations are clear and transfer of control of assets is not complex.
IFRS 16 – Leases (effective from 01/01/2019)	It deals with the unification of the accounting treatment of operating and finance leases for the model similar to finance lease with impact on PP&E and financial liabilities.	The possible impacts arising from this standard are being evaluated and will be concluded by the date of entry into force.

3. New standards, interpretations and amendments to standards (Continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations (effective from 01/01/2016)	The acquisition of an interest in a joint operation in which the activity constitutes a business is required to apply the principles pertaining to IFRS 3 on accounting of business combinations. The amendments are not applicable when the parties sharing joint control, including the reporting entity, are under the common control of the main controlling party. The amendments apply both to the acquisition of final interest in a joint operation and the acquisition of any additional interest in the same joint operation.	The amendment had no impact on the Group's presentation, financial position or performance.
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization (effective from 01/01/2016)	The depreciation and amortization method must be based on the economic benefits consumed by means of active use of the asset.	The amendment had no impact on the Group's presentation, financial position or performance.
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities – applying the consolidation exception (effective from 01/01/2016)	The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to the parent entity that is a subsidiary of an investment entity, when such investment entity measures all its subsidiaries at fair value. Other clarifications establish that a non-investment entity may maintain fair value measurement through profit or loss for its investments when applying the equity method.	The amendment had no impact on the Group's presentation, financial position or performance.
IAS 19 – Employee Benefits (effective from 01/01/2016)	This new standard clarifies that the corporate bonds market depth in different countries is assessed based on the currency under which the obligation is denominated, instead of the currency of the country where the obligation is located. Where there is no deep market for high quality corporate bonds in that currency, market yields on government bonds must be applied. This amendment must be applied retrospectively.	The standard had no impact on the Group's presentation, financial position or performance.
IFRS 5 – Noncurrent Assets Held for Sale and Discontinued Operations (effective from 01/01/2016)	It clarifies the circumstances in which an entity changing one of its disposal methods to another would not be considered a new disposal plan, but rather a continuation of the original plan. The entity reclassifies assets held for sale into assets held for distribution to owners (and vice-versa), as well as the cases when the assets held for distribution to owners no longer meet the criteria for this classification.	The standard had no impact on the Group's presentation, financial position or performance.
IFRS 7 - Financial Instruments: Disclosures	Service agreements generally meet the definition of continuing involvement in a transferred financial asset for disclosure purposes. The continuing involvement in a transferred financial asset must be confirmed if its characteristics meet the definitions described in the standard (paragraphs B30 and 42C).	The standard had no impact on the Group's presentation, financial position or performance.
Amendments to IAS 1 – Disclosure Initiative (effective from 01/01/2016)	Its purpose is to clarify: (i) materiality requirements; (ii) specific items of income statement, other comprehensive statement and balance sheet can be segregated; (iii) flexibility in the presentation order of the notes to financial statements; (iv) portion of other comprehensive income of associates and joint ventures accounted for under the equity method.	The amendment had no impact on the Group's presentation, financial position or performance.

4. Consolidated financial statements

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

		Equity interest (%)	
Direct interest:	**Main activity**	**2016**	**2015**
Fibrasil Agrícola e Comercial Ltda.	Import and export activities in general, purchase, sale and lease of own properties, and equity interest in other companies, in Brazil or abroad	**100.00**	100.00
Alpargatas Imobiliária S.A.	Sale and lease of own properties and equity interest in other companies, in Brazil or abroad.	**100.00**	100.00
Alpargatas International S.L. - Spain (formerly named Alpargatas International - APS)	Holding company with investment in other companies (Alpargatas USA Inc. and Alpargatas Europe S.L.U.)	**100.00**	100.00
Alpargatas S.A.I.C. - Argentina	Manufacturing and sale 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	Sale of footwear.	**100.00**	-
Indirect interest (through Alpargatas Internacional APS):			
Alpargatas USA Inc. - United States	Import and sale of footwear in the U.S. market	**100.00**	100.00
Alpargatas Europe S.L.U. - Spain	Import and sale of footwear in the European market	**100.00**	100.00
Alpargatas UK Limited - United Kingdom		**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
Indirect interest (through Fibrasil Agrícola e Comercial Ltda.):			
Alpargatas S.A.I.C. - Argentina	Manufacturing and sale of footwear and textile products, mainly in the Argentine market	**1.65**	1.65
Dialog S.A.	Logistics services	**10.00**	10.00
Indirect interest (through Alpargatas S.A.I.C. - Argentina):			
Alpargatas Calzados de Uruguay S.A.	Sale of footwear.	**100.00**	100.00
Dialog S.A.	Logistics services	**90.00**	90.00

Thus, the Company considers that it controls an investee if, and only if, it has all the following characteristics: (a) power on the investee; (b) exposure to, or right on, variable returns arising from its involvement with the investee; and (c) capacity of using its power on the investee to affect the amount of its returns.

4. Consolidated financial statements (Continued)

The balance sheet of subsidiaries abroad in a functional currency is other than the Brazilian real was translated into reais at the exchange rates prevailing on the balance sheet dates. The income statement of subsidiaries abroad was translated into reais at average exchange rates. Differences arising from the use of different translation rates are recorded as “Equity valuation adjustment”, in equity.

5. Tax incentives - investment grants

The Company has tax incentives granted by state governments where the main plants are located, which will expire between 2018 and 2020. The Company also has tax incentives granted by the federal government through profit from tax-incentive activities in the Northeast Region, which will expire in 2021.

These investments grants and tax incentives are as follows:

		Company		Consolidated	
		2016	**2015**	**2016**	**2015**
State VAT (ICMS) incentive:					
Paraíba	(a)	**138,015**	117,317	**138,015**	117,317
Pernambuco	(b)	**15,539**	10,222	**15,539**	10,588
Minas Gerais	(c)	**28,180**	15,332	**28,180**	15,332
Corporate Income Tax (IRPJ) incentives:					
Northeast Region	(d)	**-**	-	**-**	638
Total		**181,734**	142,871	**181,734**	143,875

(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 consists of expanding the manufacturing facilities in that region, increasing its production of footwear and generating direct jobs in plants in the State of Paraíba.

Additionally, for the years ended December 31, 2016 and 2015, 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 income statement.

(b) Amounts of the investment grant in the State of Pernambuco, used in the calculation of matching ICMS credit, thus committed to what was agreed with the state government by subsidiary CBS S.A. - Companhia Brasileira de Sandálias, which was merged by the parent company on February 1, 2015. The subsidiary is compliant with the established agreement, which consists of maintaining a minimum number of direct jobs in the region and reaching gross revenue of at least R$2,500 per month.

(c) Calculation of ICMS matching credit by the plant in Montes Claros. The amounts refer to unpaid ICMS installments, thus committed to what was agreed upon with the state government. The Company has agreed to invest, issue bills and create direct jobs in this Minas Gerais state plant.

(d) These are credited to “Income and social contribution taxes - current” in the income statement (see details in Note 10.b).

6. Cash and cash equivalents and short-term investments

i) Cash and cash equivalents

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash and banks	**2,050**	6,018	**86,144**	129,604
Short-term investments:				
Floating CDBs (i)	**105,094**	7,642	**114,135**	7,642
Floating repurchase agreements (i)	**159,183**	206,805	**170,278**	219,158
Other - Alpargatas S.A.I.C. - Argentina (ii)	**-**	-	**20,790**	38,522
Total	**266,327**	220,465	**391,347**	394,926

(i) At December 31, 2016, the Bank Deposit Certificates (CDBs) and repurchase agreements average yield was 100.57% of Interbank Deposit Certificates (CDI) (101.14% at December 31, 2015). Their aging list goes from January 2017 to January 2023, and they have a grace period for redemption lower than three months and are subject to an insignificant risk of change in value.

(ii) At December 31, 2016, short-term investments held by subsidiary Alpargatas S.A.I.C. - Argentina are represented by fixed-income securities, with average annual yield of 26.80% (24.27% at December 31, 2015).

ii) Short-term investments

At December 31, 2016, short-term investments refer to CDBs and floating repurchase agreements with average yield of 103.05% of CDI (102.02% at December 31, 2015).

At December 31, 2016, the Companies had no fixed CDB investments (yield of 9.90% at December 31, 2015).

	Company and Consolidated	
	2016	**2015**
Fixed CDBs (i)	**-**	44,792
Floating CDBs (i)	**63,179**	5,866
Floating repurchase agreements (i)	**47,592**	42,609
Total	**110,771**	93,267

(i) Their grace period for redemption is over three months and they 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, less allowance for doubtful accounts. The ADA is set up considering an individual analysis of receivables, of the economic environment and the history of losses recorded in prior years by maturity range.

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Domestic market	**682,712**	627,647	**746,257**	692,014
Foreign market (i)	**59,858**	83,741	**224,684**	234,014
Related parties (Note 21.b)	**43,597**	52,923	**-**	-
Allowance for doubtful accounts	**(37,094)**	(36,362)	**(39,641)**	(42,268)
Total	**749,073**	727,949	**931,300**	883,760

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

a) Aging list of trade accounts receivable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Falling due	**690,963**	685,869	**850,929**	826,595
Overdue:				
Within 30 days	**23,165**	24,322	**30,464**	34,272
From 31 to 60 days	**3,186**	4,002	**7,878**	6,605
From 61 to 90 days	**1,384**	7,452	**4,169**	8,862
Above 91 days	**67,469**	42,666	**77,501**	49,694
Total	**786,167**	764,311	**970,941**	926,028

b) Allowance for doubtful accounts

Changes in allowance for doubtful accounts are as follows:

	Company	Consolidated
Balances at December 31, 2015	(36,362)	(42,268)
Additions	(6,995)	(8,881)
Reversals	-	511
Other changes/exchange gains (losses)	6,263	10,997
Balances at December 31, 2016	**(37,094)**	**(39,641)**

7. Trade accounts receivable (Continued)

b) Allowance for doubtful accounts (Continued)

The aging list of trade accounts receivable, included in allowance for doubtful accounts, is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Within 30 days	**-**	(2)	**-**	(480)
From 31 to 60 days	**(23)**	(31)	**(99)**	(41)
From 61 to 90 days	**(101)**	(95)	**(125)**	(467)
Above 91 days	**(36,970)**	(36,234)	**(39,417)**	(41,280)
Total	**(37,094)**	(36,362)	**(39,641)**	(42,268)

Additions and reversals of the allowance for doubtful accounts are recorded under the "Selling expenses" account in the income statement.

Maximum exposure to credit risk at the financial statement date is the book value of each aging range, as detailed in the table above. No provision for losses was recorded for default customers with rescheduled debts, for which Company and subsidiaries have letters of credit and properties as collaterals. For other past due trade accounts receivable, which are not collateralized, an allowance for doubtful accounts was set up.

8. Inventories

These are recorded at average acquisition or production cost, and then marked to market, considering any losses, where applicable.

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finished products	**190,405**	210,281	**402,065**	406,443
Work-in-process	**27,491**	27,637	**47,608**	50,127
Raw materials	**110,778**	74,182	**156,466**	130,340
Imports in transit	**27,190**	44,115	**27,190**	44,115
Other	**3,145**	13,897	**28,315**	29,005
Provision for inventory losses	**(3,150)**	(18,846)	**(9,236)**	(26,366)
Total	**355,859**	351,266	**652,408**	633,664

8. Inventories (Continued)

Changes in provision for inventory losses are as follows:

	Company	Consolidated
Balances at December 31, 2015	(18,846)	(26,366)
Additions	(9,897)	(11,606)
Reversals	-	40
Other changes/exchange gains (losses) (*)	25,593	28,696
Balances at December 31, 2016	**(3,150)**	**(9,236)**

(*) The amount of R$13,499 refers to a batch of defective Mizuno Empower products that was reimbursed by Mizuno USA INC.

9. Taxes recoverable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Corporate income tax and social contribution tax prepayments	**2,290**	16,172	**2,545**	29,075
Withholding Income Tax (IRRF)	**12,060**	7,841	**12,477**	10,383
State Value Added Tax (ICMS)	**842**	686	**4,965**	4,811
Federal Value Added Tax (IPI)	**469**	771	**1,430**	811
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) recoverable	**3,976**	3,065	**5,947**	3,880
Tax incentive - Brasil Maior Plan	**3,804**	20,629	**3,804**	20,629
Receivables – INSS-related lawsuit	**6,988**	6,249	**6,988**	6,249
Value Added Tax (VAT) - Alpargatas Europe	**-**	-	**1,719**	3,488
Income tax prepayments - Alpargatas Europe	**-**	-	**8,798**	-
Value Added Tax (VAT) - Alpargatas S.A.I.C. - Argentina	**-**	-	**1,802**	1,156
Income tax prepayments - Alpargatas S.A.I.C. - Argentina	**-**	-	**14,351**	14,013
Export duties - Alpargatas S.A.I.C. - Argentina	**-**	-	**8,781**	9,895
Other	**6,821**	3,358	**9,392**	6,077
Total	**37,250**	58,771	**82,999**	110,467
Current portion	**26,763**	51,718	**63,476**	84,663
Noncurrent portion	**10,487**	7,053	**19,523**	25,804

10. Income and social contribution taxes

Deferred tax assets and liabilities are generally recognized on all temporary differences only when the Company is likely to recognize future taxable profit at an amount sufficient for such deductible temporary differences to be used. The amounts are calculated based on the rates provided for by the tax legislation prevailing on the balance sheet dates.

10. Income and social contribution taxes (Continued)

a) Deferred

		Company and Consolidated	
		2016	**2015**
Assets:			
Company:			
Allowance for doubtful accounts		**10,987**	9,984
Provision for inventory losses		**1,012**	1,840
Provision for tax, civil and labor contingencies		**11,899**	7,284
Provision for suspended tax payments		**32,249**	32,675
Adjustment to recognition of sales revenue		**405**	2,813
Transactions with derivative financial instruments		**221**	(121)
Income and social contribution tax losses		**22,346**	35,831
Other temporary differences		**6,022**	8,149
Total - Company		**85,141**	98,455
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Provisions for tax, civil and labor contingencies		**5,228**	5,732
- Deferred tax on tax losses		**-**	870
- Allowance for doubtful accounts		**896**	971
- Provision for inventory losses		**225**	1,467
- Other temporary differences		**11,193**	3,963
		17,542	13,003
Alpargatas Europe S.L.U. - Spain:			
- Tax losses		**1,375**	1,563
Deferred taxes on unrealized profits		**4,686**	3,980
Total - Consolidated		**108,744**	117,001
Liabilities:			
Company:			
Goodwill on acquisition of subsidiaries amortized for tax purposes	(i)	**14,543**	12,131
Provision for income and social contribution taxes (IRPJ/CSLL) on difference of useful life of PP&E (depreciation)		**-**	26,826
Transactions with derivative financial instruments		**(30)**	332
Total - Company		**14,513**	39,289
Subsidiaries:			
Alpargatas S.A.I.C. - Argentina:			
- Present value adjustment to renegotiated obligations and tax difference in the valuation of PP&E items		**18,215**	20,230
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	(ii)	**66,837**	75,641
Total - Consolidated		**99,565**	135,160
Company – noncurrent assets		**70,628**	59,166
Consolidated – noncurrent assets		**76,689**	64,709
Consolidated – noncurrent liabilities		**(67,510)**	(82,868)

(i) The Company uses, at a ratio of 1/60, the tax benefit of the goodwill generated on the acquisition of subsidiary CBS S.A. - Companhia Brasileira de Sandálias, after the merger of former subsidiary Atlântico Participações S.A. with monthly amortization of R$400, from January 2009 to October 2017, with a tax impact of R$136 per month; and CBS S.A. with monthly amortization of R$192, from February 2015 to January 2020, with a tax impact of R$65 per month for income and social contribution tax 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 finite-lived intangible assets are amortized.

10. Income and social contribution taxes (Continued)

a) Deferred (Continued)

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

	2016	2015
2016	**-**	22,528
2017	**23,444**	15,246
2018	**12,282**	15,213
2019	**17,303**	15,297
2020 onwards	**55,715**	48,717
Total - Consolidated	**108,744**	117,001

At December 31, 2016, 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., which, in view of the lack of projected taxable profits for the next years, were not recorded by the corresponding foreign subsidiary.

The unrecognized tax credit calculated at the current rate in the United States of America comprises:

Total temporary differences	34
Tax losses	95,914
Tax credit	95,948

Tax credits on income tax losses generated by such subsidiary have 20 years to be offset (expiration date).

10. Income and social contribution taxes (Continued)

a) Deferred (Continued)

Changes in balances of deferred income and social contribution tax assets and liabilities for the years ended December 31, 2016 and 2015 are as follows:

	Company			Consolidated		
	Assets	**Liabilities**	**Total**	**Assets**	**Liabilities**	**Total**
Balance at December 31, 2014	66,569	28,047	38,522	103,812	136,825	(33,013)
Effects on income	21,165	11,242	9,923	2,893	9,148	(6,255)
Other comprehensive income	1,323	-	1,323	1,323	-	1,323
Taxes on merger of subsidiary	1,850	-	1,850	-	-	-
Taxes on discontinued operations	7,548	-	7,548	7,548	-	7,548
Exchange gains (losses), charges and other changes	-	-	-	1,425	(232)	1,657
Taxes on fair value valuation upon acquisition of subsidiary	-	-	-	-	(10,581)	10,581
Balance at December 31, 2015	98,455	39,289	59,166	117,001	135,160	(18,159)
Effects on income	(15,567)	(24,776)	9,209	(4,633)	(29,153)	24,520
Other comprehensive income	342	-	342	342	-	342
Taxes on discontinued operations	1,950	-	1,950	1,950	-	1,950
Exchange gains (losses), charges and other changes	(39)	-	(39)	(5,916)	(6,442)	526
Balance at December 31, 2016	**85,141**	**14,513**	**70,628**	**108,744**	**99,565**	**9,179**

b) Current

Reconciliation of income and social contribution taxes:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income before income and social contribution taxes	**356,427**	275,747	**385,280**	304,503
Combined rate of income and social contribution taxes	**34%**	34%	**34%**	34%
Expected income and social contribution tax expense at the effective tax rate	**(121,185)**	(93,754)	**(130,995)**	(103,531)
Equity pickup	**27,785**	20,903	**-**	-
Interest on equity benefit	**45,084**	39,066	**45,084**	39,066
Investment grant - ICMS	**61,296**	45,450	**61,296**	45,574
Stock option plan granted	**-**	(1,427)	**-**	(1,427)
Federal government grants - IRPJ (Note 5)	**-**	-	**-**	638
Tax credit not recognized on tax loss and temporary differences recorded by subsidiaries abroad	**-**	-	**5,523**	(8,246)
Other permanent exclusions (additions), net	**(4,055)**	(7)	**(3,931)**	336
Income and social contribution tax expense	**8,925**	10,231	**(23,023)**	(27,590)
Current	**(284)**	(201)	**(47,543)**	(21,844)
Deferred	**9,209**	10,432	**24,520**	(5,746)
Effective rate	**(3)%**	(4)%	**6%**	9%

11. Discontinued operations

As reported in Note 1.3, on November 3, 2015, the Company entered into an agreement on purchase and sale of the Topper and Rainha brands operations in Brazil and Argentina. On May 13, 2016, through a material news release, the Company disclosed that as from January 1, 2017 it would no longer represent Timberland brand in Brazil. At December 31, 2016, the asset and liability balances and revenues and expenses of such operations were classified as discontinued operations, causing an impact on the business segment “Domestic operations”. Accordingly, certain accounts of the financial statements corresponding to Timberland's operations for the year ended December 31, 2015 were reclassified to the segregated presentation of "Discontinued Operations" as determined by the accounting standard.

The net income (loss) of the Topper and Rainha brands in Brazil and Timberland for the years is as follows:

At December 31, 2016

	Topper and Rainha	Timberland	Total
Revenue	**40,502**	**88,967**	**129,469**
Cost	**(34,281)**	**(57,308)**	**(91,589)**
Gross profit	**6,221**	**31,659**	**37,880**
Operating expenses, net	**(12,633)**	**(32,321)**	**(44,954)**
Financial costs	**453**	**886**	**1,339**
Income (loss) on discontinued operations before taxes	**(5,959)**	**224**	**(5,735)**
Tax income (expense):			
Related to income (loss) before taxes	**2,026**	**(76)**	**1,950**
Income (loss) for the year on discontinued operations - attributable to controlling shareholders	**(3,933)**	**148**	**(3,785)**

11. Discontinued operations (Continued)

At December 31, 2015

	Topper and Rainha	Timberland	Total
Revenue	135,186	87,578	222,764
Cost	(106,001)	(53,215)	(159,216)
Gross profit	29,185	34,363	63,548
Operating expenses, net	(50,985)	(30,819)	(81,804)
Financial costs	(401)	(2,047)	(2,448)
Income (loss) on discontinued operations before taxes	(22,201)	1,497	(20,704)
Tax income (expense):			
Related to income (loss) before taxes	7,548	(509)	7,039
Income (loss) for the year on discontinued operations - attributable to controlling shareholders	(14,653)	988	(13,665)

At December 31, 2016, the main classes of assets and liabilities of business unit Timberland classified as assets/liabilities of discontinued operations are as follows:

	Timberland
Assets	
Trade accounts receivable	35,910
Inventories	27,459
Other assets	2,084
	65,453
Liabilities	
Trade accounts payable	8,767
Labor and social security liabilities	1,046
Tax liabilities	525
Other liabilities	2,190
	12,528
Net assets directly associated with the group of discontinued operations	52,925

11. Discontinued operations (Continued)

Net cash flows incurred by the business units Topper and Rainha in Brazil and Timberland for the years are as follows:

At December 31, 2016

	Topper and Rainha	Timberland	Total
Operating activities	**(6,890)**	**(7,076)**	**(13,966)**
Investing activities	**-**	**-**	**-**
Financing activities	**-**	**-**	**-**
Net cash generated (used)	**(6,890)**	**(7,076)**	**(13,966)**

At December 31, 2015

	Topper and Rainha	Timberland	Total
Operating activities	(13,530)	-	(13,530)
Investing activities	-	-	-
Financing activities	-	-	-
Net cash generated (used)	(13,530)	-	(13,530)

12. Judicial deposits

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Tax claims	**10,040**	10,781	**10,040**	10,785
Civil claims	**13**	13	**13**	13
Labor claims	**9,816**	8,625	**12,211**	10,171
	19,869	19,419	**22,264**	20,969

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 set up.

13. Investments

Investments are as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Investments	**420,245**	454,696	**-**	-
Goodwill	**327,255**	327,255	**-**	-
	747,500	781,951	**-**	-

13. Investments (Continued)

	Fibrasil Agrícola e Comercial Ltda.	Alpargatas International S.L. - Spain		Alpargatas Imobiliária S.A.	Alpargatas S.A.I.C. - Argentina		Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen	Total
Information at December 31, 2016								
Number of shares or units of interest held	**5,978,751**	**57,734,570**		**10,296,177**	**507,021,800**		**50,914,603**	
Total current assets	**278**	**181,631**		**9,323**	**377,610**		**145,707**	
Total noncurrent assets	**3,707**	**33,142**		**3,234**	**64,287**		**277,246**	
Total current liabilities	**-**	**144,347**		**1,810**	**194,735**		**125,874**	
Total noncurrent liabilities	**-**	**538**		**-**	**33,322**		**72,765**	
Capital	**5,979**	**199,194**		**10,296**	**105,991**		**80,209**	
Noncontrolling interest	**-**	**-**		**-**	**180**		**89,726**	
Equity	**3,985**	**69,888**		**10,747**	**213,660**		**134,588**	
Unrealized gain on inventories/unrealized gain on asset sale		**(7,522)**			**(7)**		**(1,568)**	
		62,366			**213,653**		**133,020**	
Net revenue for the year	**-**	**475,476**		**98**	**772,715**		**231,606**	
Net income (loss) for the year	**620**	**49,605**	**(i)**	**1,247**	**37,029**		**(7,737)**	
Interest - %	**100.00**	**100.00**		**100.00**	**98.35**	**(ii)**	**60.00**	
Book value of investments:								
Balance at December 31, 2015	**4,904**	**40,097**		**11,200**	**260,934**		**137,561**	**454,696**
Capital increase	**-**	**-**		**-**	**-**		**2,351**	**2,351**
Hedge transactions	**(34)**	**-**		**-**	**(2,018)**		**-**	**(2,052)**
Payment of dividends	**-**	**-**		**(1,700)**	**-**		**(421)**	**(2,121)**
Equity pickup	**620**	**49,660**	**(i)**	**1,247**	**36,407**		**(6,211)**	**81,723**
Exchange gains/losses on investments	**(1,505)**	**(27,391)**		**-**	**(85,196)**		**(260)**	**(114,352)**
Balance at December 31, 2016	**3,985**	**62,366**		**10,747**	**210,127**		**133,020**	**420,245**

(i) The difference of R$(55) between income earned by Alpargatas APS and equity pickup for the year refers to unrealized profit in inventories of subsidiary.

(ii) The other 1.65% interest of Alpargatas S.A.I.C. - Argentina is held by Fibrasil Agrícola e Comercial Ltda. and totals R$3,526 at December 31, 2016.

13. Investments (Continued)

	Subsidiaries							
	Fibrasil Agrícola e Comercial Ltda.	Alpargatas International S.L. - Spain		Alpargatas Imobiliária S.A.	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina		Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen	Total
Information at December 31, 2015									
Number of shares or units of interest held	5,978,751	57,734,570		10,296,177		507,021,800		50,914,603	
Total current assets	294	202,052		8,114		397,317		138,772	
Total noncurrent assets	4,610	41,565		3,234		98,143		282,732	
Total current liabilities	-	193,699		148		168,967		115,052	
Total noncurrent liabilities	-	2,242		-		60,801		77,184	
Capital	5,979	246,235		10,296		155,533		76,292	
Noncontrolling interest	-	-		-		230		91,707	
Equity	4,904	47,676		11,200		265,462		137,561	
Unrealized profit in inventories		(7,579)				(150)			
		40,097				265,312			
Net revenue for the year	-	392,621		124		1,018,740		218,604	
Net income for the year	1,099	8,957	(i)	1,415		62,355		(22,665)	
Interest - %	100.00	100.00		100.00	100.00	98.35	(ii)	60.00	
Book value of investments:									
Balance at December 31, 2014	4,087	16,211		25,230	104,206	215,486		151,400	519,989
Merger of subsidiary	-	-		-	(108,173)	-		-	(108,173)
Hedge transactions	34	-		-	-	2,018		-	2,052
Payment of dividends	-	-		(15,445)	-	-		(681)	(16,126)
Equity pickup	1,099	7,714	(i)	1,415	3,967	60,883		(13,599)	61,479
Exchange gains/losses on investments	(316)	16,172		-	-	(17,453)		441	(1,156)
Balance at December 31, 2015	4,904	40,097		11,200	-	260,934		137,561	454,696

(i) The difference of R$1,243 between income earned by Alpargatas APS and equity pickup for the year refers to unrealized profit in inventories of subsidiary.

(ii) The other 1.65% interest of Alpargatas S.A.I.C. - Argentina is held by Fibrasil Agrícola e Comercial Ltda. and totals R$4,378 at December 31, 2015.

13. Investments (Continued)

At December 31, 2016 and 2015, goodwill in subsidiaries is as follows:

	CBS S.A. - Companhia Brasileira de Sandálias	Alpargatas S.A.I.C. - Argentina	Terras de Avent. Ind. de Art. Esportivos S.A. - Osklen	Total
Balance at December 31, 2015	53,862	96,268	177,125	327,255
Balance at December 31, 2016	**53,862**	**96,268**	**177,125**	**327,255**

Indirect investments through the holding company Alpargatas International S.L.

	Indirect subsidiaries							
Information at December 31, 2016	Alpargatas Europe S.L.U. - Spain	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited – United Kingdom	Alpargatas Itália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas Germany GmbH - Germany	Alpargatas USA Inc. - United States	Total indirect subsidiaries
Number of shares or units of interest held	**100,000**	**5,000**	**1**	**1**	**2**	**25,000**	**10**	
Total current assets	**124,578**	**3,753**	**3,116**	**2,475**	**1,817**	**459**	**45,269**	
Total noncurrent assets	**6,460**	**4,135**	**1,641**	**4,063**	**2,539**	**192**	**12,210**	
Total current liabilities	**38,845**	**6,187**	**(490)**	**4,487**	**3,058**	**382**	**132,778**	
Total noncurrent liabilities	**194**	**-**	**-**	**-**	**-**	**-**	**343**	
Equity (capital deficiency)	**91,999**	**1,701**	**5,247**	**2,051**	**1,298**	**269**	**(75,642)**	
Net revenue for the year	**307,931**	**21,311**	**13,882**	**14,658**	**7,899**	**3,041**	**106,754**	
Net income (loss) for the year	**57,805**	**740**	**1,281**	**763**	**298**	**135**	**(9,654)**	
Indirect interest held - %	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	
Book value of investments:								
Balance at December 31, 2015	**58,596**	**1,289**	**6,258**	**1,696**	**1,277**	**183**	**(78,081)**	**(8,782)**
Equity pickup	**57,805**	**740**	**1,281**	**763**	**298**	**135**	**(9,654)**	**51,368**
Exchange gains/losses on investments	**(24,402)**	**(328)**	**(2,292)**	**(408)**	**(277)**	**(49)**	**12,093**	**(15,663)**
Balance at December 31, 2016	**91,999**	**1,701**	**5,247**	**2,051**	**1,298**	**269**	**(75,642)**	**26,923**

13. Investments (Continued)

	Indirect subsidiaries							
	Alpargatas Europe S.L.U. - Spain	Alpargatas France S.A.R.L. - France	Alpargatas UK Limited – United Kingdom	Alpargatas Itália S.R.L. - Italy	Alpargatas Portugal Limited - Portugal	Alpargatas Germany GmbH - Germany	Alpargatas USA Inc. - United States	Total indirect subsidiaries
Information at December 31, 2015								
Number of shares or units of interest held	100,000	5,000	1	1	2	25,000	10	
Total current assets	116,320	4,177	6,893	1,397	1,016	543	70,389	
Total noncurrent assets	8,141	5,958	937	2,362	1,775	276	17,414	
Total current liabilities	64,034	8,846	1,572	2,063	1,514	636	165,473	
Total noncurrent liabilities	1,831	-	-	-	-	-	411	
Equity (capital deficiency)	58,596	1,289	6,258	1,696	1,277	183	(78,081)	
Net revenue for the year	232,107	17,967	15,630	13,197	7,706	1,898	104,116	
Net income (loss) for the year	25,858	809	2,050	733	298	51	(13,894)	
Indirect interest held - %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Book value of investments:								
Balance at December 31, 2014	13,122	359	2,836	726	742	101	(43,300)	(25,414)
ıpital increase	-	-	-	-	-	-	-	-
ıuity pickup	25,858	809	2,050	733	298	51	(13,894)	15,905
:change gains/losses on investments	19,616	121	1,372	237	237	31	(20,887)	727
Balance at December 31, 2015	58,596	1,289	6,258	1,696	1,277	183	(78,081)	(8,782)

14. Property, plant and equipment

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

		Company					
		2016			2015		
	Weighted average annual depreciation rate (%)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	**10,321**	**-**	**10,321**	10,321	-	10,321
Buildings and constructions	4	**340,000**	**(90,036)**	**249,964**	331,268	(80,071)	251,197
Machinery and equipment	8	**467,526**	**(208,239)**	**259,287**	436,311	(187,422)	248,889
Furniture and fixtures	10	**46,410**	**(24,496)**	**21,914**	45,149	(20,812)	24,337
Vehicles	15	**6,905**	**(3,937)**	**2,968**	6,762	(3,363)	3,399
Leasehold improvements	20	**33,067**	**(21,967)**	**11,100**	32,051	(18,203)	13,848
Projects in progress	-	**55,113**	**-**	**55,113**	35,151	-	35,151
Other PP&E	-	**3,788**	**-**	**3,788**	13,566	-	13,566
Provision for impairment	-	**(347)**	**-**	**(347)**	(2,238)	-	(2,238)
Total		**962,783**	**(348,675)**	**614,108**	908,341	(309,871)	598,470

		Consolidated					
		2016			2015		
	Weighted average annual depreciation rate (%)	Cost	Accumulated depreciation (i)	Net	Cost	Accumulated depreciation (i)	Net
Land	-	**12,256**	**-**	**12,256**	13,196	-	13,196
Buildings and constructions	4	**472,338**	**(194,893)**	**277,445**	514,589	(221,249)	293,340
Machinery and equipment	8	**645,197**	**(358,152)**	**287,045**	686,457	(404,042)	282,415
Furniture and fixtures	10	**108,040**	**(77,897)**	**30,143**	117,968	(82,829)	35,139
Vehicles	15	**9,214**	**(6,092)**	**3,122**	9,415	(5,715)	3,700
Leasehold improvements	20	**101,220**	**(56,927)**	**44,293**	86,050	(29,823)	56,227
Projects in progress	-	**60,986**	**-**	**60,986**	45,915	-	45,915
Other PP&E	-	**13,440**	**-**	**13,440**	25,211	(2,005)	23,206
Provision for impairment (ii)	-	**(6,647)**	**-**	**(6,647)**	(12,236)	-	(12,236)
Total		**1,416,044**	**(693,961)**	**722,083**	1,486,565	(745,663)	740,902

(i) Depreciation is computed under the straight-line method, based on the estimated useful life of each asset, which is reviewed on an annual basis.

(ii) It refers to the provision for impairment of assets for textile operations of subsidiary Alpargatas S.A.I.C. - Argentina, organized in 2009.

14. Property, plant and equipment (Continued)

Changes

	Company						
	2015	Additions	Transfers (i)	Depreciation	Write-offs	Exchange gains (losses)/other changes (ii)	2016
Property, plant and equipment							
Land	10,321	-	-	-	-	-	**10,321**
Buildings and constructions	251,197	-	9,360	(9,267)	(1,501)	175	**249,964**
Machinery and equipment	248,890	-	42,386	(32,182)	(657)	850	**259,287**
Furniture and fixtures	24,336	-	2,004	(4,297)	(120)	(9)	**21,914**
Vehicles	3,399	-	274	(705)	-	-	**2,968**
Leasehold improvements	13,848	-	1,299	(3,464)	(583)	-	**11,100**
Projects in progress	35,151	76,563	(56,601)	-	-	-	**55,113**
Other PP&E	13,566	-	(549)	-	(9,229)	-	**3,788**
Provision for impairment	(2,238)	-	549	-	-	1,342	**(347)**
Total	598,470	76,563	(1,278)	(49,915)	(12,090)	2,358	**614,108**

	Consolidated						
	2015	Additions	Transfers (i)	Depreciation	Write-offs	Exchange gains (losses)/other changes (ii)	2016
Property, plant and equipment							
Land	13,196	-	-	-	-	(940)	**12,256**
Buildings and constructions	293,340	365	9,360	(11,446)	(1,501)	(12,673)	**277,445**
Machinery and equipment	282,415	3,981	43,263	(36,492)	(742)	(5,380)	**287,045**
Furniture and fixtures	35,139	2,941	119	(7,702)	(415)	61	**30,143**
Vehicles	3,700	839	259	(2,972)	-	1,296	**3,122**
Leasehold improvements	56,227	5,355	1,159	(11,352)	(1,189)	(5,907)	**44,293**
Projects in progress (iii)	45,915	81,290	(56,770)	-	(1)	(9,448)	**60,986**
Other PP&E	23,206	-	771	-	(9,260)	(1,277)	**13,440**
Provision for impairment	(12,236)	-	549	-	-	5,040	**(6,647)**
Total	740,902	94,771	(1,290)	(69,964)	(13,108)	(29,228)	**722,083**

(i) Transfers correspond to reclassification of assets from “Projects in progress” to the related definite “Property, plant and equipment” accounts, upon completion of the projects.

(ii) These substantially refer to exchange gain (loss) of subsidiaries based abroad.

(iii) The balances recorded under “Construction in progress” refer to the following projects: (1) maintenance and modernization of plants, with investments of approximately R$19,506; (2) various improvements in, and expansion of the manufacturing process, with investments of approximately R$23,897; and (3) other projects - R$17,583.

15. Intangible assets

		Company					
		2016			2015		
	Annual amortization rate (%)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Finite useful life:							
ERP system (iv)	5-10	**193,854**	**(134,228)**	**59,626**	193,257	(115,923)	77,334
Customer portfolio (i)	20	**27,311**	**(27,311)**	**-**	27,311	(27,311)	-
Indefinite useful life:							
Trademarks, rights and patents	10	**1,027**	**-**	**1,027**	1,027	-	1,027
Projects in progress	-	**7,005**	**-**	**7,005**	3,946	-	3,946
Assignment of trade rights (iii)	-	**3,618**	**-**	**3,618**	6,710	-	6,710
Total		**232,815**	**(161,539)**	**71,276**	232,251	(143,234)	89,017

		Consolidated					
		2016			2015		
	Annual amortization rate (%)	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Finite useful life:							
Trademarks, rights and patents	10	**24,712**	**(22,810)**	**1,902**	24,534	(19,831)	4,703
ERP system (iii)	5-10	**203,337**	**(141,286)**	**62,051**	202,604	(122,754)	79,850
Assignment of trade rights	-	**11,076**	**(4,809)**	**6,267**	10,961	(4,807)	6,154
Customer portfolio (i)	20	**35,806**	**(32,694)**	**3,112**	43,961	(37,430)	6,531
Noncompete agreement	25	**20,850**	**(9,204)**	**11,646**	20,850	(5,212)	15,638
Indefinite useful life:							
Trademarks, rights and patents	-	**143,916**	**-**	**143,916**	143,916	-	143,916
Goodwill on acquisition of subsidiaries	-	**327,255**	**-**	**327,255**	327,255	-	327,255
Projects in progress	-	**5,569**	**-**	**5,569**	3,946	-	3,946
Assignment of trade rights (ii)	-	**85,439**	**-**	**85,439**	83,389	-	83,389
Total		**857,960**	**(210,803)**	**647,157**	861,416	(190,034)	671,382

(i) This refers to amounts paid on acquisition of customer portfolios of former sales representatives of the Company (which basically sold “Havaianas” sandals) in certain European countries, for which the Company is now acting by means of its indirect subsidiaries located in Europe. Costs are amortized under the straight-line method according to the five-year term of future cash flows expected by Company management.

(ii) This substantially refers to amounts paid on acquisition of rights of use of points of sale where certain “Concept Havaianas” and Osklen stores are located. As these are sellable intangible assets, they are not amortized, but are subject to annual impairment test.

(iii) This refer to expenses incurred on acquisition, development and implementation of ERP systems, such as SAP/R3, WMS and LINX, and to costs incurred with supply chain management project.

15. Intangible assets (Continued)

Additional information on intangible assets

i) *Expenses with research and development of products*

	Consolidated	
	2016	**2015**
Research and development expenses of products recorded in income statement:	**19,662**	17,508

ii) *Impairment testing of goodwill*

For the purpose of performing impairment tests, management defined that the Cash Generating Units (CGUs) correspond to each business segment wherein goodwill was allocated. Such CGUs are submitted to impairment testing on an annual basis or more frequently if there is evidence that the CGU may be impaired. If the recoverable amount of the CGU is lower than its book value, it is firstly allocated to reduce the book value of any goodwill allocated to such CGU and then to the other CGU's assets on a *pro rata* basis, based on the book value of each asset in the CGU.

The CGU's recoverable amount was calculated based on their value in use, through cash flows estimated by financial projections approved by management. The key assumptions used in the CGU value in use calculations were: (1) net revenue growth focusing on geographical expansion; (2) operational expansion, and (3) launch of products with higher value added. Geographical expansion is expected in both domestic and foreign markets with little explored growth potential. The projected gross margin reflects growth in sales, higher value-added products, internationalization and improved operational efficiency.

The methodology used consists of determining free cash flows for a period, in view of:

- Operating income (expenses);
- Return of operating income (expenses) of depreciation/amortization on property, plant, equipment and intangible assets, allocated to profit or loss for the year; and
- Need of additional net working capital determined based on the Company's financial cycle.

15. Intangible assets (Continued)

Additional information on intangible assets (Continued)

ii) *Impairment testing of goodwill* (Continued)

Cash flow balances for the year are calculated at present value, discounted by applying a rate that determines the Weighted Average Cost of Capital (WACC). This rate considers a number of components of the financing, debt and equity used by the Company to fund its operations. The Company's equity cost was calculated under the Capital Asset Pricing Model (CAPM) method.

The key assumptions used in value-in-use calculation as of December 31, 2016 for the CGUs were the following:

	CGUs		
	Brazil	**Argentina**	**Osklen**
Operating income (expenses) R$ (million) (1)	769.1	133.6	49.3
Perpetuity (2)	5.5%	10.0%	5.5%
WACC discount rate (3)	13.22%	24.53%	11.86%

(1) Average operating income (expenses) for the five-year period.

(2) Perpetual cash flow growth rate.

(3) Discount rate calculated before taxes.

Management estimated budgeted operating income (expenses) based on past performance and on its expectations for market development. The weighted average growth rates used are in line with the forecasts included in reports on the industry. The discount rates used correspond to pre-tax rates and reflect specific risks related to the operating segments in which each CGU operates.

According to the impairment test, the Company does not need to recognize impairment losses.

15. Intangible assets (Continued)

Changes

	Company						
	2015	Additions	Transfers (i)	Amortization	Write-offs	Exchange gains (losses)/other changes (ii)	2016
Intangible assets							
Finite useful life:							
ERP system	77,334	-	2,486	(21,033)	(150)	989	59,626
Indefinite useful life:							
Trademarks, rights and patents	1,027	-	-	-	-	-	1,027
Projects in progress	3,946	4,267	(1,208)	-	-	-	7,005
Assignment of trade rights	6,710	-	-	-	(673)	(2,419)	3,618
Total	89,017	4,267	1,278	(21,033)	(823)	(1,430)	71,276

	Consolidated						
	2015	Additions	Transfers (i)	Amortization	Write-offs	Exchange gains (losses)/other changes (ii)	2016
Intangible assets							
Finite useful life:							
Trademarks, rights and patents	4,703	288	20	(2,326)	-	(783)	1,902
ERP system	79,850	1,404	874	(24,513)	(150)	4,586	62,051
Assignment of trade rights	6,154	7,831	1,604	(1,441)	(288)	(7,593)	6,267
Customer portfolio	6,531	-	-	(1,384)	-	(2,035)	3,112
Noncompete agreement	15,638	-	-	(3,993)	-	1	11,646
Indefinite useful life:							
Trademarks, rights and patents	143,916	-	-	-	-	-	143,916
Goodwill on acquisition of subsidiaries	327,255	-	-	-	-	-	327,255
Projects in progress (iii)	3,946	4,809	(1,208)	-	-	(1,978)	5,569
Assignment of trade rights	83,389	-	-	-	(673)	2,723	85,439
Total	671,382	14,332	1,290	(33,657)	(1,111)	(5,079)	647,157

(i) Transfers correspond to reclassification of assets from "Projects in progress" to the related definite "Intangible assets" accounts, upon completion of the projects.

(ii) These refer to merging of book balances of the subsidiaries' intangible assets.

(iii) The balances recorded under "Projects in progress" refer to the following projects: (1) investments in infrastructure and IT, amounting to R$6,576, and (2) other projects - R$1,370.

16. Trade accounts payable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Domestic	**269,807**	244,452	**281,602**	270,451
Foreign	**52,229**	83,233	**145,686**	167,185
Total	**322,036**	327,685	**427,288**	437,636

The balance of foreign trade accounts payable refers mainly to amounts denominated in U.S. dollars.

17. Loans and financing

		Currency	Index and annual interest rate	Company		Consolidated	
				2016	**2015**	**2016**	**2015**
Denominated in Brazilian reais:							
FNE (BNB)	(a)		4.08%	**144,145**	131,604	**144,145**	131,604
Finame	(b)		3.44%	**41,765**	49,011	**41,765**	49,011
Finem	(c)		12.88%	**57,008**	25,888	**57,008**	25,888
Exim (BNDES)	(d)		13.24%	**186,270**	-	**186,270**	-
Export Credit Note (NCE) / Pre-export financing (PPE)	(e)		13.71%	**-**	238,651	**-**	238,651
Assignment of receivables	(f)		16.88%	**-**	94,604	**-**	94,604
Working capital	(g)		14.96%	**-**	-	**-**	1,631
External credit facility (4131)	(g)		15.54%	**-**	-	**-**	42,714
Risk withdrawn	(g)		15.63%	**-**	-	**25,660**	-
Total in reais				**429,188**	539,758	**454,848**	584,103
Denominated in foreign currency:							
External credit facility (4131)	(h)		16.11%	**-**	-	**42,545**	-
Working capital - Alpargatas USA	(i)	US$	2.99%	**-**	-	**56,099**	86,969
Working capital - Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen		US$	15.63%	**-**	-	**8,148**	-
Finance leases - Alpargatas S.A.I.C. - Argentina		AR$	23.88%	**-**	-	**186**	351
Working capital - Alpargatas S.A.I.C. - Argentina	(j)	AR$	15.01%	**-**	-	**30,848**	1,269
Total in foreign currency				**-**	-	**137,826**	88,589
Overall total				**429,188**	539,758	**592,674**	672,692
Current liabilities				**46,530**	362,608	**209,908**	495,243
Noncurrent liabilities				**382,658**	177,150	**382,766**	177,449

(a) Intended to support investment programs in the Northeast region and investments in the Montes Claros plant in the North region of Minas Gerais state. The release of contractual installments is linked to the investment disbursement schedule. The guarantees are backed by a bank letter of guarantee.

17. Loans and financing (Continued)

(b) The purpose of loans and financing referring to the Government Fund for Financing of Machinery and Equipment (FINAME), raised by the parent company, is to finance equipment to be used by the company in order to improve and increase production (generally equipment for plants). The average term of such transactions is 96 months (eight years). This financing is amortized on a monthly basis, with a portion referring to principal and the other to interest.

(c) In October 2015, the Company received a credit of R$25,445 referring to Pro Design (Government Business Financing - FINEM). The purpose of the amounts raised under this financing line is to contribute to and promote the brand development and strengthening, as well as product creation. There are two agreements under this financing line, one for sandals and the other focused on sports items. Both expire within 60 months.

(d) In June 2016, the Company received R$180,840 referring to the BNDES-EXIM Pre-shipment financing entered into with Santander and Safra banks. The purpose of these funds is to finance exports of sandals, requiring, at the end of the transaction, evidence of export performance over the term of the agreement. This financing will be amortized in a single installment in 2018.

(e) The credit facility was similar to the BNDES-EXIM transaction and also required, at the end of the transaction, evidence of export performance over the term of the agreement.

(f) These transactions were usually settled within 90 days. The assignments were amortized to Santander bank as trade accounts were received.

(g) Loans raised by subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A. to finance working capital.

(h) In August 2016, through its subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., the Company raised US$4,746 (four million, seven hundred and forty-six thousand dollars), maturing in February 2017. On that same date, a swap contract was entered into as interest rate hedge, converting the financial charges (Libor + 1.65% p.a.) into 114.00% of CDI (see Note 35.c), assigning the derivative financial instrument to fair value hedge. In September 2016, also through its subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., the Company raised US$3,773 (three million, seven hundred and seventy-three thousand dollars), maturing in August 2017. On that same date, a swap contract was entered into as interest rate hedge, converting the financial charges (Libor + 1.85% p.a.) into 114.00% of CDI (see Note 35.c), assigning the derivative financial instrument to fair value hedge. In October 2016, also through its subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., the Company raised US$4,658 (four million, six hundred and fifty-eight thousand dollars), maturing in August 2017. On that same date, a swap contract was entered into as interest rate hedge, converting the financial charges (Libor + 1.85% p.a.) into 114.00% of CDI (see Note 35.c), assigning the derivative financial instrument to fair value hedge. Thus, both loans and swap are stated at fair value.

(i) Loans and financing raised by foreign subsidiaries are guaranteed by the Company, within the limits approved by the Board of Directors.

(j) Loans and financing taken out by Alpargatas S.A.I.C - Argentina are used for working capital purposes and have no covenants or guarantees.

The other loans are guaranteed by Promissory Notes and chattel mortgage of the Company's and its subsidiaries' assets.

17. Loans and financing (Continued)

The aging list of the portion recorded under noncurrent liabilities is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
2017	**-**	33,592	**-**	33,742
2018	**232,762**	32,596	**232,768**	32,745
2019	**51,469**	32,141	**51,556**	32,141
2020	**35,522**	26,660	**35,535**	26,660
2021	**30,215**	24,843	**30,216**	24,843
2021 onwards	**32,690**	27,318	**32,691**	27,318
Total	**382,658**	177,150	**382,766**	177,449

Covenants

At December 31, 2016 and 2015, loan and financing agreements entered into by the Company and its subsidiaries did not contain covenants establishing obligations as to the maintenance of financial ratios by the Company and its subsidiaries.

18. Debt-restructuring agreements of subsidiaries

	Consolidated	
	2016	**2015**
Current	**6,100**	8,124
Noncurrent	**24,626**	41,193
Total	**30,726**	49,317

On September 26, 2001, subsidiary Alpargatas S.A.I.C. - Argentina requested a preventive debt restructuring from creditors, a decision ratified by the Annual Shareholders' Meeting held on March 1, 2002, and the request was approved by the relevant Commercial Court on March 7, 2002.
In December 2005, such Commercial Court, as requested by subsidiary management, issued a decision acknowledging the existence of a pre-agreement with creditors and, on September 15, 2006, after fulfilling certain legal obligations previously required, the subsidiary started to implement the debt-restructuring agreement with creditors.

18. Debt-restructuring agreements of subsidiaries (Continued)

The amounts above are net of present value adjustments, totaling R$15,556 and R$25,249, respectively, at December 31, 2016 and 2015. The present value adjustment is calculated based on the difference between the Argentinean basic interest rate and the fixed rate for restatement of liabilities, as established in the debt-restructuring agreements. At December 31, 2016 the average discount rate adopted for the present-value adjustment was 15% per annum.

The effects of the net reversal of the present-value adjustment are recorded under the "Financial expenses" account, in consolidated, and totaled R$1,905 in income for the year ended December 31, 2016 (R$3,485 for 2015).
Total liabilities are subject to annual interest from 1% to 3%, maturing between 15 and 25 years, with grace period from 6 to 10 years, as of the dates the agreements are entered into.

At December 31, 2016, reversals expected for the next years, related to the present-value adjustment, are as follows:

2017	1,805
2018	1,683
2019	1,576
2021 onwards	10,492
Total	15,556

Expected maturities of the portion recorded under noncurrent liabilities are as follows:

2018	935
2019	4,399
2020 onwards	19,292
Total	24,626

Balance at December 31, 2015	49,317
Interest	6,415
Exchange gains (losses)	(15,317)
Payments	(9,689)
Balance at December 31, 2016	**30,726**

19. Tax liabilities

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
State Value Added Tax (ICMS)	**4,061**	-	**13,765**	8,943
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	**13,419**	7,649	**19,301**	12,441
Federal Value Added Tax (IPI)	**150**	-	**150**	-
Income and social contribution taxes	**-**	-	**19,399**	11,962
Plano Brasil Maior	**3,900**	3,267	**3,994**	3,267
Alpargatas S.A.I.C. - Argentina:				
Value Added Tax (VAT)	**-**	-	**2,016**	2,321
Other taxes	**-**	-	**2,442**	3,361
Alpargatas Europe S.L.U. - Spain:				
Value Added Tax (VAT)	**-**	-	**7**	-
Other taxes	**-**	-	**2,151**	978
Other	**4,453**	1,842	**5,615**	3,912
Total	**25,983**	12,758	**68,840**	47,185

20. Provisions and other liabilities

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Royalties payable	**6,429**	3,783	**6,440**	3,860
Provision for freight payable	**10,917**	9,575	**11,281**	10,471
Advertising payable	**9,163**	10,903	**11,145**	14,608
Commissions payable	**663**	2,659	**1,989**	5,638
Import expenses - USA	**-**	-	**7,235**	7,308
Expenses with change in ownership control - J&F	**-**	14,461	**-**	14,461
BRS project expense	**193**	3,452	**193**	3,452
Advances from customers	**2,127**	481	**3,299**	3,942
Storage - EMEA/USA	**-**	-	**3,688**	5,800
Other accounts payable (commissions, third-party services, utilities and other)	**6,192**	10,337	**42,292**	52,379
Total	**35,684**	55,651	**87,562**	121,919

21. Related parties

a) Balances with related parties

	Company	
	2016	**2015**
Noncurrent assets (liabilities)		
Alpargatas Imobiliária S.A.	**(23)**	(23)
Fibrasil Agrícola e Comercial Ltda.	**-**	1
Terras de Aventura Indústria de Artigos Esportivos S.A. - Osklen	**554**	-
Total	**531**	(22)

The balance is represented by a current account between the Company and its subsidiaries due to the centralized management of cash and cash equivalents, not subject to financial charges.

b) Balances receivable and payable referring to related-party transactions

		Company Accounts receivable		Company and Consolidated Accounts payable	
		2016	**2015**	**2016**	**2015**
Alpargatas USA Inc. - United States	(ii)	**19,029**	14,023	**-**	-
Alpargatas Europe S.L.U. - Spain	(ii)	**24,212**	38,053	**-**	-
Alpargatas S.A.I.C. - Argentina		**-**	13	**-**	-
Alpargatas Calzados del Uruguay S.A.		**356**	735	**-**	-
Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen		**-**	99	**-**	-
JBS S.A.	(v)	**-**	-	**1,147**	-
Grupo Camargo Corrêa	(iii)	**-**	-	**-**	359
Total		**43,597**	52,923	**1,147**	359

c) Dividends and interest on equity payable

	Company and Consolidated	
	2016	**2015**
Interest on equity	4,891	4,785

21. Related parties (Continued)

d) Transactions with related parties

Breakdown of transactions with related parties is as follows:

		Sale of products/services			Purchase of products/services	
		2016	**2015**		**2016**	**2015**
Alpargatas S.A.	(i)	**116,470**	97,053	(iv)	**1,584**	15,300
Alpargatas USA Inc. - United States		**-**	-	(i)	**20,891**	22,321
Alpargatas Europe S.L.U. - Spain		**-**	-	(i)	**90,175**	72,787
Alpargatas S.A.I.C. - Argentina		**-**	-		**355**	1,530
Terras de Aventura Ind. Artigos Esportivos S.A. - Osklen		**-**	-		**133**	415
J&F Investimentos S.A.		**1,580**	-		**-**	-
JBS S.A.	(v)	**4**	-		**4,916**	-
Grupo Camargo Corrêa (former controlling shareholder):						
Shared services - CSC	(iv)	**-**	13,314		**-**	-
Corporate projects	(iv)	**-**	1,961		**-**	-
Other		**-**	25		**-**	-
Total		**118,054**	112,353		**118,054**	112,353

(i) These basically consist of sales of "Havaianas" sandals to subsidiaries located in the United States and Europe, due to the operating model and design of the distribution channel established for the Company's international transactions, in which products are manufactured in Brazil and subsequently sold to foreign subsidiaries for resale.

At December 31, 2016 and 2015, the Company did not record any write-off or allowance for doubtful accounts on balances receivable from its foreign subsidiaries.

(ii) Accounts receivable for sales of products described in item (i), which will be received until June 2017.

(iii) Accounts payable for the provision of services described in item (iv).

(iv) These consist of shared corporate service costs, such as telephone, insurance and administrative and IT services, provided under an agreement entered into with the Shared Service Center of Grupo Camargo Corrêa. On December 23, 2015, the sale of the Company's ownership interest held by Camargo Corrêa S.A. to J&F Investimentos S.A. was concluded, as disclosed in Note 1.2.

(v) These refer to reimbursements of media and freight expenses.

At December 31, 2016, except for the guarantees provided to support loans and financing, as described in Note 17, the Company and its subsidiaries did not provide any other guarantees to related parties.

21. Related parties (Continued)

e) Key management personnel compensation

Total key management personnel compensation is as follows:

	2016				
	Compensation			Options grant	
	Fixed	Variable (i)	Total	Options balance (number) (ii)	Average strike price - R$ (iii)
Board of Directors and Supervisory Board	**3,433**	**-**	**3,433**	**-**	**-**
Officers	**7,633**	**5,606**	**13,239**	**-**	**-**
Total	**11,066**	**5,606**	**16,672**	**-**	

	2015				
	Compensation			Options grant	
	Fixed	Variable (i)	Total	Options balance (number) (ii)	Average strike price - R$ (iii)
Board of Directors and Supervisory Board	3,755	-	3,755	-	-
Officers	6,918	9,628	16,546	2,207,957	8.36/11.99
Total	10,673	9,628	20,301	2,207,957	

(i) This refers to profit sharing for the year.

(ii) This refers to vested and non-vested options not exercised at the balance sheet date.

(iii) This refers to the weighted average exercise price of the option on the date of option plans, adjusted for inflation through the balance sheet date.

As described in Note 28, for the year ended December 31, 2016, no expense was recognized related to the stock option plans due to the plan's termination in 2015. For the year ended December 31, 2015, the expense recognized amounted to R$4,198.

As described in Note 29, for the year ended December 31, 2016, an expense relating to a long-term incentive plan was recognized amounting to R$4,169 (R$1,295 at December 31, 2015).

In addition to management compensation, for the year ended December 31, 2016, the Company contributed R$567 to the private pension plan (R$529 as of December 31, 2015) on behalf of statutory officers.

The total annual management compensation determined for 2016 at the Annual Shareholders' Meeting held on April 13, 2016 was R$22,257.

22. Provision for tax, civil and labor contingencies

At December 31, 2016 and 2015, the Company and its subsidiaries are parties to tax, civil and labor claims arising from tax delinquency notices issued by tax authorities, and from claims filed by third parties and former employees, or from legal proceedings and challenges. For these contingencies, provisions were set up, when, in the management's and its legal advisors' opinion, the risk of loss was considered as probable. These provisions are as follows:

		Company		Consolidated	
		2016	**2015**	**2016**	**2015**
Labor claims	(a)	**14,927**	14,597	**27,475**	28,672
Tax claims	(b)	**4,315**	4,185	**5,815**	6,102
Civil claims		**16,892**	3,743	**16,901**	3,752
Contingent liabilities	(c)	**-**	-	**1,516**	1,543
Total		**36,134**	22,525	**51,707**	40,069
Current portion		**10,558**	9,555	**13,349**	16,057
Noncurrent portion		**25,576**	12,970	**38,358**	24,012

(a) These refer to lawsuits filed against the Company and its subsidiaries by former and current employees, whose claims basically refer to severance pay, salary premiums, overtime and amounts considered due for joint liability.

(b) These basically consist of a tax delinquency notice concerning COFINS in July and from September to December 1992 issued against the Company, which challenges differences over which taxes had not been levied, the respective restated amount at December 31, 2016 totals R$4,240. This lawsuit is pending a legal decision by a higher court.

(c) This refers to the contingent liability set up at fair value by virtue of acquisition of subsidiary Osklen.

Changes

	Company				
	Labor	**Tax**	**Civil**	**Judicial deposits**	**Total**
Balance at December 31, 2015	14,597	4,185	3,743	-	22,525
Additions	11,818	130	14,629	-	26,577
Reversals	-	-	-	-	-
Payments	(11,488)	-	(1,480)	-	(12,968)
Balance at December 31, 2016	14,927	4,315	16,892	-	36,134

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

Changes (Continued)

	Consolidated					
	Labor	**Tax**	**Civil**	**Contingent liabilities**	**Judicial deposits**	**Total**
Balance at December 31, 2015	28,672	6,102	3,752	1,543	-	40,069
Additions	16,661	130	14,639	-	-	31,430
Reversals	-	-	-	-	-	-
Payments/exchange gains (losses)	(17,858)	(417)	(1,490)	(27)	-	(19,792)
Balance at December 31, 2016	27,475	5,815	16,901	1,516	-	51,707

Possible losses

Contingent liabilities classified as possible loss:

	Company and Consolidated	
	2016	**2015**
Tax:		
Tax delinquency notice - IRRF (a)	**10,267**	9,801
CSLL and IRPJ (b)	**11,529**	10,940
Royalties (c)	**7,303**	56,421
IPI (d)	**46,865**	44,390
Other	**13,974**	17,119
	89,938	138,671
Civil (indemnification actions)	**4,826**	4,859

(a) Tax delinquency notice for collection of IRRF, offset against IRPJ credits.

(b) Tax delinquency notices related to the non-approval of offset of tax debts against IRPJ and CSLL credits.

(c) Tax delinquency notices for collection of import duty (II), IPI, PIS-Import and COFINS-Import on royalties remitted abroad, from 2007 to 2010. The Company obtained a final favorable decision at an administrative court in the amount of R$51,569. The remaining amount of R$7,209 refers to tax delinquency notices awaiting a decision.

(d) Tax delinquency notices related to the non-approval of IPI credit offset in the acquisition of exempt inputs from former subsidiary Locomotiva da Amazônia Indústria e Comércio de Têxteis Industriais Ltda., from July 2004 to June 2008.

23. Suspended tax payments

		Company and Consolidated			
		2015	Restatements	Additions/(Reversals)	2016
COFINS - ICMS		195,833	17,029	-	**212,862**
Judicial deposits		(14,238)	-	-	**(14,238)**
	(a)	181,595	17,029	-	**198,624**
Other		3,650	83	(3,733)	**-**
Total		185,245	17,112	(3,733)	**198,624**

(a) COFINS - exclusion of ICMS from tax base

The Company has been legally challenging since 1993 the inclusion of ICMS in the COFINS tax base, and made judicial deposits from May 1993 to February 1996.

From June 2008, the Company started to use the suspended tax payment obtained in a Preliminary Injunction filed with STF to continue excluding ICMS from COFINS tax base; however, the Company is no longer required to make judicial deposits. Nonetheless, such amounts have been recorded as liability with suspended payment.

As from January 2015, the Company began to include ICMS in the COFINS tax base by virtue of Law No. 12973/14, which amended Decree Law No. 1598/77 and expressly provides that ICMS meets the definition of gross revenue.

At December 31, 2016, this lawsuit awaits judgment by the STF.

24. Equity

a) Capital

Breakdown of subscribed and paid-in capital is as follows:

At December 31, 2016

	Common shares		Preferred shares		Total	
	Number	%	Number	%	Number	%
Shareholders						
Controlling shareholders (J&F Investimentos)	**207,174,069**	**85.75**	**47,937,043**	**20.95**	**255,111,112**	**54.23**
Management:						
Board of Directors	**25,220,333**	**10.44**	**26,241,111**	**11.47**	**51,461,444**	**10.94**
Supervisory Board	**-**	**-**	**3,000**	**-**	**3,000**	**-**
Other shareholders	**9,214,149**	**3.81**	**154,660,072**	**67.58**	**163,874,221**	**34.83**
Total	**241,608,551**	**100.00**	**228,841,226**	**100.00**	**470,449,777**	**100.00**

24. Equity (Continued)

a) Capital (Continued)

At December 31, 2015

	Common shares		Preferred shares		Total	
	Number	%	Number	%	Number	%
Shareholders						
Controlling shareholders (J&F Investimentos)	161,846,378	66.99	45,729,086	19.98	207,575,464	44.12
Management:						
Board of Directors	61,109,052	25.29	33,481,029	14.63	94,590,081	20.11
Supervisory Board	10,000	-	10,000	-	20,000	-
Other shareholders	18,643,121	7.72	149,621,111	65.39	168,264,232	35.77
Total	241,608,551	100.00	228,841,226	100.00	470,449,777	100.00

b) Share buyback plan

For the year ended December 31, 2016, changes in “Treasury shares” were as follows:

	Number	Average cost - R$
Balance at December 31, 2015	9,604,360	8.80
Disposed (*)	(2,207,957)	9.21
Balance at December 31, 2016	7,396,403	8.69

(*) Disposals and acquisitions referring to stock option plans.

c) Dividends and interest on equity

Every year shareholders are entitled to receive minimum dividends of 25% of net income, calculated in accordance with the Brazilian Corporation Law and the Articles of Incorporation.

24. Equity (Continued)

c) Dividends and interest on equity (Continued)

In 2016 and 2015, the calculation was as follows:

	2016	2015
Net income for the year - Company	**361,567**	272,314
Set up of tax incentive reserve	**(181,734)**	(142,871)
Amount available for distribution	**179,833**	129,443
Minimum mandatory dividends (25%)	**44,958**	32,361
Management proposal:		
Interest on equity	**132,600**	114,900
Dividends	**-**	-
	132,600	114,900
Interest on equity distributed per share		
Common shares	**0.27328**	0.23803
Preferred shares	**0.30061**	0.26183
Dividends distributed per share		
Common shares	**-**	-
Preferred shares	**-**	-

The Annual Shareholders' Meeting held on April 23, 2015 approved the payment of dividends proposed in the Board of Directors' meeting held on March 6, 2015, in the amount of R$147,100 - R$54,000 referring to net income for 2014 (as described above) and R$93,100 referring to income reserves from prior years.

	2015
Additional dividends paid per share (referring to prior years)	
Dividends	93,100
Common shares	0.19289
Preferred shares	0.21218

In addition, on August 7, 2015, the Board of Directors approved the proposed payment of dividends, in the amount of R$166,000, referring to accumulated reserves from prior years. Such proposed dividend payment was subject to approval by the Annual Shareholders' Meeting held on April 13, 2016.

	2015
Additional dividends paid per share (referring to prior years)	
Dividends	166,000
Common shares	0.34384
Preferred shares	0.37823

24. Equity (Continued)

d) Tax incentive reserve

From January 1, 2008, tax incentives started to be recorded directly in income and, thereafter, at the annual financial statement closing date, recognized under the "Tax incentive reserve" account in "Income reserves".

e) Legal reserve

The legal reserve is calculated based on 5% of net income as provided for in current legislation, limited to 20% of capital.

25. Business segment reporting

The Company's chief operating decision-maker is the CEO.

Although the Company has a matrix management structure in which sales revenues are analyzed by the chief operating decision-maker at various levels, considering that products manufactured and sold by the Company and its subsidiaries are divided into several brands of shoes, sports items, sandals and clothing, operations are managed according to geographic areas divided into as follows: (i) Domestic operations: Company's and its subsidiaries' performance in Brazil; and (ii) Foreign operations: subsidiaries' performance in Argentina and subsidiaries' consolidated performance in the United States and Europe, as well as direct exports.

Net revenue by segment is represented for the year ended December 31, 2016 as follows:

- Domestic operations:
  - Brazil: 65.0%
- Foreign operations:
  - Argentina: 19.1%
  - Europe, United States and Exports: 15.9%

The performance of each segment was determined based on net operating revenue, net income and capital allocated (total assets less current liabilities and noncurrent liabilities) in each segment. This measurement basis includes financial effects, income and social contribution taxes, depreciation and amortization.

25. Business segment reporting (Continued)

The information is broken down as follows:

Income statement accounts – Continuing operations	2016 Net operating revenue	Net income (loss)	Depreciation and amortization	Financial income (expenses)	Exchange gains (losses), net	Income and social contribution taxes
Domestic operations:						
Brazil	**2,405,529**	**255,407**	**(65,868)**	**(37,921)**	**(3,134)**	**9,255**
Terras de Avent. Ind. Art.Esport. S.A. - Osklen	**231,606**	**(7,737)**	**(14,278)**	**(9,422)**	**(1,504)**	**6,897**
Foreign operations:						
Argentina	**772,715**	**37,029**	**(6,765)**	**(18,604)**	**(1,981)**	**(19,341)**
Europe/United States/exports	**644,554**	**74,465**	**(16,710)**	**(2,496)**	**(12,000)**	**(19,834)**
Noncontrolling interest	**-**	**3,094**	**-**	**-**	**-**	**-**
Consolidated	**4,054,404**	**362,258**	**(103,621)**	**(68,443)**	**(18,619)**	**(23,023)**

Income statement accounts – Continuing operations	2015 Net operating revenue	Net income (loss)	Depreciation and amortization	Financial income (expenses)	Exchange gains (losses), net	Income and social contribution taxes
Domestic operations:						
Brazil	2,134,707	98,173	(62,166)	(20,933)	(26,640)	10,100
Terras de Avent. Ind. Art. Esport. S.A. - Osklen	218,604	(22,665)	(13,707)	(5,693)	4,593	10,524
Foreign operations:						
Argentina	1,018,740	62,355	(11,045)	(29,938)	(41)	(33,785)
Europe/United States/exports	666,625	129,984	(14,693)	(1,297)	19,191	(14,429)
Noncontrolling interest	-	9,066	-	-	-	-
Consolidated	4,038,676	276,913	(101,611)	(57,861)	(2,897)	(27,590)

25. Business segment reporting (Continued)

Asset and liability balances at December 31, 2016 and 2015 are as follows:

	2016			2015		
	Total assets	**Current and noncurrent liabilities**	**Additions to PP&E and intangible assets**	**Total assets**	**Current and noncurrent liabilities**	**Additions to PP&E and intangible assets**
Balance sheet accounts						
Domestic operations:						
Brazil	**2,577,971**	**1,118,907**	**80,830**	2,453,969	1,190,822	95,225
Terras de Avent. Ind. Art. Esport. S.A. - Osklen	**422,953**	**198,639**	**9,622**	421,503	192,236	8,321
Foreign operations:						
Argentina	**441,897**	**228,056**	**9,069**	495,460	229,768	14,716
Europe/United States/exports	**339,231**	**170,701**	**9,582**	392,538	219,408	8,542
Consolidated	**3,782,052**	**1,716,303**	**109,103**	3,763,470	1,832,234	126,804

The Company's customer portfolio is diluted, and no individual customer accounts for more than 6% of sales revenues.

26. Net operating revenue

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gross operating revenue:				
Domestic market	**2,960,417**	2,606,507	**3,248,015**	2,917,479
Foreign market	**278,756**	365,613	**1,646,877**	1,981,922
	3,239,173	2,972,120	**4,894,892**	4,899,401
Returns and cancellations	**(59,847)**	(55,690)	**(108,494)**	(109,493)
Sales taxes	**(469,149)**	(423,784)	**(731,994)**	(751,232)
Net operating revenue	**2,710,177**	2,492,646	**4,054,404**	4,038,676

27. Expenses by nature

The Company presented its income statement classifying expenses based on their function. Expenses by nature are broken down as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cost of goods sold:				
Raw materials	**1,039,234**	1,052,086	**1,335,945**	1,440,182
Salaries, charges and benefits	**442,843**	324,486	**684,364**	640,917
Depreciation	**42,071**	33,378	**46,981**	41,800
Hedge accounting	**6,507**	(9,313)	**6,507**	(9,313)
Other costs	**107,011**	76,313	**180,323**	200,027
Total	**1,637,666**	1,476,950	**2,254,120**	2,313,613
Selling expenses:				
Salaries, charges and benefits	**66,882**	61,631	**180,467**	172,394
Profit sharing	**5,780**	8,536	**10,820**	13,906
Freight	**87,496**	85,019	**126,425**	127,015
Advertising and publicity	**201,904**	224,606	**279,283**	309,204
Commissions	**7,052**	8,932	**43,262**	43,945
Customers' agreement	**16,160**	20,823	**18,079**	23,387
Depreciation	**2,803**	2,779	**8,334**	7,058
Royalties	**42,052**	38,688	**43,731**	41,153
Third-party services	**14,125**	13,431	**44,156**	38,054
Rental/leases	**9,539**	8,747	**71,011**	64,696
Travel	**4,485**	3,194	**9,619**	7,863
Storage	**5,936**	5,170	**40,516**	34,737
Collective packaging	**31,663**	22,472	**31,663**	22,719
Transportation insurance	**4,665**	3,588	**7,410**	7,724
Other	**39,504**	42,307	**61,187**	64,014
Total	**540,046**	549,923	**975,963**	977,869
General and administrative:				
Salaries, charges and benefits	**82,369**	87,891	**139,215**	149,116
Management fees (Note 21.e)	**16,083**	17,559	**16,672**	20,301
Third-party services	**24,993**	26,897	**50,222**	48,370
Depreciation	**3,750**	3,928	**13,404**	14,707
Rental and condominium fees	**13,465**	12,195	**14,247**	13,095
Maintenance and repair	**7,556**	6,984	**8,207**	7,999
Other	**10,643**	11,156	**25,984**	25,987
Total	**158,859**	166,610	**267,951**	279,575

28. Stock option plans

The Company granted preferred stock options to some employees under a program approved at Special Shareholders' Meetings for the purpose of retaining and encouraging them to contribute to the interests and objectives of the Company and its shareholders. The plans are managed by the Human Resources Department of the Company.

General criteria of stock option plans

	Plans per year:		
	2002 to 2005	**2006 to 2009**	**2010 to 2012**
Grace period	2 years	3 years	3 years
Vesting:			
1st year	0%	0%	0%
2nd year	20%	0%	0%
3rd year	20%	30%	30%
4th year	20%	30%	30%
5th year	40%	40%	40%
Maximum period for exercising the option plan	10 years	5 years (*)	3 years after each vesting (*)
Strike price	Average – trading sessions	Average – trading sessions	Average – trading sessions
Strike price adjustment (R$)	IGP-M	IPCA	n/a

(*) As regards to these plans, the option exercise is contingent on the attainment of performance goals, based on internal performance indicators.

Changes in stock option plans

	12/31/2016		12/31/2015	
	Number of shares	**Weighted average strike price - R$**	**Number of shares**	**Weighted average strike price - R$**
Outstanding options at beginning of year	**2,207,957**		3,490,212	
Granted options	**-**	**-**	-	-
Options exercised	**(2,207,957)**	**8.36-11.99**	(1,100,567)	2.08-8.36
Cancelled options	**-**	**-**	(181,688)	4.67-11.99
Outstanding options at end of year	**-**		2,207,957	

The Annual and Special Shareholders' Meeting held on April 23, 2015 approved the termination of the Company's Stock Option Plan, preserving the options already granted and not yet exercised, under the effective agreements.

By virtue of the change in the Company shareholding structure, as disclosed in Note 1.2, the beneficiaries of the option plan are entitled to early exercise of their stock options, and the new controlling shareholder must acquire the shares for the same price paid to Camargo Corrêa S.A. The beneficiaries of the program exercised their options in February 2016.

29. Long-term incentive plan

On April 23, 2015, the Annual and Special Shareholders' Meeting approved the new Long-term Incentive (ILP) plan. The ILP plan, which technically is not classifiable as share-based compensation or variable compensation, is based on a value generation policy that allows certain employees of Company and its subsidiaries to acquire rights from the Company, based on the distribution of a portion of the future value created for the Company that exceeds the minimum return rate (ke/hurdle rate) for its shareholders, with the following value parameters: (i) market (BM&F Bovespa); (ii) economic (EBITDA multiple); and (iii) multiple of dividend.

The individual participation of beneficiaries in the creation of value exceeding the minimum rate is operationalized through the assignment of Virtual Value Units ("VVUs"), whose individual value is calculated through: (i) weighted average quotation of shares for the past 60 trading sessions (40%); (ii) EBITDA multiple discounted from net debt divided by the number of shares (40%); and (iii) dividends and interest on equity per share divided by the dividend yield (20%).

The conversions of VVUs into payment will be made by the beneficiary within five years and three months from the beginning of each annual program, subject to the following grace periods: (i) up to 36 months: conversion is not allowed; (ii) after 36 months: up to 33%; (iii) after 48 months: up to 66%, discounting the ones already exercised; and (iv) after 60 months: up to 100%, discounting the ones already exercised. The settlement will be in cash.

The new plan began on January 1, 2015 and five annual programs are expected for the years 2015 to 2019. The Company's Board of Directors may approve new programs after 2019.

If a beneficiary ceases to be an employee or management member of the Company and its subsidiaries while the ILP plan is in effect, except for death, retirement or permanent disability, the conversion into payment of VVUs granted to the beneficiary will be restricted to the VVUs that had already been released for conversion. In case any beneficiary ceases to be an employee or management member of the Company and its subsidiaries due to termination with cause, all VVUs not exercised, either released or not, will be cancelled. In the event of death, permanent disability or retirement, all VVUs, including those not yet released for conversion into payment will become early exercisable and will be converted to cash. This right must be exercised by the beneficiary, his/her heirs or successors.

The expense recorded in the income statement account referring to long-term incentive plans was R$4,169, as a matching entry for the long-term incentive plan account in liabilities for the year ended December 31, 2016 (R$1,295 for the year ended December 31, 2015).

30. Employee benefits

The Company and its subsidiaries sponsor a supplementary pension plan as defined contribution and also provide an own pension and life annuity plan for a certain group of former employees and their spouses. The actuarial liability referring to these plans at December 31, 2016 and 2015 amounted to R$172.

31. Financial income and expenses, net

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Financial income:				
Short-term investment yield	**38,050**	38,316	**41,843**	47,864
Interest income	**7,574**	5,254	**9,712**	6,380
Monetary restatement - Reintegra	**5,053**	-	**5,053**	-
Other	**6,510**	944	**6,651**	1,747
	57,187	44,514	**63,259**	55,991
Financial expenses:				
Interest and charges on loans and financing	**(44,023)**	(25,747)	**(52,441)**	(32,661)
Interest and charges on debt restructuring of subsidiary	**-**	-	**(6,415)**	(12,078)
Tax on Financial Transactions (IOF)	**(602)**	(951)	**(2,055)**	(981)
Tax on bank transactions (Argentina)	**-**	-	**(8,711)**	(11,151)
Inflation adjustment of taxes	**(17,183)**	(17,607)	**(18,350)**	(17,607)
Banking expenses	**(6,654)**	(10,179)	**(9,602)**	(14,410)
Present value adjustment	**(21,472)**	(19,403)	**(21,472)**	(19,403)
Other	**(3,769)**	(1,263)	**(11,918)**	(4,595)
	(93,703)	(75,150)	**(130,964)**	(112,886)
Gains on transactions with derivative financial instruments	**14,703**	13,935	**22,028**	13,935
Losses on transactions with derivative financial instruments	**(14,648)**	(14,901)	**(22,766)**	(14,901)
	55	(966)	**(738)**	(966)
	(36,461)	(31,602)	**(68,443)**	(57,861)

32. Exchange gains (losses), net

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Exchange gains	**16,446**	81,299	**24,378**	90,658
Exchange losses	**(31,436)**	(74,697)	**(42,997)**	(93,555)
	(14,990)	6,602	**(18,619)**	(2,897)

33. Other operating income (expenses)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Other operating income:				
Scrap sales	**792**	591	**792**	594
Franchise fee	**1,607**	1,120	**1,607**	1,120
Sale of property, plant and equipment	**1,327**	550	**1,352**	859
Divestiture	**574**	-	**574**	-
Sale of Eletrobrás' shares	**1,330**	-	**1,330**	-
Escrow - Osklen	**3,060**	5,183	**3,060**	5,183
Favorable decision - PIS/COFINS ZFE proceeding	**3,638**	-	**3,638**	-
Receivables – INSS-related lawsuit	**-**	6,249	**-**	6,249
Other	**2,788**	1,201	**5,384**	6,475
	15,116	14,894	**17,737**	20,480
Other operating expenses:				
Amortization of intangible assets	**(21,033)**	(22,172)	**(33,657)**	(33,608)
Provisions for tax, civil and labor contingencies (Note 22)	**(26,577)**	(4,593)	**(31,430)**	(9,105)
Options grant	**-**	(4,198)	**-**	(6,556)
Long-term incentive plan	**(3,862)**	(1,295)	**(4,169)**	(1,599)
Special projects	**(954)**	(4,544)	**(954)**	(4,576)
Depreciation on revaluation of useful life - plant	**(1,291)**	-	**(1,291)**	-
Severance pay for labor terminations	**(3,864)**	(927)	**(3,864)**	(3,265)
Profit sharing program	**(10,277)**	-	**(12,679)**	-
Third-party services	**(6,864)**	(4,963)	**(6,864)**	(4,963)
Fine for order cancellation - Mizuno	**-**	(7,200)	**-**	(7,200)
Import expenses - USA	**-**	-	**-**	(6,455)
Reversal of/(provision for) expenses due to controlling shareholder change – from Camargo Corrêa to J&F (a)	**11,442**	(14,672)	**13,337**	(16,434)
Other	**713**	(10,224)	**(20,193)**	(29,077)
	(62,567)	(74,788)	**(101,764)**	(122,838)
	(47,451)	(59,894)	**(84,027)**	(102,358)

(a) Expenses incurred with the approval of brand license agreements and lease agreements, due to transfer of the Company's control, considering the existing contractual clauses in the respective agreements, according to usual market practices.

34. Profit sharing

The Company and its subsidiaries provide their employees with profit sharing linked to the achievement of operating goals and specific objectives, annually established and approved for each plant/unit. For the years ended December 31, 2016 and 2015, profit sharing recognized in income statement was as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit-sharing program	**50,652**	38,202	**57,148**	42,518

It is recorded under the “Salaries and social charges payable” account in current liabilities.

35. Risk and financial instrument management

a) General considerations and policies

Financial instruments, including derivatives, are managed by means of policies, definition of strategies and establishment of control systems, which are monitored by Company management.

Treasury procedures set by the policy in effect include monthly projection routines and assessment of the consolidated currency exposure of the Company and its subsidiaries, based on which management makes its decisions.

b) Financial risk management

Financial risk factors

The Company’s and its subsidiaries’ activities expose them to certain financial risks, such as market risk (including currency and interest rate risk), credit risk and liquidity risk. The Company risk management is focused on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance, using derivative financial instruments to hedge against certain risk exposures, if necessary.

The financial risk management is carried out by the Company’s Treasury department under policies approved by the Board of Directors. The Treasury department identifies, assesses and contracts financial instruments in order to hedge the Company against potential financial risks, mainly those arising from interest and currency rates.

35. Risk and financial instrument management (Continued)

b) Financial risk management (Continued)

Financial risk factors (Continued)

b.1) *Market risk*

The Company is exposed to market risks arising from its business activities. These market risks mainly comprise possible changes in exchange and interest rates.

i) Currency risk

Due to different types of accounts receivable and financial liabilities assumed by the Company in foreign currencies, a currency rate hedging policy was implemented establishing exposure levels linked to this risk.

This policy considers foreign currency-denominated amounts from accounts receivable and payable related to commitments already made and recorded in the financial statements arising from the Company's operations and future cash flows.

ii) Interest rate risk

The Company's interest rate risk arises from floating short-term investments and short and long-term loans and financing.

b.2) *Credit risk*

Sales are substantially made to retailers and wholesalers. Credit risk is reduced due to the high dispersion of customer portfolio, credit assessment and granting policies.

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

The risk of not settling transactions with financial institutions is low, as these are considered by the market as prime banks.

35. Risk and financial instrument management (Continued)

b) Financial risk management (Continued)

Financial risk factors (Continued)

b.3) *Liquidity risk*

Effectively managing liquidity risk implies maintaining enough cash and marketable securities, funds available through committed lines of credit and the ability to settle long positions.

Management monitors the Company's consolidated liquidity level considering the expected cash flow against unused lines of credit and cash and cash equivalents. The table in item "d" analyzes the aging list of financial liabilities corresponding to the remaining period in the balance sheet in relation to the contractual maturity date. The amounts presented in the table are undiscounted cash flows contracted.

c) Derivative financial instruments and hedge accounting

The Company imports finished products and raw materials in US dollars, referring to the Sports Items and Sandals business units. In addition, the Company also purchases part of its domestic raw materials at a price indirectly impacted by currency fluctuation.

On the other hand, the Company also exports sandals that are mostly sold in US dollars.

The volume of imports and payments in foreign currency is greater than the volume of exports and amounts received also in foreign currency. Therefore, the Company has currency exposure, as its imports exceed exports, i.e., risk of loss related to increase in currency rates.

In addition, the Company may occasionally take out currency derivatives against exchange fluctuation risk on debts in foreign currency (for instance Export Credit Note (NCE) and Pre-export financing (PPE), among others).

In order to mitigate this risk and particularly to hedge cash flow, the Company Board of Directors approved the Currency Risk Management Policy. This policy establishes guidelines for cash flow hedge by using derivative financial instruments.

35. Risk and financial instrument management (Continued)

c) Derivative financial instruments and hedge accounting (Continued)

Hedging transactions aim at hedging Company future cash flow by minimizing the currency exposure over a 12-month time span. Future currency exposure is based on projected payables and receivables in foreign currency. At December 31, 2016, considering the total hedged amount (Notional), they amounted to US$6,238 (six million, two hundred and thirty-eight thousand dollars) through Non-Deliverable Forward transactions. The purpose of these transactions is to hedge the import and export operations against exchange fluctuation impacts.

Cash flow hedge

The Company applies hedge accounting to all NDF transactions, in order to hedge imports and highly probable future purchases of inventories in foreign currency.

At December 31, 2016, the Company had NDF derivative financial instruments designated as *hedge* of future purchases in US dollar with suppliers of finished products and raw materials, whose transactions are deemed highly probable by Alpargatas. These transactions mature in different dates over a 12-month time horizon. This type of instrument is settled by reference to PTAX on its maturity date. The book balance recorded in the Company's balance sheet at December 31, 2016 is as follows:

	12/31/2016		12/31/2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Non Deliverable Forward - NDF (Fair value - MtM)	**632**	**1,369**	1,397	63

The book balance recorded in the Company's equity at December 31, 2016 is as follows:

	12/31/2016	**Other comprehensive income**	**12/31/2015**
Gross balance kept in equity	**(648)**	(3,056)	2,408
Deferred income and social contribution tax assets on hedging transactions	**220**	341	(121)
Net balance kept in equity	**(428)**	(2,715)	2,287

35. Risk and financial instrument management (Continued)

c) Derivative financial instruments and hedge accounting (Continued)

Cash flow hedge (Continued)

Expected cash flow hedging transactions of future purchases over a 12-month time horizon were assessed as efficient as at December 31, 2016.

The amount transferred for the year ended December 31, 2016 from equity under "Other comprehensive income reserve" to the book balance of hedged items amounted to R$6,506, since the transactions were designated for purchases from January 2017 onwards.

The accumulated impacts from NDF derivative financial instruments on income statement for the year ended December 31, 2016 totaled R$(6,451).
Settlements of NDF derivative financial instruments for the year ended December 31, 2016 totaled a cash outflow of R$5,385.

Fair value hedge

The Company applies hedge accounting to all transactions with Swap derivative financial instruments, in order to hedge the exchange variation risk on debt in foreign currency.

At December 31, 2016, through its subsidiary Terras de Aventura Indústria de Artigos Esportivos S.A., the Company recorded swap derivative financial instruments to hedge debts in foreign currency raised through the External Credit Facility 4131, maturing on February 22, 2017 and August 22, 2017. Settlement of this type instrument is based on its present value on the settlement date. The book balance recorded in the Company's balance sheet at December 31, 2016 is as follows:

	12/31/2016		12/31/2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Swap	**167**	**-**	-	-

35. Risk and financial instrument management (Continued)

c) Derivative financial instruments and hedge accounting (Continued)

Cash flow hedge (Continued)

The hedging transactions of fair value of loans in foreign currency were assessed as highly efficient at December 31, 2016.

The accumulated impacts from swap derivative financial instruments on income statement for the year ended December 31, 2016 totaled R$(2,036).

d) Financial liabilities

The consolidated carrying amounts of financial liabilities are measured by the amortized cost method, and the corresponding fair values are as follows:

	12/31/2016						
	Within 1 year	**From 1 to 2 years**	**From 3 to 5 years**	**Above 5 years**	**Fair value**	**Discount effect**	**Book balance**
Current:							
Finance lease liabilities	**79**	**-**	**-**	**-**	**79**	**-**	**79**
Loans and financing	**209,829**	**-**	**-**	**-**	**209,829**	**-**	**209,829**
Trade accounts payable	**426,823**	**-**	**-**	**-**	**426,823**	**-**	**426,823**
Noncurrent:							
Lease obligations	**-**	**6**	**101**	**-**	**107**	**-**	**107**
Loans and financing	**-**	**232,763**	**117,206**	**32,690**	**382,659**	**-**	**382,659**

	12/31/2015						
	Within 1 year	**From 1 to 2 years**	**From 3 to 5 years**	**Above 5 years**	**Fair value**	**Discount effect**	**Book balance**
Current:							
Finance lease liabilities	52	-	-	-	52	-	52
Loans and financing	495,191	-	-	-	495,191	-	495,191
Trade accounts payable	437,636	-	-	-	437,636	-	437,636
Noncurrent:							
Finance lease liabilities	-	299	-	-	299	-	299
Loans and financing	-	33,442	91,547	52,161	177,150	-	177,150

35. Risk and financial instrument management (Continued)

e) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

	12/31/2016	12/31/2015
Cash and cash equivalents and short-term investments	**502,118**	488,193
(-) Short and long-term loans and financing	**(592,674)**	(672,692)
Net financial position	**(90,556)**	(184,499)
Equity	**2,065,749**	1,931,236

f) Currency exposure

	Company		Consolidated	
	2016	2015	2016	2015
Assets:				
Banks	**4**	-	**4**	-
Trade accounts receivable	**103,455**	129,597	**103,455**	129,597
Total assets	**103,459**	129,597	**103,459**	129,597
Liabilities:				
Trade accounts payable	**52,229**	83,233	**52,246**	83,299
Royalties payable	**6,429**	3,783	**6,429**	3,854
Total liabilities	**58,658**	87,016	**58,675**	87,153
Net exposure	**44,801**	42,581	**44,784**	42,444
Derivative financial instruments	**(737)**	1,334	**(737)**	1,334
Total exposure for sensitivity analysis purpose	**44,064**	43,915	**44,047**	43,778

g) Market values

At December 31, 2016 and 2015, market values of floating short-term investments approximate the amounts recorded in the financial statements as they are pegged to the CDI rate fluctuation. The Company makes mark-to-market adjustments for its fixed investments recorded in the balance sheet. Loans and financing are adjusted for inflation based on interest rates contracted according to the usual market conditions; therefore, balances payable at the balance sheet dates substantially approximate their market values, including those classified as “noncurrent”, considering the type of the corresponding financing.

35. Risk and financial instrument management (Continued)

g) Market values (Continued)

The fair value of financial instruments that are not traded in active markets (for instance, OTC derivatives) is determined by using valuation techniques. Company and subsidiaries use various methods and define assumptions that are based on market conditions existing at balance sheet date. The fair value of forward exchange contracts is determined based on forward exchange rates quoted at the balance sheet date.

It is estimated that the amounts of trade accounts receivable and payable recognized at their carrying amounts approximate their fair market value in view of the short term of transactions conducted.

The Company and its subsidiaries apply hierarchy rules to measure the fair values of their financial instruments, which requires the disclosure of fair value measurements at the following hierarchy level:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1).
- Input, in addition to quoted prices, included in Level 1, used by the market for assets or liabilities, either directly (i.e. based on prices) or indirectly (i.e. deriving from prices) (Level 2).
- Exemptions for assets or liabilities that are not based on the data adopted by the market (i.e., unobservable inputs) (Level 3).

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

Specific valuation techniques used to measure financial instruments, according to Level 2 rules, include:

- Quoted market prices or quotations of financial institutions or brokers for similar instruments.
- The fair value of interest rate swaps is measured at the present value of future cash flows estimated based on the yield curves adopted by the market.
- The fair value of future exchange contracts is determined at future exchange rates at the balance sheet date, and the amount resulting therefrom is discounted to present value.
- Other techniques, such as the analysis of discounted cash flows, are used to determine the fair value of the remaining financial instruments.

35. Risk and financial instrument management (Continued)

h) Sensitivity analysis of financial instruments

Currency risk

For the sensitivity analysis of consolidated currency exposure at December 31, 2016, whose effects reflect only the impacts on monetary assets and liabilities, the Company did not consider the balances of trade accounts receivable and loans and financing of foreign subsidiaries, as they are denominated in local functional currencies of each one of these subsidiaries; therefore, the Company management understands that there is no currency exposure risk for such subsidiaries.

Considering the currency exposures described in item “e” above, at December 31, 2016, the sensitivity analysis of outstanding positions is as follows:

	Gain/(loss)		
	Probable scenario	**Possible scenario**	**Remote scenario**
Impacts of U.S. dollar fluctuation			
Banks	-	(1)	(2)
Trade accounts receivable	(5,173)	(25,864)	(51,728)
Trade accounts payable	2,612	13,062	26,123
Royalties payable	321	1,607	3,215
Total impact on income	(2,240)	(11,196)	(22,392)
Derivative financial instruments	2,009	6,058	11,119
Total impact on income (loss) on derivatives	(231)	(5,138)	(11,273)

The probable scenario considers a 5.00% appreciation of the Brazilian real against the US dollar at an exchange rate of R$3.2591, based on market references.

The possible scenario considers a 25% appreciation of the Brazilian real against the US dollar at the exchange rate at December 31, 2016 of (R$1.6296/US$), and the remote scenario considers a 50% appreciation (R$2.4443/US$).

35. Risk and financial instrument management (Continued)

h) Sensitivity analysis of financial instruments (Continued)

Interest rate risk

The sensitivity analysis was determined based on the exposure of non-derivative financial instruments to interest rates at the end of each reporting period. For financial assets and liabilities pegged to CDI, the analysis is prepared considering that the net amount between outstanding assets and liabilities at the end of the reporting period was outstanding throughout the entire period.

At December 31, 2016, 100% of total amount was pegged to CDI. 21% of total loans were directly pegged to interest rate and 79% had fixed rates or fixed rates plus long-term interest rate (TJLP).

	Gain/(loss)		
	Probable scenario	**Possible scenario**	**Remote scenario**
Impacts of interest rate fluctuation			
Revenue from short-term investments	(380)	(9,512)	(19,025)
Expenses from interest on loans	75	1,989	3,796
Total impact on income	(305)	(7,523)	(15,229)

Considering the interest rate (CDI) at December 31, 2016 of 13.63% p.a., the probable scenario simulates an interest rate increase of 14 base points on the CDI rate, resulting in a rate of 13.49% p.a.

The possible scenario considers an interest rate decrease of 341 base points on the CDI rate, resulting in a rate of 10.22% p.a. at December 31, 2016, and the remote scenario considers an interest rate decrease of 682 base points to 6.82% p.a.

36. Net earnings per share

Continued operations	2016 Common - ON	2016 Preferred – PN (a)	2016 Total
Denominator			
Total weighted average number of shares	**241,608,551**	**228,841,226**	**470,449,777**
Weighted number of treasury shares	**-**	**(7,723,060)**	**(7,723,060)**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
% of shares in relation to the total number	**52.21%**	**47.79%**	**100.00%**
Numerator - basic			
Net income for the year attributable to each class of shares	**182,020**	**183,332**	**365,352**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Total basic net earnings per share for the year	**0.7534**	**0.8291**	**0.7896**
Numerator - diluted			
Net income for the year attributable to each class of shares	**181,905**	**183,447**	**365,352**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Weighted number of shares of stock option plans	**-**	**326,657**	**326,657**
Weighted average number of outstanding shares	**241,608,551**	**221,444,823**	**463,053,374**
% of shares in relation to the total number	**52.18%**	**47.82%**	**100.00%**
Total diluted net earnings per share for the year	**0.7529**	**0.8284**	**0.7890**

Discontinued operations	2016 Common - ON	2016 Preferred – PN (a)	2016 Total
Denominator			
Total weighted average number of shares	**241,608,551**	**228,841,226**	**470,449,777**
Weighted number of treasury shares	**-**	**(7,723,060)**	**(7,723,060)**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
% of shares in relation to the total number	**52.21%**	**47.79%**	**100.00%**
Numerator - basic			
Net income for the year attributable to each class of shares	**(1,886)**	**(1,899)**	**(3,785)**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Total basic net earnings per share for the year	**(0.0078)**	**(0.0086)**	**(0.0082)**
Numerator - diluted			
Net income for the year attributable to each class of shares	**(1,885)**	**(1,900)**	**(3,785)**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Weighted number of shares of stock option plans	**-**	**326,657**	**326,657**
Weighted average number of outstanding shares	**241,608,551**	**221,444,823**	**463,053,374**
% of shares in relation to the total number	**52.18%**	**47.82%**	**100.00%**
Total diluted net earnings per share for the year	**(0.0078)**	**(0.0086)**	**(0.0082)**

36. Net earnings per share (Continued)

	2016		
	Common - ON	**Preferred – PN (a)**	**Total**
Denominator			
Total weighted average number of shares	**241,608,551**	**228,841,226**	**470,449,777**
Weighted number of treasury shares	**-**	**(7,723,060)**	**(7,723,060)**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
% of shares in relation to the total number	**52.21%**	**47.79%**	**100.00%**
Numerator - basic			
Net income for the year attributable to each class of shares	**180,134**	**181,433**	**361,567**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Total basic net earnings per share for the year	**0.7456**	**0.8205**	**0.7814**
Numerator - diluted			
Net income for the year attributable to each class of shares	**180,021**	**181,546**	**361,567**
Weighted average number of outstanding shares	**241,608,551**	**221,118,166**	**462,726,717**
Weighted number of shares of stock option plans	**-**	**326,657**	**326,657**
Weighted average number of outstanding shares	**241,608,551**	**221,444,823**	**463,053,374**
% of shares in relation to the total number	**52.18%**	**47.82%**	**100.00%**
Total diluted net earnings per share for the year	**0.7451**	**0.8198**	**0.7808**

	2015		
Continued operations	**Common - ON**	**Preferred – PN (a)**	**Total**
Denominator			
Total weighted average number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,723,060)	(7,723,060)
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
% of shares in relation to the total number	52.21%	47.79%	100.00%
Numerator - basic			
Net income for the year attributable to each class of shares	142,476	143,502	285,978
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Total basic net earnings per share for the year	0.5897	0.6490	0.6180
Numerator - diluted			
Net income for the year attributable to each class of shares	142,386	143,592	285,978
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Weighted number of shares of stock option plans	-	326,657	326,657
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to the total number	52.18%	47.82%	100.00%
Total diluted net earnings per share for the year	0.5893	0.6484	0.6176

36. Net earnings per share (Continued)

Discontinued operations	2015 Common - ON	2015 Preferred – PN (a)	2015 Total
Denominator			
Total weighted average number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,723,060)	(7,723,060)
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
% of shares in relation to the total number	52.21%	47.79%	100.00%
Numerator - basic			
Net income for the year attributable to each class of shares	(6,807)	(6,857)	(13,664)
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Total basic net earnings per share for the year	(0.0282)	(0.0310)	(0.0295)
Numerator - diluted			
Net income for the year attributable to each class of shares	(6,803)	(6,861)	(13,664)
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Weighted number of shares of stock option plans	-	326,657	326,657
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to the total number	52.18%	47.82%	100.00%
Total diluted net earnings per share for the year	(0.0282)	(0.0310)	(0.0295)

	2015 Common - ON	2015 Preferred – PN (a)	2015 Total
Denominator			
Total weighted average number of shares	241,608,551	228,841,226	470,449,777
Weighted number of treasury shares	-	(7,723,060)	(7,723,060)
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
% of shares in relation to the total number	52.21%	47.79%	100.00%
Numerator - basic			
Net income for the year attributable to each class of shares	135,668	136,646	272,314
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Total basic net earnings per share for the year	0.5615	0.6180	0.5885
Numerator - diluted			
Net income for the year attributable to each class of shares	135,582	136,732	272,314
Weighted average number of outstanding shares	241,608,551	221,118,166	462,726,717
Weighted number of shares of stock option plans	-	326,657	326,657
Weighted average number of outstanding shares	241,608,551	221,444,823	463,053,374
% of shares in relation to the total number	52.18%	47.82%	100.00%
Total diluted net earnings per share for the year	0.5612	0.6175	0.5881

(a) Preferred shares are entitled to dividends 10% higher than those of common shares.

37. Commitments assumed

37.1. Operating lease agreements

Stores leased

At December 31, 2016, the Company entered into lease agreements with third parties. Such agreements were reviewed by management who concluded that they could be classified as operating lease agreements.

The property rent is the higher of: (i) the amount equivalent to the average rate between 3 and 4% of the store's monthly gross sales; or (ii) a minimum monthly amount restated on an annual basis based on various inflation rates. The referred to lease agreements' terms are 5 to 15 years, subject to renewal.

For the year ended December 31, 2016, rental expenses, net of taxes recoverable, totaled R$30,143 (R$26,519 at December 31, 2015) in consolidated.

Other leases

The Company also has warehouse lease agreements for the warehousing of products and goods and commercial offices with monthly fixed amounts, adjusted annually at usual market inflation rates.

For the year ended December 31, 2016, rental expenses, net of taxes recoverable, totaled R$77,077 (R$82,479 at December 31, 2015) in consolidated.

Future commitments

Total future commitments arising from operating lease agreements totaled a minimum fixed amount of R$441,712 at December 31, 2016, distributed as follows:

Year	R$
2017	89,376
2018	90,593
2019	89,626
2020	85,911
2021	86,206
Total	441,712

37. Commitments assumed (Continued)

37.1. Operating leases (Continued)

Future commitments (Continued)

Such transactions are subject to usual covenants, such as guarantees for early termination of agreement, among others. These covenants, at December 31, 2016, were complied with by the Company.

37.2. Input supply agreements

The Company has commitments deriving from an electric power supply agreement, providing for the purchase of a minimum monthly volume of 33,336kw, equivalent to R$326, which can be amended within a minimum six-month term. At December 31, 2016, the Company was compliant to the agreement's commitments.

38. Insurance coverage

The Company and its subsidiaries have insurance coverage for property, plant and equipment items and inventories subject to fire damage for the technical replacement amount, and to cover loss of profits. At December 31, 2015, consolidated insurance coverage was deemed sufficient by management to cover the risks involved.

39. Additional information to cash flow statements

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Non-cash acquisitions of PP&E	**-**	-	**-**	-
Unused secured account limits	**-**	-	**46,664**	25,900